Geo-politics, the ‘war on terror’ and the competitiveness of the City of London

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"If you want to hurt the government, hurt people at the same time, and you want to cause maximum disruption……where better to hit than at the financial centre?"

James Hart, City of London Police Commissioner, August 2005[1]

On 16 September 1920 a horse-drawn wagon packed with dynamite and iron slugs exploded opposite the Wall Street offices of J P Morgan Company killing 30 people, injuring over 200 others and causing $2 million worth of damage. The perpetrator, Mario Buda, was a member of an anarchist group protesting at the detention of two of his comrades. This isolated incident was a harbinger of the 1990s when financial centres, institutions and markets became fashionable targets for terrorist conspirators. While many plots were foiled the Provisional Irish Republican Army (IRA) committed a series of atrocities in the City of London in the 1990s[2] and in 1993 Islamic extremists detonated a bomb beneath the World Trade Centre in the heart of New York's financial district. In the new millennium the financial system has become a vital battleground in the idiosyncratic 'war on terror'. Following the destruction of the World Trade Centre in September 2001, terrorists have struck India's pre-eminent financial district, Mumbai (August 2003), Turkish branches of HSBC bank (November 2003 and March 2006), and made credible threats to financial institutions in New York and London and financial centres throughout Asia and Oceania.[3] The motivations for attacking financial targets are legion. First, financial institutions and the centres they inhabit constitute key nodes in the global financial structure upon which the wealth and power of nations largely depend.[4] For those bent on disfiguring icons of power and identity financial centres have become prominent targets.[5] Second, the agglomeration of commercial and communications infrastructure in financial centres enables an enormous amount of damage and disruption to be caused in a single offensive. Costly repairs and rising insurance premiums may damage the long term competitiveness of individual institutions or centres as a whole but this nothing compared with the interim disruption wrought by such an episode. Private financial markets have become the lifeblood of the global economy pervading everyday life to an unparalleled degree. In extreme circumstances, given the interconnectedness of financial institutions and the short term nature of many transactions, the temporary (or even permanent) failure of key institutions such as the four day hiatus on the New York Stock Exchange (NYSE) in September 2001 could prompt a wave of failures throughout the financial system. Indeed, as was alleged to be the case on

September 11, the hope of pre-empting or profiting from financial crises and uncertainty maybe another motivation behind terrorist activity.[6] Equally political authorities are prosecuting their 'war on terror' via the financial system. By fortifying the security of financial centres and stopping the surreptitious siphoning of funds through the global financial system governments hope to prevent terrorists from mounting future operations.

Notwithstanding the lingering menace posed by dissident splinter groups, the most immediate terrorist threat to the City of London seemed to recede following the announcement of the IRA ceasefire in July 1997. In some quarters it was suggested that the City police's preoccupation with terrorism had been supplanted by concerns about violence resulting from the consumption of alcohol and narcotics.[7] This optimistic outlook evaporated on 11 September 2001 since when, amidst talk of the inevitability of attacks and "hostile reconnaissance" by terrorist suspects, the City has been on perpetual alert.[8] This chapter argues that the events of 11 September were symptomatic of changing geo-political realities which have accentuated the terrorist threat to the City but fears that terrorism jeopardises the City's competitiveness are unfounded. Despite the heightened threat terrorism remains a relatively unimportant factor for the City's *competitive* position because it does not rank highly amongst the factors financial institutions and professionals take into account when making locational decisions and other financial centres are equally vulnerable to attack. A far greater danger, particularly given the hysteria being whipped up by the Blair administration and the media,[9] is posed by an overzealous reaction that appreciably raises the costs of transacting business in the City, deters skilled labour by demonising foreigners and minority groups, undermines innovation, and detracts from more pressing issues such as the dilapidated transport infrastructure.

