

Worldwide Centers of Commerce

Abstract 2007



Cities Ranked as Top Drivers of Global Economy

The new *MasterCard Worldwide Centers of Commerce Index™* is a multi-year research project that provides cutting-edge insights into the evolving global marketplace. The research provides a ranking and analysis of the top 50 cities around the world that drive global commerce. Through a robust and innovative research model consisting of six complex measurements that collectively take into account more than 100 separate indicators, the research presents bold new perspectives on the changing role cities play in linking and enabling commerce around the world.

Understanding How Global Cities Are Connected Is Key

Urbanization has been accelerating in recent years on a global basis. In 2006, a turning point was reached; for the first time in human history, more people lived in urban areas than in rural areas. It is not an exaggeration to say that, from the perspective of cultural evolution, humans are rapidly becoming an urban-dwelling species.

Today many metropolises are “global cities”¹ that perform critical functions connecting markets and commerce across the world. Simply put, they are nodes of connectivity through which global commerce can take place. A growing number of cities in developed countries generate half or more of their na-

1 - See S. Sassen, 2001. *The Global City*. Princeton and Oxford: Princeton University Press.

tional GDP. These include cities as diverse as Seoul, Copenhagen, Dublin, Helsinki and Brussels. In many emerging markets, cities play a leading role in integrating with global markets and creating powerful business and industry clusters in the process, as evidenced by Shanghai and Mumbai.

For global businesses, an in-depth understanding of how these global cities are connected and how their growth dynamics are configured is a prerequisite for success in the global market today.

Intercity Geographies

One way of thinking about the global economy today is in terms of the many highly specialized “circuits,” or global flows of business transaction and financial investment that comprise it. Different circuits encompass different groups of cities. Gaining a deeper understanding of this intercity geography is vital to understanding global commerce in terms of its vast business potential and opportunities, as well as its challenges to public policies and business management.

A new kind of global map can be drawn by exploring these networks. Global cities are the control points that organize and manage the multiple global economic spaces and their associated business activities. While they are clearly not the places where commodities are produced, they are the places where commodity futures are created to both facilitate the global trading of these commodities and manage the associated risks. For example, key commodities are produced in well over 80 countries and are sold all around the world, but there are financial exchanges in only 20 cities which control futures trading of these commodities globally.

This concept highlights the distinction between the sites and networks for producing the actual goods, and the sites and networks for managing and coordinating the trading of the goods and the financial instruments that facilitate their transaction and trade. And it makes concrete what is one of the main counterintuitive trends seen in today’s global economy: The more globalized, dispersed and information-driven the activity, the more concentrated its global map.

Global Commerce and Financial Centers

When it comes to global finance, arguably the most globalized and digitized economic activity in the world today, three key sets of logic explain why cities matter more than ever before.

The first one concerns the use of technology. When the new information and communication technologies (ICTs) began to be widely used in the 1980s, many experts forecasted the end of cities as strategic spaces for firms in advanced sectors like finance. But today’s multinationals have expanded their central headquarter functions and fed their growth by buying more and more critical services that they once produced in-house.

A second logic explaining the ongoing advantages of spatial agglomeration has to do with the complexity and specialization level of central functions. Complexity and specialization increase rapidly with globalization and with the added speed enabled by the new ICTs. As a result, global firms and global markets increasingly demand (and increasingly outsource) specialized legal, accounting, consulting and other related capabilities. These service firms in turn thrive in cities that offer complex and diverse environments, ultimately functioning, as knowledge centers.



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A third logic concerns the meaning of information in global commerce today. There are two types of information. One is data, which may be complex yet is standard knowledge: the level at which a stock market closes, the announcement of the privatization of a public utility, the bankruptcy of a company, etc. But there is a far more difficult type of “information,” akin to an interpretation, evaluation or judgment of the given data. It entails negotiating a series of interpretations of various data to arrive at insights that can guide strategic decisions. Access to the first kind of information is now global and immediate from just about anywhere. But it is the second type of information that requires a complicated mix of inputs, in which major financial centers have a leading edge.

