

World Cities and Economic Development.

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ICE

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WORLD CITY



In summary

- i. World is now changing fast. 6 big Mega-trends impact upon regions and cities and are fostering a new age of urbanisation and metropolitanisation.
- ii. To succeed regions and cities must adjust, and need to be: Open, integrated, diverse, connected, skilful, innovative, investable, attractive, and sustainable, stable, and safe.
- iii. The adjustment requires a clear plan, a distinctive offer, sustained investment, strong co-ordination of policies and programmes, and effective tools for intervention. Co-ordinated action focused on enhancing assets and tackling weaknesses is key. Vertical co-ordination and horizontal action are essential.
- iv. Regions and Cities need partnership with global corporations to achieve this, and, the process of change in regions and cities, and the growing markets it creates is a major opportunity for business growth.
- v. Smaller cities and towns must also adjust and need to develop strategies and rationales that complement other places if they are to succeed.

An Urban and Metropolitan World

- Globalisation and the knowledge economy have repositioned metropolitan regions as drivers of national economies:

2025: 75% of world population will live in cities

2025: 17 of world's 25 largest cities will be in coastal regions in Asia

1925: 25% of world population lived in cities

Take a long term view.

6 Long Term Drivers:

- Economic Internationalisation.
- Human mobility and demographics.
- Environmental change and challenge.
- Technology development.
- Urbanisation of poverty and inequality.
- Continental governance.

How cities and regions respond matters.

- Governance, investment, strategy, leadership, marketing & branding, catalyst, collaboration.
- Population and investment strategies, branding, climate impact, science and knowledge, inclusion, open-ness.

Global economic integration has increased dramatically over recent years...

“Globalisation is the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services, free international capital flows, and more rapid and widespread diffusion of technology.”

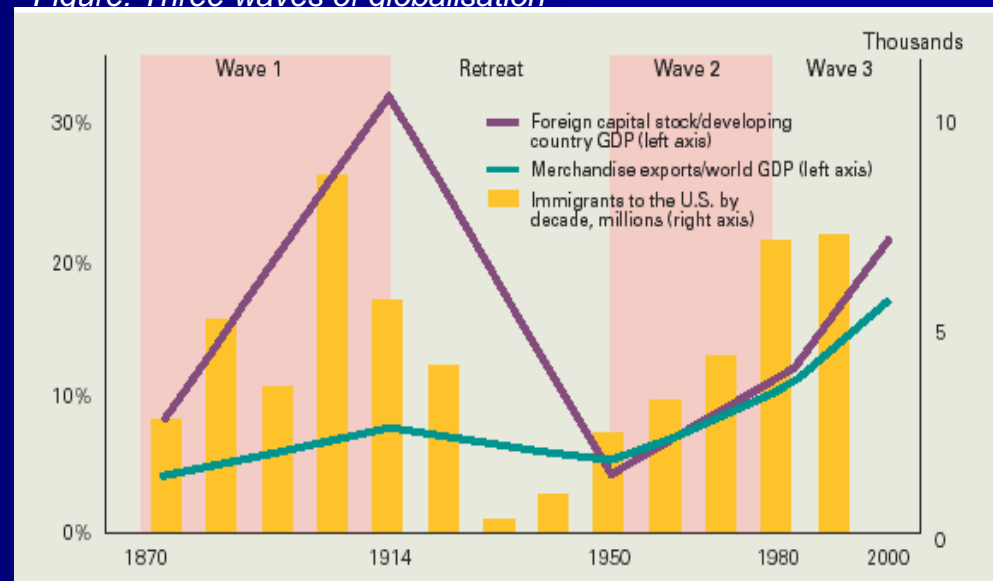
Source: International Monetary Fund

History of Globalisation

- **Globalisation is not a new phenomenon**, there have been numerous examples of markets undergoing structural change and periods of high levels of cross-border trade going back as far as Roman times.
- However globalisation, as we consider it now, **really took off in the late 19th Century** as Britain led the way with a large increase in exports to the world and global migration increased significantly.
- World War I sparked a **period of retreat** but after World War II there has been **further waves** of globalisation.
- The current wave is distinctive because of the **scale and pace of change**; the **international fragmentation of production** and the **maturity of international capital markets**.

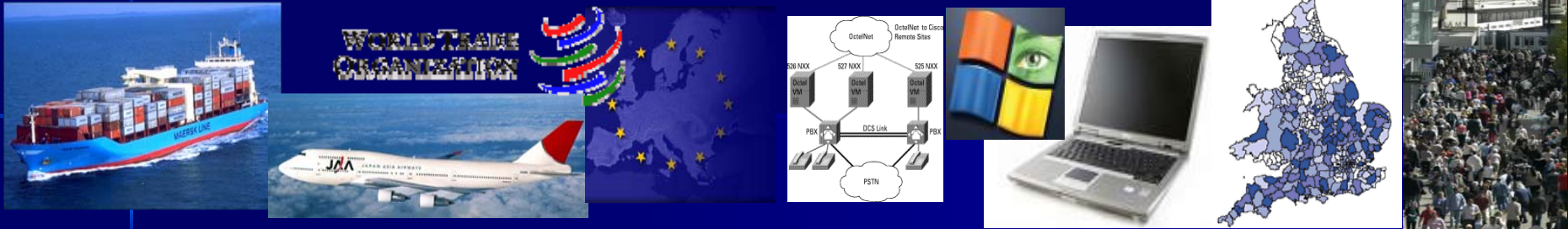
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Figure: Three waves of globalisation



Source: World Bank

There are economic, political and social drivers of this recent wave of globalisation...



Falling Transport Costs

- An important factor that has driven globalisation over the last 50 years is the significant **falls in the costs** of transportation.
- Containerisation and haulage have dramatically **increased the capacity and speed** with which **goods** can be transported around the globe and domestically.
- This has reduced the need for goods to be manufactured near to the consumer.
- Recently there has also been significant **falls in the cost of air travel** allowing people to move easily around the world.

Free Trade/Geo-Political Shift

- Since World War II and especially since the fall of the Soviet Bloc, there has been a **strong commitment** by many nations to **free trade**.
- This is achieved in principle through **reducing tariffs** and other barriers to trade.
- There have been numerous multi-lateral **trade agreements** between countries and overseen by the World Trade Organisation.
- The establishment of the **EU** has allowed and encouraged the **free movement of goods, services and capital** between its member states.

Advances in Technology

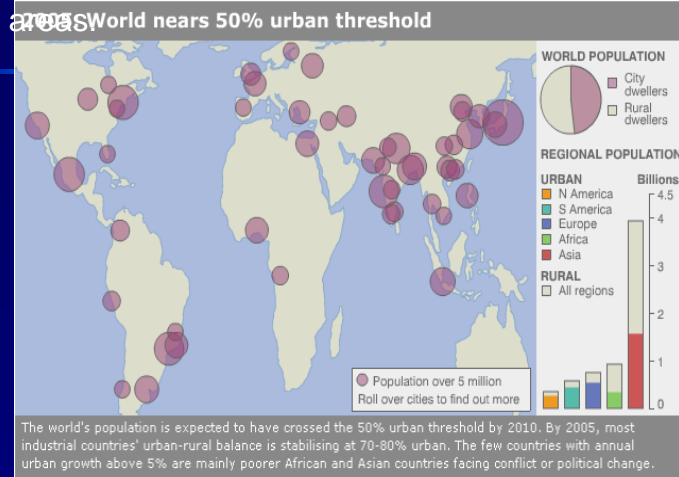
- There have been significant advances in **information and communication technology** over the last 20-30 years.
- This has facilitated information exchange and has lowered transactions costs.
- Combined with lower transportation costs, this has enabled firms to **outsource** different elements of their business to various locations and hence the **growth of multinationals**.
- There is also a **direct effect** with new technology industries offering opportunities and a greater need for skills.

