

URBAN AGE SOUTH AMERICA CONFERENCE

DECEMBER 2008

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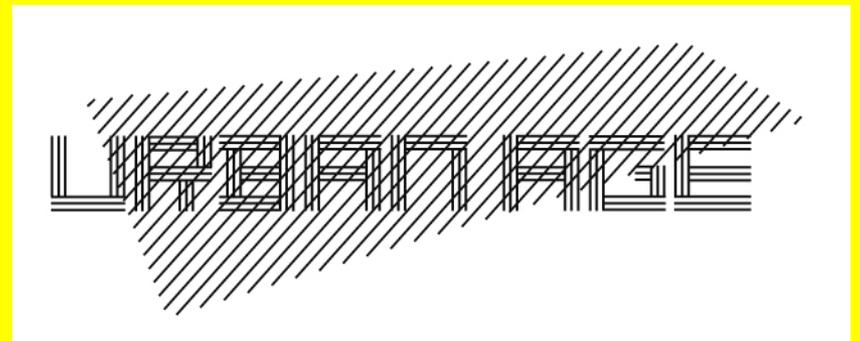
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Citis in a Global Context

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www.urban-age.net



The enormous variety of global circuits connecting cities

- Some of these global circuits are specialised and some are not.
- Some are worldwide, others are regional.
- Different circuits contain different groups of countries and cities.
- For instance, Mumbai is today on a global circuit for commercial real-estate development and investment that includes firms from cities as diverse as London and Bogotá.
- Global commodity trading in coffee includes New York and São Paulo as major hubs. Global commodity trading in sunflower seeds includes Buenos Aires, Chicago and Mumbai. Gold includes Sao Paulo, Johannesburg, Sydney, Dubai, Mumbai, New York London, Zurich.

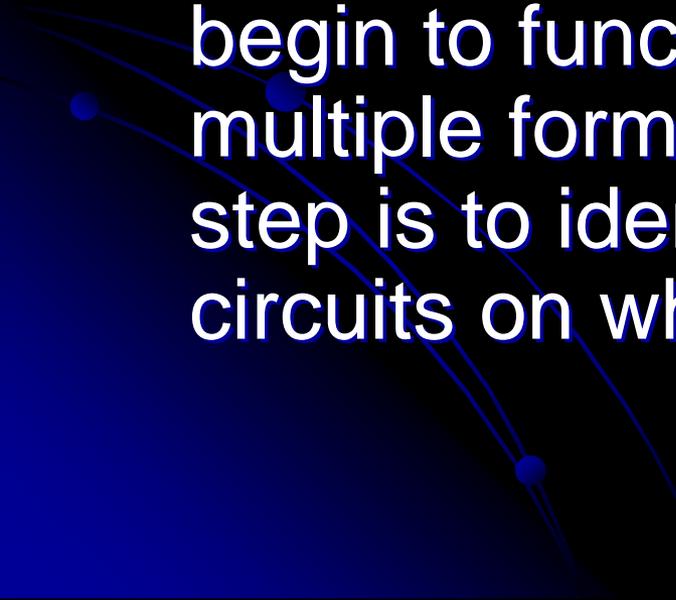
This variability adds to the flexibility of urban economies

- It is critical for a large city to use its scale for diversifying its economy—otherwise it is a plantation economy, such as Detroit, even though it produces a high-tech “coffee-bean.”
- Thus the current collapse of major financial institutions involves particular sets of global circuits and hence does not affect all global cities in the same way. But the tightening of the credit system affects far more global cities given the financializing of more and more sectors

Culture, Politics, Migration, etc.
also feed the proliferation of circuits

- For example, NGOs fighting for rainforests function in circuits that include Brazil and Indonesia, the global media centres of New York and London, and the major forestry companies and the headquarters of sellers (Oslo, London and Tokyo).
- The other side of all these trends is an increasing *urbanising* of global networks.

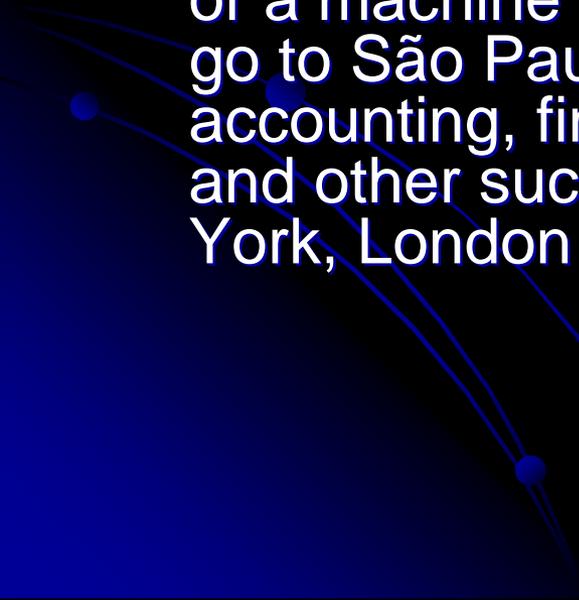
A given city may be located on dozens of global circuits

- Looking at it from the perspective of a given city makes clear the diversity and specificity of its location on some, or many, of these circuits.
 - These emergent inter-city geographies begin to function as an infrastructure for multiple forms of globalisation. The first step is to identify the specific global circuits on which a city is located.
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Each circuit has specific cities.

