The Offshore City, Chinese Finance, and British Capitalism: Geo-economic rebalancing under the Coalition Government

Abstract

This article examines the embrace of Chinese finance under the UK's 2010-2015 Coalition government. The article argues that the City of London's centrality within British capitalism has been reinforced, not displaced, since the Global Financial Crisis. Geo-economic rebalancing towards China, not the Coalition's professed spatial and sectoral 'rebalancing' ambitions, prevailed. To explain the City's renewed pre-eminence in the wake of the crisis, the article draws upon a modified version of the 'City-Bank-Treasury nexus' theory of British capitalism. Breaking from structuralist approaches that underplay the City of London Corporation's role within economic policy making, the article illuminates the Corporation's agency as a key para-state institution that reoriented the City-Bank-Treasury nexus towards Chinese finance under the Coalition.

Introduction

From the early 1990s until 2007, as Western economies experienced sustained low-inflationary economic growth, the City of London enjoyed spectacular success. A combination of global and domestic conditions placed the City within a propitious conjuncture. Globally, a huge build-up of foreign savings (the so-called 'global savings glut') led investors looking for high yield returns to pour capital in to the City, while domestically, the New Labour government eagerly sought to accommodate the interests of the City by promoting a series of favourable institutional and regulatory changes.

The Global Financial Crisis (GFC) of 2007/8 interrupted the global trajectory within which the City's success was framed. The aftershocks of the crisis, and the recession that followed, gave rise to a distinctive set of political-economic conditions. How has the City's role changed within this new post-crisis era? [i] This article argues that the City of London's status within British capitalism has been reinforced, rather than diluted, in the years since the Global Financial Crisis. Despite public anger with stricken financial institutions and the Coalition government's professed commitment to regional and sectoral rebalancing (Berry & Hay, 2016), the post-crisis conjuncture witnessed the continuation of a traditional concentration of institutional power: the City-Bank-Treasury nexus. This occurrence owes much to a very different kind of rebalancing. In practice, the central form of rebalancing under the Coalition government was of a *geo-economic* nature. It centred upon a long-term strategy to enable the financial services firms of the City of London to tap into new business opportunities presented by Chinese currency internationalisation. The City's new pivot to China has involved combined efforts by a wider network of institutional actors: the City of London Corporation, the Bank of England, the Treasury, and major UK-based international banks. Acting in concert, these institutions have reinforced the centrality of the City within the commanding heights of British economic policy. In terms of the prevailing finance-dependent orientation of the UK growth model (Hay, 2013; Thompson, 2013), then, the post-crisis period represents continuity. But within the dominant institutional configuration of that model, the City Corporation's intensified global lobbying and market-making function regarding Asia denotes an important change from its more reactive pre-crisis role. Given the challenges of Brexit, this more proactive stance from the Corporation is likely to intensify, as the wider City of London attempts both to redefine its relationship to the EU and reinforce its commitment to emerging Asian financial markets. Conceptually, the article addresses important gaps within existing literature on the City-Bank-Treasury nexus by examining the subnational agency of the City of London Corporation as an exceptional local authority that weaves together private financial interests with public institutions of government. Empirically, the article draws on policy documents from the City Corporation and data from semi-structured elite interviews with the City of London Corporation's Special Advisor for Asia, Sherry Madera, and an anonymous UK government official. [ii]

In the first section, the article builds conceptually upon scholarship on the City's entrepôt role and offshore orientation, identifying the City's sensitivity to changes in the international monetary order. The second section examines renminbi internationalisation of within the post-crisis international monetary order. In the third section, the article breaks from traditional structuralist approaches to the City-Bank-Treasury nexus by framing the unique political agency of the City of London Corporation as a para-state institution. In the fourth section, the article examines the role of the City-Bank-Treasury nexus in embracing Chinese currency liberalisation and reasserting the national predominance of financial services. Finally, the article concludes by addressing the continuing centrality of the City within British capitalism and assessing what clues the geo-economic rebalancing towards China under the Coalition might offer for understanding Britain's post-Brexit economic prospects.

The City's entrepôt role and British development

The importance of the City of London's role within British capitalism has been the subject broad scholarly interest (McRae & Cairncross, 1973; Longstreth, 1979; Ingham, 1984; Plender & Wallace, 1985; Augar, 2000; Roberts & Kynaston, 2001; Kynaston, 2011; Norfield, 2016). These authors have drawn attention to the City's international significance, its influence upon the historical development of British capitalism, and the notion of a longstanding tension between the City and manufacturing industry.

Within these diverse accounts, the most authoritative theorisation of the City remains Geoffrey Ingham's (1984) *Capitalism Divided*. According to Ingham, the City's status arose from its 'near monopolisation' of commercial activities based on international economic exchanges. This accorded the City a central role within the world economy, acting as an entrepôt: a spatial zone through which international commercial flows of trade and credit could be mediated (Ingham, 1988: 47).[iii] The City performed this role with a global reach during the nineteenth century owing to sterling's status as world money (Ingham, 1988: 53).

Sterling's international standing declined sharply after WWII. But this did not undermine the City's international status. Beginning with the emergence of the Eurodollar market from 1957, the City's banks incorporated business services and transactions denominated in foreign currency. Facing restrictions on the use of sterling, British merchant banks turned to dollars deposited by Soviet officials fearing requisition of assets held in the US. To achieve this, the City developed a new 'offshore' accountancy category.[iv] Offshore embedded a sovereign bifurcation within the City: onshore activities and entries were subject to national financial regulations, while offshore transactions, conversely, fell outside the national regulatory remit and within a laissez-faire order of self-regulation *spatially within* but *juridically beyond* the post-war Keynesian state infrastructure of financial control (Palan, 2006: 27-32).

