

Financial services in London: Global opportunities and challenges

March 2006



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FOREWORD

The global economy is going through a period of radical transformation, with far-reaching changes in technology, society and international trade. The share of trade in global output has increased from about 7 per cent in 1950 to over 22 per cent in 2004 as new communication technologies and falling transport costs break down geographical barriers to trade and economic integration.

These changes have significant long-term implications for the world's advanced economies. In a world where businesses operate freely across borders, the challenge for Britain is to ensure that we have the skills, creativity, entrepreneurialism and innovation necessary to support an economy focused on high skilled, high value-added economic activities.

For centuries Britain has been at the centre of global trade, and today the British traditions of international openness, liberalism and good governance mean that we have the potential to be the most competitive location in the world from which global firms can trade internationally. This is reflected in the internationalism of Britain's financial sector, which employs over 1 million people and generates up to 9 per cent of GDP, and which remains today the world's most competitive centre for global financial services.

Britain's financial services sector, led by the international financial markets of London and other important financial clusters such as Edinburgh and Leeds, provides finance for global businesses, and supports development in growing markets like India, China and the Middle East. Together with the many business services that support it, like accountancy and law, it is a truly world-class industry and, as testified by its growth over the last ten years, is succeeding in meeting the challenge of globalisation. No other financial centre can match the international scope of Britain's financial markets, and the Government is committed to supporting and promoting these strengths around the world.

This paper describes how, as the global economy integrates and grows, there will be further significant opportunities for Britain's financial services sector and its supporting business services. It is the Government's ambition to ensure that, through London's international markets, Britain strengthens its position as unambiguously the world's leading centre for international finance.

To deliver the full benefit of these opportunities for Britain, the Government and the financial services industry need to work together. The Government will join forces with a new financial services group, and work together with it to support a single strategy for promoting Britain's financial services sector around the world. London is already the world's leading international financial centre, and working together we will achieve our ambition: for London to strengthen its position as the number one financial services centre in the world.



Rt Hon Gordon Brown MP, Chancellor of the Exchequer

INTRODUCTION AND SUMMARY

I.1 London is the world's leading international financial centre, and the Government's objective is for it to be even more successful. This paper describes why this is a realisable objective, given the significant advantages that London has in key international financial markets and the unparalleled opportunities for London's markets in the context of global economic integration and growth. It also examines why, to realise fully the benefits of globalisation for the sector, the financial services industry and Government need to work together, and outlines the steps that will be taken to ensure that London's competitive advantages are strengthened.

A world-leading financial centre

I.2 Chapter 2 describes why London is, on many counts, the world's leading financial centre, and examines the unparalleled economic opportunities that global economic integration is creating for it. London is unambiguously the world's largest centre for international financial services because, unlike the domestic focus of other large financial centres, it dominates key international financial markets and, for example, has more foreign banks than any other financial centre. Britain's other important financial centres, primarily in Edinburgh and Leeds, contribute to London's international reputation and strength (Box 1.1).

I.3 Building upon the analysis in *The UK's financial services sector: Rising to the challenge and opportunities of globalisation*¹ this paper explains why London's competitiveness across a wide range of international wholesale markets is based around its three key strengths:

- **scale:** the size of London's markets creates genuine liquidity, the cornerstone of an efficient market;
- **scope:** nowhere else in the world has London's range of services, or London's record for innovation in new services like derivatives and Islamic finance; and
- **internationalism:** London has a tradition of openness with regard to foreign ownership and participation, historical links with emerging markets in Asia and the Middle East, and a strong transatlantic relationship.

I.4 London's importance in the world's financial system is apparent when the scale of its markets is compared to other centres. London is the location for 70 per cent of the global secondary bond market; over 40 per cent of the derivatives market; over 30 per cent of world foreign exchange business; over 40 per cent of cross-border equities trading; and 20 per cent of cross-border bank lending. No other financial centre in the world can equal the depth and scale of London's international markets.

New global opportunities

I.5 Chapter 2 goes on to describe how the world economy is growing rapidly, as well as becoming increasingly integrated and interdependent as trade and investment flows rise. This changing balance of economic activity, driven by new technology and the growth of emerging economies, will create new opportunities for London's international markets as the financial needs of businesses and investors from around the world grow in scale and sophistication because:

¹ HM Treasury, March 2005.

- **newly liberalised, high-growth economies** need access to cross-border capital flows and a broad range of international risk management services;
- **more dynamic global competition** means that global businesses will increasingly need internationally focused financial services to enhance their flexibility in response to changing demands;
- **technological change and greater rewards from innovation** mean that London's record in innovative wholesale services, and its sophisticated and internationally focused consumer products make it well placed to keep ahead of the game; and
- **potentially hundreds of millions of new customers** in emerging markets create unparalleled opportunities for business growth in all sectors, including financial services.

1.6 Globalisation also creates new competitive pressures for London's financial sector. The integration of the global economy means that easily replicable 'commoditised' jobs will tend to shift to the lowest cost locations in emerging markets. In this environment, the challenge for London is to ensure that it remains the world's most attractive and competitive environment from which to provide sophisticated and high value-added financial services to the rest of the world.

Box 1.1: The importance of financial centres outside London – Scotland and Leeds

Over 1 million people are employed in the financial services sector nationwide, generating around 9.5 per cent of GDP when business services related to finance, like accountancy and law, are included. The highest concentration of employment is in London. While much of London's financial sector is focused towards serving wholesale international markets, the UK's other financial centres have a predominately domestic focus, although this is changing as globalisation gradually affects all aspects of financial services.

Scotland: Together, Edinburgh and Glasgow represent the UK's second largest financial centre, and are among the ten largest European centres for banking, life insurance, pensions and investment management. Financial and related services employ 9.3 per cent of Scotland's workforce, with over 108,000 directly employed and a further 90,000 in related industries.² Output in the sector has grown by 36.5 per cent over the last five years.

Major overseas financial services players are developing a stronger presence in Edinburgh. Four banks have their headquarters or major regional offices in Scotland, including The Royal Bank of Scotland, the fifth largest bank in the world. A number of major overseas financial services providers have also established a presence in Edinburgh. Together, Scottish banks have total assets of over £360 billion and handle about 40 per cent of domestic UK corporate structured finance. Scotland is one of the world's major fund management centres, with over £300 billion under management.

Leeds: Leeds is the third largest centre outside London for financial and business services. This combined sector has nearly 100,000 employees (24 per cent of the city's employment) and provides one quarter of the city's GDP. The sector is forecast to grow even further and accounts for most of Leeds' net employment growth.

Leeds has over 30 national and international banks, many of whose northern or regional offices are established in the city (e.g. First Direct and Yorkshire Bank) and is the location for 110 insurance companies, 200 accounting firms and 150 law firms.

²Scottish Financial Enterprise, 2005.

