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Dismantling Londongrad: the dark geography of dirty money

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ABSTRACT

Londongrad is at once a place, a process and a paradox. As a *place*, it refers to the manifold ways in which London has acquired a reputation for being a safe harbour for dirty money largely on account of a secure system of property rights, a cluster of professional enablers and a neoliberal politics that actively cultivated it. As a *process*, it illustrates the premier role that London plays in the global system of secrecy jurisdictions. As a *paradox* it signals the bizarre alignment of two nominally opposed systems, authoritarian state capitalism in Russia and neoliberal capitalism in the UK. Before the war in Ukraine, it was tacitly assumed that Londongrad was impervious to reform because no single political jurisdiction had the reach or the remit to confront this baroque system. Dismantling Londongrad is therefore a belated attempt to regulate the dark geography of dirty money.

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1. Introduction

When Prime Minister Cameron hosted the Anti-Corruption Summit in London in 2016, he inadvertently illustrated the double standards of the dirty money debate. In a private conversation that was accidentally caught on camera, he was overheard to say that the leaders of some 'fantastically corrupt countries' would be attending the event, countries like Nigeria and Afghanistan. What was clearly lost on him was the fact that London had itself acquired a 'fantastically corrupt' reputation as the premier financial centre for laundering the world's dirty money. There is a rich irony here because, in conventional league tables of 'good governance', the donor countries find themselves at the most corrupt end, while the recipient countries find themselves at the least corrupt end even though they are equally complicit in the process. Indeed, this was precisely the point that a group of civil society leaders from Nigeria made to Cameron in a letter before the summit, in which they said their anti-corruption efforts at home

> are sadly undermined if countries such as your own are welcoming our corrupt to hide their ill-gotten gains in your luxury homes, department stores, car dealerships, private schools and anywhere else that will accept their cash with no questions asked. (Musa 2016)

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This vignette illustrates two key features of the debate about illicit financial flows in the countries of the Global North: (i) the insouciance of successive UK governments in dealing with the rise of Londongrad as a global centre for processing illicit wealth, and (ii) the sheer scale and opacity of the problem, such that neither national governments nor civic activists can address unilaterally.

The vignette also suggests that we need a more nuanced understanding of the role of dirty money in current globalisation and the interrelations between different (nominally opposed) types of capitalist economies, including liberal and authoritarian types (Kinossian and Morgan 2023). Although they may appear incompatible according to conventional typologies, their interconnections suggest that thinking in national types conceals hidden elements, such as corruption facilitated by complex international networks of western banks, consultancies, and corrupt government officials in the donor countries.

Variegated capitalism (VC) seeks to address some of the limitations of thinking in terms of 'national types' associated with the original Varieties of Capitalism (VoC) conception, including ideal type thinking, a static take on institutions, the lack of spatial sensibility. Instead of taking cases as coherent, homogeneous and fitting within the typology, VC embraces a multi-scalar form of analysis, places emphasis on contradiction and disjuncture, and utilises relational perspectives (Peck and Zhang 2013, 3). The relational perspective, central to the VC approach, emphasises 'the co-dependence, co-constitution and co-production of multiple capitalist formations' (Zhang and Peck 2016, 57) and can help to develop a more granular treatment of symbiotic relationships between western financial services and kleptocrats across the world epitomized by Londongrad.

Although the social science literature has addressed financial corruption, it has been stymied by 'two conundrums', namely: (i) an obsessive focus on the *nation state* as the prime scale and the basic unit of analysis, and (ii) an unwarranted bias towards *public sector* corruption. The national prism stymies robust analysis as it conceals major forms of corruption at subnational and supranational levels; while the public sector bias underplays the culpability of the private sector (Heywood 2015). The existing focus on the nation state seems to overlook the central feature of the global kleptocracy which 'lies in the fact that kleptocrats, after perverting the law to acquire wealth in their home jurisdictions, rely on the law to protect that wealth in other jurisdictions' (Cooley, Heathershaw, and Sharman 2018, 49).

There is a gap in understanding the phenomenon of dirty money as the dark side of globalisation. The spatial clustering of knowledge-intensive business activity in metropolitan areas has been one of the principal themes in economic geography and urban and regional studies in recent years, yet it is truly remarkable that the role of dirty money in fuelling this agglomeration process has been either totally ignored or severely neglected. Although the dark side of economic geography is deemed to be broad and diverse, it is largely associated with the people and places that have been 'left in the shadows of economic success' (Phelps, Atienza, and Arias 2018, 237). To compensate for this analytical tendency, we focus here on the elites (e.g. the transnational capitalist class) rather than the excluded and marginalized sections of the social hierarchy (Sklair 2016, 331).

Given the secretive nature of the dirty money phenomenon, it needs to be established at the outset that the data sources on which we have drawn have been furnished in the main by investigative journalists, political activists, and NGOs who rely on various sources, including public records, such as court documents and company registration documents. These sources have been complemented by data from official inquiries into corruption and from the work of academic researchers working on authoritarian regimes and the growth of transnational kleptocracy (Heathershaw et al. 2021). Availability of data remains a fundamental limitation for research on dirty money because asset owners and professional enablers use legal instruments and manipulation of legal systems to achieve their strategic goals (Browder 2022). The combination of secrecy and lawfare creates a powerful mechanism to conceal the assets and identities of owners and stymie their opponents.

