

GREG CLARK AND TIM MOONEN

WORLD CITIES AND NATION STATES



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For Julia and Lucy

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Preface

This book has grown out of an initial study that was prepared for the Moscow Urban Forum in 2014. We wanted to inform the global discussion about the ways in which nation states were adjusting to the globalisation of major cities. The debate within nations about the role of their largest and most globally oriented cities varies hugely from one country to another. In some countries this is almost a national obsession, with continuous argument about whether having a global city is a net advantage or disadvantage. In some other countries the debate is almost totally absent, with either complete invisibility or complete acceptance of the global roles of major cities.

For the original study we consulted numerous books and academic journal articles to capture the latest insight into how the rise of world cities is changing government structures in nation states, and how both city and national governments are adapting to the new balance of power. We reviewed prominent contemporary books written in Europe, Asia and North America, and drew from the most recent findings of the World Bank, OECD and relevant international financial institutions.

For this book we identified 12 major world cities that reflected a range of geographic locations, constitutional structures, city statuses and development stages. Together these 12 cities' GDP exceeds \$7 trillion, accounting for roughly a tenth of global GDP. We gradually built up 12 case studies, drawing on recently published books, academic journals, independent media, international benchmarks and local studies and reports.

The ideas and arguments for this book evolved through extensive consultation with current and former senior members of city governments, and with national officials with responsibility for urban policy. Our research also engaged with political science and urban development experts in each of the 12 cities, as well as with business leadership organisations in many of the 12 cities.

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Foreword

This book begins with a simple premise: if the 20th century was defined by the nation state, our current century will be one driven by global cities. Beneath this observation, however, lies a complex web of implications for leaders across the world and across levels of government and society. In this insightful book, the authors show how adaptive nation states, in partnership with dynamic world cities, point the way towards a shared global future.

In response to the rising role of cities, we need to rethink the traditional arrangements of power between nations and regions. As responsibility shifts downwards, we need to reimagine the roles of legacy institutions that were intended to mediate between countries and invent new institutions that connect and empower cities. And as these global cities expand, we need to ensure that prosperity does not come at the expense of sustainability and equity.

Accelerating urbanisation is a natural response to trends in the global economy. International trade encourages specialisation, which, in turn, rewards agglomeration. By clustering skilled workers and similar types of industrial activity, cities and regions become more innovative and more productive. And despite predictions to the contrary, the benefits of proximity in both manufacturing and services have only increased from new technologies, thanks to everything from shortened product cycles and rapid prototyping to increased demand for customisation.

Still, these very forces of concentration, globalisation and connectivity that are causing the emergence of global cities are also creating challenges within them. Their rise in prosperity can also often come at the expense of secondary cities, increasing inequality across places. As economic hubs, they become magnets for migration, leading to challenges around settlement and integration. And cities that grow too fast or whose growth is too ungoverned often can develop in inefficient and unsustainable ways.

In many parts of the world, governance at the city level is showing it can innovate much more quickly than national governments, and these innovations are being shared and adapted by agile networks of global cities. But the message of this book is that global cities and nation states share a mutual interest in inventing solutions to the problems of our new urban century, and giving cities the tools to implement them at scale. Nation states therefore still have a pivotal role to play. There are a number of areas – national defense, international trade and the social safety net – where national governments must continue to set the rules and provide a stable environment. They also remain the most important source of long-term and large-scale investments in basic research, setting the platform for an innovative economy. But within a host of other policy areas, the best role for national governments is to be a partner – allowing their global cities the flexibility to customise solutions to their distinct challenges.

The rise of world cities in the global economy is not disappearing anytime soon. This reality demands a re-evaluation of how cities relate to their respective nations and to each other. These pages offer that valuable analysis – including both a look at the current variation of government systems across the world and a perspective on what cities need moving forward.

Bruce Katz,
Centennial Scholar, Brookings Institution
June 2016

Section I Introducing world cities and nation states

Introduction: Clash of the centuries?

The emergence of ‘world cities’, urban areas that are becoming global in character and orientation, is one of the most important phenomena of our time. World cities¹ are where much of the money, the knowledge and the decisions that shape the 21st century are generated. Their influence has propelled humanity beyond the inflection point from the ‘age of the nation state’ and into the ‘age of cities’. And yet this new age inherits all the identities, institutions and organising principles of the nation state system. The tensions, trade-offs and opportunities that arise out of this unstable equilibrium are the subject of this book.