Mobility of People

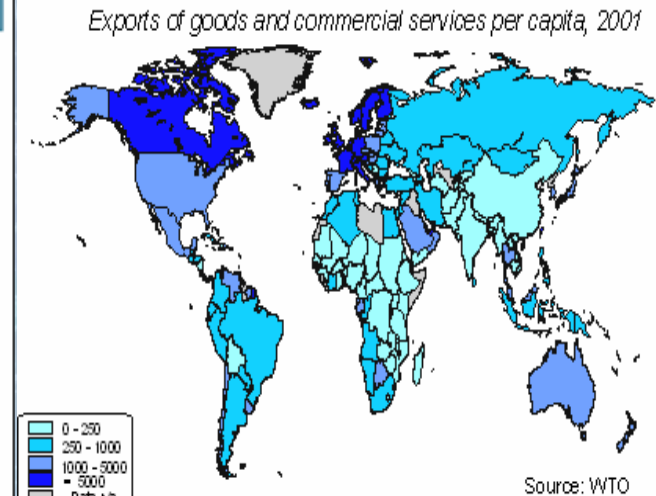
- Both internal and international migration have been drivers of globalisation.
- The willingness and ability of people to move has provided an **increasingly flexible labour market** to meet the needs of growing sectors.
- Internal both inter- and intra-regional migration has **increased steadily** over the last few decades.
- **International migration** has also been on the increase, with indications suggesting that this **trend will accelerate** in the coming years, supporting continued globalisation.

Internationally this has led to urbanisation, increased trade and capital flows and the geographic fragmentation of production...

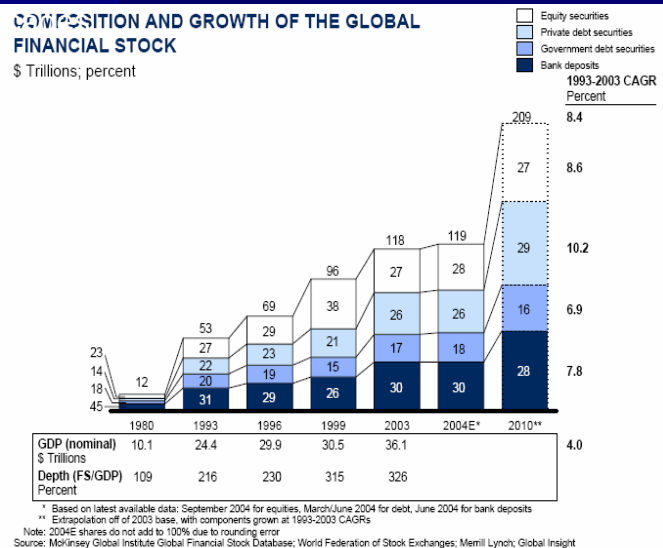
Urbanisation - Nearly half the world now live in urban



Trade Flows - World trade has increased dramatically over the last 50 years



Capital Markets – Dramatic increases in the last few decades



Geographic fragmentation of production – Companies are splitting their production process around the world to where it can

“The globally integrated enterprise, fashions its strategy, management and operations to integrate production worldwide. That has been made possible by shared technologies and shared business standards, built on top of a global information technology and communications infrastructure. New technology and business models are allowing companies to treat their functions and operations as component pieces, companies can pull those pieces apart and put them back together in new combinations.” – S Palmisano, head of IBM, 12/6/06 in the FT

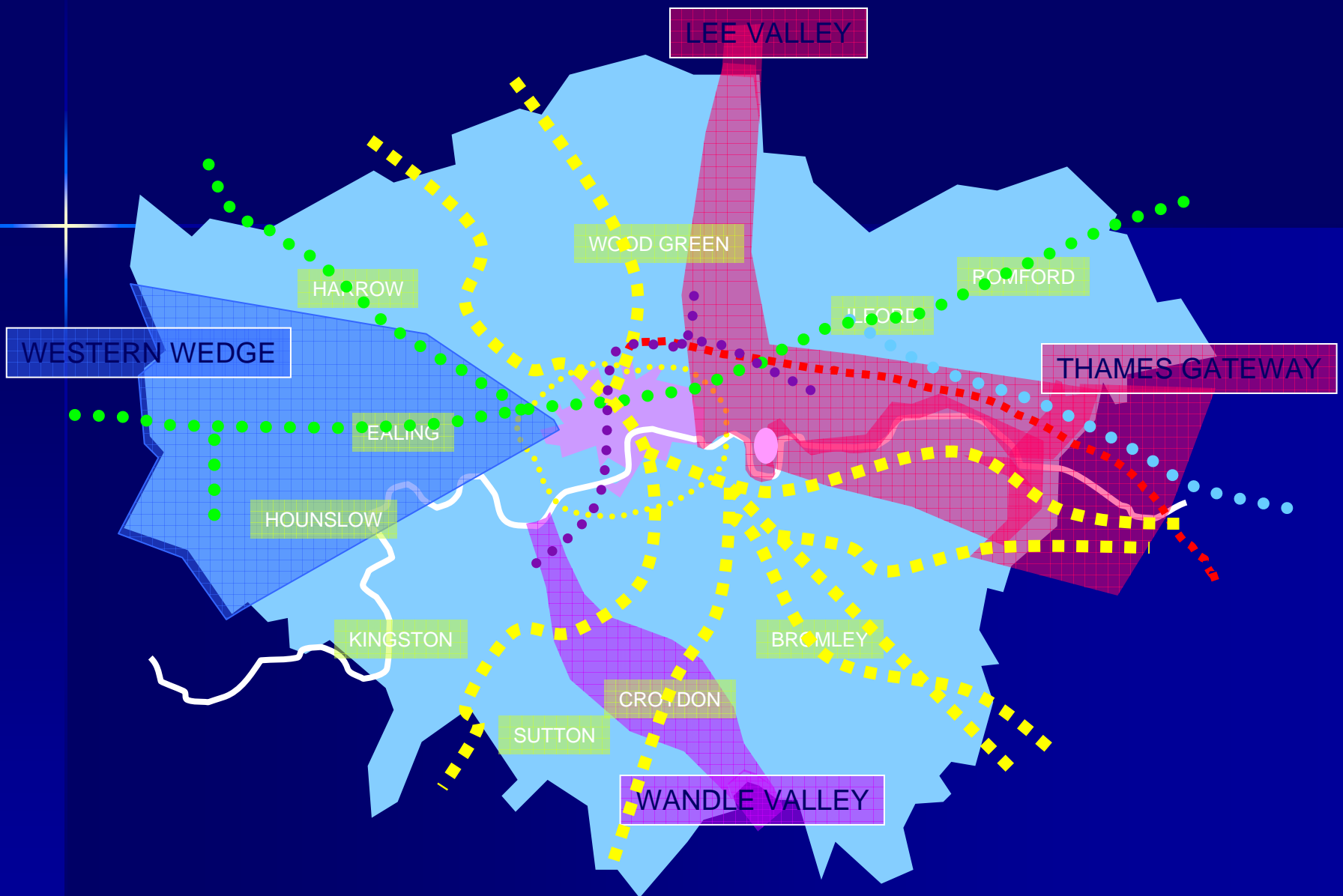
The current wave is expected to continue with the emergence of new economies driving the global economy...

