



# The role of Chinese finance in the City of London after Brexit

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London is the largest western financial centre for financial transactions denominated in Renminbi (RMB) and has played an important role in shaping the rapid and recent internationalisation of Chinese finance. This policy brief discusses how to maintain this leading role post-Brexit.

## Recommendations

**Significant financial deregulation in the UK compared to the EU should be avoided** because of the reputational damage this could cause for London's financial centre as a high-value, highly trusted and well-established international financial centre central to attracting Chinese financial markets to London.

**Close working relationships with policymakers in London's financial district and the People's Bank of China should be maintained and enhanced** in order to clearly articulate the continued importance of London as an international financial centre and its continued desire to attract international finance following Brexit. Emphasis needs to be placed on the already developed cluster of expertise and liquidity in Chinese financial markets in London, their regulation and legal infrastructure that is not currently matched by European financial centres.

**There are opportunities for London to develop new types of Chinese financial markets.** This includes those related to green finance, particularly green bonds in which London already has significant leadership advantages vis-à-vis European financial centres and the Belt and Road initiative. Ensuring that these opportunities are included in decisions about the future regulatory relationship between the UK and the EU for financial services will be an important factor in determining the extent to which London can continue its leading role within Chinese financial markets.

## Context

Since 2015, our research has analysed Chinese financial transactions in London's financial district. We've undertaken in-depth interviews with over 40 key stakeholders in Chinese financial markets

in London and Beijing and looked at how and why London has developed as the leading Western financial centre for RMB, exploring how this position can best be maintained in the future.

London has its own designated clearing bank for the Chinese currency (China Construction Bank Corporation) in order to facilitate greater Chinese financial market development. In April 2019, figures showed that London had cemented its position as the leading financial centre outside mainland China hosting the largest share of offshore RMB payments. Collectively, these changes mean that in the last five years – from virtually no presence – a cluster of 14 Chinese financial and related professional services firms has developed in London's historic financial district, concentrated around the Bank of England.

Competition between European financial centres for Chinese finance is likely to intensify following Brexit as European financial centres seek to attract financial market activity away from London. Against this uncertain policy backdrop, London's long-term success as a leading western centre for Chinese currency internationalisation will rely on policymakers achieving a favourable regulatory environment while maintaining the reputation of London as a global financial centre.

“The development of the euro dollar market in London demonstrates that the City is prepared to use favourable regulation to stimulate new markets and that is certainly attractive to the Chinese monetary authorities.”

*Financial journalist, March 2015*



## Key findings

There are three main factors that have facilitated London becoming the global financial centre of choice for Chinese policymakers seeking to internationalise the RMB.

**First, Chinese policymakers and the People's Bank of China sought to enrol London into the wider political and economic project of RMB internationalisation** because of the legitimacy and value London, as a long established and highly trusted financial centre, would add. For example, a Chinese bank vice president interviewed in the research argued that “the depth of the market in London and the associated expertise in the development of new markets, from financiers and lawyers, makes London an obvious choice to develop RMB markets compared to other centres”. Another argued that “London is an international centre in ways that places like New York and even Singapore aren't. You can see this in its pre-eminence in foreign exchange trading, but in less clear measures like its outlook, the international origin of the financial institutions here and the backgrounds of the people working here. That makes it an obvious destination for RMB markets”.

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**Second, policymakers at the level of the financial centre (through the City of London Corporation) and nationally (through HM Treasury) have been vital in developing close, trust-based working relationships with their Chinese counterparts through regular meetings.** The most significant of these have been the Annual UK-China Economic and Financial Dialogues and the City of London Initiative on London as a centre for RMB Business. These initiatives have allowed policymakers in London to further China's ambition to internationalise the RMB through the development of a select network of financial centres outside mainland China – termed offshore RMB centres. As a result, **policymakers in China have understood London as a financial centre that is open for business with China**, drawing on

previous experiences of development of new forms of international currency markets such as the euro dollar markets in the 1950s and 60s.

**Third, policymakers have continued London's historic use of regulation to facilitate the development of new financial markets in order to attract RMB denominated business to the City.** For example, in February 2013, the UK's Prudential Regulatory Authority began considering applications for Chinese banks to open branches in the UK for the first time. The success of this policy is reflected in the designation of China Construction Bank as the RMB clearing bank for London in June 2014, allowing greater use of RMB for global trade payments within the framework of continuing domestic capital controls in China as set out by the People's Bank of China.

## Policy implications

These research findings show that decisions made concerning the future regulatory alignment for financial services between the UK and the EU need to follow the above recommendations **in order to maintain London's leading position as an offshore RMB centre within the global development of Chinese financial markets.**

## Further reading

- Hall S (2019) Geographical imaginations of the Belt and Road Initiative *Asia Dialogue*: [theasiadialogue.com/2019/01/31/geographical-imaginings-of-the-belt-and-road-initiative](http://theasiadialogue.com/2019/01/31/geographical-imaginings-of-the-belt-and-road-initiative)
- Hall S (2017) Rethinking international financial centres through the politics of territory: renminbi internationalisation in London's financial district, *Transactions of the Institute of British Geographers* 42, 4, 489-502
- City of London Corporation and the People's Bank of China Europe Representative Office, 2019 London, *RMB Business Quarterly*, available from: [cityoflondon.gov.uk/business/asia-programme/greater-china/Documents/london-rmb-business-quarterly-issue-3-2019.PDF](http://cityoflondon.gov.uk/business/asia-programme/greater-china/Documents/london-rmb-business-quarterly-issue-3-2019.PDF)

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