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**Regulating the geographies of market making: Offshore Renminbi markets in  
London's international financial district**

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## **Regulating the geographies of market making: Offshore Renminbi markets in London's international financial district**

In this paper, I develop a sympathetic critique of cultural economy approaches to market making, arguing that the spatial imaginations deployed in this work remain comparatively limited. Drawing on the emerging dialogue between cultural economy and heterodox political economy approaches to money and finance, the paper argues that a focus on regulation provides a valuable way of developing new understandings of the geographies of market making beyond cultural economy's extant reading of space as context, particularly in the form of the financial trading room. Drawing on an original case study of the marking of offshore renminbi markets in London's financial district, the analysis conceptualises regulation as both a hitherto overlooked relational component of market making and as a set of practices that co-constitute the territoriality of markets. I demonstrate how regulatory changes made in Beijing and London are important in understanding both the growth and potential limitations of London as an offshore renminbi centre. This has significant implications empirically, for the wider project of renminbi internationalisation and theoretically, in terms of understanding the geographies of market making.

### **Key words**

Marketisation, regulation, cultural economy, City of London, RMB internationalisation, RQFII, offshore finance

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## **Introduction**

There is now an established, interdisciplinary social scientific literature that examines the construction, maintenance and repair of financial markets from a cultural economy perspective. Drawing heavily on actor network theory, this literature developed predominately from the 2000s onwards and emphasises the human, technical and material relations that are central in financial market making (see, for example, MacKenzie 2003; 2014; MacKenzie *et al* 2007; Preda 2006; Knorr Cetina and Bruegger 2002; Knorr Cetina and Preda 2005; Muniesa *et al* 2007). As part of wider efforts to reclaim the study of markets and economies from orthodox economists, a largely parallel approach to the cultural economy of markets has also developed that focuses on the discursive framing of money and finance (De Goede, 2005; Langley, 2008; 2014). Both of these literatures share an appreciation of the co-constitutive relationship between market components and the markets, or 'worlds' in the terms of MacKenzie (2003), they create, often through the detailed treatment of geographically specific financial markets and the importance of the context of the financial trading room in particular (see, for example, Hertz 1998; Ho 2009; MacKenzie and Millo 2003; Zaloom 2006). However, in this paper I develop a sympathetic critique of cultural economy approaches to market making, arguing that whilst they address calls for research to 'speak the language' of finance more fluently (Leyshon 1998), the spatial imaginations deployed in this work remain limited. For example, Barnes (2008) argues that questions of space and place have been largely ignored within cultural economy research. Meanwhile Corpataux and Crevoisier

(2015) argue that space remains a metaphor in cultural economy approaches, rather than being understood as constitutive of market making. In the case of finance, this neglect of a detailed consideration of the spatiality of markets is significant because the international financial system comprises a series of geographically variegated markets (Clark and Wójcik 2007). And yet, relatively little is currently known about how financial market making potentially reproduces, challenges and is shaped by this heterogeneity.

In this paper, I argue that the emerging dialogue between cultural economy and heterodox political economy approaches to money and finance provides a valuable way of addressing this oversight (see, for example, Aitken 2007; Braun 2015; Clarke 2012; Langley 2010; Watson 2009). These literatures have developed largely in parallel to one another with the micro foundations of finance being seen as the preserve of cultural economy whilst political economy research focussed on the macro capitalist structures that shape global finance. More recently, work has sought to reconcile these approaches by developing a flatter ontology in which markets “matter for political economy, not only as participants in or objects of political struggles over (de-) regulation but as sites of politics in their own right” (Braun 2015: 258; see also De Goede 2003; Hardie *et al* 2013; Seabrooke and Wigan 2014 on the case of financial markets). Whilst the spatial implications of this dialogue have not been explored, Braun’s argument begins to signal how the spatiality of markets figures in this approach. His argument suggests that market making, and the politics surrounding it, does not unfold over an uneven but inert geographical backdrop. Rather, and following Christophers’ (2014) arguments concerning the ‘spatial constitution’ of markets, the places in which markets are made, and their institutional

attributes, matter for the economic and political outcomes of those markets and are in turn shaped by the process of market making itself.

I use this dialogue to develop new understandings of the geographies of financial market making by focusing on the role of regulation. Regulation has not been widely studied in cultural economy approaches but the ways in which regulation from state and financial authorities legitimises financial activity in discrete places and times is a central concern of more politically economy inspired work (see Boyer 2000; Helleiner 1994; Nesvetailova and Palan 2010; Martin 1994; Moran 2003). Regulation is a good example of how the flatter ontologies of financial market making called for at the intersection of cultural and political economy research on finance can be developed since it is both exercised by state institutions and yet is worked out in practice in distinct geographical settings (cf Christophers 2016; Jones 2014). Of particular relevance for my focus in this paper is the vibrant strand of research that has examined the complex intersection between regulation, state sovereignty and the development of offshore financial places and practices (Maurer 2007; Palan 2003). Drawing on this work, I argue that understanding the role of regulation in financial market making is vital if the geographical imaginations of cultural economy research on financial markets it to be advanced. Specifically, regulation is important in shaping the spatiality of market making both relationally (through acting alongside other financial practices that have been more widely studied in cultural economy work on market making) and territorially (through enrolling, and in turn shaping, the institutional landscape within which financial markets are made as identified within political economy research on financial regulation).

