BUCHAREST UNIVERSITY OF ECONOMIC STUDIES
DEPARTMENT OF INTERNATIONAL BUSINESS AND ECONOMICS

CCREI WORKING PAPERS SERIES

No 8/2017 September

City of London- A Financial Services Cluster Analysis

Cristina PORUMBOIU
Cristina-Elena BĂLĂCEANU
Monica DOBRESCU
Alexander CUTUCA

ISSN 2285-2700
ISSN-L 2285-2700

EDITURA ASE

CCREI WORKING PAPERS SERIES

No. 8/2017 September

Case studies in international business

Department of International Economics and Business
Bucharest University of Economic Studies
Piața Romană 6, 010374, București, România

Cristina PORUMBOIU
cristina.porumboiu@yahoo.com

Cristina-Elena BĂLĂCEANU

Monica DOBRESCU

Alexander CUTUCA

Academia de Studii Economice București

Facultatea de Economie și Afaceri Internaționale

Master of International Business (2016-17)

septembrie 2017

Online at http://www.cercetare.rei.ase.ro/despre

CCREI WORKING PAPERS SERIES No. 8, posted September 2017

Abstract

The United Kingdom, important commercial and economic power starting from the early times, is the place where the financial services were developed. Nowadays, the City of London is one of the leading financial clusters, especially for the *over-the-counter transactions*. The underlying factors that led this financial cluster to become one of the most important financial centres in the world are strongly correlated with the country's economy and its political power starting with the early 19th century. Its dominance as a global financial centre is reflected by its large concentration of financial services expertise and a highly trained, multilingual workforce. Considering the latest events from the United Kingdom, the current situation of *Brexit* will definitely have an impact on its global position, and through an analysis of rising issues some recommendations can be delivered with respect to the this situation: threat or opportunity for the City of London.

Keywords: finance, services, cluster Brexit, City, competitiveness

Content

Economic history

The United Kingdom has been throughout history an important economic center, with strong commercial ties with the rest of Europe and later on, with the entire world. The beginning of the ascent of the UK as a sovereign entity on the world's political stage in the position of world economic leader can be traced back to 1707 when the kingdoms of England and Scotland joined to form the kingdom of Great Britain. British historian Simon Schama describes best this turning point in world's history as : *"What began as a hostile merger would end in a full partnership in the most powerful going concern in the world... it was one of the most astonishing transformations in European history"* (Schama, S., 2001).

The economic development of the United Kingdom as an international commercial superpower can be traced back to the 18th century and the end of the seven-year war which began in 1756 and ended with the Treaty of Paris in 1763. By defeating France in this conflict, the United Kingdom became basically the dominant colonial power in that time, ushering a period of great financial and political prosperity for the kingdom.

The Gold Standard regime was one significant period in the economic evolution of the Great Britain, especially for its financial power considering the sterling's dominant role at the centre of the world financial scene considerably facilitating the workings of the existing monetary system, before the World War I. Even after the war, when the powerful economies tried to restore the gold standard, the pound was still strong against the dollar, but the economic context not impeded the switch in financial services from London to New York. As London's position as the financial centre of the industrial world became weaker, the US increased its power in this sector, even if it was ill-equipped to assume the dominant role that Britain had played in the management of the international financial system.

Through technological advances that led to the industrial revolution, very powerful navy (both commercial and military – the royal navy) and the drive of *mercantilism*, Britain was able to create a trade empire by which goods and capital flowed freely towards the empire's capital, London.

British economy

Being one of the strongest economies in the world, ranked 5th by nominal gross domestic product, the British economy is focusing its development in the 21st century around key industries, such as manufacturing, exploiting natural resources (oil and natural gas) and the financial service industry.

Economic development is centred on the service and the financial sector that account roughly to about 78% of the GDP. In particular, the financial services constitute around one-twelfth of the GDP, employing at the end of the 20th century more than one million people. (Kellner P., 2016).

Related to the development of financial services, a key point to be highlighted is that the United Kingdom ranks third in the world by stocks of inward foreign direct investment as well as forth outward foreign direct investment (CIA, 2016). The high flow of FDI both inward and outward, coupled with a rich colonial heritage made London the top financial center in the world in 2015. (City A.M., 2015)

In terms of **industry structure**, the United Kingdom economy is structured around the following sectors: agriculture, forestry, fishing, resources and power, manufacturing and finance. The influence of the first three sectors has gradually declined in recent years, whilst manufacturing and especially finance have come to dominate the British economy, with the financial and service sector contributing around 3 quarters of the GDP.

Agriculture employs only 2% of the population, and it is likely that this figure will decrease in the future due to advances in technology and mechanization agriculture. Regarding *forestry*, about one tenth of the country's land area is covered with forests, but economic development in this sector is limited. The *fishing* industry has also seen a sharp decline in recent years, undermining the United Kingdom's position as a one of Europe's leading fishing countries. This outcome can be attributed to national regulations that limit the area of fishing to 370 km offshore and to the fact that a significant part of the area that is fished also by other EU members lies within British waters.

In the *energy* sector, the UK has seen a sharp development after discovery of oil in the North Sea, with quantities brought ashore growing each year, thus making Britain independent from this point of view. In 2010, the UK was reported to have around 3.1 billion barrels of proven crude oil reserves, the largest in the EU. (Country Analysis Briefs, 2010)

In what concerns its external trade, according to the Economic Complexity Index (ECI) the UK is the 9th largest export economy in the world and the 11th most complex economy. The figures show that in 2014, the United Kingdom exported $472 billion and imported $663 billion, which resulted in a negative trade balance of $191 billion.

Macro competitiveness

The United Kingdom is a densely populated country, having a **population** greater than 64 million people, according to Eurostat. Every year, young people decide to come in the UK for studies or for high qualified jobs. Despite of their ethnicity or religion, they become involved in the economic activities of the country. In the case of young people migrating to the United Kingdom for their studies, the employment rate varies, depending on the country of origin or gender.

According to the Financial Times analysis, the numbers of employees registered an increasing trend, counting around 32 million of employees in 2016, decreasing the national unemployment rate for adult workforce. Regarding the country's **politics**, three powers are in charge with the country's representation and decision-making: *the legislative power* (the Parliament, formed of the House of Lords and the House of Commons), *the executive power* (the government) and *the judicial power* (the Supreme Court), plus the Queen, the head of the country.

The most important competitive pillars of the United Kingdom, according to the Global Competitiveness Report 2016, are the technological readiness, the health and primary education systems, its infrastructure and its market size **(Exhibit 1)**. All these improvements made in the economic infrastructure let the country to be considered the 10th country in the world, out of 140 in 2015.

According to the World Economic Forum Report, the United Kingdom performs the worst on the **macroeconomic environment** factor. The country obtained a low score because of its high *budget deficit* and its government debt. In terms of *business sophistication*, the country also obtained a lower score than the other pillows. This pillow can be seen as the country's overall business networks. These low values can be explained through the difficulty of companies to obtain financing from banks. It can observe that the country improved its services sector, improving its judicial system as well. Due to the very good universities the country has, as well as the students from abroad who come to study at these universities, the United Kingdom has an efficient *educational system* and well-educated workforce, leading to a great level of labour market efficiency. The same it can be stated about the degree of *technological readiness*, due to the country's openness to new technologies. The health and primary educations systems have developed due to the government's' great investments in these sectors.

