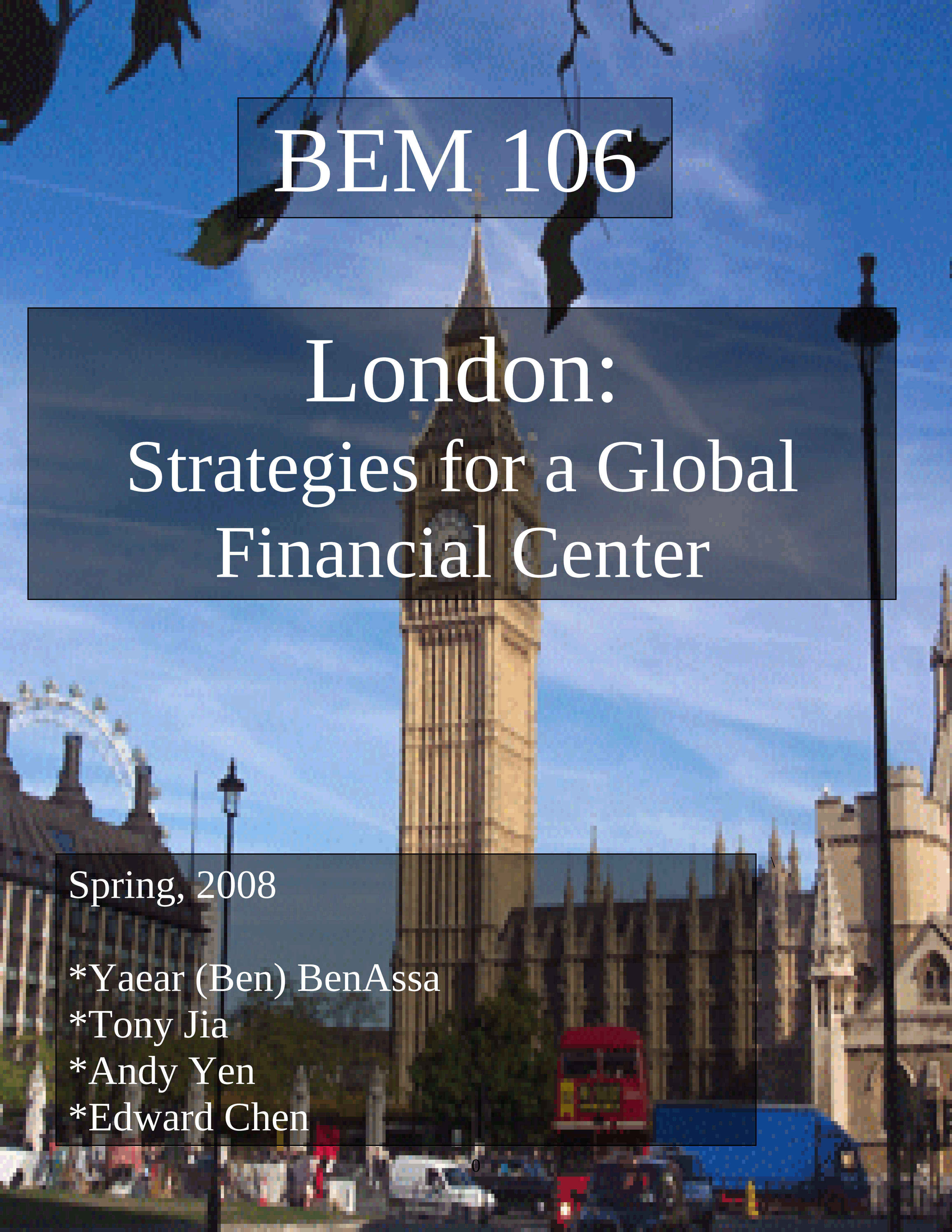


BEM 106

London:
Strategies for a Global Financial Center

Spring, 2008

*Yaear (Ben) BenAssa
*Tony Jia
*Andy Yen
*Edward Chen

Table of Contents

I. Introduction

Some researchers have suggested that through history, cities and not nations are the drivers of economies. This can definitely be said about London. At times referred to as "The City in Europe", London has been a major hub for culture and trade since the late middle ages. Today, London is considered a major Global Financial Center (GFC). The financial services industry in London employs over 1 million people and accounts for 5.5% of the United Kingdom's GDP [1]. The London metropolitan has the largest economy of all metropolitan areas in the European Union and London itself is an international city.

Executive Summary

In this analysis, we compare London's position as a GFC with that of its primary competitor New York. As a GFC, London has many positive attributes such as a large skilled labor force, the English language, a central geographical location, streamlined regulation, good security, and good communications. We found that London's main strengths are its skilled labor force and regulation and immigration policies. London's main weakness is its corporate tax policy. In order to maintain its position as the leading global financial center, London is implementing strategies such as aggressive government lobbying, principle and risk-based regulation, and an open door immigration policy. New York has responded with its own strategies in these areas but so far it has not been successful in matching London's regulatory environment or immigration advantage. This has given London a competitive edge that it should capitalize on. Our research has shown that to do this, London should continue lowering barriers for foreign skilled labor to move to London, continue using the 2012 Olympics as leverage for increased government spending, and boost expenditures to give its regulatory body more ability to regulate smaller firms. This study demonstrates that London's position as a leading GFC is unlikely to be threatened in the next 5-10 years. Future improvements in communications are unlikely to obsolete GFCs and the rise of a third rival to London is also unlikely in the short run. Our analysis concludes that if there is a new entrant into this market, it will likely be Shanghai. Overall, London has effective strategies and good opportunities in the future to maintain its strength in the areas most important to financial institutions.

What is a Global Financial Center?

A Global Financial Center is "an intense concentration of a wide variety of international financial businesses and transactions in one location." [2]. These GFCs are linked to a number of Regional Centers through the many international firms operating within the city. Thus, the global financial centers are connected to important markets all over the world. London and New York are currently considered the only two truly global financial centers due to their broad reach [2].

Important Competitive Factors for Financial Centers and Critical Mass

In interviews conducted with the upper management of many of the most influential financial institutions in the world, the following were identified (in decreasing importance) as the most important competitive factors of a GFC: availability of skilled personnel, regulatory environment, access to international financial markets, business infrastructure, government responsiveness, corporate tax regime, and quality of life [2]. A skilled labor force is considered by far the most important competitive factor. Because the financial industry is very cyclical in nature experiencing downturns and upturns with the economy, the flexibility of the local labor force is extremely important since companies need to expand or reduce their staff quickly.

