THE GLOBAL
URBAN ECONOMIC
DIALOGUE SERIES

UNLEASHING THE ECONOMIC POTENTIAL OF AGGLOMERATION IN AFRICAN CITIES

UN-HABITAT
FOR A BETTER URBAN FUTURE

UNLEASHING THE ECONOMIC POTENTIAL OF AGGLOMERATION IN AFRICAN CITIES

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The Global Urban Economic Dialogue Series

Unleashing the Economic Potential of Agglomeration in African Cities

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FOREWORD

Urbanization is one of the most powerful, irreversible forces in the world. It is estimated that 93 percent of the future urban population growth will occur in the cities of Asia and Africa, and to a lesser extent, Latin America and the Caribbean.

We live in a new urban era with most of humanity now living in towns and cities.

Global poverty is moving into cities, mostly in developing countries, in a process we call the *urbanisation of poverty.*

The world's slums are growing and growing as are the global urban populations. Indeed, this is one of the greatest challenges we face in the new millennium.

The persistent problems of poverty and slums are in large part due to weak urban economies. Urban economic development is fundamental to UN-HABITAT's mandate. Cities act as engines of national economic development. Strong urban economies are essential for poverty reduction and the provision of adequate housing, infrastructure, education, health, safety, and basic services.

The *Global Urban Economic Dialogue* series presented here is a platform for all sectors of the society to address urban economic development and particularly its contribution to addressing housing issues. This work carries many new ideas, solutions and innovative best practices from some of the world's leading urban thinkers and practitioners from international organisations, national governments, local authorities, the private sector, and civil society.

This series also gives us an interesting insight and deeper understanding of the wide range of urban economic development and human settlements development issues. It will serve UN member States well in their quest for better policies and strategies to address increasing global challenges in these areas

Joan Clos
Under-Secretary-General of the United Nations,
Executive Director, UN-Habitat

CONTENTS

LIST OF TABLES

LIST OF FIGURES

SECTION 1: **INTRODUCTION**

There is a new mood of optimism about the prospects for Africa, buoyed by regular discoveries of untapped oil reserves and other minerals, booming commodity exports, big construction projects, new shopping malls and other palpable signs of economic revival. Strong growth over the last decade coupled with relative resilience during the recent global crisis have fuelled perceptions that the continent has shifted onto a higher plane of development, following several decades of economic decline and political instability (IMF, 2011; World Bank, 2011; Economist, 2011). Faced with static populations and saturated markets in many developed economies, the possibility of a burgeoning middle class of consumers is also enticing investors. The conventional view among international organisations is that the main requirement to sustain this positive trajectory is a better business climate to attract private enterprise. Reinvesting some of the resources generated from exploiting the minerals bonanza in modern economic infrastructure would also help.

Of course the major problems of poverty and unemployment have not suddenly diminished, nor have the threats of environmental degradation and food shortages posed by global warming. Africa's relatively rapid rate of urbanisation and predominantly informal urban economies present a particular set of challenges that are receiving far less attention from governments or international bodies (UN Habitat, 2010; Commonwealth Secretariat, 2010; UNCTAD, 2011a). Strong population growth in congested cities with inadequate provision of basic infrastructure heightens the risks of increased squalor, hardship and public health disasters. The concentration of people with very low incomes in constrained spaces also creates the conditions for mounting frustration, social unrest and exposure to flooding and fire hazards.

This juxtaposition highlights the need to connect efforts to bolster African economies with more positive responses to demographic movements, i.e. to align economic growth and urbanisation agendas. Evidence from around the world suggests that linking economic and urban development can generate positive interactions or 'spillovers' that improve economic outcomes and human well-being. Conversely, ignoring the spatial implications of economic trends heightens the risk of producing imbalanced, exclusionary and destabilising effects. In the context of climate change, rising energy prices and global pressures to cut carbon emissions, it is also important to incorporate environmental considerations into future plans. These concerns tend to reinforce the case for concentrated rather than dispersed development, including localised production of energy, food, water, building materials and many other goods and resources.

This report seeks to explore what local and national governments can do to harness the economic possibilities of Africa's expanding cities and to maximise the benefits from its abundant natural resources. It is argued that urbanisation can contribute to greater economic dynamism and sustainable reductions in poverty if it is planned and managed more effectively. This should mean that the increase in population is accompanied by stronger employment growth, enabling people to enjoy higher living standards and to lead more useful and fulfilling lives. This will require the expansion of production and not just consumption, improvements in public services, and the creation of better functioning urban environments.

Above all, more robust and inclusive growth requires diversification from Africa's primary commodities. Economic policy needs to build on the continent's competitive advantages by adding value to its raw materials and minerals. Geography matters to the prospects for broadening and deepening

African economies. Global experience suggests that cities can help to transform the scale and nature of productive activity and build more integrated economies with stronger backward and forward linkages. With suitable investment in infrastructure and institutions, urban environments provide more efficient logistics, improved access to skills, support services and finance capital, stronger connections to local and international knowledge and expertise, and more intensive learning and innovation. Bearing in mind that this is not a quick fix, cities should also be planned and managed as places where citizens can better organise themselves, enhance their own productive skills and capabilities, and develop practical ways of constructing better livelihoods that go beyond bare survival and subsistence activities in the informal economy.

The report also cautions against oversimplifying these issues and exaggerating the economic contribution of cities per se. Drawing policy recommendations is difficult without a fuller understanding of the processes at work in their particular local contexts. Further research is required on African urban dynamics, especially the causes and consequences of concentration. Some of the international literature portrays urbanisation as a necessary and sufficient condition for economic progress, inevitably linked with higher productivity, output and average incomes. Observers conclude that governments should favour investment in big cities at the expense of smaller cities and towns. In fact careful consideration of the evidence does not justify such bald conclusions. Cities are not a panacea for prosperity and development. They can help to reinforce progress, but there is no automatic connection between physical proximity and economic growth. A series of other conditions are also vital, including higher levels of productive activity, investment in public infrastructure and human capabilities (such as education, health and social welfare), more equitable terms of international trade, and stronger local and national government institutions.

The next three sections of the report set the context by outlining the issues, challenges and opportunities for linking urbanisation and development in Africa. The following sections review the theoretical arguments for the economic advantages of cities, the different forms of agglomeration and the international evidence relating to the strength of these forces. This is critical to the case for preferential policies towards cities. Subsequent sections consider the relevance of these arguments to Africa, including the obstacles that inhibit agglomeration. The final section discusses some of the main ways in which governments can help to realise the economic potential of cities.

SECTION 2: SETTING THE SCENE – POLARISED PERSPECTIVES

The United Nations predicts that Africa's current urban population of 400 million will double over the next 20 years and triple over the next 40 years (UN Habitat, 2010). This will be the result of natural growth (more births than deaths) as well as rural-urban migration. By 2050 nearly two-thirds (60%) of Africa's population are expected to be urbanised, up from 40% today. Africa has been experiencing the world's fastest rate of urban population growth for decades, although the rate of growth is diminishing.[1] Africa also happens to be the world's poorest and most precarious continent, raising the spectre of 'urbanisation without growth'.

Most people are moving to cities in the hope of finding work and a better life. It is estimated that more two-fifths (43%) of the urban population in sub-Saharan Africa live below the poverty line and three-fifths (62%) live in overcrowded 'slums' lacking basic services and vulnerable to absolute poverty, illness, environmental crises and social disorder (UN Habitat, 2008). This is much the highest proportion in the world and the trend is rising. Informal employment already accounts for some 72% of non-agricultural jobs in sub-Saharan Africa (ILO, 2002) and around 60% of urban jobs (Kessides, 2006; UN-Habitat, 2008). Yet informal enterprises operate with minimal capital and low skills in congested markets (UNCTAD, 2011a). They therefore generate very low household incomes, little economic security and no taxes to pay for better public services. To avoid rising poverty and disaffection, Africa needs to generate productive jobs and livelihoods for the 7-10 million young people entering the labour force each year, a disproportionate number of whom live in cities because of the youthful profile of migration streams.

The urbanisation of poverty in Africa undoubtedly presents great challenges of international significance. Some external commentators have portrayed the scenario as completely bleak with no hope of improvement. For example, in his book Planet of Slums, Mike Davis gives much attention to Africa's cities, which are said to be growing "prodigiously despite ruined import-substitution industries, shrunken public sectors, and downwardly mobile middle classes" (2005, p.16). He highlights extreme conditions of squalor, degradation, decay and pollution, attributable partly to globalisation and structural constraints on local actors and institutions. Davis and other observers tend to write-off Africa and its cities as basket-cases, with little sign of hope and no sense that anyone is doing anything about these problems (Freund, 2007; Myers, 2011).

Partly in response to such pessimism, a new group of authors has emerged who are deliberately less negative and judgemental about Africa's urban poverty (Nuttall and Mbembe, 2008; Bremner, 2010; Simone, 2010). They draw particular attention to energy, ingenuity and creative spirit of informality. Poor communities are not passive victims but rather active agents with resilience and imagination to negotiate the tough environments of African cities. They are capable of adapting to their physical and economic constraints and making the most of the opportunities available through experimentation and inventiveness. Yet by focusing on the positive features of marginal communities and the coping strategies evident

1 Some doubts about the reliability of these statistics and their interpretation have been raised by Potts (2009) and Satterthwaite (2010).

in 'invisible' urban practices on the periphery, this literature may also have failed to provide an accurate and balanced interpretation of the situation. It also appears to have missed the growing economic dynamism of many African cities, reflected in major house-building and infrastructure programmes.

The economic prospects seem to be better than for many years. An unexpected upturn in many African economies during the last decade has caused a noticeable change in mood and confidence, with a renewed sense of optimism for the future. Ten years ago Africa was typically portrayed in very pessimistic terms following two decades of structural adjustment, government debt crises and collapsing public infrastructure. As a result, labour markets and service delivery in the cities became increasingly informal, making workers and households more vulnerable by undermining the quality of jobs and social protection. This was apparent in public transport, water, waste removal, housing and land allocation. The Economist magazine famously labelled Africa "The Hopeless Continent" in 2000. Yet a decade later the cover of its December 3rd 2011 edition did a remarkable about-turn by describing it as "The Hopeful Continent", with "a real chance to follow in the footsteps of Asia":

> *"A profound change has taken hold. Labour productivity has been rising. It is now growing by, on average, 2.7% a year. Trade between Africa and the rest of the world has increased by 200% since 2000. Inflation dropped from 22% in the 1990s to 8% in the past decade. Foreign debts declined by a quarter, budget deficits by two-thirds. In eight of the past ten years sub-Saharan growth has been faster than East Asia's … Over the past decade six of the world's ten fastest-growing countries were African"*
> (Economist, 2011).

Recent reports from international organisations such as the IMF (2011), World Bank (2011) and global consultancies such as McKinsey (2010), Ernst and Young (2011) and Monitor (2011) have expressed similar up-beat sentiments. They almost seem to be competing to up the ante. Monitor asserts baldy that "Africa will be one of the main sites of the next wave of global economic development" (2012). The World Bank is slightly more tentative: "Africa could be on the brink of an economic take-off, much like China was 30 years ago and India 20 years ago" (2011, p.2). The IMF predicts that four of the world's top 10 fastest-growing economies in the next five years will be from Africa. Africa's recent success and positive outlook appear to stem from strong global demand for primary commodities (especially oil, gas, metals and minerals such as diamonds and coal) and agricultural products, coupled with the expansion of domestic consumer markets as a result of strong demographic growth and an emerging middle class. For example, the west coast of Africa has risen rapidly to become a major supplier of oil to the USA. Africa is believed to contain around 12% of the world's oil and 30% of global mineral reserves. Expenditure on commercial exploration in Africa has outstripped global increases, rising from $300 million in 2000 to more than $2000 million in 2008 (Harrap, 2012). Large new deposits are regularly being identified, such as the recent discovery of major oil and gas reserves in Tanzania, Mozambique, Kenya and Ethiopia (Economist, 7th April 2012).

Historically in other parts of the world and now in many parts of Asia, the productivity and cost advantages that stem from concentrated populations have helped to spur economic dynamism and growth. If they can find the resources and institutional capabilities to do so, investing in infrastructure and other instruments of economic and social development should help African cities to function more efficiently, and thereby secure positive externalities from urbanisation. Critical public decisions taken over the next few years on where and what types of infrastructure are pursued will lock in particular development trajectories for decades to come. They will either reinforce the positive link between urbanisation and development, or undermine it and cause urban problems to become overwhelming. Careful decisions on human settlement planning, transport systems (public or private), power generation (high or low carbon), food production, water, sanitation and other community services will have far-reaching and long-lasting social, economic and environmental effects.

Although Africa's commodity exports could help to generate some of the resources required to invest in urban infrastructure, there are many competing claims on these funds, ranging from support for agriculture, education and social programmes, to expanded public administrations. Africa's four main exports are also non-renewable and create few direct jobs, so the basis of the upswing has been narrow. To create and sustain wealth in the long-term these diminishing resources have to be converted into other forms of capital, preferably tradable industries producing final consumer and capital goods that will outlast the primary commodities. Otherwise, resource-based growth could remain an enclave separate from the rest of the economy: "Commodity exports can lead to high but not sustained economic growth" (UNCTAD, 2011a, p.4). The Economist asked: "Will Africa continue to rise? Or is this merely a strong upswing in a boom-bust cycle that will inevitably come tumbling back down?" (2011). Since 2008 the triple global crises of rising food prices, energy prices and financial turmoil have already eroded some of Africa's previous gains and exposed its vulnerability to external shocks (UNCTAD, 2011a). Africa receives less overseas aid than it pays out for oil imports, according to the International Energy Agency (Mail and Guardian, 5th April 2012). In addition, there is evidence that the Africa's recent spurt of high growth in output has not helped to reduce poverty by an equivalent amount (IMF, 2011).

Africa is the least diversified region in the world in terms of its exports, and has made slow progress in the last two decades. The export diversification index improved slightly from 0.61 in 1995 to 0.58 in 2009, while in Asian developing countries it improved from 0.32 to 0.26 and in developing America it improved from 0.36 to 0.33 (UNCTAD, 2011a). The IMF (2011) agrees that Africa's goods exports remain unsophisticated (see also African Development Bank, 2007; Ajakaiye and Ncube, 2010), although there has been some progress with services. Africa's problem is that it still supplies basic inputs to global value chains that are mostly located and controlled from elsewhere. Diversification requires moving up the value chain by refining and processing natural resources, creating improved products and integrating different stages of value addition to develop more balanced economies. This is a contested process threatening foreign competitors and challenging the tariff barriers and regulations that affect the way exports from Africa are treated in advanced economies.