If dirty money requires secrecy jurisdictions, then both have been fuelled by the interplay of neoliberalism and globalisation. The spread of neoliberal thinking from the US and the UK since the 1980s rendered deregulation the norm in many OECD countries and the combination of lax regulation and pro-market economic policies was both cause and consequence of the hyper-globalisation that enabled neoliberal practices associated with 'offshore' to be used as a benchmark for the deregulation of 'onshore' economies (Rodrik 2010; Bullough 2019). These debates would benefit from greater attention to the real inter-connections between countries that stand at different ends of corruption league tables, illustrating the real levels of culpability rather than the naive rankings that appear in Transparency International's Corruption Perceptions Index for example (Cobham 2015; Bullough 2019).

The City of London, backed by successive British governments, has arguably played the pioneering role in 'onshoring' what were hitherto regarded as 'offshore' banking practices (Hudson 1998). Beginning with the creation of the unregulated offshore Euromarkets in London from the late 1950s, the City allowed banks from all over the world to engage in 'edgy' practices that were forbidden at home. Lobbyists and bankers would cite the freedoms they were afforded in London and press for the same freedoms at home (Tax Justice Network 2018). The most compelling account of this 'race to the bottom' process puts it this way: 'The City emitted anti-regulatory impulses around the world, deregulating other economies and their banking systems as if by remote control … Time and again, US banking catastrophes can be traced to those companies' London offices' (Shaxson 2011, 248).

It is impossible to understand the political influence of the City in and beyond the UK without some appreciation of the unique institution that governs it – the City of London Corporation (CLC). A self-governing body that exists to protect and promote the financial interests of the City at home and abroad, the CLC claims that the City of London is the oldest continuous municipal democracy in the world insofar as its constitution is 'rooted in the ancient rights and privileges enjoyed by citizens before the Norman conquest in 1066' (Shaxson 2011, 255). One of the most remarkable features of the CLC's modern history occurred in 2002, when the business lobby was uniquely empowered by the City of London Ward Elections Act. Whereas the business vote in all other local government systems of the UK was abolished in 1969, 'the Act of 2002 not only retained the business vote in the City, but greatly expanded the range of the business franchise, so that the business vote now actually outnumbers the residential vote in the City' (Erturk 2011, 20). Given its history and its privileged political status, the CLC has been characterized as a city–state (Erturk 2011; Shaxson 2011).

In this article we address the regulatory politics of dirty money before and after the full-scale Russian invasion of Ukraine in 2022. Section 2 looks at the dirty money phenomenon and the role that tax havens, or secrecy jurisdictions, have played in fuelling it. Section 3 examines the donor and recipient sides of the dirty money flow by exploring the enabling conditions in Russia and the UK, where two nominally opposed systems forged a mutual interest. Section 4 assesses the efficacy of the measures that have been hurriedly adopted in the wake of the Russian invasion to re-regulate the UK end of the dirty money system. Section 5 distils the argument and highlights the contribution of the paper.

2. Secrecy jurisdictions: the scale and opacity of dirty money

Dirty money is the colloquial term for illicit finance and the latter 'can cover many areas, including tax evasion and the proceeds of corruption, as well as the flow of funds that are of suspicious or unexplained origin, but have not been proved to be of illegal or corrupt origin' (Barrington 2022). Although illicit financial flows are difficult to delineate with any precision, there is no doubting the growing significance of such flows. Given the scale of the problem, however, it is a curious fact that most of the work involved in exposing the problem has come not from national governments or international agencies, but from NGOs (e.g. Global Financial Integrity (GFI), the Tax Justice Network (TJN), and Transparency International (TI)) and a small group of investigative journalists and activists (e.g. Browder 2022; Bullough 2019; Shaxson 2011). One of the earliest estimates of the scale of the problem came from GFI, which estimated that between 2001 and 2010, illicit financial flows from developing countries alone totalled as much as USD 5.8 trillion. Of this total, China was deemed responsible for almost half, five times as much as the next highest source country, Mexico, with the next highest sources of illicit financial flows being Malaysia, Russia, and Saudi Arabia (GFI 2012).

The opacity of illicit financial flows is the main reason why estimates of the problem vary so much. Far from being an incidental feature, secrecy is actually the core feature of a carefully crafted system – a system that tends to be equated with and reduced to 'offshore tax havens', a profound misnomer that obfuscates the political geography of dirty money. The gulf between perception and reality in this regard was admirably expressed by Marshall Langer, a prominent advocate of secrecy jurisdictions, when he said:

> It does not surprise anyone when I tell them that the most important tax haven in the world is an island. They are surprised, however, when I tell them that the name of the island is Manhattan. Moreover, the second most important tax haven in the world is located on an island. It is a city called London in the United Kingdom. (Shaxson 2011, 21)

Changing the lexicon about offshore tax havens was deemed to be critical to the analytical understanding of dirty money flows as well as to regulatory efforts to counter the problem. A pioneering analysis for the TJN concluded by saying that 'the existing language of the so-called 'offshore world' is inappropriate for the purposes of rigorous analysis of the issues to which that term has been applied' and as alternative, it proposes 'a new language for this purpose, renaming the 'offshore world' the 'secrecy world'' (Murphy 2009, 20).