- The groupings of cities vary on each circuit.
 - All of this also shows us that the specialised differences of cities matter, and that there is less competition among cities and more of a global or regional division of functions than is commonly recognised
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Specialized differences of cities

- The knowledge economies of São Paulo, Chicago and Shanghai all share a long history of servicing major heavy manufacturing sectors. Their economic histories are different from New York, London, or Rio de Janeiro.
 - Out of these specialised differences comes a global division of functions. Thus a steel factory, a mining firm, or a machine manufacturer that wants to go global will go to São Paulo, Shanghai or Chicago for its legal, accounting, financial, insurance, economic forecasting, and other such specialised services. It will not go to New York, London or Rio for this highly particular servicing.
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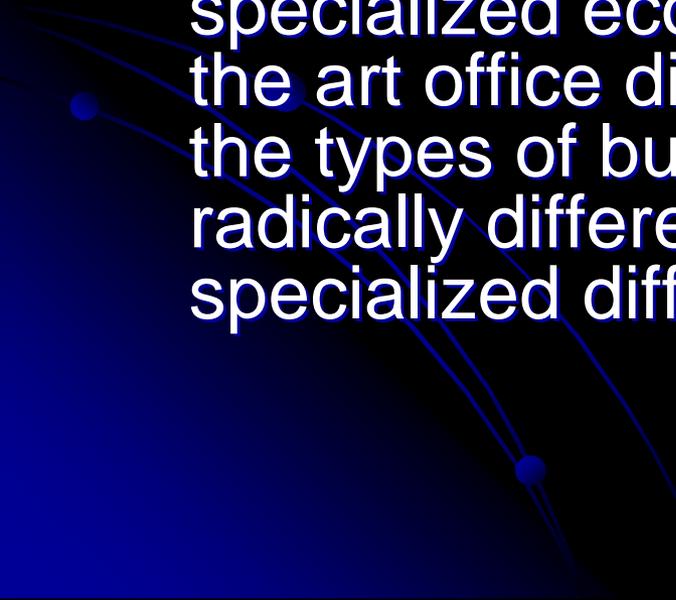
Where does a city's knowledge economy come from?

- Recognising the value of the specialised differences of cities and urban regions in today's global economy shows how the economic history of a place matters for the type of knowledge economy that a city or a city-region ends up developing.
- This goes against the common view that globalisation homogenises economies. How *much* this economic history matters varies, and partly depends on the particulars of a city's or a region's economy. It matters more than is commonly assumed, and it matters in ways that are not generally recognised.

Globalization: What exactly does it homogenise?

- Globalisation homogenises standards – for managing, for accounting, for manufacturing.
- It also homogenises standards for building state-of-the-art office districts and luxury hotels, state-of-the-art airports, and so on. The spread of these standards creates a sense of homogeneity, even though such standards do not exclude very original architecture.
- Such built environments are a kind of novel infrastructure: necessary but indeterminate

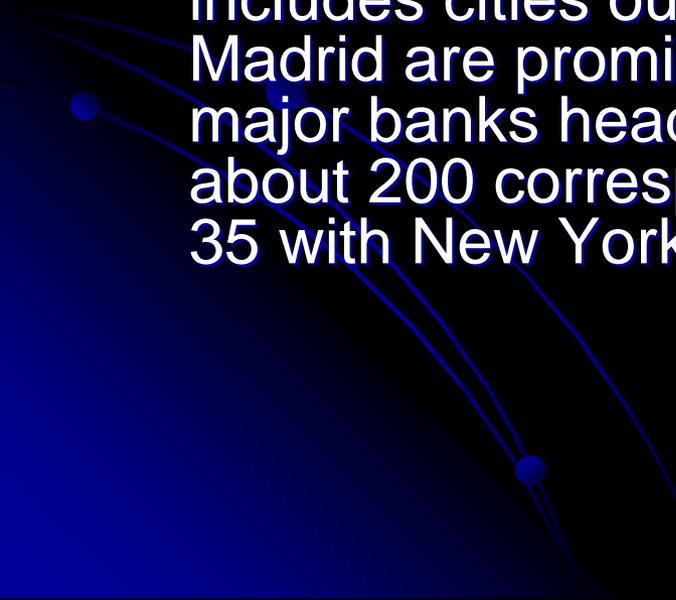
But the global economy needs diverse specialized capacities

- The global economy needs those standardized built environments and it needs diverse specialised economic capabilities.
 - Thus the indeterminacy of these built environments allows for sharp differences in the specialized economies that use them. State of the art office districts are very similar even when the types of business they handle can be radically different (if we take into account highly specialized differences)
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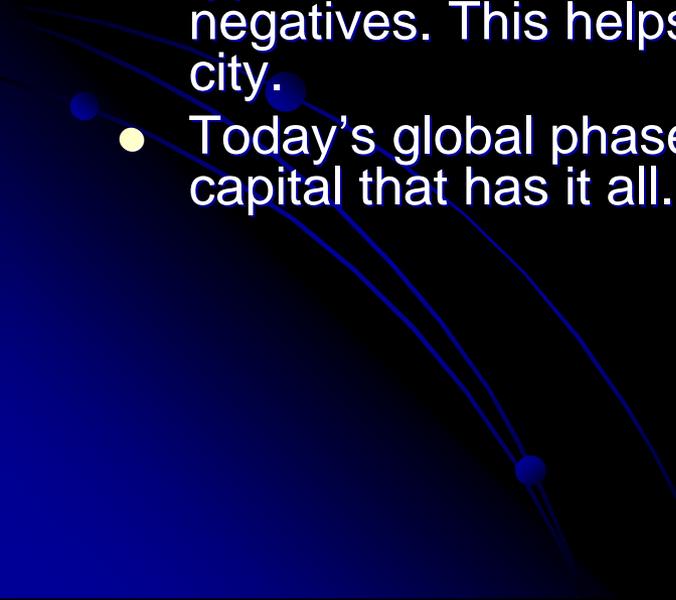
These specialized differences feed the growing number of global cities