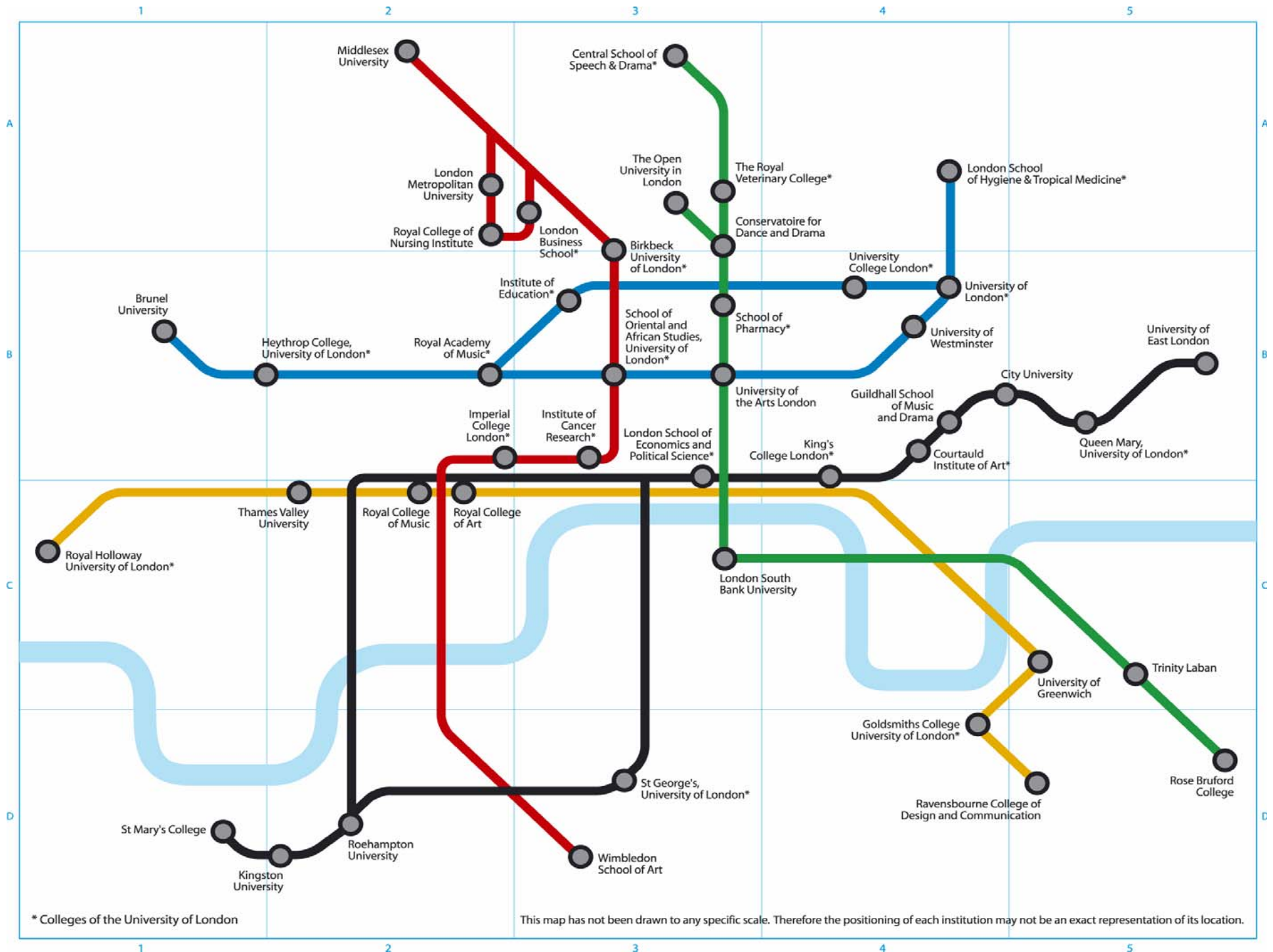
Emerging economies

- Globalisation is expected to continue at an ever increasing pace **driven by emerging economies**, such as China and India.
- They are growing at a rapid rate and are forecast to account for nearly **40% of the growth** in the world economy over the next 15 years.
- Emerging economies have access to a **huge labour force**; over 80% of the world's population live in emerging economies.
- This supply of labour, combined with an increasing openness to trade and improved communications has allowed these emerging markets to forge **strong manufacturing based, export economies**.
- This shift in power away from developed countries will have a profound effect over the coming years across the global economy and specifically for Britain.
- In general, the emergence of these economies has and will be good for the developed world with **consumer goods becoming cheaper** and **productivity being boosted** by increased competition.
- However, there are likely to be **losers** as a result of increased competition with **rising inequality** as the rising ascendancy of emerging economies alter the **relative returns to labour and capital**.
- The impact on the UK over the coming years is likely to follow a **similar pattern** to what has been going on over the previous 30 years, with the **comparative advantage** shifting towards **innovative** and **knowledge-intensive** service sectors.