Embodied within many of these competitive factors is the notion of "critical mass". For a city to truly become an established GFC, it must have a minimum number of financial institutions within the city. This is because the presence of many financial institutions from all over the world increases access to international financial markets. Moreover, having many financial companies located in the same area creates an environment conducive to trading and negotiating. Once a certain number of companies have set up branches in London, other companies seeking to expand into the international stage will be compelled to set up locations in London as well thus bringing in additional growth to the city's financial sector. The presence of many financial companies inevitably draws in skilled labor from around the world further solidifying a city's position as a leading GFC. Thus, reaching critical mass is the most important step for a city seeking to establish itself as a competitive GFC.

II. Six Forces Analysis

Entry Barriers

In many ways, the main entry barriers are similar to the factors of competitiveness discussed in the previous section. Thus, critical mass, a large skilled labor force, and access to a wide range of international markets, etc. are all barriers faced by cities seeking to become GFCs. For example, Mexico City does not have much access to skilled personnel so it is barred from entry very easily. Because it is extremely difficult to be successful in all of these areas, it is unlikely that a city not currently considered a GFC will be able to enter without drastic changes in the world economy.

Rivalry

Only a few large cities can compete with London, as rival cities must compete in all aspects in order to attract the top firms. New York is currently the only real competitor to London because of its size and its strength in all of the competitive factors. Before 9/11, New York was the center of the financial world, but since then, it has weakened. However, competition is still very fierce and most surveys show London and New York closely matched. Other competitors like Tokyo (a technological powerhouse), can offer unique benefits to firms that New York and London cannot. Thus, Tokyo competes well in the high-tech market. Hong Kong can be considered the current financial center of Asia, and because of its ties to Britain, there is a large contingent of firms that would consider Hong Kong as well as London, especially if they want to trade in Asia. Other cities such as Frankfurt or Singapore, while not major rivals on the international scale, compete with London on a regional level. Overall though, the only real rival to London is New York.

Buyer Bargaining Power

Assuming that the firm is the buyer and the city is providing the good, the firm has a very strong bargaining position. It is able to analyze all aspects of a city like the availability of skilled personnel, corporate tax structure, and access to international markets. However, larger firms' bargaining power is greatly reduced by the fact that for them to be truly international, they need a presence in both London *and* New York.

Supplier Bargaining Power

The main products of a GFC are a skilled labor force and a good business environment. The suppliers of the skilled labor are the workers. Thus, they have quite a bit of bargaining power as they decide where they want to work. However, due to the concentration of financial institutions in NY and London, many of these professionals must go to one of those two cities for the best opportunities. Once employed in London, the workers have limited bargaining power. This is because unlike cities like Paris or Frankfurt where the firing of an employee is a time consuming process requiring the consent of unions, there are few barriers to firing in London. The ease of firing contributes to a better work ethic as people work harder and longer because they know that if they underperform, they can easily be replaced. A good business environment mainly requires good tax and regulatory laws. These are supplied by the government. The UK government only has moderate bargaining power because London's financial industry is a large part of the UK's GDP and refusing to supply a good regulatory/tax environment would hurt the UK extensively.

Substitutes

Some argue that as the internet becomes more advanced, the day may come when large GFCs are no longer necessary. The spread of videoconferencing and online banking/trading enables one to do business from anywhere. Thus, internet can increasingly be seen as a substitute for GFCs. As parts of the world become more connected, the need to centralize operations within one city decreases. However, because of the high level of cooperation required in finance and the vital role of communications between firms and customers, it is important to be in cities with critical mass. Thus it is unlikely that we will see a major exodus of firms from GFCs to low cost cities.

Complements

For GFCs, complements are attributes that make a particular city more appealing to financial institutions. As complements go along with the existing strengths of the city and reinforce them, they are particularly important in this industry. These include security, entertainment, and communications. A city must be strong in all these areas to qualify as a GFC. As part of their overall strategies, cities can attempt to indirectly improve these complements to create synergies with their main product; however, cities generally do not have much direct control over these complements. In this section, we discuss the main complements and how London is indirectly trying to improve them.

<u>Culture/Entertainment</u>
While many people flock to GFCs in pursuit of jobs, they also expect to lead rich lifestyles outside of work. Thus, a GFC without adequate culture and entertainment cannot sustain a population comprised of the brightest and richest people in the world. The most a government can do to promote this complement is adding incentives for the entertainment industry. London has tax relief schemes designed to promote "film-making by enabling investors and producers to claim tax relief" [3]. In a 2003 proposal, Mayor Livingston supported discounted theater tickets and other "cultural activities that reflect and celebrate the contribution of London's diverse communities" [4]. These changes can help make London a more attractive destination for the skilled labor the financial industry values.

<u>English Language and Law</u>
Since English is currently the preferred language for business communication, England (as well as New York) has a major inherent advantage [5]. Additionally, English law is the judicial system of choice for many international contracts [2]. The UK builds on this strength by funding the British Council, an organization whose main goal is promoting English culture and language across the world through exchange programs. These programs give young entrepreneurs London oriented advice for succeeding in the global market. They are a cost effective mechanism of spreading the English culture in many countries.

<u>Health and Safety</u>
Health is an important factor because it affects whether skilled labor is willing to work in a city. A good example of this is Beijing; the air quality is terrible so not many firms want to move there because skilled workers don't want to relocate to a city where breathing can be difficult. Fortunately for London, its air and water quality is much better than that of most major cities in the world, including New York. London also has good healthcare. The UK has been providing its

residents with universal healthcare since 1948. Meanwhile, the US still uses private insurance, and as a country, pays the highest amount per capita for healthcare. The universal healthcare program is an advantage to London since companies do not have to pay for healthcare for their employees. Security also plays an important role in determining the quality of life in a city. In this area, London scores high among the potential GFCs. The latest published results for homicide rate per 100,000 inhabitants are given in Exhibit 1. New York has a murder rate more than twice as high as London [13]. England still has more violent crime than Japan and Hong Kong but overall, it is a very safe place. Additionally, London has the world's largest network of closed circuit television surveillance with one camera for every 14 people in the UK [14].

<u>Communications</u>

In the last few decades, communications has reached a new level of importance with the increasing globalization of major economies. It is a vital part of business infrastructure, a top criterion financial institutions look at when deciding where they want to base their operations. Telecommunications is first rate in London and its competitors, so London has sought to differentiate itself through internet, the newest communications frontier. London has done this by partnering with internet provider The Cloud to build Europe's largest wireless internet hotspot within its financial district. According to Michael Snyder, a spokesman for the city, London made this bold move because "We feel it is important to provide this technology to maintain our position as the world's leading international financial centre" [7]. The system costs users £11 per month and makes the 350,000 workers in the financial district more productive by having easy access to the internet. Similar ideas have been considered by London's competitors such as New York, Tokyo and Hong Kong, but none of those proposals have gone through, often due to lack of direct government support. New York must now respond by creating its own network and outdoing London by offering wireless connectivity for free.

