Public Governance across Borders

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# London after “Brexit”

## Possible implications for London as a primal financial centre in Europe

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## Table of contents

1. Abstract ........ 2
2. Introduction ........ 4
3. Theory ........ 6
4. Data and Documents ........ 10
5. Analysis ........ 12
   5.1 London ........ 12
      5.1.1 Market ........ 12
      5.1.2. Network ........ 17
      5.1.3 Institutions ........ 21
   5.2 Paris ........ 25
      5.2.1 Market ........ 25
      5.2.2 Network ........ 27
      5.2.3 Institutions ........ 29
   5.3.1 Hypothesis 1 ........ 32
   5.3.2 Hypothesis 2 ........ 33
   5.3.3. Hypothesis 3 ........ 33
   5.3.4 Hypothesis 4 ........ 33
6. Conclusion ........ 34
7. List of References ........ 36
8. Data appendix ........ 44

## 1. Abstract

This thesis deals with the possible up-coming implications of Brexit for the city of London as a "primal financial centre" and whether a competitor like the city of Paris may expand its position in the international financial world. The research question "how does the Brexit impact the status of the "primal/international financial centre" London and can Brexit end the status Quo of London as a primal financial centre?" tries to shed a light on the on-going movements in the world of "primal financial centres" and tries to find a possible answer for the future development of the two cities of London and Paris. Through four hypotheses, the author tests, whether capital will remain in London, if the loss of a "European Hinterland" will be negative for the UK, if the Brexit as a unique

historical event initiate substantial changes or if uncertainty serves as a catalysator for the relocation of capital towards more stable systems. With a strong focus on on-going developments and actions taken by businesses or public actors and the analysis of the Brexit negotiations, derived from newspaper articles and statements of involved parties, the author seeks to show a probable course and developments for the future of London as a “primal financial centre”. It is concluded that London status as a “primal financial centre” already has taken damage and that the future will see a slight decline of London as a “primal financial centre”. However, European competitors like Paris, while actively strive to profit from this event, seem not to be capable to pose a long-term and substantial thread to London and can only compete with the acquisition of certain financial sub-sectors.

## 2. Introduction

On the 23rd of June 2016, the British citizens decided in a public referendum to leave the EU, commonly referred to as "Brexit". This resulted in a lot of uncertainties and marks a historical unique event, which is and will be shaped by ongoing negotiations about how to proceed (Eichengreen, 2019). Due to its highly complex nature and a political controversy in Great Britain, an official Brexit has been delayed multiple times (Kimball & Clinch, 2019). The British prime minister, Boris Johnson, however made his standpoint on Brexit compromises clear, which includes that "he will not give up an inch when the fight resumes" (Helm et al., 2019). This emphasises the contrast of how the negotiations were approached by his predecessor as prime minister, Theresa May. May used to position the UK as willing to compromise in order to ensure a stable and ordered Brexit (Mueller, 2019).

Formally, the UK left the EU on 31st January 2020. Coming with the formal departure from the EU, negations will take place, which decide how the future UK-EU relationship will be formed. With the departure came a transition period until 31st December 2020. During this timeframe, the UK will still follow the EU´s regulations and remain in the Single market. Subject to these negotiations will be a possible new free trade agreement, standards in law enforcement, data sharing, security, licensing (also relevant for Banking) or fundamental subjects like access to fishing waters or supplies of electricity and gas (Fraser, 2020).

While there has been much commentary on the possible implications of Brexit for international trade, there has been less focus on the status for the future of London as an international financial centre. As the financial services industry is an important factor for the British economy (represents seven percent of GDP), its crucial to evaluate the actions and results by involved actors, which came with Brexit (Moloney, 2016). The relevance of Brexit becomes also apparent in the Export figures. One third of all financial services, provided by the UK are exported to the EU (HM Treasury, 2016). More in depth, London currently serves as one of three primal financial centres worldwide (Germain, 1997). All those subjects are at stake due to Brexit. This thesis will take a look on what arguments indicate a retention of London's status as "primal financial centre", but also what may cause a migration of actors, capital and networks towards other cities, which would imply a decline of London as "primal financial centre" (PFC).

The theory section will deal with mechanisms of how capital is attracted and how primal financial centres differ from other cities. Following, push and pull factors for the primal financial centre

London will be assessed in the analysis, based on the theoretical framework and how the Government and affected coalitions like the UK financial industry responded to the events surrounding Brexit. Furthermore, a comparison of the previously mentioned push- and pull-factors of London will be conducted with said factors of the city of Paris. This is done, because Paris seeks its chances in Brexit to extend its status in the international financial market, however seems only interested in attracting certain sub-sectors of finance (Braithwaite, 2020).

As the brief overview showed, Brexit comes with a huge amount of uncertainties and also changing positions, which can directly influence the relevance of the financial industry in the UK for the world market. The likelihood is that London as international financial centre will be impacted and existing patterns in the international financial system may be changed substantially. Therefore, the question arises: "how does the Brexit impact the status of the "primal/international financial centre" London and can Brexit end the status Quo of London as a primal financial centre?". This paper seeks to give insights in the changing factors of networks, markets and institutions in London and Paris and tries to indicate how the future of international financial centres may develop.

## 3. Theory

The theoretical framework of this thesis will be built on Randall D. Germain's understanding of "primal financial centres" in the organization of international credit. In his line of argumentation, Germain uses the concept of world-economy by Fernand Braudel in order to illustrate his approach (Germain, 1997). By doing so, it enables us to fully understand the various characteristics and roles of cities in the international political economy. Following the logic of Germain's framework of "primal financial centres" allows us to derive conditions under which "primal financial centres" may shift. Additionally, it serves as a starting point, to access the necessities to make a shift of "primal financial centres" reality.

In the first part of the theory section, I will define the term "primal financial centre" more closely, while the second part will consist of Germain's approach to define primal financial centres in a more historical context. Lastly, I will discuss, shifts and a potential rise of alternatives to current "primal financial centres". Additionally, I will formulate four competing hypotheses about the future status of the city of London after Brexit and the future role of Paris as a potential "primal financial centre".

Following Germain, a "primal financial centre" represents a point, usually a city, where the material, but also the social aspects of credit are unified in a specific place to create a concentration of access for individuals, firms and governments to credits (Germain, 1997). As Germain argues, a single world PFC indicates a highly centralized international organization of credit, while the recent history showed a more decentred world-economy with multiple PFCs, which compete with each other. Relating thereto comes the hierarchical nature among PFCs, thus indicating a varying distribution of power of networks of monetary agents. This can, but not necessarily, result dependencies between PFCs, reflected in the flow of capital between the various centres (Germain, 1997).

With this definition of a PFC, Germain corresponds with definitions about international financial centres. An international financial centre, according to Youssef Cassis, is an urban space, where a number of financial actors and services are grouped together. In a more concrete definition, he explains international financial centres as "the place where intermediaries coordinate financial transactions and arrange payments to be settled" (Cassis, 2006).

Resulting from distribution of power comes a hierarchy, which gets defined by the linkages between PFCs and thus determine the strengths and weaknesses of each individual PFC. In other

words, a PFC draws its strength from the network of monetary agents, who are operating from the specific PFC on a worldwide basis in the world-economy. In order to operate worldwide, these monetary agents need access to credit facilities, which are also located in the PFC (Germain, 1997). This hierarchy gets also referenced in the definition of “international financial centres”, indicating similarities between both definitions of cities, who represent major financial hotspots in the world (Cassis, 2006). This hierarchy is not necessarily limited to private actors of a PFC, but also observed in a context of governmental institutional capabilities, which include taxes or, more prominent in the financial crisis 2008, enhancement of power for crisis coordination in the case of the Bank of England (James, 2020).

Along with an effective exchange of funds between PFCs to promote wealth creation and industry development in a world-economy comes the accumulation of information, which can be transferred and exchanged between PFCs and distributed among various networks of monetary agents. Germain emphasises that the constitution of information and the networks, who utilize and distribute this information, play a crucial role in whether a particular PFC consolidates or erodes within the international organization of credit (Germain, 1997).

In his book “The international organization of credit” Germain analyses the historical development of PFCs and the factors which benefited each respective PFC at their time, thus providing us with arguments about potential developments and outlooks for London and Paris.

Beginning with the city of Antwerp in the 16th century as the first PFC of all times, Germain identifies one crucial advantage of Antwerp over other cities like Lisbon, Seville or Madrid. As a foundation for the rise of Antwerp lies the accumulation of capital, which is crucial to all developments of an extensive credit network. This accumulation of capital must be understood as a stable and continuous growth of funds and loans provided and invested in the “primal financial centre” (Germain, 1997). As a trade hub, it attracted further merchants and bankers, who strived to expand their own markets and businesses and brought in further capital (Germain, 1997). However, Germain sees the peculiar international nature of the Antwerp money market as the prime reason for the rise as the first PFC. Antwerp was also the major supplier of credit at that time (Germain, 1997).