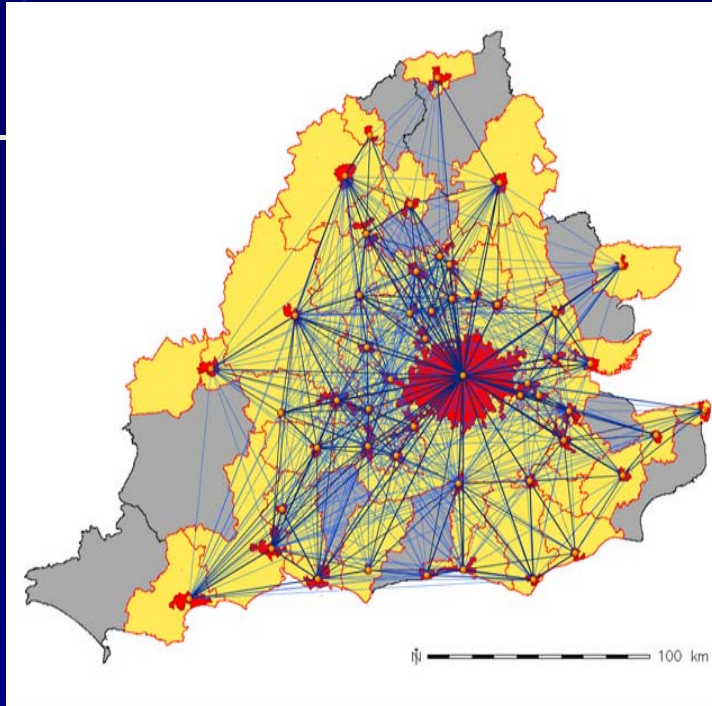






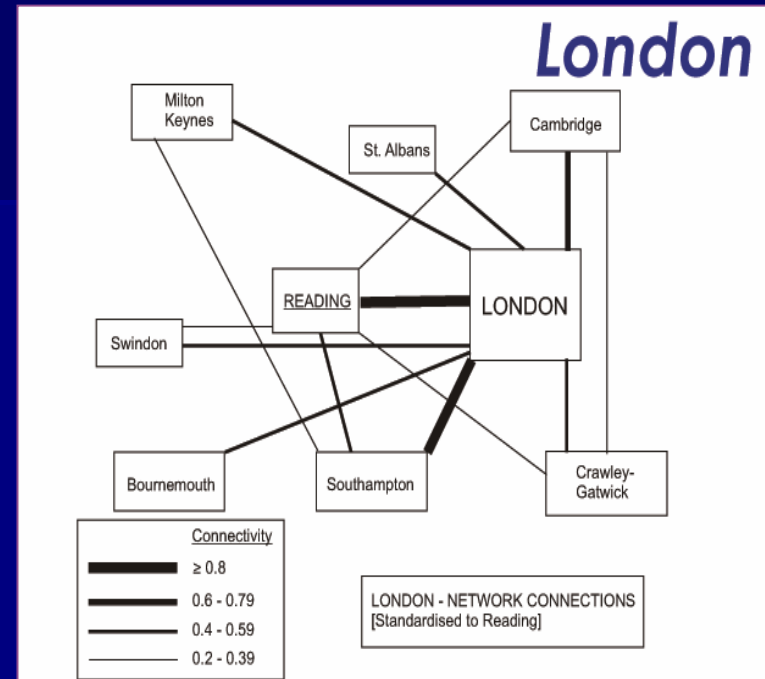


...with cities also increasingly inter-connected



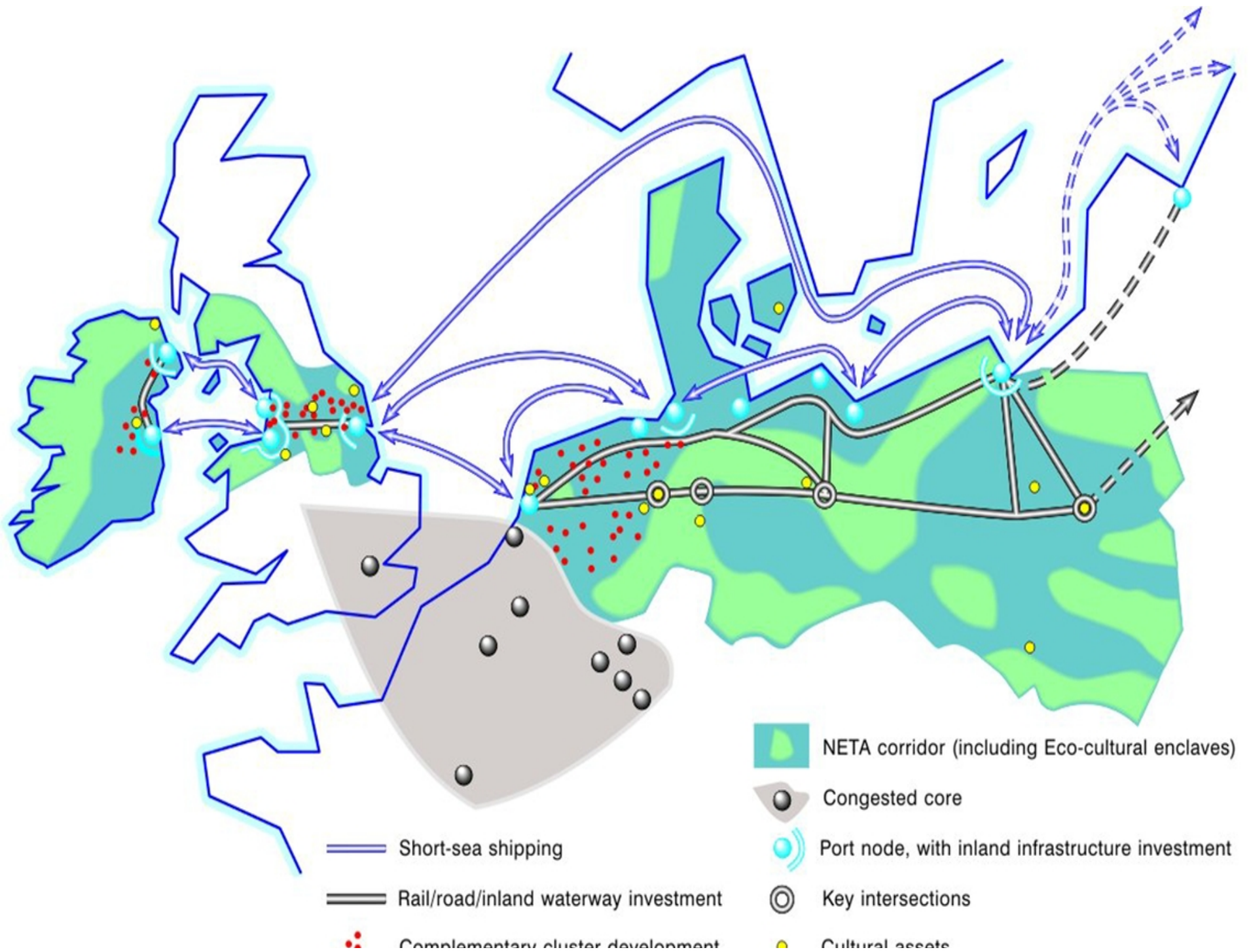
Complex network of commuting flows in the London city-region
Source: Polynet

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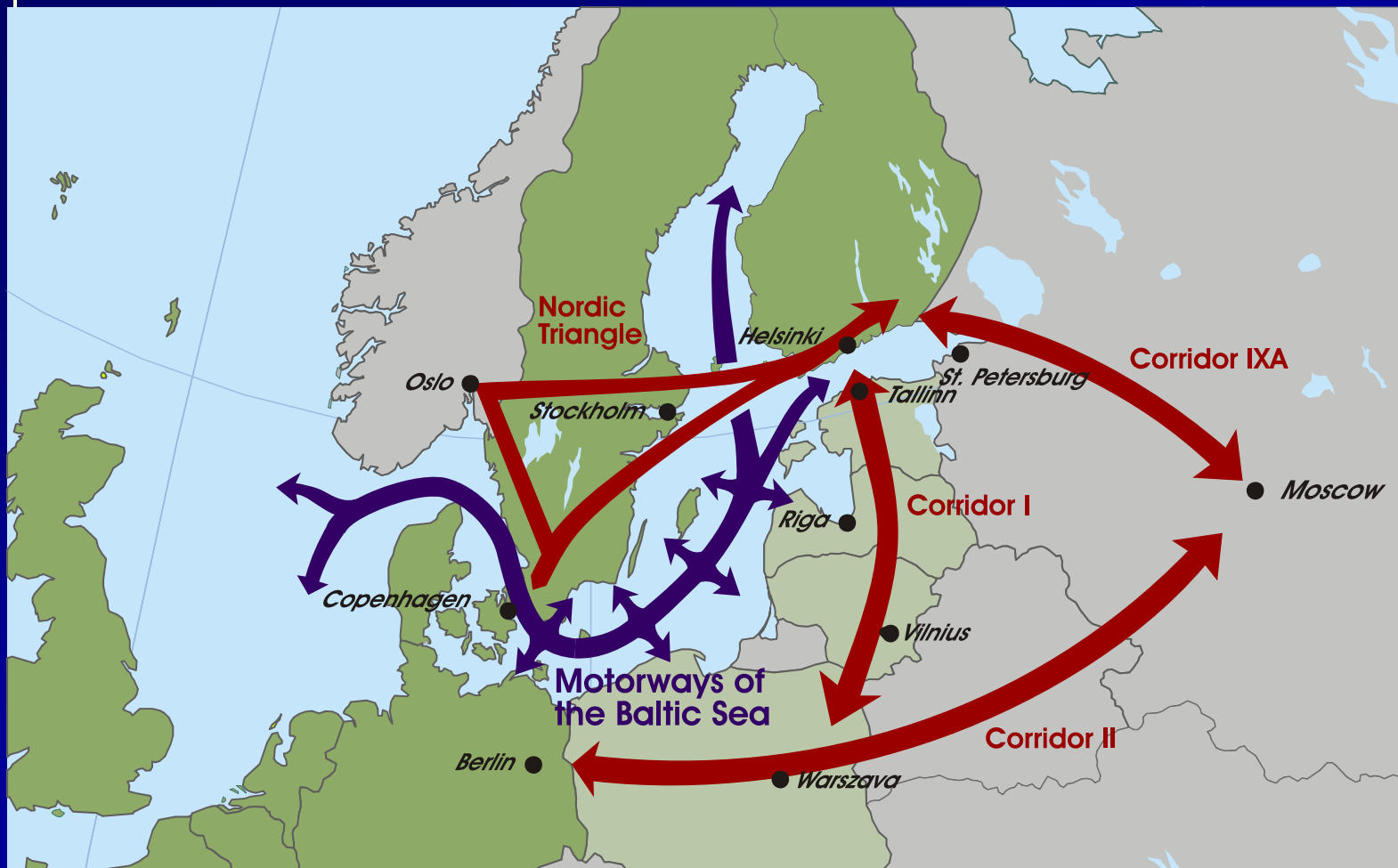