Taking into account the information presented above, it is needed more focus on improving the country's macroeconomic environment, decreasing the government deficit, as well as the country's debt. The *exports* accounted for 17.3% of the country's economic output. According to the article published in *The Times*, in 2014, most of the exports went to the European Union, followed by Asia and North America. The United Kingdom imports products and services from countries such as China or the United States.

In terms of **macroeconomic indicators**, since 2008, the national debt started to grow quickly. However, starting with 2017, the debt is expected to fall in the following years, as some analysts assert. The quick growth of the *national debt* can have negative consequences on the overall economic performance of the country, with negative impact on governmental funds provided to industries. In 2016, Moody's credit rating for the United Kingdom was set at Aa1, with a negative outlook, the UK being therefore downgraded, compared to the previous results, meaning that *the country has a low credit risk on long and short term*.

Micro competitiveness

The country's competitiveness at the microeconomic level is analysed through the Diamond Analysis. The existing conditions for the competition, demand, factors and supporting industries highlight the country's potential for supporting its clusters, and especially the financial services cluster.

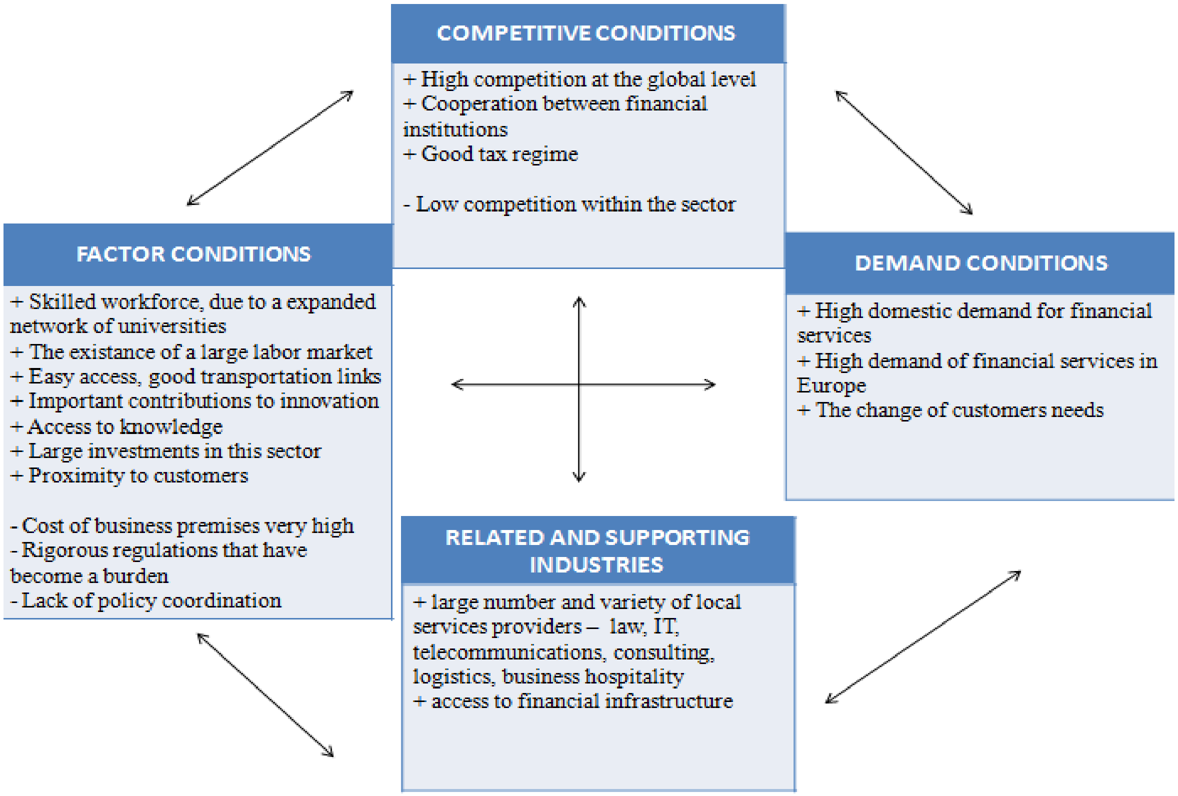


Fig. 1: Diamond Analysis
Source: Team Analysis

a) Factor conditions

One of the most important factor conditions which sustains the growth of the financial sector within the United Kingdom is represented by the existence of a large **skilled workforce**, either domestic or international, as a positive effect of the existing vast network of universities within Great Britain, specialised in financial industry. The access to knowledge is encouraged by top universities and elite academic institutions, such as London Business School, Oxford and Cambridge Universities, as well as London School of Economics and Political Science.

The second factor that has helped the financial sector develop throughout the years is represented by the numerous **foreign investments**, most of them from the United States and Asian countries, according to The Implications of Global Capital Flows on the London Office Market Report. The United Kingdom is seen as a good country to invest in, because it can get companies easy access to the European market. Also, the country is an accessible export platform for companies' products.

The proximity to customers represents a benefit of the London financial center, as the United Kingdom is located close to developed countries, such as France, Norway, Sweden, Denmark, Germany, and to a diversity of developed economic centers as well. This proximity to other financial centers led to cooperation between competitors and other financial institutions and through this, access to knowledge was encouraged and there were made important contributions to innovation.

The British **transportation** system, especially airport and roads network, improved the communication between the British and European financial centers. Only in London there are 4 airports that facilitate this communication. The relationship between different institutions and companies sustain the financial cluster.

On the other side, the **cost of premises is very high** in the City of London, because of the great amounts of both domestic and international money invested in this area, favouring the expansion of the financial cluster and the economic development of the country as well. Also, as England is developed from an economic point of view, the cost of premises has gone up especially in large cities. This can be seen as a disadvantage of opening new business and can be considered a barrier of entry in the British financial industry.

Although Britain can be seen as possessing a favourable position in terms of transparent legal framework, the current **policies** need to be more consistent because the rules and regulations of the European Union have a big impact on the City of London cluster. The continuous changing regulations could be understood as instability within this sector.

b) Competitive conditions

The British financial system is characterized by **low competition between firms** acting within it and this fact can lead to uninformed customers which can have high prices when switching from one company to another.

At the international level, the British financial center **competes** with key financial centres throughout the world, such as New York, Hong-Kong, Singapore and Tokyo, being the world's leading financial centre, according to the Global Financial Centres Index 20 Report (**Exhibit 2 and Exhibit 3**).

London is the world leader in over-the-counter (OTC) interest rate derivatives (39%), foreign exchange turnover (37%), marine insurance net premium income (29%), cross-border bank lending (16%) while its nearest rival, ***New York***, enjoys a huge advantage in hedge funds assets (66%) and private equity – investment value (58%) (**Exhibit 6**). Moreover, New York is a strong competitor for London in the financial domain as more as it hosts Wall Street, the most happening stock market place and New York Stock Exchange (NYSE), the largest stock exchange by market capitalization and also because of some of the largest and finest companies (Fortune 500 and Fortune 1000), biggest banks (Goldman Sachs, Morgan Stanley and Merrill Lynch, JP Morgan) and industries (New York's Future as the World Financial Capital, 2015).

Its third competitor, ***Hong Kong*** is characterized by the highest concentration of banking institutions in the world (71 international banks out of the largest 100), mostly due to its strategic geographical location. Also, it has a very strong presence of fund management companies. The efficient and transparent judicial and legal system, excellent infrastructure and telecommunication services and the favourable tax system (very few and low tax rates) it has, adds to its attractiveness (Hong Kong As a Financial Hub, Hong Kong – the world's freest economy, 2009).

