The City of London's China pivot

By Elisa Barwick

While most major players were licking their wounds or dodging blame in the wake of the 2008 global financial crash, the seat of financial power in the United Kingdom was launching a major policy shift. With a carefully choreographed economic rebalancing act, the City of London's position within global finance was reinforced rather than diminished, following the GFC. The financial nexus of the City of London Corporation, the Bank of England and the UK Treasury pivoted to China, the only source of growth on the horizon.

The backdrop

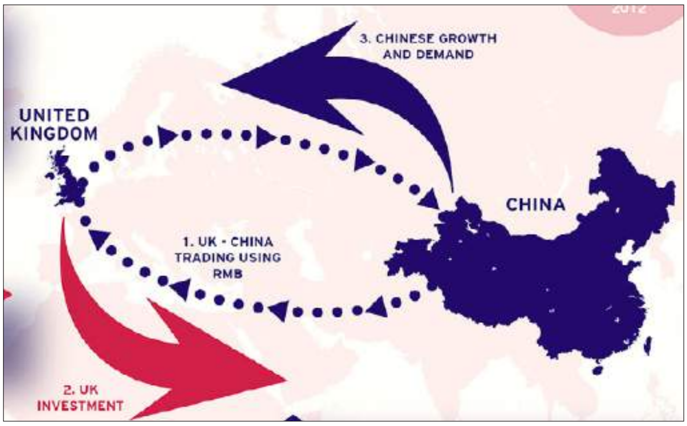
Following the crash, the world's biggest central banks colluded to prop up asset values, creating new financial bubbles on a mammoth scale, author and former banker Nomi Prins told an audience at the London School of Economics on 14 May. Then governor of the People's Bank of China, Zhou Xiaochuan, publicly criticised the US-led policy, Prins went on, and the PBC unleashed its own version of Quantitative Easing, diametrically opposed to the Western strategy: credit directed into infrastructure projects and development.

The volume of China's credit expansion was around $20 trillion dollars, greater than the $14 trillion in Western QE, but China has some $10 trillion worth of infrastructure to show for it, increasing at a rate of 40-50 per cent per year. What do the US Federal Reserve, Bank of England, European Central Bank and Bank of Japan have to show? Their own balance sheets are bloated; extremely low, zero per cent or negative interest rates mean they have no capacity to forestall a new crash; the banks they doled out money to are even more Too Big To Fail (TBTF); and the newly created asset bubbles are all ready to blow.

Clearly this was not a winning strategy over the longer term. Nor was the alternative to such bailouts—"bail-in", which confiscates the investments and savings of creditors to save TBTF banks, a policy pushed by the Bank of England and its creature, the Financial Stability Board, stationed at the Bank for International Settlements. That policy instituted extraordinary crisis management powers for regulatory authorities, but as for its ability to save a collapsing financial system if more than one bank crashes simultaneously—it has none.

The collective of bankers and financiers known as the City of London, therefore, had another strategy in play. As in times past, the imperial families which direct London's banking establishment were quite willing to jump ship in order to be part of the winning team. In addition to financing real economic development, China had recognised the necessity to reduce global reliance on the US dollar and began moves to internationalise its currency, the renminbi; London wanted in on that action.

A new scholarly paper by Cambridge University lecturer Dr Jeremy Green, "The offshore city, Chinese finance, and British capitalism: Geo-economic rebalancing under the Coalition government", published on 27 October 2017, reports on the UK's "geo-economic rebalancing towards China" initiated by the 2010-15 Conservative/Liberal Democrat Coalition government led by Prime Minister David Cameron. The true author and driver of this campaign, Green reveals, is the City of London Corporation.



As Obama's expansion of military capacity in the Asia-Pacific, the Asia Pivot, was being prepared in 2009, later accompanied by an economic pivot in the Trans-Pacific Partnership (TPP), London was quietly building a pivot of its own. Photo: Her Majesty's Treasury

The City of London Corporation

The coordinating body for London's financial district and its megabanks, the City of London Corporation, is a private municipal body with its own laws and police force, distinct from the municipality of the Greater London Council. More than 1,000 years old, the institution predates "modern" England that started with William the Conqueror in 1066, and has been closely allied to the Crown throughout its history. The Corporation has a permanent, unelected representative in the British parliament, called the Remembrancer, who monitors parliamentary activity and lobbies MPs to protect the City's interests.

The City of London Corporation, Green says, with enormous "fiscal power and networked political influence", plays a key role "bridging public and private power". It maintains the closest connections with government, performing an advisory role, while liaising intimately with private sector players. It also directs financial regulation agencies.

In 1945, during a push to nationalise of the Bank of England, Prime Minister Clement Attlee identified the City's capacity to control elected governments: "Over and over again we have seen that there is in this country another power than that which has its seat at Westminster. The City of London, a convenient term for a collection of financial interests, is able to assert itself against the Government of the country. Those who control money can pursue a policy at home and abroad contrary to that which has been decided by the people."

Attlee succeeded in nationalising the Bank in 1946, but by 1951 the pro-City Conservatives were back in power. Even as the dominance of the pound Sterling declined, London emerged as the world's biggest international financial hub by the late 1950s. It set itself up as a haven for US bankers to dodge regulations introduced by President Franklin Roosevelt, and with its creation of offshore Eurodollar markets (capturing US dollar flows outside the USA) it began the construction of a web-like network of tax havens to channel money-flows its way. This was how the British Empire reinvented itself as an "informal financial empire", while officially giving up most of its colonies.