The financial journalist Nicholas Shaxson (2011) offers one of the most authoritative accounts of dirty money flows and he argues that there are approximately sixty secrecy jurisdictions in the world, roughly divided into four groups: (i) the European havens such as Switzerland, the Netherlands, Monaco, and Liechtenstein (ii) a British zone centred on the City of London, which spans the world and is loosely based on its former empire (iii) a zone of influence focused on the US, and (iv) a more marginal group, including countries like Somalia and Uruguay. Of these groups, the British zone is deemed the most important because it accounts for half the world's secrecy jurisdictions. The City of London's offshore network consists of three main layers. Two inner rings in the form of Britain's Crown Dependencies and its Overseas Territories are largely controlled by Britain and are said to combine 'futuristic offshore finance with medieval politics' (Shaxson 2011, 15). The outer ring is a more diverse array of havens that used to include Hong Kong, all of them outside Britain's direct control but with strong historical links to the country and the City. This network has been likened to a 'spider's web' because it attracts money flowing to and from neighbouring jurisdictions which is eventually funnelled through to London. The main advantage of the 'spider's web', according to Shaxson, is that it enables the City to conduct business that might be legally forbidden in Britain, 'providing sufficient distance to allow financiers in London plausible deniability of wrongdoing' (*ibid*).

Although the legal and financial instruments are constantly evolving, trusts, shell companies, and foundations remain the most popular mechanisms to conceal assets and the real identities of the people who own and control them. Regulators have been 'running fast to stand still' in the protean world of financial innovation because, with trusts and shell corporations, it is difficult for investigators to distinguish *beneficial* from *legal* ownership. The intensified competition between financial centres unleashed by hyper-globalisation made it difficult to craft the international alliances that were necessary to regulate international financial flows, even when they involved *illicit* financial flows. Nevertheless, a slow and low-key regulatory momentum has been building up since the turn of the millennium that aims to counter corporate anonymity by subjecting financial flows to greater transparency, more robust due diligence and, especially, more regulatory enforcement.

Although governments have recognized the importance of curbing the misuse of corporate vehicles to conceal beneficial ownership, and while they formally adopted the international standards recommended by the Financial Action Task Force (FATF) in 2003, compliance with these international standards has been woefully poor. A robust geopolitical alliance to address the problem of secrecy jurisdictions has been retarded by two problems. Firstly, the passage of laws and regulations is a profoundly misleading index of national and international political commitment to regulatory enforcement because there remains a substantial gap between the rules on paper and the rules as applied in practice when it comes to corporate vehicles. Secondly, banks and other private sector service providers have not been obliged to play their part in conducting due diligence and establishing beneficial ownership and this is highly significant because, in the majority of cases in which a corporate vehicle is misused, 'the intermediary is negligent, wilfully blind, or actively complicit' (World Bank 2011, 6).

Recently, governments and international bodies have seriously stepped up their efforts to contain illicit financial flows, in response to a perceived systemic threat – such as the terrorist threat after 9/11, the financial threat after the 2008 crash and, more recently, the military threat following the Russian invasion of Ukraine. In other words, the vast expansion of dirty money that flowed from post-Soviet states after 1990, was not deemed to be a sufficiently important reason for stepping up regulatory safeguards in the UK and the USA. Far from countering dirty money flows from Russia and other post-Soviet states, successive UK governments actively courted such flows as part of a bi-partisan strategy to promote the City of London as the world's premier financial centre.

3. Londongrad: the British laundromat

The 'Londongrad' moniker was popularized by Hollingsworth and Lansley's 2010 book *Londongrad: From Russia with Cash,* which highlighted the fact that Russian oligarchs saw London as their favourite location to legalize their wealth, invest their capital, and relocate their families. However, there is more to Londongrad than the foreign super-rich and their extravagant lifestyles. The current 'reinvention' of London as the 'Alpha City' for super-mobile and super-rich has a lot to do with their perception of London 'as the key place to engage with each other in the wealth bloc – building alliances, advancing business opportunities, and drawing on its uplifting arrangements and configurations of people, places and experiences that London alchemically brings together' (Atkinson 2020, 52). This role requires a secure system of property rights, the concentration of professional enablers, and neoliberal urban planning facilitating ultra-prime development in the city. According to Massey, this reinvention of London should be understood in terms of 'a particular politico-economic conjuncture' (Massey 2007, 123).

In that sense, the collapse of communist regimes in Eurasia accentuated the globalisation process and allowed new connections between emerging economics and global financial centres (Sanghera and Satybaldieva 2021). In Russia, the implosion of the USSR has led to the 'crony capitalism' or 'mafia' state that has benefitted enormously from the participation in global trade but lacked the institutions to ensure redistribution or public scrutiny (Åslund 2019). Wealth has been accumulated by the few and channelled through and legalized in destination hotspots. The influx of wealth has fuelled London's 'machine of wealth creation, investment and storage' (Atkinson 2020, 61). Although post-Soviet elites had begun to parade their wealth in the capital before the turn of the millennium, the height of the top-end of the London property boom occurred in 2006–2007, when super-rich oligarchs clustered in the most exclusive parts of the postcodes of SW1, SW3, W1 and W8, fuelling a process of mega-gentrification.