Furthermore, he filters four major criteria for becoming a PFC. Foremost, a PFC is required to be located in the heart of a world-economy. This does not necessarily mean a geographically influenced position but more a place were crucial trades of the world-economy take place

(Germain 1997). In addition to this factor, a PFC needs promising opportunities to attract (idle) capital. A PFC can not only rely on its own national "Hinterland" to provide capital, but also needs to signalize investment opportunities in foreign areas. Usually, these opportunities include profitable employment through ventures and financing of public debt (Germain 1997). With these funds, a need for financial institutions arise, who need to manage the process. As Germain explains, "these institutions have demanded a proximity to others, which has reinforced the role of cities within all credit systems". This results in the need for commercial banks, investment banks, securities firms, and a bourse. The later one is responsible for establishing a secondary market for securities and as a primary source of investment and speculative capital. Additionally, this institutional network serves as a clearing house in order to promote stability of the market (Germain 1997). Lastly, a certain degree of "autonomy" and cooperation with public authorities is needed as the interests of bankers in the PFC tend to get dictated by the world-economy (Germain, 1997). More so, government institutions serve as stability provider for economies and therefore for the PFCs as long-term investors prefer stable investment opportunities and repel public and private investment opportunities with volatile currencies or a general uncertainty (Germain, 1997). Additionally, public institutions like central banks and treasuries are responsible for the regulation of domestic capital markets. The extend of this regulation determines the degree of integration in the global financial system. The example of Tokyo showed that it had to overcome the strict control of the Japanese Ministry of Finance, especially the restrictions on the developing secondary market, to advance itself as a world PFC (Germain, 1997). As argued by Germain (1997), cooperation with public actors is needed to create and preserve a stable environment for the financial market in a PFC. Networks as a consortium of financial agents can bundle flows and needs to build a bridge between the financial sector and the public representatives in order to keep the environment stable and allow for further development.

In Germain´s book, he presents that historical evidence suggested a strong connection between networks of monetary agents, who transfer capital and provide credits to public authorities and private actors on an international scale, but also make a commitment to clearance to ensure stability. He concludes historically, it was not necessary as a PFC to be located in a powerful country or have a relationship with a certain country, which was dominant within the international system, but the high degree of concentration and centralization of financial actors and characteristics, which the PFC itself possesses, allowed a city to advance itself as a PFC. This factor

was also emphasized by a high degree of city autonomy, which in most cases were even allowed to design their own institutions to promote stability of their financial system (Germain 1997).

This leads to the first Hypothesis about the described pull factors of a PFC:

**H1: Capital will remain in primal financial centre of London due to factors (Network, Market, Institutional capabilities) concerning the PFC itself, despite Brexit occurring.**

The second Hypothesis can be derived from the need of a "Hinterland", which shrinks for London after Brexit, because its Banks can potentially lose Passporting rights to the EU market.

**H2: Due to the loss of access to the European "Hinterland", Banks located in London will be substantially impaired and look for ways to retain access and Passporting rights (e.g. moving to cities located in the EU like Paris).**

Germain describes the political economy as "integrally related" to the financial practises, which form the international organization of credit. Therefore, the rise of new financial centres of wealth creation can create a shift of resources and materials, which get actively relocated by the networks of monetary agents, towards a new emerging financial centre (Germain, 1997). This emphasises the global competition of rival financial centres and allows for competitors for the status as a PFC. The shifts of materials, which were previously described, can alter the current status of social power and can positively or negatively impact the quality of networks of monetary agents, who are home to PFCs. Along with this comes the ability of these networks to dominate the access to international credit. However, new networks of monetary agents can aim to challenge the status Quo of previously established lending practises, but also reallocating their resources into new areas and industries and thus leaving traditional and prior industries behind (Germain, 1997).

Governments also become involved on the basis of the capital recycling mechanism, to allow nationally based firms the access to financial resources in cases, where firms themselves can only attract resources in a limited fashion (Germain, 1997).

**H3: Capital leaves primal financial centres due to incisive historical events (e.g. Brexit)**

**H4: Uncertainty serves as a catalysator and Capital gets attracted by other cities like Paris with more favourable and stable conditions for networks, markets and institutions.**

# 4. Data and Documents

This bachelor thesis mostly relies on newspaper articles and to some extend peer-reviewed articles from scientific journals, but also on official data by state institutions and international organisations to outline the behaviour of the involved actors in regard to the cities of London and Paris. With the definition and analysis of Randall D. Germain's "primal financial centres" as a foundation, the author seeks to determine, how Brexit changed variables and attributes of the analysed cities through multiple perspectives. Through triangulation, different views and data are applied to the possible phenomena resulting from the Brexit for the financial sector and to evaluate their significance for the future of London and Paris as "primal financial centres". Newspaper articles help to trace current events, to understand the intentions of those, who are responsible in the process of Brexit and to present the three main points of analysis of this work. The three main points of analysis, Market, Network and Institution, are derived from Germain's book "The international organization of Credit" (1997). The market section relies on published data sets about the state of the British and French economy. It is used to show, whether Brexit and following events had a diminishing effect on the UK economy and especially on the financial sector in London. Furthermore, external data sets are used, whether the market based in London reacted to Brexit by relocating businesses from London towards other European cities. The network section primarily relies on qualitative data with a historical background. Examples of Networks in the past are presented and newspaper articles are used to evaluate todays quality of those networks. Furthermore, these articles are used to elaborate on the actions taken by private and public networks in a qualitative way. The institution section uses newspaper articles and official documents to analyse the efforts taken by official and private institutions to promote or display their respective cities. Additionally, this section asses the regulatory framework as part of the actions a government can take to promote its financial centre or to constrain growth in particular sub-sectors.

This approach comes with a few limitations. First, this thesis mostly relied on the analysis of four major newspapers or networks, namely the Financial Times, The Guardian, The Independent and

BBC News, thus having possibly a fairly English-focused bias. Furthermore, the analysis of Paris is mostly based on secondary literature in English and not original French documents. Second, as the process of Brexit is still on-going, parts of the analysis cover predictions, which may not come true. The data used in this thesis is rather used to shed a light on a potential direction of Brexit for London and Paris with the consideration of expert's positions and involved representatives. Lastly, a deciding factor of Brexit, a potential no-deal scenario, is not final yet. As for today, 06.06.2020, there is no agreement among the negotiating parties and time runs short as the last deadline runs out in the end of June and Boris Johnson did not show any intention to extend the deadline, despite the on-going corona crisis. Any conclusions from the data set and articles can only indicate a trend, as the final answer to the research question can only be answered with long-term data.

# 5. Analysis

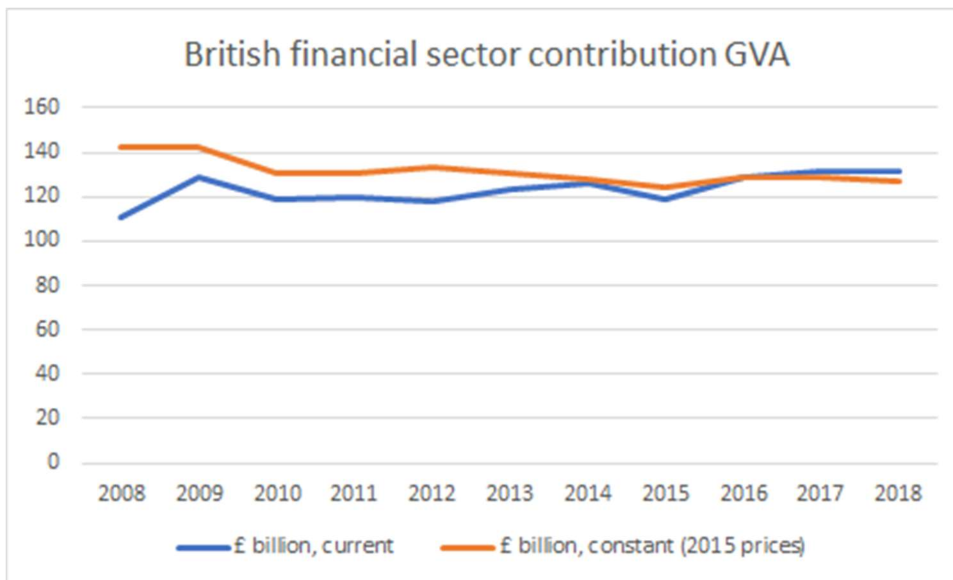
From a historical perspective since the late nineteenth century, international financial centre cities did not lose their status as a whole and did not become insignificant. The past crises the world economy has faced since then only lead to minor changes in the hierarchy ranking of international financial centres. For example, during the great depression, New York lost its first place in this particular ranking to London at that time, however was still ahead of other competing international financial centres in terms of ranking and remained a powerhouse in the world economy (Cassis & Wójcik, 2018). As analysed by Cassis & Wójcik (2018) financial crises in the past had only a limited an impact on the status of an international financial centres, but Brexit marks an unprecedented case, where a comparison to a crisis would come with several shortcomings (Cassis & Wójcik, 2018; Eichengreen, 2019). Therefore, it is important to have a distinct look at the development after Brexit of three major factors, which were defined in the theory section: Market, Networks and Institutions.