The recent shift in patterns of foreign trade and investment from Europe and North America towards China and other parts of Asia also prompts questions about whether this is a "new scramble for Africa" (Financial Times, 25th August, 2011). China could be the new imperial power exploiting African land, labour and minerals in much the same way that Europe did in the past. The latest evidence suggests that most Chinese FDI to sub-Saharan Africa has consisted of investments in natural resources packaged with related infrastructure projects (IMF, 2011). Chinese investors and construction companies tend to employ their own workforces, which limits the extent of technology and skills transfer to Africans. There is also a huge imbalance between the patterns of trade between China and Africa.

Yet some observers argue that there are genuine prospects for more mutually-beneficial 'East-South' or 'South-South' patterns of trade and development (Ampiah and Naidu, 2008; Murray, 2008; UNCTAD, 2011a). Asian investors, including state-owned enterprises, may well take a longer-term view of Africa's prospects than Western investors. UNCTAD (2011a) believes that Africa could in due course become a supplier of manufactured goods, inputs to infrastructure and agro-industry to the rapidly expanding middle classes in China and India. The influential World Investment Report also identifies opportunities for Africa to benefit from new global trends in foreign direct investment arising from the emergence of a wider array of production and investment models (UNCTAD, 2011b). These include contract manufacturing and farming, outsourcing of services (such as business process outsourcing (BPO)), franchising and licensing.

Securing these parts of global value chains to strengthen domestic productive capacity will depend on appropriate policy frameworks, reliable infrastructure and sound institutions. Cheap electricity from home-grown oil and gas supplies and renewable energy sources will obviously help. Public procurement could also play a role, using the purchasing power of governments over infrastructure and other forms of investment to negotiate higher levels of local production by foreign corporations, instead of imported goods and components. Possible examples of technologically realistic products include fertilisers, chemicals, plastics and other petroleum products, construction materials, plant and equipment, pipes, electrical cables, pylons, buses and railway rolling stock. Governments could also seek to negotiate a progressive increase in the amount of local manufacturing content for multinationals that are seeking access to expanding African consumer markets. This could cover all kinds of consumer durables, clothing, furniture, processed foods and even pharmaceuticals, health vaccines and medical devices, where governments tend to be the biggest customers.

SECTION 3: **THE ROLE OF GEOGRAPHY AND URBANISATION**

Considerations of economic geography, space and location have barely featured in recent reports on African economies, except for the idea of infrastructure corridors and lower internal tariff barriers to promote intra-African trade (Economic Commission for Africa, 2012). UNCTAD (2011a) develops a compelling argument for structural change from agriculture to manufacturing industry in Africa, combined with the building of stronger input-output linkages between sectors, general upgrading of product quality, and more efficient systems to connect producers to markets. However, it does not mention how spatial proximity, urban infrastructure and institutions can contribute to these processes. Similarly, the World Investment Report (UNCTAD, 2011b) discusses the need to increase the 'stickiness' of foreign investment in host economies by building up domestic suppliers, technological learning, upgrading of skills and entrepreneurship. Again no reference is made to the spatial dimension of this process of integration and 'embedding'.

The IMF economic outlook (2011) includes table 1 below which shows that, in a sample of countries, the average rate of employment growth in urban areas over the last decade was more than double the national rate. Yet the accompanying analysis says very little about sub-national development patterns, and the policy recommendations ignore urban growth opportunities or constraints. It is striking how such reports can neglect both the extra costs of production and trade arising from dispersed geographical patterns (the 'friction' of distance), and the multiple benefits of company co-location in strengthening industrial synergies, productivity, innovation and access to diverse skill-sets. 'Place' is where complementary activities come together on the ground, where physical obstacles such as access to serviced land are most apparent, and where business interactions and public infrastructure investment are most efficient. Geography, space and cities should not be regarded as mere outcomes of industrialisation, inert containers of economic activity, or passive recipients of investment.

TABLE 1: **Indicators of employment growth for selected African countries**

Country	Period	Total employment (annual change)	Urban employment (annual change)	Formal employ/ working age pop. at latest date
Cameroon	2001-07	2.7%	5.6%	9.5%
Ghana	1999-2005	3.4%	6.1%	13.3%
Mozambique	2003-09	4.4%	7.4%	16.7%
Tanzania	2000-09	3.3%	8.8%	9.5%
Uganda	2002-09	7.5%	9.8%	13.9%
Zambia	1998-2004	1.9%	5.1%	13.8%
Overall sample		3.3%	6.8%	13.6%

Source: IMF, 2011, based on national household surveys. Employment is defined as all income generating activities rather than just formal employment. Despite strong growth, the employment rate remains very low by standards elsewhere in the world.

African urbanisation remains a sensitive political issue because of its complicated history and negative consequences for contemporary living conditions (Freund, 2007). In many countries urban growth seems to have been driven more by political than economic factors, such as civil wars and post-independence public spending (Bekker and Therborn, 2012; Bryceson and Potts, 2006). Most governments are wary of appearing to encourage rural-urban migration in the belief that it is harmful and not rational for households or the country as a whole.

Ignoring spatial patterns can undermine the viability of economic development and jeopardise the sustainability of human settlements. An immediate issue is whether the location of population and resource-based economic growth coincide, bearing in mind the statistical probability that the distribution of minerals and other natural resources will not correspond with the location of most existing urban centres. Migration flows tend to adjust slowly and imperfectly to uneven economic growth. This spatial misalignment means that the first priority for public investment is likely to be long-distance pipelines, transport networks and power generation to facilitate the extraction and exporting of the raw materials, rather than infrastructure to improve the operational efficiency and social conditions in cities. Governments and commercial investors will be inclined to focus on the former because it will yield the biggest financial returns in the short run.

In addition, experience suggests that growth based on extracting commodities and using the export proceeds to pay for imported consumer goods does not generate proportionate amounts of employment, either within cities or anywhere else (UNCTAD, 2011a). There is a large literature suggesting that mineral exploitation is a uniquely difficult form of national development, often producing 'dependent' or 'truncated' outcomes rather than diversity and long-term sustainability. For example, there is considerable evidence that a 'resource curse' may undermine broad-based economic development efforts by crowding out the growth of other sectors through an inflated exchange rate, high capital intensity and barriers to entry. In addition, factional or predatory political structures often arise in the rentier economies of resource-abundant states, which inhibit other forms of economic development (Bridge, 2008).

Something analogous may be occurring right now in many African cities. Well-endowed political and economic elites and expatriates employed by foreign corporations are forcing up the price of housing, vehicles, consumer goods and food. Large amounts of money in circulation also encourage speculative land acquisition and luxury property development. The effects are reinforced by land market inefficiencies and a constrained supply of serviced sites available for development. Inflated property costs and higher consumer prices make the cost of living less affordable to ordinary citizens and constrain the growth of the real economy and domestic industry. Uncertain property rights and informal transfer systems can also cause distortions, such as housing market bubbles. And the lack of tenure security makes it easier for poor households to be evicted from well-located land, with nothing to show from rising asset prices (UN Habitat, 2010). City and national authorities may support such evictions on the grounds that informal settlements are out of place and shouldn't be tolerated in a contemporary, 'modern' urban setting, where general environmental standards should be higher.

For example, as a result of Angola's oil boom, Luanda is reputed to have become the most expensive city in the world according to cost-of-living surveys produced by agencies such as Mercer. This reflects the very high cost of accommodation, groceries, fuel, restaurants, hotels, care hire and local taxes (Redvers, 2012). There has been a construction boom consisting of up-market residential property and offices, with government marketing efforts describing the city as an 'African Miami' and a 'West African Dubai' under construction. Yet 75% of Luanda's residents have no access even to piped water on site and 90% have no waterborne sewerage, despite the country's vast oil wealth (Bekker and Therborn, 2012). Grant (2009) describes something similar in Accra, where a minority of nouveau riche Ghanaians and foreign workers live in sprawling gated communities, while the poor majority of the population are confined to severely overcrowded squatter settlements lacking rudimentary infrastructure and services.

There is a growing realisation that African economies need above all to diversify by adding more value to their natural resources before they are exported (Economic Commission for Africa, 2012; UNCTAD, 2011a; IMF, 2011). Similarly, African cities need to become much more than arenas of luxury consumption and centres of public administration. Diversification would involve developing upstream and downstream activities such as refining, processing, beneficiation and supplying inputs to mining and manufacturing. The idea would be to gradually shift up the value chain over time towards more technologically advanced components, producer services (such as engineering, research and marketing) and product design and development. This would create more integrated economies in terms of backward and forward linkages, and ensure that any stimulus to growth generates larger multiplier effects, substantially more jobs and a broader spread of incomes throughout the economy. Diversification would also strengthen economic resilience by reducing exposure to volatile commodity prices and unpredictable levels of demand. It would take a concerted effort and require extensive investment in infrastructure, institutions and skills, as well as negotiations with global original equipment manufacturers to invest directly in domestic production or to establish joint ventures with local firms to share knowledge, experience and risk.

SECTION 4: CAN CITIES HELP TO BUILD MORE INTEGRATED ECONOMIES?

One of the urgent questions to consider is whether urbanisation can help this process of building more coherent economies? Can the expansion of African cities create conducive environments to foster broad-based growth through lower transaction and transport costs, more intense local trading patterns, improved access to skills and expertise, stronger collaboration between firms, mutual learning, and other dynamic interactions between economic agents which help to raise productivity and spur innovation? In a context of widespread informality, can the rapid expansion of population in African cities be managed in such a way that this becomes a positive force helping economies to develop and lifting people out of poverty? More specifically:

- How can the productive potential of cities, particularly their infrastructure and institutions, be harnessed to support value addition, diversification and structural change in African economies?
- How can the concentrations of consumer spending power in big cities stimulate increased local production of goods and services, rather than sucking in cheap imports?
- Can the provision of shelter and household infrastructure in informal settlements be organised in such a way as to support income generation and economic expansion?
- How can the climate change agenda, rising oil prices and environmental pressures be used as catalysts to grow the green economy, develop cleaner renewable energy sources and create environmentally-sustainable employment?
- And how can the mass of existing small-scale, informal enterprises be developed into more productive, growth-oriented businesses that generate more secure livelihoods, decent jobs and tax revenues to fund improved public services and infrastructure?

In short, what can governments do to help Africa's fast-growing cities increase their contribution to all-round development, and thereby raise incomes and living conditions for their residents and for other parts of the country? This is likely to require some combination of policy action at the local level aimed at the built environment, institutions and skills ('integrated place-making'), together with broader actions aimed at strengthening the position of local producers in wider economic networks and value chains. The latter is critical bearing in mind the increasing openness of national economies under conditions of globalisation and the growth of foreign trade, investment and competition. These sectoral and spatial dimensions are usually analysed independently. Greater insights and lessons for government policy could be generated by examining them together and linking them in practice. This short report cannot possibly answer all these ambitious questions. Instead it seeks to lay out some of the groundwork by reviewing the relevant arguments and evidence.

A growing body of economic theory and international evidence suggests that the geography of the economy matters for prosperity and human progress, and that cities can make a positive contribution to development. We look in detail at this evidence in the next section. For the moment, a word of caution is important. There are many exaggerated claims made about the inevitable and wide-ranging benefits of cities as 'incubators of innovation', 'centres of civilisation', and so on. The city as an 'engine of growth' has become a policy mantra that ignores other vital conditions. The title of leading economist Ed Glaeser's recent book is a good example of such hype: 'Triumph of the City:

How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier' (2011). Another example is provided by Monitor:

> *"the economic future of sub-Saharan Africa is more connected to the success of its cities, and the competitive clusters based there, than to its nation states. Cities today generate most of the subcontinent's wealth, with many thriving despite obvious challenges. Rapid urbanization turbocharges economic growth and diversification, enhances productivity, increases employment opportunities, and improves standards of living"*
> (Monitor, 2009).

Such titles and slogans are partly designed to counter the anti-urban bias that exists in many societies (and in academic writing), reflecting the social and environmental problems that afflicted old industrial cities and continue to affect many developing cities. This is understandable. However, their blatant one-sided analysis can also discredit the case for supporting urban concentration, particularly in Africa.

There is substance to the positive arguments, as I show in the next section. At the simplest level, urban density improves trade by creating busier ('thicker') markets. As settlements get bigger firms specialise and efficiency improves. Growing concentrations of activity, resources and ideas have the potential to increase productivity further, stimulate enterprise, expand output and raise household incomes. This can be beneficial to aggregate growth, i.e. to national as well as local economies, although the magnitude of these 'agglomeration economies' is subject to debate. Cities also have the capacity to foster creativity and ingenuity, which increases the adaptability of economies, promotes diversification, and avoids lock-in to outmoded activities and stagnant markets. In short, large urban centres can serve as agents of development, enhancing technology and economic progress, and stimulating consumer spending and demand.

A crucial point to bear in mind, however, is that these positive externalities are far from automatic. They are also not the outcome of market forces operating in isolation. They depend crucially on the role of governments in regulating private actors, making sizeable investments in infrastructure and building appropriate support institutions. Cities in the developed 'North' have a very long history of such government activism and investment, which cities in the global 'South' cannot suddenly match. The significance of agglomeration economies in cities where enterprises are predominantly informal, general skill levels are low and state capabilities are limited is also uncertain. And past research on agglomeration has generally overlooked the unequal benefits for different population groups, assuming instead that everyone gains from growth.

There is evidence that the direct benefits of agglomeration can extend beyond city boundaries and peri-urban areas (Kessides, 2006). Small towns and rural areas may benefit through cash remittances from migrant labour, dispersal of lower value activities from cities, access to expanding urban markets and sources of investment, and connections to wider national and international networks of trade, finance and information. Many national and local governments seem insufficiently aware of these spread effects or 'centrifugal forces', and of the synergies that can develop between cities and surrounding areas. Instead urban and rural areas tend to be seen as mutually exclusive and in competition with each other. The success of cities is perceived to draw people, investment and other resources away from towns and rural areas, thereby undermining their potential. In other words, the 'centripetal forces' of concentration are perceived to dominate.