If top-end real estate and prestige retailers were the most conspicuous objects of desire, along with Chelsea FC in the case of Roman Abramovich, less visible spending patterns were no less important to oligarchs and their families, such as public schools for their children and access to power and influence through political donations and targeted philanthropy. As the most notorious examples of conspicuous consumption have been documented elsewhere (Hollingsworth and Lansley 2010; Midgley and Hutchins 2004), the main purpose of this section is to highlight the interplay of factors that fashioned and sustained the phenomenon of Londongrad, which is also referred to as the 'London laundromat' because the city functioned as 'an apparatus that allowed billions of pounds – some of it obtained through illegal or questionable means – to be siphoned out of the Russian economy and into trophy assets in the UK' (Thomas 2022).

While the collapse of the USSR and subsequent rise of the oligarchs and 'dictators without borders' (Cooley and Heathershaw 2019) form the context of the Londongrad phenomenon, its origins require the interplay of the following factors: (i) the neoliberal policies of successive UK governments; (ii) an idiosyncratic legal system; and (iii) a world class ecosystem of professional enablers. We briefly examine each of these factors in turn.

Neoliberal policies: although neoliberalism is normally associated with right-of-centre political parties, neoliberal ideology exerts a much more pervasive effect on the entire political system of capitalist countries. In stylized terms, the neoliberal narrative equates 'efficiency' with market-based solutions to economic and societal problems and, because it champions less state and more market, its core policy prescriptions consist of liberalisation, privatisation, and light touch regulation (Harvey 2005; Palley 2021). Although this policy repertoire was pioneered in the UK by successive Thatcher governments, many of its core elements were retained by the New Labour governments of Tony Blair and Gordon Brown, which ran from 1997 to 2010, the period when the Londongrad phenomenon firmly established itself.

Perhaps the best index of this bipartisan policy repertoire of liberalisation and light touch regulation were the speeches of Gordon Brown when he was Chancellor of the Exchequer. At the CBI Annual Dinner in 2005, for example, he outlined his *Better Regulation* proposals for the UK economy. Among other things, Brown boasted how he was taking economic decisions (like granting independence to the Bank of England etc) out of politics. Rejecting the old model of regulation of the past 100 years, he championed what he called 'the risk based approach' – which was

> based on trust in the responsible company, the engaged employee and the educated consumer, leading government to focus its attention where it should: no inspection without justification, no form filling without justification, and no information requirements without justification, not just a light touch but a limited touch'. He concluded his address with a rousing injunction, saying 'Let us make Globalisation work for Britain to the benefit of all. (Brown 2005)

The CBI speech was not an isolated incident. In his Mansion House speech the following year, Brown boasted how he had resisted calls to follow the more muscular regulations emerging in the US, a trend that produced the Sarbanes-Oxley Act (2002) that introduced more robust auditing and financial regulations for public companies. In contrast to the pro-regulatory sentiment in the US, he said 'my promise is to promote a Britain that resists protectionism and is the most global and outward looking of nations. A Britain that instead of sheltering against global competition, champions the most open competition policy in the world' (Brown 2006).

Acutely conscious that London was competing with New York to be the world's premier financial centre, Brown was championing the City of London as the least regulated centre in the world, hence his commitment to light-touch regulation. In the same year, the Mayor of London, Ken Livingstone, went a step further when he addressed the annual Russian Economic Forum. Extolling the rounds of Russian money pouring into the UK, he said: 'I would like Russian companies to regard London as their natural base in Europe'. To that end the Mayor's Office in City Hall opened a new department devoted entirely to attracting Russian investment to London (Hollingsworth and Lansley 2010). In short, the promotion of the UK as the least regulated economy in the developed world, and the role of London as a magnet for Russian money in particular, was endorsed with alacrity by New Labour governments and by sections of the right and the left in the Labour Party as well as the Conservative Party.

Tax policy and immigration rules were arguably the most effective neoliberal policies in attracting the Russian super-rich to the UK. So-called 'non-dom' tax status meant that wealthy foreigners only paid tax on their UK income and not on their overseas income, usually the bulk of their earnings. As regards immigration rules, Tier 1 investor visas (known as 'golden visas') allowed a recipient to stay in the UK for three years in exchange for a minimum £1 million investment. Designed to boost investment in the UK, the golden visas 'became a vehicle for the laundering of corrupt money because of the lack of checks on the origins of that wealth' (House of Commons 2022a, 11).

Legal system: a legally secure system of property rights is often the most attractive feature of a country for oligarchs who have derived their wealth from countries where such legal security is conspicuous by its absence. Under the Putin regime Russia is a country where *rule by law* has been substituted for the rule of law and this was best illustrated by the Yukos case, where Mikhail Khodorkovsky was framed and imprisoned by legal authorities working at the behest of the Kremlin. Thereafter every oligarch was obliged to acknowledge the most important rule of doing business in Russia: oligarchs could enjoy their ill-gotten wealth so long as they recognized that property rights 'were conditional on fealty to the Kremlin' (Belton 2021, 498).