London's competitive advantages

I.7 London benefits from an existing comparative advantage in providing internationally focused financial services. Chapter 3 describes how London's competitiveness is driven by a number of important strengths, including:

- **an economic legacy of freedom, flexibility and openness:** London's historic legacy is one of internationalism and of trade. Its financial markets provide a bridge between the timezones of Asia and America. While English has become the unquestioned global business language, clarity and certainty of English law has meant that it has also become the legal language of choice for much international commerce. British attitudes to trade and foreign ownership are founded in traditions of openness and fair play, and policies towards migration and temporary foreign workers are some of the fairest and most flexible in the world;
- **market scale and efficiency:** London's early accumulation of expertise, its specialist suppliers and a skilled labour force all reduce the cost of producing high value-added internationally focused financial services in the city, compared with other centres. London's scale creates beneficial spillovers between the different firms that locate in the city, increasing their efficiency further as more firms come to join them, because of: easy access to a large pool of skilled labour, which reduces search and training costs; the exchange of 'tacit' knowledge between firms and between individuals, which enhances market efficiency and innovation; and the existence of an existing cluster of specialist supporting business services, which provides an efficient business infrastructure;
- **a strong record of innovation:** London's international lead in the creation and trading of innovative new derivative products gives it an advantage in a global economy where businesses need ever more sophisticated risk management tools. London has also been leading the development of products for emerging markets, such as Sharia compliant services – London now has more banks supplying services under Islamic principles than any other Western financial centre;
- **world-class business services:** London is a major centre for internationally focused business services like accountancy, law and financial training. This cluster of services aid the efficiency and effectiveness of the financial sector, lowering costs and facilitating international transactions.
- **supportive public policy:** the Government is committed to maintaining a strong dialogue with the financial services sector about aspects of public policy, like tax and regulation, that affect the UK's competitiveness as a business location. The UK currently has one of the world's most highly-rated regulatory systems for financial services, and a modern approach to tax policy that seeks to balance stability with the flexibility necessary to respond to the rapid developments in the modern global marketplace; and
- **a high quality of life:** London is an attractive, dynamic and interesting place for highly-skilled internationally mobile workers to choose to live. It is one of the world's leading cultural capitals and has excellent transport links to the rest of the world.

Meeting global challenges

1.8 On any comparable basis London has many existing strengths that make it a very competitive centre for internationally focused businesses. While the globalisation of the world's economy continues apace, these comparative strengths should become more significant as international financial business continues to cluster in London. However this assessment depends on two conditions: first, that the Government's policies across the board continue to meet the needs of London's financial sector; and second, that London promotes itself and its advantages to the world with clarity and effectiveness.

1.9 It is therefore of critical importance that the Government's policies recognise the forces that underpin London's competitiveness as a business location and ensure that policy adapts in response to changing business demands and changing technology as the financial sector develops and grows. Chapter 4 outlines how the industry and the Government aim to build a new dialogue and work more effectively together to ensure that these conditions are met, and that the benefits from the unparalleled economic opportunities created by globalisation are maximised.

A new strategy for London

1.10 The Government has brought together key participants in London's financial markets business services and public authorities to join a new dialogue. As part of their commitment to help achieve London's future success, these bodies and the Government will support a single strategy to maintain London's competitiveness. This strategy will identify priorities and actions, including for promoting London around the world as a centre for financial services, and will be supported by a new high-level group representing the key interests in London's financial sector.

1.11 UK Trade & Investment will take on a new role coordinating the executive delivery of the promotional elements of this strategy, as part of wider reforms being undertaken to UK trade and inward investment promotion activities.

Conclusion

1.12 The Government recognises that public policy, and the UK's approach to promoting its economic competitiveness overseas, need to adapt to reflect the new challenges created by the rapidly changing global economy. By working together through the new high-level group, the Government and the financial services industry will ensure that Britain has the capacity to meet these challenges, maintain London's competitiveness and promote that competitiveness around the world.

2

A WORLD-LEADING FINANCIAL CENTRE

2.1 London is, on a number of important measures, the world's leading financial centre. It is unambiguously the world's largest centre for international financial services, founded around its focus on international markets and trading, whereas other major financial centres around the world primarily serve their domestic economies. London dominates key international financial markets and has more foreign banks than any other financial centre. Britain's other important financial centres, especially Edinburgh and Leeds, compliment London's international reputation and strength, creating a strong domestic financial sector in the UK. This chapter:

- outlines London's leading position as a financial centre, emphasising its dominance in key international financial markets; and
- examines the unparalleled economic opportunities that global economic integration is creating for the UK's financial services sector.

2.2 As the world's leading international financial centre, London starts from a strong position with three key strengths:

- **scale:** the size of London's markets, especially its international markets, and in particular when compared to other European or Asian centres. London can offer genuine liquidity, the cornerstone of an efficient market, and a vast pool of talented and innovative individuals in one place;
- **scope:** nowhere else has London's range of services, from investment banking to commodities to wholesale insurance markets, their unique international focus, or the mix of specialised financial and business services such as legal and accounting services that support them; and
- **internationalism:** London has a tradition of openness to foreign ownership and participation, with more foreign banks than any other financial centre, as well as attracting highly-skilled expertise from all over the world. London is also able to boast a unique set of international linkages – the gateway between Europe and global markets, historical links with emerging markets in Asia and the Middle East, a central timezone between Asia and America, the English language and a strong transatlantic relationship.

Focusing on international markets

2.3 While the success of the financial sectors in New York and Tokyo has been built largely on supplying large domestic economies, with a smaller domestic economy the success of London has increasingly depended on its global role. London has a long unbroken record of responding well to global market opportunities, building its success on a reputation for innovation and openness. In doing so, it adds significant value to the UK economy, particularly as an engine of innovation and growth and also as a source of highly-skilled employment and comparative advantage in trade.

2.4 London's importance in the world's financial system is illustrated by the critical mass of world market share that it controls in several key areas. Table 2.1, compares markets in London, New York, Tokyo, Paris and Frankfurt respectively, and shows that London is the location for 70 per cent of the global secondary bond market; over 40 per cent of the derivatives market; over 30 per cent of world foreign exchange business; over 40 per cent of cross-border equities trading; and 20 per cent of cross-border bank lending.

Table 2.1: International Financial Markets in the UK

	UK	USA	Japan	France	Germany	Others
% share						
Cross-border bank lending (March 2005)	20	9	8	8	11	44
Foreign Equities turnover (Jan-Sept 2005)	43	31	–	–	3	23
Foreign Exchange turnover (April 2004)	31	19	8	3	5	34
Derivatives turnover						
(i) exchange traded (volume of contracts, 2004)	7	31	2	4	12	44
(ii) over-the-counter (April 2004)	43	24	3	10	3	17
International bonds – secondary market (2004)	70	–	–	–	–	–
Fund management (as a source of funds, 2004)	8	45	12	5	4	26
Hedge fund assets (December 2004)	20	69	1	2	–	8

Sources: International Financial Services Ltd, Bank for International Settlements, London Stock Exchange, Bank of England, Systematics International, International Securities Market Association, World Federation of Exchanges and EuroHedge.