I illustrate this argument empirically through reporting on original qualitative research conducted into Renminbi (RMB) internationalisation – one of the most significant developments in contemporary global finance (Deutsche Bank, 2014). What particularly concerns me in this paper is the role of regulation (made by the state and financial authorities in China and elsewhere) in shaping the distinctive spatial form through which RMB internationalisation is taking place. This comprises a small network of offshore (outside mainland China) RMB centres that has developed since 2010. Offshore RMB centres include a range of RMB denominated financial services and supporting institutions including a RMB clearing bank, a RMB swap line with Beijing and a pool of RMB deposits (ADB 2014). Whilst onshore RMB markets in mainland China have interest and exchange rate controls, these have been liberalised within offshore RMB markets (ASIFMA 2014; He and McCauley 2010). My analysis focuses on the unique development of London as the first and leading western offshore RMB centre. I argue that regulatory changes made in Beijing and London operate in relation to other material, social and technical market components in order to facilitate RMB market making in London. On the one hand, these regulatory changes both drew upon but also created a unique offshore RMB regulatory space that *enabled* RMB market making in London. However, on the other hand, regulation, particularly that exercised in London by the Chinese monetary authorities, also poses potential *challenges* for RMB internationalisation by limiting the integration of this offshore RMB space into London's wider financial services milieu. This finding is important because it raises significant questions concerning the potential limits to RMB market making with consequences for the wider project of RMB internationalisation.

I develop these arguments over four further sections. First, I document how studying regulation can advance understandings of the geographies of marketisation. Second, I introduce the specific form of regulation that the paper focuses upon – Renminbi Qualified Foreign Institutional Investor (RQFII) quotas – and document its role in the development of offshore RMB networks beyond mainland China. In the third and fourth sections of the paper I examine how the use of RQFII quotas as a regulatory intervention in processes of RMB market making were central to the initial success of the project in London but also pose significant challenges to the on going use of the RQFII quota in London's development as an offshore RMB centre. I conclude by reflecting on the significance of this argument for both both theoretical research concerned with the geographies of financial market making and offshore finance and wider understandings of the role of RMB internationalisation in shaping the international financial system.

### **Regulating market making**

The cultural economy literature on financial market making is primarily concerned with studying 'the processes that constitute the behaviours, organizations, institutions and, more generally, the objects' (Çalışkan and Callon 2009: 307) that become enrolled into financial markets. Çalışkan and Callon (2010) reflect the importance attached to the combination of human, material and technical market actors (such as financial formulae and information technology infrastructure) in this literature by arguing that markets are the outcomes of socio-technical arrangements or agencements (STAs) that combine the actions of humans with a range of other market devices. What particularly concerns me in this paper is the spatiality of these STAs.

To date, the cultural economy literature on STAs predominately engages with questions of space and place through a focus on the financial trading room, acknowledging that market devices interact with the geographically specific contexts in which they are used (Ho 2009; Zaloom 2006). For example, MacKenzie (2003) demonstrates the performative qualities of financial formulae such that they can shape the broader outcomes of the markets in which they are used. Meanwhile, De Goede (2005) traces the context dependent historical development of finance that has positioned it as a largely legitimate form of economic action. Work has also acknowledged the multi-scalar nature of financial markets. Most notably, Knorr Cetina and Bruegger (2002) use the term ‘global microstructures’ to signal the ways global price and broader market indicators become enrolled into markets as traders receive and interact with these pieces of information through the close relationships they have with their screen (see also Berndt and Boeckler 2009).

However, whilst the context dependent nature of financial market making has been identified within cultural economy approaches to financial markets, other dimensions of their spatiality have been neglected (Hall 2010) including market spaces beyond the trading room such as the financial centre or the bank (although see MacKenzie and Spears 2014a, 2014b). In part, this stems from a concern within cultural economy approaches to move beyond some of the perceived limitations of broader economic sociological approaches to the embedded nature of the economy. This work builds on Granovetter’s (1985) seminal contribution to stress the ways in which economic action is embedded within particular geographical locations. In so doing, cultural economy research has tended to maintain a separation between the economic and social relations in which the economic is understood to be located (see Berndt and



Boeckler 2009). This means that whilst detailed accounts of specific markets, their local distinctiveness and the ways in which they are positioned and help shape the international financial system have been produced, relatively little is known about the co-constitutive relationship between markets and the social, political, economic and cultural contexts in which they operate. In particular, we know very little about how the spatiality of STAs themselves is an important actor in shaping and making markets. For example, how are spatially variegated social, economy, political and regulatory spaces enrolled in practices of market making – what Christophers (2014) terms the ‘territorial fixes’ of markets? How are the attributes of particular territorialized markets used in the project of market making? What are the implications of this for the success or otherwise of market making activities?