In contrast, the UK legal system is deemed to be one of the most robust in the world, in the sense of it being a transparent rules-based system that is relatively free from political interference. However, there are two idiosyncratic aspects of the UK legal system that endeared it to Russian oligarchs over and above the security it conferred. Firstly, enterprise law became more and more liberalized under Thatcherism and New Labour, while monitoring and enforcement were stymied by lack of resources as a result of the bipartisan policy of light-touch regulation. As part of the 'Britain is Great' campaign in 2011, the Conservative-led coalition government boasted that it took just twenty-four hours to register a company in the UK from anywhere in the world, triggering a new wave of company registrations that Companies House was wholly ill-equipped to monitor for fraudulent activity (Bullough 2019).

The second feature that endeared the legal system to Russian oligarchs concerned libel litigation, which in England and Wales was found to be 140 times more expensive than the European average (Shaxson 2011). Russian oligarchs became so adept at using libel law to censor their critics that it had a chilling effect on public debate; so much so that this form of libel law became known as 'lawfare' and it even spawned a new legal acronym, SLAPPs, which refers to *Strategic Litigation Against Public Participation*. This issue of lawfare was first debated in public in the House of Commons on 20 January 2022, when the Conservative MP, David Davies introduced the debate by saying: 'Lawfare is the misuse of legal systems and principles by extraordinarily rich individuals and organisations to destroy their critics and opponents. In many cases, our reporters face reputational and financial ruin in defending themselves from these malevolent cases; even if they win, the expense and impact are huge. The chilling effect on a free press is extraordinary. Some newspapers hesitate to cover certain topics, such as the influence of Russian oligarchs, for fear of costly litigation. In at least one case I know, the publication avoids the subject outright' (Davies 2022).

A world class ecosystem of professional enablers: global cities like London derive much of their economic growth from the urban clustering of 'knowledge-intensive business services' (KIBS), a generic term covering finance, accountancy, lawyers, real estate, and PR firms. As financial flows and KIBS become globalized and more competitive, intermediaries play an increasingly important role in facilitating FDI, as well as investments of all sorts (Phelps and Wood 2018). Interpretation and intermediation of national rules and regulations in recipient countries form an important element of their globally provided services. In that respect, neoliberalisation requires further qualifying. Common assumptions that free-market capitalism means the withdrawal of the state fail to capture adequately diverse landscapes of government regulatory regimes that may imply more not fewer rules. As discussed above, UK 'light-touch' regulation does not imply diminution of government regulation in absolute terms but less regulation as compared to other advanced economies. For that reason, intermediaries are required for navigating the UK legal and tax systems and designing optimal investment and fiscal strategies.

However, these sectors also furnish the professional enablers that help to cleanse dirty money and redeem unsavoury reputations and to this extent such enablers constitute the dark side of the KIBS-based urban economy. The most controversial enablers have been the prestigious lawyers who acted on behalf of the oligarchs who sued Catherine Belton, for the claims made in her celebrated book, *Putin's People*. The lawyers were named and accused of abusive practices by MPs in the Lawfare debate in the House of Commons. Although their services were technically above board, they were widely believed to be unethical and MPs have launched a cross-party coalition to ensure that oligarchs cannot use the English legal system to silence free speech in the future.

These three factors could have remained 'latent' had they not been 'activated' by political actors, and here the ability of the Russian super-rich to insinuate themselves into the highest echelons of economy and society in the UK appears truly remarkable. According to a sober and well-researched Chatham House study: 'the UK's relations with Russia and Eurasian states are characterized in part by features of transnational kleptocracy, where British professional service providers enable post-Soviet elites to launder their money and reputations' (Heathershaw et al. 2021, 2).

The interplay of Russian elites and British politics reached its zenith in the close personal relationship between Prime Minister Johnson and Evgeny Lebedev, the son of a former KGB agent, a social relationship that epitomized the paradox of Londongrad because it illustrated the bizarre alignment of neoliberal Britain and authoritarian Russia. Johnson personally overrode national security concerns to ensure that Lebedev was nominated for a peerage, a process that granted him the title 'Baron Lebedev, of Hampton in the London Borough of Richmond upon Thames and of Siberia in the Russian Federation'. Only British citizens and companies are legally able to donate money to UK political parties, but this includes an increasing number of naturalized citizens of Russian and Eurasian background who have donated significant amounts of money to the Conservative Party, triggering deep misgivings from parliamentary committees (House of Commons 2020).

When so much disquiet was expressed in so many quarters for so many years, why was so little done to address the problem of dirty money? Successive governments might argue that they did try to address the dirty money problem through legislative action and through the creation of new agencies (e.g. National Crime Agency). The

Proceeds of Crime Act 2002 (POCA) and the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 are the principal laws used to prosecute money laundering in the UK. More recently Unexplained Wealth Orders were heralded as a new weapon in the anti-money laundering arsenal but, although they have been available since January 2018, the use of UWOs has been limited. Indeed, by February 2022 only nine orders had been issued, relating to four cases and none were even sought under Boris Johnson's tenure as Prime Minister (House of Commons 2022b). However, all these formal laws and agencies have been found wanting because of 'a failure of enforcement' and by the fact that 'capable and expensive lawyers (hired by members of transnational elites or their advisers) defeat or deter the regulators' often weak and under-resourced attempts to prosecute politically exposed persons' (Heathershaw et al. 2021, 2).