Banking 2.5 The UK is a major centre for commercial, investment and private banking, with the strongest international focus of any major financial centre (Table 2.2):

- even without the domestic economic weight of the US or Japan, banking deposits in London are broadly comparable to those centres, because of London's significant overseas business;
- of the 347 authorised banks located in the UK in March 2005, 264 were branches or subsidiaries of foreign banks – the largest number of foreign banks of any financial centre – and over half of UK banking sector assets are held by foreign banks¹;
- the UK was the largest source of cross-border bank lending with 20 per cent in March 2005. It was also the largest recipient of cross-border bank lending, with 23 per cent of the global total;
- London is one of the most important centres for investment banking. Around a half of European investment banking activity is conducted in London;
- private banking has been one of the fastest growing areas of the banking industry over the past decade. An important trend in recent years has been the increasing attraction of the large onshore centres, including London as well as New York, Tokyo, Singapore and Hong Kong; and
- London is home to the Committee of European Banking Supervisors.

¹ International Financial Services Ltd calculations, based on Bank of England data. November 2005.

Table 2.2: Largest Banking Centres

	Banking deposits Dec 2003 (\$trillion)	Number of banks (2004)	Branches and subsidiaries of foreign banks (2004)	Cross-border lending Mar 2005 (% share)	Cross-border borrowing Mar 2005 (% share)
Japan	4.7	2,853	74	8	4
USA	4.7	7,825	235	9	11
UK	4.4	347 ¹	264 ¹	20	23
Germany	3.1	2,591	129	11	8
France	1.2	1,011	157	8	8

Sources: International Financial Services Ltd, Bank of England, KPMG, The Banker, Bank for International Settlements, European Banking Federation, Bank of Japan, FDIC, US Federal Reserve.

¹ UK data for 2005.

Insurance and reinsurance 2.6 The UK has the third largest insurance industry in the world, behind only the US and Japan. Since 1996, the UK has increased its share of the global insurance market from 6 per cent to 9 per cent of global premiums. The UK's greatest strength in the international insurance industry is the position of the London market (including Lloyd's of London) as the leading global centre in internationally traded high exposure general insurance risks such as marine and aviation insurance and reinsurance. The London market is:

- the only insurance centre where each of the 20 largest international insurance and reinsurance companies in the world operate;
- the leading centre for direct marine insurance, with over 15 per cent of the global market in 2004; and
- the leading global centre for aviation insurance and reinsurance. In 2004, Lloyd's alone accounted for a 27 per cent share of the global market, with the remainder of the London market's share estimated at 12-15 per cent of global premia.

2.7 The London market's competitive advantage is based on the exceptionally high concentration of underwriters, brokers, and buyers within London, along with ancillary service providers such as actuaries, lawyers, accountants, claims handlers and loss adjusters. This has resulted in a network of expertise that makes the advantages of the London market difficult to replicate elsewhere. Nevertheless a number of offshore locations have emerged as rival insurance centres in recent years. Bermuda, in particular, is now a leading global reinsurance centre, despite possible capacity constraints in such a small offshore location.

Equity markets 2.8 London is the third largest equity market in the world by capitalization, with 8 per cent, just behind Tokyo (8 per cent also) and behind New York which, on the back of the US economy, has half the world total. But while these simple statistics illustrate the relative economic weight of the domestic economies in these nations, they understate significantly London's international focus and its dominance of international markets in equities:

- London is the top international trading location, with a 43 per cent share of total cross-border turnover in equities in the first nine months of 2005; and
- with 330 foreign companies listed on the main London Stock Exchange market in January 2006 (excluding AIM), London is second only to New York for foreign listings (Table 2.3).

2.9 London's Alternative Investment Market (AIM), since its creation just ten years ago, has grown rapidly to become the world's leading market for smaller quoted companies. International recognition of the flexibility and attractiveness of AIM's rules and the UK's favourable regulatory environment attracted 519 new admissions to AIM in 2005 alone. AIM has a strong and growing international focus. 16 per cent of the 1,426 companies on AIM in February 2006 were from overseas, and this proportion is growing rapidly. Between 2002 and 2005, AIM's compound average growth rate has been 22 per cent for UK companies and 64 per cent for international companies.

Table 2.3: Markets for foreign equities (Jan-Sept 2005)

	Turnover \$bn	% of global	Number of foreign companies listed
London	1,804	43	330
New York	880	21	449
Switzerland	679	16	120
Nasdaq	442	10	328
Germany	117	3	129
Others	293	7	1,269
Total	4,215	100	2,629

Source: World Federation of Exchanges.

Bond markets 2.10 As with equities, London plays a leading role in international bond markets, which account for a very significant proportion of all global capital-raising activity. International bonds, which include Eurobonds and foreign bonds, totalling \$1,016bn were issued in the first half of 2005:

- UK had the largest share of issues in 2004 with nearly a fifth of the total, (Table 2.4); and
- London is also a leading centre for trading international bonds. London is estimated to account for about 60 per cent of the primary and 70 per cent of the secondary market in Eurobonds (Table 2.1).

2.11 Although the European corporate debt market is smaller than the US market, because of the traditional reliance of European businesses' on conventional bank debt to fund investment, the UK was at the forefront of a record year for securitisation in Europe in 2004.

Table 2.4: International Bond Market

	Net issues 2004 (\$bn)	% share
UK	319	20
Germany	234	14
USA	209	13
Spain	135	8
Italy	128	8
France	97	6
Netherlands	42	3
Others	450	28
Total	1,614	100

Source: Bank for International Settlements.

Foreign exchange 2.12 The rapid growth in the volume of foreign exchange turnover over the past two decades reflects the continuing growth of international trade and expansion of global finance and investment. London has prospered from this:

- London is by far the largest global market for foreign exchange trading, with about one-third of all transactions, well ahead of the US and Japan;
- average daily turnover in traditional foreign exchange market transactions totalled \$1.9 trillion in April 2004 according to a triennial survey published by the Bank for International Settlements², of which London markets accounted for \$753bn, with an additional \$80bn traded in currency derivatives; and
- foreign-owned institutions accounted for 72 per cent of foreign exchange trading in London in 2004, emphasising the advantage that such firms see in locating business in London, rather than trying to replicate this trading capacity in their home countries, because of the scale, depth and efficiency of the London markets.

Commodity and derivative markets 2.13 Derivatives are instruments, such as options and futures contracts, which derive their value from that of an underlying security. Securitised products allow business risks – such as movements in the price of commodities or the weather – to be managed more effectively. The global derivatives market, including ‘over-the-counter’ (OTC) and exchange-traded derivatives, has grown rapidly over the last 20 years. London has a strong international record of innovation and trading in these markets, which are becoming more important as the global financial system becomes more integrated and companies’ financial management demands become more sophisticated:

- Euronext.Liffe is, overall, the world’s second largest derivative exchange, after the Chicago Mercantile Exchange, and had 31 per cent of global turnover in 2004;³
- London has reinforced its position as the world’s leading centre for OTC derivatives, with its share of total world turnover rising from 27 to 43 per cent between 1995 and 2004;
- more specifically, the UK dominates cross-border OTC derivative trading, with a share of 45 per cent in 2004; and
- estimates from the British Bankers Association suggest that London accounted for 45 per cent of the \$3.5 trillion global market in credit derivatives in 2003.⁴

Fund management 2.14 Fund management is an important component of the UK’s financial sector related, as it is, to the presence of deep and liquid capital markets and as a driver of good shareholder governance. In addition to London, Edinburgh is particularly important for the fund and private wealth management industry. Although, fund management business tends to be domestic in focus, the unique international orientation of the UK’s financial markets provides a foundation for potential future growth, and is illustrated by:

² International Financial Services Limited, November 2005.