The global financial crisis eventually intervened—a result of the fully globalised, liberalised and deregulated financial Frankenstein's Monster London had created. As

Nicholas Shaxson documented in his 2011 book *Treasure Islands: Tax havens and the men who stole the world,* London was committed to preserving its financialised economy: "London has more foreign banks than any other financial centre: by 2008 it accounted for half of all international trade in equities, nearly 45 per cent of over-the-counter derivatives turnover, 70 per cent of Eurobond turnover, 35 per cent of global currency trading and 55 per cent of all international public offerings." The City could not afford to abandon its position; it had no choice but to evolve once again.

Pivot to Asia

Citing numerous studies, City of London Corporation documents and interviews with City and government officials, Dr Green's paper traces the shift towards East Asia driven by the City of London Corporation in lock-step with the Bank of England and the British Treasury.

Green writes of the "City's attempt to reposition itself within the post-crisis political economy". The City has an entrepôt role—acting as a collection and distribution point for world financial flows—so its business strategy depended upon it being able to mediate flows of foreign currencies through international borrowing and lending, foreign exchange dealing and the derivatives trade. If more of that turnover was to take place in renminbi (RMB), the City would have to dominate its rise.

While the door to closer relations with China was opened by PM David Cameron and Chancellor George Osborne, it was the Corporation that launched the "Renminbi initiative" in April 2012, working with its public relations arm TheCityUK to establish an offshore market for renminbi. Osborne and Chinese Vice-Premier Ma Kai announced the decision to make London a renminbi hub in October 2013.

"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", says Green. Expecting a "precipitous increase in global RMB transactions" given China's rapidly growing international investment, and capital flows likely to "expand exponentially", the UK government seized the opportunity. In 2014, Osborne indicated that "the emergence of China's currency as one of the world's leading currencies will be the next huge change" in global finance.

Working with the City-Bank-Treasury nexus to set up the RMB market, Green says, were the London Stock Exchange, British banks with ties to China such as HSBC and Standard Chartered Bank, and Chinese banks in London including the Bank of China. To reduce dependency on the US dollar, from 2009 China had begun to gradually open up the renminbi to international use, beginning with bilateral currency swap agreements, trade settlement in renminbi, and renminbi-denominated bond markets. In 2012 the first London-issued, RMB-denominated bond was put out by HSBC. In 2013 China allowed investment directly into Chinese stocks and shares denominated in renminbi from London banks—the only Westerners allowed to do so. The UK's Prudential Regulation Authority (PRA) allowed Chinese banks to open branches in the UK. In 2014 the Bank of England, in an arrangement with the People's Bank of China, appointed the China Construction Bank (one of China's Big Four commercial banks) as a hub for Chinese currency-clearing in London. In a demonstration that the renminbi was viewed as a future reserve currency, in October 2014 Her Majesty's Treasury undertook the first foreign-issued sovereign government bond denominated in RMB; according to Treasury, all part of the "long term economic plan to establish Britain as the centre of global finance". Chancellor Osborne spoke of cementing London's role as "a major global centre for trading and investing the Chinese currency".

In 2015 the red carpet was rolled out in London for the visit of Chinese President Xi Jinping, and ongoing plans included a formal connection between the London and Shanghai stock exchanges and cooperation on finance for China's Belt and Road Initiative (BRI). Earlier that year the UK had joined the Asian Infrastructure Investment Bank. In 2017 the Shanghai Clearing House opened its first overseas branch in London, in partnership with a London clearing platform. Lord Mayor of the City of London, Charles Bowman, announced on 18 January 2018 that London is the largest renminbi payments centre outside China, and the largest renminbi foreign exchange centre in the world.

On 13 June 2018 the City issued a policy document calling for London to become a "natural western hub" for financing the BRI. HSBC and Standard Chartered Bank were already heavily involved. Standard Chartered, a lynchpin of the British Empire in Africa, the Middle East and Asia since the mid-19th century, has long had a strategy of monopolising finance for China as a key driver of global growth. With a presence in 45 countries that intersect the BRI it has won many financing deals for BRI projects. HSBC—originally the Hongkong and Shanghai Banking Corporation—was notorious as the leading institution in Britain's criminal opium trade with China; it was founded in 1865 by a consortium of British trading companies that ran the trade under oversight of the British East India Company. Credit Suisse and JPMorgan Chase are also major players.

In January the Corporation launched its "Asia Next Decade" campaign and the UK's China Chamber of Commerce hosted a forum on China-UK economic and trade cooperation, with Lord Mayor Bowman a speaker. Bowman was in China in March to promote the involvement of Square Mile firms in the BRI. The annual Belt and Road summit for 2018 will be held in the UK, by decision of the inter-government China-UK Economic and Financial Dialogue, as will a UK-China RMB Internationalisation Dialogue. The City is also pushing a Belt and Road Investor Alliance, a platform for increasing green investment in the BRI.

Despite all of this, a paradox looms: when PM Theresa May visited Beijing in January no formal memorandum on BRI cooperation was signed. China has questioned this, indicating it would have no issue getting other hesitant Western nations to sign up if the UK did; but likely the UK wants to discourage any competition while it positions itself as China's indispensible partner. The British government is simultaneously stepping up its military confrontation with China in the South China Sea.

Green's analysis also provides insight into the UK's post-Brexit economic model: "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." Given that "the City provides three-quarters of EU hedging and foreign exchange, and half its lending and securities transactions", according to a July 2017 *Financial Times* article, its China strategy must not fail.

In conclusion, Green acknowledges that London's financial pre-eminence relies upon the "concerted political agency" of the City and that "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". The UK Labour Party's manifesto has long had a pledge to abolish the City of London Corporation, and although Tony Blair quietly dropped it in 1996, current Labour leader Jeremy Corbyn has promised to curb the City of London's power if elected.