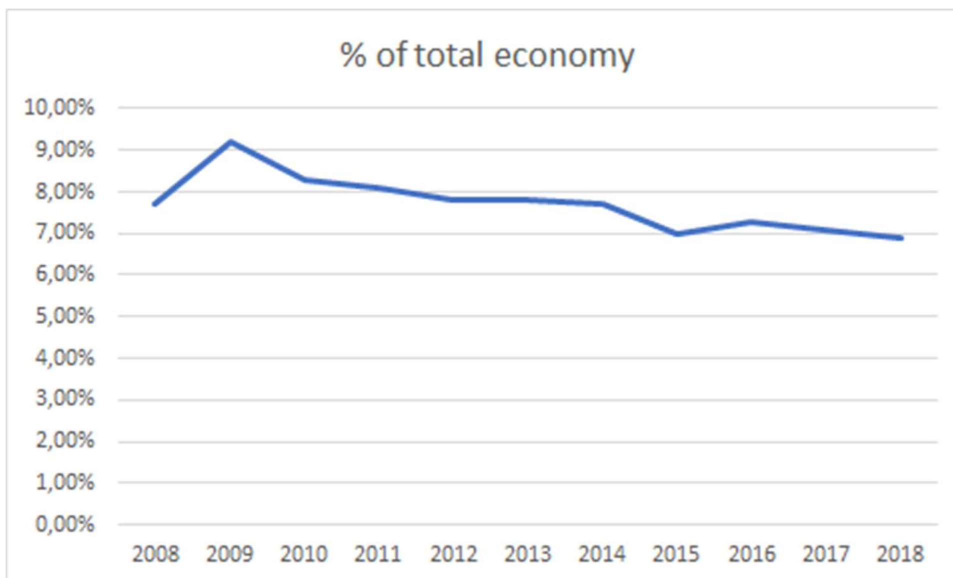
## 5.1 London

### 5.1.1 Market

As spelled out in the theory section, it is necessary to look at the financial markets, which were impacted by Brexit in order to draw a profound conclusion. More so, it is important to access how the markets reacted, behaved and which decision-making criteria were adapted after Brexit.

The financial services sector, defined by John Armour (2017) as "all the activities undertaken in the financial system—the sector that channels savings from consumers toward firms and households that need finance for investment or current consumption", is the main focus of this section. In 2018, the British financial sector contributed with £127 billion (€145 billion) seven percent of the British GVA after correcting for inflation (HM treasury, 2019). However, only 49 % of the financial services sector output was generated in London (Rhodes, 2019). The contribution of the financial services sector to the GVA indicates a declining tendency opposing the trend of the booming early 2000s, where the financial service industry had its peak in the UK. Especially after the financial crisis in 2008, the proportion of the financial services sector on the GVA in the UK was stagnating and slowly declining (see graphic, Rhodes, 2019).



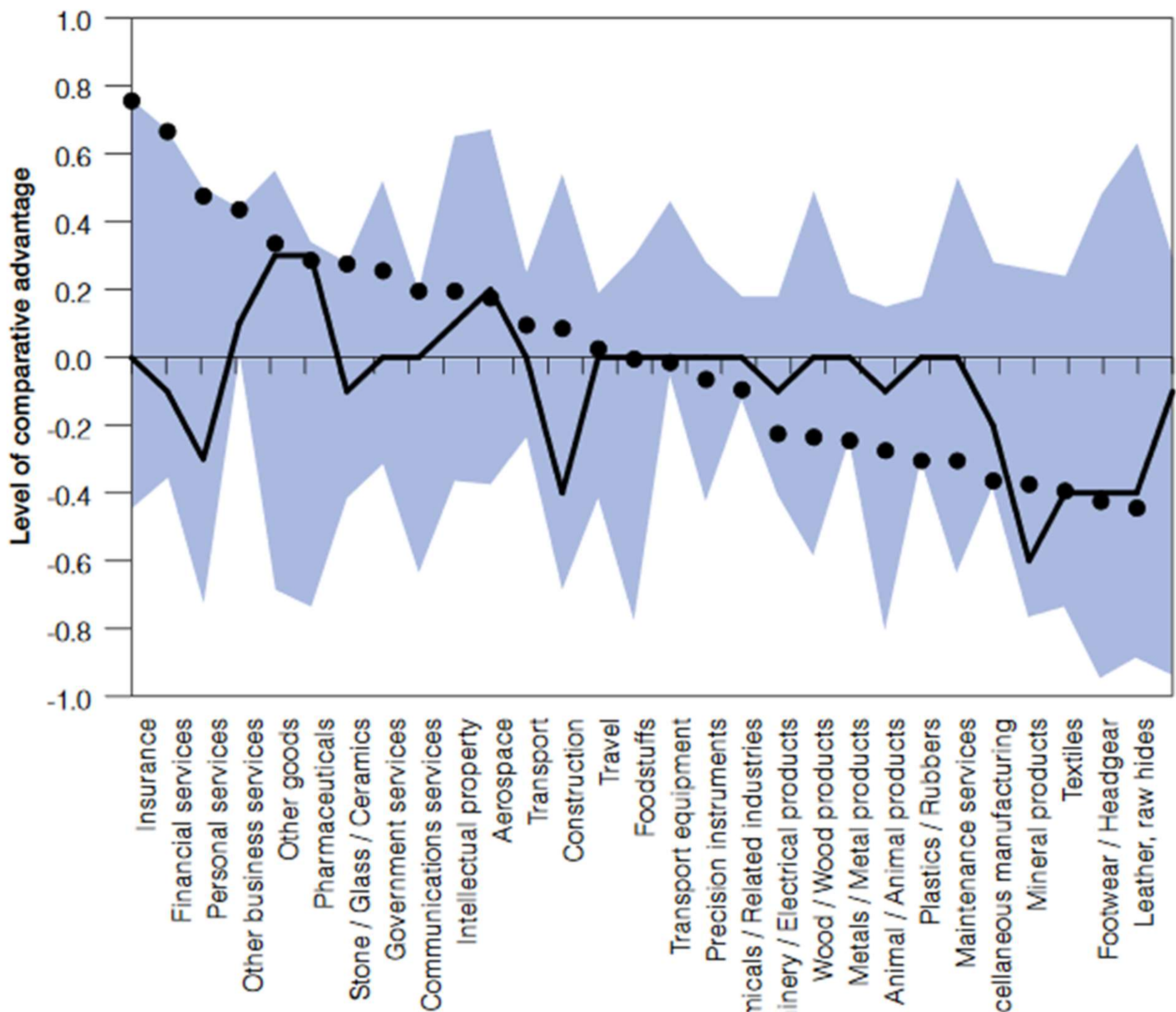




Without context, the development of the share of the financial sector of the total economy makes it hard to access the impact of Brexit on the market and how the market reacted to it. A brief analysis of the development of foreign direct investment (FDI) after Brexit in the UK can serve as another indicator how the market reacted to Brexit and how it perceives London and the UK as investment opportunity. According to Kogut, direct investments can indicate various motivations such as tax reduction, quality and availability of financial markets, arbitrages of information, global coordination or a stable political environment, which correspond with Germain's factors of primal financial centres (Kogut, 1987). Eichengreen (2020) notes that previous research on the impact of Brexit on FDI flows had been conducted. More concrete, multiple authors came to the rough

estimation that due to the EU-membership, the UK was able to attract 25-30% more net inward FDI (Bruno et al., 2016; Campos & Corcelli, 2015). Under the assumption, that the UK-based financial sector does not receive any passporting-rights after Brexit, other custom agreements cannot be achieved, that the financial flows are not subject to significant fluctuations and most importantly, that historical data can be reversed, Eichengreen (2020) estimates a decline of the British FDI by 22 %, due to Brexit and concomitant, the loss of access to the Single Market.

The European attractiveness report, yearly conducted by the consulting firm EY, indicates a few relevant findings for this thesis. According to the report, the UK retained their number one position as destination for foreign direct investment projects in Europe for the year 2018 (EY, 2019). The downside to this is the decline of the FDI by 13% in the UK in comparison to the previous year. European competitors like Germany, who also saw a decline of 13% or France, who observed a slight one percent increase of FDI seem not to profit on the consequences of Brexit (EY, 2019). It seems that Brexit had a general negative impact on the attractiveness of European markets. However, a survey conducted by EY in 2018 shows that among 38% of the respondents Brexit is viewed as a significant risk, but also political instability in the EU and the general rise of populist and protectionist policies lead to a lower FDI in 2018 in Europe (EY, 2019).