³ Ibid.

⁴ Ibid.

- the broad range of foreign-owned investment management firms located in the UK and the significant investment from the UK in overseas securities; and
- the significant level of funds managed in the UK on behalf of overseas' clients – at least a quarter of all funds under management.⁵

2.15 London now has the fastest growing market for hedge funds in the world. Hedge fund assets managed out of London more than tripled in size between 2002 and 2005 from \$61bn to \$213bn.⁶

GLOBAL ECONOMIC OPPORTUNITIES

2.16 The world economy is growing rapidly, as well as becoming increasingly integrated and interdependent, as trade and investment flows rise. Trade flows as a proportion of global output increased from about 7 per cent in 1950 to over 22 per cent in 2004.⁷ Meanwhile the global stock of foreign direct investment (FDI) has increased from 7 per cent of global GDP in 1982 to 23 per cent in 2003. The growth and integration of world markets for goods and services, coupled with financial liberalisation, has been accompanied by faster growth and integration in the financial services sector. These trends create significant opportunities for London as an international financial centre.

2.17 *Long-term global economic challenges and opportunities for the UK*, published alongside Pre-Budget Report 2004,⁸ described the profound transformation of the global economy, driven by far-reaching and fundamental changes in technology, production, and trading patterns. This changing balance of economic activity, driven largely by new technology and the growth of emerging economies, will create new opportunities for financial services in the global economy. There are particular opportunities for London as a global financial centre, as the financial needs of businesses and investors from emerging markets grow in scale and sophistication.

Table 2.5: Growth in International Financial Markets in the UK

	1995	2004	% change
Cross-border bank lending (\$bn)	1,350	3,524	161
Foreign Equities turnover (\$m)	627	2,234	256
Foreign Exchange turnover (\$bn)	464	753	62
Derivatives turnover			
(i) exchange traded (millions of contracts, 2004)	201	587	192
(ii) over-the-counter (\$bn)	74	643	769
Fund management (source of funds, \$bn)	n/a	3,754	n/a
Hedge fund assets (\$bn)	n/a	190	n/a

Source: *International Financial Markets in the UK*, International Financial Services Ltd, November 2005.

⁵ Ibid.

⁶ Ibid.

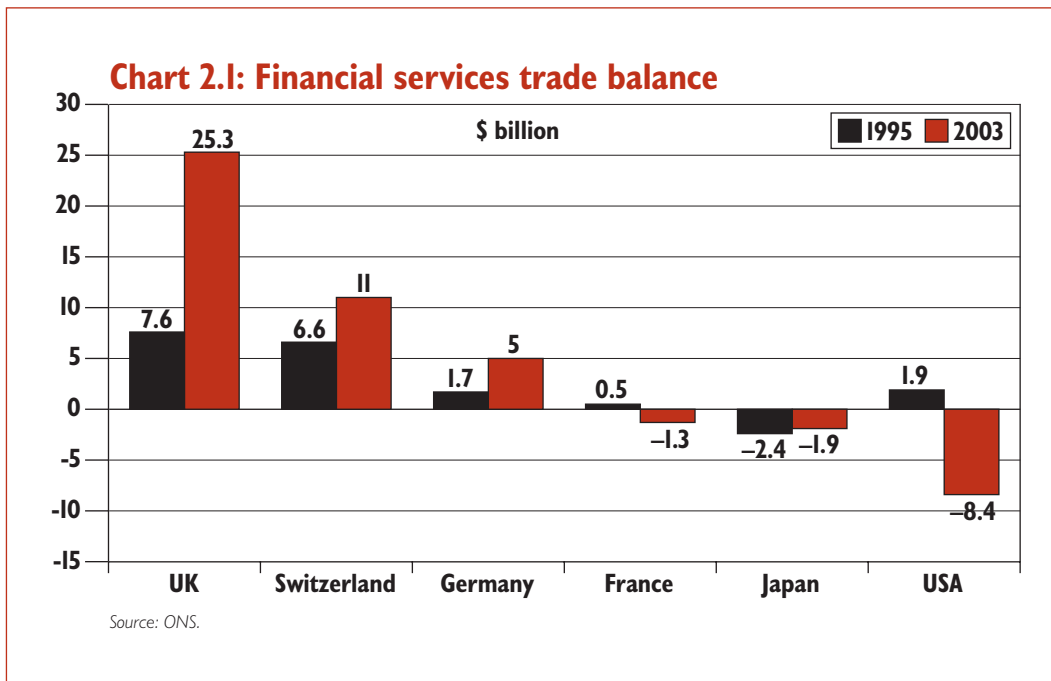
⁷ World Trade Organisation, 2005.

⁸ HM Treasury, December 2004.

2.18 The impact that globalisation is already having on the UK's financial services sector is illustrated by the significant positive growth in the export of financial services over the last ten years (Chart 2.1). There has also been strong growth in turnover on the London markets over a similar period (Table 2.5). *The UK's financial services sector: Rising to the challenge and opportunities of globalisation*⁵ described how opportunities for London-based markets and businesses are being created by a number of economic trends, which are fundamentally altering the global business environment:

- **the emergence of newly liberalised, high-growth economies:** to take advantage of the opportunities presented by the new markets of China, India and other emerging economies, global businesses need access to cross-border finance and the broad range of the international risk management services in which London markets specialise;
- **more dynamic global competition:** global businesses will increasingly need internationally-focused financial services to enhance their flexibility in response to changing demands. London markets can help businesses raise capital to facilitate their market and product development and investment plans and to facilitate increased trade flows through products such as foreign exchange, insurance and derivatives;
- **technological change and greater rewards from innovation:** new markets and greater competition create demand for new products and services, leading to a decline in the typical life-cycle of products and services. This applies to financial products as well, and London's record of innovation in wholesale markets and consumer products make it well placed to keep ahead of the game; and
- **significant demographic change:** with a potentially huge increase in demand for financial services from emerging markets, and with the changing demographic of aging populations in developed economies, the financial services sector must develop new products to help manage risks and respond to these demands in the global market.

⁵HM Treasury, March 2005.



Global challenges 2.19 Globalisation not only creates new economic opportunities, but it also challenges existing business structures because of the emergence of new markets and changing communication technologies. As described in *Globalisation and the UK – strength and opportunity to meet the economic challenge*⁶, the erosion of barriers between markets, and the increased tradability of many goods and services, is enabling the reorganisation of production and trade. Businesses in many sectors, including financial services, are becoming more mobile or more able to segment production across national boundaries. As technological development and the integration of markets continue, the balance of economic activity shifts to reflect comparative advantage, generating the potential for greater global economic growth. The UK clearly benefits from an existing comparative advantage in international financial services, and the sector stands to gain from globalisation.

