



## East Asia's Megacities in the Global Economy

Shahid Yusuf

World Bank

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## What the Urban World is Coming to

Less than a dozen major metro regions are responsible for much of East Asia's dynamism and growth. They are the gateways to the global economy and the key spatial links in East Asia's production network. These are cities such as Seoul, Shanghai, Tokyo, Hong Kong-Shenzhen, Guangzhou, Bangkok, Taipei, and Singapore. All are being subjected to the forces of structural and social change. Whether and how they sustain their economic tempo will be critical to the future industrial geography of the Region. The most interesting development story is now unfolding in Asia's urban heartlands.

## Urban Stylized Facts for East Asia

- Major cities have a high share of GDP, FDI and exports: Seoul accounts for a quarter of Korea's GDP; Shanghai produces 6% of China's GDP and 11% of exports and receives 10% of FDI.
- Industries concentrating in fewer urban areas: suppliers cluster around assemblers.
- Size of cities a source of productivity gains: Each doubling of industrial scale yields 3-8 % productivity gains.

## Urban Stylized Facts for East Asia

- Competitiveness of these cities enhanced by agglomeration economies, presence of leading universities/research institutes, high level of skills.
- Participation in global production networks linked to transport/communications infrastructure. Responsible for success of EA relative to LAC.
- Administrative and fiscal decentralization enlarging scope for policy discretion and initiative.

## Cities in Transition

- Tokyo: Largest, most diversified, growing, technologically dynamic, contains one-third of all corporate HQs, focus of research activities. Confronting steady erosion of manufacturing base. Entry of new firms on decline. Population ageing, income cleavages between low and high-skilled workers widening.
- Hong Kong: Strong in high value-added producer services and logistics, most industry has migrated to the Pearl River Delta; facing severe price competition even in airport/port services; polarized labor market and great income inequality

## Cities in Transition

- Shanghai: Highly diversified industrial city with increasing producer services and high tech activities. Income distribution fairly equal and population growing. Future employment growth in manufacturing likely to slow or reverse. Productivity gains in many services could also limit increase in job opportunities.

## Cities in Transition

- Singapore: Competing with Hong Kong and Shanghai in financial/legal services, with Malaysia on port services, with Bangkok on medical tourism, with China in electronics manufacturing and research. Attempting to sustain regional corporate HQ role, and carving a role in biotech industry and education services. Leveraging human ES cell research.
- Manila: Marking time, with no clear game plan.

## Cities in Transition

- Kuala Lumpur/MMC/Port Klang: Relying on infrastructure development on a massive scale to leverage future growth. Lack of high level skills constraining industrial capability.
- Jakarta: Manufacturing capacity not being sustained by local investment and FDI. Labor supply, potential agglomeration economies and domestic market potential not being exploited because of governance, security and infrastructure issues.



## What Must Transitioning Cities Do

- Industrial and services sector diversity keys to flexibility, growth, macroeconomic stability, employment and agglomeration economies.
- Require deep labor markets for multitude of skills. Depend on openness, strong university sector.
- Focus on R&D and innovation that feeds industrial cluster development.



## What Must Transitioning Cities Do

- Strong leisure industry, social amenities, efficient transport system, state of the art IT infrastructure, low crime and clean environment vital for attracting and retaining high tech industry/skilled workforce. In the U.S., Minneapolis a leading example.
- Quality of other public and health services now almost a necessary condition. Examples of Tokyo, Seoul, Singapore, Hong Kong

## Megacity Dynamics

Success of cities hinges on realizing complementarities and cultivating linkages.

- High-tech manufacturing requires a host of supporting financial, legal, engineering and other services. In today's saturated markets, design can be key. Think of Samsung's success. Think of the iPod. Think of the RAZR3.

## Megacity Dynamics

- Technology development requires sophisticated test markets and users. e.g., Shibuya and Harajuku in Tokyo to try out clothing and Akihabara for electronics. Medical instruments producers need interaction with hospitals. Biotech and pharma companies need health services for testing new drugs, etc.
- Outsourcing of some activities essential for competitiveness. Similarly, insourcing of activities could be vital for growth.



## Megacity Dynamics

- Global cities are high on tree of linkages via the branch network of international financial, legal, consulting and accounting firms.
- Global cities are also linked to other major cities through numerous airline connections.
- Industrial diversity, ease of access and FDI draw cities into international production networks/global value chains.
- “Branding” of a city and reputation can have useful spillovers for business and start virtuous spirals.



## The Asian City in the Global System

Size, complementarities and linkages are powerful competitive advantages. Through them, East Asian cities are establishing bridgeheads into the global economy.