Offshore subsequently became an explicit pillar of British economic policy (Palan, 2006: 33). By developing an 'offshore' regulatory orientation and accountancy technique, the City could perpetuate its entrepôt role *despite* the decline of sterling. Rather than principally mediating flows of trade and services denominated in sterling, the City's institutions now mediated flows of *foreign currencies*, particularly dollars, and provided the services required to mediate flows of trade and capital in these currencies. It was the innovation of 'offshore' finance, then, as an increasingly intentional bifurcation of national sovereignty, which enabled the City's entrepôt role to continue.

Due to the City's successful 'offshore' transformation the predominance of commercial financial activities within the City continues today. Financial and related professional services accounted for around 14 per cent of UK GDP in 2010, compared to a share of 12 per cent for manufacturing (Talani, 2011: 16). By 2015, the gap between the respective shares had closed by 1 per cent, with finance and related professional services at just under 11 per cent of UK GVA and manufacturing contributing just below 10 per cent (TheCityUK, 2017).

This change might give some credence to Coalition success in achieving sectoral rebalancing. The increased relative share of manufacturing within GDP vis-à-vis financial services must, though, be interpreted via important caveats. Firstly, the change is modest and it is unclear that this is anything beyond a short-term recovery from severe job losses after the crisis (Berry, 2016). While finance and insurance saw a reduction of around 30,000 (2 per cent) jobs between 2007 and 2013, the manufacturing sector lost around 330,000 jobs (12 per cent) (Berry & Hay, 2016). Secondly, new jobs created within manufacturing are predominantly low-skilled and low-productivity. This does not augur well for the prospects of a sustained sectoral rebalancing.

Thirdly, pay levels between the sectors remain extremely imbalanced: while average weekly pay in manufacturing rose from 13 per cent above the national average in 2007 to 17 per cent in 2013, the figure for finance and insurance workers increased from over 116 per cent above the national average in 2007, to 119 per cent by 2013 (Berry & Hay, 2016: 16). Finally, a declining share of British bank lending has been channelled towards manufacturing since the crisis (Berry & Hay, 2016: 16), suggesting that the longstanding separation between the City and manufacturing industry continues (Talani, 2011: 16-17).

The City's capacity to maintain its domestic and international predominance owes much to what Talani (2011: 18-19), following Longstreth (1979: 159), calls 'pragmatic adaptation': the capacity for institutional flexibility to accommodate market shifts. The emergence of offshore as a post-war developmental strategy is integral to understanding the City's attempt to reposition itself within the post-crisis political economy. Offshore imparts an externally facing cosmopolitan character upon financial institutions within the City of London, whose business strategy depends upon mediating flows of foreign currencies through international borrowing and lending, foreign exchange dealing, and derivatives trading (Roberts & Kynaston, 2001: 62-64). PubMed This orientation transmits transformations in the international monetary order into the practices and policies of the City. In the following section, the article examines the changing post-crisis international monetary order that has presented new strategic opportunities for the City-Bank-Treasury nexus.

Renminbi internationalisation and the dollar order

Chinese elites responded to the GFC in a way that will profoundly impact the global political economy. Before the G20 London summit in March 2009, Chinese Central Bank Governor Zhou Xiaochuan called for reform of the international monetary system and an increased role for alternatives to the dollar. This was a crucial symbolic moment: it represented the first public announcement that Chinese elites had begun to question their reliance upon the dollar and look for strategies to reduce dollar-dependency (Chin & Yong, 2010: 4).

China's concerns pre-date the crisis and reflect the longer-term growth of Sino- American interdependence. As early as the 1997/8 Asian financial crisis, Chinese elites became increasingly concerned by the instabilities of the dollar-centred international monetary order (Chin, 2013: 187). China's export-led growth over many decades has been extraordinarily dependent upon the American export market, leading Chinese governments to hold vast trade surpluses in the form of dollar-denominated assets (Saull, 2012: 326). That exposure to dollar-assets makes China extremely vulnerable to fluctuations in the dollar's value and has prompted concerns in China about breaking this dependency (Chin & Yong, 2010: 4). One solution is to promote the internationalisation of the RMB as a regional and, ultimately, international trade, accounting, and reserve currency.

Steps to liberalise the RMB and promote international use are well under way: China has established large currency swap arrangements with several economies, signed agreements with Russia and Brazil to encourage trade settlements in each other's currencies (thus bypassing the dollar), and promoted the holding of bank deposits and bond issuances (so-called 'Dim Sum' bonds) in Hong Kong. By 2020, Chinese officials want Shanghai to become an international financial centre (Mallaby & Wethington, 2012; Chin, 2013). These ambitions were given a major boost by the IMF's November 2015 decision to add the RMB to its basket of reserve currencies, signifying its growing international status (Talley, 2015). China has also turned its attention towards the major European financial centres, a key step towards promoting the RMB beyond its East Asian homeland. Chinese authorities and bankers found willing partners for this project in the Coalition government and the City of London. The supply-side of Chinese intentions to internationalise the flow of RMB assets has been paired with a demand-side effort from the City-Bank-Treasury nexus geared towards establishing RMB business in London by creating offshore market infrastructure.