The relative strength of these forces of dispersal and concentration is the subject of ongoing research and debate among academic experts. There are different schools of thought on the subject that tend towards contrasting conclusions. The 'New Economic Geography' (NEG) suggests that the spread effects come to dominate over time, leading in due course to the elimination of income differences between places (e.g. Krugman, 1991; Glaeser, 2011; World Bank, 2009). 'Evolutionary', Keynesian and institutional approaches to economic geography suggest the reverse, namely that spatial disparities tend to widen over time because of the self-reinforcing advantages enjoyed by the core cities, which produce a cumulative spiral of relative economic prosperity and in-migration of skills (Garretson and Martin, 2010; Pike et al, 2010). This is one of a number of critical issues with a bearing on ultimate policy recommendations.

Posing the complex dynamics of spatial development as a simple urban versus rural dichotomy tends to polarise opinion in favour of one type of area at the expense of the other. People end up either pro-urban or pro-rural. This does not help to understand the changing relationships between cities, towns and rural areas, or to develop more effective policies. There are potential conflicts between core and peripheral areas, but there are also synergies and complementary interactions that should not be ignored. The ultimate outcome is not a foregone conclusion and is likely to vary in different contexts and over time. The policy challenge is to develop mutually-supportive linkages between cities, towns and rural areas, just as it is to strengthen the linkages between agriculture, industry and service sectors of the economy.

SECTION 5: **AGGLOMERATION ECONOMIES IN THEORY**

Over the last decade, a growing number of influential international organisations have come to the view that cities promote economic development (OECD, 2006; United Nations, 2007; UN-Habitat, 2008, 2010; World Bank, 2009). Their arguments are generally broad-brush and the extent of supporting evidence is often limited. The connection between urbanisation and economic development is often portrayed as immutable and inevitable - a kind of universal law. Supporting cities is sometimes presented as a formula for achieving economic success. Insufficient attention is given to the specific ways in which cities can contribute to economic progress, the circumstances in which these mechanisms may not work, and the strength of these effects compared with other drivers and influences on economic development. Quite different causal processes are often lumped together in a catch-all assertion, making it difficult to unpack and test the different dynamics.

The resulting messages for government policy have ended up rather broad and generalised, with little sense of priorities and sequencing, and therefore difficult to follow through and put into practice. The recommendations have often amounted to a call for a greater focus on cities because of their potential to maximise national economic growth, irrespective of the way public resources are actually distributed spatially within that particular country. The existence of an anti-urban bias is readily assumed, even though pro-rural sentiments may amount to little more than rhetoric in practice. Another recommendation is for better planning and management of urban growth to avoid the chaotic proliferation of informal settlements. This is commonsense, but it doesn't help governments to work out how to strengthen urban economies. For example, it is not obvious that upgrading informal settlements is the most cost-effective way of accelerating economic development.

A common refrain is that: "The prosperity of nations is intimately linked to the prosperity of their cities. No country has ever achieved sustained economic growth or rapid social development without urbanising" (UN Habitat, 2010, p.x). Similarly,

> *"No country has grown to middle income without industrializing and urbanizing. None has grown to high income without vibrant cities. The rush to cities in developing countries seems chaotic, but it is necessary"*
>
> (World Bank, 2009, p.24).

Economic progress is said to have both depended on more people living in cities (to expand the supply of labour and entrepreneurs, and to stimulate mutual learning and creativity) and it has generated the resources to support continued urbanisation (through essential infrastructure and services). The outcome of this virtuous circle is said to have been rising national productivity and prosperity, and reduced overall poverty. While this argument may seem plausible at a general level, the explanation for the connection between urbanisation and economic development is limited and there is a naïve (and incorrect) assumption that one thing follows automatically from the other. Africa's experience shows that many other factors are involved that complicate the relationship and can cause contrary outcomes in the real world. Urbanisation does not necessarily go hand in hand with economic growth, employment and higher living standards. Indeed, the 2010/11 State of the World's Cities acknowledges this: "when accompanied by weak economic growth … urbanisation results in local concentration of poor people rather than significant poverty reduction" (UN Habitat, 2010, p.x). This phrasing even suggests that urbanisation may have little to do in a causal sense with economic growth – it is a mere accompaniment.

Sometimes the arguments are historical - structural shifts in the economy, particularly industrialisation, have gone hand-in-hand with a spatial redistribution of the population – the 'urban transition' (World Bank, 2009). The industrial revolution in the 18th and 19th centuries was certainly accompanied by large-scale, and in many cases forced, movements of people off the land and into burgeoning cities. This lesson of history probably cannot be reproduced in many (democratic) countries today without a severe political backlash from rural areas. More importantly, the strong spatial concentration of industry during the 18th and 19th centuries occurred when transportation systems were undeveloped and transport costs were very high. Contemporary conditions are quite different in most places.

China is widely regarded as the best contemporary example of how rural-urban migration can fuel industrialisation and boost living standards (World Bank, 2009; Ravallion, 2009). China passed the historic milestone of 50% of its population living in cities in 2011, up from only 20% in 1980 (Financial Times, 18th January 2012). The speed of urbanisation has reflected above all the strength of employment growth in cities – without jobs people won't go. Average household incomes in Chinese cities are now almost three times higher than in rural areas, reflecting higher productivity accompanying strong employment growth. The Chinese government's approach to urbanisation, particularly its commitment to invest heavily in urban infrastructure, is also contrasted with the more informal, disorganised approach of India and other developing countries, where congestion, water shortages, squalor, disease and conflict are rife: "For every pound Indian authorities invest in urban infrastructure, their Chinese counterparts spend seven" (Observer, 22nd January 2012). Although it is not a democracy, the Chinese government has also been forced to counter concerns about rural disadvantage with major commitments to invest in rural economic and social development in recent years, including infrastructure, schools and pensions.

The basic insights into the advantages of economic concentration have been around for a long time and can be traced back to many of the founding fathers of economics. What has changed recently is that the analytical techniques have become more complicated and the theoretical frameworks more elaborate. Work on 'geographical economics' has also developed a much higher academic profile than traditional 'economic geography', reflected in the award of the Nobel Prize to Paul Krugman in 2008 for his work in this field. Many of these economic models are derived from first principles, rather than empirical observation. They are specifically designed to apply anywhere and everywhere, and to include only a few fundamental forces: "the key imperative of NEG is to devise a 'universal grammar' of spatial agglomeration in terms of formal models that have general applicability but also representational parsimony, that is as few basic causal factors and relationships as possible (Krugman 2000)" (Martin, 2008, p.7). This gives them a law-like character, which has contributed to the kinds of over-simplification and generalisation noted at the beginning of this section by policy-makers seeking to interpret this work. These models cannot explain historical and geographical variations, and apparent anomalies such as African urbanisation. They are not meant to represent or explain any specific real-world situation: "they consist of hypothetical worlds built upon and defined by simplified assumptions and idealized geographical landscapes" (Martin, 2008, p.7).

The economic rationale for urbanisation is underpinned by two basic concepts - the division of labour and economies of scale. The former was introduced by Adam Smith and explains the benefits for productivity and therefore growth that arise from specialisation among producers. Specialisation means individuals and firms concentrating on particular products or tasks, which yields greater efficiencies, skills, expertise and variety. This accounted for the great leap forward from craft production to factory production that gave rise to the industrial revolution. The idea of specialisation may be part of what's required to improve the performance of informal traders in Africa today, bearing in the mind the levels of duplication and imitation that often exist. The concept of specialisation also has some relevance at the city-wide level, in terms of the benefits of focusing on particular functions for which they have some inherent advantage. Specialisation arguably becomes more important for cities to prosper under conditions of increasing external trade and globalisation, when competition is more intense.

Economies of scale is the second principle. It tends to give this body of work a reductionist character – that size matters above all else. There are two aspects. Internal economies of scale are internal to the firm and relate to the lower unit costs or efficiencies that result from larger scale production. Larger firms can buy their inputs at lower prices and can spread their fixed costs (industrial plant, equipment, rent, rates, marketing, management, R&D etc) over a larger volume of output. External economies of scale (or 'agglomeration economies') relate to the benefits that firms derive from locating near to other firms (their customers and suppliers) in order to reduce transport and communication costs, and to gain from network effects (or 'positive externalities' such as shared information). The more firms there are in the network, the more knowledge and intelligence potentially available to learn from. Agglomeration economies also include proximity to a large labour pool, suppliers, customers and competitors within the same industry, and firms in other industries. Alfred Marshall (1920) was the first economist to recognise the benefits for economic agents (workers as well as firms) of having access to a reservoir of information and ideas, skills and shared inputs.

SECTION 6: **DIFFERENT ADVANTAGES OF AGGLOMERATION**

These economic gains from spatial concentration can be summarised as three broad functions: matching, sharing, and learning (Duranton and Puga, 2004; Storper, 2010). First, cities enable firms to match their distinctive requirements for labour, premises, suppliers and business services better than smaller towns, simply because markets are larger and there is a bigger choice available. A bigger pool of providers also tends to reduce costs and improve variety as a result of competition and specialisation. In a volatile and dynamic economy there is a premium on flexibility and adaptability to shifts in markets and technologies, especially as companies tend to be leaner, more focused on core competences, and more reliant on buying-in goods and services rather than in-house production (Buck et al, 2005; Scott, 2006). Agglomerations enable firms to 'mix and match' their resources more easily in an uncertain operating environment. These opportunities and interactions lower the cost of transactions, help companies to reorganise and grow more quickly, and therefore improve their resilience. Ease of staff recruitment and replacement are especially important for activities that tend to have a high labour turnover, such as call centres. Labour market matching can benefit workers as well as firms by ensuring a better fit with their skills and aspirations, and higher earnings because of the resulting productivity gains. This encourages in-migration from smaller towns and rural areas.

Second, cities also give firms access to a bigger and better range of shared services and infrastructure because of the larger population of firms and overall scale of activity. Cities offer better external connectivity to national and global customers and suppliers through more frequent transport connections to a wider range of destinations, and more efficient logistics systems to handle imports and exports. They tend to have higher capacity broadband and telecommunications systems for electronic communication and marketing. They have a better choice of specialised technical support, professional expertise, financial know-how, engineering advice, or research and development organisations to assist with product design and improvement, and to assist companies to stay up-to-date with changes in technology and markets. Cities also have a wider range of education and training organisations to help with staff development and the acquisition of specialised skills and capabilities.

Third, firms stand to benefit from the superior flows of information and ideas in cities, which promote more learning, creativity and innovation, and results in new and more valuable products and processes (Jacobs, 1969, 1984; Hall, 1998). Agglomeration may be vital for high-end knowledge-intensive functions and technologically advanced activities that differentiate themselves from competitors by continuing to create higher quality goods and services. Proximity can facilitate communication and sharing of complex ideas between companies, research centres and related organisations (Cooke and Morgan, 1998; Storper and Manville, 2006; Scott, 2006). It enables people and firms to compare, compete and collaborate, which may establish a self-reinforcing dynamic that spurs creativity, attracts mobile capital and talent, and generates growth from within. Brainstorming, mutual learning and exchanging tacit knowledge tend to be more effective face-to-face than remotely through electronic communication (Storper and Venables, 2004). Close contact enables formal and informal networks of technical and scientific staff to emerge, which can encourage all sorts of collaborative projects. And new ideas are generally formed by refining and combining old ideas – products, services and places themselves can be reinvented. Cities "epitomise the process of endogenous growth whereby resources are used more productively and in new ways" (Kessides, 2006, page 13). These 'dynamic' advantages become increasingly significant over time because they are cumulative, compared with the one-off or 'static' advantages gained from lower production and transactions costs. Many authors attach particular importance to ideas and information for cities in the West to prosper: "Not every city will succeed, because not every city has been adept at adapting to the age of information, in which ideas are the ultimate creator of wealth" (Glaeser, 2011, p.40; see also Castells, 2000).

Economies of scale also apply to the sphere of consumption. The combined spending power of large concentrations of population tends to stimulate new consumer goods and amenities, such as leisure and recreation activities, which can attract further rounds of job-creating investment, tourism and population growth (Glaeser and Gottlieb, 2006). Cities are more likely than other places to contain the cultural vitality, social infrastructure and career options to help regions and nations attract the skills and talent required to generate and exploit knowledge and build dynamic competitive advantage. Some amenities can only be sustained in large cities, such as major entertainment venues or specialised centres of education and health. Cities also offer a greater choice of facilities to attract people to visit, study, live and work: "Cities thrive as places of pleasure as well as productivity" (Glaeser, 2011, p.10). Glaeser attributes London's recent growth to its status as a 'luxury resort' or 'playground' for the rich, while the success of Houston and Dallas is attributable to their low housing costs and good weather.

Research on the agglomeration economies of consumption has also formed part of a broader argument that the fundamental driver of urban economic growth is the movement of population to cities, rather than firms (Glaeser, 2011). The basic proposition is that jobs follow people rather than people following jobs. Urban amenities and the quality of place are held to be particularly important influences on the location behaviour of individuals endowed with high levels of human capital. And "human capital, far more than physical infrastructure, explains which cities succeed" (Glaeser, 2011, p.27). Similarly, "The magic of cities comes from their people, but those people must be well served by the bricks and mortar that surround them. Cities need roads and buildings that enable people to live well and to connect easily with one another" (p.160). Such people have particular consumer or lifestyle preferences that are best satisfied in cities. Hence employers looking for the entrepreneurial, creative and innovative energies of these groups have little choice but to invest in cities. In Europe and North America, many city governments have been attracted by the argument and invested heavily in consumer amenities in the hope of attracting youthful talent, professionals, entrepreneurs and other members of the so-called 'creative class' (Florida, 2004). This has been controversial because of its apparent elitism and doubts about the fundamental logic that jobs follow people, which ignores the significance of firms and industries (Peck, 2006; Storper, 2011). Glaeser's discussion of London's recent growth makes no mention of the enormous growth of the financial services industry in attracting people to London and generating the income that sustains its many pleasures (Storper, 2011).

The debate about people or jobs as the basic driver of local growth resonates with another important debate in spatial economics between people-based and place-based policies to promote economic development (World Bank, 2009; Barca et al, 2012; Glaeser, 2011; Storper, 2010). Briefly, advocates of people-based policies emphasise the importance of individual attributes, such as education, skills, cultural background and family characteristics, in determining local economic conditions. However, advocates of place-based policies emphasise wider attributes, such as the industrial structure, physical conditions and historical development of the area. We return to this important distinction later.

The argument about population being a potential driver of economic development is relevant to the context of African urbanisation. It prompts three questions: (i) does population in-migration naturally stimulate a broader range of activities than consumer services, (ii) if not, could it be harnessed by government as a force to spur stronger economic development, and if so (iii) what is currently impeding this process, and therefore requires policy attention? Without providing any evidence, Beall et al (2010, p.6) argue that new migrants to cities in developing countries can create new opportunities and new needs; offer new skills and new perspectives, and generate new requirements for institutional innovation. In other words, in-migration can help to stimulate growth and development.