Geo-political change, finance and terror in the City

In its most abstract sense geo-politics examines "the links and causal relationships between political power and geographic space".[10] Traditional approaches to geo-politics proceed from the premise that the world's geographic space is divided into hermetically sealed parcels of land each governed by a political power, the sovereign state. Equally the location, size and resources of these geographic spaces bestow power on states in the global political system. From this perspective the prime concern of geo-politics is to examine how geographic conferments affect *interstate* relationships and how interstate relationships contribute to the reconfiguration of geographic space. In recent years scholars have become increasingly dissatisfied with this straightforward correlation. Liberalisation and advances in communications technology have unleashed a torrent of forces that have rendered national boundaries increasingly porous posing a serious challenge to the power of states and their capacity to govern their geographic space.[11] Moreover, the technological revolution "has been diffusing power away from governments and empowering individuals and groups to play roles in world politics – including wreaking massive destruction – that were once reserved for the governments of states".[12] In other words, political power does not derive *exclusively* from control over a bounded territorial jurisdiction and is therefore not restricted to states. These so called "sovereignty free"[13]actors, including our two main protagonists financial markets and terrorist groups, derive their political power from non-territorial sources. Consequently a full understanding of the causes and consequence of geo-political upheaval necessarily involves some consideration of non-state actors. Though this is not the place for a detailed discussion it is important to recognise the symbiosis between the realms of states and those of sovereignty free actors. It has long been accepted that transformations in interstate relationships affect the status of sovereignty free actors but it is readily apparent that sovereignty free actors can jolt interstate relationships. For instance, a terrorist attack on a major oil refinery might bring about shortages and sponsor a spike in prices supplementing, at least temporarily, the power of oil exporting states.[14]

Contemporary geo-political turmoil blended with the earlier rationale for assaulting financial centres has created formidable incentives to attack the City of London. Today, Islamic fundamentalists loosely associated with the nihilist philosophy of the Al-Qaeda movement are widely regarded as the likeliest source of a terrorist plot against the Square Mile. To an extent, Al-Qaeda's origins lie in the geo-political changes ushered in by the end of the Cold War. During the 1980s the US indirectly supported the Mujahadeen in Afghanistan against their Soviet aggressors. As the Cold War drew to a close the USSR withdrew from Afghanistan but already certain elements of the Mujahadeen, amongst them a group belonging to Osama Bin Laden that would eventually emerge as Al-Qaeda, were clamouring to export their operations to Islamic struggles worldwide. Released from the constraints imposed by Cold War enmities Islamic groups soon proved as pragmatic as their initial backers. Their hostility to the West was cemented during the first Gulf War in 1990. After Iraq's annexation of Kuwait the Saudi Arabians had misgivings that they could be future victims of Iraqi expansionalism. To forestall this Bin Laden offered to bolster Saudi forces with his own Mujahadeen. King Fahd rebutted his offer preferring instead to let US and allied troops use Saudi territory as a staging post from which they could expel Saddam Hussein from Kuwaiti territory. Bin Laden deemed this an act of treachery and, following his denunciation of the Saudi government, went into Sudanese exile from whence the Al-Qaeda movement germinated. It is generally agreed that the UK's close ideological and military affiliation with the US has made attacks on the UK more likely.

The globalisation of the capitalist creed is a frequently lauded outcome of the Cold War's cessation but has paradoxically improved the aptitude of terrorists to project their power. Technological progress already enabled them to adopt decentralised command structures making them awkward to trace but coupled with the open borders demanded by neo-liberal proselytisers terrorist organisations were permitted to marshal and move resources to orchestrate destruction at distance. Additionally, the widespread embrace of neo-liberal principles has placed financial markets at the centre of our everyday lives. The wealth of individuals, classes, firms, and nations is indelibly connected with the global financial system. Given the previously noted association between wealth and power financial markets are inviting targets for those seeking to maintain, alter or accelerate the geo-political trajectory. The City is an especially significant target because of its importance not only to the UK's economic health but to the global financial system as a whole. Conventional wisdom asserts that financial markets are placeless and that we are witnessing the "end of geography".[15] In reality, all financial transactions have to take place somewhere, the vast majority in financial centres falling within the geographical space, and hence the regulatory gaze, of a state. Financial centres are a key resource contributing to a state's standing and power in the international system even, as is the case with the City, when much of the centre is owned and controlled by foreign investors. The City's contribution to the UK's economic wealth is unlikely to have escaped would be aggressors. Financial services are the most vibrant and productive sector of the UK economy with the City alone accounting for 2.5% of GDP, employing 328,000 people and providing a sizable chunk of the UK's £20bn financial services exports.[16] Long standing trepidation about the effects of terrorism on this mainstay of the UK economy[17] have been exacerbated by the ostensible 'Wimbledonisation' of the Square Mile. Since the Big Bang many of the UK's venerable financial institutions have succumbed to foreign takeovers so that today more than half of the City's employment is provided by firms headquartered overseas.[18] There is a perception that in the bad times, such as a sustained bear market initiated by a terrorist attack, these overseas outposts will be the first to be sacrificed perhaps decimating the City.[19] A significant diminution of the City would have severe negative repercussions for the UK economy and might further impair the UK's ability to play a meaningful role in global politics.