Singapore, despite the disadvantages of limited land and resources, has emerged as one of the Four Asian Tigers and established itself as a major financial center, hosting over 200 banks. It has deep and liquid capital markets and moreover, it is recognized as a premier insurance and wealth management market-place. From a business perspective, its attractiveness lies in its transparent and sound legal framework complementing its economic and political stability (Singapore Financial Centre Overview, 2016).

The last but not the least, ***Tokyo,*** as one of the major financial centers in the world, is the headquarter of many of the world's largest investment banks and insurance companies. It is also the hub for the country's telecommunications, electronic, broadcasting and publishing industries. By combining the Tokyo Stock Exchange (TSE)

Group and the Osaka Securities Exchange, the Japan Exchange Group (JPX) was established, with more than 2200 listed companies (Report of the Council for Tokyo Global Financial Center Promotional Activities Shaxson, 2015).

Cooperation between different financial institutions is widely spread, as this can help institutions face challenges on the financial market. This cooperation can be seen on payments level, in case clients need to transfer money between multiple institutions, as well as in case of risks sharing between institutions. Also, they can cooperate on different initiatives that lead to the development of the financial sector, because financial institutions can also gain from positive changes in the industry. Therefore, synergies are created at the industry level.

The City of London is known to have **permissive regulations and taxes**, encouraging the creation of new companies and encouraging companies to develop their activities there. Also, special rules were created for the City of London, which now acts as a public authority, being able to have preferential rules.

c) Demand conditions

At the **global** level, there is a significant **demand** for the financial services offered by the City of London, as the values of financial services exports show. The highest demand comes from the European Union, where London exported in 2013 around 41% of its financial services, according to the World Trade Organization. Concerning the high demand from the European Union, probably the withdrawal of the United Kingdom will negatively influence this export destination. (**Exhibit 4)**

Looking at the **domestic demand** for financial related services, this has always been a constant in the city of London. In the recent years this has witnessed an upward spiral, as a significant number of companies from various fields ranging from IT to manufacturing and pharmaceutical industry set their headquarters in London, increasing the demand for financial services.

Today, **customer needs** are constantly changing and companies need to be one step ahead of their clients, in order to anticipate their needs. This way, financial services supplies can have a competitive advantage over their competitors. Looking at the trend customer needs have changed during the last years, it can be assessed that current financial services customers are looking for:

- Responsive customer service;
- Having constant access to information, using either applications or online services;
- Services adapted to their needs.

In order to meet these needs, financial services suppliers have to maintain a constant contact with their clients, through surveys, to find out how they can improve their services. Also, companies should invest in technology, to provide their clients ways of obtaining the information they need, using either their laptops or mobile phones, and focus on improving their customer service departments.

d) Related and supporting industries

As stated previously, the City of London is home to a large number of companies active in the service sector, with the most notable ones in telecommunications, law, IT, consulting, business hospitality, commercial and residential real estate, logistics and financial media. It is estimated that only the financial services sector employs around 315.200 people within the city of London. (UNCSBRP, 2016)

The **business-friendly environment, highly skilled workforce, competitive tax regime and global links** have persuaded multinational companies to establish their European Headquarters in the London, making this city lead the charts in front of other European cities as the number one host for HQ in Europe. Statistics show that 40% of the largest 250 companies, which were either European or had a European headquarter, were based in London, compared to the 8% in Paris and 3% in Madrid. London leads also the statistics for non-European companies as in the top 250, where 60% of them had chosen London over the other European capitals. (Financial Times, 2016)

The Financial Times study published by the audit company Deloitte highlighted the fact that London employed 46% of the five biggest European cities combined total of high-skilled workers, whereas New York employed 31% of the North American equivalents. (Financial Times, 2016)

Apart from banking activities and insurance, London is also a center for foreign exchange and bond trading. The foreign exchange market has a daily global turnover of about 2.5 trillion GPB.(UNCSBRP,2016)

A key point to be noted, which is characteristic for the city of London, is the **ease of access to financial infrastructure**. Some of the largest financial institutions in the world have their HQ in London, out of which the most notable are:

- Bank of England (Established in 1694 is the second oldest central bank in the world);
- London Stock Exchange (Established in 1801, has today a market capitalization of almost $4 trillion);
- London Bullion Market (The average daily turnover is about 18.3 million ounces of gold and 107.6 million ounces of silver);
- Lloyd's of London (Has revenues of about £43.5 billion);
- HSBC;
- Barclays (Has revenues of about £31 billion);
- Standard Chartered (has revenue of over more than £9.8 billion) (UNCSBRP, 2016).

The global financial services market

The financial services industry has experienced a notable change in the last two to three decades, due to the information technology revolution, globalisation and the rapid growth in the Asian economies, particularly China. (Cooper, 2011)

The City of London faces diverse competitors throughout the world. While some of them are top performers in their industry and are supported by strong domestic markets, such as New York, other financial centres are emerging and constantly changing, while some are considered to have rather poor ratings and are not considered threats. In the last decade, financial centres face more competition than has ever had before. In Europe, cities such as Amsterdam, Madrid and Milan started to develop as financial centres. Asia has also encountered an expansion in financial centres, in Shanghai and Tokyo that can emerge as future financial global centres.

While some financial centres such as London, New York or Vancouver connect world financial participants, attracting funds more easily and being prone to further development while smaller financial centres connect only regional ones. For example, Hong Kong is strongly linked with two of the most important financial centres in the world, New York and London. The factors that influence financial centres' position worldwide are diverse, among which it is important to mention the human factor, along with the knowledge factor, the political factor (which comprises tax regimes, corruption levels and business environment), as well as market access to capital. In terms of business environment, Hong Kong, Singapore and Luxembourg are the top three financial centres performers. Comparing the tax rates, the top preferred financial centres are the following: Zurich, Geneva, Dublin and Singapore.

The number of financial centres seeking international business uptrend, as more as new Asian centres such as Singapore and Hong Kong has evolved into well-developed regional hubs whose centres have used London as a model and are based firmly on UK practices and principles (TheCityUK, 2016). As Asian centres continue to grow rapidly, the historic established centres need to work hard to maintain their strong position both in terms of adapting to the new challenges and also maximising their existing strengths. (Mori, 2011) Despite those competitors, London holds its position as stable financial center, being low influenced by the changes in the instrumental factors and a low variance of assessments.

In the context of **Brexit**, the City of London may encounter several challenges in its efforts of maintaining its leading position. Thus, the Financial Technology Sector, or *FinTech*[1], is seen as one of the answers to these possible future issues, as it could increase the customer satisfaction in financial services. (TheCityUK, 2016)

History of the financial services cluster City of London

London, situated near the mouth of the River Thames, has been a ***trading hub*** since its founding by the Romans in 43 AD and over the next 1500 years, London has solidified its place as one of the most prominent trade and business centers. The City's rise to global dominance was achieved as effect of Britain's emergence as a great power in both economic and political terms.

To refer to the British financial industry, terms as "The City", "The Corporation", or "the Square Mile", are most widely understood today. Unlike any corporation or municipality, the origins of the City are totally unknown as there is no single document or paper trail creating the Corporation. "*The corporation emerged from a 'missed time' and there is no direct evidence of it coming into existence. There is no charter that constituted the corporation as a corporate body*" (Shaxson, 2011).

Nevertheless, it is said that due to the expanding of Britain's seaborne trade during the Elizabethan era, Royal Exchange and the Bank of England were established as a **meeting place for merchants and brokers**, which has been known since then as "the City" (Kynaston, 1994).