The MasterCard Worldwide Centers of Commerce Index™

The new *MasterCard Worldwide Centers of Commerce Index* is a research project that ranks the world’s top cities in terms of their performance as Centers of Commerce in the global economy. An Index structure consisting of six dimensions was designed by a panel of eight independent economic, urban development and social-science experts from leading academic and research institutions around the world. All told, the index involves six dimensions, 41 indicators and more than 100 sub-indicators.²

From six measurement dimensions—(1) legal and political framework (2) economic stability (3) ease of doing business (4) financial flow (5) business center and (6) knowledge creation and information flow—the Index covers the key functional characteristics of a city considered to be among the world’s Centers of Commerce. Institutional factors are covered by the legal and political framework dimension.

The intensity of global connectivity and volume of throughput are captured by the financial and business center dimensions. Risk factors associated with the city are covered by the economic stability dimension. (See page 5 for charts.)

The Index also incorporates factors not typically found in business rankings to gain additional insights into a city’s role in the global economic landscape. For example, in the ease of doing business dimension, factors related to quality of life are included, which in turn, require consideration of public policy challenges in urban development and related social policies. Taking into account the increasingly important role of innovation and creativity in driving global economic activities, a whole dimension, knowledge creation and information flow, is added to assess the performance of the Worldwide Centers of Commerce.

The weights assigned to each of the six dimensions are determined by the knowledge panel. The overall pattern reflects the view that economy-wide data should have less weight than city-specific data.

Ranking of the Top 50 Worldwide Centers of Commerce

Applying the Index structure and using 2006 data, the world’s top 50 Worldwide Centers of Commerce are ranked. Chart 2 presents the world’s top 10 Centers of Commerce.

That London, New York and Tokyo are the top three Worldwide Centers of Commerce is no surprise and is consistent with many other studies on global cities. London beats New York by a narrow margin of only 3.99 in the overall Index value. The three Asian economic tigers, Hong Kong, Singapore and Seoul, are among the top 10.

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2 - The pioneering work by Professors Peter J. Taylor and John Beaverbrook at the University of Loughborough – the Globalization and World Cities Study Group – is an important data source; updated by MasterCard to 2006 in this project.

The Index values of the six dimensions for London are summarized in Chart 3. It scores the highest in being the most economically stable (93.54), followed by ease of doing business (87.87) and legal and political framework (84.11). It scores the lowest in knowledge creation and information flow (52.72), which is lower than what New York and Tokyo score in this dimension (61.55 and 55.94, respectively).

Nine U.S. cities are among the top 50, and all are ranked in the top 25. U.S. cities benefit from strong scores in the legal and political framework and in the economic stability dimensions; interestingly, they also all score very high in the knowledge creation and information flow dimension, although many of them score much lower in the other dimensions, such as ease of doing business, financial flow and business center dimensions, compared with the leading European cities.

The high rankings of cities in Western Europe are no surprise, given their highly developed business and economic infrastructures, high investment in education and overall higher per capita income. The one exception is perhaps Madrid, which ranks 16. This rating is likely because Madrid is such an important business center for South American companies and a key conduit for them into the European market.

The Asia/Pacific, Middle East and Africa (APMEA) region, including Australia, is well represented with 10 cities included in the top 50. These cities are also spread out, with five cities in the top 25, including Sydney, which ranks 14. Three cities in China are in the top 50; Hong Kong ranks fifth, Shanghai is at 32 and Beijing ranks 46. One city in India is in the top 50: Mumbai, which ranks 45. In the Middle East, Dubai ranks 37 and Tel Aviv ranks 44.

Among the top 50 Worldwide Centers of Commerce ranked, the sole city in Africa to be included is Johannesburg, ranked 47. Three cities from Latin America are also in the top 50; Santiago is at 39, Mexico City is at 42 and São Paulo is at 48.