Principal business connections in the London city-region, showing polycentric relationships e.g. Reading –Southampton, Milton Keynes – Southampton Source: Polynet

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Corridors and alliances of the Baltic



ROUTE AND STATION LOCATIONS

North - South



Pretoria

Hatfield

Centurion

Midrand

Marlboro
Sanaton

Rhodesfield

JIA

Rosebank

Park Station

Preferred Route

Anchor Stations

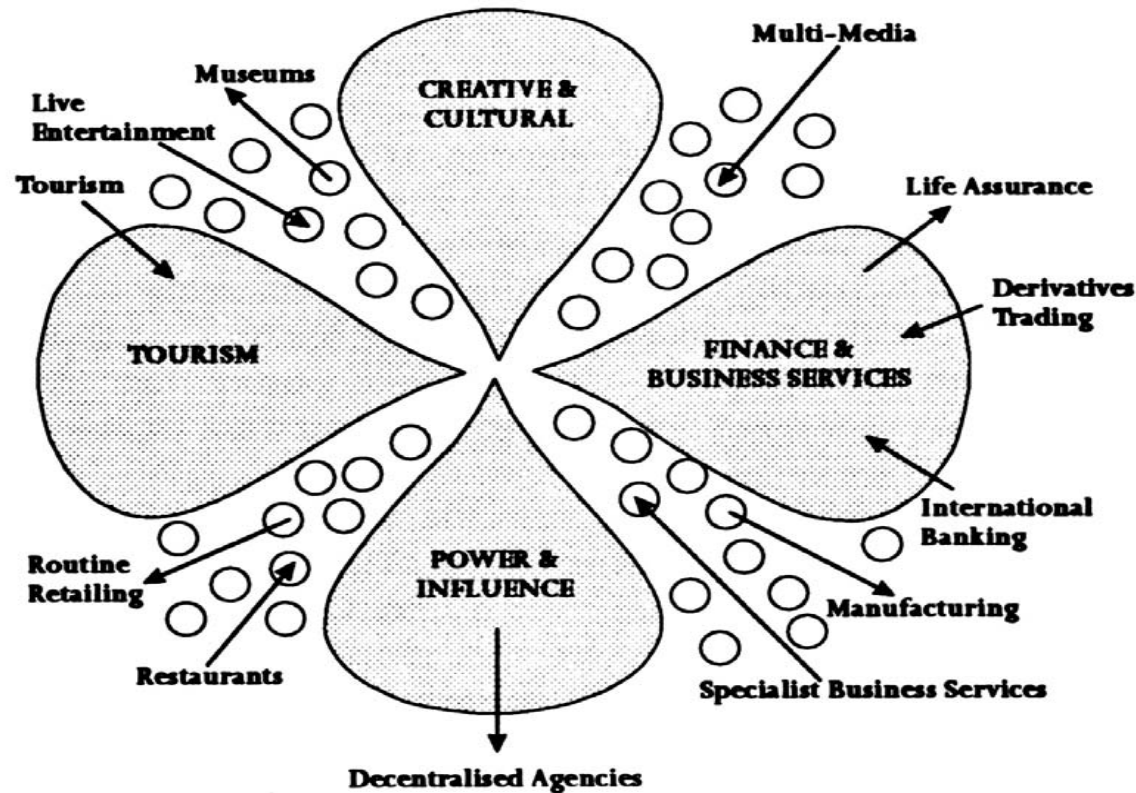
Stations

Airport



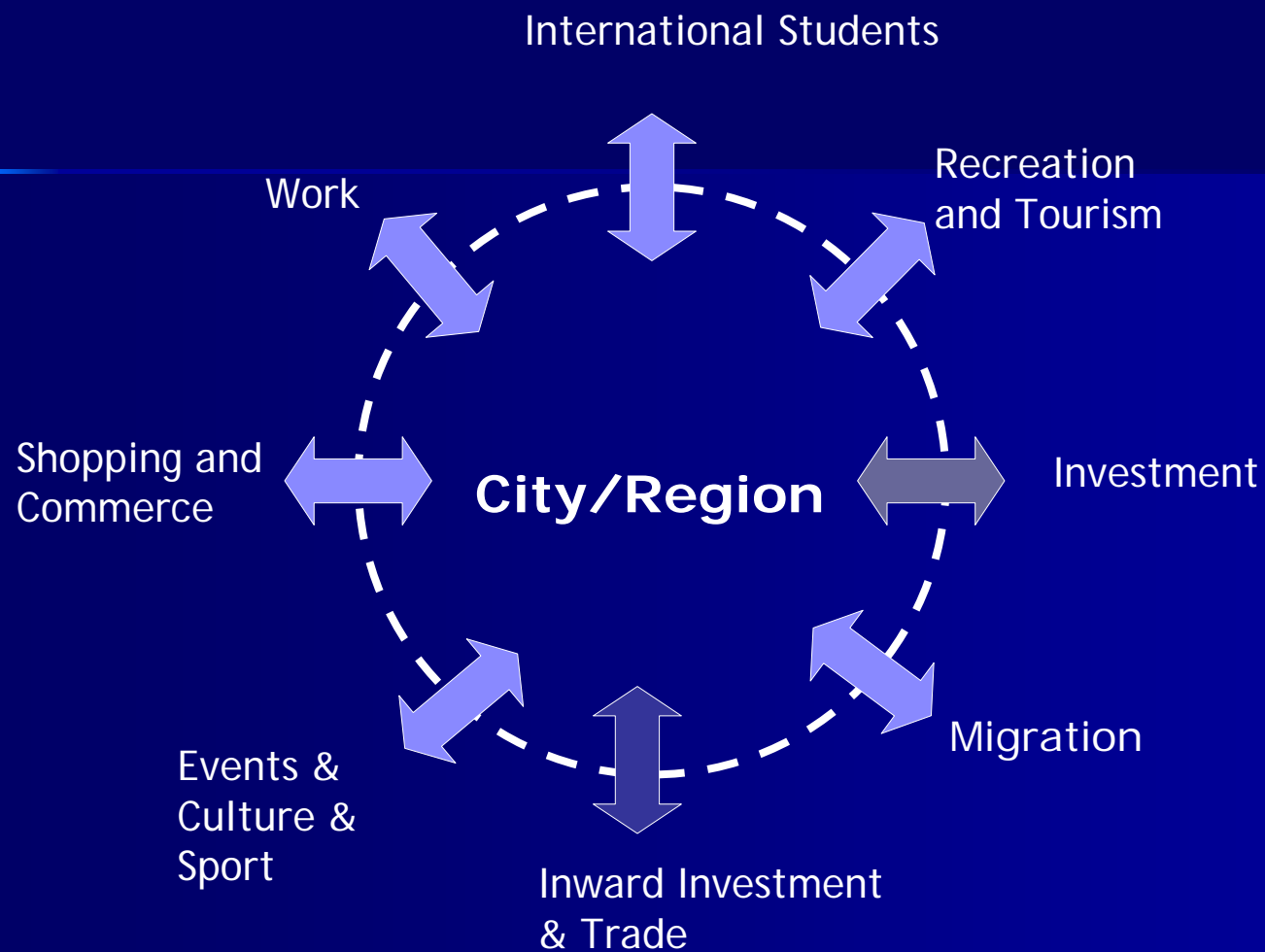
The World City-Regional Economy.

