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Locating state capitalism: Financial centres and the internationalisation of Chinese banks in London

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Abstract
This paper examines the internationalisation of Chinese state-owned commercial banks in London's financial centre from the 2010s onwards. These banks have transformed from primarily servicing Chinese state-owned enterprises to making up four of the largest banks globally by balance sheet and undertaking a range of operations including RMB clearing and cross border settlement and yet their future international trajectory remains uncertain. My analysis positions Chinese bank internationalisation within the wider project of RMB internationalisation, arguing that financial centres can serve as important methodological, empirical and conceptual entry points into understanding how state and market interests play out unevenly across time and space. By focusing on place-based policy experimentation in London, my analysis points to the entangled, multi layered and often contradictory formations of actually existing state capitalism.

Keywords
International financial centres, state capitalism, City of London, Chinese banks

Introduction

Up until the mid-2010s, Chinese banks had a very limited role in London's financial centre. Less than ten years later, this situation had changed. By 2015, the four largest state-owned Chinese commercial banks had branches in the heart of City of London, tightly clustered around the Bank of England. This reflects the growing role that China has sought to play within the international financial system through policies associated with currency (RMB) internationalisation and the Belt and Road Initiative (Hall 2021). In this paper, I examine how and why this change occurred. In so doing, I understand Chinese bank internationalisation as one element of the 'going out' strategy of Chinese

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finance in the 2010s, a process that is seen most clearly in the wider project of RMB internationalisation (Hall, 2021). Within this framework, I use my empirical research into Chinese bank internationalisation to contribute to the growing literature on state capitalism within geography and the wider social sciences from a financial geography perspective (Alami and Dixon, 2020).

In particular, by focusing on the operations of Chinese banks in London's financial district, I aim to demonstrate the value of using the subnational scale, and specifically the site of the international financial centre (IFC) as a concrete conceptual and methodological entry point in revealing the tensions, contradictions and variegation inherent within state capitalist projects (Alami et al. 2022). In so doing, I understand state capitalism as an assemblage of actors (both state and market), policies and people (Medby, 2022) rather than either it being a state directed project or one led by corporate interests unfolding on different institutional landscapes. Rather than seeing place as an inert background upon which state capitalism unfolds, my analysis positions London as a site of policy experimentation within Chinese bank internationalisation. In so doing, I seek to contribute to wider work on the contemporary practices of state capitalism. In particular, I suggest that one way of specifying how state capitalism operates is to focus on specific places in which state capitalist policy experiments play out (this resonates with recent writing that has suggested that one fruitful way of understanding globalisations more generally is to focus on specific sites and then tease out the wider global links from that base (Woods et al., 2021)).

Through my analysis of Chinese state-owned banks, I outline three advantages of such an approach. First, empirically, the financial centre can be seen as a critical space through which the (il)logics of state capitalist relations are played out and the tensions, as well as the synergies, between the two emerge. Second, I understand financial centres as offering methodological insights into work on state capitalism by revealing how state capitalism can be researched through its material manifestations as financial centres became sites of policy experimentation; and third, conceptually, I suggest that the value of using the financial centre as a concrete entry point is beneficial because it reveals the geographically distinctive nature of state capitalism at the subnational scale as processes of economic change become grounded in different ways in different places. In other words, even when state capitalist policies are set globally or nationally, how they become enacted from place to place, or from financial centre to financial centre in the case of this paper, is variegated and dynamic.

I develop this argument over four further sections. Next, I set out how financial centres can serve as valuable analytical entry points into the reworking of state-finance relations by drawing on the growing interest in financial centres as territorial spaces (Hall, 2017; 2021). In the second substantive section, I identify three different phases of Chinese bank internationalisation into London, each of which involves distinctive state-market interaction. In section four, I explore why London was targeted as key site for Chinese bank internationalisation from the mid-2010s onwards. In the final substantive section, I turn to the more recent history of Chinese bank operations in London which have been associated with more uncertain futures. Indeed, as time has progressed, particularly following the Russian invasion of Ukraine in 2022, the future of RMB internationalisation, and with it the role of Chinese banks looks more uncertain. I conclude by setting out the methodological, conceptual and empirical value of framing financial centres as key entry points into work on state capitalism.

Placing international financial centres within state capitalism

A focus on the role of the state within financial geography is by no means new. For example, Leyshon and Thrift (1997) have provided a detailed account of the role of states in supporting the Bretton Woods Agreement of 1944 in which politicians and economists sought to provide financial stability in the post-World War Two global economy. More recently, work in economic and financial geography on global financial networks emphasises the role of state-firm-place relations in shaping the contemporary international financial system (see Töpfer, 2018, Wojcik, 2018, Dörry, 2016 for example). Beyond economic geography, work by heterodox, macro-economists has examined how states are important in international monetary relations through focusing on how developing and emerging economies (DEEs) are tied into global finance. In this work, researchers identify the asymmetric ways in which DEEs are integrated into the international financial system through currency hierarchies (Eichengreen, 2012, Kaltenbrunner and Painceira, 2018). This work reminds us that whilst the recent interest in state capitalism approaches underscores the role of states in making markets, this set of activities is far from exceptional, even if it is taking different forms currently.

