'Ground Zero' of Brexit: London as an international financial centre

Sarah Hall
School of Geography
University of Nottingham
University Park
Nottingham NG7 2RD

Sarah.hall@nottingham.ac.uk

Dariusz Wójcik
School of Geography and the Environment
University of Oxford
Oxford OX1 3QY

dariusz.wojcik@ouce.ox.ac.uk

One of the most notable aspects of the current political and economic conjuncture in the UK is the ways in which London is different from the rest of the UK. In the 2016 referendum to leave the UK, London polled the strongest remain vote in England. Meanwhile, in the 2017 General Election, London was again noticeable for its strong labour vote, surrounded by the conservative voting home counties in the south east of England. Economic geographers have been central in documenting how the economic fortunes of London have been markedly different from those of the rest of the UK, and the former manufacturing heartlands of the Midlands and North in particular, since at least the 1980s (Martin *et al* 2015). What is less certain is how Brexit will, in turn, impact London as a leading international financial centre. This question requires a concerted response from financial geographers. Below, we set out how the theoretical and methodological toolkits developed within financial geography can be mobilised to respond to this research agenda, and in so doing demonstrate the necessity of a geographically vibrant research approach to the international financial system.

Central to understanding the impacts of Brexit on London's IFC is the adoption of a networked geographical imagination to financial centres. From this perspective, the dominance of a financial centre is "something that is made and remade; a precarious achievement subject to the networked abilities of a multitude of bankers, brokers, dealers and investment managers, which hinges upon their own sense about what is put together." (Allen, 2010: 57). Following this approach, the regenerative capacity of London has been one of the leitmotifs of its development as an IFC. For example, in the immediate aftermath of the 2007-8 crisis, there was a sense that London may lose its dominance as an IFC following the challenges the crisis posed to the investment banking business model that had been central to the competitiveness of London in the run up to the crisis (Wójcik 2012). However, financial and business services in London recovered quickly after 2008 and boomed in the last 5 years, while they declined in the rest of the UK (Wójcik and MscDonald-Korth 2015). This growth was less reliant on investment banking as the City worked to attract other financial intermediaries, including asset managers and new types of consulting firms, and to develop new financial products such as those related to climate change mitigation and RMB internationalization (Hall 2017). In this way, the power of London as an IFC is not a 'thing' that has been held by London and can simply be destroyed or taken to another financial centre in Europe, Asia or to New York. Rather, it includes an ability to reinvent itself, even in the face of adversity.

The power of IFCS from a networked perspective lies in understanding how the individuals working within them become powerful through their daily working practices as "architects of processes of financialisation […] based on their ability to mobilise, choreograph and control networks of different types of financial actors in offering a complex range of financial services to corporate clients" (Hall 2009: 118). This approach is important when assessing the possible impacts of Brexit on London as an IFC in terms of its size, structure, governance, competitiveness, regulation and power. It focuses our attention on how the impacts of Brexit will be variegated across different parts of London's financial ecology; are likely to include a range of competitive gains for a number of European financial centres as different parts of this ecology relocate to different financial centres, depending on their own functional specialization and regulatory and political conditions; and will involve the interplay between economic and financial motivations on the one hand with manouverings for related regulatory, governance and political gains on the other.

Precisely how this multi-faceted response to Brexit takes place is uncertain for two main reasons. First, it will obviously be determined by the type of Brexit the UK experiences. As of July 2017, the Conservative Party itself appeared divided on the issue, with the Brexit Minister continuing to talk about 'hard Brexit', and insisting on leaving the EU by March 2019, while the Chancellor of the Exchequer was advocating a softer version, including a close relationship with the EU after Brexit and a long transition period. In addition, while PM Theresa May in her January 2017 Lancaster House speech hinted at the possibility that if the UK was to strike no deal with the EU, it could embark on a development model underpinned by reduced taxation and regulation, the Chancellor recently stressed that the government had no such intentions (Gillett 2017). Whilst the precise nature of Brexit is currently uncertain, there are early indications that the financial services sector will not be afforded the special privileges it has previously enjoyed from the UK Government as a strategically important national economic sector. Recall that in the 1990s, one of the key criteria used by the UK government to decide whether to join Euro was the expected impact on the City of London. The 2017 New Industrial Strategy hardly mentions the financial sector. As legitimacy for Brexit comes mainly from outside of London, the Conservative-led government does not want to be seen prioritising the interests of the City in Brexit negotiations. And if it is replaced by a Labour government, a prospect that seemed virtually impossible until the snap general election of June 2017, The City's interests are likely to disappear from the list of priorities altogether.