- Each of the 70 plus major and minor global cities in the world contributes to the production of these capabilities in its home country, and thereby functions as a bridge between its national economy and the global economy.
 - In this networked multi-city geography, most of the 250,000 plus multinational corporations in the world have kept their headquarters in their home countries, no matter the vast numbers of affiliates, subsidiaries or offshore sourcing sites they may have around the globe. So have Latin American multinationals with expanding global regional and global operations.
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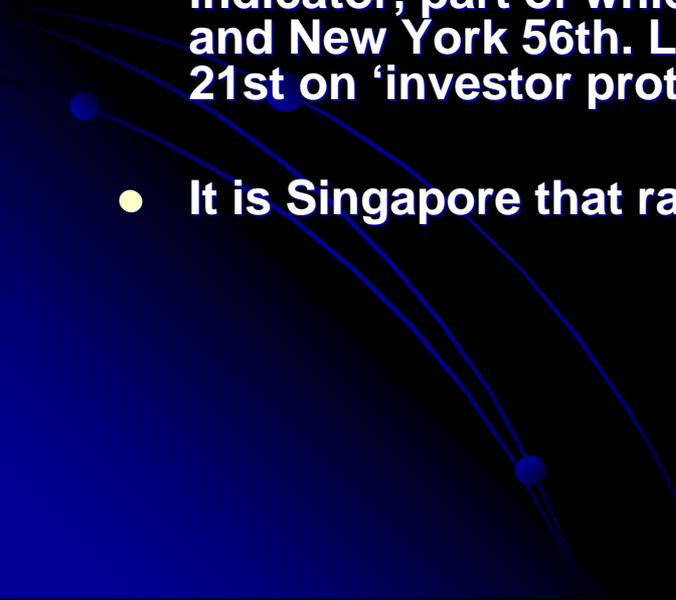
Multi-sited, complex economic geographies.

- Within a vast and diverse region such as Latin America it has now become clear that several cities function as key hubs, each representing a distinctive mix of strengths.
 - In a top tier we find São Paulo, Mexico City and Santiago, and in a second tier Buenos Aires, Bogotá, Caracas, Montevideo, Monterrey, Quito and Lima.
 - There is a global Latin American space economy that includes cities outside the geographic region: Miami and Madrid are prominent in this space. For instance, the 20 major banks headquartered in Central America have about 200 correspondent links with Miami, compared to 35 with New York.
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There is no perfect global city

- When firms go global they tend to locate operations in multiple cities that function as entry points into national economies.
 - This bridging capacity is critical: the multiple circuits connecting major and minor global cities are the live infrastructure of the global economy. It indicates, again, that cities do not simply compete with each other.
 - A global firm does not want one global city, even if it is the best in the world. Different groups of cities will be desirable to different types of firms, even if some of these cities may have some serious negatives. This helps explain why there is no one 'perfect' global city.
 - Today's global phase does not function through one imperial global capital that has it all.
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None of the leading cities ranks at the top in everything.

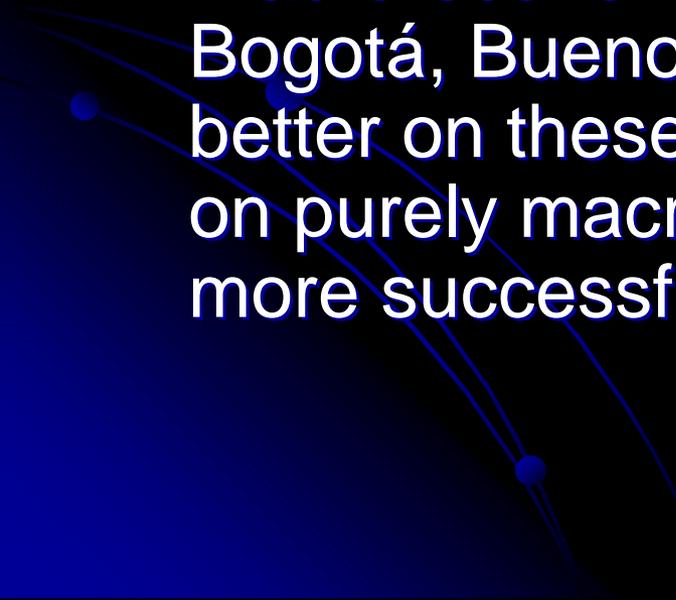
- A large study of 75 cities rates the top cities for worldwide commerce. Not one of them ranks at the top in all of the 100 factors, and not one gets the perfect score of 100.
 - London and New York, the two leading global cities, rank low in several aspects – neither is in the top ten when it comes to starting a business, or closing a business.
 - If we consider a critical variable in the ‘ease of doing business’ indicator, part of which is ‘ease of entry and exit’, London ranks 43rd and New York 56th. London ranks 37th on ‘contract enforcement’ and 21st on ‘investor protection’.
 - It is Singapore that ranks number one in relation to all three variables.
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- In the global South, cities like Mumbai and São Paulo are in the top group for financial and economic services, but are brought down in their overall score by their low rankings in factors related to the ease of doing business and livability, given their especially low levels of well-being for vast sectors of the population.