Of particular interest for my focus on banking in this paper is work that examines the changing relationship between states and banks. For example, Epstein (2017) demonstrates the centrality of banks and banking to several dimensions of statecraft including state formation, economic development and international competitiveness. Through a focus on Europe she traces how the political links between banks and the state have been transformed through post-communist transition, monetary union and more recently through economic crisis. Meanwhile, Balmas and Dörry (2021) document the use of the branch-subsidiary model by Chinese banks as they seek to expand their global operations into Luxembourg. In particular, they locate this within the wider political strategy of financial opening being pursued by China. This builds on work that has examined earlier rounds of Japanese, European and American banks in the City (Battilossi and Cassis, 2002; Tickell, 1994; Kynaston, 2002). Given the growing role of China within the international financial system (Hall, 2021), more recently, this literature has been expanded to include the case of Chinese bank expansion (see Balmas and Dörry, 2021 for example).

The value of these approaches is that they do not posit the state as being separate from financial activity and institutions. Rather, this research suggests that even though financial markets are often viewed as escaping state control, they are in fact better understood as economic sites in which the nature, role and reach of state power is in flux. This echoes wider critical work on the state beyond the case of finance. For instance, in his work on the 'competition state', Cerny (2010) argues that the state needs to be understood as a range of institutions and political activities (including politicians, interest groups and the media) increasingly working to open up the domestic economy to global forces. In a similar vein in relation to money and finance in particular, Agnew (2012) argues that money and finance are political as well as economic relations. He demonstrates this by arguing that government and wider state institutions such as central banks, remain important actors in the international monetary system.

In this paper, I develop this recognition that finance is not separate from the state and state power but is co-constituted with state actors by bringing the work on the role of the state in financial and economic geography into a closer dialogue with work on state capitalism. State capitalism is a broad and rapidly growing literature that, inspired by changes in the global economy, is concerned with documenting, understanding and explaining the 'role of the state in capital accumulation' (Alami and Dixon, 2020: 70). As Alami and Dixon argue, this literature is wide ranging in scope and has been developed in a range of conceptual vocabularies ranging from strategic management (Musacchio and Lazzarini, 2014) to international political economy (see for example van Apeldoorn et al., 2012).

In order to respond to concerns that state capitalism lacks analytical clarity, I follow Alami and Dixon's (2020) arguments that state capitalism can be thought of as method – as a way of teasing out the relationship between state and market actors. Here, I take as my starting point, the strategic management literature on state capitalism including its application to bank internationalisation (Whitley, 1998; Whitley et al., 2003; Tickell, 1994). This work focuses on state owned forms of capital control through state owned enterprises (Musacchio and Lazzarini, 2014). The value of this approach for my work on Chinese state-owned banks is that it focuses on how such state-owned enterprises have developed into what Bruton et al. (2015) term ‘hybrid organizations’. This has taken multiple forms from state-controlled insurance funds and life insurance firms that gives rise to an increasingly global and marketized outlook for state-owned enterprises (SOEs). As Alami and Dixon (2020) note, what is instructive about this literature is how it emphasises diversity in corporate form and also the possibility that state owned enterprises are not viewed as in some ways less economically important than private enterprises.

This approach is helpful when exploring the changing role of state-owned enterprises in China, including bank internationalisation, because the internationalisation of these firms has not followed a linear transition to a market economy. Rather scholars have argued that it is better understood as a form of state capitalism or capitalism with Chinese characteristics ‘characterized by limited use of market mechanisms combined with state ownership of the largest corporations and state control of the most strategic and profitable sectors of the economy’ (Wang, 2014:116). This has important implications for the role of the state in shaping China’s financial system which can be understood as a state-controlled financial system. As Wang (2014:117) goes on to argue:

> the Chinese government has gradually introduced liberalizing measures such as equitizing the big state owned banks, creating local banks and joint stock banks, allowing foreign banks to enter the Chinese market in limited ways, and introducing some flexibility in interest rates and exchange rates, but, it has not changed state domination of the financial system.

However, despite the value of such an approach, Alami and Dixon (2020) argue, as part of a wider critical assessment of this approach, that this literature has a relatively narrow view on what the role of state action is. As such, they suggest that this literature is ‘inadequately equipped to grasp a great deal of phenomena deeply entangled with state capitalism … such as the role of state capitalisms in re-configuring economic and political sovereignty, in negotiating neoliberlisation, financialization, and globalization or in mediating geopolitical competition between different states’ (Alami and Dixon, 2020: 74).