Figure 4



Focus: the Challenges of bigger city-regions.

- i. Bigger cities now key to **national economic success**.
- ii. But bigger cities not focus of **national economic policies**.
- iii. Cities/regions/metropolises not recognised well in higher order or sectoral policies.
- iv. But globalisation happens through **institutions and firms based in bigger cities**, and using metropolitan logistics and infrastructure.
- v. Bigger cities provide a **high return on public and private investment** if they can solve problems effectively.
- vi. Organising the **economic city and its story** is the first key task.
- vii. Demonstrate the ability to make an economic difference.
- viii. **Global cities working with globally companies**, a large firms agenda as well as small firms.
- ix. Make the **case for the city economically**.....London, New York, Auckland, Madrid.



Cities, Regions,
and Mobility

The competitive advantage of diversity for regions and cities.

- i. Quality of life for knowledge economy.
- ii. Richer visitor experience.
- iii. Spur to creativity and innovation.
- iv. Openness to wider markets, populations, and customers.
- v. Trade and exchanges with international markets
- vi. Levels of entrepreneurship and aspiration.
- vii. Better corporate relations.
- viii. Attractive ness for international investments/events

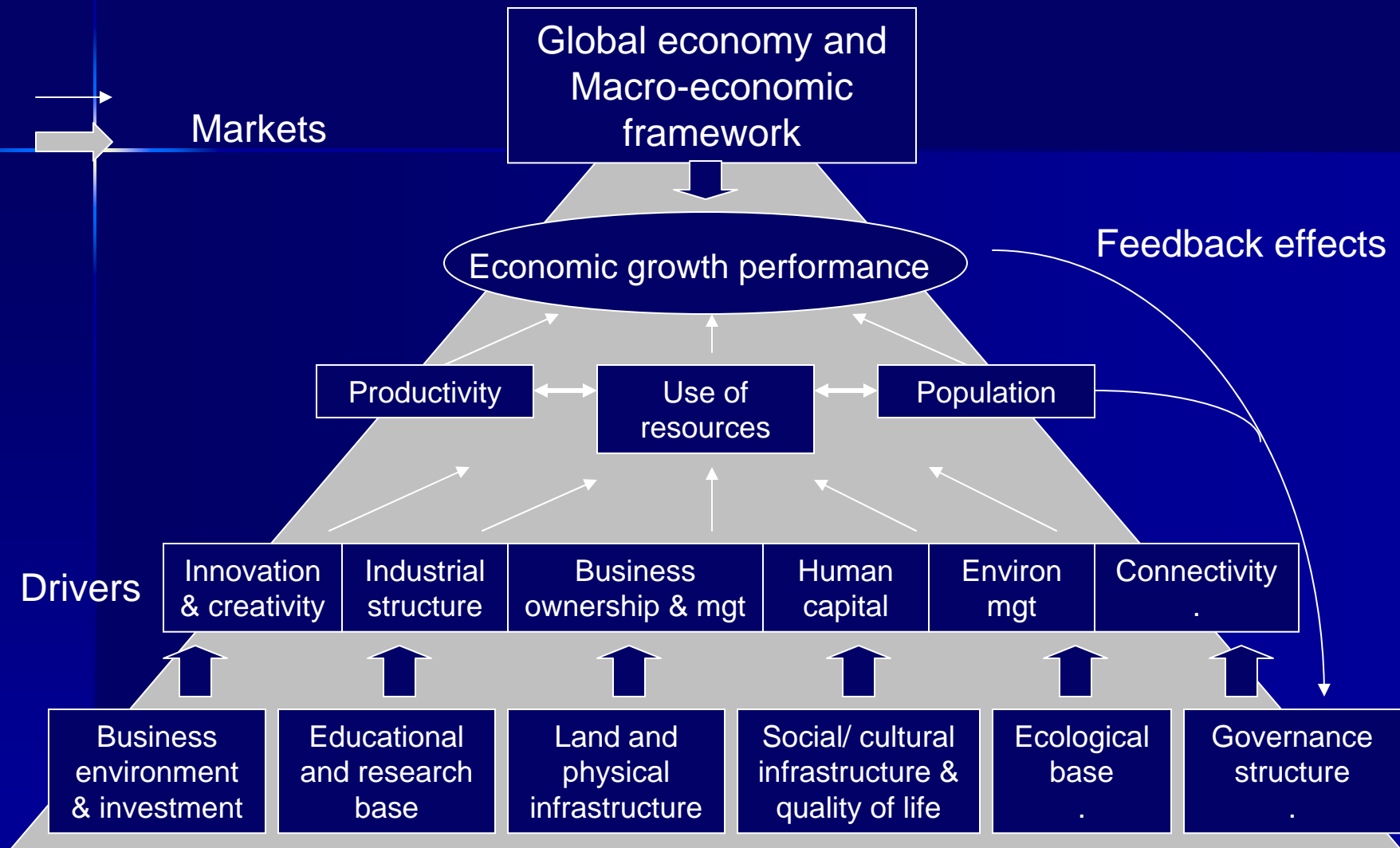
Serve the global market from one location!

How do city economies grow?

6 basic approaches.