World cities confront nation states with a historic opportunity and challenge. These dynamic agglomerations of people, industries and infrastructure have the

¹In this book, a world city is defined as one that not only participates in national and regional networks, but also influences and directs global flows of trade, investment and population. World cities host high concentrations of industries whose value chains are globally integrated, such as banking, electronics, ICT, telecoms, cars and tourism. They serve as national, regional and global headquarters for globally trading firms. Their employment and productivity advantages are magnets for domestic and overseas migrants, and their political and cultural importance makes them popular visitor gateways and aviation hubs. World cities also tend to assemble major institutions of knowledge, culture and recreation. They are not always national capitals, not least because several federal nations have deliberately created alternative capital cities.

There is debate in the literature as to whether ‘global city’ and ‘world city’ should be used synonymously. We follow Christof Parnreiter in viewing the differences to be too small to demand a sharp separation in an overview of this nature. Cf. Parnreiter (2013).

potential to help a national economy be more globally connected and productive, and to spread multiple benefits across national systems of cities through connectivity, economic specialisation and co-operation. Their activities might increase the connection of their national economy to global systems of trade, investment and talent. They also provide entry points to international markets, and are the spur for entrepreneurship and clustering activity for globally trading firms and sectors. In an increasingly urbanised global economy, world cities help to build the 'business brands' of nations and provide them with reputational advantages.

But world cities also depend on nation states and national governments in order to manage the effects of their global integration. Rapid population growth and diversification, urban restructuring and a surge in international investment can lead to multiple challenges. Inflation, congestion, stretched housing and labour markets, exposed infrastructure deficits, land-use dilemmas, ill-equipped city systems, sensitive environmental weaknesses and social divisions can all be 'side effects' of becoming a world city.

At the same time, national governments want to pay attention to the performance of other cities, towns and rural areas, and many look to address the impact the world city has on how other cities and regions within the nation develop. The world city may be understood in theory to offer competitive advantages and major contributions to fiscal resources, but the most visible effects may be de-population or de-clustering of other cities, or extreme concentrations of business, jobs and investment in one place. These challenges lie at the heart of the relationships and friction between nation states and their world cities, and lead to concerns about whether the 'world city model' is always a good one to adopt. Such apprehensions were very visible during the debate in the UK as to whether to leave the European Union and the subsequent fallout of 'Brexit', but they are also becoming increasingly influential in many other world cities and nation states.

In the current period, some world cities and national governments are beginning to embark upon a range of different forms of negotiation and collaboration around these issues that have major implications for the futures of both. These emerging dialogues and co-operation aim to address the understanding of the world city model and its needs, enhance the complementary roles of multiple cities within a national system, increase or improve governance and investment in the world cities, or develop national policies and platforms that can support different kinds of cities with specific tools and interventions. In this book we explore this new ground by examining the different ways in which world cities and nation states are contributing to each other's shared goals.

Each city's organisational and legal framework is different and complex, and the range of institutional dynamics in the world's major cities has not been compared in this way before. The book draws on the latest practical experience of 12 cities around the world – in Asia, Europe, Latin America and North America – to identify the trends and innovations in relations between central governments, state or provincial governments and their main international gateway city. Drawing upon a mix of local and governmental insight and global expertise, we identify recent innovations and reforms in governance, communication, investment and planning between different tiers of government. The book pinpoints the potential for nation states to leverage their world city to achieve mutually

beneficial national outcomes, but it also raises challenges to the world city model that should be the focus of concerted attention.

Urbanisation and globalisation: The age of world cities

History shows that cities tend to embrace international opportunities in waves and cycles (Clark and Moonen, 2013). Which cities take part in a given wave may depend on major geopolitical events, key industries, new technologies, connective infrastructures or the whims of city, mercantile and/or national leaders. What is clear is that today, more cities than ever are participants in the cycle of globalisation that began after 2008–9. Many of them have no prior global experience, while others draw on a legacy of earlier phases of outward-facing trade and engagement; as new sectors emerge and integrate, and as some countries increase or resume their global orientation, new world cities are emerging all the time.