Moreover, work on state capitalism shares a limitation with several other writings on the role of the state in finance that fall into what Agnew’s (1994) terms the ‘territorial trap’. By this, he draws attention to how implicit assumptions are made about the nature of the state ‘as a fixed territorial entity (even if its actual boundaries can change) operating much the same over time and irrespective of its place within the global geopolitical order (Agnew, 1994:54). This leaves questions of how state power is exercised within state boundaries, and in turn how these sub national spaces intersect with the global, less well understood. This neglect of the sub-national scale is particularly acute when we focus on money and finance because research clearly shows how subnational financial centres in the form of international financial centres such as the City of London form a series of subnational nodes through which the international financial system is constructed. Alami (2018) makes similar arguments in his writings. He argues that in order to understand the changing geographies of global finance, research needs to consider how the global monetary system intersects with the geographies of the global financial system as manifested through the power of financial centres.

In response to these two limitations regarding both the complexity of state action and the scale at which it plays out, I suggest that using a place, and specifically an international financial centre, as an analytical entry point is a valuable way both of providing greater specificity on the different activities undertaken by the state in state capitalism whilst also revealing the different spatialities within nation states at which this plays out. As such, I view IFCs as key sites for developing state capitalism research as method because of the ways in which they provide a concrete entry point into understand the variegated role of the state, the ways this plays out unevenly across time and space and the forms that policy experimentation take in the (re)production of IFCs involving both state and non-state actors. In so doing, my work resonates with wider work on inter-territoriality and the wider remaking of spaces through political and economic activity (Taylor, 1995).

Here work in financial geography is helpful because much of this literature foregrounds the role of the state in shaping and reproducing financial centres. For instance, research has charted the role of the state in shaping the historical development (Cassis and Wójcik, 2018) and the most recent reorganisation of financial centres including in China (Pan et al., 2018). Building on these interventions, in this paper I draw on work in political geography that understands territory as the 'foundational category' that makes an agent a state agent. I argue that understanding IFCs as territories through which state action is co constituted provides a valuable way of developing work on state capitalism as a method and in relation to through the state is conceptualised in state capitalism as it relates to bank internationalisation (see also Hall, 2021 on the territorial qualities of financial centres). Here I draw particularly on Taylor's (1995) writing on inter-territoriality to understand IFCS as spaces in which international and national state-finance relations are reworked in important ways that are co-constitutive of the international financial system of which they are a part.

In so doing, my analysis resonates with work in international political economy that develops geographical work on IFCs to include a greater focus on state power. Specifically, I follow Green and Gruin (2021) through their work that understands the agency of financial centres as "a form of subnational infrastructural power that facilitates financial market-making in concert with (and despite) dynamics of interstate geopolitics (p1028). In particular, I argue that a focus on state capitalism through an examination of the activities of Chinese banks in London reveals how banks are not passive actors, responding to state and regulatory interventions. Rather and in contrast to work that emphasises the 'strong role' (Alami and Dixon, 2020) of the state within state capitalism, my research suggests that Chinese banks can also play a 'strong role' as they embody and operationalise both state and market activities.[1] It also shows that RMB internationalisation and its related project of Chinese bank internationalisation is a process riddled with inconsistencies and tensions, the outcome of which remains profoundly uncertain.

Chinese bank internationalisation in London and the changing financial geographies of the Renminbi

The research reported on in the rest of this paper forms part of a wider research project that examined the role of London within China's wider strategy of internationalisation its currency (the renminbi or RMB) that started in 2014 and is based around 30 in-depth semi structured interviews conducted with Chinese financiers working in a range of different RMB denominated financial markets in London, including in Chinese banks. Interviews lasted between 30 min and two and half hours. These were conducted in English and were transcribed prior to being analysed using a grounded theory approach. These data were triangulated with secondary data from *The Banker,* The Bank of England, Swift and the Office for National statistics which was used to establish the changing size, nature and activity being undertaken by Chinese banks in London. The research also draws on analysis of key speeches and minutes of key meetings made publicly available from the Treasury and the Bank of England in connection with their work supporting the entry to Chinese finance into London.

The presence of Chinese financial institutions and banks in London is not a new phenomenon. Bank of China opened an affiliate office in London in 1929 and HSBC Holdings was founded in

1991 by the Hong Kong and Shanghai Banking Corporation. However, since 2000, bank internationalisation has become more pronounced and focused on China's 'big four' state owned commercial banks (Bank of China, Agricultural Bank of China, China Construction Banking Corporation and Industrial and Commercial Bank of China). Under the 'going global' policy, all four of the state-owned banks have been encouraged to expand their overseas operations and the growth of these banks internationally has been impressive. As table 1 shows, by Tier 1 capital, all of the Chinese big four banks were ranked within the top 10 banks internationally in 2020. My research focuses on the four Chinese state-owned banks that are in the top 10 banks internationally. This means that the Bank of Communications, which is sometimes included in the leading bracket of Chinese state-owned banks is not included in my analysis. Given my focus on banks headquartered in China and their internationalisation strategies from this position, my analysis also excluded HSBC which is in itself an interesting case of bank internationalisation because of its long history of cross border banking. The detail of this case lies beyond the remit of this paper although for wider analysis of Chinese bank internationalisation see Balmas and Dörry, 2021 and Pan et al., 2018).