Secondly, the previous numbers relate to the access of the national market of the UK. However, with the Brexit, the UK and the city of London can potentially lose access to the European market, which would pose a thread for London in its role in the global market (HM Treasury 2016). In the past, UK revealed comparative advantages relative to G7 countries, especially in the sectors of Insurance and Financial services, which were directly related to access to the Single Market (HM Treasury, 2018; see graphic).

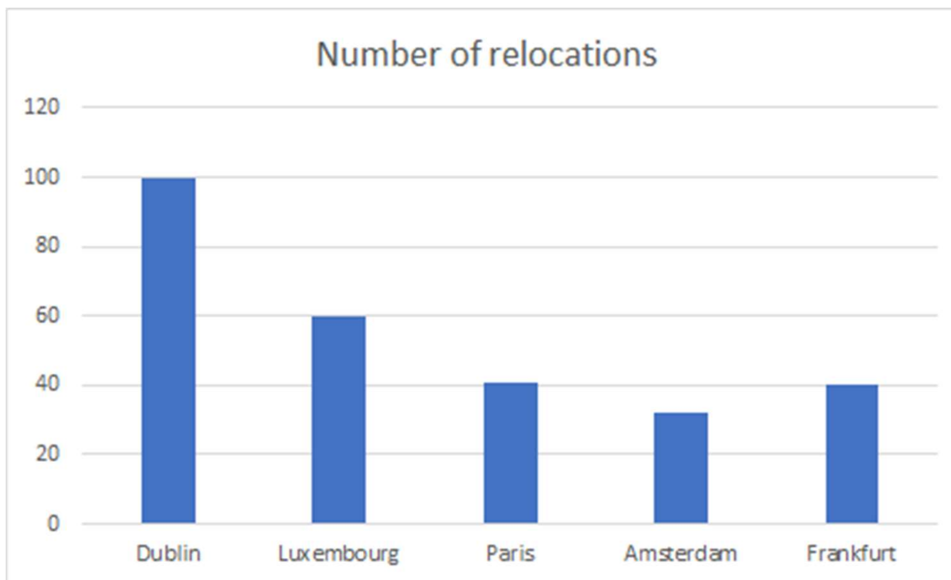



Research the Development of competitive advantage (Source HM Treasury, 2018)

It is projected by the HM Treasury that if the UK loses access to the Single Market, the financial service sector will take a substantial hit, as the financial market is one of the most interconnected sectors across Europe (HM Treasury, 2016). HM Treasury acknowledges the past and current successes of EU initiatives, especially in the 1990s, to create "a level playing field for financial services, and in particular the development of passporting rights" (HM Treasury, 2016). The main advantages of said passporting rights include primarily the opportunity for UK firms to trade with the Single Market with significant reduced costs and barriers (HM Treasury, 2016). One of the primary beneficiaries of these passporting rights has been the Banking sector, located in London (Eichengreen, 2019). Namely, more than "90 % of the euro-denominated interest rate swaps of

euro area banks, three-quarters of all foreign exchange transactions, half of all bank lending, and half of all securities transactions in the EU occur in London", which would be at stake after a non-agreement Brexit (Eichengreen, 2019). With the leaving of the UK on March 29th, a one-year transition period began, where three London-based clearing houses (LCH, ICE Clear Europe and LME Clear) still have the rights to settle derivatives trades in the EU after they were granted the permission by the European Securities and Markets Authority (ESMA) (Stafford, 2019). A hard Brexit without any agreements would lead to likely situation that EU and UK regulatory regimes would not be regarded as equivalents, although the current twelve months transition period acknowledges the equivalence of the UK market regulations for this specific timeframe (Stafford, 2019; Eichengreen, 2019). A missing equivalency agreement would prevent UK banks from conducting trades with services aimed at the European market. A possible alternative would be the establishment of local subsidiaries, located in the EU, who would qualify for a license, meaning a possible relocation of resources towards cities located in the EU by affected actors (Chu, 2017).

This scenario has been acknowledged by banks and could lead to a major movement of the market. Although banks are already actively relocating resources towards the EU, the European Central Bank criticizes that "firms have transferred significantly fewer activities, critical functions and staff" from London than expected (Brush & Weber, 2019). A movement can be observed as banks moved staff and resources all over Europe to cities such as Dublin, Frankfurt, Luxembourg or Paris (Tsang & Goldstein, 2019). More concrete, Dublin stands out in this line of locations. According to an extended analysis, conducted by the financial industry-related think tank New Financial, over 275 firms made an effort to relocate all or parts of their business, staff, assets or legal entities in preparation of Brexit (Benson, Hamre& Wright, 2019). Their intention however varies as a portion of firms selected cities as "specific post-Brexit hubs for their EU business", whereas other firms decided to set up new entities to continue their businesses in the EU regulatory area (Benson, Hamre& Wright, 2019).




Dublin is by far the biggest beneficiary with 100 relocations, well ahead of Luxembourg (60), Paris (41), Frankfurt (40) and Amsterdam (32) (Benson, Hamre & Wright, 2019). This statistic also shows trends as different professions and types of financial services chose different cities to relocate. Dublin, which saw the highest number of relocations specifically attracted asset managers, hedge funds and private equity firms, whereas 90% of the actors who relocated to Frankfurt were banks or investment banks. Amsterdam attracted trading platforms, exchanges or broking firms, which represented two thirds of the relocation towards the Dutch city (Benson, Hamre & Wright, 2019)

As analysed, markets generally reacted negatively to Brexit. Brexit imposes uncertainty on the future outlooks for companies, especially those, who rely on London being part of the regulation of the EU. Resulting from this, industry actors do not completely abandon London as their hub, but they seek to diversify their business in order to deal with the uncertainty and to minimize their losses. Furthermore, new investors seem reluctant to invest in London and the UK, due to Brexit.

### 5.1.2. Network

The UK financial services sector located in London is one of the core elements of the UK economy, as it accounts for a substantial share of the GDP but is also a large tax contributor in the UK. More specifically, the industry represented 12 % of payed income tax and 15 % of onshore corporation tax in 2015 (James & Quaglia, 2018). Traditionally, this led to a close relationship and cooperation with public authorities as networks of the UK financial industry were powerful players in the past (Lavery, Quaglia & Dannreuther, 2018). As Germain argues (1997), “primal financial centres” draw their central strength directly from networks of monetary agents, who are located in the centre.

He emphasises that the strength of a “primal financial centre” is linked to the utilization of networks and information by its actors and determine the future role of a “primal financial centre” in the world economy (Germain, 1997).

Historically, when looking at the city of London, the city had informal and closed networks called “Nexus”, which gave significant institutional access and power to the financial services industry (James & Quaglia, 2018). In the past, this ensured representation of the financial service industry in the government (James & Quaglia, 2018). During the referendum and after Brexit was voted for, the HM Treasury and the Bank of England were particularly listening to the concerns of the financial service industry and adapted their position accordingly. This specifically resulted in actions, where both institutions “staged a series of interventions detailing the economic costs of the UK’s withdrawal” (James & Quaglia, 2018). For example, Bank of England chief, Mark Carney, notes that the UK could rely on “kindness of strangers” after Brexit to maintain its economical position or that the HM Treasury predicted that 500,000 jobs will get lost and the GDP will be reduced by 3.6% a year, emphasising the risk for the UKs economic well-being in the future (Treanor & Watt, 2016; HM Treasury, 2016). However, this position evolved over time and in September 2019, the Bank of England announced that the projection Brexit is less shadowy and that Brexit preparations led to the situation, wherein a worst-case scenario for the financial services industry, a no-deal scenario, would be “less severe” than previously (Wearden, 2019). This is in line with the observation by James and Quaglia (2018) of an erosion of the City’s traditional channels to access the government. Further policy adaptations by the government led to a further cooling of the relationship between legislators and the financial services industry and therefore, reduced use of networks into politics. As an example, when Theresa May was current prime minister, she established an unwritten rule that the prime minister's office and other parts of the government are more likely to engage with businesses, who were in favour of Brexit (Parker, 2017). As analysed in the market and institution section, the majority of the financial services industry openly opposed the Brexit, therefore creating a clash of interests between the desire to criticize an unwanted Brexit, shaping the Brexit negotiations in favour of economic preferences and the continuing access to the highest positions in the UK government (Parker, 2017).