III. Specific Strategies for London

Taxation

Taxation is one of the most important factors that financial institutions value and cities have power to influence. In survey's done with upper management of big financial companies one respondent even going as far as to say "Bottom line is, it's still all about tax" [15]. There are two types of taxes, personal and corporate. Personal taxation does not affect companies directly but does affect the most important factor, availability of skilled employees. These employees tend to demand higher salaries when taxation is too high. As can be seen in Exhibit 2, London has a lower corporate tax rate than New York. We can see that many countries are competing with NYC and London by maintaining a lower tax percentage. This is a weakness for London because these low cost centers such as Dublin are siphoning some business that would otherwise go to London [16]. London's strategy to respond should be more integration with Dublin by positioning London as the real center with Dublin as a support center. This will allow London to profit from many smaller price sensitive firms through Dublin. New York can respond by recruiting lower cost centers like Jersey City; however, since these places are all within the US, they cannot benefit from a more favorable corporate tax environment since they pay the same federal rate.

London's current tax strategy also consists of an innovative personal tax law designed to attract more foreign businessmen and financiers by offering them special treatment under the non-domiciled resident tax status. A non-domiciled resident, or Non-Dom, is a legal resident without citizenship; such a resident has to pay tax only on income made inside or brought into the UK. This means that a wealthy foreigner can set up a company in Dubai that will handle his capital. Since all gains will be made in Dubai, he will pay income tax only on money he brings to

London. By not taxing the money a business man makes abroad until he decides to use it in Britain, the UK reduces the level of commitment required in order to work in London.

The United States is countering this strategy by doing the exact opposite. Barring tax treaties, the US taxes its citizens for all income even if they are residents of another country. This means that for an American citizen, the lower tax rates and non-taxing of foreign earnings in the UK are meaningless. In addition, the US also taxes any US citizen that renounces citizenship for tax purposes for an additional ten years afterwards. This US strategy reduces competition from London by increasing moving barriers – a worker in the US actually pays more taxes overall if he goes to work in London. This greatly reduces the number of US citizens who renounce citizenship in order to enjoy the improved rates of the UK and other countries. Thus, the US response has made it so that London's personal tax strategy does not work well on Americans.

While London's personal tax strategy has been successful in attracting foreign businessmen and investors, it has its drawbacks. London's personal tax strategy also faces an internal threat from its own citizens who feel discriminated against by the Non-Dom laws. London is responding to this threat by changing these laws so foreigners must pay an annual flat rate to be a Non-Dom. If the rate is set correctly, this type of price structure strategy is logical as it will allow the UK to tax the middle income international citizens (who probably do not have much overseas income) while offering a competitive rate for the rich who would otherwise find methods of tax evasion or drop London altogether.

"Open Door" Immigration Policy

Immigration policies also play a central role in London's strategy to become the leading global financial center. From Exhibits 3 and 4, we see that there was a spike in immigration into the UK starting from 2004 and London is the destination of nearly half of the immigrants entering the UK. According to the government's figures, the UK has the "third largest foreign population and labour force in the European Union" of around 2.2 million people [18]. This is a great strength of England and London because as the population of England gets progressively older and the birth rate falls, more working age people are needed to continue propping up the world's fifth largest industrial economy. Additionally, as London's population becomes more skilled and educated, there are more low end jobs that must be filled. These facts come together to make immigration important for London to continue to maintain its position.

The central part of London's current strategy is the "open door" immigration policy. Unlike other EU countries such as Germany and France which have imposed stringent restrictions, Britain is allowing workers from new EU countries to settle and work in Britain with few restrictions. Most of these workers are educated and skilled, but simply looking for better opportunities. Thus, the new arrivals are very productive and do not place much strain on social services and welfare. They take many bottom rung jobs allowing the highly skilled workforce in London to specialize more. In short, the increase in immigration has increased the availability of skilled personnel that banks rely on and also created a more flexible labor market. Immigration has also given London a more international character with the head of one New York-based Investment Bank commenting that "it is easier to get experienced back office staff who speak French in London than in Paris" [2]. A study done by the London Corporation has shown that as of late, London is ranked first out of fourteen cities (including New York) by financial companies based on the availability of skilled personnel (Exhibit 5). England's "open door" immigration strategy has without a doubt contributed to this success.

New York has not yet responded to London's strategy in a meaningful way. Stringent immigration laws have limited the number of foreigners allowed to work and settle in the US. Additionally, the US suffers from a large amount of illegal immigrants who are largely unskilled and uneducated unlike the immigrants to the UK. These constraints make it so that New York cannot really utilize an immigration strategy to improve the size and flexibility of its financial sector labor force. Thus, London must continue to use its successful immigration strategy, as it is a unique strategy that New York cannot effectively respond to. However, an immigration strategy is not as crucial to New York's success as it is to London's due to differences in the current demographics such as the age distributions (Exhibits 6, 7). Also, New York can draw from an American population of approximately 300 million compared to 60 million in the UK. Thus, New York may not need to use an open immigration strategy to maintain the status quo.

A study by the University of Swansea predicts that immigration into the UK needs to be increased by a fifth to prevent a population decline and subsequent economic crisis [18]. Moreover, London has a smaller local source of talent, so it must rely more on immigration (Appendix A). Thus, London's current reliance on its "open door" immigration strategy to make its financial labor force highly competitive can be a source of future weakness as other EU countries such as Germany and France begin to lower their barriers to immigration and siphoning off some of the skilled labor that is currently flowing to Britain. Additionally, although the US Congress seems to be gridlocked in the current immigration debate, the city of New York does recognize the risk of falling behind in attracting qualified foreign workers and in a 2007 report [19], Mayor Bloomberg along with Senator Charles Schumer alluded to a future strategy of lobbying for easing restrictions on highly skilled foreign worker immigration. If this New York strategy comes to fruition, New York would become another source of competition against London in the race to attract qualified foreign workers.

Going forward, London must do more to increase the incentive for foreign workers to move and work in London. While this will pose a challenge, London does possess a first mover advantage. Because a large proportion of immigrants from the new EU countries have been settling in London in the 3 years since the expansion of the EU, further waves of immigrants may be encouraged to settle in London because it is already known as a good destination for immigrants and there is a substantial and established foreign population. Thus, London has a good opportunity to capitalize on this advantage by offering more incentives for skilled foreign workers to settle in London. One strategy will be to invest more in housing so affordable housing becomes more available. These strategies will allow London to develop an even more specialized labor force that can support an expanding financial sector. In the years to come, London's immigration strategy will play an ever increasing role if London is to continue to compete effectively with New York.