There are many reasons as to why more was not done to equip anti-money laundering agencies with the powers and resources to regulate dirty money in the UK. The most common reason used to explain the inaction involves *social integration* – the deep and pervasive connections between oligarchs, politicians, and the upper echelons of British society, including members of the Royal Family. These social and political connections helped to normalize the presence of oligarchs in British society and therefore few questions were asked about the provenance of their wealth (Heathershaw et al. 2021).

Aside from social and political connections, another reason revolves around the role of the City as a global centre of enterprise and finance, a centre whose comparative advantage was believed to depend on light-touch regulation. But a third reason was the sheer complexity of regulating illicit wealth even if the political will had been forthcoming. As the Financial Times succinctly explained: 'successive governments have faced a consistent problem: how to distinguish between the Russians whose money has been made in a legitimate manner, and others' (Thomas 2022). The lack of transparency surrounding Russian money in the UK, together with the deterrent power of lawfare, conspired to keep both critics and regulators at bay.

4. Dismantling Londongrad: the scope and limits of regulation

The full-scale Russian invasion of Ukraine in 2022 triggered a radically new era in the regulatory politics of dirty money. At the international level it persuaded the EU and the US to launch the strongest sanctions ever imposed on Russia. While at the UK level the Johnson government was forced to take measures against the Russian elite in London that it had resisted up to that point despite escalating cross-party demands for action.

At the international level the new sanctions regime was wholly unprecedented in breadth and depth and has targeted technology transfer, banks, assets, and key members of the Russian elite. Among the sanctions that signalled a new western resolve, the most consequential were: (a) the freezing of an estimated £600 billion of foreign exchange reserves held overseas; (b) the expulsion of Russian banks from SWIFT, the global messaging network for international payments; and (c) the EU's plan to reduce dependence on Russian oil and gas imports by introducing a total ban on oil supplied by sea by the end of 2022 and a partial ban on gas to reduce imports by two-thirds within a year.

In addition to these economic measures, the sanctions have also targeted the oligarchs most closely associated with the Kremlin, with the result that their freedom of movement has been radically curtailed and their (known) assets have been frozen. These personalized sanctions have had the most immediate and most tangible impact on the Russian elite in Europe and the US, where real estate and luxury yachts have been sequestered in a glare of publicity, forcing prominent oligarchs to flee to safer locations. Indeed, the invasion of Ukraine has wrought a new geography of the Russian elite; so much so that 'Dubai has emerged as the main hub connecting Moscow to the luxury and business opportunities still on offer from the rest of the world' (Robles, Troianovski, and Chang 2022).

The old geography of the Russian elite, centred around London and New York, was becoming more overtly hostile to prominent oligarchs, particularly Abramovich, Deripaska, and Usmanov, who were often described as Putin's favourite oligarchs. Within a week of the invasion the US federal government had launched *Task Force KleptoCapture*, a new interagency law enforcement task force designed to enforce sweeping sanctions and to collaborate with the transatlantic task force launched on 26 February by the US, Canada and the EU with a mission 'to identify and seize the assets of sanctioned individuals and companies around the world' (Department of Justice 2022).

In the UK the Conservative government rapidly jettisoned its insouciant stance towards Russian oligarchs and committed itself to reforming Londongrad as part of its twin track campaign to confront Russia's aggression and support Ukraine. In supporting the new Economic Crime (Transparency and Enforcement) Bill that was introduced and passed in a single day rather the months it normally takes, the Home Secretary said: 'This government has moved quickly to strengthen our response to Putin's cronies and ensure that corrupt elites have nowhere to hide their dirty money in the UK'. The Business Secretary added: 'There is absolutely no room for illicit finance in the UK, and by bringing forward this Economic Crime Act at unprecedented speed we've put Putin, and the corrupt elites propping him up, on notice'. For his part, then Prime Minister Johnson also announced a new 'Kleptocracy Cell' based in the National Crime Agency, the aim of which was 'to target sanctions evasion and corrupt Russian assets hidden in the UK' (UK Government 2022).

The Economic Crime Act (ECA) is the centrepiece of the UK's new anti-money laundering strategy and it is worth noting some of its main provisions before examining its loopholes. The ECA introduced three main changes:

- The UK company registry, Companies House, will be required to operate a 'Register of Overseas Entities' that will include beneficial ownership information for foreign entities that are registered proprietors of certain interests in land in the UK.
- The Unexplained Wealth Order (UWO) regime, first implemented by the Criminal Finances Act 2017, is to be expanded to provide intelligence and enforcement agencies with additional avenues to obtaining information about property ownership.
- The UK sanctions regime will be amended to make it easier for the Office of Financial Sanctions Implementation to impose monetary penalties for breaches of sanctions regulations (House of Commons 2022c).

On the face of it, these legislative changes suggest a major strengthening of the UK's anti-money laundering regime, especially the greater transparency requirements that the Act imposes on overseas companies that own property in the UK. While the formal provisions of the ECA were welcomed across the political spectrum, critics were quick to point to the loopholes in the new measures, with one prominent critic likening the Act to a 'colander masquerading as a piece of legislation' (Bullough 2022).

The register of beneficial ownership for foreign entities, a measure that was originally promised by David Cameron's government in 2016, is easily circumvented in practice because: 'If you're an oligarch, and you want a completely legal way to avoid the provisions of the bill, own your own your own offshore company in equal shares of 16.67% with five close relatives. That way, none of your shareholders reach the 25% ownership level required to count as the person of 'significant control' (Bullough 2022).