Three phases of Chinese commercial bank internationalisation can be identified. I set out the broad parameters of bank internationalisation activity in London in each of these periods in this section. In the next section, I focus on advancing understanding the role of the state in Chinese bank activity in London because it was in these periods that London's role in Chinese bank internationalisation intensified as part of the City's role in RMB internationalisation more widely (Hall, 2017).

Beyond early sporadic cases of Chinese bank internationalisation such as that by HSBC in the 1990s, the first phase of more mainstream Chinese bank internationalisation, from the early 2000s onwards was underpinned by a strategy of 'following the customer' as existing Chinese bank customers increasingly operated in international markets. This stage therefore echoes previous rounds of bank internationalisation into London such as that by Japanese, European and American banks (Kynaston, 2002; Tickell, 1994; Whitley et al., 2003). This reflected the broader opening up of the Chinese economy at the time in which state-owned firms were also being encouraged to expand their operations following China's entry into the World Trade Organisation in 2002. This stage of internationalisation was dominated by mergers between Chinese banks and domestic banks in important trading regions with China, particularly South Asia, Africa and the Americas (Ying, 2013). Following Dunning and Norman's (1987, 1983) identification of the importance of

Table 1. Top 10 global banks by tier 1 capital, 2020.

Ranking	Bank	Country	Tier 1 Capital ($ bn)	Year London branch opened*
1	ICBC	China	380	2014
2	China Construction Bank	China	316	2015
3	Agricultural Bank of China	China	278	2015
4	Bank of China	China	258	2015
5	JPMorgan Chase	US	214	
6	Bank of America	US	188	
7	Wells Fargo	US	159	
8	Citigroup	US	156	
9	HSBC Holdings	UK	148	
10	Mitsubishi UFJ Financial Group	Japan	144	

*In case of Chinese banks only.
Source: *The Banker database* 2020 and author's research.

internationalisation advantages for firms servicing existing clients in new markets, Chinese banks used their ability to understand and meet the needs of Chinese firms operating in these regions to facilitate this stage of internationalisation.

The second phase of Chinese bank internationalisation can be dated back to 2010, marked by the commencement of RMB internationalisation alongside Chinese bank internationalisation at this point (Hall, 2017). During this period, the trends identified in the first phase continued, reflected in a growth in foreign direct investment from China to the UK from £0.4 billion in 2010 to £3.2 billion in 2019 (DIT, 2022). However, the growing Chinese interest in the UK economy as reflected in these figures was accompanied with the wider process of RMB internationalisation, particularly the development of a small number of offshore RMB centres, including London during this second phase. Hong Kong led the initial development of these centres, reflecting its position as a Special Administrative Region that is used as an experimental site to facilitate the greater integration of mainland China with the global economy (Lai, 2012; Walter and Howie, 2011). However, there has been considerable competition amongst financial centres in Europe to position themselves as the leading western offshore RMB centre and Hong Kong's own relationship with mainland China in financial services has become more strained. In terms of banking, this competition has been particularly intense between Luxembourg and London with Luxembourg using its lower levels of regulation to attract the European headquarters of CCB, ICBC and BOC (see Balmas and Dörry, 2021). At this stage, the internationalisation strategy of Chinese commercial banks moved beyond its earlier regional focus and became increasingly concerned with opening branches, usually through organic office opening rather than mergers and acquisitions, in offshore RMB centres, including London.

Despite what Rabinovitch and Fontanella-Khan (2013) described as a 'sizeable head start' for Luxembourg as the leading RMB centre in Europe, London used its position as a leading full service international financial centre with particular strength in foreign exchange markets to compete with Luxembourg for China's European based financial services activity. For example, a RMB swap line was established with London in June 2013 and CCB London was designated as London's RMB clearing bank in June 2014, ahead of ICBC Luxembourg being given the same role for Luxembourg in September 2014. This reflects an intense period of policy and private sector announcements aimed at establishing London as an offshore RMB centre that can be dated back to September 2011 when the Chinese Vice Premier, Wang Qishan, and UK Chancellor George Osborne officially welcomed the private sector led development of RMB denominated financial services in London (Hall, 2021). As Table 1 show, the intensification of RMB internationalisation at this time is reflected in the opening of branches by all four of China's biggest commercial banks in London from 2014 onwards (Hall, 2019).