In order to begin to address these questions, I argue that the regulation of markets is an important, but comparatively neglected, component of STAs that serves an important function in enrolling specific places into financial markets. Whilst regulation has not been widely studied in this way from a cultural economy perspective, there is an extensive political economy literature on the importance of regulation in financial market making (Helleiner 1994; Moran 2003). More recently, this work has increasingly focused on what, in a different context, Wood and Alexander (2016) term ‘regulation in practice’. This approach emphasises the relational qualities of regulation, examining how regulation is acted upon and potentially challenged in practice, rather than simply being implemented in a linear top down process (see Langley 2014 in the case of financial regulation). As such, this approach to regulation provides a valuable way of integrating political economy research on money and finance that has typically examined the macro structures of

global finance with the micro scale analysis of cultural economy research.

Importantly for my arguments in this paper, this relational approach to regulation also draws attention to the territorial qualities of regulation since the practice of regulation in specific markets both responds to the geographically differentiated place based assets of these markets (in terms of their socio-economic norms, regulations and cultures) as well shaping such markets (see for example Johal *et al* 2014 on the case of competing regulatory agendas within London's financial district). As a result, I understand regulation as both a relational and territorial set of practices that play an important role in shaping the geographies of financial market making (see also Van Meeteren and Bassens 2016).

Offshore finance is one of the areas in which such an approach has been most fully developed, reflecting the vital role regulation plays in creating offshore jurisdictions and practices (Palan 1998). For example, the development of offshore Eurodollar markets in London in the 1960s and 70s relied upon the creation of a regulatory disjuncture within the British banking system between a heavily regulated domestic market and a deregulated international market (Schenk 1998). However, it was the ways in which banks operating in London sought to use this regulatory arrangement alongside wider cultures of innovation and the need to finance the rapid increase in international trade that occurred at the end of the 1950s that more fully accounts for how and why euro dollar market developed in London as they did, rather than simply the top down introduction of a state led regulatory change (Burn 1999). Meanwhile, in the case of offshore financial centres, Hudson (1998) argues that these often small, island economies need to be understood as more than simply comparatively

deregulated financial places. Rather, he suggests that deregulation is used carefully by states so as to ensure that trust in these financial centres is not eroded through a deregulatory race to the bottom (see also Roberts 1995).

As a result, a focus on financial regulation as practice provides an important way of developing more geographically sensitive accounts of financial market making because it draws attention to how state sovereignty is not simply imposed upon abstract financial markets. Rather, such an approach examines how the place specific qualities of different markets are enrolled into regulation, focusing on regulation as both a relational and territorial component of financial market making that both responds to, and reproduces, geographically heterogeneous financial markets.

### *Methodology*

In the rest of this paper, I illustrate the value of such an approach through the case of offshore RMB market making in London's financial district. To do this, I report on original qualitative research that examines the process of making RMB markets in London as it developed as the first and leading offshore RMB centre. In particular, I focus on one particular regulatory intervention that is central to RMB internationalization – Renminbi Qualified Foreign Institutional Investor (RQFII) Quotas. These quotas are important because, for the first time, they allow approved investors based outside mainland China to participate directly in the onshore Chinese A shares equity securities market without having to convert foreign currency into RMB as was previously the case. The first quota was issued to Hong Kong in 2011

but London was the first centre outside of Asia to be awarded one in 2014 with a quota value of RMB80bn.

A two-stage methodology was used in the research. First, desk based reviews were conducted into: official statistics on the development of RQFII networks and quotas, with particular reference to London from both the UK (including the Bank of England, the City of London authorities and HM Treasury) and China (particularly the State Administration of Foreign Exchange (SAFE)); and analysis of press reports from specialist and mainstream business press, particularly *The Financial Times*, and press releases in China and London on the development of the RQFII programme. Second, between September 2014 and June 2015, thirty semi-structured interviews were conducted in London and Beijing with financiers and lawyers working on a range of RMB denominated financial products, including the RQFII quota and journalists and market commentators interested in London's role in RMB internationalization. Interviews lasted between thirty minutes and two and a half hours, were conducted in English and were recorded and transcribed for subsequent analysis within a grounded theory framework. Interviews focused on understanding how and why London had been identified by the Beijing financial authorities as the first western offshore RMB centre, the regulatory changes enacted by authorities in Beijing and London to facilitate this, the response to and role of banks, law firms and other financial institutions in responding to these changes and the ongoing development of London as an offshore RMB centre.

### **RQFII quotas and the development of offshore RMB networks**

RMB internationalisation has taken place through a distinctive spatial form comprising a growing network of financial centres within and beyond mainland China. This can be dated back to December 2008 when a pilot scheme to settle cross border trade in RMB between China and Hong Kong, Macau and ASEAN countries was announced by the then Chinese Premier Wen (Deutsche Bank 2014). Initially, in 2010, Hong Kong was the only offshore RMB centre but it was joined by London and Singapore in 2011 (see table 1). More recently, Luxembourg, Frankfurt, Paris and Toronto have also developed significant capability in RMB financial services (Atlantic Council 2015). In the early stages, and particularly in the case of Hong Kong, internationalisation focused upon the development of offshore deposits of RMB associated with facilitating trade settlement with mainland China. More recently, this has been expanded to include mechanisms for onshore investment from offshore centres through regulatory interventions such as the Qualified Foreign Institutional Investor (QFII) and Renminbi Foreign Institutional Investor (RQFII) schemes and the development of secondary RMB markets within offshore RMB centres. Offshore investment opportunities in RMB have also been developed, primarily through the offshore RMB bond market, commonly known as dim sum bonds (Eichengreen and Kawai 2014). The development of offshore financial space in the pursuit of RMB internationalisation is characterised by on going regulatory initiatives and forms of policy experimentation from the Beijing monetary and financial authorities in conjunction with the relevant international counterparts. For example, recent announcements have focused on the Hong Kong-Shanghai stock connect program which seeks to facilitate a two-way flow of RMB between mainland China and its offshore financial space by allowing 'global investors to buy Shanghai-