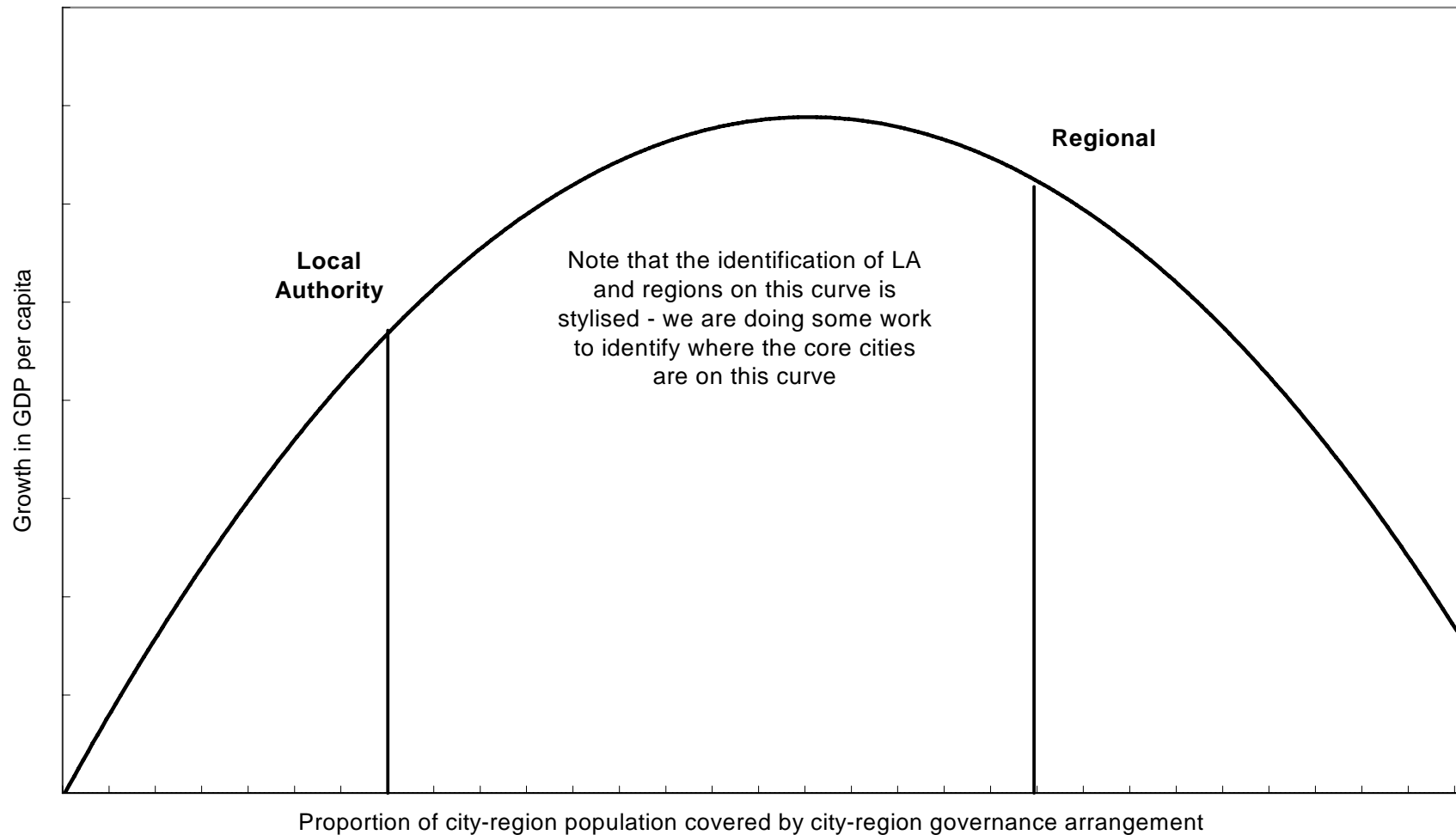
- i. **Share of global markets** and position in **value chains**.
(population, trade, production, services, etc). Links to sectors.
- ii. **Productivity**.
(innovation/creativity, skills & workforce, enterprise, investment & infrastructure, employment, competition).
- iii. Tackling **market failures** and **co-ordination/government failures**.
(failures to balance supply and demand, failures to regulate/co-ordinate/facilitate/ameliorate effectively, quality of services).
- iv. **Addressing Information asymmetries**.
Market does not know what you offer, or actors do not know what each other are doing.
- v. **Promoting Agglomeration**.
Clusters of firms inter-trading and sharing place based resources and advantages such as services, workforce, infrastructures, suppliers.
- vi. **Leveraging unique local assets**.
The distinctive aspects of place created by economic history, physical and human geography, legacy of previous investment/policy.

Framework for economic growth



As many cities are 'under-bounded' and many regions/provinces are 'over-bounded' city-region governance may boost growth...

Relationship between size of government and economic growth



Rise of new regional policies.

- Spatial disparities.
- Regional and City-Regional Organising.
- Collaborative leadership.
- Long term and new geography.
- Public and private.
- Markets and public services.
- Many different approaches: formal and informal.
- Open-ness to external opportunities.
- Adjustment to change.
- Shared growth and territorial cohesion.

	Traditional Regional Policies 'Regional Planning' 1950s to 1990s	New Regional Policies 'Territorial Development' 1980s to present
Objectives	Balance national economies by compensating for disparities	Increase regional development performance
Strategies	Sectoral approach	Integrated development programmes and projects
Geog. focus	Political regions	Economic regions and eco regions
Target	Lagging regions	All regions
Context	National economy	International economy and local economies
Tools	Subsidies, incentives, state aids, and regulations	Assets, drivers of growth, soft and hard infrastructures, collaboration incentives, development agencies, co-operative governance
Actors <small>www.citiesandregions.com</small>	National governments	Multiple levels of governments, private and civic actors. Implementation agencies.

Leadership challenges in cities and regions.

1. Rapid and dynamic growth of **metropolitan regions**.
Megatrends driving metropolitan growth.
2. **Investment** not enough.
Financial resources are finite and national public finance is slow to follow growth. Lack of investment tools.
3. **Formal power and competence** less than needed
City and regional governments do not control everything:
boundaries.
competences.
division of labour with higher/lower tiers
markets.
regulation/freedom
4. **National and sub-national** governments guard their own space.

Agenda building and influencing roles to the fore.

Positioning the role of Economic Action within City-Regions.

- i. Economic strategies not like public services. Engaging in markets, increasingly global...
- ii. It is **not an expenditure** cities/regions make. It is an **investment** that yields returns if done well. **Income side** of balance sheet.
- iii. **Not just a department within a city/region, but a rationale for what the city/region does.** The **prosperity** agenda.
- iv. Not a choice amongst competing priorities, but a means to achieve wider goals in social, environmental, cultural realms. **It is the business of everyone.**
- v. Economic development has broad **outcomes**: taxes/resources, land values and assets, jobs and choices for citizens, investment, visitors, prestige, dynamism and buzz, partnership with business on city goals, a clear future for the city and its people.....

Features of effective city/region organising

1. **One Overall Plan**; and strong story line. An investment prospectus.
2. **Economic agenda** across whole Regional/City Gov, not within one department.
3. **Organised business leadership** that is demanding and consistent and speaks to all orders of Government.
4. **Customer orientation**: employers, investors, visitors, entrepreneurs, traders, innovators, developers, infrastructure...
5. Focussed number of **top priorities**, sectors, and spaces.
6. Expanding **capacity to implement**. Range of financing tools.
7. Range of **delivery vehicles** that can **attract external investment**.
8. **Problem Solving** and **Project Management** orientation.
9. Strong **economic agenda and partnerships** with:
Local public sector, Local and regional Private Sector. Regional public partners, Provincial and Federal Governments, Global partners.
10. A collaborative leadership that leads, empowers, **focuses on big picture and leverages resources to deliver**.

Key role of business leadership organisations

Business leadership is essential.

Regional business leadership groups work well everywhere.

London, Seattle, Sydney, Singapore.

- Investment prospectus and advocacy/PR.
 - Help public leaders focus on economy.
 - Sustain the economic agenda beyond election cycles and administrative boundaries.
1. Grow the regional market and customer base.
 2. Improve the productive platform and strengthen business interactions.
 3. Make the case for public investment and co-invest.
 4. Innovate with creative approaches.

Success and failure in Regional Development

Success.

- Rising tax base with lower taxes.
- Employment and incomes for citizens and choice of jobs.
- Resources for social and environmental programmes.
- Multiple distinctive and attractive locations.
- Managed growth and investment.
- Increased global connectivity.
- Strong collaborations.

Failure

- Dwindling tax base with high taxes.
- Reduced resources for other programmes.
- Environmental degradation.
- High unemployment and high emigration.
- Disinvestment.
- Failed projects and initiatives. Bickering.
- Reduced global connectivity.
- Unmanaged decline.

Initiatives for economic inclusion: Validating the tools.