Finally, the highly internationalised nature of the City exaggerates its potential contribution to the geo-political milieu. In 2005, 54% of the UK's banking assets were held by foreign banks and the UK financial sector had the biggest share of international bank lending (20%) and international bank borrowing (22%). The City also booked 43% of foreign equity trades, undertook 31% of global foreign exchange trading, and 70% of the global trade in international bonds.[20] The global distribution of wealth and power is intimately bound up with decisions made by those working in the London's financial markets. The ramifications of an onslaught against the City would reverberate on geo-political relationships throughout the globe precisely the reason why they make an excellent, and some groups say a legitimate, target of terror.

Threat and response

Conventional attack

While the method was novel the endeavour of the hijackers that piloted their aircraft into the World Trade Centre were depressingly familiar: causing maximum damage and disruption to the physical and financial infrastructure. Deterring such incidents and ensuring robust systems are in place should they occur endures as the central focus of the City's anti-terrorist authorities.

Beginning in the early 1990s a much vaunted "ring of steel" was thrown around the Square Mile followed later by an "iron collar" at the Docklands peninsula. These security cordons ebbed and flowed alongside the terrorist threat but essentially consist of checkpoints controlling the ingress and egress of vehicles, elaborate surveillance schemes including public and private CCTV and a digitised system recording vehicle number plates, more overt policing, plus a variety of private initiatives to fortify places of business.[21] The ring of steel is primarily a mechanism to prevent terrorist acts by denying them access to their targets. However, the scale of the outrages executed in New York, the fact that the ring of steel would done nothing to prevent an analogous episode in the City, and the widespread belief that some sort of attack was inevitable forced the authorities to reappraise the durability of their emergency procedures. Catastrophic loss of data and premises meant half of the businesses which closed temporarily following the atrocities in New York never reopened. Preparations for operational disruptions amongst London businesses were equally found wanting.[22] In 2002 the Financial Services Authority (FSA) estimated that 30 to 40% of regulated firms did not possess a disaster contingency plan.[23] Even the news that the 35 largest banks and financial institutions in the UK had adequate systems in place must be tempered by the London Chamber of Commerce's finding that a fifth of financial institutions with business continuity plans had not tested them for five years and that 83% of small and medium size enterprises in London have no contingency plans.[24] Ultimately the responsibility for ensuring financial continuity rests individually and collectively with City institutions. Nevertheless, the tripartite authorities (the FSA, Bank of England and the Treasury) in concert with the private sector have instigated strategies to buttress the resilience of the UK finance sector by the publication of official guidance, encouraging the adoption of business continuity practices, enriching communications and facilitating market cooperation.[25] The general consensus is that City institutions have raised their game with regard to security and contingency planning and would be able to cope with a major operational disruption.[26] Levels of preparedness have been tested using marketwide exercises simulating a major operational disruption. The last exercise, involving 3000 people from 70 organisations, was held in November 2005 and revolved around a terrorist incident. The exercise seemed to demonstrate the sturdiness of the City's contingency plans but also yielded important insights regarding the need to liaise with third party suppliers and to further disperse recovery sites.[27]

Cyberterror and weapons of mass disruption

Sources of operational disruption from terrorists are not limited to bomb blasts and missiles. Financial markets and life in advanced industrialised societies more generally are dependent on intricate networks of technology and communications. Governments are anxious that terrorists, thwarted by more orthodox counterterrorist instruments, will resort to computer hacking, viruses and other techniques to disable networks controlling essential infrastructure. These "weapons of mass disruption"[28] could also be deployed in conjunction with, or to facilitate, a conventional attack.[29] Where the IRA's attempt to immobilize the ring of steel in 1996 by detonating explosives at electricity substations was stymied, self-styled “cyberterrorists” may succeed by corrupting related computer systems.