One upshot of 21st century globalisation is that more countries have seen their leading city or group of cities become international commercial and corporate management hubs and visitor destinations, serving large customer and client markets in their wider regions beyond national borders. National policymakers find that these cities fundamentally alter the migration patterns of workers, set new business and service standards and have a major impact on the number and kind of international firms, capital and visitors that a nation attracts.

The previous cycles, in which world cities such as London, New York and Tokyo thrived, hinged on cities playing hub roles in finance, business, media, leisure tourism and commodities. In the current cycle, science, medicine, ICT, cleantech, traded urban services, higher education, design and real estate are now prominent activities for globalising cities. World cities have also become complex visitor economies – not just attracting holidaymakers but also students, researchers, events and congresses. Established and emerging world cities all compete for investors, entrepreneurs and start-ups by focusing on liveability, culture and urban regeneration.

This new cycle of world cities is shaped by a clearer grasp of the mistakes of the past and concerns for the future. The 2008–9 financial crisis exposed the weaknesses of city development approaches that had become over-dependent on one sector – be it financial services, real estate, IT or tourism. Its fall-out has also highlighted the fragile investment profile of many cities as they seek to update and renew their own systems – housing, education and infrastructure. It has also focused attention on cities' environmental and spatial resilience, and how to avoid becoming 'locked in' to an undesirable development path.

This current cycle has also homed in on the growing inequalities within and between cities, which has prompted a tide of pessimistic opinion in many countries opposed to the perceived impacts of the 'world city model'. In many cases, national leadership and public discourse have become more equivocal about whether and how to support major urban centres on their globalisation journey. This cycle of globalisation is therefore unusual because the growing international economic roles of world cities are coinciding with a rise in nationalism, separatism and hostility to immigration (Dowling, 2014; Hashi, 2014; Seib, 2014). These are difficult tensions to resolve.

The future imperatives for world cities

World cities face a number of similar or overlapping challenges that require facilitation and support from national governments. They have little choice but to adapt to increased competition for mobile firms, jobs, people, goods, capital and services (Herrschel, 2014). They face demands to address the externalities that accompany intense demand, such as housing supply constraints, income inequalities and over-burdened infrastructure. Most have to operate in a context of constrained public investment and cuts to intergovernmental transfers and grants. Sub-national public investment declined by up to a fifth within the OECD in the five years after the financial crisis, and evidence from non-OECD countries indicates this drop is even more stark (Allain-Dupre, 2015). Because even world cities have to achieve 'more with less', they have to appeal to alternative sources of international investment, which usually demands that they present a simple and consistent strategy, and assemble a clear pipeline of competitive projects for development. Given these combined imperatives, the leadership of world cities is by no means straightforward.

The distinctive elements of this new cycle of world cities – wide-ranging competition, new industry trends, strategic awareness and conflict between the 'winners' and 'losers' of globalisation – all demand a fresh set of relationships and partnerships with leaders and agencies in national government. Nation states are only just getting to grips with this new terrain. As this book demonstrates, the agenda for the future is now coming into view.

Nation states in the urban age

The 20th century is now, in retrospect, widely regarded as the century of the nation state (Waltz, 1999). The global economy experienced a sustained surge in growth and trade after 1945, and it is easy to forget that during those decades national governments deliberately tried to prevent industrial and office development becoming over-concentrated in their major cities. Subsidies, regulations, financial instruments and the relocation of business parks and public sector jobs were used to de-centralise economic activity and spread growth more evenly. Policies were also put in place to curb population concentration. This approach was evident in cities as varied as London, Paris, Seoul and Tokyo. Brazil went one step further and relocated its capital city from Rio de Janeiro to inland Brasília partly in order to de-centralise industrial activities and reduce growth in its large southern cities.

Not all national governments were proactive or successful in these efforts. Some tried to mitigate the externalities of their world city but succeeded only in disrupting cluster agglomeration and damaging overall competitiveness. Others failed to provide a consistent legal and regulatory framework or delivery mechanism to allow world cities to thrive. Many have now abandoned the hope of homogeneity on a national scale and are devising new approaches for their nation and world city (Bunnell, 2002; World Bank, 2009).

This book is about the transition that has since taken place from the age of the nation state to the age of cities. It explores how nation states are responding to

the largely unanticipated urbanisation of the global economy with new policies, reforms and methods of joint working. It analyses whether, why and how nation states really have become more place-specific in their approach to their cities, and what the implications are for city competitiveness and national cohesion (Hill and Fujita, 2011).