The City's offshore orientation and expertise position it to benefit from RMB internationalisation. Added to this, the political and economic uncertainty as Britain moves towards Brexit has thrown London's status as the major offshore euro trading hub into doubt (Thompson, 2017). With increased uncertainty over the dollar's long-term future and considerable uncertainty over the City's continued predominance as an offshore centre for the euro, the global conjuncture has heightened the appeal of emergent RMB opportunities. China's post-crisis policy priorities have opened new global developmental spaces for the City's business practices.

Yet the receptiveness of the City and the UK government to Chinese currency internationalisation cannot be explained wholly in terms of the changing international monetary order or the structural orientation of the City towards offshore financial development. To understand why and how this has happened we need to examine the dominant institutions of post-crisis British capitalism and the specific forms of political agency that led the City and the Coalition government to embrace RMB internationalisation. In the following section, a modified conceptualisation of the City-Bank-Treasury nexus is outlined as a basis for understanding the UK's geo-economic rebalancing towards Chinese finance.

Disaggregating the City of London

Traditional scholarship on the City's influence within Britain has drawn attention to important cultural, personal, and structural-functional linkages between the private firms of the City, on one hand, and the key fiscal and monetary institutions of the state, on the other. Economic historians coined the concept of 'gentlemanly capitalism' (Cain and Hopkins: 1986, 1987, 2014) PubMed to capture the close cultural, economic, and political interest alignments that developed between the landed aristocracy, the emergent financial services sector based in London, and key state institutions from the late 17th century. Political economists have theorised these linkages through the more systematically oriented 'City-Bank-Treasury nexus'. Frank Longstreth's (1979: 161) influential work on the subject identifies two main ways in which the City's dominance was articulated within the wider state. Firstly, in a direct manner, through the Bank of England and the Treasury, 'thus securing a direct voice in the formulation of economic policy'. The second (and more important) channel for maintaining influence in the British state, was the central significance of its role within the economy. The City's pre-eminence within national policy was due to both a direct penetration of government agencies and a wider structural context of determinative influence within the economy.

In a similar vein to Longstreth, Ingham (1984) draws attention to the structural connections between the City, the Bank, and the Treasury. By the late nineteenth century, the relationship between these three poles had become a 'relatively integrated system of interdependencies, in which the practices of any one institution were dependent upon conditions provided by the others' (Ingham, 1984: 131). These institutional interdependencies were reinforced by cultural cross-fertilisations between government offices and City institutions, with both staffed by members of the public school and Oxbridge elites.

Focusing upon the City-Bank-Treasury nexus helps us apprehend the systematic interdependencies between private and public finance within Britain, illuminating both the historical failure of British industrial revitalisation (owing to industry's relative exclusion from the state) and the enduring orientation of Britain's economy towards promotion of financial services (owing to structural connections between private finance and public power). But the approach has been criticised. Roberts and Kynaston (2001:17) suggest that, 'notions of an automatic, smooth-working 'nexus' are wide of the mark'. This critique of the implied structural automaticity within the nexus is well placed. But their alternative stress on the role of 'markets' rather than 'players' in shaping government policy, does little to advance beyond a vague sense of structural interdependency. Greater awareness of how institutional agency articulates and rearticulates interests and policy orientations within the nexus is required.

Common to the work on the City is a clear structural-functionalist bias that stresses an institutionally determined 'nexus' of interests between private finance and the state. Longstreth's (1979) account views the state as essentially captive to a dominant fraction of banking capital. For Ingham (1984), the connections are more clearly specified and historicised, but they amount to a similar underpinning of mutual interests, functional interdependency, and shared social habitus. More recent scholarship similarly points to the existence of, 'dialectical relationships of mutual interest between the City and its political referents' (Talani, 2011: 19). Echoing Longstreth's sense of banking capital's 'capture' of the state, Talani (2011: 19) suggests that the City's successful strategy of pragmatic adaptation depends upon, 'flexibility and direct control of the levers of economic policy making and regulation', and particularly a 'very close relationship', with the Bank and the Treasury.

Structural linkages between the financial institutions of the City, the Treasury, and the Bank of

England do matter. The Bank's role in managing monetary policy ensures a deep structural connection to private banks: setting overnight borrowing rates and holding bank reserves on its accounts. Similarly, the dependency of government gilt markets upon purchases by major private financial institutions create functional fiscal interdependence. But an exclusively structural approach privileges explanation of continuity over change, and of technical process over policy formation.[v] It does not reveal how the nexus is reproduced over time, how institutions and interests might vary in response to common external shocks, or how such a nexus can incorporate distinctive and temporally disjunctive processes of change within each of the constituent institutional components, while still retaining its overall coherence. In the era of offshore, the structural approach provides few clues as to how the nexus forges new geographical and political linkages with rising financial powers.

Notwithstanding these limitations of a structural approach, there is clearly a need to understand the deep-rooted, historical institutional basis for the propagation of offshore strategies. Path-dependent mechanisms of reinforcement, owing to positive feedback effects, help to stabilise offshore development (Pierson, 2004: 20-21). PubMed Past investments of political and economic resources, private and public interests that depend upon the City's continuing offshore vitality, and the ongoing profitable business opportunities it presents to financial firms from around the world all work to reproduce the offshore model. But the City, and the wider institutional nexus within which it is embedded, is also defined in part by its capacity to 'pragmatically adapt' to changing conditions, particularly during periods of international crisis, rather than simply exhibiting linear structural continuity. This indeed, is the secret of its survival, of its opportunistic outliving of the UK's long-dissolved global economic primacy. To understand the City's capacity to adapt requires a fuller sense of the agential mechanisms that drive the political bargaining and institutional change associated with adaptive processes. And of the scope of strategising and decision making that imbues the City with its enduring pragmatism in the face of economic adversity.