In the eighteenth century, the City became **the focal point of global trade** between Europe, Asia and the Americas and by 1900 London was the home to many of the world's markets including the Baltic Exchange and the Metal Exchange (Jones and Kernstine, 2005).

On the period of World War I and II, as the UK and Europe were preoccupied by reconstruction and the repayment of war debt, London's importance as an international financial center had reduced dramatically as it seemed that London's days as a global financial center were coming to a close.

[1] Financial Technology, or FinTech, represents the intersection of innovative technology and financial services.

The 1950s proved an important innovation for the City as the rise of the **Eurodollar market** and UK's relatively light regulations determined an exponential grew of foreign currency trading (Jones and Kernstine, 2005).

When the London Stock Exchange became the first major European market to be deregulated in 1986, large American banks such as Citibank, Chase Manhattan, and Shearson Lehman moved in. In 1998 the City's regulators were unified into the Financial Services Authority (FSA), but regulation has remained light, especially in contrast to the United States.

Despite significant job losses during the 2008 financial crisis, London remains the **leading financial center in the world** for the moment, as the UK Brexit referendum result is not reflected in the Global Financial Centres Index 20.[2]

[2] GFCI 20 was calculated based on data collected up to the end of June 2016 – a few days after the referendum result on 24 June. Looking ahead to GFCI 21, assessments given to London in July and August are significantly down from previous levels. GFCI 21 may show some significant changes (http://www.zyen.info/gfci/)

Fig. 2. - City of London Timeline
Source: Team Analysis, based on the information provided on: cityoflondon.gov.uk

Cluster's structure and specialisation

The co-location of the various entities that form the financial services cluster in London has been essential to its strong performance.

In terms of **structure**, if the old City of London was characterised by "networks of similarly located smaller firms", now its structure and management have changed in "huge office towers and thousands of employees" (Clark, 2002), becoming a densely clustered business district, comprising 17.980 businesses (ONS Business Activity, 2015) across 1 384 office addresses (**Exhibit 5**).

Nowadays, The City has the highest density of jobs and firms in London: 98.6% SMEs (<250 employees), the 225 large businesses (half of the jobs overall) and approximately three quarters of the financial services jobs. (The City of London Corporation, 2016)

The Financial Services cluster has registered in 2015, 2 230 firms and 87 000 employees producing £9.7 billion GVA output in 2012.[3] (The City of London Corporation, 2015)

The fundamental financial activities of the City of London are supported by vast array of other industries such as accounting, actuarial, legal, management consulting, computing and software development, advertising and market research, recruitment, education, financial publishing. (Taylor/Cook, 2003)

The United Kingdom is ranked on the first positions in the world regarding Foreign Direct Investments, both as a recipient as well as an outsourcer of financial capital and the City of London, as a financial hub hosts branches of 251 foreign banks and has 588 overseas companies quoted on markets in this city. (City of London, 2016)

The central component of any cluster is its **specialisation**, and for The City of London cluster it is broad due to its wholesale financial services. As it has provided access to its markets and expertise for overseas companies, The City of London has acted as a template for many developing centres, especially for Singapore and Hong Kong whose practices and principles are based firmly on its model. (TheCityUK, 2016)

[3] Financial Services and Insurance Services have been considered in the research as distinct clusters

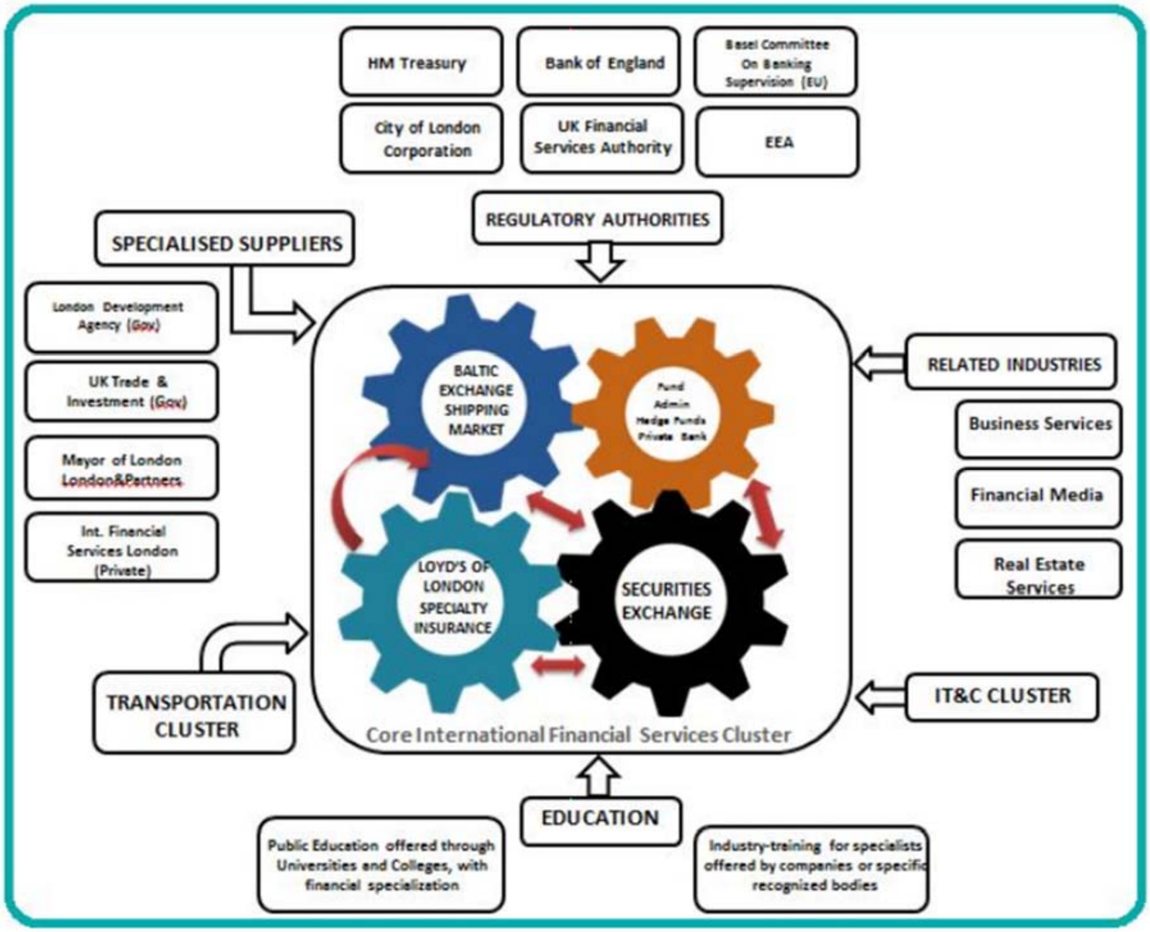


Fig.3: City of London Financial Services Cluster Map
Source: Team Analysis

London is a leading global FRPS[4] cluster due to its network of interconnected businesses, suppliers, and associates. This "cluster effect" – which encompasses the full range of FRPS – provides the UK's FRPS businesses with better efficiencies, productivity, access to talent, and more rapid innovation than other international locations. (The City of London, 2016)

Its dominance in wholesale capital markets and its prominence as a truly global financial centre is reflected by its large concentration of financial services expertise and a highly trained, multilingual workforce. (TheCityUK, 2016)

London excels in over-the-counter (OTC) interest rate derivatives (39%), foreign exchange turnover (37%), marine insurance net premium income (29%), cross-border bank lending (16%). (**Exhibit 6**)

City of London offers a stable environment for capital investments, no matter the transactions' type, associated with developed technology and innovation. As mentioned before, there are a series of transactions in which this cluster excels compared with its competitors, but what make a difference in delivering high quality of financial services are factors such as information and skilled labour force.