Experts disagree about the exact threat posed by cyberterrorism. Proponents of the threat point to many examples and the fragility of poorly calibrated security systems.[30] Between 1993 and 1996 several London institutions surrendered to extortionists threatening to obliterate their computer systems while some 40 other attempts were rebuffed.[31] In 2000 sympathisers of the Zapatista movement laid waste to the web sites of Mexican financial institutions while the US Department of Justice presents an extensive catalogue of crimes connected to computer systems and intellectual property.[32] Sceptics cast doubts on the likelihood and efficacy of cyberterrorism. They suggest government agencies and private corporations have the resources to employ the staff needed to erect elaborate precautions to vanquish even a determined e-terrorist. That said, impressive external safeguards are pointless if gangs or individual saboteurs infiltrate an organisation with the intention of breaching security from the inside. For instance, the BBC has broadcast a “mockumentary” portraying the fictional story of how a rogue trader with supposed terrorist connections prompted the collapse of a British investment bank and with it confidence in the British financial system.[33] The doubters dismissed the programme as a fantasy and pointed to the fact that the real culprit turned out to be the rogue trader’s superior trying to eke out larger bonuses for himself and his staff. Nevertheless in her review of the programme Elaine Sternberg, a leading commentator on corporate governance issues, offers a less than glowing assessment of hiring procedures suggesting "'sleepers' might pose a danger of terrorism; all candidates should be carefully vetted……….references obtained need to be both checked and understood; too often one or both elements are neglected".[34]

Reputational attacks

Understandably debates about terrorism in the City have been dominated by unease about spectacular strikes against material targets. Yet, an equally insidious dilemma arises from the use of London's markets as a conduit to launder money to support terrorist activity. There are countless reasons why corporations cluster in the City but underpinning them all is London's reputation for providing "an open, equitable and honest environment in which to conduct business".[35] The manipulation of the City's markets for nefarious purposes could dissolve this considerable competitive advantage.[36] The FSA's most recent Financial Risk Outlook cites terrorist finance amongst the 'priority risks' which "potentially poses significant danger to the reputation of UK financial markets".[37] In July 2006 the Economic Secretary to the Treasury, Ed Balls, revealed that 388 individuals and 181 entities are legally embargoed from raising, moving or using funds in the UK while 152 bank accounts containing £475,000 of suspected terrorist assets have been frozen.[38] This is certainly not evidence of an endemic problem but nevertheless, especially when considered in tandem with some of the high profile money laundering scandals of recent years, does reveal that unlawful organisations have exploited the sheer scale of the City's financial markets to conceal criminal assets.

Action against terrorist financing stems from the broader international effort to clampdown on money laundering which began in earnest following the inauguration of the Financial Action Task Force (FATF) at the 1989 G7 Summit in Paris. Within a year the FATF published 40 Recommendations designed to tackle the scourge of money laundering. These measures including the criminalisation of money laundering, measures for authenticating customer identities, reporting suspicious transactions and training frontline staff were incorporated into the European Community's 1991 Money Laundering Directive and transposed into UK law by the 1993 Criminal Justice Act. From the outset doubts were raised about anaemic implementation and enforcement of the legislation and, by the turn of the century, the City's regulatory authorities stood accused of harbouring an archaic anti-money laundering (AML) regime.[39]

The 11 September attacks reinvigorated the international AML scene and catalysed a blizzard of initiatives to deny terrorists admission to the global financial system. The preliminary thrust came from the United Nations Security Council Resolution 1373 demanding *inter alia* that all member states criminalise terror funding, freeze terrorist assets, and prohibit the aiding and abetting terrorist groups.[40] These themes were subsequently taken up by FATF whose mandate was stretched to incorporate the development of standards to combat the financing of terrorism. The organisation announced 8 (and later a ninth) special recommendations on terrorist financing in October 2001 before setting about revising and updating the original 40 recommendations to take account of new money laundering techniques.[41] In December 2001 the EU adopted its Second Money Laundering Directive expanding the scope of professions required to observe money laundering regulations, enlarging the numbers of crimes to which provisions applied and providing for the construction of financial intelligence units (FIUs) to render international cooperation more intensive and effective. In 2005 a Third Money Laundering Directive appeared reflecting the revisions to FATF's 40 Recommendations and bringing terrorist financing beneath the money laundering umbrella.[42] The IMF echoed the EU's call for the establishment of FIUs and from November 2002 brought much needed muscle to FATF's Recommendations on money laundering and terrorist financing by adding them to the list of international standards considered as components of their Financial Sector Assessment Program (FSAP).[43]