listed shares through Hong Kong and investors on the mainland to trade Hong Kong listed shares through Shanghai (Atlantic Council 2015: 16).

[insert table 1 here]

Set within this web of financial relations between mainland China and offshore RMB centres, the RQFII scheme is important because it represents one of the most well established channels through which RMB held offshore can be used to make investments in mainland China. The antecedents to this program lie in the Qualified Foreign Institutional Investor (QFII) program that was established in 2002. Under this scheme, approved foreign institutional investors could use their offshore foreign currency to invest in the mainland Chinese securities market with the aim of attracting long-term foreign investments into the Chinese domestic A-share market. However, by May 2012, although 172 QFIIs had been granted licences, they only made up 1.1% of the market capitalisation of China's A-shares (Kings & Wood Mallesons, no date). In response, regulatory reform was undertaken by the State Administration for Foreign Exchange (SAFE) and the China Securities Regulatory Commission (CSRC) and the total QFII quota increased from US\$30bn to US\$80bn. These changes increased the range of products that licensed investors could invest in to include fixed income products traded on the inter-bank bond market. Moreover, in an effort to make the scheme more attractive to foreign investors, changes to the ways in which profits were handled were also brought in such that profit through the QFII scheme could be repatriated without the approval of SAFE within limits (no more than 20% of the QFII licence holder's total QFII investment in China at the end of the previous year).

RQFII builds on this and is a central regulatory element of the internationalisation of the RMB because it allows registered overseas investors in the scheme to use RMB held offshore outside mainland China to invest in the mainland Chinese securities market. It was launched in 2011 in a tightly regulated way through an initial investment quota to Hong Kong of RMB20bn, echoing the position of Hong Kong as a Special Administrative Region of China that is used for a range of types of policy experimentation. Access to this quota was only available to Hong Kong subsidiaries of mainland Chinese fund management and securities companies. This quota increased to RMB70bn in 2012 and later that year, the CSRC announced plans to increase Hong Kong's quota by RMB 270bn. As Hong Kong was increasingly understood by Chinese authorities as the leading offshore RMB centre and accumulated a growing offshore RMB deposit base in March 2013, CSRC, SAFE and the People's Bank of China further deregulated RQFII regulations known as the revised RQFII. Of particular importance in these developments are changes in the types of organisations that could apply for an RQFII licence to include Hong Kong subsidiaries of Chinese commercial banks and insurance companies and financial institutions registered in Hong Kong. Building on the expansion of Hong Kong's involvement in the QFII and RQFII schemes, the China Securities and Regulatory Commission announced that RQFII quotas would be issued to Singapore (RMB50bn) in 2013 and to London (RMB80bn) in 2014 bringing the total RQFII quota globally in 2015 to RMBbn 363.7. Whilst London's smaller quota reflects its position as being a quantitatively smaller offshore RMB centre as compared to Singapore and Hong Kong, its importance is more strategic in nature as policy makers in London have sought to use initiatives such as the RQFII scheme to realise its ambitions to become the 'western hub for the offshore RMB market as a complement to Hong Kong and

other financial centres' (City of London, 2012: 4). The RQFII quota is significant in this respect because London was the first such centre to be approved for such a quota beyond Hong Kong (South China Morning Post, 2013).

### **RQFII quotas beyond mainland China: regulation and the legitimization of London as the first western offshore RMB centre**

In this section, I advance an understanding of the RQFII scheme as a regulatory intervention that shapes the geographies of offshore RMB market making in London, both relationally, alongside other RMB market technologies, and territorially, by enrolling and reproducing the place specific qualities of existing financial markets in London's financial district through state intervention. In particular, I argue that to understand how and why London became the first offshore RMB centre beyond Asia to be awarded an RQFII quota demands an appreciation of how the regulatory changes associated with RQFII quotas operated alongside wider financial and political aspirations in Beijing and London in ways that support my call to examine regulation in practice in order to advance understanding of the geographies of market making.

Beginning with Beijing, in order to understand the role of the RQFII quota in making offshore RMB markets, it needs to be positioned in relation to the broader policy objectives of opening up the domestic Chinese economy, and the financial services sector in particular (see Walter and Howie 2012). In this respect, RMB internationalisation is underpinned by a commitment to facilitating currency internationalisation through managed capital account liberalisation whilst maintaining



onshore control of exchange and interest rates in mainland China. As one financier working in RMB markets in London summarised

“I think Chinese regulators care most about where their money is and who is making use of them without thinking about leaving it in the financial market. The RQFII scheme is really important in this respect as it provides a way of returning RMB to mainland China.”