In addition, economies of scale can apply to many public services and investments in household infrastructure. It is obviously cheaper to provide and operate public services such as hospitals, water reservoirs, sewage treatment facilities, electricity generation and refuse collection in large cities than in dispersed settlements where population densities are low and distances are large (United Nations, 2007; Martine et al, 2008). The network effects of public goods can also be maximised where there are large numbers of service users (Overman and Venables, 2010). There is a related argument that urban shelter and infrastructure projects generate greater positive externalities in cities than in towns and rural areas because they both (i) increase the productive capacity of households (particularly through improved health and life expectancy) and (ii) increase the effective labour supply, which enable higher rates of city-wide economic growth. Kalarickal (2007) provides examples of how public investment in low cost housing, sanitation, drinking water, electricity and access roads in informal settlements in Africa helped to reduce public health problems and mortality associated with overcrowding, and facilitate in-migration, which assisted in addressing some of the binding constraints to economic growth. He makes the point that governments and international donors must look beyond the individual project when assessing their costs and benefits because of the significant externalities associated with investments in cities.

SECTION 7: **DIFFERENT FORMS OF AGGLOMERATION**

Economic concentrations can also take different forms, and be driven by different dynamics, depending on the underlying rationale for firms to congregate together. Recent efforts to disentangle these different agglomeration processes were partly prompted by the work of the world's leading advocate of 'industrial clusters'. According to Michael Porter: "The enduring competitive advantages in a global economy are often heavily localised, arising from concentrations of highly specialised skills and knowledge, institutions, rivalry, related businesses, and sophisticated customers" (1998, p.90). Porter defined clusters as "geographic concentrations of interconnected companies, specialised suppliers, service providers, firms in related industries, and associated institutions (e.g., universities, standards agencies, trade associations) in a particular field that compete but also co-operate" (2000, p.15). The two key features of this are that companies are linked in some way (through inter-firm trade, or the use of common inputs, or shared techniques) and are located in proximity. Porter's central argument was that areas with strong inter-firm and institutional relationships of this kind are more internationally competitive, innovative and capable of growing faster than places with weaker local connections. This argument was not essentially new, but it was articulated more forcefully and with greater impact on the international policy community than ever before.

Porter's definition set no clear boundaries to economic clusters, either in terms of their industrial composition or their geographical extent (Martin and Sunley, 2003). It was vague about the degree of aggregation of firms and industries, the strength of linkages between firms, and the spatial scale and intensity with which clustering processes operate (for additional criticisms, see Taylor, 2010). More importantly for present purposes, the concept failed to distinguish between different kinds of forces promoting economic concentration. It conflated different processes operating at different geographical scales into a single, all-embracing notion, which made it difficult to validate his arguments empirically.

There are three distinctive forces that promote economic concentration (Gordon and McCann, 2000; Storper, 1997; Malmberg and Maskell, 2002). The first involves relatively stable, tangible trading linkages between firms. The physical outputs of one meet the input requirements of another, so firms are bound together in production chains with their suppliers of intermediate inputs. With sufficient scale, this co-location of firms within the same value chain can create relatively integrated 'industrial complexes'. Examples in practice include petro-chemicals, agro-processing, minerals processing, heavy engineering or steel complexes, where many of the inputs and outputs are bulky or perishable. The main reason for firms locating close together is to minimise the costs of transport, distribution and communications between themselves. This may be reinforced by the growing imperatives in some industries of shorter product cycles, responsiveness to volatile markets and just-in-time production systems. These pressures place a premium on locational proximity to ensure security and speed of supply. They are offset by reductions over time in transport costs and improvements in communications techniques and transport technology, such as containerisation. Efficient internal and external transport infrastructure, reliable logistics systems and responsive bureaucratic procedures are vital for the productivity and competitiveness of industrial complexes.

There is generally a higher degree of predictability, continuity and planning in the relationships between firms in industrial complexes than in more atomised agglomerations. Technologies are likely to be more mature and processes more routine than in other concentrations of activity. Consequently the networks are likely to be smaller and less open to new entrants. Where it occurs, innovation may also take the form of joint ventures between firms and their suppliers, rather than one-off projects arising from chance opportunities and spontaneous events. There are generally fewer firms and fewer opportunities for new combinations of inter-firm relationships to emerge within the complex. The most important role for government policy is probably to ensure a stable business environment and efficient public infrastructure suited to the requirements of the key corporations.

The second force for concentration is the 'localised network'. The core idea is that there is practical co-operation and exchange of intelligence between firms and related organisations within the network in order to promote trust and longer-term decision-making. The emphasis is on intellectual and cognitive resources (human ingenuity, knowledge, competences, etc.) rather than physical resources and routine interactions. The key agents are likely to be knowledge-intensive firms requiring highly specialised skills and communicating complex information to promote innovation and learning by doing. Shared understanding and conventions enable companies to overcome some of the limitations of market relationships and commercial contracts, such as short-termism, and to undertake risky or costly ventures without fear of opportunism. Firms are willing to act together in alliances or partnerships, or as part of a larger group of companies in support of common, mutually beneficial goals. This may extend to creating institutions to promote their collective interests by lobbying government or other regulators. Such institutions may also be created to provide common support services for members of the network, such as marketing, training or technical assistance. The greater the degree of shared beliefs, values and assumptions across the group, the higher the level of 'embeddedness' and social integration (Granovetter, 1985).

Geographical proximity fosters some of the conditions for social interaction and collaboration across the network (Gordon and McCann, 2000; Glaeser, 2011). Being located in the same place can help interpersonal relationships and trust to develop, and promote a sense of common interest and belonging. Geography can also help collaborative networks to build upon the distinctive cultural history, traditions and identity of places, and make it easier for members to organise practical collective actions. Over time, the result may be the formation of strong city- or region-specific economic clusters represented or partly governed by their own business associations. Such clusters may even contribute to the unique image and reputation of places. Classic examples include Silicon Valley and Wall Street in the United States, the City of London and the Third Italy (Piore and Sabel, 1984; Storper, 1997, 2010). The Cape Winelands in South Africa shares some of these characteristics of an emerging business cluster with strong collaboration between firms and a highly visible external profile.

Third, the classic notion of agglomeration emphasises the external economies of scale or scope that flow from firms locating within the same area. The main benefits were originally identified by Marshall (1920): (i) firms gain from access to a more extensive labour pool, which makes it easier to find specialist skills; (ii) firms can gain access to a greater range and quality of shared inputs and supporting industries, such as specialised maintenance, marketing services, transport and communications facilities and venture capital; (iii) firms gain from a greater flow of information. There is efficient transfer of trade knowledge and expertise between firms through informal contacts, chance meetings, labour poaching and voluntary switching of employers by skilled workers and managers. These 'knowledge spillovers' help to disseminate good practice and facilitate the development of new products and processes. A further important distinction is between 'localisation' and 'urbanisation' economies. The former are associated with specialised infrastructure, services and skills geared to particular industries or branches of economic activity. Urbanisation economies relate to cross-cutting and generalised urban assets (such as airports, educational institutions and municipal services, but also shared suppliers and producer services) that serve different industries.

An important feature of this form of agglomeration is that there is no co-operation between actors beyond what is in their short-term interests. There is no particular organisation or formal structure to the system, nor any special loyalty or sense of solidarity between firms. They are independent units operating with flexibility in a competitive market environment. Locational proximity increases the opportunities for them to trade with other firms, to recruit suitable labour, to benefit from common infrastructure, and to reduce market uncertainties. The scale of activity and the number of firms determine the significance of these economic benefits – basically the larger the better. The density and diversity of firms may also be sources of economic dynamism and vitality (Beall et al, 2010).

SECTION 8: **EMPIRICAL EVIDENCE OF AGGLOMERATION – ANALYTICAL PRINCIPLES**

It is very difficult to disentangle and measure the effects of agglomeration because of their enormous complexity, recursive interactions and feedback effects. The benefits of economic concentration may be partly absorbed by higher land and labour costs, and offset by increased congestion. Consequently, the effects may not be apparent in aggregate economic indicators, such as output, employment or average earnings. These variables are affected by a range of other important factors and forces as well, such as the industrial or occupational composition of the city. The effects of agglomeration may not be apparent at the level of city administrative units, for which spatial data is conventionally available, because the openness of city economies means there is considerable leakage of resources and displacement of activity across administrative boundaries. Government financial transfers between localities and regions also tend to mask the underlying economic processes, especially as they are often specifically designed to compensate for economic weakness.

The key element of the local economy that affects long-term prosperity is arguably the 'export base' or 'tradable' sector. These are goods and services which can be easily traded with firms in other cities and regions. The performance of the non-tradable sector is largely dependent on local demand. The crucial feature of a tradable good or service is that it brings income into the city or region by providing a good or service to the outside world, or provides locals with a good or service which they would otherwise have to import. Consequently its output does not depend mainly on the scale of local demand. It is an independent source of income for the city or region, and therefore a critical source of propulsive growth, provided it is competitive in terms of price and quality, or the service/expertise has other distinctive attributes. Examples of tradables include manufacturing and mining, the producer services that these activities rely on (such as engineering and management consultants, accountants, surveyors, architects, designers, project managers), and national or international tourism, banking and insurance, BPO, call centres, corporate headquarters, research centres, and educational facilities for foreign students.

The crucial indicator of the performance of the export base, and therefore the key outcome of agglomeration economies that should be measured, is productivity. Productivity is the single most important determinant of growth in economic output and income. It reflects the value of local goods and services and the efficiency with they are produced. Unfortunately statistics on productivity are notoriously unreliable at the local level, especially for the sub-set of activities that make up the tradable sector. Instead researchers employ all sorts of other devices and indicators to assess the economic advantages of agglomeration.

One of the simplest is for researchers to compare the urbanisation levels of individual countries with some measure of national economic output, average income or social development at a particular point in time in order to test for a simple statistical association between urbanisation and development. Many results suggest that a broad empirical regularity does exist. However, the spread of observations is always extremely wide around the trend line. In addition, the discovery of a simple association does not constitute evidence of a causal connection, i.e. that cities are actually driving growth and development. Urbanisation may be more of a consequence of economic development than a cause, or the relationship may be coincidental.

There may be some other process contributing to both urbanisation and higher levels of economic and social development in cities. One of the obvious candidates is the concentration of political power in cities, resulting in 'rent-seeking' rather than productive activity, as people and firms seek preferential access to political elites. The outcomes could include more public sector jobs and higher wages in cities, together with higher levels of professional services, construction, embassies, media and consultants seeking access to government contracts and lobbying over legislation. Bekker and Therborn argue that this has been the dominant factor in the growth of many capital cities in Africa: "Proximity to the centre of patronage and redistribution, rather than economic development, has driven the explosive growth of African capitals since independence" (2012, p.193). Glaeser adds a point about the concentration of political power: "The more centralised a nation's government, the larger its capital city, because people are attracted to power as ants are to picnics" (2011, p.225; see also Overman and Venables, 2010).[2]

A series of other studies involving simple correlations between some measure of agglomeration (such as city size or variation in density levels between regions) and some measure of economic development (such as average incomes or growth in output) have found that no relationship exists, or even an inverse relationship (e.g. studies summarised in Martin, 2008; see also, Turok and Mykhnenko, 2008).

Leading academics acknowledge that the present level of understanding of the dynamics of agglomeration and the strength of the cause-effect mechanisms in practice remains quite limited, despite considerable theoretical development. According to Storper, for example:

> *"All in all, work on agglomeration has progressed considerably in the NEG, urban economics and regional science. But it remains far from an adequate causal account of the dynamics of agglomeration and de-agglomeration. … Deciphering the causes of agglomeration will ultimately require a much better understanding of the complex interdependencies between agents that lead them to congregate together"*
>
> (2010, p.322).

According to Garretson and Martin, serious weaknesses in the main theories of agglomeration arise because they "embody crude conceptions of geography and history" (2010, p.130). One of the consequences is that they are unable to explain differences in the strength and nature of agglomeration effects in different places and at different points in time. Despite being one of leading proponents of formal economic models based on artificial assumptions, Glaeser recognises that: "Not only is there no one formula toward urban eminence, but also the sources of success are often highly nation specific" (2011, p.225).

2 For a critical interpretation of this view and a restatement of the economic logic of urbanisation, see Satterthwaite (2010)

SECTION 9: **EMPIRICAL EVIDENCE OF AGGLOMERATION – ECONOMETRIC STUDIES**

Despite these shortcomings in existing conceptual frameworks, a variety of sophisticated econometric studies in the United States and Europe have been carried out in recent years in order to estimate the effects of agglomeration. This work is complex technically and relies on modelling and estimation procedures that are generally inaccessible to people outside this specialised field. It is also difficult to compare these studies because of significant methodological differences, varied methods of estimation, model specification, types of data, levels of aggregation, territorial units and of course differences in local and national context. Perhaps not surprisingly, these studies generate quite contrasting results. The broad finding of many of them is that cities do indeed offer measurable economic advantages (Eberts and McMillen, 1999; Ciccone, 2002; Duranton and Puga, 2004), although they are not as substantial or widespread as often suggested.

A useful summary of the international evidence drawn mostly from the United States concluded that the elasticity of city productivity with respect to city size is somewhere in the range 0.04-0.11 (Rosenthal and Strange, 2004). A simpler way of expressing this is that doubling city size increases productivity by between approximately 4% and 11%. Alternatively, for an increase of 25% in a city's population, the output per worker (and consequently income) rises by between 1% and 2%. Studies based on earnings data for individuals typically find somewhat smaller, although still significant, impacts of agglomeration in big cities (summarised in Rice et al, 2006). Some evidence suggests that the impacts are larger for cities that specialise in particular industries or occupations. This suggests that localisation economies may be stronger than urbanisation economies. This finding is supported by the various studies summarised in Graham (2007, 2009). These studies also found that the average elasticities of productivity ranged widely between 0.01 and 0.20, although most were under 0.10 (see table 2).