Secondly, a networked, ecological perspective in financial geography, emphasising complex relations between different parts of financial centres and systems, suggests that the precise implications of any one departure of a financial institutions or a group are uncertain. As the Chairman of HSBC put it to the Treasury Select Committee in January 2017, "The ecosystem in London is a bit like a Jenga tower. We don't know if you pull one small piece out, whether nothing happens or indeed there is a more dramatic impact" *(The Daily Telegraphy* 2017*).* Financial firms in London appear to assume that they will lose EU passports that allow them to operate across the EU from a London base. This is crucial because an estimated third of financial services activity in London is EU related and about one fifth relies directly on EU passports (New Financial 2017). Many firms have embarked on contingency planning, setting up subsidiaries in other EU Member States, obtaining regulatory permissions, and exploring the availability of office space. UBS, Goldman Sachs, Citigroup and Nomura announced planned moves of staff to Frankfurt; HSBC and Societe General indicated Paris as their destination of choice; JPMorgan seem most interested in Dublin (Finch et al. 2017). As of July 2017, however, no major moves of employees have materialised yet. Nevertheless, they indicate that no single European IFC is likely to eclipse London in the fall out from Brexit. Rather, a number of European centres will seize the opportunity to attract different parts of London's financial ecology.

One of the key sources of uncertainty facing financial firms involves the clearing and settlement of Euro-denominated financial products. Over the last 20 years London has dominated this activity, becoming a de facto financial capital of the Eurozone. The EU authorities face the decision of whether they can or want to allow London to play this role, when it is outside of the EU itself. Another source of uncertainty is access to the EU labour market, also instrumental to London's growth in recent decades. Somewhat ironically, all this uncertainty boosts demand for legal and consulting services, at least in the short-term. Given the strong dependence of business services on the location of the financial sector, in the long run, however, business services are likely to suffer, should the role of London as an IFC diminish significantly.

These developments clearly raise a number of important challenges and opportunities for economic geographers to demonstrate the importance of attending to the financial geographies of Brexit in relation to London's IFC. Conceptually, it is clear that a networked approach will be needed that takes seriously the long documented relations of both cooperation and competition between different financial centres. Research will also need to think carefully about the specifics of different types of financial activity as well as supporting activities, including legal services and regulatory practices. Finally, these questions also pose methodological challenges. Detailed analysis of quantitative data will be needed to track the changes in financial services activity in London as well as close dialogue with key stakeholders in order understand not only what is happening (Clark 1998), but also why, and the implications of this for London, for the UK's political economy and the wider international financial system.

References

Allen, G. (201) Changing Landscapes of Power: The City and Finance in *Reading the Economy: The UK in the 21st Century*(eds) Coe, N. and Jones, A., Sage Publications, pp 49-60.

Finch, G., Warren, H. and Coulter, T. (2017) Frankfurt is the big winner in battle for Brexit bankers. Bloomberg, 26 July, https://www.bloomberg.com/graphics/2017-brexit-bankers/

Gillett, F. (2017) Britain will not become a tax haven after Brexit, Philip Hammond insists. Evening Standard, 31 July, http://www.standard.co.uk/news/politics/britain-will-not-become-a-tax-haven-after-brexit-philip-hammond-insists-a3599806.html

Hall, S. (2009). Financialised Elites and the Changing Nature of Finance Capitalism: Investment Bankers in London's Financial District. *Competition & Change*, *13*(2), 173–189.

Hall, S, (2017) Rethinking international financial centres through the politics of territory: renminbi internationalisation in London's financial district Transactions of the Institute of British Geographers. DOI**:** 10.1111/tran.12172

Martin, R., Pike, A., Tyler, P., & Gardiner, B. (2015). Spatially Rebalancing the UK Economy: The Need for a New Policy Model. *Regional Studies*, *3404*

The Daily Telegraph 2017 'HSBC Chairman: Brexit could trigger 'Jenga tower' of City job losses 10 January 2017, http://www.telegraph.co.uk/business/2017/01/10/hsbc-chairman-brexit-could-trigger-jenga-tower-city-job-loses/

Wójcik, D. (2012) The end of investment bank capitalism: An economic geography of financial jobs and power. *Economic Geography*, 88(4).

Wójcik, D. and MacDonald-Korth, D. (2015) The British and the German financial sectors in the wake of the crisis: size, structure and spatial concentration. Journal of Economic Geography, 15(5): 1033-1054.