(Trader, Chinese state owned bank in London, April 2015)

RQFII quotas are important in meeting these policy ambitions because, as the example above begins to suggest, they provide a way of controlling which actors can use offshore RMB to invest in mainland domestic capital markets through the registration requirements for foreign investments to take part in the scheme. However, this explains the development of the RQFII scheme in general, but does not explain why London, in particular, was awarded a quota.

In order to address this issue, an understanding of why London's financial and regulatory authorities have sought to support the City's development as an offshore RMB centre and the associated process of de and re regulation in London that has supported its RQFII quota needs to be developed. The support for the initial 'market design and maintenance' (Çalışkan and Callon 2010) of RMB markets in London can be dated back most clearly to 2011 when the Chinese Vice Premier Wang Qishan and the UK Chancellor George Osborne officially welcomed the private sector led processes of RMB marketization. This reflected the potential the UK Government saw in enhancing trade and financial links with Asian economies in general, and

China in particular, in securing economic and financial economic growth for the UK in the wake of the 2007-8 financial crisis and the ensuing recession. For example, at the time, George Osborne argued that there ‘is huge potential for our economic and commercial relationship with China’ (HM Treasury 2011). However, progress slowed considerably following Prime Minister David Cameron’s meeting with the Dalai Lama in London in April 2012 (Financial Times 2013a).

Reflecting the importance attached to the financial services sector in both countries, regulatory change in support of RMB internationalisation was used diplomatically to ease these frozen bilateral relations. As one of my research participants summarised

‘We [the UK] played to our strengths, using the financial economic agenda to open the dialogue [between the UK and China]. And that was very successful’  
(Financial journalist, London June 2015).

This was initiated by the visit to China by Mervyn King, the then Governor of the Bank of England to his China counterpart at the PBoC Governor Zhou Xiaochuan in February 2013. At this meeting, it was agreed that a RMB-sterling currency swap line would be established between the Bank of England and the PBoC and that the UK’s Prudential Regulatory Authority would begin to consider applications for Chinese banks for branch opening rather than restricting their UK operations to subsidiaries with higher liquidity and capital requirements as had been the case for all foreign owned banks following the 2007-2008 financial crisis (see Hall 2015). The announcement that London would be awarded an RQFII quota later that year in October 2013 during the Fifth UK-China Economic and Financial Dialogue has been

widely interpreted as a reward to London for deregulating its approach to Chinese banks. As the following Assistant Manager in a Chinese state owned bank summarised in March 2015

“It’s like a diplomatic game of cat and mouse. Both sides (London and China) wanted to develop London [as an offshore RMB centre] but it’s a bit tit for tat. London said they would allow Chinese banks to open branches which was important for Beijing in facilitating their internationalisation plan and in return, London was rewarded with an RQFII quota.”

As this example demonstrates, for Beijing, being able to open Chinese bank branches in London was important in achieving its ambition to internationalise its banking sector as part of its wider ‘going global’ policy for state owned enterprises (Dobson and Masson 2009). Meanwhile, for London, the announcement of the RQFII quota and specifically its timing as the first such quota awarded beyond Asia was important in meeting its aims to become the leading western financial centre in the face of strong competition from Luxembourg (Strauss 2014). For example, the press release that accompanied the outcomes of the fifth financial dialogue described the issuing of an RQFII licence to London as ‘ground breaking ... set to cement London’s position as a global RMB hub’ noting in particular that London was the first centre outside of greater China to be issued with such a licence (British Embassy Beijing 2013). Meanwhile, the Financial Times reported that by winning the race to become the first non-greater China RQFII quota location, London’s RQFII licence ‘was seen also as cementing the improving relationship between the UK and China, while

demonstrating London's desire to be the global financial centre of the world' (Financial Times 2013b).

Taken together these developments demonstrate how any account of how the RQFII quota was mobilised from the China Securities Regulatory Commission in Beijing to London demands an understanding of the RQFII quota as both a relational and territorial regulatory device. Initially, the award of an RQFII quota to London was supported by close relational proximity between London and Beijing. This relational proximity was then cemented through enrolling and changing London's regulatory landscape (through, most notably, changing banking regulation to allow Chinese banks to open branches in London). In so doing, the territorial qualities of London's financial district can be seen as a market making technology which were altered through regulation in order to secure the development of RMB markets. In this sense, the RQFII quota can be seen as providing a 'territorial fix' (Christophers 2014) for financial policymakers in London (who, under the Cameron-Osborne administration saw a pivot to China as a way of maintaining London's position as a leading international financial centre following the 2007-8 financial crisis) and Beijing (who recognised that a western offshore RMB centre would be essential within the wider RMB internationalisation project).