Transportation

Transportation is a key part of business infrastructure, an important competitive factor. London's transportation system contains the world's longest underground rail system used by over 3 million passengers daily. It also has light rail, trams, a 24 hour bus system and an international rail service connecting London to Paris and Brussels [21, 22]. London's six airports serve 150 million passengers annually. Heathrow Airport serves 180 destinations worldwide and is Europe's busiest airport. It handles more international passengers than any other airport in the world [23, 24]. Already running at 98% capacity, Heathrow has little growth potential and in 2007 was voted the worst airport in the world [23, 28].

London's main strategy to improve transportation includes introducing a universal transportation card and instituting a congestion tax. An "Oyster" card was implemented to streamline efficiency and reduce fares. By using this card, passengers can receive large travel discounts as well as being able to use this card on The Tube, the Light Rail, the Tram system, and London city bus lines. This Oyster card system makes public transportation more accessible and reduces wait times. A congestion tax went into effect in 2003 in order to "accommodate London's rising population and economic activity" [26]. Currently, the tax is £8 per day and it aims to reduce congestion by reducing traffic by 15%, reduce pollution, and raise funds to reinvest in the London Transportation system [30, 31]. In general, financial firms consider time saved to be more important than £8 pound per day so the tax is a minor cost. Going forward, London should fine tune the congestion tax by changing the tax rate or redrawing the tax zones to maximize profits and minimize congestion [32].

Mayor Michael Bloomberg has already proposed a congestion tax for New York. If it passes, New York will also reduce its congestion and allow workers to travel more efficiently. It could be more effective than the London tax because of the larger number of people in New York [33]. New York responded to the Oyster Card by introducing a MetroCard, which serves the same purpose. Thus, London's transportation strategy's clear weakness is that it is easily copied by New York. New York is also responding to London's improvements by outfitting all underground stations with cellular phone service. New York's JFK Airport is already undergoing a $10.3 billion renovation [34]. London must respond by expanding Heathrow Airport with another runway to relieve congestion and increase Heathrow's capacity by 115 million passengers annually [26].

Aggressive and Effective Government Lobbying

Another important criterion financial institutions consider important is government responsiveness. Government responsiveness refers to how proactive the local government is in continuing to attract investment and passing policies that accommodate the needs of a growing financial industry. An important factor towards London's success is lobbying the central government for increased investment in the city. This is important now and in the future as London is facing an acute affordable housing shortage which is significantly driving up the cost of doing business in the city and stemming the flow of immigrants that London relies on. Government investment is also necessary for improved communications infrastructure, transportation, security, and education.

Part of London's great lobbying power compared to its main competitor New York stems from the fact that London alone contributes 18% of all UK tax revenues and the tax revenue London generates has increased by 20% in the last five years, making the city an attractive investment [2]. London also contributes 12% of the total UK population and 15% of the UK's jobs, numbers New York cannot match. With its high level of growth and dominant position within the UK economy, London can exert a lot of influence when lobbying for increases in government investment. This is seen by the high per capita public spending of around £10,000 a person, the highest in all of England [2]. London has built upon this strength by employing some extremely aggressive lobbying strategies. A recent example can be seen in the actions of former mayor Ken Livingstone when dealing with London's successful 2012 Olympic bid. When London bid for the Games, the budget was intentionally understated at £4bn in order to secure more government support for the bid. This admission was made by Livingstone after the influential Public Accounts Committee accused Livingstone of misleading parliament and the public over the budget issue. In a statement, Livingstone said "I was fairly certain that it would end up costing us more than £4bn. I could not make the case for massive investment in London if we did not have the sword of Damocles of the Olympics hanging over us. I would never have got what will be close to £10bn of investment without the Olympics" [35]. Thus, by using the strategy of understating the true cost of the Olympics until securing the Olympics, London was able to get more investment than they could have originally. This extra money allows investment in 35,000 homes instead of the original 6,000, allowing the city to make inroads into alleviating its affordable housing shortage. In the run up to the 2012 Olympics, London's future strategy should be to continue using the Olympics to justify increasing investment in the city as it is in the UK's best interest for London to put on a good face for the world.

It will be difficult for New York to effectively compete with London's strategy since it lost the 2012 Olympics to London. New York also has much less comparative lobbying power within the US so it will likely respond to London's increased lobbying powers by bringing its underdog status in the GFC market to the highest levels of government. A recent report released by the Mayor's office (endorsed by Senator Schumer) assessing the risks and challenges New York faces from its primary competitor London is a clear indication that New York is pursuing this counter strategy [36]. The extra attention from the US Senate shows that New York's lobbying powers may be on the rise. Thus, if New York pursues this strategy, it can potentially negate the edge London gained through its strategy of lobbying aggressively with the Olympics.

Principle and Risk-based Regulation

Considered the second most important issue in multiple surveys, regulation is a delicate and important issue [38]. If regulation is too lenient the risk of corporations committing fraud against their investors is high. However, regulation requires the companies to fill detailed reports and hire external auditors to verify them. This is extremely expensive and gives a large competitive advantage to firms operating in countries with lower regulation costs.

London's current regulation strategy consists of two main parts – focusing on principles instead of rules and using a risk-based approach. A key part is the Financial Service Authority (FSA), an independent body that specifically regulates the financial industry. The fact that a single body is in charge of all the regulation in London is a major strength of London's strategy because it reduces the extra complexity and cost in cities like New York where there are multiple regulatory bodies such as the Federal Reserve, the SEC, and the NY State Banking Department. London's regulation strategy focuses on consultation and discussion without a large emphasis on strict rules. The FSA follows a set of eleven core principles which serve as a guide to help establish the regulatory requirements on a case by case basis. London's regulation system puts a greater reliance on flexible general principles and less reliance on rigid specific rules leading to a streamlined and efficient system. This is a marked contrast to the convoluted rule based system used in the US. This strategy of increasing reliance on flexible principles is supported by many CEOs in the financial industry and often cited as the reason London has good regulation [38]. Recently, the FSA was able to replace 57 pages of rules on anti money laundering with just two pages [38]. Thus, the continued strategic initiative to replace strict rules with principles will substantially reduce the cost and complexity of doing business in London. The principles approach also provides a more complete set of regulations. For instance, it would be impossible to draw up specific rules to cover the ever changing range of potential conflicts of interests within financial firms [38]. The principle based strategy does not mean London is weak on regulation as the FSA can still punish firms for breach of principles even if no actual rules were broken.