- Overall, São Paulo is in a middle-ranked group of about 20 cities framed at the top by Dubai and at the bottom by Shenzhen
- This group ranks between Dubai's 44th place with an overall score of 47, and Shenzhen's 60th place with an overall score of 40.
- It includes some of the most powerful in the world: cities as diverse as Beijing, Mumbai, Tel Aviv, Moscow, Johannesburg and Kuala Lumpur. The power of each city comes from multiple and different conditions.

- Some of São Paulo's lowest rankings are in macro-economic variables, such as 'political and legal framework' and 'economic stability'. Cities at similar levels on these two indicators within South America are Bogotá, Caracas, and Buenos Aires, and, outside of South America, Johannesburg, Mumbai, Moscow, Budapest and Istanbul

Where the city can make a difference

- There are sub-indicators such as ‘dealing with licenses’ and ‘registering property’, where the city’s implementation of national regulations and laws can make a difference.
 - São Paulo does not do better than in the basic macro-economic variables such as inflation. But Bogotá, Buenos Aires and Caracas all do much better on these two sub-indicators than they do on purely macro-economic variables, pointing to more successful implementation.
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- Negative urban performance is also present in the indicator measuring the ‘ease of doing business’.
- São Paulo ranks considerably below its overall ranking in the global set of 75 cities. With Dubai it is just the inverse: on ‘ease of doing business’ it does much better than its overall ranking.
- When disaggregated into sub-indicators, São Paulo is below its overall rank on ‘starting a business’, ‘employing workers’, ‘closing a business’, ‘banking services’ and ‘contract enforcement’.
- São Paulo ranks well above its overall score on ‘investor protection’, ‘getting credit’, and ‘ease of entry and exit’ – though on this last one Caracas does even better.

Financial center dimension

- São Paulo's ranking of 16 on the 'financial centre' indicator is sharply above its overall ranking, putting it in the top echelon of the global economy;
- Santiago, Mexico City, Buenos Aires and Bogotá also rank much higher on the 'financial centre' indicator than they do overall. The sharpest differentials are for São Paulo and Buenos Aires



- On some of the sub-indicators São Paulo's rank jumps to the top global ten:
- It ranks 7th globally in total number of derivatives contracts', 9th in 'total number of commodities contracts', 12th in its 'banking and financial services companies', 20th in 'investment and securities firms', 23rd in 'equities trading'. Its lowest score on the financial dimension is 39th on 'insurance companies', which is still well above its overall rank.
- Similarly, Buenos Aires is in the top 20 for particular financial circuits – 14th in the number of 'commodities contracts' and 15th in the 'value of bond trading'.

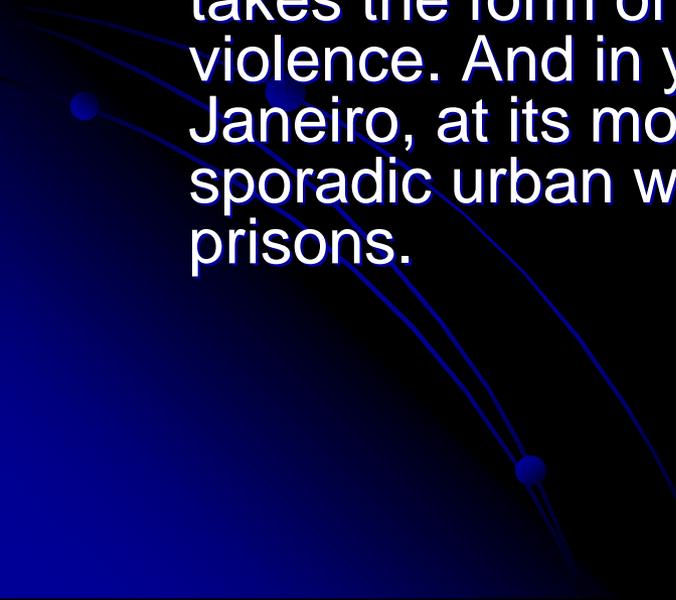
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- Whether all of this is good or bad for the larger social fabric of these cities and their countries is a complex matter, and the subject of many debates.
 - The fact that global firms need cities, and groups of cities, should enable the political, corporate and civic leadership in those cities to negotiate for more benefits for their cities from global firms.
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- This could lead to overall positive outcomes if the governing classes can see that these global economic functions will grow better in a context of a strong and prosperous middle class rather than the sharp inequality and polarity that exists among a growing share of households.
- European global cities have done better than global cities in the United States precisely for this reason.



- The trends in the new rising global cities of the South resemble trends of the North: growing numbers of very rich and of very poor, and the impoverishment of the old middle classes.
- What there will be less of in these cities is the modest middle classes and the modest-profit making economic sectors that once were the major presence in these cities.
- Having a large middle sector is important for the urban economy because their earnings and profits are most likely to be fully spent in the city's economy.
- Their presence is a built-in resistance to the spatial and social reshaping of cities along extreme class lines.