Existing approaches lack a convincing sense of how private and public-sector agency are institutionally mediated and combined, dynamically over time, in relation to strategic arenas of economic policy. This becomes particularly problematic when we try to explain *policy developments* regarding the City-Bank-Treasury nexus, such as the support for RMB internationalisation. This agency deficit in the City-Bank-Treasury nexus ultimately stems from a failure to properly disaggregate, conceptually, what we mean by the

'City of London'. The term is commonly taken to represent the aggregated interests of financial firms within London, traditionally the institutions located within the Square Mile, but now Canary Wharf too. Thus, Talani (2011: 14-15) PubMed approaches the definition of the City by breaking it down into its constituent *economic* activities: commerce, banking and finance. Similarly, Roberts and Kynaston (2001: 60) divide the City into 'mainstream' and 'money-centre' financial services, noting that 'The City', as a term, 'continues to be used as a shorthand for London's money-centre activities'.

Defining the City in these terms has the advantage of disaggregating the distinctive financial services that constitute it. But these definitions fail to make a further crucial distinction: between the City of London as a spatial zone in which the financial services sector resides, and the City of London *Corporation*, as a distinctive political authority responsible for jurisdiction over part of London and for representing the interests of the financial services industry. Scholarship on the City has largely neglected to disentangle the two linked but distinctive meanings of the City of London. A notable exception, Nicholas Shaxon's (2012) popular work on tax havens has gone some way to illuminating the Corporation's underappreciated role within London's financial sector. But there remain scant references to the Corporation in many major scholarly works on the City. Kynaston's (2011) magisterial history of the City makes almost no reference to the Corporation, and neither do Longstreth nor Ingham in their seminal theoretical interventions. While more recent scholarship offers some (limited) recognition of the City Corporation's role as a lobbying conduit and cheerleader for private finance in the pre-crisis period (Engelen, et al., 2011; Morgan, 2012), a more explicit and sustained investigation of the political agency and resources of the City Corporation has not been undertaken.

The omission of the Corporation's role within the wider City is significant. Without a sense of the political agency of the Corporation, mediating and concerting private and public-sector interests nationally and internationally, traditional accounts are forced to rely upon a sense of structural, automatic, and systemic interdependency. A more agent-centred approach requires conceptualising the exceptional historical institutional features of the Corporation, before empirically examining its practical efforts to establish London's as a centre for offshore RMB business.

Within the UK, the City of London Corporation is a local authority quite unlike any other. It performs a special role and wields greater power than comparable authorities. Its responsibilities include providing local services and policing within the Square Mile, financing charitable donations and economic regeneration in London, and promotion of the City as, 'the world leader in international financial and business services' (City Corporation, 2014). It is part local authority and part international lobbyist for the financial interests of the City. Indeed, the Corporation's Special Advisor to Asia acknowledges that the Corporation is "a bit of chameleon", being simultaneously receptive to, and representative of, the interests of *both* private and public actors within the UK financial system. The Corporation can shift between these roles to its advantage. During times of high-level diplomatic tension between the UK and Chinese governments, such as the spat over David Cameron's public meeting with the Dalai Lama in 2012, the Corporation has achieved a more discrete and depoliticised role. It has been able to conveniently evade fuller association with the UK government and sustain continued contact and cooperation with Chinese officials. But the Corporation is, in line with its Chameleon-like capacity to transform its appearance, also treated "very much as government" when playing other roles in China, which allows it to link financial actors within the City of London to government regulators and agencies at home and abroad (Madera, 2017).

As such, the Corporation can be thought of as a 'para-state' institution. The term refers to private jobs funded by the public sector. It reflects the interdependency between the two sectors in contemporary capitalism (Froud et al. 2011: 17). This provides a useful way of understanding certain functions performed by the Corporation: it uses public funding to finance both lobbying activities in the interest of the City's private firms and official UK government interests. Here, then, we use the term not to refer to private employment funded by taxpayer money, but rather to publicly financed role of a local authority geared predominantly towards the promotion of sectorally-specific private interests facilitated by the political privileges of the Corporation.

The Corporation's distinctive political privileges are linked to its status as the, 'oldest continuous democratic commune in the world', with a constitution that is based in the, 'ancient rights and privileges', citizens enjoyed prior to the Norman Conquest of 1066 (Shaxon, 2012: 255; Glasman, 2014; City of London, 2015). They exemplify the institutional continuity of ancient pre-modern political structures within Britain (Anderson, 1964). London's importance in terms of trade, finance, wealth, and population allowed it to win greater freedoms earlier than other towns and cities in the UK (Plender & Wallace, 1985: 4). Unlike all other UK local authorities, voting rights for the elected members of the Corporation's Court of Common Council are given both to residents and businesses, with business representation outnumbering that of individual residents. The more employees businesses have, the more votes they can wield in the Court (Tax Justice Network, 2009). The Corporation also has a permanent representative within Parliament, the City

[vi]
Remembrancer.

Despite its tiny resident population of just c.7,700 people, the territory of the City of London bears comparison with other major urban local authorities in terms of its contribution to both the London and wider UK economy. The City of London, alongside Westminster, generates the most economic output of any borough in London, estimated at a combined £99.6 billion in Gross Value Added terms in 2014. It accounts for an income tax total of c. £7.1 billion, which is equal to 20.5 per cent of London's income tax revenue. This even though the City only employs 9.4 per cent of London's workforce (Centre for Economics and Business Research, 2015: 36).