The second part of London's strategy, a risk-based regulation system, reduces costs by not regulating all firms in the same way, but focusing resources on firms which are the most likely to have a big impact on the industry should they fail or be involved in illegal deception. This increases the quality of regulation where it matters most because it allows the FSA to focus its resources on the most important sectors. For instance, large hedge funds in London are closely regulated while a majority of small firms are only lightly regulated. This is very different from New York where risky hedge funds are subject to very little regulation (a potentially dangerous policy as a collapse of a large hedge fund can have severe repercussions through the city's financial sector) while many of the smallest firms are subject to rather stringent regulations.

The US and New York is countering London's strategy by tightening regulations to boost investor confidence and by extension, growth of New York's financial sector. This response was initiated with the Sarbanes-Oxley Act (SOX) of 2002. While low regulation costs were initially an advantage of the US, after the Enron scandal, New York has adopted a strategy opposite to London's current strategy. SOX is a heavy handed approach that adds many new requirements for financial reporting, significantly increasing costs. A survey done by Kron/Ferry International found that these changes have increased costs associated with being a publicly held company by 130% making it much less attractive for companies to be listed on US stock exchanges. In fact, a study done by the Wharton Business School found that the number of American companies deregistering from public stock exchanges nearly tripled during the year after SOX became law [39]. Thus, the American strategy of increasing regulation in the wake of corporate scandals to restore investor confidence has actually been a failure for New York's financial sector. London now has the upper hand with its more flexible lower cost principle based regulation.

To remain competitive with London, New York's future strategy should be to work towards the repeal of some portions of SOX or lobby for statures that grant exemptions to foreign companies. This will help make New York more attractive to foreign companies which are currently leaning towards London due to better regulatory environment. However, such changes will be tough to enact as they involve going through Congress. London's future strategy should be to increase the size of the FSA by boosting its funding. This will allow the FSA to address the lack of regulation in small firms, London's strategy's current weakness. This will help cut down number crimes like small scale insider trading which go mostly undetected. This will further improve London's successful regulation strategy and provide a great opportunity for London to profit at New York's expense.

IV. Future Strategies and Threats

Third Financial Center

Because the two current GFCs are on either side of the Atlantic, it is possible that a third GFC may be required in Asia due to the growing economies of China and India. Cities such as Tokyo, Hong Kong, and Singapore are currently aspiring to be this next GFC but they are all hurt by certain entry barriers. For instance, Singapore is too small of a country, Tokyo suffers from poor regulation and Hong Kong is too far away from the industrial heartland of China [2]. Although there may not be a need for a third GFC, experts agree that if a third GFC were to appear, Shanghai will probably be the city. The appeal of Shanghai lies in the great economic potential of China. As the commercial capital of China, Shanghai has the resources and infrastructure to develop into the next GFC. Shanghai's proximity to China's booming industrial centers means that the amount of trade and commerce flowing through Shanghai will almost guarantee that it will become a major financial center. China is recently starting to conduct more business directly through Shanghai instead of through offshore centers. As China's economy integrates more and more with the global economy, Shanghai will rise to prominence on the international level. What remains to be seen is what regulations the Chinese government imposes on Shanghai and whether Shanghai can develop a skilled labor force.

Possible Alliances

Currently, London and New York are substantially differentiated with New York very accessible to the major American economies and some East Asian countries while London is far more accessible to European countries. There is also some industry differentiation with London concentrating on resource management, ecological positioned companies, and international legal services while New York concentrates on financial derivatives. Therefore, a promising future strategy could be a London-NYC alliance. By improving communications, transportation and standardizing regulations, New York and London can reduce competition between each other. By combining their efforts they can fight to keep London and New York as the only two GFCs and duopolize the market indefinitely. Alternatively, London can seek alliances with other cities to gain an edge over New York. This is a compelling strategy because Britain has strong ties with many of its former colonies such as Singapore and Hong Kong which are both strong regional centers. London can capitalize on this advantage by creating special programs for Asian executives to spend a year in London to foster business ties. London can also lobby for laws which give tax breaks to HK or Singapore businesses that create a presence in London. This would give London an edge over New York in Asia.

NYSE EuroNext

The current situation is that the London Stock Exchange (LSE) is the third largest in the world. However, many stock exchanges have recently combined to form the international NYSE EuroNext stock exchange, which handles more than two times the transaction value of the second largest stock exchange (NASDAQ) and three times that of the LSE. Once integrated, it will be open 21 hours a day. NYSE EuroNext is not as serious of a threat to London as it may seem. Advancements in communications means a person can invest in multiple stock exchanges from any point in the world without difficulty. Thus, the main advantage of cross listing is the extended trading hours. The LSE can respond to this by increasing its own trading hours to compete with the NYSE EuroNext. The creation of a global stock exchange is likely to increase the interaction between investors and companies across different cultures, languages, and legal systems. This will increase the demand for global finance centers with a common language and an agreed upon legal system. Although not home to a major center of the NYSE EuroNext, London is geographically close to its center and is culturally and economically the natural bridge between Europe and America. Therefore, London is perfectly positioned to answer the demands this new global stock exchange will bring. To maximize its ability to capitalize on this new opportunity, London needs to greatly improve its airports and airport services in order to become an even more convenient hub for traveling businessmen. Since most of London's advantages listed in the above sections do apply here, this new change poses more of an opportunity than a risk.

V. Conclusion

So far there has not been enough quantitative evidence to declare a definite leader among the GFCs. However, multiple sources including the City of London’s publication of the Global Financial Center Index and case studies by US consulting company McKinsey show London narrowly leading New York in many categories. London’s strengths we have identified include financial regulation, transportation, communication, income tax policies, and immigration/labor policies. To respond to London, New York must improve its convoluted regulatory environment to stay competitive [44]. Changes in London’s government may spawn unforeseen divergences from our assessment. For instance, Boris Johnson, the new Mayor of London as of May 4, 2008 supports repealing the congestion tax which would change London’s transportation strategy [45].

Recently, more large US financial corporations are moving their global headquarters to London thus demonstrating that London’s strategy is working. On Feb 7th, 2008, GE Money became the second of six departments of the corporation to relocate to London. To become an effective global financial company, GE Money needed access to more international players which made London a natural choice as its tax and regulatory strategies had made it an attractive location for many international firms [46, 47]. Many European banks have decided to centralize their operations in London because it was the “only place in Europe to centralise their operations [due to a more] flexible labour market” [2]. Recently Bear Stearns moved its European headquarters to London to take advantage of the more readily available skilled labor force that has resulted in part from London’s immigration strategy [48]. These recent changes demonstrate that in the next ten years, London has a very bright future in the GFC market.