Green and Gruin (2020) argue that financial centres like the City of London can influence national policy, while maintaining efforts to internalize global forces through their cosmopolitan networks of international banks and financiers. For the city of London, this is mostly channelled through the city of London cooperation, which established a close network with private financial market actors

(Green & Gruin, 2020). Especially for the financial services industry, the city of London cooperation positioned themselves in favour of London as a financial place and acts as a voice for the financial sector (Jones, 2019). But also, private actor networks such as TheCityUK, the British Bankers' Association (BBA), and the Association for Financial Markets in Europe (AFME) lobbied in favour of the benefits of the EU membership (Howarth & Quaglia, 2017). Prior to the Brexit referendum, TheCityUK financed studies that empathized the benefits of a continued UK EU-membership (Howarth & Quaglia, 2017). As these efforts did not result in a remain-vote of the UK, these networks adapted their strategies. TheCityUK continued to publish further analysis on EU-membership benefits and advocated for a sustained access to the Single Market and commissioned further reports (Howarth & Quaglia, 2017). The British Bankers' Association followed a different approach and directly lobbied the offices of the Prime Minister and the Chancellor of the Exchequer to urge the need of transition arrangements (Howarth & Quaglia, 2017). With a change in government and the replacement of May in 2019, these efforts were endangered as Boris Johnson declared repeatedly that he is willing to take a "clean break from the EU" and would accept a no-deal scenario, if an agreement cannot be established during the transition period (Fleming, 2019; Woodcock, 2020). As Brexit negotiations are currently still in full swing, it is difficult to conclude anything about the success of the lobbing activities. What can be said, is that there was a lack of a consistent, clear and most importantly, collective voice, which burdened the power of networks and led to a fragmentation of lobbying efforts and activities (James & Quaglia, 2018).

Fragmentation of business organisation is a historically caused issue in London as argued by James and Quaglia (2018), but was especially observable in the time frame prior the Brexit vote. Officially, most UK banks remained silent on support the remain campaign, although the interest representors like the BBA openly supported the remain campaign (James & Quaglia, 2018). This was done particularly with a view to not upsetting retail customers, whereas US investment banks, which did not rely on this line of business, spoke out quite publicly in favour of remaining in the EU and also supported the remaining campaign financially (James & Quaglia, 2020). US investment banks like JP Morgan even threatened to relocate 4000 Jobs as the US banks build upon premise that the city of London grants them access to the Single Market (James & Quaglia, 2020). UK banks were more concerned about losing customers in the day-to-day business if they would have openly supported the remain campaign. This was founded in their negative experience of taking

sides during the Scottish referendum in 2014, which resulted in a massive backlash and boycott calls (James & Quaglia, 2020).

However, it was also identified, that a shift in political statecraft and priorities lead to a diminishing of power of financial services networks in the city of London. Also, institutional structures and insufficient business organisation in general played a role in the weakening of the position of the financial services industry (James & Quaglia, 2018). As previously argued, political support for growing conditions in the financial sector diminished in comparison to the government, led by Theresa May`s predecessor, David Cameron, who specifically followed an electoral strategy of creating a business-friendly environment in the UK. He specifically stated that the financial industry is a "key national interest" of the UK (BBC, 2011). The city of London has been a core element of his political agenda and he explicitly stated that he is deliberately to defend the city of London's global status against the European Union, which he criticized for regulations, which would have impacted the financial services industry in the UK (BBC, 2011). This close connection of businesses between government changed with the May government, which pursued a different electoral strategy and build upon "fairness" and supporting "ordinary working people", which attracted a wider spectrum of voters besides the traditional conservative voters (James & Quaglia, 2018). The neglect or even rejection of the existing networks by the May government can be described with a quote from an industry lobbyist who was anonym interviewed and described a disinterest in international finance by the prime minister and argued that "they are deaf by choice …" (James & Quaglia, 2018).

James and Quaglia (2018) concluded that the city of London and financial service industry actors were unsuccessful in substantially influencing the UKs Brexit policy. This contradicts Green and Gruin (2020) argument that financial centres can shape national policy through their sheer amount of power and influence. Brexit showed limits to which extend business can pressure governments with threats of job losses and reduced investment activities, especially after a shift in political statecraft, induced due to a public vote (James & Quaglia, 2018). Furthermore, these observations stand in contrast with Germain`s argument (1997) that a PFC draws its strength from the superior quality of networks between its monetary actors, since networks of private and public monetary actors received less maintenance during and after Brexit. A general dissonance between members of the financial services industry in London further fuelled this erosion of the former stable and superior networks in London.

The failure of London's representatives to establish a financial sector friendly policy due to a shift of public priorities may harm the general status of London as a PFC as argued above. A historical competitive advantage of the city seems to diminish and even result in hostile political behaviour towards the financial sector. Other actors like the Bank of England altered their stance and seem more reserved in their commitment to the financial sectors, compared to the pre-Brexit era.

### 5.1.3 Institutions

Institutions and their behaviours are valuable indicators in the assessment of the impact of Brexit. Especially with on-going negotiations, the political and intuitional capacity increases its relevance in the analysis of London as an international financial centre.

As analysed previously in the market section, the financial services sector in the UK benefited substantially with access to the Single Market. Therefore, financial firms, which are located in London, but also London's main representative bodies were in favour of a remaining in the EU (James& Quaglia, 2018). After it became clear that the UK would no longer be part of the EU, they campaigned a “soft” Brexit, which would protect access to the Single Market and along with it, passporting rights (James, 2018). Howarth and Quaglia (2016) expect this behaviour by representatives of London and the UK, which are supposed to try to protect its larger and more competitive sectors like the financial services sector. However, the UKs Prime minister, Boris Johnson, made statements, where he emphasizes that a no-deal is not necessarily his preferred outcome of the negations, but is an outcome he prepares for and is willing to accept (BBC, 2019). This stands in contradiction to the stance of the City of London Corporation, a main representor of the financial sectors interests in London (Glasman, 2014). Catherine McGuinness, chair of the Policy & Resources Committee at the City of London Corporation, emphasized that the financial services sector is “critically important in what it generates for the UK economy” and Prime Minister Boris Johnson should prevent a loss of pass-porting rights, as it would result in substantial damage for the financial sector in the city (Crow & Thomas, 2020). Crow and Thomas (2020) quote multiple senior executives, who reflect that the UK government allegedly only work with the assumption that financial institutions prepared themselves in a sufficient manner. Contingency plans are in place; however, they can only ensure a bare minimum of business operations and in long terms, the interviewed representatives project a shift of staff, resources and capital towards other financial centres, especially to the European continent to ensure access to the Single Market (Crow & Thomas, 2020).

An important institution of (primal) financial centres are clearing houses (Germain, 1997). As numerous actors of the financial services sector are pressured to relocate towards the remaining part of Europe, clearing house were also part of discussions (James & Quaglia, 2019). It is important to access why clearing is a particular part of such discussions. Clearing itself is a key factor for financial stability, not only in Europe but globally, as it establishes a middleman between buyer and seller of financial instruments and serves as a stabilisation for trading of securities and derivates (James & Quaglia, 2019). In the particular context of Brexit, it is necessary to look at the recent history of euro-denominated clearing but also at the steps, which could reduce London`s status as primal financial centre (Eichengreen, 2019). In 2011, the ECB determined that clearing house, also called "central counter parties" (CCP), need to be located in the euro area (ECB, 2011). The requirement of the "location policy" to be located in the eurozone was successfully challenged by the UK in 2015 at the EU general court (Barker & Stafford, 2015). The EU general court ruled that "the ECB does not have the competence necessary to regulate the activity of securities clearing systems" (Barker & Stafford, 2015). However, new initiatives of a "location policy", led by French and German politicians, arose after the successful vote in favour of Brexit in 2016, which would lead to a loss of clearing rights of euro-denominated instruments for London and reignited this topic for London as primal financial centre (James & Quaglia, 2019). Their main point of critique arises from clearing of euro-based transactions outside of the European Union and therefore, the absence of a European jurisdiction, which issues the Euro currency (James & Quaglia, 2019). An outcome of this problem remains to be seen and is only temporarily solved as three major London based clearing houses were granted a one-year permission during the transition period after the official Brexit to continue their business (Stafford, 2019).

Newer statements by the opposite negotiating partner, the EUs chief Brexit negotiator, Michel Barnier, fuels concern that the city of London might not earn access to the Single Market (Khan& Fleming, 2020). An outcome, where London would be granted passporting rights this year, remains to be rather unlikely. Brexit negotiations, which should have been held in March and April have been cancelled, due to the on-going global corona crisis (Brunsden et al. 2020). It is expected that the one-year transition period, which is currently in place might be extended beyond December 2020, although the British government shows confidence that a draft of a free trade agreement might come "in the near future" (Brunsden et al. 2020).