TABLE 2: **Estimates of agglomeration economies**

Author	Unit of analysis	Independent variable	Elasticity
Aaaberg (1973)	Swedish cities	City size (population)	0.02
Shefer (1973)	US MSAs	City size (population)	0.20
Sveikauskas (1975)	US MSAs	City size (population)	0.06
Kawashima (1975)	US MSAs	City size (population)	0.20
Fogarty & Garofalo (1978)	US MSAs	City size (population)	0.10
Moomaw (1981)	US MSAs	City size (population)	0.03
Moomaw (1983)	US MSAs	City size (population)	0.05
Moomaw (1985)	US MSAs	City size (population)	0.07
Nakamura (1985)	Japanese Cities	City size (population)	0.03
Tabuchi (1986)	Japanese Cities	City size (population)	0.04
Louri (1988)	Greek Regions	City size (population)	0.05
Sveikauskas et al (1988)	US MSAs	City size (population)	0.01
Nakamura (1985)	Japanese Cities	Industry size (employment)	0.05
Henderson (1986)	Brazilian Cities	Industry size (employment)	0.11
Henderson (1986)	US MSAs	Industry size (employment)	0.19
Henderson (2003)	US MSAs	Industry size (no. of plants)	0.03
Ciccone & Hall (1996)	US States	Employment density	0.06
Ciccone (2002)	EU regions	Employment density	0.05
Rice et al (2006)	Britain sub-regions	Economically active population	0.05

Source: Graham, 2007. Note: MSA = Metropolitan Statistical Area

For Europe, Ciccone (2002) estimates an elasticity of productivity in relation to employment density of around 0.05, i.e. at the lower end of the estimates for the United States. This means that for an increase of 25% in the density of jobs in a city, the output per worker rises by about 1%. Fingleton (2003) reports an elasticity figure of only 0.015 for Britain, which suggests a very minor effect. A subsequent, more detailed study in Britain measured the elasticity of productivity with respect to economic mass at 0.05 (Rice et al, 2006). This is the same finding as that of Ciccone for Europe, although the methods are different. The relevant indicator of agglomeration is the size of the working age population in the city rather than the jobs density. Their interpretation of the scale of the agglomeration advantage is that: "This seems modest, but its impact is important as there are large variations in areas' access to economic mass" (Rice et al, 2006, p.745).

A novel feature of the Rice et al (2006) study is that it also sought to measure the rate at which the economic advantages of proximity diminish with distance from the core city. They found that the benefits are greatest within 40 minutes driving time of the city core, tapering off quite sharply thereafter and having little or no effect beyond about 80 minutes. The effects of agglomeration are four times stronger 30 minutes driving-time away than 60 minutes away, and 17 times stronger than 90 minutes away. This is consistent with the few other studies addressing this issue (e.g. Graham, 2009). One of the implications is that urban sprawl and residential decentralisation can undermine productivity and growth by lengthening travel-to-work distances and times. Another is that transport improvements to reduce travel times and traffic congestion in the largest cities can yield valuable productivity gains for the economy. This was the main reason that a major UK government report recently concluded that the top priority for national transport investment should be to invest in Greater London, rather than to connect different cities across the country through high speed rail or other infrastructure (Eddington, 2006).

Another recent study in the UK disaggregated the effects of agglomeration for different industries and found even larger effects, with the elasticity of productivity varying between 0.07 for manufacturing and 0.19 for services (Graham, 2009). The effects were small or insignificant for non-tradable services such as retailing, real estate, postal services and public services, which tend to locate close to consumers. The biggest agglomeration effects of all were for financial services and professional services such as management consultants. This chimes with recent qualitative research on high order business services (lawyers, accountants, marketing agencies, insurance companies, engineering consultants, architects, designers, etc) (Hall and Pain, 2006). This study across eight European countries found strong tendencies for these top-of-the-food-chain functions to concentrate their activities within each country's largest city.

In summary, econometric studies have produced contrasting evidence for the strength of agglomeration economies. Some of the variation is likely to be attributable to the use of different statistical variables, units of analysis and measurement techniques. Different national circumstances are also bound to be important in determining the significance of agglomeration. Whatever the reasons, it is clear that this body of evidence does not provide sufficiently strong conclusions to justify popular claims that cities are 'engines of growth' and warrant major shifts in policy as a result. According to Martin: "We simply do not know enough … to justify yet further concentration of economic activity in already congested and over-heated regions and agglomerations" (2008, p.10).

A particular concern is the level of aggregation. Most previous studies are based on city-level data which may be too highly aggregated to detect the way agglomeration economies operate. These are essentially about the interactions between individual firms, and between firms, workers and other institutions. The Rosenthal and Strange (2004) review concluded by encouraging researchers to undertake more disaggregated analysis in future, based on data at the level of industries, firms and small areas in order to reflect the underlying processes more clearly, and to identify the industrial and geographical scope of agglomeration economies more accurately. For analytical and policy purposes it is also important that agglomeration effects are not examined in isolation of other factors affecting productivity and development, such as the industrial and occupational structure, the level of technology and human capital, the available land supply, internal and external connectivity, and the strategic capacity of city institutions. Some of these forces may reinforce each other, with cities emerging as the sum of the parts. If this is the way agglomerations function in practice, it raises question marks about the logic of trying to disentangle and isolate the particular influence of city size in a mechanical way from the other factors and forces at work. A more integrated perspective would yield greater insights, especially if combined with an analysis of external economic linkages and relationships.

SECTION 10: EMPIRICAL EVIDENCE – DEVELOPING COUNTRIES

A related, but much smaller, body of econometric research exists on agglomeration in developing countries of the 'global South'. This has been usefully summarised in a recent paper by Overman and Venables, who note that "the developing country literature remains thin" (2010, p.104). Unfortunately there have been no econometric studies of this kind in Africa. The main findings are shown in table 3. They draw particular attention to the question of whether localisation economies or urbanisation economies are more significant, rather than the precise findings for the elasticity of productivity.

TABLE 3: **Analyses of agglomeration economies in the 'South'**

Country	Author (date)	Main conclusions
Brazil	Henderson (1988)	Localisation economies
China	Chen (1996)	Localisation economies
India	Shukla (1996)	Urbanisation stronger than localisation economies
	Mitra (2000)	Urbanisation economies in 11 out of 17 industries
	Lall et al (2003)	Urbanisation economies in 8 industries. Localisation diseconomies
	Lall et al (2004)	No localisation or urbanisation economies
Indonesia	Henderson (1996)	Localisation economies in 3 industries. Urbanisation economies in 3 industries.
Korea	Lee & Zang (1998)	Localisation not urbanisation economies
	Henderson (2001)	Localisation economies in 3 industries. Urbanisation economies in 1 industry.

Source: Overman and Venables (2010)

The general message from this body of work is that localisation economies seem to be more important than urbanisation economies. In other words, sector-specific externalities appear to be more significant than cross-cutting externalities. Moreover, these externalities are not apparent in all manufacturing industries, and few of the studies examined service sectors. Case studies of particular industries confirmed that localised concentrations of specific types of firms offered substantial advantages, and that firms exchanged goods, information and people. Hence these concentrations are not just industrial complexes trading with each other, but they exhibit some of the characteristics of localised networks sharing intangible resources. Another finding was that informal enterprises can perform complementary functions to formal companies – they do not simply add to local congestion and drive up urban costs. Overman and Venables' overall conclusion is that: "There are substantial productivity advantages to urban centres and, as such, the development of these centres is a key part of countries' economic growth" (2010, p.114).

SECTION 11: **EMPIRICAL EVIDENCE FROM AFRICA**

Although there have been no equivalent econometric studies of agglomeration in Africa, there have been several other quantitative studies exploring the relationship between urbanisation and socio-economic development in Africa, or comparisons of Africa with other parts of the world. The findings of these studies have been very mixed. At least four international comparative studies have found no connection between urbanisation and development in Africa.

A recent major study of 90 developing countries around the world found a positive relationship between urbanisation and poverty reduction, except in sub-Saharan Africa (Ravallion et al, 2007). Another international study concluded that "There is generally an unequivocal (positive) correlation between urbanisation and economic development and growth, but in Africa this appears not to apply" (Kamete, 2001, quoted in Njoh, 2003). A third study examined the relationship between average income and level of urbanisation for some 80 countries at two points in time – 1960 and 2004 (Bloom and Khanna, 2007). It found that there was an association between urbanisation and income, particularly at higher levels of urbanisation, but the relationship was not simple or linear. This link had also strengthened between 1960 and 2004. A key conclusion was that "the links between urbanisation and income are relatively weak at low levels of development" (Bloom and Khanna, 2007, p.11). The study specifically compared the impact of urbanisation on average incomes in Asia and Africa, and concluded that:

> *"while urbanisation in Africa over the past 45 years has been accompanied by sluggish economic growth, in Asia, where urbanisation has occurred to a nearly identical extent, economic growth has been rapid" (*
>
> Bloom and Khanna, 2007, p.11).

Another study focused only on Africa found that nearly three-quarters (71%) of the 32 countries analysed actually had a negative correlation between urbanisation and GDP over the 1985-2000 period (Bouare, 2006, quoted in White et al, 2008). This could be because people left rural areas as a result of poverty and crises, and that migration to urban areas undermined economic performance, possibly by contributing to undue congestion and diverting scarce public resources to fund social infrastructure. Similarly, the World Development Report for 1999/2000 argued that African cities are exceptional in failing to serve as drivers of growth: "Instead they are part of the cause and a major symptom of the economic and social crises that have enveloped the continent" (World Bank, 2000, p.130).

Various observers have suggested that Africa may have urbanised prematurely in response to push factors (rural droughts, falling agricultural prices and ethnic conflicts) rather than the pull of economic opportunities (e.g. Commission for Africa, 2005). This view implies that Africa is over-urbanised and that urbanisation on the continent lacks an economic logic (Beall et al, 2010; Satterthwaite, 2010). Indeed, three-quarters of African governments believe that urbanisation is excessive and have policies to reduce rural-urban migration (United Nations, 2008). These governments have strong anti-urban sentiments because of the social tensions, overcrowding and physical squalor created in cities, combined with the breakdown of traditional family structures, and the spread of crime and disease (McGranahan et al, 2009). There is little doubt that cities are more commonly seen as environmental problems and threats to social order, rather than potential mechanisms for expanding economic opportunities and reducing poverty.

The notion that urbanisation in Africa has no economic benefits is contradicted by at least two other systematic studies which show a positive link between urbanisation and development (Njoh, 2003; Kessides, 2007). Njoh (2003) examined data for 40 sub-Saharan African countries and found a strong positive correlation between urbanisation and human development. In a wider-ranging study, Kessides (2007) confirmed a connection between urbanisation and growth over the period 1990-2003 in 15 of the 24 African countries she examined. She also showed that national economic growth during this period was derived from urban industries, supporting the idea of cities as generators of growth. In a related World Bank report she concluded that:

"Africa cannot simply be characterised as 'urbanisation without growth', and the term does not even fit many of the countries. The economic growth that has taken place in the past decade derives mainly from urban-based sectors (industry and services), and this is especially true of the better-performing economies. But cities have clearly not lived up to their productive potential because of widespread neglect and bad management"

(Kessides, 2006, p.xxii).

Furthermore, she recognised that the advantages of agglomeration may not emerge automatically, especially if serious shortcomings in basic urban services, land, housing, transport and local government mean that the diseconomies of scale outweigh the economies:

"the simple concentration of firms and people does not guarantee that agglomeration economies will be realised. Many African firms are not experiencing the market efficiencies, ease of mobility and low transactions costs that better-managed cities could deliver, much to the detriment of the economy and competitiveness"

(2005, p.ii).

After its sceptical position a decade ago when urbanisation was seen as one of the causes of economic failure, the World Bank has become one of the strongest advocates of giving urbanisation a higher profile in African development policy. The 2009 World Development Report (WDR) made a strong case for the role of cities in promoting economic development:

"Growing cities, mobile people, and vigorous trade have been the catalysts for progress in the developed world over the last two centuries. Now these forces are powering the developing world's most dynamic places"

(World Bank, 2009, p.13)

Africa was singled out for special attention since it has the most dispersed and least urbanised population in the world, the highest transport costs, and the greatest institutional fragmentation and proliferation of national borders because of its colonial legacy. Consequently, the continent has to promote higher densities, shorten distances and lower divisions between nations to stimulate economic growth. Anti-urban sentiments also need to change: "urbanisation, done right, can help development more in Africa than elsewhere" (World Bank, 2009, p.285). Inefficient urban land markets with informal tenure systems and poor basic services obstruct functional urban systems and development: "Informality is a brake on land development, constraining an efficient spatial transformation" (World Bank, 2009, p.241). Deficient rural facilities prompt unskilled rural-urban migration, which concentrates poverty in cities and creates squalor, social tensions and instability. And poor transport infrastructure impedes urban-rural interactions and international trade.

To summarise, there is contradictory evidence about the link between urbanisation and economic growth in Africa. The interpretation of this situation is controversial, with some observers attributing the finding to premature and excessive urbanisation, while others blame poor urban planning and management, and lack of investment in urban infrastructure. The main conclusion must be that the relationship between urbanisation and economic development is not automatic or straightforward, and that a range of other factors and forces can disrupt the process. Further research is clearly required.

SECTION 12: **EMPIRICAL EVIDENCE – OTHER STUDIES**

A variety of other studies in economic geography have sought to analyse the significance of agglomeration economies through a more bottom-up, disaggregated approach. They have typically involved surveys of companies, both quantitative and qualitative, large-scale and small-scale. This methodology is not without its limitations either, because firms are not necessarily aware of the full significance of agglomeration forces and the various ways in which they take effect. They are also often unwilling to share sensitive information with researchers on their various interactions with other firms, and the relative importance of local, national and international relationships. It is not possible to do justice to the range of previous studies in this short report and unfortunately there has been no attempt to synthesise this research. Some of the relevant studies were referred to in passing in the earlier sections on the advantages and forms of agglomeration. A few key insights will suffice.

One finding is that city size does seem to matter. A detailed study of London found that its sheer scale enabled firms to 'pick and mix' their inputs, access scarce resources and alter their workforce more easily in response to changing business needs (Buck et al, 2005). This lowered costs, raised productivity and improved resilience. Another ambitious study analysed the changing geography of knowledge-intensive services in eight major European regions (Hall and Pain, 2006). The overwhelming message was that the dominant spatial process affecting these activities was concentration rather than dispersal. Proximity to the resources available in large cities seemed to be vital for these high order producer services – especially a deep labour pool, key customers and related firms, and good internal and external connectivity. Each of the eight regions has developed a dominant city that functions as a gateway to global flows of investment, talent and innovative ideas.