Appendix A – Education as a Complement

Financial districts thrive on highly educated employees commonly sourced from local business programs. New York has the Columbia School of Business and the NYU MBA program, ranked 3rd and 13th in the world respectively. From the 2007 exit survey of NYU, 79% accepted jobs, and of those students, around 63% of the working students remained in New York. The 2007 Columbia Graduate survey shows that 56% enter financial services and 21% enter consulting [9]. The majority of the top employers of these graduates are in New York. This means that not only does New York act as a breeding ground for top business graduates; it also retains the majority of its talent pool. London has the London Business School, which is ranked 2nd in the world [10]. However, its graduating class size of 310 master's students gives the city very little local talent [11]. Thus, a clear weakness of London is the lack of a local source of talent. It is difficult to create good MBA programs overnight so the City of London cannot do much in the near term to address this issue.

Exhibits

Exhibit 1 [12]

Number of Homicides per 100,000 Inhabitants

US	UK	Japan	Hong Kong	France
5.9	2.03	1.1	.63	1.64

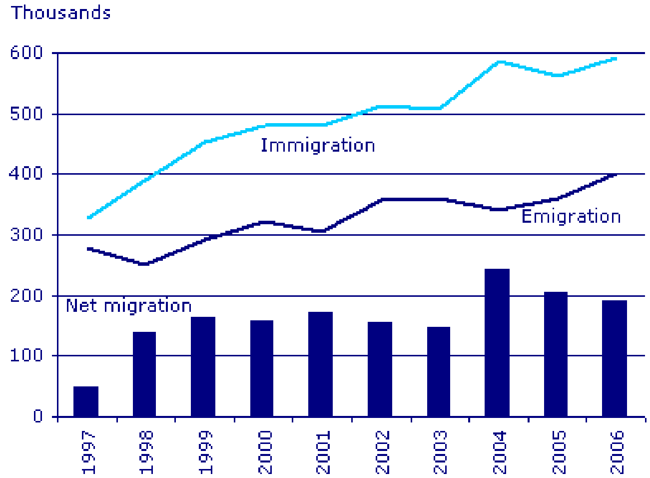
Exhibit 2 [17]

Corporate and Personal Tax in Select Countries and Cities

Tax on:	UK	USA federal	USA(NYC)	Hong Kong	Dubai	France	Dublin
Corporation	30%	35%	39%	17.5%	0-20*%	33%	12.5-25%
Personal	40%	35%	46%	20%	0%	48%	40%

Exhibit 3 [20]

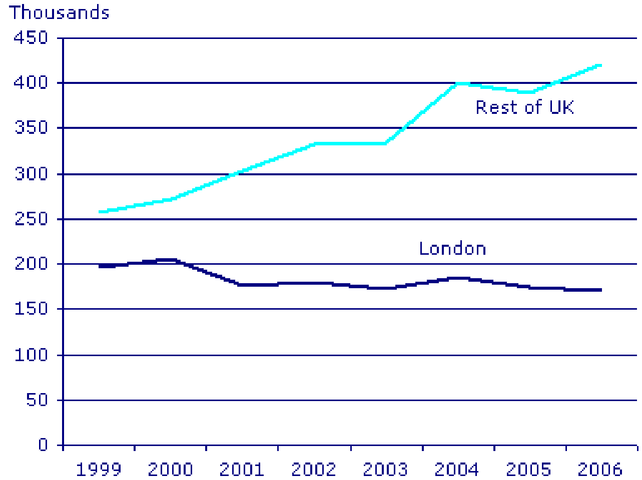
Net Migration of England



The recent growth of immigration to the UK and London is due the expansion of the EU in 2004 to 10 new countries.

Exhibit 4 [20]

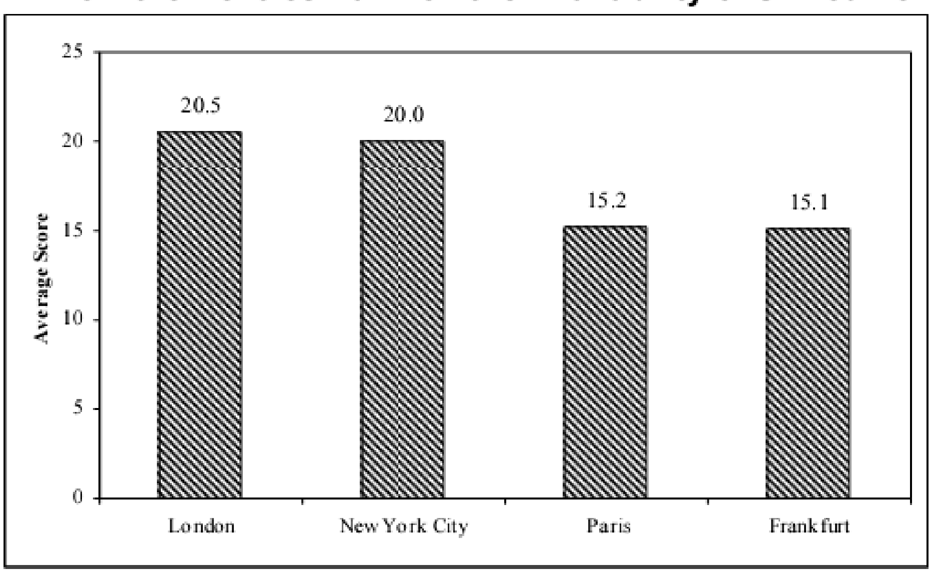
Immigration into London compared to the Rest of the UK



London has not been able to increase its share of the new immigrant population in recent years due to the extremely high cost of housing within London.