UK authorities moved with alacrity to enact the legislation required to meet fresh international obligations at the same time revitalizing domestic AML initiatives.[44] Existing measures for countering terrorist finance contained in the *Terrorism Act 2000* including criminalising the receipt or processing of funds connected to terrorism, creating obligations to report transactions suspected to relate to terrorism, and powers to confiscate terrorist assets were strengthened by the *Anti Terrorism, Crime and Security Act 2001* and the *Proceeds of Crime Act 2002*. There has also been a renaissance amongst the mass of bodies dedicated to deterring, detecting, disrupting and defeating terrorist finance. The National Terrorist Financial Investigation Unit (NTFIU),[45] a previously unheralded division of the Special Branch dealing with terrorist finance, experienced a threefold expansion in staffing and significant additional funding to become the fastest growing section of the organisation.[46] In a Parliamentary statement in October 2001 Chancellor of the Exchequer, Gordon Brown, announced the creation of a Terrorist Finance Unit within the National Criminal Intelligence Service (NCIS), the UK's FIU. Its task was to receive suspicious transaction reports (SARs) and to disseminate intelligence to other agencies devoted to preventing terrorist financing including Customs and Excise, the Inland Revenue, the police and the NTFIU.

From April 2006 these functions have been subsumed by a new body, the Serious Organised Crime Agency (SOCA). Devising and enforcing money laundering rules for regulated firms is the preserve of the FSA as part of its statutory requirement to reduce financial crime. The FSA can bring criminal prosecutions against those found to have contravened these rules but the enforcement of primary money laundering legislation remains the responsibility of the Treasury and the Home Office. Yet, important though these initiatives undoubtedly are, the ultimate responsibility for preventing the use of the City's markets by terrorist financiers again lies with the private sector. The rules concocted by international agreements and government agencies need to be implemented by those on the front line, the staff of financial institutions. Strenuous efforts have been made to provide fora where the principal public and private stakeholders can convene to discuss the latest developments and share best practice incorporating seminars and conferences hosted by the FSA and taskforces and advisory groups chaired by the Treasury and the Home Office.

Despite the flurry of parliamentary activity, the veritable alphabet soup of bodies, and the plaudits heaped on the UK's AML and counter terrorist financing regime by the IMF[47] the consensus amongst specialists is that London is still a haven for terrorists and money launderers.[48] Incredibly just months after the IMF's praise Michael Foot, the then Managing Director of the

FSA's Deposit Takers and Markets Directorate, was quoted as saying "operation of procedures to combat the laundering of the proceeds of drugs and other crimes…….is not satisfactory".[49] Meagre budgets and inadequate staffing of AML/terrorist finance organisations continue to impede implementation of regulations. Aspects of liberalised financial markets usually lauded as beneficial, namely their propensity for innovation and the ability for capital to flow to its most efficient use, pose additional dilemmas. The ingenuity of financial practitioners enables criminals to circumvent new procedures and to exploit fissures between the many bodies involved in the fight against laundering and terrorist finance. The open nature of financial borders means that the fight against terrorist finance is only as strong as the weakest links. Terrorist financiers can exploit loopholes in less stringently regulated jurisdictions and gain access to better regulated jurisdictions through correspondent banking relationships. The City is particularly vulnerable to these problems because of the highly internationalised nature of its business and the inventiveness of its workforce which is often extolled as one of its key competitive advantages.

Terrorism and competitiveness in the City of London

The preceding paragraphs have at times painted a grim picture of the amplified likelihood of a terrorist catastrophe with terrorists running amok infiltrating and financing their fanaticism through London's financial institutions. Inevitably this has led to questions about the bearing of terrorism on the City's competitive position. In order for terrorism to have an impact on the City's competitiveness two preconditions have to be met. First, the patrons of financial centres must consider terrorism to be an important factor in determining the location of their business. Second, current and prospective customers must perceive that there is some differentiation between the City and its principal competitors in either the likelihood of terrorism or the costs of anti-terrorist measures. All other things being equal we would expect business to gravitate towards the financial centre which minimises terror at the lowest possible cost. The remainder of this chapter argues that terrorism is a minor issue in the competitiveness of London and other financial centres and that the real threat to the City is not terrorism per se but a disproportionate response to it. In other words, the cure may be worse than the disease.