2.20 This chapter has outlined London’s existing position as a leading international financial centre and the new opportunities facing it as the global economy integrates and new markets emerge. Chapter 3 describes why London has attained its position as the international location of choice for global financial businesses and why, among world cities, it is in a unique position to prosper in an increasingly integrated global economy. It outlines London’s strengths and advantages as a financial centre, which the Government and the financial services sector must build upon to ensure that the UK remains a centre for high-value added business.

⁶HM Treasury, December 2005.

3

A COMPETITIVE CENTRE FOR GLOBAL BUSINESSES

3.1 Chapter 2 showed how global economic integration and the emergence of new markets is creating new opportunities for the financial services sector. This chapter examines the reasons why London has become the leading location of choice for international financial services business, and asks whether the UK is well positioned to take advantage of the opportunities created by globalisation.

LONDON'S COMPETITIVE STRENGTHS

3.2 The international business environment is undergoing a period of rapid structural change. Global communications technology and the emergence of newly liberalised world markets have intensified competition across product and service sectors, including financial services. This globalisation of the world economy, which has the power to deliver a division of labour on a truly global scale, causes businesses to be increasingly footloose as they seek the most efficient base for their operations, and search out new markets. In this environment, where easily replicable 'commoditised' jobs will tend to shift to the lowest cost locations in emerging markets, the challenge for London is to ensure that it remains the world's most attractive and competitive environment from which to provide sophisticated and high value-added financial services to the rest of the world, retaining highly-skilled, high-value jobs in the UK.

3.3 As noted in Chapter 2, London starts from a strong position, as the world's leading international financial centre, with three key strengths:

- **scale:** London's markets have genuine liquidity, the cornerstone of an efficient market, and a large pool of talented people in one place;
- **scope:** London has an unparalleled range of internationally focused services and innovative financial products; and
- **internationalism:** Britain's tradition of openness with regard to foreign ownership and participation, and a unique set of international relationships. London is the gateway between European and global markets; it has strong historical and economic links with emerging markets in Asia and Africa; and, it has an unparalleled transatlantic relationship with the economies of North America.

3.4 These key strengths are no accident; they are founded on a set of critical economic advantages that London, and the United Kingdom as a whole, enjoy as a consequence of being at the centre of global trade for several centuries and the British traditions of international openness, economic liberalism and good governance that have resulted.

The UK's freedom, flexibility and openness

A global trading capital **3.5** Historically, London's status as a financial centre arose from Britain's position as a global economic power and its position as a centre for international trade. While other financial centres like New York and Tokyo have been built on the back of strong domestic or regional economies, London's legacy is one of internationalism and of trade. The dock lands that used to be the hub of traded commodities and manufactured goods from around the world are today the Docklands; home of firms that, as set out in Chapter 2, are responsible for the largest slice of international financial markets anywhere in the world. The advantages that London today offers as a global business location unquestionably descend from its lineage as a centre for world trade for the last three centuries.

Geography, language and flexibility **3.6** London is blessed by several coincidences of history and geography that continue to strengthen its competitiveness as a global business centre today. Geographically, its markets bridge the working-day time zones of Asia and America; an increasingly important quality in a world where a single business or supply-chain needs to be able to operate across continents with ease, and where financial markets adapt to price sensitive information twenty-four hours a day. And, of course, English has become the unquestioned language of global business.

Trade, openness and freedom **3.7** London's legacy as a global trading capital leaves a society and legal framework that are not only open to trade and international ownership, but which facilitate and promote it. British attitudes to trade and foreign ownership are founded in traditions of openness and fair play. It is perhaps no surprise that the trade and migration policies of the nation of Adam Smith and David Ricardo are based around the well-understood economic benefits of international openness and liberalism. Britain attracted more foreign direct investment in 2005 than any other economy in the world, including the United States, China or India¹.

Immigration and foreign workers **3.8** The contribution of successful immigrants was critical to London's foundation as a global financial entre (Baring, Lazard, Rothschild, Schroder and Warburg remain well-known names), and today London benefits from the continued internationalism of its workforce. As noted in Chapter 2, London has more foreign banks than any other financial centre. British policy on migration and temporary foreign workers is designed to allow flexibility for international businesses relocating employees into the UK. Its tax and migration rules are some of the most flexible and fairest in the world. For instance, the UK is benefiting from being the only large European country to have completely opened its labour market to the citizens of the new EU Member States.

Commercial law **3.9** English law, and the English courts, represent the legal framework of choice for international commerce. Global businesses that are, to an ever-greater extent, free to consume legal services anywhere in the world favour English commercial law as their legal language of choice, and London as the jurisdiction in which disputes are resolved. The clarity, international transferability and cross-border applicability of English commercial law represents the world's gold standard, and the efficiency, fairness and expertise of London's commercial courts reinforce London's strength as a global trading centre.

3.10 Not only are six of the world's ten largest international law firms headquartered in London, but the English system promotes internationalism, allowing virtually unrestricted access for foreign law firms to practise. There are over 200 foreign law firms with offices in London. The scale and sophistication of London's legal sector directly contributes to a virtuous cycle that lowers the costs to international firms of transacting business in the capital, compared to alternative centres.

Market scale and efficiency

3.11 The very existence of London's financial services 'cluster' gives it an inherent and ongoing competitive advantage over alternative financial centres for businesses searching for an international base. London's history, early accumulation of expertise, its specialist suppliers and skilled labour force all reduce the cost of producing specialised financial services, making it more efficient for businesses from other countries to conduct business in London than it would be to attempt to replicate London's financial capacity elsewhere, even where land and labour might be cheaper.

¹ UK Trade & Investment, 2006.

High value-added services 3.12 Although the conventional theory of comparative advantage suggests that the ‘centrifugal’ forces of globalisation, driven by modern communications technology and the emergence of new low-cost markets for land and labour, might push whole businesses away from locating in London over time, the reality is quite different. While easily commoditised jobs, like the back-office functions of some financial services firms, may move overseas to take advantage of low-cost labour, the scale of London’s markets also creates a ‘centripetal’ pull on the high-value added ends of business processes which, as more high-value business is attracted and the sector’s scale grows, can contribute to London’s attractiveness as a business location. While this clustering effect can create unintended negative consequences that the Government and industry must guard against, as explained in Chapter 4, greater scale will tend to strengthen the sector. Scale can create efficient spillover benefits between the different firms that locate in London and elsewhere in the UK, increasing their efficiency as more firms come to join them, through:

- **access to a pool of skilled labour:** the deep, highly-skilled labour market reduces job search costs for employers. Also, the incentive for financial sector workers in London to acquire specialised skills is greater than in other centres because the cluster improves the marketability of their skills, and reduces the risk that skills become redundant if one firm fails;
- **informal exchange of ‘tacit’ knowledge between firms and between individuals:** market information exchanged through informal linkages or via rapid job changes can accelerate innovation and change, and enhance the efficiency of London’s markets; and
- **the creation of, and dependency on, a cluster of specialised supporting business services:** firms in London can benefit from the large number of local suppliers of legal, accountancy and consultancy services who can react quickly, flexibly and competitively to the specialised demands of the businesses that they serve.