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- My most pessimistic scenario is that conflict is now wired into urban space itself, partly due to gentrification and displacement and the resulting politics for space.
 - In some cities, for instance New York and Los Angeles, it takes the form of a diffuse petty criminality and mostly violence of the disadvantaged on other disadvantaged.
 - In European cities, but also the rising “Shanghais”, it takes the form of new racisms that can lead to physical violence. And in yet others, perhaps Sao Paulo or Rio de Janeiro, at its most extreme it takes the form of partial sporadic urban warfare, including warfare in the space of prisons.
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Global and national governance challenges become urgent in cities

- We urgently need to innovate on the front of urban governance. The old bureaucratic ways will not do. This is a whole new urban era –with its share of positive potentials and its share of miseries.
 - In cities our governance challenges become concrete and urgent. National governments can keep talking; urban leadership needs to act.
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Table 1: Ratio Residential Mortgage Debt to GDP (Select countries/end 2006)

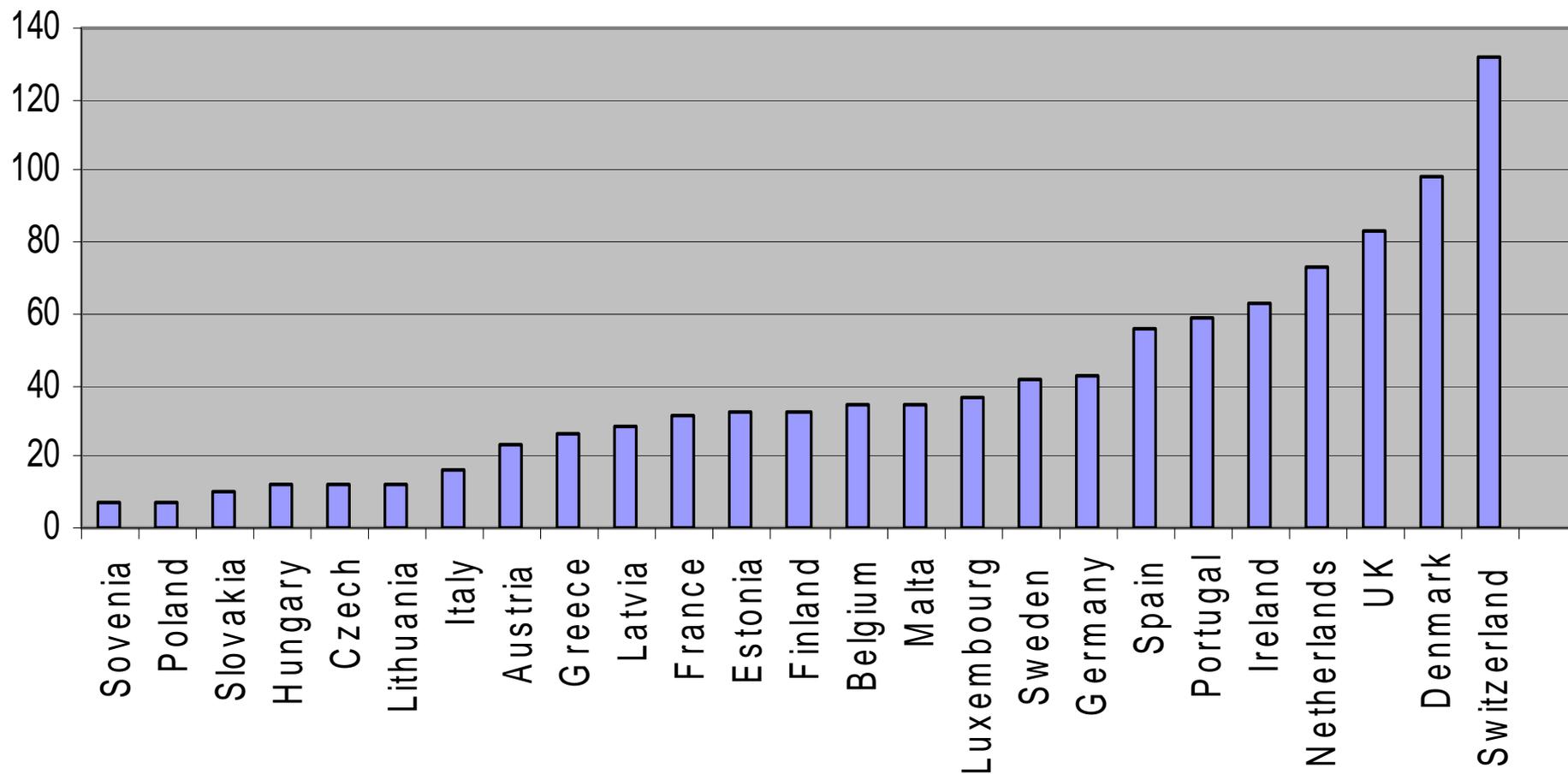
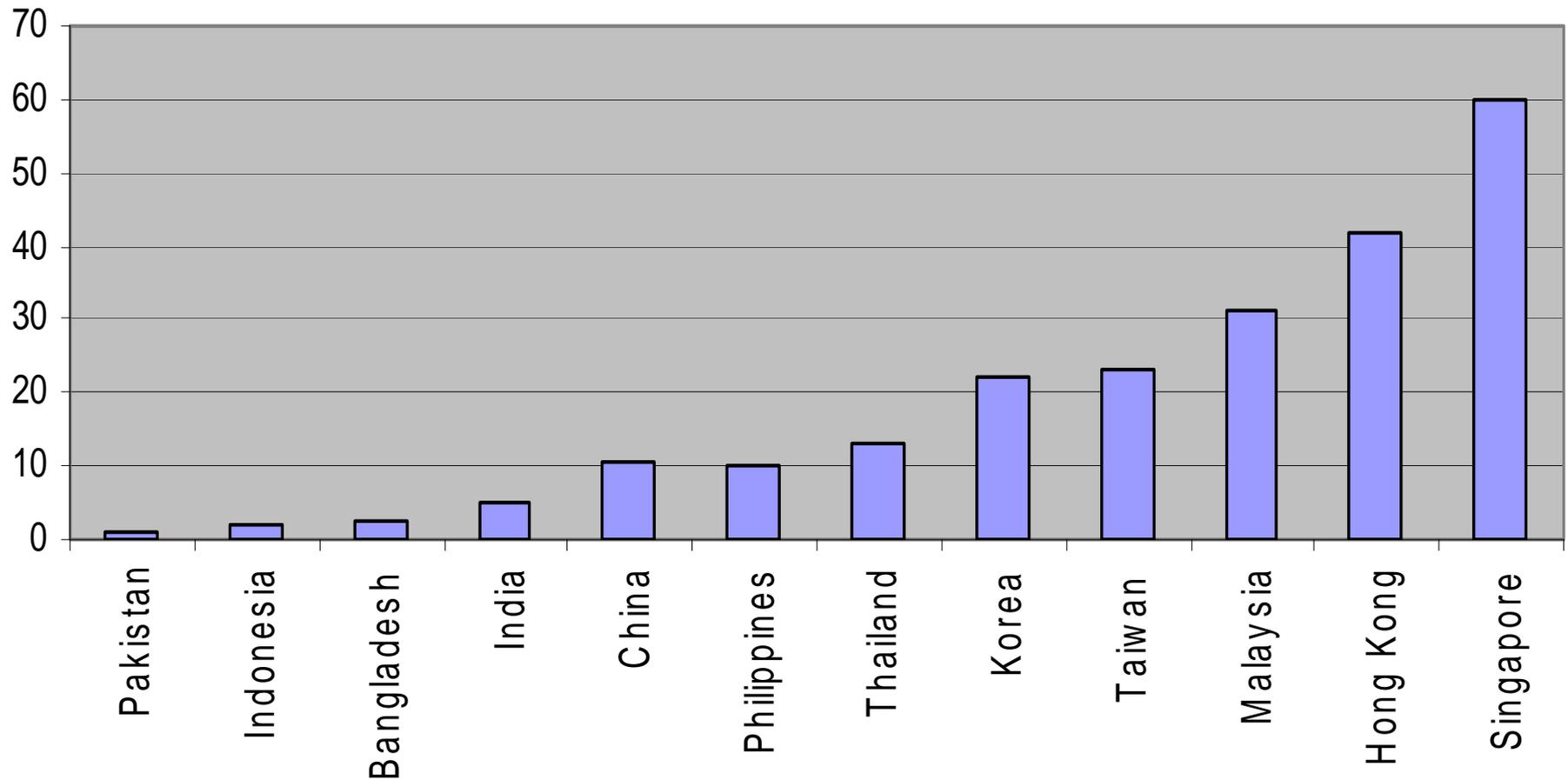