A second finding is that size can be outweighed by other factors and forces, such as the industrial and occupational structure of cities, the level of workforce skills, internal and external connectivity, and the strategic capacity of city-level institutions. Several recent studies of cities in Europe have found that their overall growth depends a great deal on whether they have a conducive mix of industries and occupations (Parkinson et al, 2006; European Commission, 2007; Turok and Mykhnenko, 2008). One category of successful cities operates as knowledge hubs in the wider national and international system of information, trade and financial flows. Average incomes are high in these cities, reflecting the valuable goods and services provided. Advanced business services are often key drivers of these cities, including banking and insurance, legal and accountancy services, advertising and design, consultancy, information technology and research. These sectors employ a disproportionate number of graduates and other highly qualified workers. Nascent and creative industries, such as digital media, music and publishing, can also be included.

Another category of growing city succeeded on the basis of generic office-based services that are more standardised in nature, including BPO, call centres, data processing, IT support, customer services and other functions that are cost-sensitive, outsourced and known as 'shared services'. They rely less on innovation and specialised graduate skills and more on the ready availability of modest priced premises and white-collar labour. A responsive property market and ready supply of labour enables firms to adjust the scale of their operations more quickly to cope with shifting conditions. Regional cities offer superior connectivity, better infrastructure and a deeper labour pool than small cities and towns. Average incomes in these cities tend to be lower than in knowledge hubs.

A third category of successful city offers unique advantages to consumers, often with spinoffs for further growth through business and domestic tourism. Some consumer facilities are only viable in large cities, such as major entertainment venues, sports stadia, convention centres, concert halls, museums, art galleries or specialised health or education centres. Rising overheads and exceptional costs of modernising such amenities in line with changes in fashion and technology promote increasing concentration in large centres. Cities also offer greater choice of shopping, restaurants, hotels, sporting facilities, social infrastructure and careers to attract people to visit, study, live and work. Being at the centre of regional transport networks and having a large residential population within easy reach are major advantages over smaller, more isolated cities.

In order to understand the changing industrial and occupational structure of cities it is important to broaden the spatial scope of analysis to incorporate a national and international dimension. To take the simplest example, the upgrading of resource-based economies to higher value functions may be constrained by much higher foreign tariffs imposed on processed goods than on raw material exports. Part of the purpose of research on 'global value chains', 'commodity chains' and 'production networks' is to reveal how the economic fortunes of particular places are shaped by wider relationships of markets, competition, control and dependency (Gereffi et al, 2005; Coe et al, 2008; Yeung, 2009). These related bodies of work seek to understand how global industries are organised or configured, i.e. identifying the range of firms involved in the production and distribution of a particular good or service, and analysing the kinds of relationships and power asymmetries that exist between them. This includes firms' patterns of trade, their customers, competitors and suppliers of components, services and other inputs. It affects their prospects of upgrading to higher value functions over time.

Research on global production networks, in particular, seeks to understand the complex interactions between city-level or regional processes and relationships, on the one hand, and the position of cities or regions within external economic networks, on the other. This determines the economic power and control over resources of local firms, their ability to influence the prices they get for their products, and their longer-term development paths. As a broad generalisation, places that perform the role of providing natural resources and other basic inputs tend to secure more limited returns and generate lower average incomes than cities that perform sophisticated value added functions.

Developing an integrated industrial urban economy with strong multipliers and spillovers is complicated by the increasing power of multinationals and the vertical disintegration of their production processes. They take advantage of modern communications technologies and lower transport costs to locate particular parts of their processes in different global locations depending on the relative costs of production and the availability of skills (Friedman, 2006; Gereffi et al, 2005). Cities in developing countries that manage to plug into the global economy may benefit from opportunities to develop niche functions (such as the processing of specific commodities or the provision of call centres), but building rounded economies with high-level functions and scope to shape their own destinies is likely to be much more challenging.

As a result, urban economies may become or remain highly fractured, with weak links between low and higher value activities giving less scope for upgrading and integration over time. One segment may be technologically-advanced and internationally oriented, but with a small economic footprint or low level of embeddedness in most places. The extraction of oil and mineral resources are examples (Ampiah and Naidu, 2008; Southall and Melber, 2009; Bridge, 2008). Other segments may serve domestic markets, with little scope for growth given constrained demand from low consumer spending and the onerous capabilities required to supply multinationals. Structural inequalities may impede information flows, restrict upward labour mobility, and inhibit indigenous business development. Large-scale industrialisation is extremely challenging in these conditions.

The high-end of the urban economy may demand special state support to maintain its global position, including bespoke infrastructure and tax breaks. It may become decoupled from rest of the economy through its specialised requirements for technology and talent, often supplied from elsewhere. It might require a highly concerted developmental agenda on the part of government to begin to connect the urban economy through stronger backward and forward linkages working through 'demand pull' (supporting successful producers to purchase from local suppliers) and 'supply push' (building up the all-round capabilities of local enterprises), together with major investment in public goods – superior infrastructure, education and so on. Different industries are bound to offer different possibilities for local development, with different interventions required to realise that potential.

SECTION 13: **AGGLOMERATION DISECONOMIES**

The benefits of agglomeration can be offset by rising congestion, overcrowding, pressure on urban infrastructure, pressure on natural resources and ecosystems (such as water courses and air quality), and higher labour and property costs in cities. These negative externalities or 'agglomeration diseconomies' increase naturally as cities expand, especially if urbanisation is poorly managed and cities are deprived of essential public investment to maintain and expand their infrastructure to absorb population growth. The immediate effects of dysfunctional systems, gridlock, power cuts, water scarcity and physical deterioration may be to increase business costs, reduce productivity, dampen private investment and hold back economic growth. The higher costs of housing and other living conditions can also deter people from moving to cities. The balance between the agglomeration economies and diseconomies plays a big part in determining whether city economies and populations continue to grow, stagnate or begin to decline.

As cities grow larger over time and local costs rise, there is a natural tendency for lower value, land-intensive economic activities (such as routine production, distribution and warehousing) to decentralise and disperse to surrounding areas and beyond – assuming sufficient infrastructure capacity is available there. These activities have less need for proximity to other firms and shared services, and are more sensitive to the higher price of centrally-located land. Provided the congestion, extra property and labour costs, and infrastructure deficiencies are not excessive, the economic core of cities may gradually progress and upgrade towards higher value-added industries and higher-skilled functions and occupations. This will raise average productivity, household incomes and living standards. Rising levels of prosperity may also provide the resources for improved social and cultural amenities, public infrastructure and services, as long as the benefits are not expropriated by elites for private consumption. Improved services and amenities could in turn improve the quality of life and subjective well-being of the wider population.

The process of decentralisation and deconcentration can benefit surrounding towns and rural areas since they stand to gain from the outflow of firms, investment and jobs, and the spillovers of technology and information. The hinterland can also benefit from the large markets available in cities, and the logistics systems and shared infrastructure that connect cities to wider national and international markets. Rural areas can supply primary products (e.g. food), energy, water, leisure and recreational amenities, and sites for waste disposal for urban consumers. In the future rural areas may also be able to raise income by functioning as carbon sinks through reforestation to offset the carbon emissions from cities. The burgeoning climate change agenda and the search for renewable energy sources also provides rural areas with a variety of opportunities to diversify their economies and meet new markets in urban areas, such as the production of biofuels, wind power and solar energy.

Rural workers can commute or migrate to urban labour markets, generating valuable cash remittances for their place of origin. The international study of poverty by Ravallion et al (2007) referred to earlier found that urbanisation played an important role in reducing rural poverty, particularly through remittances. This was also because poor rural migrants moving to urban areas increase the proportion of poor people living in cities. In fact a striking finding was that the beneficial impact of urbanisation on rural poverty exceeded that on urban areas. If this applies to Africa to anything like the same extent, it is a crucial message, given the widespread concerns about the detrimental effects of rural-urban migration. Although some migrants are temporary and may be forced to leave rural areas in times of drought or conflict for their own survival, others may save enough money to invest considerable amounts in assets such as land, housing and livestock in their home rural areas (McGranahan et al, 2009). This is just one of a number of 'livelihood portfolios' or safety nets that urban activities can contribute to rural households (Ellis and Harris, 2004). Investing in rural assets may enable people to return home later in life, or if their urban jobs, livelihoods or housing prove unstable or insecure. These points illustrate how rural and urban areas can perform complementary functions. Urban and rural development are not mutually exclusive, and it is wrong to think that urbanisation is necessarily harmful to rural areas. Urban-rural interactions should generally be encouraged because they help to promote trade and to distribute resources between groups of people – effectively linking need and opportunity.

There is some evidence that rural poverty is lower and high-value agricultural production more common closer to urban centres (Kessides, 2006). The friction of distance (or costs associated with travel between places) means that peri-urban areas have privileged access to the economic opportunities and educational, health and social facilities in cities. Proximity gives rural producers of agricultural, horticultural, mineral and craft products better and more up-to-date information about markets, including consumer preferences, price expectations and quality standards. They have scope to diversity their activities into other sources of income generation, making them less vulnerable to environmental threats and volatile prices. Tourism is another example of an activity that can connect rural and urban areas, by offering packages of different kinds of natural and cultural experiences. It should be possible to use the growing interdependence between cities and their surrounding regions to support wider national goals of rural development and poverty reduction – sometimes described as a process of shared prosperity or inclusive growth.

Over time, as cities grow and their influence extends into wider regions, partly through falling transport costs, the functional area of the 'city-region' or 'metropolitan-region' becomes more significant than the city as a continuous built-up area (Scott, 2001; Parr, 2004, 2008; Neuman and Hull, 2011). A range of activities and settlement types become incorporated into the urban system and it may develop multiple centres to form a 'polycentric' structure. Centres may have different functions, allowing specialisation and a division of labour to emerge between them (Turok and Bailey, 2004; Parr, 2005; Hall and Pain, 2006). Centres with high level functions of knowledge creation, research and synthesising ideas may develop connections to metropolitan-regions elsewhere in the world and become hubs in a wider global system of trade and information exchange (Castells, 2000; Hall and Pain, 2006). It is very difficult to plan these processes: the most successful polycentric and mega city-regions seem to have emerged and evolved over an extended period. Rather than try to create new cities, new towns or growth poles from scratch through major new infrastructure or financial incentives to business, current thinking is to reinforce areas of proven economic success or demonstrable potential through upgrading existing infrastructure and adding extra capacity to absorb growth. This tends to mean a focus on established cities experiencing development pressures and capacity constraints.

In contrast to the optimistic scenario outlined above, it may be that agglomeration diseconomies do not so much encourage the dispersal of activity as deter investment altogether. Transport congestion, high property costs and shortages of electricity and water in African cities may discourage productive investment, dampen economic development and perhaps prompt companies to seek opportunities in other countries where the operating environment for firms is superior. In this case government neglect of urban infrastructure may damage national as well as local economic prosperity.

In conclusion, the following quote from economic geographer Ron Martin offers a useful word of caution about drawing definite policy implications from the existing state of knowledge: "Much more detailed and intensive research is required to ascertain whether and to what extent spatial agglomeration increases local and national economic growth. Do all large spatial agglomerations exhibit faster growth; or only particular types (such as capital cities)? How do we ensure that all of the negative externalities, costs and diseconomies associated with spatial agglomeration are properly measured and factored into our analyses? (2008, p.10).

SECTION 14: **HOW DO DYNAMIC URBAN ECONOMIES DEVELOP?**

The analytical framework of agglomeration economies is important in drawing attention to the role of density and proximity in economic development. It also provides some clues as to why economic progress in Africa may have been slow and some suggestions for improvement. However, there are few insights into the composition of economic growth and little concept of how urban economies may evolve over time. The core proposition is that urbanisation raises productivity and contributes to industrialisation and overall growth. This offers no explanation for why the economy of African cities stalled and in many cases declined during the 1980s and 1990s. It is almost as if urban economies are a black box without unpacking their dynamics. A more elaborate framework is needed to understand the economic trajectories of cities, and to explore Africa's specific challenges. This needs to recognise the significance of the economic base of cities, the role of external trade and moving up the value chain. Subsistence-type activities and those that circulate resources locally do not generate a surplus or capital for reinvestment or an external stimulus to accelerate growth onto a new path.

Drawing on historical observation and Keynesian regional economics, Jane Jacobs (1969, 1984) identified a series of stages through which city economies have often developed (see also Bryceson and Potts, 2006). The foundation for durable economic growth is basic infrastructure, services and goods, including a stable food supply, water, shelter, security, transport and communications. With these in place cities can grow more rapidly and securely. The second stage (economic dynamism) emerges with the growth of external trade (imports and exports) along with the facilities and services to support this trade, such as storage and distribution (logistics). In the third phase, growth is strengthened by the substitution of imported goods with local production (urban import replacement). This adds diversity and scale to the urban economy, although these goods and services tend to replicate those produced elsewhere rather than being original. Jacobs claimed that import replacement builds up local infrastructure, skills, and productive capacity, and can lead to rapid growth when formerly imported goods are produced locally and then exported to other cities.

The fourth stage involves greater ingenuity and innovation through the conception and creation of novel products and services for new markets. This reinforces the vitality and scale of production in the city and gives it genuine distinctiveness and a differential advantage over other urban economies. Firms can charge premium prices and out-perform rivals on the basis of product design and quality rather than cost. In a fifth phase of economic revival and renewal, the old skills and activities are refreshed with new ideas and investment, rather than permitting obsolescence and decline. These cities make full use of their productive resources and avoid redundancy, dereliction and social problems through creative problem-solving and entrepreneurial discovery.

This is a helpful account of the growing diversity and complexity of successful urban economies. As they grow and develop, the different activities become more inter-dependent, which increases the city's overall resilience and adaptability. It emphasizes that cities are open, externally-oriented systems in which trade with other places is vital. Subsistence and circulation activities do not generate much growth. Real prosperity (and a strong local multiplier effect) depends on local production of useful goods and services – cities must use local labour to add value to natural resources and products made elsewhere, and not simply distribute and exchange them. The more efficient, resourceful and ultimately innovative their productive enterprises are, the more wealth and jobs will be generated. Avoiding complacency and 'lock-in' to out-dated structures and stagnant markets is also important for increased productivity and robust long-term performance.

SECTION 15: THE ECONOMIC TRAJECTORIES OF AFRICAN CITIES

To what extent have African cities developed along the lines outlined above? If not, why has progress stalled? The phases suggested by Jane Jacobs are not neatly sequential and they overlap in practice, although there is an underlying logic in the shift from simpler local activities to more sophisticated externally-related functions. Have African cities progressed from a basic trading role towards more value-added activities – manufacturing, marketing, design, science and technology, and advanced producer services? To what extent has production moved beyond craft-based processes to a fuller division of labour with internal economies of scale, and from mass production of low value goods to more flexible, small batch and customised production of high-end goods and knowledge-intensive services? In short, how elaborate and productive are African urban economies?