Surveys of financial practitioners have consistently identified the foremost factors in the City's current and future competitiveness as accessibility to a skilled workforce, customers and international markets, the merits of the regulatory environment, the tax regime, quality of life, probity of the corporate environment, and the sensitivity of the government. In contrast terrorism is viewed as an inconsequential matter which does not even figure amongst the Treasury's register of future challenges for UK financial services.[50] According to a MORI study carried out on behalf of the Corporation of London and the City of London Police 57% of respondents said terrorism was a worry.[51] Importantly however, similar surveys suggest that terrorism is not an all encompassing fear amongst City dwellers. Less than one in ten of those canvassed considered the threat of terrorism on a daily basis or considered it a negative aspect of working in the City. An even smaller proportion of businesses (3%) judged it as a negative aspect of locating in the City.[52] Unsurprisingly apprehensions about terrorism peaked after the 7 July attacks on London's transport system with 59% of people believing the capital would be struck again within a year[53] but overall it is difficult to quibble with Z/Yen's conclusion that "terrorism risk [does not] seem strong in participants' perceptions of what matters"[54] and is a marginal influence on the City's competitiveness.

The City's competitive position is reinforced by the fact its existing rivals (principally New York but also Paris and Frankfurt), are equally or more susceptible to terrorist attack and stigmatisation by association with terrorist money. As one London based New York banker comments:

> London is probably no more likely to get more bombs in the future than any other financial centre – indeed it's probably less likely than New York. Londoners seem pretty robust and seem to take

> terrorist attacks in their stride. As a foreigner I was amazed at how quickly London recovered [after the 7 July bombings][55]

Comparisons with New York are exceptionally pertinent because, as the world's only other "global financial centre",[56] it is the City's most direct competitor. Presently there seems limited scope for any additional global financial centres to emerge. The most likely candidates would seem to be Mumbai, whose predisposition to terrorism has been amply demonstrated, and Shanghai, whose suspected vulnerability has prompted the authorities to construct a large underground bunker to protect it.

A similar story emerges with regard to money laundering, including terrorist financing. HM Customs and Excise estimate that £25bn is laundered in the UK annually[57] and, as the chapter previously indicated, experts have been unimpressed by various aspects of UK's AML/terrorist financing regime. Nevertheless, these defects need to be set in context. First, £25bn represents just a fraction of the £5,500bn transactions handled annually by UK banks alone.[58] Second, for all its shortcomings the UK is something of a leader amongst laggards in the global fight against money launderers and terrorist financers. The UK has been in the vanguard implementing EU Directives and FATF recommendations ahead of its main competitors.[59] Paradoxically improving its reputation by slavishly adhering to international best practice could make the City a target for money launderers as money accepted there will have a tacitly international seal of approval. Prior to 11 September an almost pathological obsession with financial privacy and opposition from special interest groups hindered the development and application of anti-money laundering rules in New York. The passage of the Patriot Act in 2001 was supposed to alleviate these imperfections but officials on the ground say that incoherent implementation and the dilution of the original legislation have hampered its effectiveness.[60]