[4] FRPS = financial and related professional services

The key factors which underpin London's status as a specialised international financial centre are, as follows:

- people (skilled and diversified labour force);
- business environment (facilitates new products and ideas);
- market access (easy access to markets internationally for both trade and investment);
- general competitiveness (over 1,400 financial services firms in the UK that are majority foreign-owned, from around 80 countries);
- asset & wealth management (soft infrastructure, including market infrastructure, the exchanges, data management, telecommunications, and security, and hard infrastructure relating to connectivity, transport and accommodation);
- government & regulatory (fair, transparent, proportionate and consistent);
- professional services (high quality professional and support services).

Cluster's competitiveness

Despite its specialisation, the City of London cluster is interesting as well as other clusters of services, mostly because of the services' characteristics of intangibility, perishability and inseparability. These features imply an extensive producer-consumer relationship, often built on trust generated through frequent face-to-face contact and underlie many of the demand-side benefits of financial services clustering.

For the case of this analysis, considering that the financial services are intangible, their quality is not associated with a physical product, instead it is associated with the reputation of the firm's location.

Four features characterize the cluster of the financial services established in the City of London, as follows:

- **The supply of skilled labour** interested in developing a successful career path in the City, engine of financial cluster dynamism;
- **Personal relationships between firms, clients, suppliers, professional bodies, the state and financial regulators**-close geographic proximity assure dynamism in cluster too because of the city's compactness and greater density of interaction
- **Relationships between skilled labour, customers and suppliers -** achievement of innovative solutions to business transactions and design within the cluster.
- **Co-location and competition within the cluster** -development of new markets and more efficient ways to deliver services and products to clients.

Cluster's attractiveness

What makes the City of London an attractive cluster in the industry of the financial services are the following components:

- **Talent Management**

The United Kingdom is one of the most wanted country in terms of working environment both for students, for fresh graduates and for adults. Some of the universities ranked as the best at the international level offer to national labour market very good specialists, with the necessary set of skills for the industry of study. A pool of talented with relevant skills is a highly important which contributes to the ability of firms to innovate in the City of London.

What is remarkable about the labour supply in this country, and especially for the City of London is the prestige of working and developing a career path in this area. Workers are attracted by the possibility of being employed by important financial institutions or other related companies from the supporting industries. Nevertheless, the mobility between companies and sectors of activity is encouraged by the size of the labour market in London.

- **Research & Development and Innovation Attractiveness**

Budget allocation for expenditure on research and development represents 1.68% of UK Gross Domestic Product in 2015, according to the British National Statistics. Fiscal treatment gives incentives for investments in innovation in the United Kingdom, and the City of London attracts through its structure most of these effects. Moreover, though special credits accorded for research activities, the state encourage the development of the country in general, and in particular the clusters in which they are invested.

- **Environmental Conditions**

Doing business[5] in the United Kingdom is easy compared with the other developed economies, ranking the 7th place in the latest report offered, for 2016. According to this report, the taxation system is favourable for big and small companies. The business environment is strongly supported through a simplified tax system, the most competitive in the G20 countries. Incentives in taxation attract international companies and through competitiveness, innovation.

- **Educational Resources**

According to the QS World University Rankings by Subject 2016, in the United Kingdom there are 34 universities ranked in top 100 World Economic Universities, from which the London School of Economics, University of Oxford and University of Cambridge are in top 10. Each year students from abroad choose to study in the United Kingdom because of the quality of the educational process and for the universities' prestige.

The educational system is a critical supporting industry for the economy of the United Kingdom, especially for the quality of skills developed for people. Training and other courses are strongly encouraged by the state, even for the international students through grants offered for studies. Educational expenditure represented 4.4% of GDP in 2015, counting £83.4 billion according to the British National Statistics.

Emphasizing the importance of supporting activities for the financial system of London, the concentration of universities and colleges in this area is in fact an educational hub, with an important international structure. The closeness with the business environment is fruitful in City of London, from both parts: on one hand, the companies hire very skilled students and fresh graduates, on the other hand the educational outcomes fit with the business environment.

[5] *Doing Business 2016-Equal opportunity for all*, The World Bank

Future perspectives

What make the City of London cluster to be in continuous development are factors such as large skilled workforce, numerous foreign investments and a transparent legal framework. Compared to its competitors, London ranks first as a global international financial services centre, as the City's history shows its success in trading activities. As it provided access to its markets firstly, and then expertise for overseas companies, the City of London has acted as a template for many developing centres, since rudimentary exchanges.

London's leadership position in international financial services is not guaranteed, as more as Brexit will definitely have an impact on it. In order to diminish the negative impact of Brexit, the United Kingdom should focus on harmonising tax rules internationally, as well as improve its policy coordination. The City of London cluster represents an important economic entity in the development of the country, therefore it is important to focus on its strengths, to diminish the possible negative impact of Brexit. The attractiveness of the cluster gathered economic agents throughout the world, bringing multiple resources which led to the development of the cluster, making it one of the most important financial clusters in the world.

Despite its low sensitivity to changes in the instrumental factors and low variance of assessments, proves of cluster's stability, the political and social situation of the United Kingdom strongly influence the cluster's attractiveness and competitiveness, and especially, its leading position.

The uncertainty and increased political risk in Europe boost several potential risks. In the case of a less favourable arrangement of UK with the EU than expected by market, a sharp depreciation of the pound against the dollar could be possible in 2017. Moreover, if there will be a faster downturn than expected in activity, new monetary easing measures would not be excluded, but they would influence country's attractiveness.

A price correction in the property market could be led by a crisis of confidence, as in financial markets, the volatility could prevail. The sector is indeed showing poor performance and the risk of transfer to the banking sector is to be monitored because of the high number of SMEs with property as collateral.

Nevertheless, the greatest issues in the context of the Brexit is about the perception of the foreign customers and future investors, especially from the countries belonging to the European Union. Most investors tend to adopt the "wait-and-see" attitude. Thus, the private investment is not expected to contribute significantly to growth this year. (COFACE, 2017)

Considering the fact that the largest exports of financial services have as destination the European Union, the volume of transactions could be diminished based on the future regulations, new terms and conditions and entry barriers. The other importing countries could have a lower level of trust in the English business environment overall because of the UK withdrawal from the European Union.

Because of the European citizenship, the Brexit rises the following issue regarding one of the cluster's advantages: the high skilled employees pool could be smaller because of the education and working conditions, probably, after 2019. The grants offered for studies could not be available and accessible to the foreign smart youngers. Also, the working requirements will be more drastic - for instance Romanian and Bulgarian people before 2007 had difficulties to enter in the British labour market, because of requiring conditions, no matter their professional or educational background.

The dynamism of the City of London in terms of specialists will suffer significant changes. According to the chief executive of the London Stock Exchange, Xavier Rolet, Brexit poses a risk to the global financial system and could cost the City of London up to 230,000 jobs if the Government fails to provide a clear plan for post-Brexit operations.

Customers and clients from across the UK, the EU and beyond benefit from the UK's capital markets enabling investment in infrastructure and technology, as well as from its world-class advice and from its investment in business growth plans. The UK-based financial and related professional services industry brings significant benefits to the millions of corporations and households it serves globally.