Beyond this discussion of the permission of passporting rights in the near future, comes the long-term orientation of the financial institution, especially the intent of policy makers. As Germain

(1997) describes, “primal financial centres” also thrive under certain regulatory frameworks. The current regulatory framework for the financial service sector is quite complex and an answer might not be straight forward. In a report of the consultancy firm Grant Thornton it is argued that current a substantial amount of financial and banking rules are set by global regulators; therefore, a Brexit would not change a considerable amount in the regulatory framework (Grant Thornton, 2016). Additionally, this report acknowledges the current UK regulatory standards as “higher than those set by the EU”, which supports this position further (Grant Thornton, 2016). Nevertheless, opportunities for London to change current financial regulations arise in order to remain competitive as a financial centre, especially in a scenario, where the UK cannot make an agreement and cannot receive any passporting rights. UK-based firms could face less restrictions by the legislators after Brexit in areas such as bonus cap, restrictive employment rights and proposals for a financial transaction tax, which are currently subject to EU legislation and thereby, boost their standing in the competition of international financial centres to attract resources (Grant Thornton, 2016). According to Grant Thornton (2016) Switzerland can serve as a successful model on how cross-border trade, especially in the banking sector, can be conducted by the British financial services sector as Swiss banks currently operate without passporting rights as well. For example, currently, those banks conduct their investment banking through subsidiaries located in Europe (Grant Thornton, 2016). This however could weaken the status of London as an international financial centre but serves as an option of last resort for UK-based financial institutions. Contradictory to the current high degree of financial regulation in London and the UK, come arguments, which project a less restrictive ruleset for London (Bundesbank, 2020). Wuermeling sets out the possibility that the city of London “transform itself into an offshore financial centre of sorts” and that the global competition of international financial centres might lead to lax regulation for London based banks (Bundesbank, 2020). This contradicts the findings of Genschel and Plumper (1997), who identified that regulatory competition may not necessarily lead to less restrictions but can increase the overall level of regulation in order to promote quality and stability. Although this upward trend in regulation is due to economic competition, it also gets influenced by international cooperation (Genschel & Plumper, 1997). In the specific case of London, the level of cooperation will be subject of the on-going trades, as they determine the future relationship of the EU and the UK (EC, 2020).

A further factor for a thriving primal financial centre is the monetary policy and actions of the central bank like in London`s case, the Bank of England (Germain, 1997). Church (2018) argues that

in London's case, central banking in combination with state financial policy can mitigate to a certain degree negative impacts of Brexit on the status of London as international financial centre. However, it is too early to determine if these actions have the strength to achieve the desired effects (Church, 2018). A view in the near past can allow for a judgement, which impactions the Bank of England had on the stability of the financial centre London. A central bank as lender of last resort serves as a stabilizer in crises situations as it has the responsibility to calm the financial markets and stop panic "from spreading throughout the system" (Humprey, 1975). Bailouts in times of a crisis are something, individual banks will usually seek for with utmost priority with the desire to stabilize their own businesses (Woll, 2016). Although Bailout policies relate to the countries, in which the bank operate, their implementation can be different, despite similar importance of the banking sector for the particular country (Woll, 2016). For example, in France, actions were developed in close cooperation with the banking sector, with liquidity provided by a public-private consortium led by banks, and recapitalisation was jointly accepted by all major banks, although this bailout was not exclusively financed by the State (Woll, 2019). In 2007, the Bank of England provided emergency liquidity assistance as lender of last resort to Northern Rock, a UK bank, which was the first casualty of the coming financial crisis (Cassis & Wójcik, 2018). In 2008, multiple banks received recapitalizations by the state such as RBS, Lloyds TSB or HBOS (Cassis & Wójcik, 2018). This showed commitment of the public institutions to stability in the London based financial sector as five of eight major British banks were given financial injections from public funds (Cassis & Wójcik, 2018). Although this major commitment to its financial industry allowed for a rebound from the crisis, it created four long term challenges for the international financial centre London as identified by Cassis and Wójcik (2018). A major aftermath of the Eurocrisis 2008 for the city of London was the adaption of new regulations for the financial sector, set up by European and British legislators. Especially British actions like structural "ring-fencing" and the highest bank levy in Europe except from France posed a threat to the city's status (Cassis & Wójcik, 2018). Furthermore, technological advancements and a business downturn of capital formation activity resulted in a reduction of activity and jobs in London since 2010, even before Brexit was voted for (Cassis & Wójcik, 2018). However, this crisis showed that in contrast to France, the UK government is committed to directly provide bailouts for its financial sector as a lender of last resort, whereas France is not entirely committed to it.

On a regulatory level, London seem to not face additional challenges which would directly come from Brexit, when not accounting the lost access to the Single Market and passporting rights for

banks. A loosening or strengthening of financial regulations seems unlikely, especially against the background that London already has a strong regulation for the financial sector. The financial sector of London already faces challenges due to its regulatory framework, but it is not directly linked to Brexit and can thus be neglected in this analysis. However, the Clearing-sector seems highly vulnerable in London and signs are that the clearing sector for Euro-denominated clearing may completely vanish from London in the future, due to negative outlook of the current negotiations and therefore missing agreements on equivalency for the future, which are necessary if clearing companies want to continue their business from London (Brunsden & Khan, 2020). A further downside from an institutional perspective may be the critical attitude of the government towards the financial sector, which in the future could be reflected in the government's disregard for the interests of the financial sector when adapting new policies.

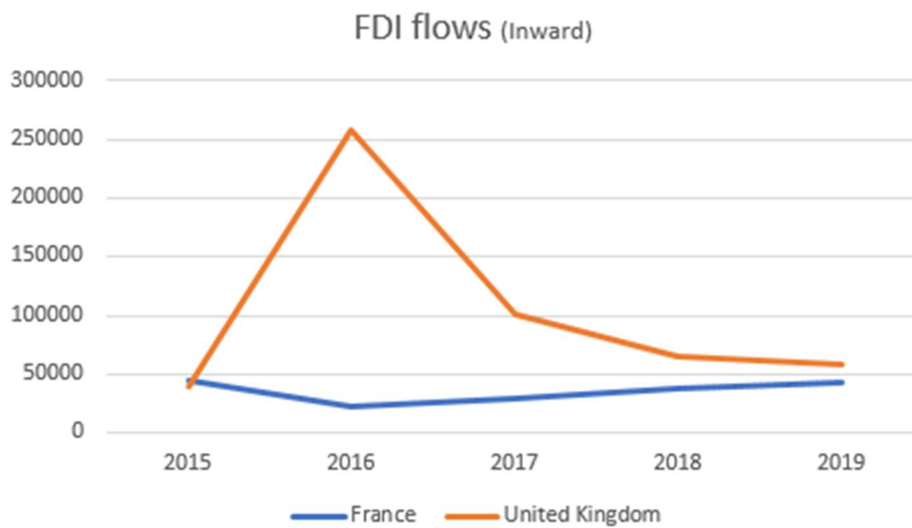
## 5.2 Paris

### 5.2.1 Market

Paris current role as an international financial centre can be partly described by the extend of the workforce involved in the financial services sector in Paris. Currently, Paris is the biggest financial centre in the Eurozone by a wide margin as 330.000 people are employed in the financial sector in the Paris Ile-de-France region (Lavery et al. 2017). Comparing this to other alternative financial centres (AFC) in Europe like Dublin (35.500) and Frankfurt (74.700), Paris is substantially ahead in work force, however, cannot compete with London's 729.600 employees in the financial sector (Lavery et. Al., 2017). Similar to the UK, the French banking sector is one of six main economic assets, however, plays a less leading role when compared to the UK. In France, 3.9 % of total value added can be traced back to the financial services sector. 60 % of this is contributed by the banking industry (EBF, 2019). After Brexit, France and its President Emmanuel Macron established several initiatives, for example "Choose France" (Braithwaite, 2020). Following this initiative, leading Banks such as JPMorgan announced that they will shift business actives to a certain degree from London towards Paris. While this initiative tries to attract banks, insurers and clearinghouses, it is reluctant to promote Paris as a market for hedge funds or short sellers (Braithwaite, 2020). This policy particularly affected the hedge fund Elliot management, which previously had to pay a penalty of 20 million euros after obstructing an investigation into a takeover bid and not adequately disclosing its positions, thus making it an example of deterrence. Elliott's general counsel Richard Zabel, for example, criticised the fact that the Autorité des marchés financiers (AMF) would discriminate against foreign companies and thus stand in contrast to Macron's pro-

business position. He also attacked the regulators, noting that Paris lacked the will to become "a major financial centre" as foreign players were receiving record fines from the AMF and national service providers were being favoured (Braithwaite, 2020; Keohane, 2020). This indicates that the French government only tries to attract parts of actors, which are necessary to become a “primal financial centre” and thus to promote specialisation in certain financial sectors. This stands in huge contrast to the city of London, which itself is not an “homogenous entity” as described by Lavery et. Al. (2017) but relies on a wide arrangement of activities such as “investment banking, hedge funds, equity, clearing, insurance, credit rating, and foreign exchange dealing”.