A parliamentary inquiry on illicit finance expressed scepticism about the ECA's provisions for Unexplained Wealth Orders, saying that 'UWOs have been spectacularly unsuccessful'. In its final report it said witnesses had expressed reservations about how much impact the legislation will have in practice as long as limited law enforcement budgets prevent them from hiring 'financial investigators, technical experts and legal expertise' (House of Commons 2022a, 10).

As regards the third component of the ECA, the provision for a stronger sanction regime, the response has focused on the woefully inadequate level of resources and the poor record of enforcement. The parliamentary inquiry on illicit finance addressed the new sanctions regime and concluded by saying: 'We are also concerned that … the Government still lacks sufficient resources and expertise to ensure the effective implementation and enforcement of these sanctions, including the ability to trace the assets to be frozen' (House of Commons 2022a, 19).

The twin problems of inadequate resourcing and weak enforcement are clearly two sides of the same coin, a point reinforced by the analysis of anti-corruption campaigners like Transparency International and Spotlight on Corruption. In a recent analysis, Spotlight found that the National Crime Agency's (NCA) budget decreased by 4.2% in real terms from 2016 to 2021 and the Crown Prosecution Service (CPS) saw a 33% real term cut from 2010 to 2019. As a result, Spotlight concluded that: 'This lack of investment is likely to have contributed to a 35% drop in overall prosecutions for money laundering since 2016' (Spotlight 2022).

The anti-money laundering measures enshrined in the ECA clearly represent a step change in the campaign to counter the spectre of dirty money in the UK. Despite these measures, however, serious concerns continue to be expressed as to whether the UK government is sufficiently alive to the systemic nature of the dirty money problem. According to a Chatham House study, decades of servicing post-Soviet elites has spawned a 'kleptocracy problem' in the UK that is barely acknowledged by either side of the political spectrum. A more effective anti-kleptocracy drive is required that would 'close legal loopholes, demand transparency from public institutions, deploy anti-corruption sanctions against post-Soviet elites and prosecute British professionals who enable money laundering by kleptocrats' (Heathershaw et al. 2021, 2).

Although the Chatham House study predates the Russian invasion of Ukraine, and therefore the step change in the UK's anti-money laundering regime, its analysis continues to resonate for two reasons: (i) the kleptocracy problem will not be erased overnight because it is a transnational phenomenon and (ii) the problem of dirty money is in no way confined to Russian oligarchs, even though Londongrad is the most visible and egregious manifestation of illicit wealth in the UK. Indeed, the potential for kleptocratic influence in the UK remains high because, as the Chatham House study says: 'Where finance is secret and influence is hidden, vital ingredients of democracy – transparency, accountability, the fairness of the law – are at risk' (Heathershaw et al. 2021, 45).

While kleptocracy is an old problem, researchers have argued that the new kleptocracy needs to be appreciated because it is unlike earlier variants. Some of the key features of the new kleptocracy, it is argued, are its transnational character and its political visibility. In contrast to other illicit actors – such as narcocriminals and terrorists – who conceal their transnational ties, the new kleptocrats 'tend to use the agents, services, and institutions of globalization not only to safeguard their assets, but also to maintain a high-profile status' (Cooley, Heathershaw, and Sharman 2018, 40). Key to this process, it is claimed, 'is the work of professional intermediaries who blend ill-gotten gains together with legal financial flows and investments' (*ibid*). This facilitates the twin objectives of the new kleptocracy, namely the laundering of money and the whitewashing of reputations.

No one has done more to expose the new kleptocracy than John Heathershaw and colleagues, who argue that the UK's kleptocracy problem is a matter of international security and not just a rule of law matter. In their evidence to the parliamentary inquiry on illicit finance, they argued that the UK's laissez-faire attitude to post-Soviet kleptocracy meant that, when Russia invaded Ukraine in February 2022, the Kremlin did not take UK threats seriously as it believed it could easily ride out sanctions against its businesses. They also argue that the UK was much slower than the US and the EU in sanctioning key oligarchs because, as well as the lack of political will, the Johnson government lacked the capacity and the intelligence to analyse kleptocracy. They furthermore suggest that the UK government lacked the appetite to sanction Russian oligarchs in the early aftermath of the invasion, citing US sources that perceived the UK as the weak link in western efforts to deter and coerce Russia (Heathershaw et al. 2022). One such source was a think tank close to the Biden administration which said: 'Uprooting Kremlin-linked oligarchs will be a challenge given the close ties between Russian money and the United Kingdom's ruling conservative party, the press, and its real estate and financial industry' (Bergman 2022). The report also proposes creating a standing US-UK joint counter-kleptocracy working group 'in part to prod stronger action from the U.K. government' (*ibid*).