Deep, liquid capital markets 3.13 Another specific benefit from the scale of London’s markets is their liquidity, efficiency and consequential attractiveness to new issues of securities. London has some of the deepest and most liquid capital markets in the world. Despite the fact that, on the back of the domestic US economy, the size of New York’s equity market surpasses London’s, markets here still dominate international trading activity, as shown in Chapter 2. Although the New York Stock Exchange has marginally more foreign companies listed than the London Stock Exchange, the weight of trading activity favours London, which trades twice as much foreign equity as New York.

Box 3.1: The advantages of listing on London markets

International recognition of London's attractiveness as a location for issuing foreign securities is growing strongly in emerging markets. In part, the renewed focus upon London has been encouraged by developments elsewhere, and in particular the impact of Sarbanes-Oxley in the US. However this international attention also reflects the fact that London has a number of more fundamental competitive advantages:

- **issuance costs are significantly lower in London:** For example, typical costs for an initial public offering in London are 2.5 - 3.0 per cent of capital raised compared with 6-7 per cent in New York, partly linked to the competition in London's markets;
- **a gold-standard regulatory system that is significantly less burdensome:** the UK's single consolidated regulatory system compares favourably to the fragmented regulatory structures of the other centres. The flexible principles-based regulation of the UK imposes fewer costs on firms compared with a rigid rules-based approach; and
- **cross-border liquidity and expertise:** for overseas firms seeking a foreign listing, the internationalism of London's markets, and the international expertise of London's advisers and business services, is an advantage. Electronic trading in London also keeps trading costs competitive. London provides a single centre for all cross-border financial transactions that a global company may wish to conduct, enhancing business efficiency and flexibility.

As well as the main London Stock Exchange market, these features have contributed to the rapid growth of London's Alternative Investment Market (AIM) which, as outlined in Chapter 2, is becoming the world's leading market for smaller quoted companies. 16 per cent of the 1,426 companies on AIM in February 2006 were from overseas, and this proportion is growing rapidly. Between 2002 and 2005, AIM's compound average growth rate has been 22 per cent for UK companies and 64 per cent for international companies.

Specialist business services 3.14 London is a major centre of expertise in international business services. This is an important aspect of the wider financial services sector – while the financial services sector in the UK accounts for around 5.5 per cent of GDP, this rises to around 9.5 per cent when business services associated with finance are included. As with financial services, business services in London have a uniquely international focus. As well as being a major international centre for corporate legal services, as noted above, London is also a centre for internationally focused tax, accountancy and consultancy services. London also dominates the international maritime industry, and the brokerage, leasing and insurance of ships. The growing significance of global trade and investment greatly increases the demand for these types of specialist services, which are needed for international businesses to effectively and lawfully operate across national and jurisdictional boundaries. London is also a well-recognised centre for the education and training of finance specialists from around the world, with growing educational and advisory links into emerging markets.

London's critical mass 3.15 Notwithstanding the faster pace of change in the global economy, these cluster advantages will remain important for the financial services industry in the future. Because such external economies of scale make it more profitable for firms to locate near each other, successful clusters, once created, can become increasingly attractive as locations in which to set up a business. This leads to a dynamic process where international financial activity becomes entrenched in London despite the existence of lower factor costs elsewhere and falling barriers to trade. However, as outlined in Chapter 4, to take full advantage of this dynamic, the Government and industry need to work together to promote the competitive conditions that support this virtuous cycle.

Financial innovation

3.16 Innovation in financial services is likely to be a key determinant of the success of any financial centre in response to the changing global economy. London not only has deep and liquid markets in traditional tradable securities such as equities, bonds and foreign exchange, but it also has a strong track record for developing and trading innovative new products, such as derivatives. London accounts for 43 per cent of worldwide over-the-counter derivatives turnover.² In a global economy where complex cross-border transactions are increasingly common, such products will be in greater demand from companies looking for ever-more sophisticated risk management tools.

Islamic finance 3.17 The Government recognises that tax and regulation need to adapt to facilitate financial innovation. An example of this is the way in which London's financial services industry has been quick to respond to the growing demand for Sharia compliant financial products, which do not charge or earn interest. As the globalisation of the world economy creates new opportunities, London's traditionally strong ties with Islamic markets from the Middle East and Asia make it the natural international location for business from these growing economies. The Government's objective is to create a level playing field for tax and regulation that allows Sharia compliant products to be provided. Building on the success of the measures introduced in Budget 2005, and arising out of ongoing consultation with industry, the Budget 2006 announces further measures to provide fair tax treatment for Sharia compliant financial products.

3.18 As a consequence of the innovation in UK financial markets, and the support of the Government, the UK now has more banks supplying services under Islamic principles than any other Western financial centre, according to the Institute of Islamic Banking and Insurance.³

Hedge funds 3.19 The recent rapid growth in London's hedge fund market is a second example of the capacity of the financial sector in the UK for innovation in international financial markets. Although hedge funds first developed in the US where they were domestically focussed, London now has the fastest growing market for hedge funds in the world. Hedge fund assets managed in London more than tripled between 2002 and 2005 from \$61bn to \$213bn⁴.

²International Financial Services Ltd, November 2005.

³International Financial Services Ltd, December 2005.

⁴Ibid.

Private equity 3.20 A third example of innovation is the rapid growth of the UK's private equity industry over the last 20 years. London is the centre of the European private equity industry, with over 70 per cent of European private equity investment being conducted from the city. A recent detailed study of world financial markets by an American financial policy group reported that the UK is now the best place in the world for entrepreneurs to seek and raise capital.⁵

SUPPORTIVE PUBLIC POLICY

3.21 To ensure that the competitiveness of the overall business environment is not undermined, it is essential that the UK's regulatory regime for financial services, and its administration of tax and areas of business regulation, are transparent and responsive to changing business demands. Government policy needs to respond swiftly and flexibly to the development of new financial products and to the emergence of new business structures.

Taxation and regulation

Better regulation 3.22 According to industry surveys the UK's regulatory regime for financial services is one of the best in the world. A 2005 survey by Z/Yen for the Corporation of London clearly ranked London ahead of New York, Frankfurt and Paris for the quality of its regulatory environment.⁶ The Government and industry need to work together to ensure that this position is maintained.

3.23 The UK was one of the first countries to establish a unified regulatory authority, the Financial Services Authority (FSA), backed by a modern set of unified statutory powers under the Financial Services and Markets Act 2000. Many other countries have now followed the UK's model of best practise.

3.24 Under this model the FSA is responsible for finding the right balance between market confidence and consumer protection, whilst ensuring that regulation is proportionate and pays regard to the UK's international competitiveness, innovation, and competition, amongst other issues. The FSA is required to consult before issuing new regulation, including with statutory industry and consumer panels, and to conduct cost-benefit analysis.