Exhibit 5 [2]

Chart 4 – How the Centres Rank on the Availability of Skilled Personnel



The average score is derived from respondents' views of how each financial centre ranks on the Availability of Skilled Personnel multiplied by their views on the perceived importance of the Availability of Skilled Personnel as a competitive factor

Exhibit 6 [25]
2001 Population Pyramid of UK

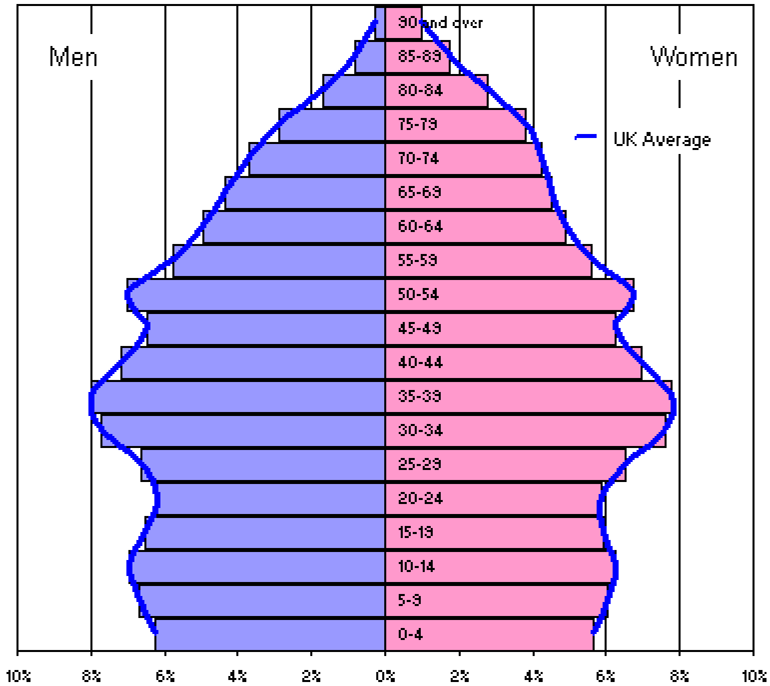
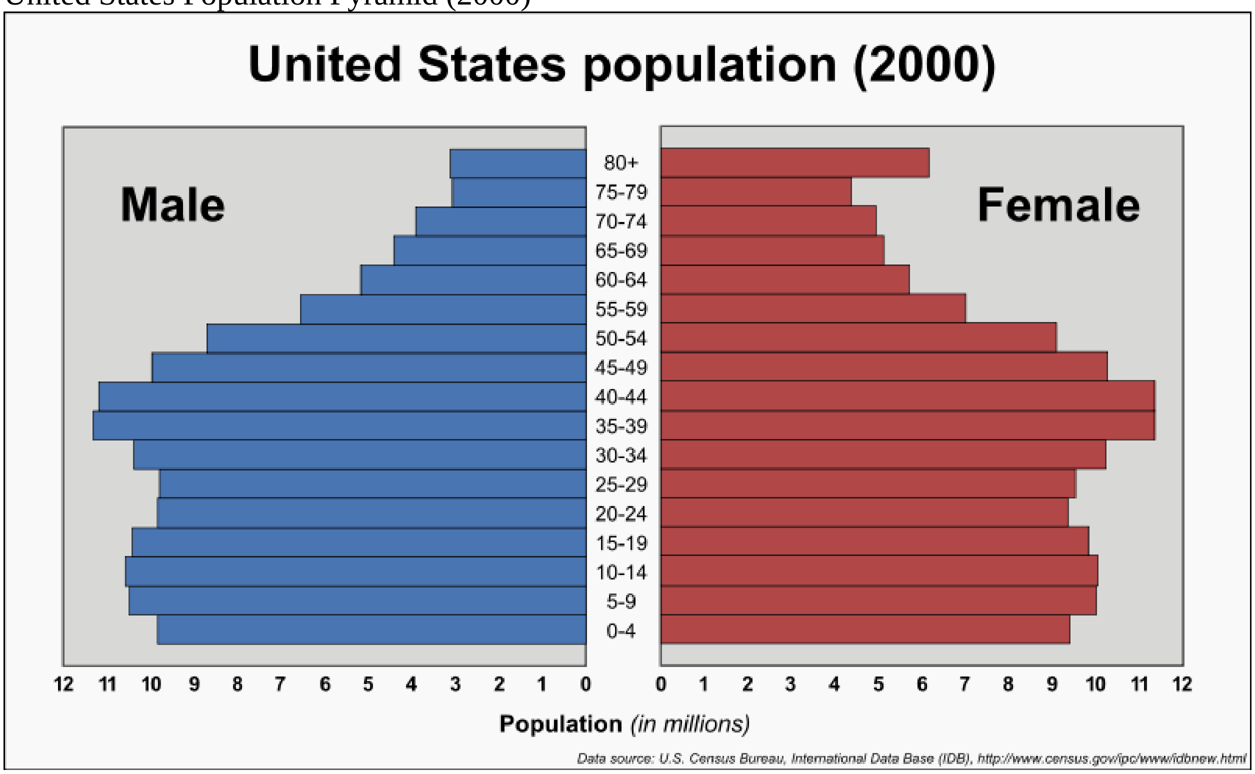


Exhibit 7 [17]
United States Population Pyramid (2000)



Citations

[1] International Financial Markets in the UK. International Financial Services, London. May 2005.

[2] The Competitive Position of London as a Global Finance Centre. The Corporation of London. 2005.

[3] “Clampdown on film tax avoidance.” BBC News. 2 Dec 2004. Accessed 26 May 2008. <http://news.bbc.co.uk/2/hi/entertainment/4062597.stm>

[4] “The Mayor promotes culture as central to London’s economic and social wealth.” Greater London Authority. 2 Apr 2003. Accessed 26 May 2008. <http://www.london.gov.uk/view_press_release.jsp?releaseid=1618>

[5] The triumph of English. The Economist. 20 December 2001.

[6] Corporate Plan 1008-11. The British Council. Accessed 27 May 2008. <http://www.britishcouncil.org/home-aboutus-corporate-plan.pdf>

[7] Johnson, Bobby. “Wireless network to cover City.” The Guardian. 21 Feb 2006. Accessed 26 May 2008. <http://www.guardian.co.uk/business/2006/feb/21/newmedia.media>

[8] “Wireless Internet Zone to Cover City of London.” The Evening Standard. 12 Apr 2007. Accessed 26 May 2008. <http://www.thisislondon.co.uk/news/article-23392339-details/Wireless+internet+zone+to+cover+City+of+London/article.do>

[9] “About Columbia Business School.” Columbia Business School. Accessed 26 May 2008. <http://www4.gsb.columbia.edu/about/facts/studentbody>

[10] “Rankings.” London Business School. Accessed 26 May 2008. <http://www.london.edu/newsevents6440.html>

[11] “The Top 100 full-time global MBA programs.” Financial Times. Accessed 26 May 2008. <http://media.ft.com/cms/9fe070e6-ca70-11dc-a960-000077b07658.pdf>

[12] Richards, Patsy. Homicide Statistics. House of commons library, Social and general statistics section. 11 Jan 2007. Accessed 26 May 2008. <http://www.parliament.uk/commons/lib/research/rp99/rp99-056.pdf>

[13] Wigmore, Barry. “New York Murders at their lowest level thanks to zero-tolerance policy.” Mail Online. 01 Jan 2008. Accessed 26 May 2008. <http://www.dailymail.co.uk/pages/live/articles/news/worldnews.html?in_article_id=505588&in_page_id=1811>

[14] Norris, Clive and Michael McCahill. CCTV in London. Centre for Criminology and Criminal Justice. University of Hull. 2002

[15] Yeandle, Mark et al. The Global Financial Centers Index. Z/Yen Group. March 2008

[16] The Impact of Taxation on Financial Services Business Location Decisions. The City of London. Feb 2008.