### **Regulatory challenges to market making: evaluating RQFII quotas beyond mainland China**

In this section, I examine the operation of the RQFII quota within London's financial district following its initial award. Building on work that cautions against viewing

offshore financial places as involved solely in competitive deregulatory races to the bottom (Hudson 1998), my analysis reveals how RQFII quotas reminds us that regulation can serve to enable, but also to limit, processes of market making. In this sense, regulation needs to be understood as a relational element within the broader political economies of RMB internationalisation. In particular, the operationalization of London's RQFII quota and its enrolment into London's distinctive financial mileu was subject to power struggles between private sector actors and the state in London and Beijing with the dominance of the latter currently limiting the future of RMB market making in London.

Initial figures support claims that the RQFII quota had been successfully mobilised into London's financial district, not only drawing on the unique nature of London's financial district but also making these markets through regulatory changes in London. Most notably, on 7 January 2014, it was announced that Ashmore, an emerging markets investment specialist was the first institutional investor outside of greater China to be given a RMB Qualified Foreign Institutional Investor licence by the China Securities Regulatory Commission (CSRC) using the London RQFII quota, thereby giving it access to mainland Chinese equity and fixed income securities markets. This followed its existing QFII licence that was issued in 2009. Three fund applications were successfully made by Ashmore and approved by SAFE in March 2014 for a total of RMB3bn before Ashmore sought approval to access the China Interbank bond market from the PBOC in July 2014. The speed with which Ashmore secured these agreements has been attributed to them previously holding a QFII licence and also drawing on the experience of HSBC who have experience of the larger and more longstanding Hong Kong RQFII programme in terms of submitting

the bid (City of London, no date). This was followed by 8 further licences being awarded through London, overwhelmingly to asset managers (see table 2).

[Table 2 here]

Meanwhile, in March 2015, London became the first European offshore RMB centre to host an RMB denominated Exchange Trading Fund when the Commerzbank/China Construction Bank International (CCBI) RQFII ETF was listed on the London Stock Exchange. This fund allows institutional and retail investors to take a stake in money market instruments which are invested directly in the China Interbank Bond market through the RQFII quota. This development demonstrates the ways in which private sector organisations became enrolled within the UK government's project to position London as the first western offshore RMB centre through a series of regulatory changes that changed the institutional configuration of London's financial district, as well as supporting relational proximity between the UK and China. For example, in relation to RQFII ETF, the CEO of the London Stock Exchange Group said

“This is a landmark listing for London and an important sign of the market's openness to new RMB product development. We are fully committed to supporting the efforts of the Chinese and the UK Governments in developing an offshore RMB market in London through innovation and partnership.”

(London Stock Exchange Group, 2015)

Meanwhile, the City minister in the UK, Andrea Leadsom argued at the time that

“The launch of this innovative new product, which will provide further opportunities for British and other global investors to invest directly into China, underscores Britain’s position as the western centre for offshore RMB and a global centre for asset management. It’s also yet another example of the good relationship between Britain and China, building on last September’s Economic and Financial Dialogue where our two countries agreed the most significant package of measures ever on financial services” (HM Treasury 2015)

However, despite this initial interest, the uptake of the RQFII quota in London has been limited with figures showing that, by April 2015, only RMB15bn of the total RMB80bn had been awarded (see table 3). Moreover table 3 also shows that Hong Kong remains by far the largest vibrant RQFII centre, followed by Singapore which has used more of its quota than London, despite receiving it after London, something that was predicted at the time the London licence was announced. As the Financial Times put it in November 2013

“while it is widely expected that Singaporean fund managers will rapidly take up their allocation, there is little evidence that fund managers in London are as enthused by this opportunity as the UK Chancellor obviously was. Indeed, the possibility of Singapore’s managers using up their allocation quicker than those in London is likely” (Financial Times, 2013b).

[insert table 3 here]

Attending to the genealogy of the regulatory creation of RQFII quotas is instructive in understanding the apparent failure of RQFII quotas in London. In this respect, whilst the product has been mobilised into London through the granting of a licence and taken advantage of London's appetite for RMB market development in the process, it has not been translated (Law 1992) into the broader context of London's financial services cluster such that it becomes integrated into London's existing financial landscape, potentially bringing about further regulatory changes to support its development and that of RMB marketisation in the City more generally. In this way, regulation can act as a break on market making as well as an enabling force. In particular, the operationalization of regulation in practice is critical to understanding the extent to which it will facilitate or limit market making. The case of London's RQFII quota demonstrates the relative power of the Chinese financial authorities compared with both their UK counterparts and the private sector financial community in London as Beijing sought to impose its understanding of how the RQFII quota should work in London. Whilst the UK Government supported this, as it was essentially a requirement to hold an RQFII quota and become an offshore RMB centre, it did not fit with private sector understandings of how RMB internationalisation should develop and the logics underpinning this. As one lawyer working in London's RMB markets summarised in February 2015

“I'm not saying that the [RQFII allocation] decision was wrong, but when we rethink RQFII, I think it is narrow minded to assume that money *has* to flow back to China. Whenever I speak to PBoC about this I always challenge them on this and ask them to think twice, why when other countries ask for RQFII [do] you give it to them. The consequence is that UK has 80bn RQFII and it



doesn't get used. We [in the UK] are a free market, all our behaviours are market led instead policy led. Isn't that embarrassing, let's say, I give you such a big house and you only have one person living there. [...] Instead, we should try to understand the local investors mentality, what are their obstacles, how can we cultivate their trust. In evaluating the success of RMB internationalisation as a strategy I think RQFII is a failure."