A third phase in Chinese state-owned bank activity can be identified as starting at the high point of bank internationalsation in the mid-2010s. From this point, the strategy for London to attract RMB finance from China has become less clear as up until this point, it had been heavily supported by David Cameron and Prime Minister and George Osborne as Chancellor of the Exchequer (King, 2020). Indeed, for Cameron and Osborne, their focus on RMB internationalisation reflected their wider geopolitical strategy of strengthening UK-Chinese trade flows (Pacheco Pardo et al., 2019) alongside specific interests in how Chinese finance might be used to support the City of London following the fallout from the 2007–8 financial crisis. Whilst the lack of a clear strategy did not lead to an immediate withdrawal of Chinese finance from London's financial centre, the change in Prime Minister following Cameron's resignation in 2016, coupled with the UK's vote to leave the EU in June 2016, has meant that the future of Chinese finance, including in relation to banking, has become less clear.

Locating the state in Chinese bank internationalisation in the City

In this section, I argue that the widespread internationalisation of Chinese state-owned commercial banks from 2010 onwards was primarily initiated by foreign and economic policy ambitions by policymakers responsible for financial services in London and Beijing. The case of Chinese bank internationalisation in London signals how the Beijing financial and monetary authorities sought to develop their banking and finance sector by engaging with their overseas counterparts in order to insert their banks into the international financial system through the use of international financial centres outside of mainland China. As such, I understand this phase of Chinese bank internationalisation as the reworking of state-finance relations as they play out in the case of bank internationalisation, In this sense Chinese bank internationalisation can be seen as one strand of the wider People's Bank of China ambitions to place China more centrally within the international financial system, and to some extent, to alter that system notably through RMB internationalisation and through the creation of the Asian Infrastructure Investment Bank (on which see Hameiri and Jones, 2018). My analysis shows the importance of understanding where state power is located and (re)produced both geographically (in the case of this paper in international financial centres) but also in so doing where it is located institutionally. In this respect, national level planning, particularly from the People's Bank of China (PBOC), was central in creating what Lim (2019) terms the onshore preconditions for Chinese economic internationalisation more generally, and Chinese bank internationalisation in particular.

Lim (2018) argues that the managed and gradual nature of internationalisation aspired for within RMB internationalisation reflects more long-standing commitments to making change in a gradual way through managed experimentation, dating back to Chen Yun, Vice Premier in the first Mao regime. Indeed, in some senses the opening of Chinese bank branches in a small number of international financial centres in the 2010s such as London suggests that these financial centres were being used a sites of policy experimentation by the Chinese financial authorities in much the same way that specific sites within China become sites for policy experimentation as noted by Lim. For the Chinese financial authorities, London offered the prospect of high-profile policy experimentation which, if successful, would place Chinese finance at the heart of global finance as one of my interviewees summarised

> Why London [as a location for Chinese bank internationalisation] is a good question. Partly it is about the close links historically between the UK and China – if banks are operating internationally, you need to be doing it with a trusted partner. But London can also be used to demonstrate quality and reputation in finance. If you are operating in London then you are at the heart of the system and that must have been an attraction. (Financial journalist, London, March 2015)

The similarities in the relationship between the state and the financial and monetary system between China and countries where considerable research has already been conducted continue when we consider the role of central banks, in the case of China this is the People's Bank of China (PBOC). Echoing the ways in which the relationship between the Bank of England and the Treasury is important in order to understand state-money relations in the UK discussed later in the paper, in the case of China, the PBOC has been central to calls for financial liberalization, echoing the wider debates between pro-reform liberals and conservatives within Chinese domestic politics (Jiang, 2014). Key allies of the PBOC in a pro-reform agenda include private banks, local government and the China Securities Regulatory Commission. However, the Ministry of Finance (MOF) is more conservative as are state owned commercial banks who are eager to maintain their extra powerful role. Both of these positions aimed to influence the Communist Party's Central Committee. But there is also variation within these different groups. Moreover, as Wang

(2020) argues, financial logics cannot be seen as separate to the functioning of the Chinese state but are more fully entwined with the wider political agenda. For example, some members of the PBOC were not as enthusiastic regarding the pace and scale of RMB internationalisation (Jiang, 2014). These dynamics suggest that the multi-faceted and dynamic nature of the Chinese state and the key actors involved in Chinese bank internationalisation produced a non-linear growth trajectory, with London as a site of policy experimentation subject to changes in domestic Chinese policy interests and priorities.

Turning to the UK, the operation of the Treasury, the Bank of England and The City of London Corporation (the local authority with responsibility for the City) acted in tandem to support the development of London as a key international offshore RMB hub (Green, 2018).