Table 2: Ratio Residential Mortgage Debt to GDP: Emerging Asia



Source: Warnock, Veronica Cacadac and Warnock, Francis E., Markets and Housing Finance (February 2008).

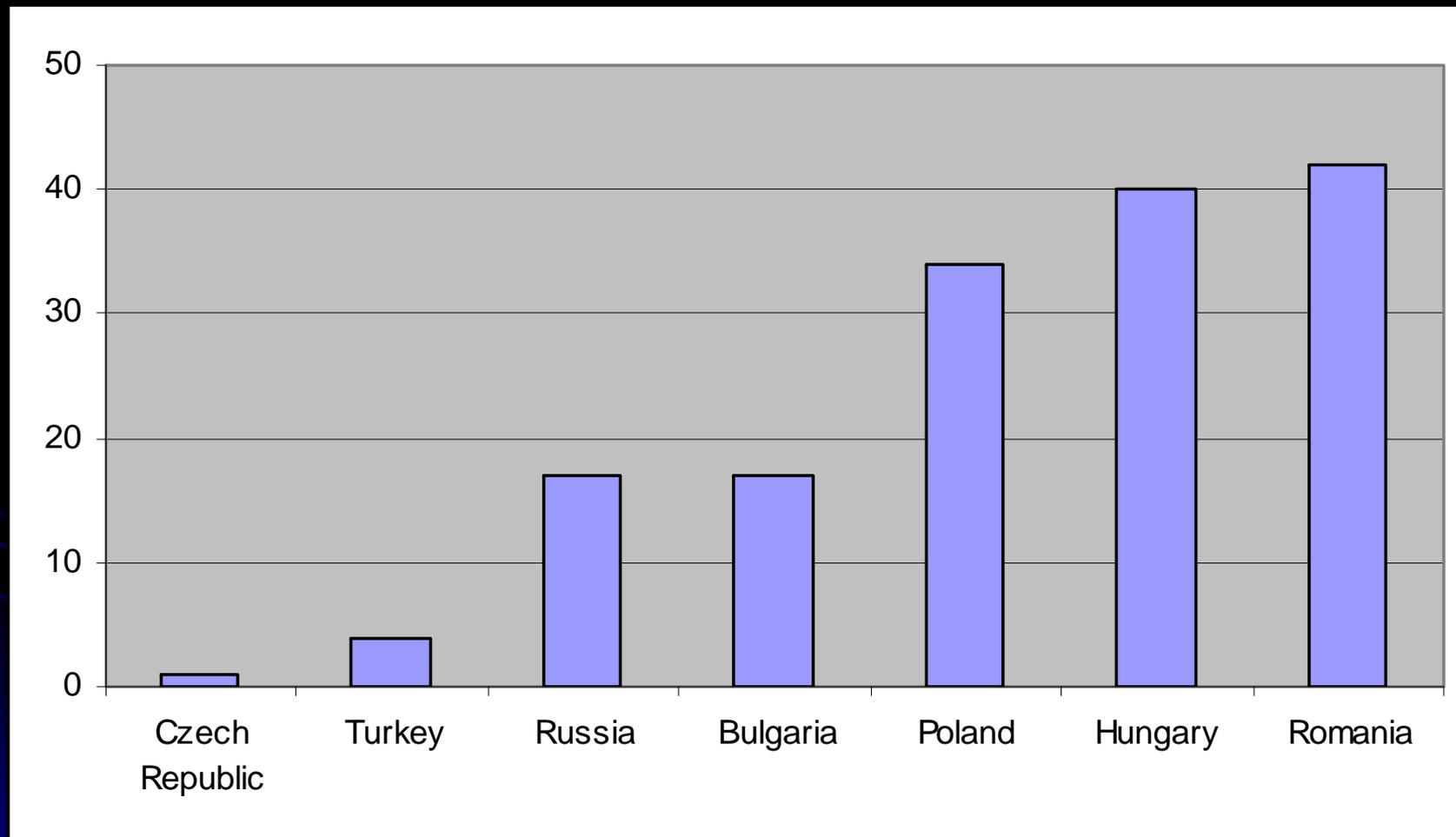
Available at SSRN: <http://ssrn.com/abstract=981641>, retrieved 24 August 2008.

Table 8: Ratio of Household Credit to Personal Disposable Income (2000-05)

	2000	2001	2002	2003	2004	2005
Emerging Markets						
Czech Republic	8.5	10.1	12.9	16.4	21.3	27.1
Hungary	11.2	14.4	20.9	29.5	33.9	39.3
Poland	10.1	10.3	10.9	12.6	14.5	18.2
India	4.7	5.4	6.4	7.4	9.7	...
Korea	33.0	43.9	57.3	62.6	64.5	68.9
Philippines	1.7	4.6	5.5	5.5	5.6	...
Taiwan	75.1	72.7	76.0	83.0	95.5	...
Thailand	26.0	25.6	28.6	34.3	36.4	...
Mature Markets						
Australia	83.3	86.7	95.6	109.0	119.0	124.5
France	57.8	57.5	58.2	59.8	64.2	69.2
Germany	70.4	70.1	69.1	70.3	70.5	70.0
Italy	25.0	25.8	27.0	28.7	31.8	34.8
Japan	73.6	75.7	77.6	77.3	77.9	77.8
Spain	65.2	70.4	76.9	86.4	98.8	112.7
United States	104.0	105.1	110.8	118.2	126.0	132.7

Source: IMF Staff estimates based on data from country authorities, CEIC, OECD, and Bloomberg

Table 11: Share of Foreign-Currency-Denominated Household Credit, End-2005 (*In percent of total household credit*)



Source: IMF 2006. "Global Financial Stability Report: Market Developments and Issues." *IMF: World Economic and Financial Surveys*. September, 2006. Retrieved August 26, 2008. [<http://www.imf.org/external/pubs/ft/GFSR/2006/02/pdf/chap2.pdf>] p. 54

Table 13: Rate of Subprime Lending by Borough, 2002 - 2006

	2002	2003	2004	2005	2006
Bronx	14.2%	19.7%	28.2%	34.4%	27.4%
Brooklyn	9.2%	13.9%	18.4%	26.1%	23.6%
Manhattan	1.3%	1.8%	0.6%	1.1%	0.8%
Queens	7.7%	12.6%	17.8%	28.2%	24.4%
Staten Island	7.2%	11.1%	13.9%	19.9%	17.1%
NYC Total	7.0%	10.8%	14.9%	22.9%	19.8%