In this way, the under utilisation of the RQFII quota in London draws attention to the ways in which exercising regulatory change offshore (through the RQFII quota award), beyond mainland China, in London is a necessary but not sufficient condition for the successful internationalisation of the currency since the latter will only be achieved if RMB markets exist in offshore RMB centres in which institutional investors have incentives to use the RMB above other currencies – in other words if regulation is used to (re)produce financial markets in ways desired by actually existing financial markets already operating within them. As the Head of China desk for an investment bank in London explained

'RQFII is a Beijing product and that is a hard sell to many investors in the UK. There is some scepticism about the Chinese currency and the value of investing through that rather than other means. The markets out there [China] don't necessarily look great and in that case, investors tend to choose a more local option that they feel more comfortable with.'

(Head of China desk, investment bank, London February 2015)

As this example demonstrates, the policy aim that underpins RQFII is a desire to facilitate the return flow of RMB from offshore centres into the Chinese mainland led by the financial authorities in Beijing. This assumes that there is a plentiful supply of RMB in the centre looking for mainland China investment opportunities and that investors want to support the return flow of RMB in this way. However, whilst policy makers and the British Government enthusiastically embraced the potential of the RQFII quota to support the (re)making of London's financial district as an offshore RMB centre, they were relatively powerless to shape the nature of RQFII regulation to match the expectations of private sector investors in London who do not necessarily operate according to the policy ambitions of either the UK government or the PBOC but are rather looking for the best return on their investment. They will only use an RQFII quota if they feel this is the best way of achieving this, particular given the propensity for home bias in investment decision making (see Tesar and Werner 1995). The attractiveness of investing in Chinese mainland securities markets is further limited because of concerns over the returns available through these markets. As the Financial Times (2013b) noted, performance is far from guaranteed because 'since [Chinese stocks] first started to be listed in Shanghai and Shenzhen in the late 1990s, [they have enjoyed] a very mixed run. Returns have varied from some of the best in the world, to the worst'. Indeed, concerns over the performance of the Chinese stock market is likely to be further exacerbated by the significant declines in the Shanghai Stock market in July 2015, recorded as the second largest in the history of the exchange as concerns mount about the sustainability or otherwise of Chinese economic growth rates (Financial Times 2015).

By understanding London's RQFII quota as a relational and territorial regulatory component within RMB internationalisation, the ways in which regulation both enables market making but can also produce fragile and contested markets are revealed. In particular, the analysis above demonstrates that whilst Beijing financial authorities were central in issuing a quota to London, the continued dominance of Beijing's financial authorities in shaping the underlying principles of RQFII regulation in London is currently hampering its on going development, with important implications for the making of RMB markets beyond mainland China in general and the role of London within this, in particular. This points to the importance of studying how regulation is enacted in practice through processes of market making, drawing on insights from both cultural and political economy. The value of such an approach lies in its potential to reveal the co-constitutive relationship between regulation and geographically territorialised markets and the power relations between different actors which are central in determining the nature and relative success or not of the market making that ensues. In the case of offshore RMB markets, this demonstrates the enabling, but also potentially limiting role of regulation in financial market making as both the Chinese and UK financial authorities embraced regulatory changes to develop London as the first western offshore RMB centre but the relative power of Beijing in shaping the precise nature of such regulation in the case of RQFII quotas has severely limited the ability of the scheme to live up to the initial political and financial aspirations embedded within it.

## **Conclusion**

This paper has developed a sympathetic critique of cultural economy approaches to market making from an economic geographical perspective. In particular, it has sought to address the impoverished spatial imaginations at work in much of this literature through a focus on the hitherto neglected role of regulation. Through this lens, the relationship between state sovereignty and private financial sector interests are shown to be vital in shaping the nature and spatiality of financial market making practices. My focus on regulation moves the geographical imaginations within cultural economy research on market making beyond an appreciation that market ‘context matters’ particularly that of the trading room. Rather the research presented in this paper demonstrates the co-constitutive relationship between the specific institutional landscapes of financial centres and the financial markets that operate within them. Attending to the role of regulation is particularly instructive in this respect because its operationalization in practice exhibits both relational qualities, as it intersects with other elements of financial market making, and territorial qualities, as it enrolls but also shapes the institutional place specific assets of geographically specific financial markets. There are three implications of this analysis for economic geographers and cognate social scientists concerned with the process, practice and geographies of financial market making.

First, revealing the spatiality of regulation in financial market making is a valuable way of developing a fuller understanding of the politics that underpin financial markets. For example in the case of the RQFII quota studied in this paper, such an approach demonstrates the power of the Beijing monetary and financial authorities in shaping RMB internationalisation in ways that signal both the opportunities but also the challenges facing this process. Moreover, a lack of critical and political

reflexivity has been one of the criticisms levelled at cultural economic research on financial market making (Berndt 2015). The analysis in this paper shows that a geographical approach to market making, through a focus on regulation, represents one fruitful avenue for addressing this (see also Hall 2010). This is particularly important given the growing importance of a range of offshore places and practices within the contemporary international financial system and the central role played by regulation in facilitating these markets (see Clark *et al* 2015; Haberly and Wójcik 2015).