Up until 2013, Chinese commercial state-owned banks could not open branches in London because, in common with other non-EU financial institutions, Chinese banks could only establish subsidiaries rather than full branches in the UK. This reflected the cautious approach of financial regulators in London to overseas banks in the fallout from the 2007–8 financial crisis (Hall, 2019; Ying, 2013). The higher capital and liquidity requirements made of subsidiaries rather than branches was seen to limit the risk they posed to systemic financial stability, something that regulators were very keen to prioritise following the banking crisis elements of the 2007–8 crisis. For example, following the financial crisis, the 2012 Financial Services Act created a Financial Policy Committee within the Bank of England tasked with 'identifying monitoring and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system'. However, Chinese banks were vocal in criticising the policy. For example, ICBC stated in their 2013 Annual Report that 'as a locally constituted subsidiary, we are constrained in our lending by the amount of our local capital' (ICBC London, 2013: 5).

In order to understand how this significant impediment to Chinese commercial bank internationalisation in London was addressed requires situating bank internationalisation within the wider process of London's development as an offshore RMB centre. This development initially started positively. However, developments were severely limited following Prime Minister David Cameron's meeting with the Dalai Lama in London in April 2012. This echoes broader research on the importance of attending to inter-state relations in shaping the international financial system (Helleiner and Kirshner, 2014). Indeed, such were the tensions between the two states that Hong Lei, the spokesperson for the Chinese foreign ministry, described the meeting as one that 'hurts the feelings of the Chinese people' (*The Guardian*, 2012). Following this meeting, foreign relations between China and the UK became increasingly strained and progress towards developing London as an offshore RMB centre was limited. As the Head of China desk in an investment bank in London put it, this led to a 'frozen bilateral relationship between China and the UK' (Head of China Desk, US Investment bank, Chinese national, London, March 2015).

A key moment in re-establishing diplomatic relations between China and London was the visit of the then Bank of England Mervyn King to his Chinese counterpart Governor Zhou Xiaochuan of the PBoC in 2013, which sought to use the financial services industry as a tool in easing and developing foreign policy relations between the UK and China as both countries recognised the geo-economic and geo-political importance of their financial services sectors. Indeed, Mervyn King described the meeting as 'a significant milestone in constructive bilateral dialogue between the Bank [of England] and the PBoC' (Bank of England, 2013). The main agreement that was reached at this meeting was a three-year RMB-sterling currency swap agreement between the Bank of England and the PBoC to be used to support trade and foreign direct investment between the UK and China. However, when the agreement was published and signed in June 2013, it also contained a commitment from the UK's Prudential Regulatory Authority that it would consider applications for Chinese banks to open branches rather than subsidiaries in London. As one journalist summarised

> In the back of that [the swap line agreement] there is one sentence, which says, the UK would be interested in granting Chinese banks a wholesale licence. That is a revolutionary decision. I think that was one of the most important points, if the UK was going to be successful with leverage on the RMB, it would need to rely on their banks. (Financial Journalist, London, March 2015)

The bilateral commitment to permitting Chinese banks in the UK to open branches was formalised in October 2013 at the Fifth UK-China Economic and Financial Dialogue held in Beijing between the Chinese Vice Premier Ma Kai and the UK's Chancellor of the Exchequer George Osborne.[2] The first Chinese bank to be given such a licence was Industrial and Commercial Bank of China which obtained its full UK banking licence in London at the end of 2014 and has been closely followed by the other big four state owned banks (see table 1).

Building on the entry of Chinese state-owned banks into London, two further developments signal the importance attached to developing London's Chinese banking capabilities by both the Beijing and London financial authorities. First, in 2014, China Construction Bank was designated as the RMB clearing banking in London, becoming the first such clearing bank beyond South-East Asia. Prior to this, investors in the UK had to rely upon Hong Kong in order to clear offshore trade in RMB which led to lower liquidity later in the UK trading day when Hong Kong was closed. Hence, the designation of a clearing bank reduces the risk associated with making overseas RMB payments (*Financial Times*, 2014). A number of other western offshore RMB centres have subsequently had a clearing bank approved including Luxembourg, Paris and Tokyo. However, the importance attached to London's clearing bank and its potential role in positioning London as the leading western offshore RMB centre was clearly demonstrated by the Chancellor of Exchequer's welcome of the development when he said

> Connecting Britain to the fastest growing parts of the world is central to our economic plan. It's why I've put such Government effort over the last three years into making sure we're the leading western centre for trading in the Chinese currency, the renminbi. That effort has paid off - and today's agreement, the first outside Asia on clearing and settlement arrangements, is another major step forward. […] Of course, other Western countries will follow, but London now has the critical mass of infrastructure, helping to put Britain at the front of the global race. (HMTreasury, 2014)