The twin processes of urbanisation and globalisation have required nation states to re-think traditional approaches. Not only do they face the rise of world cities, they also have to recognise three other essential trends that are explained and explored in this book:

1. Metropolitanisation;
2. Systems of cities;
3. Internationalisation of multiple cities.

The first trend that nation states have to take seriously is the emergence of city regions and metropolitan areas. As cities grow they expand beyond their set borders and boundaries, and their economic and social 'footprint' becomes ever larger. If national and state governments fail to respond to this phenomenon, what follows are large and expensive co-ordination failures between neighbouring municipalities that are politically independent of each other and yet are functionally inter-dependent, sharing a common business community, labour market, infrastructure platform and housing system. National and state governments can adjust to the growth in city regions by changing the boundaries of cities, by creating additional co-ordination vehicles, by reforming city governance or by incentivising co-operation in other ways (Arretche, 2013).

Nation states have to adapt to a second trend – the need to accommodate 'systems of cities' with complementary roles (World Bank, 2009). Within and across national borders, networks of cities often form a complementary system of different functions and specialisations. This often demands new national approaches. In China, for example, since the mid-2000s the national urban policy has begun to plan its huge scale of urbanisation by identifying large regional city clusters as strongholds of future sustainable development. The Pearl River Delta, Yangtze River Delta and the Beijing–Tianjin–Hebei regions have all become the subject of regional plans, with the aim of accelerating development, bridging regional divides and restructuring the economy.

The third trend to which nation states have to respond is the emerging capacity of multiple cities in the same nation to acquire international roles. As new waves of globalisation occur, new economic sectors internationalise and integrate, and a larger range of cities has the potential to enter the global system of trade and exchange. This can lead to nations having more than one 'world city'. While this is already common in larger nations (for example, in the United States New York, San Francisco, Los Angeles and Chicago might all be seen as world cities, and in China Hong Kong, Beijing and Shanghai all have global reach and roles), this can also occur in much smaller nations. In Switzerland, both Zurich and Geneva are world cities. Elsewhere in Europe, Barcelona and Madrid, and Munich, Berlin and Frankfurt, are all examples of more than one city developing clear international roles within the same country. We find similar phenomena in

South Africa (Cape Town and Johannesburg), Australia (Sydney, Melbourne and now Brisbane) and Canada (Toronto, Vancouver and Montreal). In many other countries, from the UK and France to Russia and Japan, a second city has a clear aspiration to become the second world city to complement their more established world city sibling.

Having learnt some painful lessons from the past, nation states are beginning to identify the opportunities as well as the threats of globalisation and the rise of world cities. National governments can leverage world cities to achieve development goals that are otherwise hard to achieve. They have also become more willing to endorse urbanisation processes because to do otherwise would weaken their attraction as a place for capital or for talent (Herschel, 2014). This book shows that territorial approaches adopted by national governments are at different points along a continuum between ‘old-style’ development policies and ‘new-style’ approaches. The agility with which countries adapt their ways of working shapes not only how effective they are in pursuing their development objectives, but also has implications for the fortunes of their most globally oriented cities.

In this book we evaluate how far world cities are moving forward to secure mutually productive relationships with their nation states and compatriot cities, and how much farther there is to go. We argue that there are many dimensions to this challenge that make it rather more complex than simply a question of growth and productive agglomeration. In the current cycle of globalisation, world cities have to develop the tools and the leadership to plan and guide their own success, but they also need national partners to help them achieve their competitive and citizen aspirations. Equally, world cities have to contribute actively to the health and vitality of the wider national economy, not just through redistributive fiscal mechanisms but also by acting as an interface for engaging with global markets and knowledge, and as a driver of complementary development and dispersed value chains. This also places responsibility on higher tiers of government to ensure that disparities do not become too great and to create viable strategies for balanced and complementary growth. This matrix of shared imperatives is displayed in Figure 1.1.

World city success in its own right	World city contribution to the national economy
Role of national government in helping the world city succeed and compete	Role of national government in managing the consequences of its world city for the rest of the nation

Figure 1.1: The four dimensions of successful national government and world city relationships.

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