Second, the approach developed in this paper helps to bridge an important ontological divide in the study of financial market making such that political and macro structures of finance are viewed as being the preserve of political economy whilst the micro practices of finance are studied by cultural economists. Studying regulation, and its associated spatialities, demonstrates the limitations of such an approach. For example, in the case of RMB internationalisation, how regulations developed in Beijing in the form of the RQFII quota are enacted on the ground in London, and the relative power of Chinese financial authorities in this process compared with their UK counterparts, shape the process of RMB market making and the implications of this for wider processes of RMB internationalisation. This demonstrates that any adequate understanding of financial market making needs to trace regulations as they travel from the jurisdiction in which they were created, examining how they are enacted and challenged in particular geographical markets, with important consequences for the wider international financial system and understandings of the continued role of the state within the international financial system.

Third, these findings have important empirical implications for developing economic geographical understandings of financial market making and the nascent literature on RMB internationalisation in particular. In this respect, my research reveals the value of examining the *process* of making offshore RMB markets rather than focusing on the potential endpoint of RMB internationalisation in the form of the RMB challenging the US dollar as the global reserve currency as has dominated much of the social scientific research on RMB internationalisation to date (see for example Cohen 2012, Lee 2014). Such an approach is needed since it suggests that RMB internationalisation is rather more fragile and unpredictable than these accounts would have it (see also Otero-Iglesias 2016; Wojcik *et al* 2016). For example, the regulatory limitations associated with the RQFII quota discussed in this paper reflect the regulatory tensions within the wider RMB internationalisation as Chinese monetary policymakers remain committed to the potentially competing macroeconomic policy ambitions of internationalising the RMB whilst maintaining a quasi-fixed exchange rate system and not fully opening the capital account. Attending to the uncertainties that arise from this political economic stance matters not only for the wider process of RMB internationalisation but also for the future trajectories of financial centres such as London. Indeed, the case of London is particularly salient in this respect since under Prime Minister David Cameron, the UK Government had enthusiastically sought to use the development of RMB markets to help sustain London's position as a leading international financial centre, particularly in the wake of the 2007-8 financial crisis. The referendum result in favour of Brexit in June 2016 and the ensuing change in Prime Minister to Theresa May, who is widely seen as less well disposed to Chinese finance, both pose important potential challenges to the on going development of London as an offshore RMB centre and serve as timely reminders of the likely

uncertainties surrounding RMB market making, with significant consequences for the role of RMB internationalisation in shaping the international financial system in the future.

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**Table 1 Financial functions and development of offshore RMB centres**

<b>Financial function</b>	<b>Hong Kong</b>	<b>Singapore</b>	<b>Taiwan</b>	<b>London</b>
RMB deposits	944	254	300	25
(RMB bn, date)	(Sept 2014)	(June 2014)	(Sept 2014)	(Dec 2014)
Clearing bank	Bank of China Hong Kong	ICBC SG	BOC TW	China Construction Bank
RQFII quota (RMB bn) (date of initial allocation)	270 (2011)	50 (2013)	100 (proposed)	80 (2014)
RMB swap line	400	300	N/A	200
(Amount RMB bn) (entry date)	(2014)	(2013)		(2013), da
Competitive advantages	Largest offshore RMB centre, unique geopolitical relationship with mainland China, experimental site for new RMB liberalization policies	Important ASEAN trading hub, key Chinese investment partner, global asset management centre	Regionally important trading centre with China	Leading international financial centre, strategically important geographical and time zone location, growing experience in RMB financial services

Source: Adapted from Huang 2015; Atlantic Council 2015; PwC 2015 using author's research

**Table 2: RQFII licences issued in London 2013-2014 (RMB bn)**

<b>RQFII name</b>	<b>Licence approval date</b>	<b>Investor type</b>	<b>Sum of quota</b>
Ashmore investment Management Ltd	17/12/13	Asset Manager	3
Blackrock Advisors UK Ltd	13/6/14	Asset Manager	2.1
HSBC Global Asset Management (UK) Ltd	16/6/14	Asset Manager	3
Investec Asset Management Limited	27/8/14	Asset Manager	15
Pictet Asset Management Ltd	6/11/14	Asset Manager	1
Cederberg Capital UK LLP	19/11/14	Asset Manager	0.3
Wellington Mangement International Limited	10/12/14	Asset Manager	1.3
China Construction Bank (London) Ltd	17/12/15	Bank	N/A
Genesis Asset Manager	N/A	Asset Manager	3

Source: SAFE, 2015

**Table 3 Yearly RQFII quota allocated by location by year (RMBbn)**

<b>Location</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
All	10.7	56.3	90.5	142.2	64.0	363.7
locations						
Australia					10.0	10.0
Germany					6.0	6.0
France				6.0		6.0
South				3.0	28.0	31.0
Korea						
Hong	11.0	56.0	90.0	113.0		270.0
Kong						
Singapore				10.0	16.0	26.0
UK				11.0	4.0	15.0

Source: SAFE, 2015