A second set of considerations surrounds whether recent anti-terrorist measures could be detrimental to the City's existing competitive advantages, especially those which practitioners feel will affect the City's competitiveness in the years ahead: the quality and cost of the regulatory regime, operational costs and the availability of a skilled and innovative workforce.[61] Industry surveys have repeatedly found that while it is highly regarded in terms of quality, the cost and intrusiveness of the regulatory system is one of the biggest concerns amongst City practitioners. For example, respondents to a survey commissioned by the Corporation of London in 2005 believed the regulatory environment constituted the second most important factor in a financial centre's competitive position with nine out of ten rating the City as good or excellent in this regard.[62] Yet, extravagant regulation was branded the biggest risk to the continued health of the financial sector in the Centre for the Study of Financial Innovation's (CSFI's) 2005 and 2006 Banking Banana Skins poll[63] while in December 2004 only 9% of those questioned by The Financial Services Practitioner Panel regarded costs of compliance as 'reasonable', 58% thought them 'excessive' and over two-fifths saw them as harmful to their business.[64] Consequently the additional burden resulting from tougher AML procedures has not found favour with City institutions. The City's AML provisions are supposedly underpinned by 'risk based' principles concentrating rules and resources in those sectors judged to be the most vulnerable to money laundering activity.[65] This is designed to ensure a proportionate response which nullifies money laundering at the lowest possible cost. Unfortunately while it is almost universally agreed that the UK's mosaic of bodies provides for more rigorous AML provisions there is also a consensus that it is both more costly than in other jurisdictions but that it is no more effective.[66] Precise figures on money laundering are difficult to ascertain and distilling the subsidiary costs of counter terrorism regulations is impossible. Nevertheless with KPMG reporting a 61% rise in the costs of AML compliance amongst banks the perception is of escalating costs of transacting business in the City.[67] The costs of AML compliance are exacerbated by the 'fear factor' which leads to firms to invoke overly meticulous procedures for fear of being tarnished by sanctions for not complying with rules and guidelines. The resort to 'defensive reporting' by financial institutions could account for the tenfold expansion in suspicious transaction reports filed with the UK's FIU since 2001.[68] More worryingly from the perspective of City competitiveness the perception is that costs have risen more sharply in the UK than elsewhere. AML costs as a proportion of GDP are one quarter higher in the UK than the US. Indeed 55% of those surveyed from the UK said that costs of AML requirements had gone up by more than half in the past five years compared with only 36% of overseas respondents who felt the same about their own jurisdiction.[69] Furthermore, financial institutions are unhappy that much of the burden has fallen upon them. There is a suspicion that the government is employing financial institutions as proxy AML agents instead of making the proper investment in public regulatory edifices.[70] In short, the City's AML framework is at the risk of providing the worst of both worlds: becoming a magnet for money launderers who believe the City is regarded in international circles as a leader in AML regulations but which are costly and ineffectively implemented.

Inevitably tougher AML provisions have raised the operational costs for companies located in London. This is aggravated by additional expenditure on security and property insurance. Important though these direct costs unquestionably are a more corrosive consequence is the climate of hostility and distrust which results from the obsession with terrorism. The City of London's greatest asset is its people. The availability of skilled personnel was recently ranked as the single most important factor determining the competitiveness of a financial centre with 98% scoring London as good or excellent in this respect.[71] Historically the City was populated by a self perpetuating oligarchy drawn from a narrow stratum of upper class British society. The occasional breaches by outsiders became a flood after the Big Bang of 1986 and today the upper echelons of the City are peppered with women, foreigners and ethnic minorities.[72] The City prides itself on its ability to attract and retain the most talented individuals whose capacity for ceaseless innovation is critical for London's competitiveness. The City of London's Police Commissioner has spoken of the need to avoid turning London into a "kind of fortress that might frighten off investors".[73] He might also have pointed out that garrisoning the City might damage competitiveness by discouraging skilled labour, especially from overseas, from entering. Currently there is no widespread evidence of high skilled labour departing for other financial centres or companies struggling to recruit high calibre candidates because of fears about terrorism. Nevertheless, the shooting in July 2005 of Jean Charles de Menezes, a Brazilian immigrant mistakenly thought to be a terrorist suspect, will have done little to allay these fears.

Conclusion

With the revolution in communications technology meaning that the location of financial firms is no longer contingent on proximity to their markets some have forecast the imminent demise of large scale financial clusters. The threat of organised terrorist violence could only hasten this denouement spelling economic catastrophe for the many advanced industrialised states whose wellbeing has come to rest on the provision of financial services. Despite the many terrorist attacks on financial centres in recent years and a sense that they are likely future targets a mass exodus of firms from the world's financial conurbations is unlikely. For the moment the innate benefits of clustering including economies of scale and scope, the stimulus of likeminded people, sizable skilled workforces, and metropolitan lifestyles, far outweigh any fresh costs brought about actual or threatened terrorist attacks.[74]