By leaving the EU's single market, the British financial and banking services may not be as competitive as they are within it today, as the compliance and administrative costs will increase markedly with the loss of passporting rights. According to PwC provisions[6], it is estimated that the value of financial services to the UK's economy will decline by roughly 6-10% by 2020 (approximately £7-12 billion), with some significant corresponding loss of employment.

On the other hand, the Brexit could mean for City of London an opportunity of strengthening its global competitive position, by joining new networks of trade and investment agreements.

To retain its status as the leading global financial centre, the UK needs continued access to the best talent: home-grown, from across the EU and from the rest of the world. This is also critical to the UK's future strength as a successful exporter and provider of low cost capital to Europe.

Looking at the macroeconomic measures taken by the country to sustain its economy, it can be observed that in the future, the country needs to focus on its strengths, trying to improve its non-performing aspects, as more as Brexit has some implications which cannot be ignored. It is in the economic interests of the UK and the EU to continue to provide and have access to the widest possible range of financial and related professional products and services without the need to establish a commercial presence in both markets. The City of London has to develop a complex strategy which could bring closer the corporate, national and international interests by team up a diversified group of specialists.

Taking into account Brexit, the biggest drawback that the United Kingdom could encounter is the limited access to the Single Market of financial centres. The financial services market could encounter losses because of this, leading to the City of London losing its position as one of the main–financial centres. Therefore, other European financial centres would intensify their activities, while the City of London would struggle to maintain its actual clients. The question still remains if the country can establish certain transition arrangements with the EU representatives, that can help maintain the actual position of the City of London cluster. Considering this, the situation can be seen as an opportunity for EU financial centres to develop, as they will attract a part of the financial players that are now located in the City of London. The problems that City of London will face along with Brexit, are not only financial, but also human, as the UK will lose access to skills and knowledge that now benefits from, along with losing a stable legal system.

If Brexit seen as a threat or an opportunity for the City of London, in order for the United Kingdom to take advantage of this, it needs to focus on retaining its high level of investments, through strong economic policies, as well as improving its non-performing

[6] PwC Report "Leaving the EU: implications for the UK financial services sector" (April 2016)

characteristics. It is advisable for the British economy to increase the financial incentives for SMEs and spin-offs in order to encourage the creation of business and to sustain its economic power. Nevertheless, both, the EU and the UK has to understand that “the health of the region depends on the health of the city”. (Bachmann, 2006)

References

1. BBC One, Simon Schama, "Britannia Incorporated". A History of Britain, Episode 10, 22 May 2001.

2. City of London, London: Europe and the world's financial centre [online] Retrieved from https://www.google.ro/search?dcr=0&q=%E2%97%8F%09CityofLondon%2C+London%3A+Europe+and+the+world%E2%80%99s+financial+centre&oq=%E2%97%8F%09CityofLondon%2C+London%3A+Europe+and+the+world%E2%80%99s+financial+centre&gs_l=psy-ab.12...2416.12005.0.13532.89.19.0.0.0.0.386.2413.0j10j0j2. 12.0....0...1.1.64.psy-ab..85.2.533...0i19k1j0i13i5i30i19k1j0i8i13i30i19k1.0.WtcasvFtJ qw [Accessed 28 November 2016]

3. Cooper, M. (2011, June). The great game: Clustering in wholesale financial services [online]. Retrieved from http://www.longfinance.net/791-great-game.html [Accessed 23 November 2016]

4. Credit Suisse. (2009). Hong Kong As a Financial Hub; Hong Kong – the world's freest economy [online]. Retrieved from https://www.credit-suisse.com/hk/en/private-banking/bank/financialhub.html [Accessed 5 November 2016]

5. Economics Help. (2016, October 10). UK National Debt [online]. Retrieved from https://www.economicshelp.org/blog/334/uk-economy/uk-national-debt/ [Accessed 26 November 2016]

6. EIA, Independent Statistics & Analysis, U.S. Energy Information Administration. (2016, March 9). Country Analysis Brief: United Kingdom [online] Retrieved from https://www.google.ro/search?dcr=0&q=%E2%97%8F%09United+Kingdom+Energy%2C+Country+Analysis+Briefs&oq=%E2%97%8F%09United+Kingdom+Energy%2C+Country+Analysis+Briefs&gs_l=psy-ab.12...2076.10419.0.11517.83.17.0.0.0.0.400.1687.0j2j4j0j1.7.0....0...1.1j2.64.psy-ab..79.2.640...0i13i5i30k1j0i8i13i30k1.0.BBx5pjZ6fCo [Accessed 28 October 2016]

7. Financial Times. London leads way as Europe's top HQ choice, 2016 [online] Retrieved from https://www.ft.com/content/b5db3b30-bbe9-11e3-a31c-00144feabdc0 [Accessed 30 November 2016]

8. Financial Times. (2011, March 7). The UK Economy at a Glance [online]. Retrieved from https://www.ft.com/content/b15b1536-489b-11e0-9739-00144feab49a [Accesed 26 November 2016]

9. Gerson Lerhman Group. (2015, June). At Risk: New York's Future as the World Financial Capital. *Partnership for New York City*

10. GOV.UK. (2016, November 10). National Statistics: Education and training statistics for the UK: 2016 [online] Retrieved from https://www.gov.uk/government/statistics/ education-and-training-statistics-for-the-uk-2016

11. Harris, J. (2015, September 23). London tops 2015 global financial centre rankings and knocks New York into second place[online] Retrieved from http://www.cityam.com/ 224938/london-top-world [Accessed 2 November 2016]

12. Jones Lang LaSalle. (2012, March). The Implications of Global Capital Flows on the London Office Market. *City of London Economic Development PO Box 270, Guildhall, London, EC2P 2EJ*

13. Kellner, P. (2013, May 7). There's little chance of Britain leaving the EU [online] Retrieved from https://www.theguardian.com/commentisfree/2013/may/07/ britain-eu-referendum [Accessed 2 November2016]

14. Key facts about the UK as an international financial centre. (2016, November) [online] Retrieved from https://www.thecityuk.com/research/key-facts-about-the-uk-as-an-international-financial-centre-2016 [Accessed 1 December 2016]

15. London's Finance Industry [online] Retrieved from http://www.uncsbrp.org/ finance.htm [Accessed 30 November 2016]

16. Lowe, R. (2014, November 11). Biggest trends in British trade [online]. Retrieved from http://www.theweek.co.uk/uk-news/your-business/61274/biggest-trends-in-british-trade [Accessed 26 November 2016]

17. May, T. (2017, January 20). Personal Speech. [Accessed 22 January 2017]

18. Mollan, S., & Michie, R. (2012). The City of London as an International Commercial and Financial Center since 1900. *Enterprise & Society, 13*(3), 538-587

19. Monetary Authority of Singapore. Singapore Financial Centre Overview [online]. Retrieved from http://www.mas.gov.sg/singapore-financial-centre/overview.aspx [Accessed 7 November 2016]

20. Mori, I. (2011, May). Understanding Global Financial Networks: Business and Staff Location Decisions. *City of London PO Box 270, Guildhall London EC2P 2EJ*

21. OEC, Imports and Exports of UK, 2014 [online] Retrieved from http://atlas.media.mit.edu/en/profile/country/gbr/ [Accessed 28 October 2016]

22. Office for National Statistics. (2015, August 27). Population by Country of Birth and Nationality Report [online]. Retrieved from https://www.ons.gov.uk/ peoplepopulationandcommunity/populationandmigration/internationalmigration/ articles/populationbycountryofbirthandnationalityreport/2015-09-27 [Accesed 26 November 2016]

