



EconoMag

The show that demystifies Economics

Global Cities – part 1

London©

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This week we will look at global cities, also referred to as world cities, and the term was coined by Saskia Sassen in 1991, in her book *The Global City: New York, London, and Tokyo*. Global Cities are metropolises that are considered as important hubs in today's global economy. The big question, however, is: Which cities can be considered as global cities and based on what criteria? The main characteristics are the financial sector, the political and economic decision-making powers, centres of media and communications for global networks, the headquarters of major companies based in the city, and the state of infrastructure development within the city.

Using these criteria we can compile lists of cities that sometimes differ in their content, but they will always feature these 6 cities: London and New York, often competing for first place; then Paris, Tokyo, Singapore and Hong Kong. In some rankings, where the geographical situation is taken into account. Dubai and Sydney are also listed, as they are the most influential cities in their respective regions. The Globalization and World Cities Research Network is a think-tank that rates and categorizes cities around the world in terms of their integration into the global economy. They rate these cities into three main categories, Alpha, Beta and Gamma, with appropriate sub-categories, and today we will look at London, one of only two Alpha++ cities on the list.

London is the capital of the United Kingdom, including Great Britain and Northern Ireland, which together is the world's fifth largest economy in terms of nominal GDP. London is also the most populous city and urban agglomeration in the European Union with 13 million inhabitants, and only Paris, within the EU, and Moscow in the whole of Europe, come close to comparison. So, what makes London one of the most influential cities in the world, when its nominal GDP is far behind that of New York or Tokyo, when its population is far below that of Shanghai or Los Angeles, and when its political power has waned over the past decades? Well, London's global influence is mainly based on its economic and financial sectors.

When you ask the general public what they think of when they think of London, they most often say Big Ben, the Queen, Buckingham Palace or the London Eye. When you ask a businessman, his answer will be: Finance and the City of London, the city's center that is the heart and pulse of Britain's financial sector. London's vast economic power and influence comes from its global financial position. Since the 1980's when Margret Thatcher was Prime Minister, London's position in the global economy has never stopped growing. For one, it is ideally located in Europe, between Asia and America, and is a sort of crossroads between the continents. In terms of numbers, New York's Wall Street clearly has the advantage, but from the point of view of quality of life, London is THE place to be for a trader.

The City of London, often called the Square Mile, with a number of skyscrapers, some commonly known as the Gherkin, and the Cheesegrater, is home to the stock exchange, international banks, asset management companies, pension funds, hedge funds, private equity firms, insurance companies, and every other sort of business in the financial industry. It is also the place with the greatest concentration of banks in the world. The City of London is also the home to the Bank of England and the European Banking Authority. In terms of office space the City has 7.7 million square meters of offices, which is more than Paris's La Defense. As the City is squeezed into a very small geographic area, this led London to build a second financial district at Canary Wharf on the Isle of Dogs where you will find the headquarters of two of the largest banks in the world: HSBC and Barclays, as well as the regional headquarters of Citigroup and Reuters.

London is also the centre of the global currency trade. For example, in 2009, London handled 36.7% of the world's foreign exchange transactions. That makes up an average of nearly \$2 trillion traded every day, and even more impressive is that there are more US dollars traded in London than in New York, and more Euros traded in London than in all other European cities combined, even though the country itself does not even use the Euro.

Finally, London is also in the frontline of future finance, being the first country and city in Europe to open a Chinese Yuan denominated money market fund. By doing this, if a business wants to work with a Chinese company, it would actually be better to go through London than Hong Kong! There has also been talk of further developing a sector for Islamic Finance, with London starting to issue Sukuk, or Islamic Bonds. These are a central point in Islamic financial transactions as Sharia Law forbids the taking of interest.

Of course, London is not just about finance, as 18.7 million tourists visited the city in 2014, quickly gaining ground on the number of visitors to Paris. As is well known, London is a vast cultural center, and it also has a sector called Tech City where many new technology and startup companies are located, providing numerous opportunities for fresh businesses to make their mark. When thinking of London, it is inevitable to consider its cross-channel rival of Paris, another great global city that we will explore tomorrow.