France and therefore Paris, increased its attractiveness slowly but steadily since the announced Brexit in 2016 as seen in the FDI flows between 2015 and 2019. Whereas the UK saw a heavy decline in FDI flows after the year of Brexit from 258 Billion US dollars to 101 Billion in 2017, France could only increase its FDI by 6 Billion, from 23 Billion in 2016 to 29.8 Billion in 2017 (OECD, 2020). In 2017, the financial and insurance sector was by far the largest contributor to FDI in France, which may indicate a connection to Brexit and the uncertain consequences for the Financial sector in the UK. This sector accounted for 56.5% of the total FDI flow, which contributed USD 16.8 billion to French FDI flow (OECD, 2020). While 2017 represented a huge influx of FDI, due to the Finance and Insurance sector, 2018 reflected a more stable and slight gain of FDI inflows with a contribution of 17.5 Billion US Dollar to the French FDI in comparison to the steep increase between 2016 and 2017 (OECD, 2020). An analysis of numbers of FDI for 2020 might be difficult, as the on-going COVID-19 pandemic has a substantial influence on FDI projects. Consulting firm EY concludes that the pandemic lead to a sharp decline in FDI, as 25 % of all analysed projects were delayed and 10 % were cancelled (EY, 2020). However, it was found that prior the outbreak of the COVID-19 virus, major European cities recorded substantial surges in FDI. While the general European FDI increased by 0.9 % in 2019, Paris recorded an 34% increase in FDI, whereas the Greater London area saw a surge of 17% of FDI (EY, 2020).




(Source: OECD, 2020) (in Million US-Dollars, 2015 – 2019)

Access to the European Single Market also plays a role in the domain of clearing houses. Despite the one-year transition period, which is currently in place, London based clearing house LCH moved its clearing of euro-denominated repo and government bond trades towards Paris (Jones, 2019). Although euro-denominated clearing is currently possible from London until the end of the year 2020, LCH moved parts of its operations from London, which are handling activities worth more than 700 billion Euros, towards RepoClear LCH in Paris (Jones, 2019). Although this indicates a first success in acquiring clearing activities, the French Government wants to push further and the French Ministry of Finance has told industry representatives that it is examining what incentives might encourage banks and other market participants to further relocate these operations voluntarily towards Paris to build an own capital market in the EU (Jones & Thomas, 2020).

France seem to capitalize on the events of Brexit, however only to a small extent. Their main disadvantage at the time of the analysis seems the general size of the Market in France. Clearing may increase the volumes of the financial sector in France, but Paris is not as broadly set up as the city of London in regard to the spectrum of financial actors.

### 5.2.2 Network

Although lobbying groups and networks such as Paris Europlace have intensified their efforts to attract new players to the city of Paris, the organisation themselves declared Paris only as a competitor on the market as financial hub in continental Europe, not on the global level (Lavery et al. 2018). While promoting Paris as an alternative on continental Europe towards financial actors

in London, head of Paris Europlace, Gérard Mestrallet, noted that London would retain its position as the premier international financial centre in Europe. He acknowledged that while Paris would be the only option in the eurozone, London will be unrivalled in its current position. However, Paris would be the first choice, especially when it came to relocating institutions behind London (Chaperon, 2017). Charles Wyplosz, director of the International Centre for Monetary and Banking Studies, believes that Paris does not and will not be able to provide the networks and infrastructure of a truly international financial centre. He attested to the city of Paris that there was no broad support and above all no understanding of "high-finance". In particular, he explained that Paris is "extremely provincial from a financial point of view"(Chrisafis, 2016). Despite this criticism, Paris focused on promoting its strength and pointing out disadvantages of its competitors, especially Frankfurt, while representatives of the Hessian city repeatedly emphasised its proximity to the ECB (Lavery et al. 2018). A particularly critical disadvantage for Paris is the fact that several actors accuse the city's networks of keeping a distance from the actual population. For example, while good framework conditions are used in advertising, the basic attitude of the majority of French people, including the government in the past, is primarily critical of "high-finance"(Davis, 2018; Chrisafix, 2016; Riding, 2020).

In times of crisis like the Euro crisis 2008, the French government appeared to be reasonably cooperative with the financial sector in Paris. Governmental actors were particularly interested in cooperating with the banking sector, developed a bank support plan, which was mostly financed and carried out by the industry itself (Woll, 2014; Woll, 2019). France displayed a prime example of collective action of the government and the financial sector during a crisis to stabilize their economy (Woll, 2019) They avoided a situation, commonly referred to as “chicken” in game-theory, where both parties, public and private nature, cannot agree on, who moves first and takes actions to stabilize the economy, which would ultimately lead to a delay and quality-decay of the national financial sector, as both parties fear to be viewed as weak and inferior negotiating party (Woll, 2019). This indicates a healthy approach and resilient network structures in times of crises between the government and the financial sector.

It follows that, in the current situation, networks are not yet sufficiently developed to bring significant benefits to the city of Paris in its quest for an international financial centre status as the current support of public officials seems not to fundamentally change the perception of Paris international capabilities. This can be explained by the reluctance of financial agents to invest substantially in networks and infrastructure in Paris, and by the concession of the stakeholders of

Paris Europlace or the Ile-de-France region that Paris might not be a competitor to London in the current situation, yet financial actors see emerging potential in the city of Paris as closer competitor in the future (GFCI, 2020). Especially in a crisis situation, Paris proved to provide a stable environment in regard to networks with the government, despite its rather unpopular status among the French general population (Woll, 2019; Riding, 2020). This can work as a foundation for the future development of the city as PFC, especially with London's reluctance to further join forces with its financial sector.

As a complete overtake by Paris seems rather unlikely based on these findings and statements, Paris Europlace nevertheless showed an adaption in their strategy to advance Paris as an international financial centre (Lavery et. Al. 2018). As the rise of regulatory barriers seem likely for the city of London, Paris Europlace focused their efforts on attracting sub-sectors, which can be described as “low-hanging fruits"; sectors, which would be severely affected by these barriers (Lavery et. Al. 2018). Lavery et. Al. (2018) identified four major sectors as contenders for a movement to Paris. Clearing euro-denominated derivatives, which gets further analysed in the institutions section, asset management, attracting institutions like the EBA, which in the end was successfully brought to Paris and lastly, FinTech as key growth element for the future (Lavery et al. 2018; Europlace, 2016).

### 5.2.3 Institutions

France has had strong financial regulations since the 1980s, when a “Big Bang” lead to an increasing amount of pressure on the financial centre of Paris (Cassis & Wójcik, 2018). At that time, this was a trend, which was observable in every continental European financial centre, although the French legislator was particularly focused on “stability, competition, and security” (Cassis & Wojcik, 2018). As part of the institutions comes the regulatory framework and relevant policy makers, which influence the development of a city toward becoming an “primal financial centre (Germain, 1997). The strength of the French regulator has led to a reliance on the French state, which played a major role in the liberalization of French markets in the past, to open up the economy for foreign investments (Clift & Mc Daniel, 2019). However, it is argued that “French elites have nonetheless consistently sought to uphold a tougher regulatory regime and support the wider goal of French economic power in Europe”, which could hinder a successful development of Paris into a “primal financial centre”, as described in the theoretical framework (Clift & Mc Daniel, 2019; Germain, 1997).

Recently, the French government and high-ranking officials have been particularly vocal about relocating the Euro-denominated clearing towards the Eurozone. Further, high representatives like the governance of the Bank of France, François Villeroy de Galhau plead in favour of allocating those clearing activities towards Paris (Stafford et al. 2018). While London based clearing houses gained a permission for their operations during the transition period, de Galhau addressed clearing houses like the LCH to actively develop their business operations in Paris (Stafford et al. 2018; Stafford, 2019).

Although the final decision in the euro clearing matter is still pending, the Paris location has already achieved initial success from an institutional point of view. Following Brexit, the EBA, which previously had its office in London, moved to Paris in 2019 (Coppola, 2019). Additionally, the "alternative financial centre" Paris also gets explicitly supported by the French President, Emmanuel Macron. For example, Macron conducted symbolic politics for Paris in 2018 when it invited 140 representatives of the financial sector to Versailles in the run-up to the Davos Economic Forum and promoted Paris as a financial centre and destination for continental relocations of Banks. Furthermore, his government proposed banks a number of facilitations - for example, for wage tax payments in the upper salary segment and the gradual reduction of corporation tax from 33.3% to 25 % in order to attract financially strong players to France (Seibel & Wüpper, 2018). This behaviour indicates a concrete contrast to other competing AFCs like Frankfurt, where the German Federal government is more restrained with public promotion of the financial sector and sees the responsibility with the state of Hesse (Lavery et. al., 2017). The financial centre of Paris also differentiates itself from the city of London on the level of institutional support. When London was known for his extraordinary intuitional support in the past, Paris currently profits from a wide alliance of partners and displays unity among its relevant private and public actors (James & Quaglia, 2018; Lavery et al., 2017). The cooperation of council of the Île-de-France region, financial lobby organisations like EUROPLACE with a strong connection into the private sector and the government joined forces in their PR efforts to advance to financial centre Paris through multiple projects (Lavery et. al. 2017). Additionally, recent initiatives of the French administration in the field of "participative finance" such as blockchain technology showed interests to diversify the landscape of the French financial sector (Clift & Mc Daniel, 2019).

The business-friendly course of the French government can also be observed in current controversies on pension reform, in which asset managers such as Blackrock are accused of wanting to capitalise on the changes and the engagement in intensive lobbying (Riding, 2020).