Conclusion

Successful companies of the future will be transnational, operating seamlessly as individual global entities employing people and positioning resources in accordance with location advantages on a global basis. Core functions, while remaining central to the company's operations, will be spread out geographically to leverage those location advantages wherever they are found. This approach will require a strong grasp of how global cities are interrelated, and how they compete with and complement one another. As a result, transnationals can leverage the benefits of these cities.

Many multinational companies claim to be global businesses today. In the coming decades, however, only those with the capability of building a globally integrated structure may succeed. Understanding the dynamics of global cities, and their critical role as Worldwide Centers of Commerce, is a good way to begin.

For more information or full versions of the Worldwide Centers of Commerce reports, visit www.mastercardworldwide.com.



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CHART 1

MasterCard Worldwide Centers of Commerce Index Map

The Index involves six dimensions, 41 indicators and more than 100 sub-indicators.

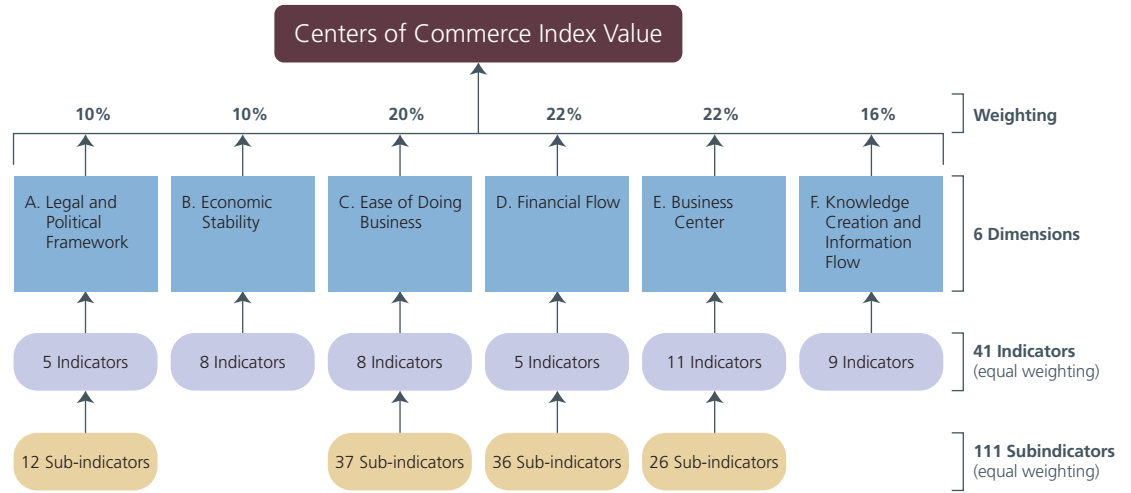


CHART 2

Top Ten 2007 Worldwide Centers of Commerce

Applying the Index structure and using 2006 data, the world's top 50 Worldwide Centers of Commerce are ranked.