The Corporation's unique fiscal status also owes to its huge asset base. In March 2013, the value of the Corporation's total cash investment assets stood at £1,827 million, while its Fund reserves stood at £1,127 million (City Corporation, 2013:4). The Corporation's vast endowment of private assets makes it much more self-sufficient than other local authorities. The Cash Account recorded a surplus of £59.3 million in 2015. Even without a £14.3 million profit on the sale of fixed assets, the position would still have been a surplus of £45 million, compared to a deficit of £13 million from 2013 to 2014 (City of London Corporation, 2015: 5-6).

Political benefits derived from the Corporation's extraordinary fiscal capacity are clear to see. This resource base underpins the Corporation's extensive lobbying activities on behalf of UK-based financial services. These include £11.5 million spent on 'City Representation' in 2015, supporting the Corporation's key objective of promoting the UK-based financial services, and related professional services, at home and abroad'. As part of this expenditure, the Lord Mayor of the City spent around 90 days overseas to promote trade and forge, 'links at the highest levels of government and industry'. A further £2.9 million was spent on 'Economic Development', which centred upon building the City's competitiveness and encouraging market conditions that encourage 'enterprise and innovation. This expenditure includes maintenance of the Corporation's Office in Brussels, which helps the City shape Brussels legislation that affects UK-based financial services and promotes the City of London's message, 'to decision makers in Westminster and Whitehall'. Finally, the expenditure enables the Corporation to lead overseas business delegations and host high-level foreign visitors in London (City of London Corporation, 2015: 2-3).

Taken together, the fiscal power and networked political influence of the City of London Corporation have enabled it to articulate the interests of financial services since the crisis.[vii] The following section examines the Corporation's role in driving cooperation between the wider City of London, the Bank, and the Treasury over the development of an offshore RMB market in London.

Reorienting the City- Bank-Treasury nexus

The Corporation's distinctive political privileges, para-state identity, and fiscal power provide the institutional basis for its project to boost London's RMB business. For pragmatic adaptation to occur, though, the Corporation must act as an agent, connecting transformations in the international monetary order to the business strategies of the UK's financial services sector and the political priorities of the Treasury. The Corporation's role is part ambassador/networker; drawing together the relevant international players. And part market-maker: providing a forum in which fine-grained institutional and technical detail of RMB internationalisation can be devised. In the post-crisis period, the City has done this through a more active engagement with emerging Asian markets than in previous years. The Corporation had maintained representative offices in Mumbai, Shanghai, and Beijing for around ten years, but it was only during the post-crisis periodthat the role of these offices changed from a "reactive/sounding board" to "putting them into action in terms of really pushing forward…City of London agendas specifically in those regions" (Madera, 2017).

Internationally, these activities have strengthened the City's links to Asian financial markets. But domestically, they have, by reproducing the centrality of the City's entrepôt role, reinforced existing spatial inequalities within the UK economy. The rebalancing that has occurred is that of the City towards East Asia, rather than of British capitalism towards a more regionally and sectorally diffuse basis of growth. Explaining the embrace of Chinese finance requires us to examine the institutionally discrete forms of agency at play, rather than assuming broad structural continuity and systemic interdependency within the City-Bank-Treasury nexus.

In April 2012, the Corporation launched its 'RMB initiative': intended to develop practical measures to support London's development as an offshore centre for RMB business. This involves the provision of leadership to financial markets in relation to the, 'technical, infrastructure and regulatory issues relevant to the development of the RMB product market in London' (City Corporation, 2012:15). The City Corporation does not work alone in pursuing these objectives. It has a strategic partnership with 'TheCityUk': a private membership body that champions the UK-based financial and related professional services and lobbies on behalf of the industry to sustain the case for its importance to the wider national economy (TheCityUk: 2015).

Beyond its connections to key private actors in financial services, the Corporation draws upon linkages with the Treasury, the Bank of England, and other financial stability agencies (including the FSA until its recent abolition) within the UK. The City Corporation advises HM Treasury on the best way to maximise London's ability to 'trade, clear and settle RMB', while also giving practical guidance and long term targets for the future development of the London RMB market. Further to this advisory role to the Treasury, the City Corporation provides important guidance for the wider UK authorities (including the Bank of England) over issues of financial stability relevant to RMB business (City Corporation, 2013: 15). Institutionally, it is around this City-Bank-Treasury nexus that the project to boost London's global RMB role has coalesced.

How does the demarcation of authority between the Corporation and other state institutions operate in practice? There is, unsurprisingly, a clear hierarchy here, with executive power at the apex and central to the initial activation of Corporation agency. It was the high-level partnership of Prime Minister Cameron and Chancellor Osborne that initially endorsed a very strong relationship with China. This opened political space for the Corporation to operate within (Interviewee A, 2016; Madera, 2017). Osborne's keen support for closer ties with China also shifted responsibility for China relations away from the Foreign and Commonwealth Office, centralising Anglo-Chinese governmental linkages around Osborne's Treasury and strengthening its status as the paramount government department. Once top-level commitment to deepening Anglo-Chinese finance ties had been coordinated, the Treasury approached the Corporation and tasked it withsupporting the promotion of the RMB in the UK. This involved raising awareness of RMB business opportunities and providing advice. Additionally, strategic developmental assistance provided to the People's Bank of China and other Chinese agencies through the Foreign and Commonwealth Office's Prosperity Fund has been used to bring UK agencies closer to their Chinese counterparts and foster mutual trust and learning (Madera, 2017).