- i. Public services and infrastructure.
- ii. Labour market transition.
- iii. Informal economy strategy.
- iv. Investment instruments with local reach.
- v. Settlement and conversion programmes.
- vi. New forms of entrepreneurship.
- vii. Procurement and supply chain value.
- viii. People, places, and markets progressing together. Place equity.
- ix. Corporate responsibility and tackling discrimination.
- x. Locally owned development vehicles.

Why do city-regional strategies fail?

- Strategy done for **wrong reason** /strategy has no focus or specificity
- **Lack of leadership** and cross city working.
- No **communication**, compacting, and conviction.
- No **assessment** of local assets and distinctiveness.
- No **assessment** of demand side opportunities.
- No **responsibility** amongst competent bodies.
- Lack of **tools** to implement at scale.
- Lack of **investment**, capacity/resources.
- Failure to **solve problems** as they arise.
- No **intention** to implement.
- No **support** from higher tier Govs, or neighbours.

Why are development tools and agencies competitive advantage to cities and regions?

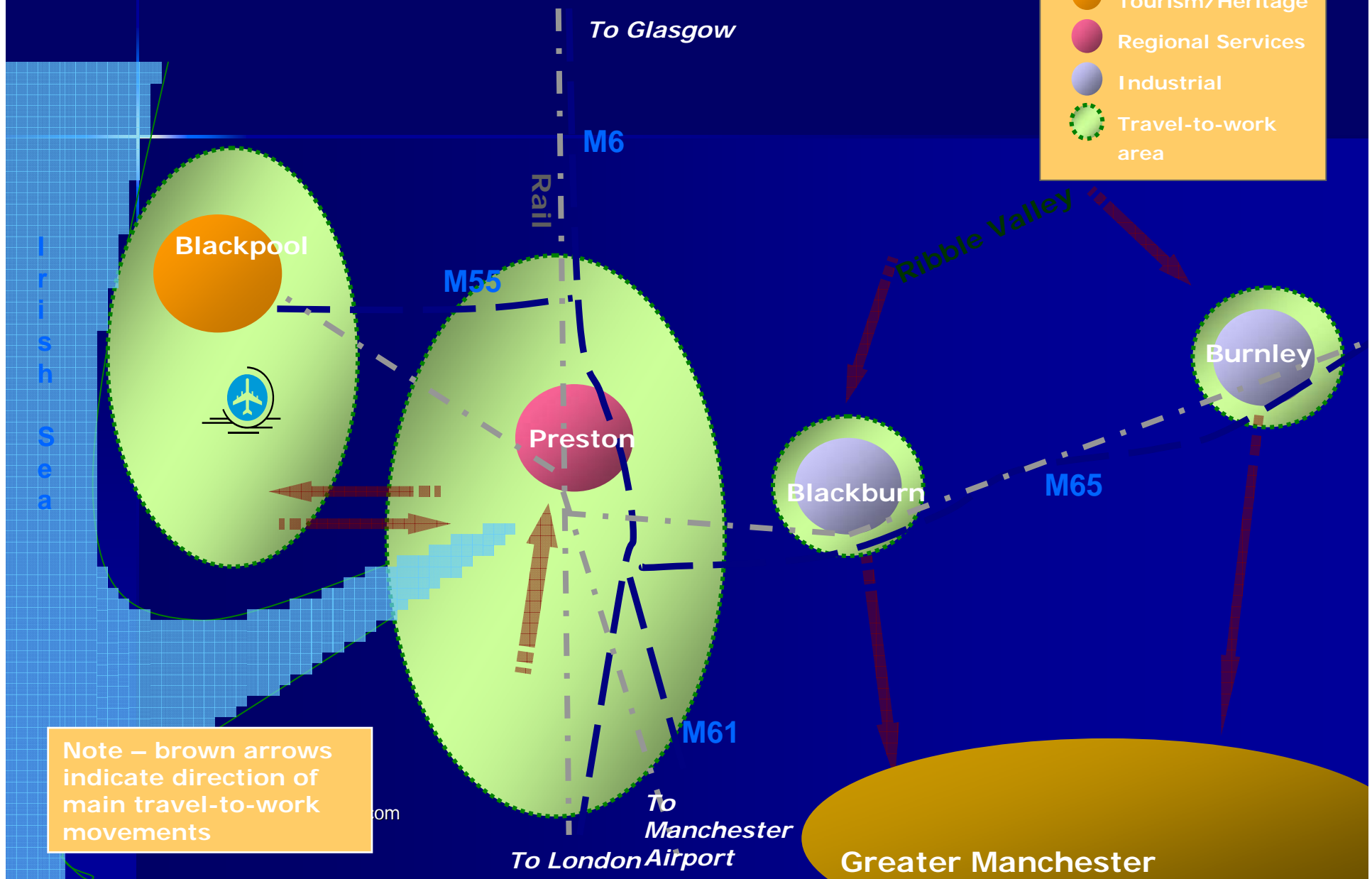
- i. Pace of response to investors/developers.
- ii. Scale of intervention possible. Multiple and simultaneous.
- iii. Reputation and credibility of city 'negotiators'.
- iv. Costs and risk sharing opportunities.
- v. Value and benefit capture opportunities.
- vi. Unlock under-used assets.
- vii. Devise new sources of investment.
- viii. Improve investment-readiness: develop propositions.
- ix. Increase efficiency in land, property, and local investment markets.
- x. Overcome 'co-ordination failures' arising from fragmented jurisdiction.

But these advantages don't exist in isolation from wider context, they are part of it.

Central Lancashire – the 'dynamics of place'

Key: Cities with
characteristics of

- Tourism/Heritage
- Regional Services
- Industrial
- Travel-to-work
area



Key messages (1)

Globalisation has implications for the structure of the economy and this will play out spatially:

Implications for growth sectors

As globalisation increases competition from emerging economies, it is accelerating the shift in England's comparative advantage towards innovative activity and high-value, knowledge-intensive sectors

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Implications for smaller places

Knowledge sectors benefit from locating in larger cities...
...but there is an important role for smaller places to host businesses which benefit from being in specialised clusters, or to provide lower costs to less knowledge intensive businesses

Implications for policy

The economic prospects of places will vary in a globalising world...
...the policy issue is to enable smaller places to identify their competitive advantage and reach their potential

The 'winners' and 'losers' are likely to be:

Winners are
likely to be

- **Well-connected smaller towns and cities** with high-quality land and labour that can offer lower costs to businesses or sectors where 'cross-industry' agglomeration is less important or where lower costs are more important than agglomeration benefits
- **Those that find a niche** – such as a specialised knowledge cluster, heritage/tourism centre or regional gateway (and so complement successful larger cities)

Places that lose
out will tend to
be:

- **Smaller towns and cities** specialising in sectors that compete with successful larger cities, especially in sectors that display agglomeration economies eg financial and business services
- Areas that suffer from diversion of potential investments and interventions
- Areas that specialise in declining industrial sectors

Key messages for policy

Policy implications:

- Smaller cities cannot fight the broader economic trends, and some places will lose out, but they would almost certainly do so under any scenario.
- No policy proposal can 'guarantee' that everywhere will benefit. Policy may need to focus on places where it would have the greatest impact, or to cushion decline.
- Harnessing growth in larger city regions may be the key to the long term development of older industrial towns nearby. But it will not be easy to emulate in the north the role of smaller cities that has developed in the south east.
- Smaller places need to adapt to trends, build on their strengths and address constraints, through developing their **competitive advantage** and **complementary economic niche**, and linking in to city-regions, or other networks.
- There are ways in which government can help:
 - Flexibility - enable places to tailor policies to reflect challenges and opportunities
 - Promote appropriate governance arrangements, including collaborations
 - Tools to support strategic planning and monitoring