3.25 This framework has led to the FSA establishing a world-leading system of risk-based regulation, and introducing better regulation initiatives in order to ensure that the requirements placed on business are effective and justified. The UK regime adds value to regulated firms and markets by providing regulatory confidence around the world for clients dealing with London-based firms.

3.26 The Government recognises that the UK must maintain its competitive regulatory position, including by managing the impact of new European rules, and by using a risk-based approach to reduce the burden of administering regulation. As outlined in Chapter 4, the Government is committed to strengthening its dialogue with the financial services industry about all aspects of the UK's competitiveness as a centre for financial services, including regulation. This must include maximising the UK's influence over the development of EU and international rules and standards, including accounting standards, and seeking to ensure that they are subject to the principles of better regulation.

⁵ Milken Institute, October 2005.

⁶ Corporation of London, November 2005.

Taxation 3.27 The Government recognises that it must ensure that the UK's tax regime remains competitive by continuing to provide the right balance of stability combined with the flexibility needed to respond to rapid developments in global markets.

3.28 Since 1997, the UK has reduced its main rate of corporation tax to 30 per cent, the lowest in its history. Reforms and developments in recent years have followed a principled approach of closely relating taxable profits to commercial profits, which in turn reduces compliance costs and provides a clear tax framework for innovation in financial products and services.

3.29 The UK has a strong tradition of constructive engagement between Government and business that has in turn guided and influenced the development of the tax system. The work towards the development of Real Estate Investment Trusts this year is an example of Government and industry working positively and constructively together towards achieving common objectives. As outlined in Chapter 4, it is important that this sort of constructive dialogue continues to foster a shared understanding of the emerging challenges faced both by business and by the tax system in an environment of continual change.

A modern, high-quality living and working environment

3.30 The quality of the living and working environment is a significant factor affecting the location decisions of international financial services firms. According to a 2005 survey on London's competitiveness for the Corporation of London⁷, London ranked behind Paris, almost level with New York, and well ahead of Frankfurt on quality of life measures. London is a dynamic and diverse city, and unquestionably one of the world's most creative capitals. However the Government recognises that there has been historic underinvestment in aspects of the capital's infrastructure and, to help improve quality of life, it is increasing investment in the UK's transport system and tackling a historic UK weakness by addressing longstanding imbalances in the housing market.

The future of UK transport 3.31 In recognition that investment decisions wrongly-taken can act as a break on the productivity growth and competitiveness of the UK as a business location the Government has asked Sir Rod Eddington to advise on the long-term impact of investment in transport. The study builds upon the Government's 2004 White Paper, *The Future of Transport: a Network for 2030*.⁸

3.32 The Eddington study has focused on developing a comprehensive analysis of the links between the transport system and economic growth. The study is still under way, but it is already clear that transport supports the flexibility and efficient functioning of the economy, and that it is likely to play an important role in equipping the UK to respond to the challenges and opportunities of globalisation as business structures change.

London transport 3.33 The Government recognises that areas of London's transport infrastructure have suffered from historic underinvestment. In 2000 the Government devolved significant powers to the Mayor of London and Transport for London (TfL) to manage the strategy for London's transport. The Government has provided record levels of funding to improve transport in the capital, enabling TfL to invest an unprecedented £12 billion over 5 years to deliver improvements to transport throughout the capital, including the East London Line extension; increased capacity and further extension of the Docklands Light Railway; and a new road river crossing in the Thames Gateway. Additionally, the Public Private Partnership investment in London Underground is providing improvements such as cleaner stations and improved

⁷Corporation of London, November 2005. On the reporter's quality of life index Paris scored 15.2, New York scored 14.0, London scored 13.9 and Frankfurt scored 12.0.

⁸Department for Transport, 2004.

reliability, and will result in 15 per cent increased capacity on the network by 2015. The new Dockland Light Railway extension now also provides direct transit from London City Airport to Canary Wharf in 17 minutes, and to the City in 22 minutes.

Air transport 3.34 Extensive air links to the rest of the world are essential if the capital is to be a competitive location for global business, and capacity needs to be maintained in response to growing demand driven by globalisation. In 2003 the Government published the Air Transport White Paper,⁹ which set out a clear framework for provision of new airport capacity, including support for two new runways in the South East over the next three decades, an additional runway at Stansted as soon as possible, and a new runway at Heathrow as soon as possible thereafter, providing that stringent environmental limits can be met. Land is also safeguarded for a wide-spaced second runway at Gatwick, in case it becomes clear that the conditions for development of Heathrow cannot be met.

The housing market 3.35 The Government understands the importance of ensuring a well functioning housing market across the UK – including in London and the South East – and is taking action to address the long-term lack of supply and responsiveness of housing in the UK. The Government's response to the Barker Review of housing supply, published alongside the 2005 Pre-Budget Report, set out a comprehensive package of proposals to help deliver investment in the infrastructure necessary to support housing growth, and to reform the mechanisms, particularly planning, by which new housing and infrastructure are delivered.

CONCLUSION

3.36 This chapter has described how, on any comparable basis, London has many existing strengths that make it a very competitive business centre. As the globalisation of the world's economy continues apace, these comparative strengths should, if anything, become more significant over time, as international financial business continues to cluster in London. However this assessment is dependent on two conditions: first, that the Government's policies across the board continue to meet the needs of London's financial sector; and second, that London promotes itself and its competitive advantages as a business location to the world with clarity and impact. It is of critical importance that the Government's policies recognise the forces that underpin London's competitiveness as a business location and ensure that policy adapts in response to changing business demands as the financial sector develops and grows. Chapter 4 goes on to describe how the Government and the financial and business services sectors will work together to ensure that these conditions are met.

⁹Department for Transport, 2003.

4

MEETING GLOBAL CHALLENGES IN BRITAIN'S FINANCIAL SECTOR

4.1 This paper has described the tremendous opportunities facing the financial services sector in the UK, and especially London, as a consequence of global economic growth and integration, and the strong position that London is in, as the world's leading international financial centre, to benefit from these developments. This final chapter outlines how the industry and Government can more effectively work together to ensure that the benefits from these unparalleled opportunities are maximised, for the benefit of the financial services sector, the business services sectors that support it and the wider UK economy.

MAINTAINING LONDON'S COMPETITIVENESS

4.2 London is the world's leading international financial centre, and the Government's objective is for it to be even more successful. This is a realisable objective, given the significant leads that London has in key international financial markets, and the unparalleled opportunities for London's markets in the context of global economic integration and growth.

The role of public policy **4.3** To realise this objective, industry and the Government need to work together. Given the economic significance of the sector to the UK, it is of critical importance that the Government's policies recognise the forces that determine business location decisions; that London's advantages are strengthened; and that barriers to development are identified and removed. This means continuing to improve the UK as a location for business compared to competitor countries, investing in infrastructure and skills, but also supporting factors that work towards making London a creative, dynamic and pleasant place to live. By focusing on such enabling factors, the Government can create a climate that allows London-based firms to capture the opportunities presented by an increasingly integrated global economy.