Government endorsement led the Corporation to focus on the infrastructural development of an

RMB offshore market, using its international networks and para-state identity to work with the London Stock Exchange, HSBC and Standard Chartered banks, Chinese banks in London, and the Bank of China to develop an RMB-market in London (Madera, 2017).[viii] In addition, personal ties between influential British-based financiers, such as Sir Gerry Grimstone (formerly of the China Group at City UK and now Deputy Chairman and Senior Independent Director at Barclays) and Xavier Rolet (a former global investment banker and now CEO of the London Stock Exchange), and Chinese stakeholders, played a hugely important role in building the initial relationships of trust and mutual support that facilitated early RMB internationalisation efforts in London (Interviewee A, 2016).[ix]

Periodic high-level intergovernmental interaction, through the annual UK-China Economic and Financial Dialogues, has helped cement bilateral relations. But because these Dialogues only occur annually, much of the preparatory and follow-up work must be undertaken by the Corporation. This creates a space for the Corporation to shape the practical details of UK-China financial integration and sustain cooperative relationships over time. Similarly, the lack of market expertise from within the Treasury ensures a high degree of epistemic dependency upon the financial know-how of the Corporation and the transnational network of private sector players that it draws together. Indeed, some Chinese stake-holders, frustrated with what they see as the slow progress of the offshore RMB market in London and UK-Chinese financial integration, have been keen to bypass high-level UK government involvement wherever possible. They prefer to get direct access to the Corporation and UK financial services to accelerate the pace of RMB internationalisation in London (Interviewee A, 2016).

There is, then, a clear reciprocal pattern of periodic UK-Chinese executive level contact that facilitates further cooperation at the sub-executive (i.e. Corporation and private sector) level, in turn enabling progress towards further executive level policy formation. Within this wider process, the Corporation plays the role of "convenor and facilitator" for major topics agreed upon during the Financial Dialogues (Madera, 2017). Attempts to promote the City's role within global RMB business are, therefore, underwritten by state power and a resuscitation of the 'economicpatriotism' via which the UK government sponsored the City's global dominance in the pre-crisis period (Morgan, 2012: 373). The dominant City-Bank-Treasury nexus has actively and strategically engaged with the opportunities presented by the post-crisis era, with the explicit agenda of cementing London's standing within a changing global monetary order. The longstanding lamentation of the UK's underdeveloped industrial policy has tended to overlook the parallel existence of a long-term and coordinated approach to promoting financial services. It is not simply that the interests of the City and (more historically) sterling, have obfuscated industrial policy, but rather that the strategic and long-term state engagement with businesses commonly associated with industrial policy in advanced capitalist states is geared towards the financial sector within the UK. Recent proclamations of a commitment to a revitalised industrial policy, from the governments of Gordon Brown, David Cameron, and now Theresa May, must be interpreted within this context.

The Corporation plays a key role here in bridging public and private power; it advises the Bank, the Treasury, and key financial authorities while simultaneously developing and maintaining the private sector dialogue between private sector players in the UK and regulators based in Honk Kong and Mainland China (City Corporation, 2013: 15). Thus, even though overall political leadership of deepening ties with China came from George Osborne's Treasury, it is the Corporation that transformed this into a unitary project harnessing private and public sector commitment across the nexus more continuously than the periodic UK-China executive contacts. Drawing on its unique political powers, international presence, and financial resources, the City Corporation acts as a go-between agency that meshes together public and private power to further London's global offshore role.

Organisationally, the Corporation has been deeply involved in working with industry stake-holders from the financial services sector, helping to focus investor interest on London, and making sure that the London RMB market was as "frictionless as possible". As part of this process, and after political endorsement from Cameron and Osborne, the Treasury and the Bank participated as relatively passive observers within City-led meetings and forums (Madera, 2017). This demonstrates that leadership of the process at the detailed day-to-day level of on-the-ground planning was effectively delegated to the Corporation and industry players.

Through the local power of the Corporation, and a wider City-Bank-Treasury nexus, global developmental dynamics are transmitted into British capitalism. This adaptation has not emerged automatically, as the consequence of a broad set of functional interdependencies and common interests, but because of concerted political agency in which the Corporation plays a crucial role in linking high-level political will and episodic inter-governmental contact, with a more continuous orientation that brings together ground level institutional expertise and private sector participants. Because of the para-state identity of the Corporation, this more continuous orientation can weather the fallout of occasional high-level diplomatic spats that mark Anglo-Chinese relations.

In the Treasury and the Bank, the City Corporation and its associated banks have found willing partners for this project. In 2014, the Bank of England appointed one of China's largest banks as the Chinese currency-clearing bank in London. This is part of a wider Anglo-Chinese strategy to make London a hub forChinese currency dealing, which began with a currency swap agreement between the Bank of England and the People's Bank of China in 2013. Chancellor Osborne suggested that 'the emergence of China's currency as one of the world's leading currencies will be the next huge change' in the financial world (BBC, 2014). In 2013, China opened its markets to British-based investors and allowed London-based asset managers to invest directly in Chinese RMB - denominated stocks and shares. Because of this agreement, London-based asset managers are the only ones within the West able to invest directly in this manner.

Why are the Bank of England and the UK government so keen to embrace the internationalisation of the RMB? The Bank is expecting a precipitous increase in global RMB transactions over the immediate future, calculating that China's gross international investment position could increase from around 5 per cent to 30 per cent of world GDP by 2025. Chinese capital flows are therefore likely to expand exponentially, with the British economy likely to be more affected than others due to its, 'large and open financial system' and links to China (BofE, 2013: 304-307).