Second, in March 2015, George Osborne, the Chancellor of the Exchequer announced that the UK had decided to apply for membership of the Asian Infrastructure Investment Bank (AIIB), becoming the first major western country to do so. AIIB was formed in October 2014 as a multilateral development bank headquartered in Beijing aiming to support Asian investment and international trade relations. The decision, which was not welcomed by the US from a foreign policy perspective (Anderlini and Stacey, 2015), reflects the ways in which the UK Government is committed to undertake further regulatory changes in order to strengthen UK-Chinese financial relations, and the position of London within RMB internationalisation in particular. As George Osborne stated at the time

> I am delighted to announce today that the UK will be the first major Western country to become a prospective founder member of the Asian Infrastructure Investment Bank, which has already received significant support in the region […] This government has actively promoted closer political and economic engagement with the Asia-Pacific region and forging links between the UK and Asian economies to give our companies the best opportunity to work and invest in the world's fastest growing markets is a key part of our long term economic plan. (HMTreasury, 2015).

Taken together, the opening of a range of Chinese banking functions in London from 2014 onwards reveals how internationalisation was facilitated by the political and regulatory appetite of financial authorities in both Beijing and London to position London as the leading western offshore RMB centre. Crucially, in both Beijing and London a range of different 'state' actors were involved, not always working towards the same policy goals, thereby revealing the contested and sometimes uncertain ways in which state capitalist relations can play out.

Uncertain futures for Chinese banks in the City

Despite the rapid internationalisation of Chinese banks into the City in the early 2010s, the future of Chinese bank internationalisation into London has become more uncertain. The causes of this uncertainty lies both in the organisational strategies of the banks themselves but also in the changing approach to Chinese finance internationalisation more generally in both Beijing and London.

In terms of organisational structure, Chinese state-owned commercial banks have not integrated into London's international banking community to the same extent that other international banks have done. Indeed, previous rounds of internationalisation have seen the organisational structure of the incoming banks being widely adopted within the City. This is seen clearly in the growth of US and European investment banking models (in which clients use a range of different banks for each of their financial services requirements) at the expense of English merchant banking (which was more relationship based with clients typically developing deep, often personal based relationship with their banks that they would then use for the whole range of banking services required - see Kynaston, 2002). The relative isolation of Chinese banks in the City can be seen materially through the fact that they are located in a tight cluster around the Bank of England in the historic centre of the City of London, rather than further east in Canary Wharf where large international banks have typically located in order to access larger and more flexible office space (Hall, 2019). The labour markets of Chinese state owned banks have also been relatively separate from the international labour markets for which London is often recognised. One interviewee summarised widely held views amongst the bankers I interviewed when they said

> It is genuinely very difficult to develop experience in a Chinese owned bank and then take that to another, no Chinese bank. You are often assumed to be good at quants [quantitative finance] but a lot of the other elements likely liaising with clients and managing client relationships … I don't have as much experience in those so I'm less able to sell myself on that basis. I have moved but to a more junior position and with the support of a more senior colleague from China who moved and essentially took his team with him. (Associate, European owned investment bank, Chinese national, February 2015)

The market actors I interviewed also frequently attributed the challenges facing Chinese state-owned banks in London to their inability to develop their client and product base beyond support Chinese small and medium-sized enterprises in the UK. Comments such as the following were typical in this respect

> Chinese banks should be able to create more products in order to get more clients. They need to face up to becoming a local bank [in the UK], it is survival. It is a no-brainer even to think about your [a Chinese bank] localisation strategy. So, the end of internationalization is localization, how to become a local bank. (Financial journalist, London, February 2015)

However, whilst the lack of integration of Chinese banks poses challenges for individual bankers in terms of career progression, the significant role of the Chinese and UK state in supporting their initial market entry poses two significant challenges for their future development. First, whilst state support can provide the initial impetus for a Chinese bank opening in the City, developing client relationships is critically for longer term growth. However, developing client relationships is not historically a focus in Chinese state-owned banks because in China, historically at least, state owned corporations are essentially allocated a state-owned bank. This means that making markets through stimulating client demand is not part of a banks activity. This is not the role taken by the regulators or policy makers in London and hence Chinese banks have had to learn to 'understand how you can survive rather than relying on Chinese state owned enterprises giving you business' (Capital markets lawyer, UK national, London, March 2015). This points to an important gap between the political ambitions in both London and Beijing for Chinese state-owned banks in the City and their market practices. This was summarised by the following interviewee when reflecting on the perceived inability of Chinese state-owned banks to develop their London based activities by attracting local clients:

> I think that has put them [Chinese banks] in a vulnerable position when they are here in an international markets. […] I'm feeling there is a gap between what the British government wants them to do and what the Chinese banks can do in the market. (Capital markets lawyer, March 2015.