Source: Furman Center for Real Estate & Urban Policy, 2007

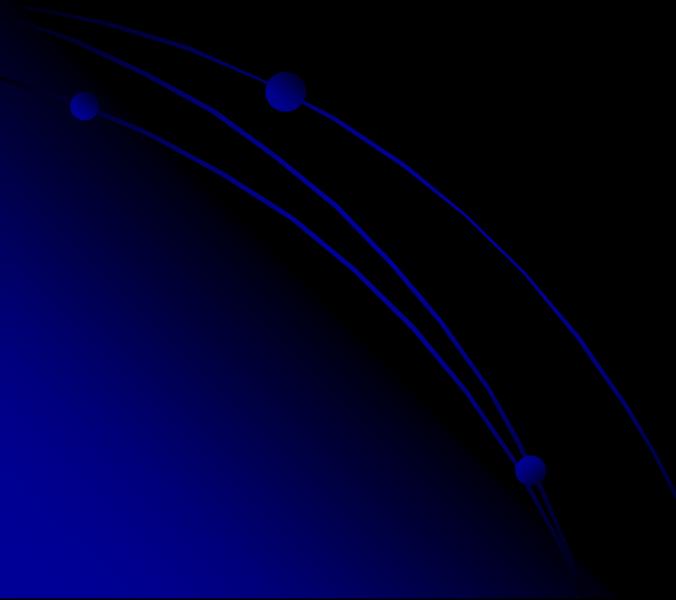
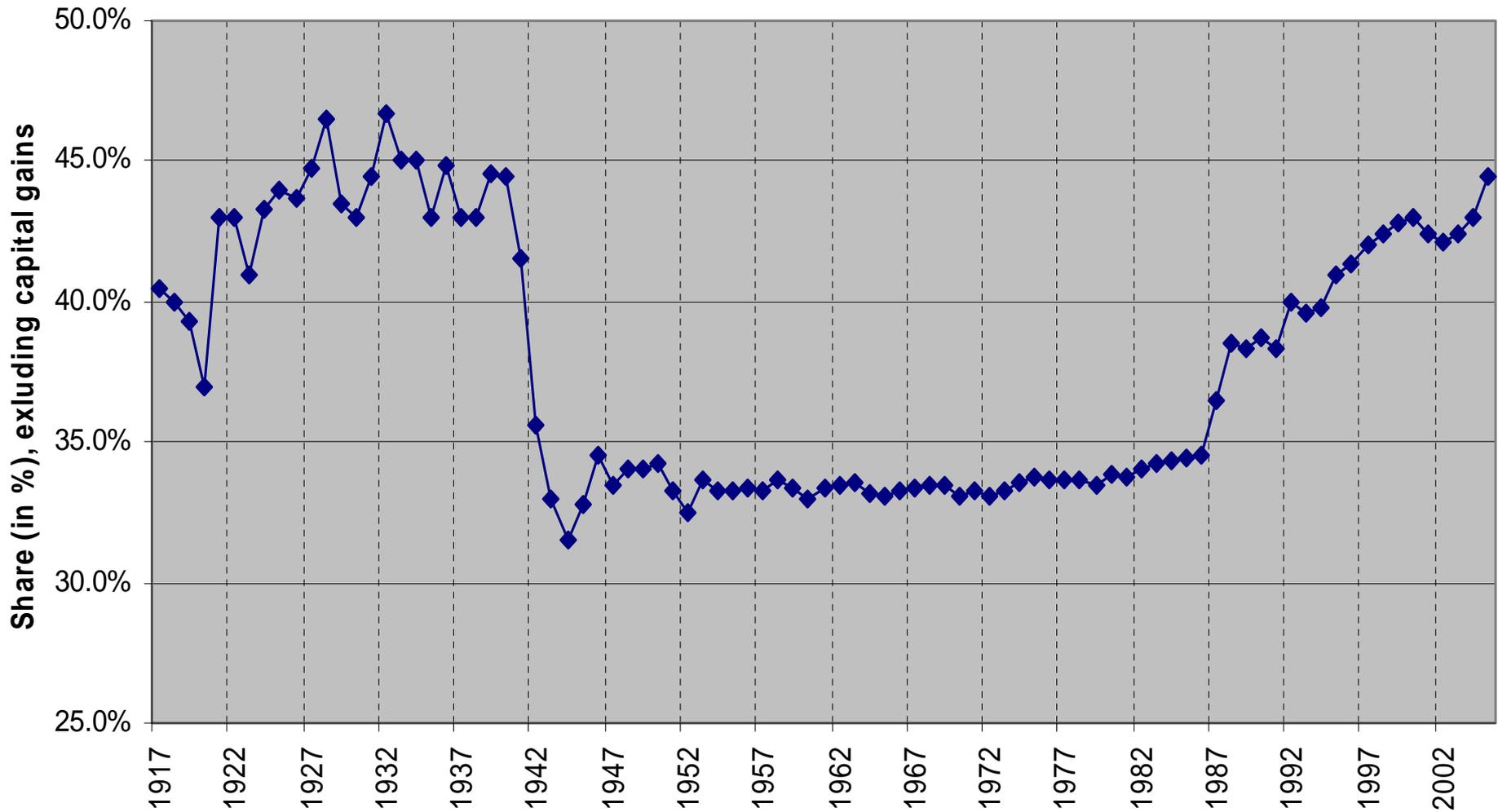


Table 15: Rate of Subprime Lending by Race in New York City, 2002 - 2006

	2002	2003	2004	2005	2006
White	4.6%	6.2%	7.2%	11.2%	9.1%
Black	13.4%	20.5%	35.2%	47.1%	40.7%
Hispanic	11.9%	18.1%	27.6%	39.3%	28.6%
Asian	4.2%	6.2%	9.4%	18.3%	13.6%

Source: Furman Center for Real Estate & Urban Policy, 2007

Table 20



•*Income is defined as market income but excludes capital gains

•Source: Mishel, L. 2004. "Unfettered Markets, Income Inequality, and Religious Values." *Viewpoints*. May 19, 2004. Economic Policy Institute. Retrieved July 26, 2008 [[www.epi.org/content.cfm/webfeatures_viewpoints_moral_markets_presentation.](http://www.epi.org/content.cfm/webfeatures_viewpoints_moral_markets_presentation)] [[kqb1](#)]

