

URBAN ECONOMY



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Engines of National Prosperity

Cities are engines of economic growth and social development, drawing in human resources and raw materials, which, coupled with superior urban infrastructure, have spurred industrial and commercial development almost everywhere. Cities are not only places where capital is accumulated and reinvested in new sectors, but also the nodal points of specialized services. As service jobs have become increasingly important in national economies, the importance of cities in economic performance is strengthened. Both industrial and traditional service activities, along with new services related to banking, finance and communication, constitute the new economic base of cities. These activities generate the major sources of local government revenue, through various categories of taxes, rents and fees.

Historically, urbanization has gone hand in hand with economic development and economic transformation - preferably guided into socially acceptable forms of living. Cities serve a primary economic function as the locations where new forms of economic activity and economic organization evolve and gain higher value. They are not merely places where commodities are traded and new markets explored, but they are also centres of changes in the social divi-

The urban economy is the hub and nerve centre of the national economy and, as the global society expands, a nation's welfare will be determined increasingly by the roles its cities play in the global economy.

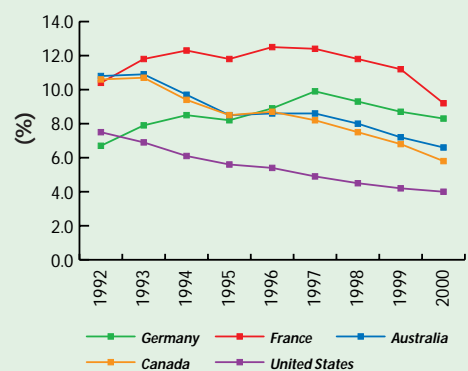
Cities in a Global Society, R. Knight and G. Gappard (Eds.)

sion of labour. But with globalization, competition between cities has intensified, and increasingly they battle with each other to attract international investment.

Cities provide economies of scale and agglomeration, as well as the economic and social infrastructure within which many businesses and entrepreneurs are incubated and nurtured. They provide infrastructure for investments that support not only urban development, but which also stimulate wider development through urban-rural trading. Urban markets provide powerful incentives for rural production and income enhancement. Expanding rural markets, in turn, provide powerful incentives for increased production of manufactured goods and services in the cities.

Large cities typically produce a significant share of the gross domestic product (GDP) of their countries. Among Latin American cities, Lima, Peru, and São Paulo, Brazil, contribute 44 percent and 37 percent of their country's GDP. Asia has a number of similar examples where cities act as engines of economic and social development. But there can be a downside. Perhaps Thailand's record for having the world's highest GDP growth rate between 1985 and 1995 is a cautionary example. Convinced of the urban sector's vital role in economic growth, the Thai government

Decreasing unemployment in selected technologically advanced and urbanized nations



Source: OECD and Eurostat (20 Dec 2000 update) and government of the United States of America (Statistics.com web site).



Bernd Becker

increased urban public spending in the late 1970's, resulting in sharp rises in investment in office development and industrial capacities. This paid off with record growth figures that lasted until the late 1990s, the time of the Asian financial crisis. Pressure on the national currency, precipitated in large part by an exuberance among lenders, however, led to a surfeit of urban development and large number of 'non-performing loans', stalling further growth. The real GDP growth of Thailand is now pegged at 4 percent.

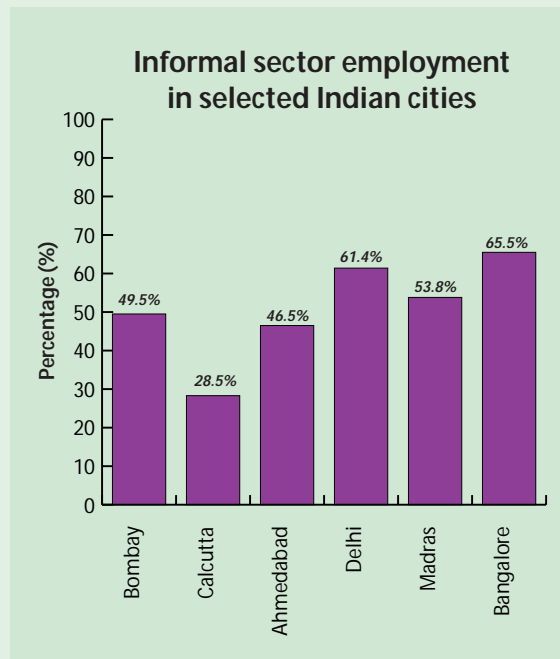
Bangkok alone contributes 38 percent towards Thailand's GDP, more than the GDP of any of the agriculture-based economies in Africa. Large Asian cities, like Manila, Philippines, Karachi, Pakistan and Shanghai, China, contribute 25 percent, 18 percent and 12 percent, respectively, to the GDP of their countries. However, the dominance of urban centres in economic development can also bring problems of its own, such as the emergence of diseconomies - pollution, traffic congestion, inflation, crime and corruption - which in turn may negatively affect national economic performance.

Employment and Income in Cities

Urban economies generate significant employment in both formal and informal sectors. Although the formal sector generally pays higher salaries, it employs a relatively small proportion of the urban labour force in most developing countries. The informal sector, with its lower wages, frequently employs a greater share - if not the bulk - of the urban labour force in developing countries. Informal sector employment is known to grow even at times when employment in the formal sector is stagnant. This phenomenon is one of the principal ways in which labour markets in African countries have adjusted to economic crises. It is worth noting that informal employment makes up 37 percent of the total employment in developing countries as a whole, and is as high as 45 percent in Africa. Considerable variations in the importance of the informal sector exist between countries in any region.

Cities can support the informal sector through the provision and maintenance of infrastructure, including adequate supply of electric power, water, transport and telecommunications networks. They also need to provide well-located work sites for informal sector entrepreneurs. By relaxing rules and regulations, the informal sector can be expected to contribute further to the creation of new jobs.

While poverty is increasingly becoming an urban phenomenon - particularly in developing countries and disproportionately among women - urban populations on the whole are still relatively better-off than most rural inhabitants in terms of cash income and access to basic social services. However, poverty in urban areas produces particular problems of its own, in that urban dwellers often lack the life support mechanisms available in rural areas.



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