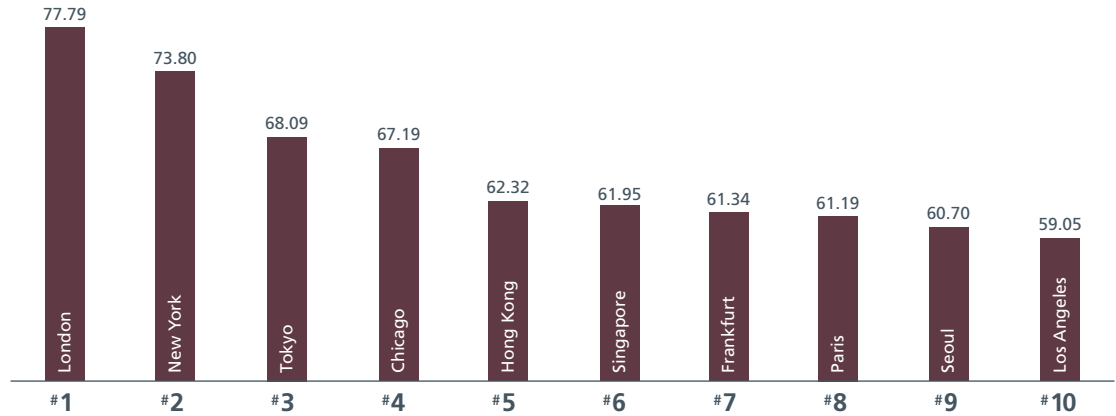
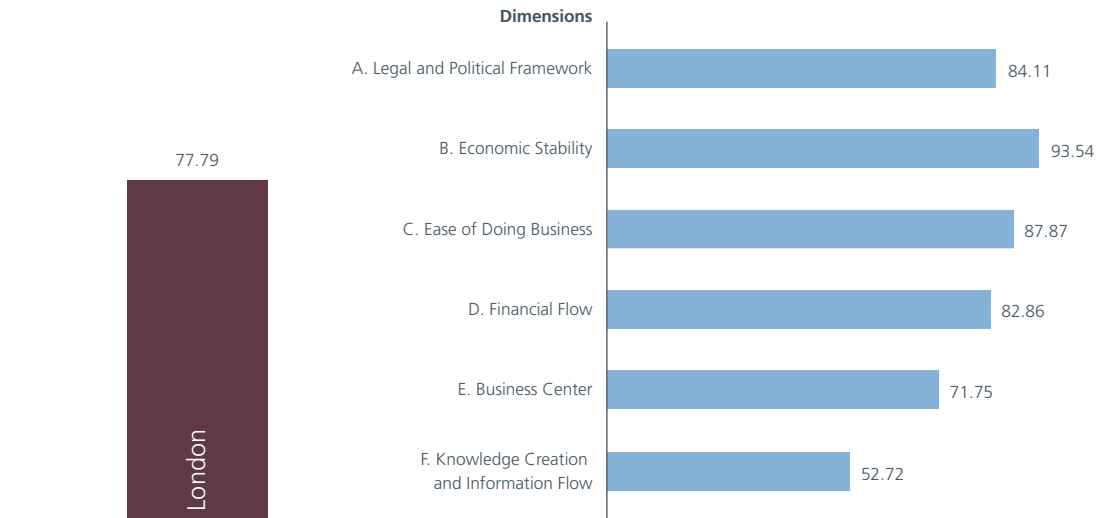


CHART 3

London: Top Ranked Center of Commerce

London scores the highest in being the most economically stable (93.54), followed by ease of doing business (87.87) and legal and political framework (84.11).



Top 50 Cities

The *MasterCard Worldwide Centers of Commerce Index*,™ developed by a panel of eight independent economic, urban development and social-science experts from leading academic and research institutions around the world, lists and ranks the top 50 Centers of Commerce based on six measurement dimensions consisting of more than 100 data points. The full report is available at www.mastercardworldwide.com.

1. London	13. Boston	25. Milan	38. Kuala Lumpur
2. New York	14. Sydney	26. Munich	39. Santiago
3. Tokyo	15. Copenhagen	27. Montreal	40. Budapest
4. Chicago	16. Madrid	28. Vancouver	41. Prague
5. Hong Kong	17. Stockholm	29. Brussels	42. Mexico City
6. Singapore	18. San Francisco	30. Vienna	43. Rome
7. Frankfurt	19. Zurich	31. Dublin	44. Tel Aviv
8. Paris	20. Atlanta	32. Shanghai	45. Mumbai
9. Seoul	21. Miami	33. Barcelona	46. Beijing
10. Los Angeles	22. Houston	34. Melbourne	47. Johannesburg
11. Amsterdam	23. Washington D.C.	35. Geneva	48. São Paulo
12. Toronto	24. Berlin	36. Bangkok	49. Warsaw
		37. Dubai	50. Moscow