London already accounts for 62 per cent of RMB payments outside of China, securing an important 'first-mover' advantage over New York. To further these ties between London and Chinese banks the Bank of England's Prudential Regulation Authority decided that Chinese banks should be allowed to open new branches in the United Kingdom under the same rules that apply to other non-European Economic Area banks (BofE, 2013: 307). This followed on from the pioneering issuance of an RMB-denominated bond in London by HSBC back in 2012. In sponsoring further RMB internationalisation the Bank explicitly recognises and seeks to build upon London's distinctive advantages.[x]

George Osborne enthusiastically led Britain's growing engagement with China, giving the Treasury a prominent role in cementing financial connections. In October 2014, HM Treasury presided over a landmark event; the first foreign issuance of a government sovereign bond denominated in RMB, worth around £300 million. The issuance was undertaken to finance Britain's reserves, signalling a shift away from the traditional policy of only holding reserves in dollars, euros, yen, and Canadian dollars and demonstrating that the RMB is seen as a future reserve currency. These steps were viewed as part of the Coalition government's 'long term economic plan to establish Britain as the centre of global finance'. Commenting on the launch, Osborne signalled the government's continuing support for cementing London's status as, 'a major global centre for trading and investing the Chinese currency' (Treasury, 2014).

Treasurysupport for expanding RMB business is part of a wider strategy to embrace China's rising financial and economic power undertaken by the Conservatives since 2010. It was evidenced by the gaudy red carpet treatment rolled out to Chinese premier Xi Jinping on an official state visit in late 2015. The strategy includes controversial plans for China to take a major investment stake in the UK's new nuclear power station at Hinkley Point (Carrington, 2015), as well as the announcement of over £30 billion of bilateral Chinese investment commitments to the UK (Spence, 2015). It was significant that Theresa May reaffirmed the government's commitment to the Hinkley plan soon after her appointment as Prime Minister in July 2016. At the heart of this broader set of Anglo-Chinese economic entanglements is the deepening financial integration between China and the City, which has ensured that London is, 'fast becoming an outpost of the Chinese financial system' (Blitz, 2015). Plans include a formal connection between the London and Shanghai stock exchanges and future cooperation over the provision of 'Green Finance' for China's Belt and Road project (Stafford, 2015; Madera, 2017).

This is not, though, simply a case of pre-crisis continuity. An increasing offshore orientation towards Chinese finance, and the associated set of political and economic linkages clustered around this strategy, presents new risks to British capitalism. There are growing concerns about China's domestic financial stability, arising from the massive growth of shadow banking (Rabinovitch, 2014) and recent bouts of stock market turbulence and slowing growth. Any major crisis could seriously jeopardise the emergent consensus on RMB internationalisation and capital account liberalisation. Additionally, appreciation of the RMB as its international role strengthens would have serious consequences for China's export-led growth model, which continues to rely upon a low value for the RMB vis-a-vis the dollar (Saull, 2012: 326). The flip-side of this equation is that depreciation in the dollar's value, as its central international currency status is challenged, could gravely weaken US demand for Chinese exports. Without domestic macroeconomic reform, capital account liberalisation (the other side of the RMB internationalisation coin) could have serious consequences for Chinese financial stability and a future trajectory of unfettered liberalisation may therefore prove unrealistic (Yonding, 2014: 23).

Conclusion: changing geographies of City pre-eminence

This article has argued that the dominant institutional configuration within British capitalism, the City-Bank-Treasury nexus, has been reinforced during the post-crisis conjuncture. Despite limited manufacturing recovery, the most concerted institutional support has been oriented towards advancing the interests of the UK's financial services sector. This reinforcement has occurred not as a structural inevitability, or exclusively because of high-level UK government action, but also through a more proactive international role for the Corporation. The Corporation's active and continuous role in networking and market-making, stitching together private and public actors, has been central to the development of an offshore RMB business in London. For all the discourse of rebalancing under the Coalition, and the widespread recognition of Britain's damaging dependency upon an oversized financial sector, it is precisely these characteristics that are reaffirmed by the City-Bank-Treasury nexus' new pivot to East Asia. By continuing the City's entrepôt role and maintaining the centrality of the City-Bank-Treasury nexus within British economic policy-making, the courting of RMB business looks set to further intensify Britain's uneven economic development by perpetuating a finance-drive growth model configured around London and the South East. In this specific sense, the post-crisis era has proved to be one of overall continuity for British capitalism.

Rebalancing in the post-crisis period has, as this article has suggested, taken on a primarily geo-economic, rather than regional or sectoral form. The City's entrepôt heritage and 'offshore' orientation have provided the structural foundations for it to pragmatically adapt to the new opportunities presented by the internationalisation of the RMB. But that adaptation, as an active process of forming new international networks and designing new market and regulatory infrastructures, has drawn heavily upon the international agency and para-state identity of the Corporation. The long-term historical continuity of the City's offshore model requires concerted agency to adapt to shifting international conditions, particularly after disruptive crises. Recognising the unique political-economic agency of the Corporation, and specifying more clearly its relationship to the wider constituents of the nexus, enables us to move beyond prevailing structural-functionalist explanations. It allows a more dynamic and agent-centred framework for understanding the enduring power and influence of the City-Bank-Treasury nexus, demonstrating how the Corporation's peculiar para-state identity and international orientation allows it to coordinate private and public actors at home and abroad. This function complements the more periodic and explicitly politicised, UK-China inter-governmental relations that created the initial political space for the Corporation's pivot to China. This revised framework could be fruitfully applied to historical research on the development of the City, which has neglected the Corporation's role.