[17] "World Taxes, Income, Tax Rates, Finance, and Economy." The Worldwide-Tax.com. Accessed 26 May 2008. <http://www.worldwide-tax.com/>

[18] Cascani, Dominic. "Immigration: Factor or Hype?" BBC News. 5 Aug 2002. Accessed 26 May 2008. <http://news.bbc.co.uk/2/hi/uk_news/2173792.stm>

[19] McKinsey. Sustaining New York's and the US' Global Financial Services Leadership. City of New York Office of the Mayor and United States Senate.

[20] "Migration." National Statistics. 20 May 2008. Accessed 3 June 2008. <http://www.statistics.gov.uk/cci/nugget.asp?id=260>

[21] "The 5 Best Mass Transit Systems in the World." 24 April 2008. Accessed 5 May 2008. <http://www.environmentalgraffiti.com/green-living/free-ride-the-five-best-mass-transit-systems-worldwide/1095>

[22] "London Underground Key Facts." Transport for London. 5 May 2008. Accessed 5 May 2008. <http://www.tfl.gov.uk/corporate/modesoftransport/londonunderground/1608.aspx>

[23] "Welcome to Heathrow Airport." British Airports Authority. 5 May 2008. Accessed 5 May 2008. <http://www.heathrowairport.com/>

[24] Rosenberg, Matt. "Busiest Airports – The Busiest Airports in the World." Your Guide to Geography. 19 Aug 2007. Accessed 5 May 2008. <http://geography.about.com/od/urbaneconomicgeography/a/busiestairports.htm>

[25] "Census 2001: United Kingdom." National Statistics. Accessed 3 June 2008. <http://www.statistics.gov.uk/census2001/pyramids/pages/UK.asp>

[26] "UK Government review backs London Heathrow and London Stansted airport strategy." Flight International. 14 Dec 2006. Accessed 5 May 2008. <http://www.flightglobal.com/articles/2006/12/14/211112/uk-government-review-backs-london-heathrow-and-london-stansted-airport.html>

[27] "United States Population (2000)." US Census Burueau, International Data Base. Accessed 3 June 2008. <http://www.census.gov/ipc/www/idbnew.html>

[28] "Heathrow voted world's least favourite airport." The Telegraph. 21 Feb 2008. Accessed 5 May 2008. <http://www.telegraph.co.uk/travel/738684/Heathrow-voted-world's-least-favourite-airport.html>

[29] “Greater London Authority – Transport.” Greater London Authority. Accessed 5 May 2008. <http://www.london.gov.uk/gla/transport.jsp>

[30] “Transport for London.” 5 May 2008. Accessed 5 May 2008. <http://www.tfl.gov.uk/>

[31] Livingstone, Ken. “The Mayor’s Transport Strategy: Highlights.” Mayor’s Office of London. July 2001. Accessed 5 May 2008. <http://www.london.gov.uk/mayor/strategies/transport/pdf/highlights2.pdf>

[32] Simon, Jefferey and Sarah Phillips. “Q&A: The Congestion Charge.” The Guardian. 19 Feb 2007. Accessed 5 May 2008. <http://www.guardian.co.uk/world/2007/feb/19/qanda.londonmayor>

[33] Hakin, Danny. “City Traffic Pricing Wins U.S. and Spitzer’s Favor.” New York Times. 8 June 2007. Accessed 5 May 2008. <http://www.nytimes.com/2007/06/08/nyregion/08congestion.html?_r=1&oref=slogin>

[34] “Kennedy Airport.” The Port Authority of New York and New Jersey. Accessed 5 May 2008. <http://www.panynj.gov/CommutingTravel/airports/html/kennedy.html>

[35] Kelso, Paul. “Mayor ‘knew 2012 budget was too low.’” The Guardian. 25 Apr 2008. Accessed 26 May 2008. <http://www.guardian.co.uk/politics/2008/apr/25/livingstone.olympicgames2012?gusrc=rss&feed=sport>

[36] McKinsey. Sustaining New York’s and the US’ Global Financial Services Leadership. City of New York Office of the Mayor and United States Senate.

[37] “Principles of Good Regulation.” The Financial Services Authority. Accessed 26 May 2008. <http://www.fsa.gov.uk/Pages/About/Aims/Principles/index.shtml>

[38] McCarthy, Callum. Chairman of FSA. Speech. 13 Feb 2007.

[39] Paul, Ron. Speech. 14 Apr 2005. Accessed 16 May 2008. <http://www.house.gov/paul/congrec/congrec2005/cr041405.htm>

[40] “Executive Summary.” The Financial Services Authority. Accessed 26 May 2008. <http://www.fsa.gov.uk/pubs/other/exec_summary.pdf>

[41] City Report on Taxation – UK’s Regime becoming less competitive. The Corporation of London. 28 Feb 2008.

[42] Esposito, Anthony. Peñoles raises US$1.77bn with Fresnillo LSE IPO. Business News Americas. 9 May 2008.

[43] Sterling Silver. The Economist. 15 May 2008.

[44] Baker, Gerard. “The Wall Street Slide.” 2007. Accessed 26 May 2008. <http://www.international-economy.com/TIE_Sp07_Baker.pdf>

[45] “UK: Congestion Taxing Mayor Faces Defeat.” theNewspaper.com 2 May 2008. Accessed 2 June 2008. <http://www.thenewspaper.com/news/23/2353.asp>

[46] Guerrera, Francesco. “GE Money Moving Headquarters to London.” 7 Feb 2008. Accessed 28 May 2008. <http://us.ft.com/ftgateway/superpage.ft?news_id=fto020720081719387259>

[47] Moore, Heidi. “GE: Imagination at Work (But Not So Much In the US).” 8 Feb 2008. Accessed 28 May 2008. <http://blogs.wsj.com/deals/2008/02/08/ge-imagination-at-work-but-not-so-much-in-the-us>

[48] Rooke, Anna. “Bear Stearns moves to new European Headquarters.” UK Trade & Investment. Accessed 28 May 2008. <http://www.ukinvest.gov.uk/OurWorld/100259/en-GB.html>

[50] Jacobs, J. Cities and the Wealth of Nations: Principles of Economic Life. Random House, 1984.