23. Office for National Statistics. (2015, October 6). Statistical bulletin: UK Business: Activity, size and location: 2015 [online] Retrieved from https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/ukbusinessactivitysizeandlocation/2015-10-06

24. Office for National Statistics. (2017, March 16). Statistical bulletin: UK gross domestic expenditure on research and development: 2015 [online] Retrieved from https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/researchanddevelopmentexpenditure/bulletins/ukgrossdomesticexpenditureonresearchanddevelopment/2015

25. Office for National Statistics. (2016, June 23). United Kingdom Population mid-year estimate [online] Retrieved from https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/timeseries/ukpop [Accessed 26 November 2016]

26. Pattie, N. & Watson, J. (2009, June). City of London Hotel Study: Market Strategy and Policy Advice for New Hotel Development in the City of London. *Cushman & Wakefield Hospitality and Cushman & Wakefield Consulting*C

27. Porter, M.E., Habiby, A.S. and Lasala, J. (2004, March). St. Louis: Inner-City Economic Development. *Harvard Business School Case*, 404-492 IH

28. PwC. (2016, April 5). Leaving the EU: Implications for the UK Financial Services Sector [online] Retrieved from https://www.google.ro/search?client=firefox-b&dcr=0&q=%E2%97%8F%09Pricewaterhouse+Coopers%2C+%E2%80%9CLeaving+the+EU%3A+implications+for+the+UK+financial+services+sector&oq=%E2%97%8F%09Pricewaterhouse+Coopers%2C+%E2%80%9CLeaving+the+EU%3A+implications+for+the+UK+financial+services+sector&gs_l=psy-ab.12...75580.79846.0.81089.44.10.0. 0.0.0.196.901.0j5.5.0....0...1.1j2.64.psy-ab..42.1.193...0i22i30k1.0.DsGqyGD9D8cOTEL

29. Report of the Council for Tokyo Global Financial Center Promotional Activities (2015, September 9). *Council for Tokyo Global Financial Center Promotional Activities*

30. Shaxson, N. (2011, February 24). The tax haven in the heart of Britain [online] Retrieved from https://www.newstatesman.com/economy/2011/02/london-corporation-city [Accessed 8 November 2016]

31. Tanzi, A. (2016, September 26), London Remains Ahead of New York as Top Global Financial Center [online] Retrieved from https://www.bloomberg.com/news/articles/2016-09-26/london-remains-ahead-of-new-york-as-top-global-financial-center [Accessed 25 November 2016]

32. Taylor, P., Beaverstock, J., Cook, G., Pandit, N., Pain, K. & Greenwood, H. (2003, February), Financial Services Clustering and its significance for London. *Corporation of London PO Box 270, Guildhall London EC2P 2EJ*

33. The Changing Face of the City of London. (2015, April). City of London Corporation PO Box 270 Guildhall London EC2P 2EJ

34. TheCityUK. (2016, March 7). Key facts about UK financial and related professional services, March 2016 [online]. Retrieved from https://www.google.ro/search?dcr=0&q=%E2%97%8F%09TheCityUK%2C+Key+facts+about+UK+financial+and+related+professional+services&oq=%E2%97%8F%09TheCityUK%2C+Key+facts+about+UK+financial+and+related+professional+services&gs_l=psy-ab.12...298457.318836.0.320385.140.24.0.0.0.0.594.3025.0j2j7j0j1j1.11.0....0...1.1j2.64.psy-ab..135.2.858...0j0i131k1.0.jpyNj7EKG2c [Accessed 4 November 2016]

35. TheCityUK. (2016, August 3). UK financial and related professional services: meeting the challenges and delivering opportunities [online] Retrieved from https://www.thecityuk.com/research/uk-frps-challenges-and-opportunities/ [Accessed 16 November 2016]

36. The Global Financial Centers Index 20. (2016, September) [online]. Retrieved from https://www.google.ro/search?dcr=0&q=%E2%97%8F%09Global+Financial+Centres+Index+20+Report&oq=%E2%97%8F%09Global+Financial+Centres+Index+20+Report&gs_l=psy-ab.12...478960.482787.0.484037.18.7.0.0.0.0.192.373.0j2.2.0....0...1.1.64. psy-ab..16.1.191...0j0i67k1.0.nnQjgfklknM [Accessed 26 November 2016]

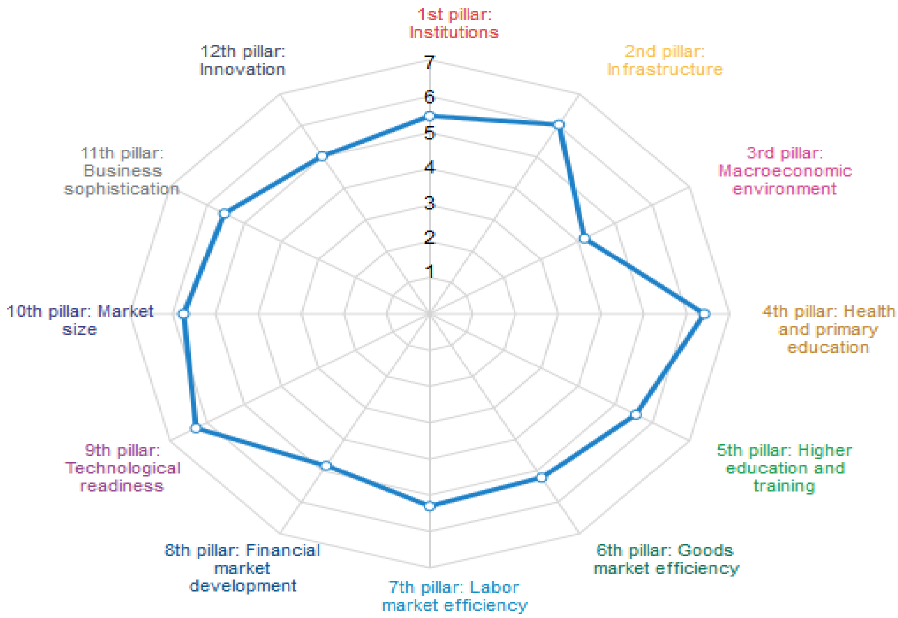
37. The Migration Observatory at the University of Oxford. (2016, December 19). Young People and Migration in the UK: An Overview [online] Retrieved from http://www.migrationobservatory.ox.ac.uk/resources/reports/young-people-migration-uk-overview/

38. The World Factbook. Country Comparison: Stock of Direct Foreign Investment - at Home [online] Retrieved from https://www.cia.gov/library/publications/the-world-factbook/rankorder/2198rank.html [Accessed 2 November 2016]

39. World Economic Forum. (2016, September 28). The Global Competitiveness Report 2016-2017 [online]. Retrieved from https://www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1 [Accessed 26 November 2016] CIHOST