Unfortunately, the detailed analysis required to answer these questions has not been undertaken. Research on the economy of African cities has been seriously neglected for at least the last decade. It is well known that the overall productivity of most African economies (GDP per head) is low by international standards, which is the main reason average incomes are also low. Bryceson and Potts' (2006) edited collection of essays offers some evidence for why many African cities have not had dynamic economies. Urban population growth has out-stripped economic development, having been driven more strongly by rural poverty, conflict and natural demographic growth than by economic opportunity. Positioned as coastal ports or major rail depots, most large African cities have good strategic locations to engage in national and international trade. However, productive investment is low by the standards of cities elsewhere in the world. Labour specialisation is also undeveloped, and production processes are rudimentary in the sizeable informal economy. The purchasing power of most urban residents is very low, so consumer demand is a weaker motive force for development and modernisation than elsewhere. "In short, their economic content lacks the dynamism, specialisation, diversity and economies of scale normally associated with urban life" (Bryceson and Potts, 2006, p.324).

Looking at each stage of urban economic development, starting with the foundations, there are clear deficiencies in the basic infrastructure and services of many African cities, including a reliable electricity supply, water supply, telephone service and efficient transport systems (World Bank, 2009). This discourages foreign direct investment since these factors are usually taken for granted in business locations elsewhere. A complete lack of electricity, business premises and poor all-round security are particular problems for enterprises seeking to start-up and grow in informal urban settlements. Available evidence suggests that most informal enterprises are limited to the retail trade (hawkers and spaza shops) (Rogerson, 1997), with no value-added processes and little scope for upgrading without essential infrastructure and facilities. Poor literacy and numeracy skills are additional complications preventing people from breaking out of survivalist activities into more dynamic businesses, or using their experience in the informal sector to progress into formal employment. Imitation seems to be far more common than innovation or experimentation.

The second stage of producing goods for wider markets (tradables) is vital for stronger, sustained growth. Many African cities began to develop manufacturing industries after independence when governments attempted to diversify from exporting basic agricultural products and minerals. However, this was generally unsuccessful, for various reasons including enforced structural adjustment programmes and poor business management (Rakodi, 1997; Bryceson and Potts, 2006). It is also often said that over-complicated government requirements for starting and operating enterprises impose prohibitive costs on investing and doing business (Wang and Bio-Tchane, 2008; World Bank, 2009). Africa's share of world exports declined from 7% in 1970 to 2% in 2000 (African Development Bank, 2007). Most cities seem to retain a residual manufacturing sector confined to consumer goods for domestic markets (typically food processing, furniture, soap, beer, textiles, cigarettes, cement and other building materials). Beneficiation (processing) of Africa's abundant primary commodities has been slow to develop through lack of capital and know-how, and high tariffs on value-added agricultural exports to Europe and USA. Consequently, 60% of the continent's total exports are still primary products (agriculture and mining) (African Development Bank, 2007).

Trading activities tend to dominate Africa's urban economies, including retail, distribution and import-export services. They do not provide a strong economic base because of their low value-added, high volatility and low multiplier effects. The jobs are less well-paid and tend to be more insecure than in manufacturing. Many cities have become gateways or depots through which increasing volumes of oil and industrial goods are imported. Exports have dwindled from most port cities, except for those that handle mineral exports. Mombasa, Mogadishu and Dar es Salaam are good examples of ports dominated by imported goods. Luanda, Beira and Maputo have a better balance of exports, including oil and minerals. Airports have also expanded, bringing in tourism and enabling international travel by business, political and donor organisations. However, Africa's fragmentation means a lack of economies of scale - there are 48 international airports competing for relatively thin air traffic and 33 small ports fighting to capture the meagre freight leaving and entering the continent (World Bank, 2009).

The third phase of replacing imported goods with local production has generally failed to take off. A minor exception is the growth of urban agriculture in many African cities, including cultivation of crops and keeping livestock. Garbage picking and waste recycling could perhaps be placed in the same general category. However, these are very small-scale subsistence activities undertaken in response to inadequate household incomes, with limited scope for expansion (Rogerson, 1997). Reductions in national tariff barriers and falling transport costs associated with containerisation have instead resulted in a flood of cheap imports, particularly from Asia. Chinese textiles, clothing and household goods have eroded the residual local production in many African cities (Southall and Melber, 2009). Deindustrialisation continues in countries such as South Africa, which developed a large and diversified domestic manufacturing sector under Apartheid import protections, but these were subsequently removed too quickly for many local firms to adapt to global competition (OECD, 2008).

The fourth and fifth stages of innovation and renewal have also been limited in extent. Perhaps the most obvious manifestation of this takes the form of improvisation in the informal economy. It is concerned with replacing or filling gaps in the formal, waged economy, and with household survival. For example, informal retail enterprises have provided goods unavailable in the formal sector (such as traditional medicines), in smaller quantities, or in locations where formal outlets are sparse (such as informal settlements). Small informal manufacturing enterprises have also emerged following the closure of larger formal businesses where people had acquired relevant skills, such as clothing. There has also been some outsourcing of work to informal firms in order to circumvent labour regulations and to cut costs, although apparently on a much scale than in India.

Unsurprisingly, the rewards and conditions of informal work tend to be inferior, reflecting the lack of capital, skills and technology. Growth takes an extensive character (proliferation of more of the same small-scale units), rather than higher productivity, so it is questionable whether this is real progress. It also means that informal enterprises tend to operate in saturated markets and generate low incomes for their proprietors and workers. Consequently, most experts believe that there is little scope for a dynamic informal economy of growth-oriented firms to emerge in Africa without concerted state support in the form of credit, technical assistance and skills training (Rogerson, 1997; Bryceson and Potts, 2006; Gill, Kharas, and Bhattasali, 2007). In practice, many local and national governments have been unsupportive if not hostile to informality on the grounds that it undermines decent paid work and pays no taxes.

Foreign direct investment may help countries to diversify at lower cost and with less risk than starting from scratch. The traditional sources of FDI have been Europe and the USA, but China, India, Malaysia, Brazil and South Africa are increasingly important. India is keen to sell Africa its ICT products, including telephony and mobile internet services. Over the past five years it has offered lines of concessionary credit to Africa worth $2.5 billion. China has increased its investment commitments in Africa from less than $1 billion per year before 2004 to $8 billion in 2006 (World Bank, 2008). Over 800 joint Chinese–African projects have been set up, with large investments in oil, timber, minerals and hydropower in 10 countries. China is also financing the building or rehabilitation of 3000 km of railway lines across the region, including reopening the Benguela railway linking Zambia and the DRC to the Angolan port of Lobito. In short, China is playing a variety of roles – trading partner, investor, financier, donor, contractor and builder (Wang and Bio-Tchane, 2008).

The challenge with such investments is to ensure that they promote industrial diversification and urban upgrading, and don't simply accelerate the exploitation of Africa's natural resources for short-term gain. Governments need to be far-sighted and determined to ensure that a reasonable proportion of the value extracted is reinvested in economic development. One mechanism may be to negotiate joint ventures between foreign investors and local companies to increase local refining, processing and beneficiation. The ultimate goal might be to create integrated industrial complexes with extensive backward and forward linkages within the region. The logic partly involves minimising transport and transaction costs by concentrating particular value chains in one place. Supplier development programmes could build the capabilities of local firms to produce intermediate inputs for the foreign plants. Governments would need to take a firm stance in relation to foreign investors to encourage local procurement and the upgrading and embedding of their plants over time to higher value functions, more advanced technologies and better environmental practices. FDI could be regarded less as an end in itself and more as a means of harnessing knowledge, techniques and best practices to develop the capacities of domestic firms to sell their products into wider markets (Gallagher and Zarsky, 2007).

South Africa has become a major investor elsewhere in Africa since the early 1990s (Southall and Melber, 2009). Its direct investments have mostly been in consumer focused businesses in urban areas - retailing, hotels, breweries, fast food, mobile phones, banking and construction. The search for markets is a bigger driver than for minerals and oil. SABMiller (previously South African Breweries) is a good example. It had no operations outside South Africa before 1992 but now has 19 breweries in 10 other African countries, plus additional bottling plants, distribution depots and administrative facilities. This is in addition to large scale operations on other continents. The company capitalised on the knowledge it acquired during South Africa's transition in the 1980s and 1990s with an emerging middle class of young consumers aspiring to new brands, and applying these to other economies undergoing similar social changes. It expanded rapidly through the acquisition and modernisation of former state-owned breweries in countries such as Tanzania, Zambia, Mozambique, Zimbabwe, Uganda and Angola.

In such countries beer consumption in relatively low compared with South Africa, so there is considerable growth potential. "All you need to do is get cold beer to consumers at an affordable price and they'll buy it" (SABMiller executive, personal interview, 7 July 2009). Growth therefore depends on the fundamentals of efficient production and distribution, unlike the saturated beer markets elsewhere, where marketing is critical. With beer prices inflated by the costs of imported raw materials and government tariffs, SABMiller has sought to develop affordable products brewed from local African crops and thereby to take costs out of the supply chain. The Eagle brand based on local sorghum is a successful example and is now available in smaller bottles and draught form to make it even cheaper. The company is also working with farmers in several countries to expand production of suitable crops for beer production, including experimenting with maize and cassava.

Affordable products should attract consumers from unregulated home brews to commercial beers produced to higher standards. More formal and regulated brewing will enable governments to benefit from higher taxes and provide economic opportunities for local farmers. Conscious not to be seen as new colonialists, the company has also invested in joint ventures with other brewers and active social responsibility, community development and health programmes for workers. Poor transport infrastructure is an obstacle to growth, both for transporting raw materials to the breweries and finished products to the consumers. The low incomes of consumers and lack of skilled managers and workers are additional constraints in many African countries.

This case illustrates how foreign investment can assist the economic development process by providing vital capital and expertise to raise productivity and facilitate innovation. Consumer-focused investments tend to focus on the cities, but rural areas also benefit through the stimulus to agricultural production. This may offer a useful example of the benefits of urban-rural integration.

Overall, and apart from this brief example, the analysis in this section is highly general. More detailed contemporary research is vital bearing in mind the strong growth in many African economies over the last decade. It is likely that African urban economies are following increasingly variable trajectories, depending on the resource base of their countries, their regional context and the stability and responsiveness of their local and national governments (e.g. Freund, 2007).

A simple insight into the range of possible scenarios can be drawn from recent growth projections by Dobbs et al (2011) for some of Africa's biggest cities (Table 4). The largest scale of absolute population growth by far is in Kinshasa, followed by Lagos. The largest scale of relative population growth is also in Kinshasa, followed by Luanda and Nairobi. Table 4 also shows the projected GDP per head for each city in 2025 – all rather low by international standards. Tripoli is the most prosperous city (attributable largely to oil), followed by Johannesburg and Cape Town. The cities expected to achieve the largest absolute increases in prosperity by 2025 are Luanda, Johannesburg, Tripoli, Tunis and Cape Town.

Luanda, Tripoli, Johannesburg and Tunis are examples of places where strong urbanisation is expected to be accompanied by reasonable economic growth and rising living standards. Urban growth should be more manageable than in poorer places, provided taxes are invested in urban infrastructure and socio-economic development. Kinshasa is the clearest example of a place where strong urbanisation without growth is expected. It is already one of the poorest African cities (Freund, 2007; Myers, 2011) and it is expected to remain just as poor in the future. Nairobi, Lagos and Khartoum are also expected to experience strong population growth with weak economic growth. These cities will struggle to create formal employment and to afford the public services required to improve living conditions in their expanding informal settlements – unless national governments are willing and capable of supporting them more substantially with transfers from central taxes. Hence these are the kinds of cities where foresight, vision, will and ingenuity are vital to avoid damaging outcomes.

TABLE 4: **Projected growth for selected African cities**

	2007 Population (million)	2025 Population (million)	2007 GDP/capita ($000)	2025 GDP/capita ($000)
Cairo	11.9	15.6	3	6
Lagos	9.5	15.8	3	6
Kinshasa	7.8	16.8	1	1
Johannesburg	7.0	9.1	10	25
Khartoum	4.8	7.9	3	5
Alexandria	4.2	5.7	3	5
Luanda	4.0	8.2	8	25
Algiers	3.4	4.5	5	10
Cape Town	3.2	3.7	10	23
Casablanca	3.2	3.9	5	13
Nairobi	3.0	5.9	2	4
Durban	2.7	3.2	6	15
Ibadan	2.6	4.2	2	5
Tripoli	2.2	2.9	15	29
Accra	2.1	3.4	2	6
Rabat	1.7	2.2	4	9
Tunis	0.8	1.0	8	22

Source: Dobbs et al, 2011

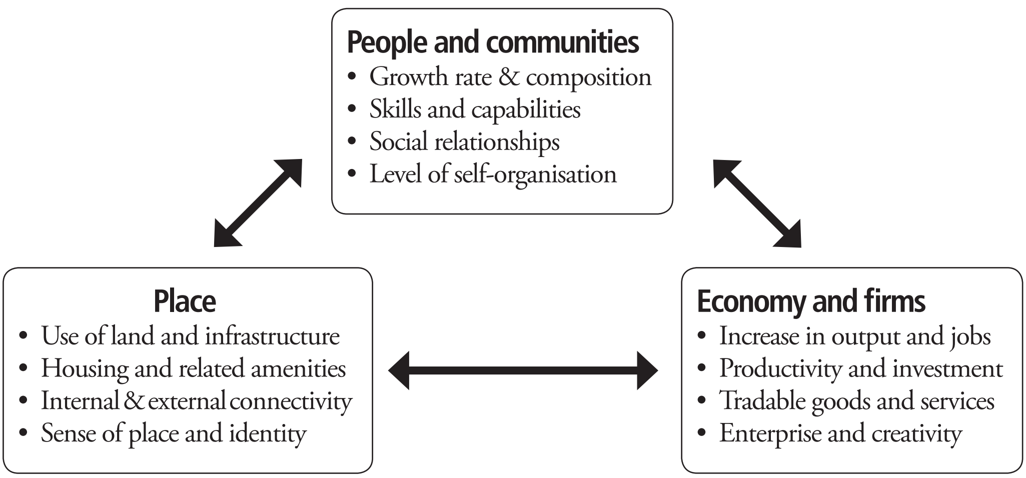
SECTION 16: **IMPLICATIONS FOR POLICY**

Given the inadequate current state of knowledge about the positive and negative economic effects of urban agglomerations in Africa, and the uncertainties surrounding the obstacles to improved performance, it is not possible to draw very specific policy conclusions. Conditions also differ greatly between countries, making generalisation difficult. Instead we set out a broad policy framework identifying strategic principles and priorities for governments.