The second challenge builds on this. With a lack of client support, Chinese banks are more exposed to changes in state support than other international banks. In this respect, important changes have taken place in London in particular which have made the trading environment particularly difficult for Chinese state-owned banks since 2015. Most notably, following the UK's vote to leave the European Union in 2015, David Cameron stood down as Prime Minister, replaced first by Theresa May and subsequently Boris Johnson. As a result, politically, Chinese finance lost two of its key proponents of London as an offshore RMB hub in the form of Cameron and his Chancellor of the Exchequer, George Osborne. The Johnson administration was much less focused on development economic policy partnerships with China, instead focusing on what it terms an 'Indo-Pacific tilt' (Cabinet Office, 2021). Moreover, the position of London as a gateway to Europe for financial services is also uncertain as financial services firms in the City have lost their automatic market access to export financial services into the EU's single market (Heneghan and Hall, 2021). That being said, it seems clear that the UK government is wary of abandoning its links with Chinese finance entirely. In February 2021 for example, in response to a question about the UK's priorities for financial services after Brexit, Katharine Braddick, the Treasury's Director General for financial services was reported as saying 'we continue to work very closely with Chinese authorities to ensure that we are engaging to be a partner in the liberalization of their financial system' (Rosca, 2021).

Meanwhile, China's wider financial internationalisation strategy under Xi Jingping has been expanded significantly beyond RMB internationalisation to include other policy domains, notably in relation to fintech. Most significantly, in early 2020 China launched a central bank digital currency called the Digital Currency/Electronic Payment (DCEP) which, by late 2020 was being trialled in four Chinese cities. Although this reflects the strong domestic growth of fintech in China, particularly in relation to payments, the use of this currency is currently limited to payment within China and hence the wider international implications of DCEP have been limited thus far (Prasad, 2020). This uncertainty is reflected in the fact that China's share of international payments has declined from its high point in the late 2010s to less than 2% of global payments (Swift 2020).

Conclusions

In this paper, I have examined the changing course of the internationalisation of Chinese state-owned commercial banks into London's financial centre from the 2010s onwards. Empirically the analysis has shown that whilst the operations of Chinese banks in the UK were very limited up until this point, from the 2010s onwards this position changed markedly with the largest state-owned commercial banks in China all opening branches in London from September 2014 to 2015. However, from this high point, the future growth of these banks has become more uncertain. In part this reflects the broadening of the RMB internationalisation strategy to which Chinese bank internatioanlisation is linked as it increasingly focuses on other international activities such as the Belt and Road Initiative and new forms of finance, particularly digital currencies and Chinese leadership in green finance standard setting. However, it also reflects greater uncertainty about the future of London's financial centre following the UK's departure from the EU in January 2021 and changing political support for Chinese finance more generally following the ending of David Cameron's time as Prime Minister. More broadly, the trajectory of Chinese bank internationalisation in Europe and North America is also more uncertain following Russia's invasion of Ukraine which has brought with it a pivot away from trade and investment between China and the west amidst more hostile geopolitical relations (Pickard and Parker, 2022).

Conceptually, I brought work on bank internationalisation into closer dialogue with work from a state capitalism approach in order to demonstrate the importance of attending to different state actors in Beijing and London in facilitating and shaping the course of Chinese state-owned commercial bank internationalisation. In so doing, the paper understands bank internationalisation as the rewoking of state-finance relations through the organisational form of banks. By focusing on how these dynamics have played out in one international financial centre, I suggest that IFCs can serve as valuable analytical entry points for understanding the operation of state capitalism as it relates to global finance. There are three dimensions to the approach developed in the paper. First, a focus on IFCs reveals how state capitalism can be operationalised methodologically, tracing the interests of different state and market actors in the making of banking markets. This supports work that has been keen to point out that states and markets are not necessarily opposed to one another and instead views different state actors as crucial in the making of markets. Second, by approaching state capitalism through a primarily empirical entry point, I suggest that IFCs demonstrate how state capitalist markets vary across time and space as the interests and capabilities of different state actors change over time. Third, and finally, my research points to the need to avoid viewing the nation state as the container within which state capitalism operates. Rather it demonstrates how key sub national sties, in this case IFCs, are central in shaping how state and market dynamics play out in the case of global finance. In this respect, the growing interest in territory within economic and political geography (Elden, 2010; Painter, 2010; Taylor, 1995) is important. Indeed, there is considerable scope for future work on state capitalism to explore how distinctive places, in this case financial centres, become enrolled as sites of policy experimentation in which extra territorial state market relations are reconfigured, contested and reproduced.

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Notes

1. I'm grateful to one of the anonymous reviewers who encouraged my to think more carefully about the strong role of Chinese Banks.
2. Economic and Financial Dialogues have been held, usually annually, between monetary and finance ministers in UK and China since 2008. Following each meeting a series of announcements are made regarding regulatory changes to support the development of closer bilateral links between the UK and China in economic and financial relations.

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