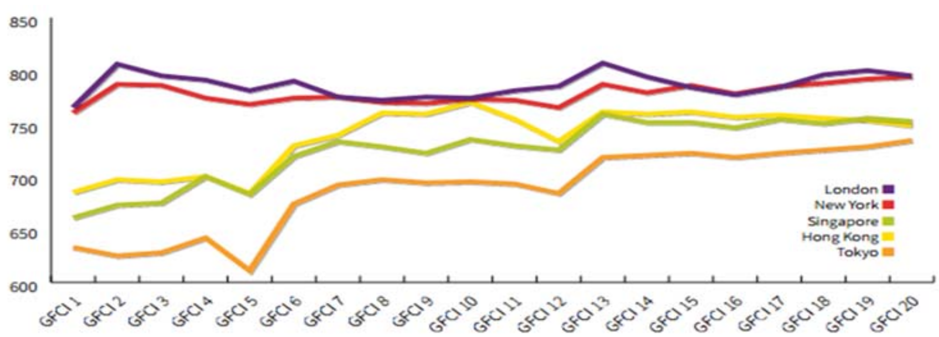
Exhibits

Exhibit 1: UK's macroeconomic performance overview



Source: The World Economic Forum 2016

Exhibit 2: Global Competition in the Financial Sector



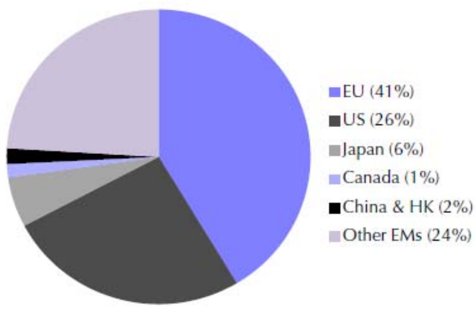
Source: Global Financial Centres Index 20

Exhibit 3: Ratings of Financial Centers

Centre	GFCI 20 Rank	GFCI 20 Rating	GFCI 19 Rank	GFCI 19 Rating	CHANGES Rank	CHANGES Rating
London	1	795	1	800	◄► 0	▼ 5
New York	2	794	2	792	◄► 0	▲ 2
Singapore	3	752	3	755	◄► 0	▼ 3
Hong Kong	4	748	4	753	◄► 0	▼ 5
Tokyo	5	734	5	728	◄► 0	▲ 6
San Francisco	6	720	8	711	▲ 2	▲ 9
Boston	7	719	9	709	▲ 2	▲ 10
Chicago	8	718	11	706	▲ 3	▲ 12
Zurich	9	716	6	714	▼ 3	▲ 2
Washington DC	10	713	7	712	▼ 3	▲ 1

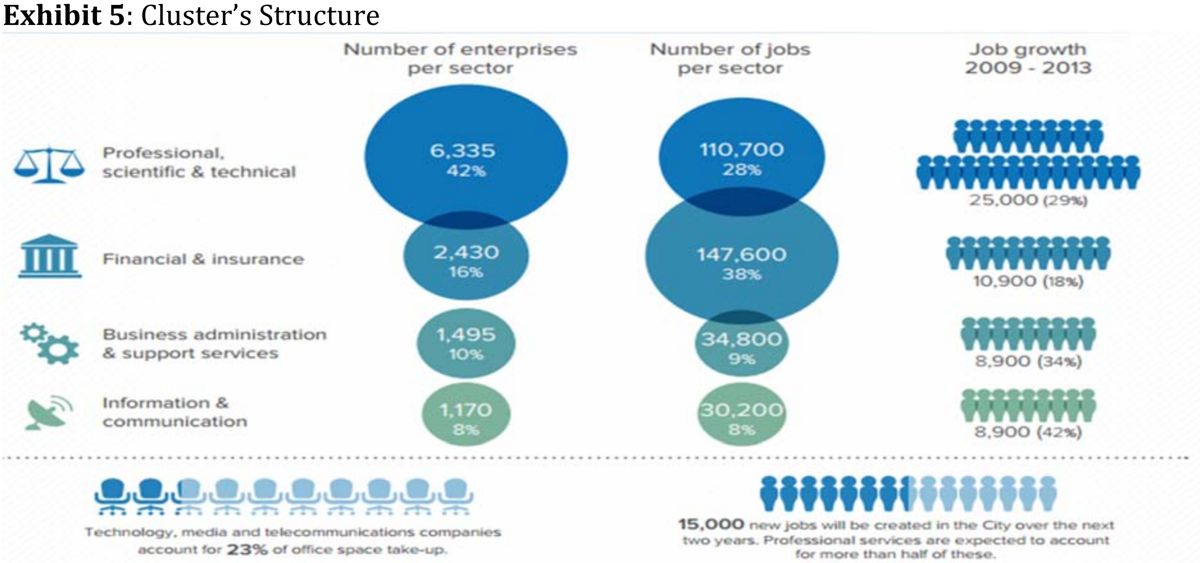
Source: Global Financial Centres Index 20, 2016

Exhibit 4: UK Financial Services Exports (Values, 2013)



Source: World Trade Organisation

Exhibit 5: Cluster's Structure



Source: ONS, City Property Association, Oxford Economics, City of London Corporation

Exhibit 6: Financial activity share by country (%)

	UK	US	Japan	France	Germany	Singap.	H.Kong	Others
Cross-border bank lending (Mar 2010)	18	11	8	8	6	3	3	43
Foreign exchange turnover (Apr 2010)	37	18	6	3	2	5	5	24
Exchange-traded derivatives turnover (2009)	6	37	2	1	10	---	1	43
Interest rates OTC derivatives turnover (Apr 2010)	46	24	3	7	2	3	1	14
Marine insurance net premium income (2009)	21	9	10	6	7	1	1	45
International bonds - secondary market (2009)	70	---	---	---	---	---	---	---
Fund management (as a source of funds, end-2009)	9	50	6	6	3	---	1	25
Hedge funds assets (end-2009)	20	68	2	1	---	1	2	6
Private equity - investment value (2009)	13	36	3	6	3	1	---	38
Securitisation - issuance (2009)	4	73	2	---	1	---	---	20

● Market leader

Source: TheCityUK calculations and estimates, April 2013

Exhibit 7: Rankings of top centers across sub-indices

Centre	People	Business Environment	Market Access	Infrastructure	General Competitiveness	Asset Management	Banking	Government & Regulatory	Insurance	Professional Services	Wealth Management	Average
London	1	1	1	1	1	1	3	1	4	1	1	1.45
New York	2	2	2	2	2	2	1	2	3	2	3	2.09
Hong Kong	3	3	3	3	3	3	2	4	1	3	5	3.00
Singapore	4	4	4	4	4	4	4	3	5	4	7	4.27
Shanghai	5	7	5	10	6	8	7	17	2	26	32	11.36
Tokyo	6	6	6	5	5	5	6	5	6	6	17	6.64

Source: The Great Game: Clustering in Wholesale Financial Services

Exhibit 8: Area of competitiveness Sub-Indices - Top 10

Rank	Business environment	Financial sector development	Infrastructure	Human capital	Reputational & general
1	London (-)	London (-)	London (-)	New York (+1)	London (-)
2	New York (-)	New York (-)	New York (-)	London (-1)	New York (-)
3	Singapore (+1)	Singapore (+1)	Hong Kong (-)	Hong Kong (+1)	Singapore (+1)
4	Hong Kong (-1)	Hong Kong (-1)	Singapore (-)	Singapore (-1)	Hong Kong (-1)
5	Tokyo (+2)	Boston (+1)	Tokyo (-)	Tokyo (+1)	Chicago (+1)
6	Chicago (-)	Tokyo (-1)	San Francisco (-)	Los Angeles (-1)	Boston (+3)
7	Los Angeles (-2)	San Francisco (-1)	Boston (+4)	Chicago (-)	San Francisco (+2)
8	Toronto (-)	Chicago (-)	Washington DC (+2)	San Francisco (+1)	Washington DC (-3)
9	Zurich (+1)	Washington DC (-1)	Shanghai (+2)	Boston (+2)	Los Angeles (-1)
10	Sydney (-1)	Zurich (-)	Sydney (-1)	Washington DC (-1)	Sydney (-2)

Source: GFCI 20