4.4 This does not mean that the Government should intervene in the market in the form of picking winners, or shielding business from globalisation through subsidies and other forms of protectionism. While London's financial sector undoubtedly generates positive externalities for the wider economy and society, the experience of failed post-war industrial policies has shown that the state is not able to identify where public support would maximise these spillover benefits without distorting efficient market outcomes.

4.5 The supportive approach of a public policy framework that neither picks winners, nor seeks to protect domestic companies from foreign competition, is one of the UK's significant international advantages as a business location. The Government will therefore continue to focus on reforms to improve the overall flexibility of the economy, which will enable all businesses to respond and succeed in the face of global economic changes.

Building on success **4.6** It is nonetheless important to recognise that a successful economic cluster can erode over time if economic policy does not recognise and adapt to the needs of the businesses within it. *Globalisation and the UK – strength and opportunity to meet the economic challenge*¹ describes how, as clusters grow, they generate certain policy challenges which, if not addressed, can lead to excessive costs to the detriment of the sector's success. Government policy recognises these risks in relation to London's financial sector, and is actively seeking to address them by:

¹ HM Treasury, 2005.

- **avoiding perverse regulatory outcomes:** a world-leading financial sector requires a world-leading regulatory environment, as noted in Chapter 3. However, the Government must be wary of avoiding unintended regulatory creep and ensure that, through constant dialogue with the sector, regulatory decisions do not generate perverse and unintended outcomes. A pertinent example comes from the US: regulatory and withholding tax measures designed to protect the US balance of payments in the 1950s and 1960s restricted financial institutions and sharply increased the cost of American financial services, leading to the relocating of activity to the more favourable regulatory environment of London and the development of the UK market's dominance in Eurobonds today;
- **keeping factor prices competitive:** while the benefits of agglomeration outlined in Chapter 3 mean that firms may be prepared to pay a premium to locate in London's financial services cluster, costs do still matter and over time increasing land rents and labour costs could drive firms to relocate certain activities. At the moment, London's labour costs are competitive compared to New York's, and the development of Canary Wharf has added significant new office space to the capital's supply. The Government, and relevant authorities, need to ensure that the availability of land and labour in the capital continues to meet business needs as demand grows;
- **maintaining a highly-skilled workforce:** access to a pool of skilled labour is important for the development of successful clusters, and firms are willing to pay a premium for specialist skills. However the labour market is a finite resource and the financial sector's continued competitiveness relies on it continuing to attract highly-skilled workers, both from within the UK and internationally. The Government will continue to invest in education and training; and
- **reducing congestion:** as more and more firms are attracted to an area, the Government recognises that the risk of congestion increases, potentially pushing-up costs and reducing business flexibility. The continued development of the City and of Canary Wharf, the Jubilee line extension and the investment in the Thames Gateway in preparation for London's hosting of the 2012 Olympic Games, underline the commitment of the Government and the Greater London Authority to invest in London's infrastructure in line with the growing demands of the capital.

4.7 It is therefore of critical importance that the Government's policies recognise the forces that underpin London's competitiveness as a business location, and adapt in response to changing business demands as the financial sector grows. London's success will also be important for the future of other financial centres in the UK, such as Edinburgh and Leeds, with which it is closely connected and which in turn contribute to the attractiveness of London.

Supporting financial services in the UK

4.8 To maximise the returns to the UK from the opportunities that global economic integration is bringing, it is also essential that the UK effectively promotes its competitive advantages to businesses and markets around the world. The wealth creating effects of trade mean that international promotion of trade and inward investment is not a zero-sum game. It is important that businesses are aware of London's advantages as an international financial centre and the potential advantages of doing business in the UK, so that efficient investment and trading decisions can be made. This is especially important in emerging markets like China, India and the Middle East, where businesses may be entering global financial markets for the first time.

4.9 The Government believes that an increasingly integrated and fast-moving world economy requires an increasingly joined-up and responsive approach to promoting Britain's financial sector to the world. In some cases this can help to correct market failures, as potential participants in London's markets fail to appreciate its relative attractiveness. The Government will therefore forge a new dialogue with financial services businesses, the business services sector and other interested authorities, and together develop a new strategy to promote the whole of the UK – and in particular London – as a leading financial centre.

A new strategy for London **4.10** **The Government has brought together key participants in London's financial markets and public authorities to develop this strategy for maintaining and promoting London's competitiveness as an international financial centre.** As part of their commitment to help achieve London's future success, these bodies and the Government will work together, recognising the opportunity that new emerging markets like China and India have to offer and the strength of international competition. **This strategy will be supported by a new high-level group representing the key interests in London's financial centre.**

4.11 One of London's strengths is the range of markets it has to offer, making it critical that the goal to make London even more successful is shared across all of these markets, including:

- listings and offerings of securities, for large and small companies;
- commercial, investment and corporate banking;
- financial derivatives, and non-financial commodities;
- insurance and reinsurance;
- asset management and global private wealth management;
- venture capital and private equity; and
- business services such as law, accountancy, IT and financial training.

4.12 UK Trade and Investment (UKTI) will take on a new role coordinating the executive delivery of the strategy, as part of wider reforms being undertaken to its trade and inward investment promotion activities.

Promoting UK competitiveness **4.13** As announced in Budget 2006, **before the summer, the Government will publish a new five-year strategy for a step-change in the Government's drive to market the strengths of the UK economy internationally.** This will have a number of themes, including a particular focus on high-growth countries of strategic importance such as India and China, and a focus on innovative and R&D intensive sectors.

4.14 The five-year strategy will form the basis of a partnership between all Government departments and agencies, Regional Development Agencies (RDAs), devolved administrations, and numerous private sector bodies active in this field, whose contribution is vital. It will embrace UKTI's twin roles of trade development and inward investment.

4.15 In order to deliver this new strategy, **UKTI will undertake a programme of organisational change, under the leadership of its new chief executive, Andrew Cahn, with the clear aim of a fundamental transformation in its effectiveness in marketing the UK.** Details of this programme will be published alongside the strategy.

4.16 The overall goal is to ensure that within UKTI there is the capability and sense of mission to deliver the Government's objective that the UK should be a location of choice for many more high value-added international businesses, including from high-growth countries of strategic importance such as India and China, with:

- an entrepreneurial culture of recognised professional marketing excellence throughout the organisation;
- more strategic use of resources internationally by redeploying savings into front-line activities; and
- a clearer role for UKTI in co-ordinating the UK's international marketing drive overall.

CONCLUSION

4.17 London is the world's leading international financial centre, and the Government's objective is for it to be even more successful. The Government recognises that public policy, and the UK's approach to promoting its economic competitiveness overseas, need to adapt to reflect the new challenges created by the rapidly changing global economy. By working together through the new high-level group, the Government and the financial services industry will ensure that Britain has the capacity to meet these challenges, maintain London's competitiveness and promote that competitiveness around the world, for the benefit of the UK's economy as a whole.

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