Today, the City of London authorities are wrestling with the core dilemma of globalisation namely how to garner the benefits of open borders and open societies whilst minimising the risks associated with them. Paradoxically the openness that characterises the neo-liberal project revitalised the City in the 1980s but its restoration to the heart of the British economy and its lionisation as an artery of global capitalism have made it, along with financial centres generally, a leading target for terrorist groups. Public authorities and private sector are rightly concerned about the destructive and reputational threats posed by terrorist organisations not only to the City's human and physical infrastructure but also its competitiveness and have elaborated a host of preventative measures in response. However, this chapter has argued that the real threat may not be terrorism per se but the disproportionate reaction to it. While the denizens of the City understandably exhibit misgivings about terrorism when compared to access to liquid markets, a skilled workforce and a superior regulatory environment it is a minor factor in the competitiveness of the Square Mile. The events of the last two decades have also demonstrated that London's existing and future competitors are besmirched by terrorist finance and prone to physical attack. Moreover, new anti-terrorist measures now threaten to undermine London's traditional competitive advantages by raising operating costs, exacerbating discontent about the regulatory system, and fostering intolerance and xenophobia which could deter skilled workers from coming to the City.

In October 2006, in a chilling echo of Mario Buda, a British man pleaded guilty to conspiring to attack the IMF and World Bank buildings in Washington, the NYSE, Citigroup buildings in New York and the Prudential buildings in New Jersey using limousines packed with explosives. Together with attacks of 7 July 2005, reports that the UK is the "number one al-Qaeda target",[75] and bin Laden's stated intentions to attack economic interests this is a timely reminder of the ongoing threat to UK interests, especially the City of London. This chapter has not examined the possibility of the City being targeted either by weapons of mass destruction or a 'dirty bomb' which would contaminate the Square Mile and make it inoperative. Quite simply in the aftermath of a cataclysmic attack the health of the financial sector will be a trivial concern. Lastly, I would venture to suggest that the mindset of those employed in the financial sector needs to change. Financial practitioners and regulators regularly cite terrorism as a potential source of financial instability but nowhere do they cite financial instability or the growing inequality caused by financial markets as a cause of terrorism. Ultimately terrorism is not neutered by road blocks and CCTV but by ameliorating the sources of injustice that nourish it. So long as advanced industrialised countries are thought to be abusing the power conferred by financial markets so this will be used as a justification for targeting their financial centres with organised terrorist violence.

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[5] Financial Times. 2001, "A post-modern conflict", 12 September, p. 21.
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available online at http://news.bbc.co.uk/1/hi/entertainment/tv_and_radio/3722041.stm. While it purported to provide a public service by informing people of what to do should such an incident occur it was denounced by the government as "alarmist and irresponsible". See BBC Online. 2004, "Terror programme 'irresponsible'", 15 May, available online at http://news.bbc.co.uk/1/hi/uk/3716785.stm (Accessed 21 August 2006).

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[11] The extent of the decline of the state remains one of the most vexed questions of political science. At one extreme are those that argue we now inhabit a 'borderless world' where the state is a relic that has been emptied of its power and legitimacy, see for example Ohmae, K. 1990, *Borderless World: Power and Strategy in the Interlinked Economy*, Collins, London, and Greider, W. 1997, *One World Ready or Not: The Manic Logic of Global Capitalism*, Penguin, London. At the other are those who argue that nothing has changed and that the decline of the state is a myth, see for example Weiss, L. 1998, *The Myth of the Powerless State: Governing the Economy in a Global Era*, Cambridge University Press, Cambridge; Waltz, K. 2002, "The continuity of international politics", in Booth, K. & Dunne, T. (eds.), *Worlds in Collision: Terror and the Future of the Global Order*, Palgrave, Basingstoke. These extreme views are widely held to be empirically and epistemologically suspect. The state's role is recognised as being in perpetual flux with a symbiotic relationship between it and global forces. See for example Held, D. et. al. 1999, *Global Transformations: Politics, Economics and Culture*, Polity, Cambridge.

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[19] See Augar, P. 2000, *The Death of Gentlemanly Capitalism: The Rise and Fall of London's Investment Banks*, Penguin, London.

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[27] See Financial Sector Continuity. 2005, *Resilience Benchmarking Project Discussion Paper December 2005*, available online at http://www.fsc.gov.uk/upload/public/Files/9/Web%20-%20Res%20Bench%20Report%2020051214.pdf (Accessed 8 August 2006); KPMG. 2006, *UK Financial Sector Market-wide Exercise 2005: Executive Summary*, available online at http://www.fsc.gov.uk/upload/public/Files/15/MWE%20executive%20summary%2006.pdf (Accessed 27 July 2006).

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