French finance minister Bruno Le Maire clears Blackrock of such accusations of having played a role in the reform and wants to position France as an ideal destination for business relocations from London with this defence of industry actors (Riding, 2020). In general, actors like Jean-Louis Laurens, former international ambassador for the French asset management association, note that there is a high degree of scepticism about the financial sector in France and that its importance is underestimated. In the medium term, this scepticism is detrimental to Paris as an international financial centre (Riding, 2020). Lobbying organisation such as Europlace Paris come to a similar conclusion as the location of Blackrock in France happened especially against the background of Brexit and should have been a promotional effect for Paris. It is a result of Macron's 2018 efforts, which got analysed above, to position Paris as a European alternative to London (Riding, 2020). Germain (1997) emphasises cooperation between private actors and public institutions as crucial for the formation of a “primal financial centre”. The efforts described above point to such cooperation, but Amin Rajan, chief executive of Create-Research, notes that it is not clear whether the controversy over Blackrock is an isolated case or if this is "the start of a disturbing trend" of negative sentiment towards asset managers" in France (Riding, 2020). This may harm the attractiveness of Paris for future relocations, especially from the area of asset management.

This scepticism is founded in the historical development of capitalism in France and depicts a particular contrast to the UK. Whereas UK state actors have been open to liberal economic approaches and generally more in favour of financial integration, French representatives had a more reserved stance in this matter (Clift & Mc Daniel, 2019). Only newer attempts of Presidents Hollande and Macron indicated a shift towards a more liberalised stance of financial capitalism in France, which might not be founded among the general population (Clift & Mc Daniel, 2019). As described, France saw pushes towards financial liberalisation. However, these have not necessarily been founded in the desire to attract financial capital, but oftentimes, were taken in order to counterbalance German power on the financial market after Brexit (Clift & Mc Daniel. 2019). The French relationship with the financial industry before Macron has been shaped by the will “to constrain the power of untamed financial capitalism, proposing to increase the tax rate on bank profits, prohibit some “toxic” financial products, (…) to fight tax fraud, to proscribe French banks from operating in tax havens, and to separate the retail and investment arms of French banks” (Clift & Mc Daniel, 2019).

During a crisis, Paris as a financial centre proved that its institutional support is existent to a certain extend. In the case of London, the Bank of England serves as a lender of last resort during

the euro crisis, whereas on the French side, the French government laid out actions, took the banks into obligation and only provided a share of the financial support (Woll, 2014; Woll 2019). However, this approach was only possible due to several factors benefiting this strategy, which may not be found anymore, if the financial centre grows, as it could take advantage of its smaller nature in the past. Namely, the cooperation between the government and the financial sector was driven by the fact that all involved actors had similar problems, but none had substantial problems, when compared to other European Banks (Woll, 2014). Furthermore, due to the limited number of banks in France, coordination was manageable, and the collective plan could be pursued without any deviations (Woll, 2014). Under the assumption that Paris may grow substantially in the future, this approach may lead to problems in crisis response as the clearly arranged structure of financial actors may not be given anymore.

The regulatory framework plays a crucial role in assessing the future development and potential of an aspiring "primal financial centre" as defined by Germain (1997). The previously mentioned tax reduction from 33.3 % to 25 % has been implemented, however comes with several restraints. The corporate tax rate will be reduced in stages to 25 % by 2022, but not every company will benefit directly from the relief. For example, companies with a sales turnover of €250 million or more in 2019 were still subject to the 33.3 % tax rate and will only benefit from a reduced rate of 28 % in for the financial year 2020 (KPMG, 2019; Epp & Aubry-Lachainaye,2017). This may have delayed the relocations of the companies that had intended to benefit from the tax relief for a limited time frame, thus making an analysis of the success of these reliefs rather incomplete, as actual results can only be observed completely in future. In the past, France had the highest top corporate income tax, compared to other OECD countries (OECD,2018). In addition, the OECD average is 23.6 %, making France much less attractive as a destination for relocations of large companies (OECD, 2018). Based on the International Tax Competitiveness Index 2019, France and therefore Paris has additional disadvantages compared to other countries such as Ireland, which has generally a lower tax rate (Bunn & Asen, 2019). Although the easing is going in a positive direction for companies, both corporate income tax and personal income tax are above average by international standards, with a top personal income tax rate of 45 %, which may further discourage financial managers to relocate to Paris (Bunn & Asen, 2019).

### 5.3.1 Hypothesis 1

This hypothesis can be falsified to a certain extent. London suffered a loss of capital by a significant margin as well as a loss of jobs. The general importance of the financial sector in

London declined since Brexit as seen in the share of the British GVA (Rhodes, 2019). Additionally, after Brexit foreign direct investments were observably lower than before. However, this observation may have limited significance as Brexit in general harmed the European Market for foreign investments from outside of the EU, due to the uncertainty regarding the legal circumstances of Brexit, which may have put investments in Europe in general on hold as the details of future relationship are yet to be sorted out by the negotiating partners (EY, 2019). Trust in the superiority of London's Networks, Markets and institutional capabilities could not prevent this development.

### 5.3.2 Hypothesis 2

This hypothesis can be confirmed. Banks and institutions, which rely on a presence in the Eurozone to continue their businesses, relocated parts of their business towards remaining countries of the European Union, most notably, Dublin, Frankfurt, Paris, Luxembourg and Amsterdam (Benson, Hamre & Wright, 2019). Although for example, London based-clearing houses received permissions to continue their clearing during the transition period, they have to cooperate with European supervisors, ECB and the European Securities and Markets Authority (ESMA), an EU agency, which was relocated to Paris after Brexit (Brunsden & Stafford, 2019). If the ESMA deem that financial stability might be endangered, the European Commission would be able to deny clearing houses further regulatory permissions unless they moved their activities towards the Eurozone (Brunsden & Stafford, 2019). In order to protect themselves against such eventualities, parts of clearing transactions have already been relocated to Eurozone cities like Paris, to avoid a sudden shock and to ensure operability (Jones & Thomas, 2020).

### 5.3.3. Hypothesis 3

As touched on in hypothesis one, general investments seem to be put on hold, due to on-going uncertainties. These uncertainties directly arose after Brexit, as it was not clear, how the legal framework would look like after the negotiations. Furthermore, business moved capital in form of human capital and investment in their corporate infrastructure towards other European cities in order to diversify their options and minimize their risks.

### 5.3.4 Hypothesis 4

While analysing Paris, it became clear that although governmental and private actors increased their efforts to attract capital, uncertainty in direct competing cities does not necessary lead to an increased attraction of capital for Paris. Stability and certainty do increase the standing of the city

of Paris, while attracting capital and investments, however the city cannot overcome the infrastructure of the established city of London. Representatives of Paris acknowledged this flaw, wherefore they adapted their strategy to attract certain sub-sectors in order to profit from Brexit at least to some extent (Lavery et al., 2018). Additionally, adaptions and revision of high regulatory barriers and taxes may change this flaw of the French legal framework, but do not seem to have an impact in the immediate future.

## 6. Conclusion

The research conducted in this thesis allows for several conclusions with limitations. First, London's status as a “primal” financial centre will certainly be impacted negatively and has already taken damage to its reputation. Brexit did not provide any improvement for the city of London as a location but imposed multiple challenges for financial agents to overcome if the city of London aims to maintain its international status. These changes already resulted in various relocations and reorganisation of business activities, mostly with negative outcome for the city of London. Especially sub-sectors, which relied on access to a European “Hinterland” and activities like euro-denominated clearing in London will be forced to move towards the Eurozone, which will result in a loss of London's capacity as “primal financial centre”. However, this only come true under the assumption that London completely loses access to the European Single Market. Secondly, the historical close public-private cooperation has been damaged after Brexit. It remains to be seen, whether this will have negative consequences in terms of attractiveness and legal framework for the city of London as a financial hotspot as a close connection has been previously one of the core strengths of London.

However, from a European perspective, it is unlikely that London's general role as global “primal financial centre” gets overtaken by a competitor from Europe. In the case of Paris, the city has a series of competitive disadvantages, which hold them back. Strict regulation, high taxes and a general disapproval of “high finance” among many French citizens limits Paris perspectives to become a “primal financial centre”. Although initiatives like a decrease in corporate taxes may give incentives for the location Paris in the future, it also suffers under high competition from cities like Dublin or Frankfurt, who currently operate on an equal footing. It is more likely that the decline of London will lead to a fragmentation of the financial markets in Europe, rather than a single city becoming a full-fledged successor to London as a “primal financial centre.

This thesis comes with the limitation that a more in-depth conclusion can only be drawn in the future as this paper relied on the assumption that the British access to the European Single Market might get restricted. Furthermore, not all sectors and sub-sectors of the financial market have been analysed in this thesis as an extensive coverage might go beyond the limits of the bachelor thesis.

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## 8. Data appendix

No additional documents