At the outset it is important to reemphasize that cities are highly complex social, economic and physical systems whose success depends on the interaction of many different actors, elements and forces. At the risk of over-simplification, we focus on three essential features: people, place and economy (Figure 1). 'People' refers to vital characteristics of the population, including skills, capabilities, social relations and level of self-organisation. 'Place' refers to the physical functionality and quality of settlements, including the availability of land and infrastructure, the stock of housing and related amenities, and the degree of internal and external connectivity. The 'economy' refers to the productive capabilities of local firms in terms of generating output, resources, jobs and taxes by adding value to goods and services through their workforces, technology and finance capital.

The dynamic interactions between people, place and economy can be mutually supportive and self-reinforcing, in which case a 'virtuous circle' is established with rising living standards and citizen well-being, increased taxes for better public services and higher quality environments for residents and investors. Alternatively, developments in one sphere may undermine improvements in another, thereby hampering progress and creating inferior outcomes. For example, rapid urbanisation can create intense competition for scarce land resources, contribute to congestion and environmental degradation, threaten public health, exacerbate social tensions and damage a city's prospects for attracting investment. Much depends on the ability of public institutions to manage these interactions and balance competing interests through long-term development strategies pursued in conjunction with other actors, while responding in a focused manner to pressing local needs and problems.

FIGURE 1: **Essential interactions within cities**



Addressing these interactions effectively also requires an integrated approach, one that recognises the knock-on effects of one action on other aspects of the situation. All too often urban policies are couched narrowly and focus on only one dimension of the problem. For example, a popular approach assumes that the key to prosperity is a clearer framework of rights and regulations in relation to the built environment, or more efficient basic infrastructure (i.e. 'place'). Another assumes that the state needs to invest in creating more capable citizens ('people'). A third approach maintains that boosting economic development is the priority to create the additional activity to absorb surplus labour, and to generate the resources to invest in social infrastructure and human development.

Place-based policies

Looking first at the 'place' dimension of the triangle, there is a long-standing emphasis in urban policy on the importance of reliable land and property systems as the foundation for coherent and efficient urban development (Urban Landmark, 2010). The argument has been expressed most forcefully by Hernando De Soto in his concept of 'dead capital' (2003). He argues that giving people formal land titles would enable them to unlock billions of dollars of funds for investment because they could use them as security for loans. Land titles would also prove the existence of wealth and strengthen business trust and networks, thereby stimulating domestic capital for accelerated development.

More secure systems of land ownership and use are probably important in the context of African cities, where informal and customary systems often dominate formal arrangements (UN-Habitat, 2010). Informality can create uncertainty and disputes over what rights different actors have to particular land parcels and buildings. It also means greater insecurity for poor and powerless communities who are readily evicted when land becomes scarcer, prices rise and speculators move in. Ordinary citizens and corporate investors alike may be discouraged from improving property and putting down roots because of the risk of not recovering their investment. Uncertain property systems are bound to constrain development in the heart of cities because density and proximity require that individual sites and buildings have multiple owners and occupiers. Apartment blocks, office complexes and shopping malls all embody this complexity. Fair, transparent and accountable systems are required to protect different occupiers and owners, to facilitate change and mobility when their circumstances change, and to create confidence in the future.

The logical response includes national laws to safeguard private property rights and formal registration systems to facilitate the buying, selling and renting of land and buildings. This gives people and firms the opportunity to borrow against their assets and a greater stake in the development and improvement of their localities. Effective land policies also cover zoning regulations that provide for more predictable outcomes for surrounding properties, as well as flexibility to accommodate changing market pressures. Simpler planning rules and systems for the registration and exchange of property may be essential in the context of extensive informality in many African cities, where very detailed arrangements inherited from the colonial era still exist but often create blockages or are bypassed in practice because of their complexity.

In some circumstances there is also a case for the inefficiency of urban land markets to be tackled by the state assuming stronger powers to acquire undeveloped land in order to permit orderly development and to prevent existing owners from holding onto land for speculative purposes. It is very easy otherwise for private owners to withdraw strategic land parcels from the market in the expectation of windfall gains at some point in the future. State control of land can also limit gentrification and displacement of poorer households by wealthier groups, which sometimes happens when informal systems are formalised (Briggs, 2011). One of strengths of China's approach to managing urbanisation has been the state's ability to control the land development process closely, coupled with very substantial investment in infrastructure (Martine and McGranahan, 2012).

There is no dispute that basic infrastructure is indeed one of the major weaknesses of African cities, including the supply of electricity, water, sanitation, tarred roads, public transport and telecommunications. The quality and quantity of such networks are fundamentally important for economic growth and development, and perhaps even a precondition for most forms of private investment. Without reliable, safe and affordable public goods cities cannot function efficiently, and if these systems deteriorate cities become dysfunctional. The precise forms and extent of state intervention are bound to depend on government resources and capabilities, and on the requirements of local conditions and expectations of firms and households. Nevertheless, the basic point is that improvements in urban infrastructure should be a top priority for investing the revenues generated from commodity exports. Smart policies could also capture a share of rise in land values resulting from public investment in order to recycle the resources and permit reinvestment in further development (Urban Landmark, 2010).

People-based policies

The second dimension of the triangle focuses attention on developing human skills and capabilities on the grounds that urban policies need to touch the lives of people and not just improve the physical environment. The relatively low level of education and training, poor standards of health and low life expectancy of many African urban populations are obvious challenges for governments to address. Low workforce and managerial skills and competences constrain the growth potential of local enterprises and hinder the productivity of urban economies. Low educational and vocational qualifications influence who gets excluded from labour market opportunities, and the incidence of poverty and disadvantage within cities. Entrepreneurial, technical and organisational skills are vital to the quality and performance of formal and informal enterprises. General skill levels also influence the effectiveness of a wide variety of other non-profit voluntary, cultural, religious, social and non-governmental organisations. The growing middle class in African cities is likely to put pressure on governments to devote more attention to schools, colleges and related people-oriented facilities (such as early childhood development) because of their importance for social mobility and advancement.

There is a natural role for governments to strengthen public education, training and health systems in order to improve human capabilities and reduce the incidence of poverty. Such systems can help to produce and maintain a healthy, educated and motivated workforce and citizenry. Policies are typically determined at the national level to create universal rights that are consistent and equitable across the country – giving everyone a fair chance to realise their potential. National social programmes may also be more effective at redistributing resources and regulating market forces than local provision. However, national systems and frameworks require local institutional capacity to provide these services in a way that is responsive to diverse circumstances, and to align them with other stakeholders, such as employers in the case of education and training. There is an important principle that social policies are not devised in isolation, but have a developmental orientation linked to the functioning of the economy and concerned with helping people to exit poverty.

Many national governments also support a complementary approach that is more bottom-up and geared towards building resourcefulness and self-reliance from below, especially where the state's capacity is limited. Promoting community-based delivery and what is sometimes known as the 'social economy' may be a more sympathetic and flexible way of meeting essential human needs than centralised welfare systems. Marginalised groups and communities can be empowered and mobilised to provide community goods and services by combining skills training with capacity-building to create locally-based organisations. Such efforts can be tailored to respond to the circumstances of poorer parts of the city better than standard programmes. Such schemes can also be targeted towards 'hard-to-reach' groups more effectively, such as refugees, ethnic minorities or people with disabilities. And they can be linked to other local measures more easily, such as environmental schemes or infrastructure initiatives, in order to create viable pathways into the labour market.

Economic development policies

The third dimension stresses the importance of strengthening the demand for labour and land rather than improving their supply. Developing the economy to generate additional employment ensures the best route out of poverty because work provides meaning, dignity and structure to people's lives, as well as an independent income. The growth of most African urban economies is not strong or broad enough to produce sufficient employment to raise general living standards. Their narrow growth paths based on natural resources and consumption need to be broadened and deepened through diversification, industrialisation and higher levels of value addition. This is likely to require more dynamic domestic companies and perhaps higher levels of foreign direct investment. Some advantage would be gained by focusing on selected tradable sectors closely related (upstream and downstream) to the distinctive resource base of each country, i.e. building on existing assets and strengths rather than starting from scratch.

Because of the relatively small size of the private sector in most African cities, particularly in the real economy, governments need to go beyond an enabling approach of infrastructure and skills. More direct support and intervention may be required to build productive capabilities through, for example, mobilising technical assistance, negotiating joint ventures with foreign investors, providing preferential financial assistance to local firms and lobbying on international tariffs. The idea of a 'developmental state' means government playing a bigger role to accelerate and spread growth by encouraging sustained investment in domestic production (Evans, 1995; Edigheji, 2010). This requires a bold effort to expand long-term economic activity and discourage opportunist 'rent-seeking' behaviour that extracts value from others without contributing to overall productivity or well-being. Financial rewards must be linked to patient productive endeavour, hard work, self-improvement and sustained performance rather than easy returns from speculative behaviour or narrow self-enrichment through administrative or legal mechanisms.

Government needs to use its full powers as a major investor, purchaser, regulator and provider of infrastructure and services to initiate change and encourage useful local activity. It needs to act with sufficient boldness and collective weight to shift the trajectory of resource-driven growth in a broader and more inclusive direction. It needs to consider how the impact of all its policies and procedures combined can boost the creation of jobs and livelihoods. Developmental states operate in a consistent and coherent manner to release latent economic potential, encourage enterprise and make better use of neglected labour, land and financial resources. They seek to improve or develop the market by creating finance institutions to provide patient risk capital, encourage long-term business decisions and stimulate forms of productive activity that may not occur spontaneously. Developing cleaner, renewable sources of energy and low carbon technologies to offset rising oil prices, safeguard industrial competitiveness and protect poor communities is an example. The logic goes beyond enabling the market and compensating for its inefficiencies and failures, or promoting welfare in isolation of economic opportunity. It is about building the capabilities and culture - within and outside government - to help establish a larger, more dynamic and resilient economy.

This requires bringing different actors and interests together to define a common sense of purpose and direction. Participatory local processes channel knowledge of what public goods are most needed by firms and communities and build support for focused activities that will contribute to development. Partnerships with business, labour and civil society can instil confidence in the future and draw in wider investment, energy and skills, thereby stretching state resources further. Active cooperation between spheres and line functions of government is also important to avoid duplication and dissipation of effort. Governance structures and systems should be designed through a creative process of exploration, depending on the particular local circumstances and inherited institutions. In some contexts special arrangements may be required to coordinate policies across municipal boundaries so as to manage the growth of extensive city-regions, to facilitate economic interactions with surrounding rural areas, and to avoid administrative blockages. Such arrangements may need to span national borders where cities spread across them.

There is a vital role for robust and responsible city-level institutions in pursuing a cross-cutting, place-based approach. Decentralised bodies can respond to the opportunities and challenges facing particular places with tailor-made solutions based on local knowledge and local relationships. They can adapt with more flexibility to the dynamic conditions in each area and more easily exploit their specific productive possibilities. City governments can provide the leadership and strategic capacity to steer development, and the expertise to build place-specific assets and unique economic strengths. They can connect complex infrastructure projects into their local context to maximise the impact and added value. African governments must harness the collective power of the state at every level in order to shift the growth path of their economies and help cities and towns to realise their distinctive contribution. Stronger national economies depend on better functioning urban economies and labour markets, with a broader foundation of resourceful citizens and capable firms.

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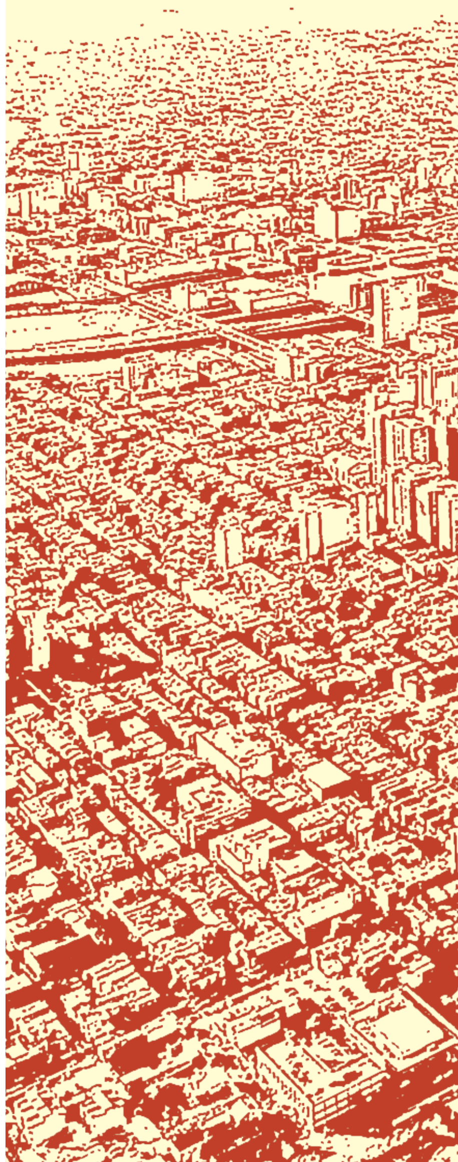
THE GLOBAL URBAN ECONOMIC DIALOGUE SERIES

This report is based on the expert group meeting organised on 23-24 February 2012. It focuses on one of the crucial questions of our time - the relationship between urbanisation and economic development. Rapid urbanisation in Africa threatens disaster if it just multiplies the problems of overcrowding, squalor, destitution and degradation. However, it could become a transformative force for higher productivity, entrepreneurial dynamism and rising prosperity. The report discusses the new mood of optimism about Africa's economic prospects and highlights the need to align economic growth and urbanisation agendas. Evidence from around the world suggests that linking economic and urban development can generate positive interactions that improve economic outcomes and human well-being. Conversely, ignoring the spatial implications of economic trends heightens the risk of producing imbalanced, exclusionary and destabilising effects. The report reviews the arguments for the economic advantages of cities and the international evidence relating to the strength of agglomeration forces. It also considers the relevance of these arguments to Africa and discusses some of the main ways in which governments can help to realise the economic potential of cities. The nature of urban planning, policy-making and investment in infrastructure will influence whether cities become more productive, or whether their burgeoning populations come up against overwhelming social and ecological limits to growth.



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