In their evidence to the parliamentary inquiry, Heathershaw and his colleagues said that a wide array of public institutions beyond government – including charities, think tanks and universities – has become 'depositories for kleptocratic wealth and potential vehicles for their influence' (Heathershaw et al. 2022, 7). To counter the threat, they called for an urgent anti-kleptocracy strategy because

> the efficiency and effectiveness of the law had been harmed by the phenomenon known as Londongrad, the welcome of persons and monies, agendas and rivalries, from post-Soviet kleptocratic states to the UK by a class of professionals known as enablers. (*ibid*, 1)

However, the sanctioning of more Russian oligarchs will not of itself solve the kleptocracy problem because, as we noted earlier, Londongrad is only one expression of dirty money in the UK. Recently, the UK Treasury said that 'there is a realistic possibility that the scale of money laundering impacting the UK annually is hundreds of billions of pounds. As an illustration, the largest money laundering scandal in Europe (Danske Bank) involved €200 billion suspicious transactions, with 40% of those flowing through UK registered entities' (UK Treasury 2022).

As the UK has harboured illicit finance for so long, some citizens might wonder whether it really matters to their everyday lives. The parliamentary inquiry into this question opened its final report by offering a robust and unimpeachable answer:

> Illicit finance, as dirty money is politely known, spreads corruption across the United Kingdom and costs every home and every community. It undermines our national security by supporting corrupt and autocratic regimes around the world, subverts our rule-of-law systems to hide and protect ill-gotten assets, deprives the world's poorest communities of resources, prices citizens out of our housing market and infiltrates our academic and democratic institutions. (House of Commons 2022a, 4)

To counter the anti-democratic threats posed by money in the political system – be it dirty money or dark money – the most important antidote is transparency. Registers of beneficial ownership should be public and accessible to all and the funding of political parties and their think tanks ought to be equally in the public domain. Legislation is only relevant if it can be enforced, hence the importance of adequate funding for anti-money laundering agencies. But if it is to facilitate political debate, greater transparency needs to be accompanied by the termination of lawfare, which has been used to great effect by oligarchs to silence critics and stymie public debate, especially in the UK. Dismantling Londongrad, in other words, could be the catalyst for a wider and deeper campaign for democratic renewal in the UK so long as the dirty money problem is not confused with one of its symptoms (like Russian oligarchs) and instead recognized for being the systemic problem it really is, corroding the economy and the political system in equal measure.

5. Conclusion

Londongrad needs to be understood as a place, a process and a paradox. As a place it has been a spatially safe harbour for dirty money; as a process it has been a key node in the global network of secrecy jurisdictions; and a paradox because it aligns two nominally opposed systems, neoliberal Britain and authoritarian Russia. Over and above this characterization, the paper has sought to make four contributions. Firstly, it adds to the critique of the VoC approaches by showing that the nation state perspective fails to capture the diverse international networks through which dirty money is channelled between the source and destination locations. Variegated capitalism (VC) approaches with their sensitivity to heterogeneous spatial and institutional arrangements may offer better tools to deal with flows of dirty money organized via offshore and networked spaces. However, the VC approaches are not without their own limitations when it comes to post-socialist space. Political regimes that have emerged in countries of the FSU offer a test for variegated capitalism because many elements of market economy infrastructure – such as secure property rights or independent courts – are missing. The inordinate dominance of the state in economic activities is part of the repertoire of authoritarian state capitalism in Russia, whereby market mechanisms are subordinated to the interests of the state.

Secondly, the paper contributes to the literature on globalisation that has hitherto paid too little attention to corruption and the geopolitics of illicit money flows. Conventionally framed as a problem with corrupt governments of the source countries, dirty money now appears as a much more pervasive feature of the financial machinery of globalisation in which the governments of the source and recipient countries are equally implicated. We have sought to overcome the public sector bias in the conventional corruption literature by demonstrating the culpability of private sector actors, especially the 'professional enablers' like banks, lawyers and real estate agents. The twin tasks of laundering money and whitewashing of reputations could not have been accomplished without highly proficient professional enablers and the latter were readily available in London's knowledge-intensive business services cluster.

Thirdly, the paper has sought to shed more light on a dark but neglected dimension of urban economies in the Global North. In the economic geography literature, for example, London is treated as one of the foremost KIBS clusters in the world economy; yet the role of dirty money in sustaining this knowledge cluster needs to be more widely acknowledged because it constitutes the dark side of London's status as an innovative global city. The role of enablers in the KIBS cluster also attests to the prominent role played by the *private sector* in the attraction and recycling of dirty money in London and this merits much more prominence in the literature on corruption, much of which has traditionally framed corruption as the abuse of public office for private economic gain (a definition popularized by the World Bank among others) even though this desiccated framing has been convincingly demolished by researchers in the Global South as well as the Global North (Bracking 2007; Heywood 2015).

Finally, we have sought to correct the analytical bias in the dark geography literature – which is inordinately focused on excluded and marginalized people and places – by focusing on the upper echelons of the social hierarchy, specifically on oligarchs and kleptocrats and the cluster of professional enablers that broker the flows of dirty money and enrich themselves in the process.

The Londongrad case offers a new lens for understanding the dark side of globalisation by treating corruption (and the illicit wealth that it generates) not exclusively as a problem of institutionally weak countries, but as a systemic element in the architecture of globally connected capitalism, where London became one of the most egregious examples in the developed world. The backlash against the Ukraine war has inadvertently generated a serious attempt to regulate dirty money flows and sanction key Russian oligarchs and this could create a new political space to regulate dirty money enablers and subject dirty money flows to more transparency regarding who owns what and where. However, it remains to be seen if the war will prove to be a truly consequential turning point in the regulation of dirty money in and beyond the UK.

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