There are also important lessons to be learned regarding the international significance of the City-Bank-Treasury nexus. The Corporation's role in shaping London's embrace of Chinese finance demonstrates the extent to which China's intentions to promote its currency within the West are contingent not only upon the supply-side potential of its own domestic political economy (Otero-Iglesias & Vermeiren, 2015), but also upon a specific combination of demand-side forces within British capitalism. The City does, undoubtedly, have long-standing comparative advantages as an offshore financial centre. But there is nothing natural or inevitable about the concerted and active promotion of a long-term growth strategy for the City of London. The institutional energy and resources poured into securing the City's long-term global predominance compare unfavourably with the serial neglect of alternative forms of sectoral and regional development within the UK political economy (Martin, 2015). The UK's industrial policy, to the extent that long-term state supported economic planning can be identified, is paradoxically geared towards financial services, rather than manufacturing industry.

Considering the future, the preceding analysis provides some interesting clues as to what the UK's post-Brexit economic model might look like. The reinforcement of the City's influence within the UK state via geo-economic rebalancing towards China was, as this article has shown, dependent upon concerted political agency. There is therefore, no sense in which the outcome of Brexit *must* be favourable towards the interests of the City of London. To the extent that the City's continued pre-eminence requires continued agency and articulation, it is quite possible that if the political will for this diminishes, particularly from within the Treasury, then the City's interests may well be harmed and its influence reduced. George Osborne's positive orientation towards China provided a crucial context within which efforts to embrace the RMB could play out.

But, somewhat paradoxically, there is evidence that the policy initiatives once set in motion are increasingly path-dependent. Once both sides have invested political will the reputational penalties of a reversal, for either the British or Chinese, are much greater. This is important to understanding the continuity of Theresa May and Phillip Hammond's courtship of Chinese finance (Interviewee A, 2016; Madera, 2017).

Additionally, the Corporation's increasingly proactive post-crisis role is not confined to Asia. The Corporation has stepped up international efforts since the referendum, attempting to establish itself as a central and active player in Brexit negotiations. This involves furnishing government colleagues and major European banks (keen to maintain access to the City's deep and liquid capital markets) with expertise and arguments around the indispensability of the City of London to the EU's capital markets. The Corporation plans to use its gateway status for emerging Asian markets as a bargaining chip to secure the City of London's continuing centrality to Europe (Madera, 2017).

What we may be likely to see then, in the coming years, is a doubling down on the strategy to rebalance geo-economically away from Europe and towards the emerging markets of China and the East. Indeed, further steps to integrate the City with Chinese finance have been announced under May's government (Liu, 2017). But the Corporation will also seek to use the City's growing relevance to Asia as leverage to ensure continued European commitment to London's markets. The City's pragmatic geo-economic rebalancing to Asia may, paradoxically,help conserve its European dominance. Britain's membership of the European Union is coming to an end, but the City's offshore orientation and with it Britain's finance-drive growth model, look set to endure.

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[i]

Literature on the post-crisis City has predominantly focused upon regulatory issues(Johal, et al., 2014; Bell &

Hindmoor, 2015; Baker, 2015). An exception is Leila Talani's (2011) work on the fortunes of City hegemony after the GFC.

[ii]

The anonymous interviewee is a stakeholder in the RMB internationalisation process speaking under Chatham House Rules of anonymity. The interviewee is referred to as 'Interviewee A' in text.

[iii]

Activities encompassed by the entrepôt role included trade financing, provision of insurance for commodities and transport and dealing in foreign exchange, among other services (Ingham, 1988: 47).

[iv]

That this practice was possible in the City owed much to the specificity of English common law vis-à-vis continental law. Whereas the former prescribes only what is forbidden, and thus permitted the ad hoc implementation of activities and strategies that were not legislatively prohibited, the latter prescribes what is allowed, and was therefore more restrictive in scope (Palan, 2006: 29).

[v]

There are limits to the structural parallels between the component institutions of the City-Bank-Treasury nexus too. Although geographically proximate to the Bank and the Treasury, there are important differences between them. The City's institutions are comprised of private employees, not civil servants. They have a different legal basis and structure of internal accountability, and financial services employees and executives are (particularly within large international City firms) drawn from a more cosmopolitan pool than those of government institutions.

[vi]

The Remembrancer acts as a medium for communication between the City of London Corporation and the Parliament, with responsibility for advancing the City's interests in Parliament regarding public legislation (Mathiason & Newman, 2012).

[vii]

This has been enhanced by a wider national context of fiscal austerity involving a huge reduction in public sector employment and a slashing of the government's welfare bill (Kerr et al. 2011: 196; Taylor-Gooby, 2012: 61). Austerity measures have reinforced the exceptionalism of the City Corporation.

[viii]

The presence of UK banks with major business operations in China was very important to helping UK-Chinese financial cooperation get started. Of the roughly 1.7 per cent of the Chinese banking sector involving foreign participation, between 0.8 to 0.9 per cent of that is accounted for by HSBC and Standard Chartered, demonstrating the structural dominance of Anglo-Chinese banks in China's international banking sector (Madera, 2017).

[ix]

Both Grimstone and Rolet also served on the HM Treasury Financial Services Trade and Investment Board. Rolet was a member of David Cameron's Prime Ministerial Business Advisory Group.

[x]

These advantages stem from the time-zone of London, which allows it to be a bridge between other global trading zones, the globally respected (light- touch) regulatory tradition of the City and the considerable financial expertise contained within.