

## THE CHANGING DYNAMICS OF URBAN ECONOMIES

*Economic transformation through the growth of cities has resulted, over the last thirty years, in the greatest improvement in standards of living and poverty in history, according to a new report by UN-Habitat.*

According to the *World Cities Report 2016, Urbanization and Development: Emerging Futures*, the on-going spatial concentration of people in cities and towns has created a new economic geography. It adds that there has been a dramatic change since the Habitat II conference in 1996, with city sizes increasing.

The report asserts that the benefits of agglomeration - an extended city or town area - have tended to outweigh the disadvantages and, while the extent varies considerably between cities, the benefits of agglomeration have provided the resources to allow diseconomies of agglomeration to be managed.

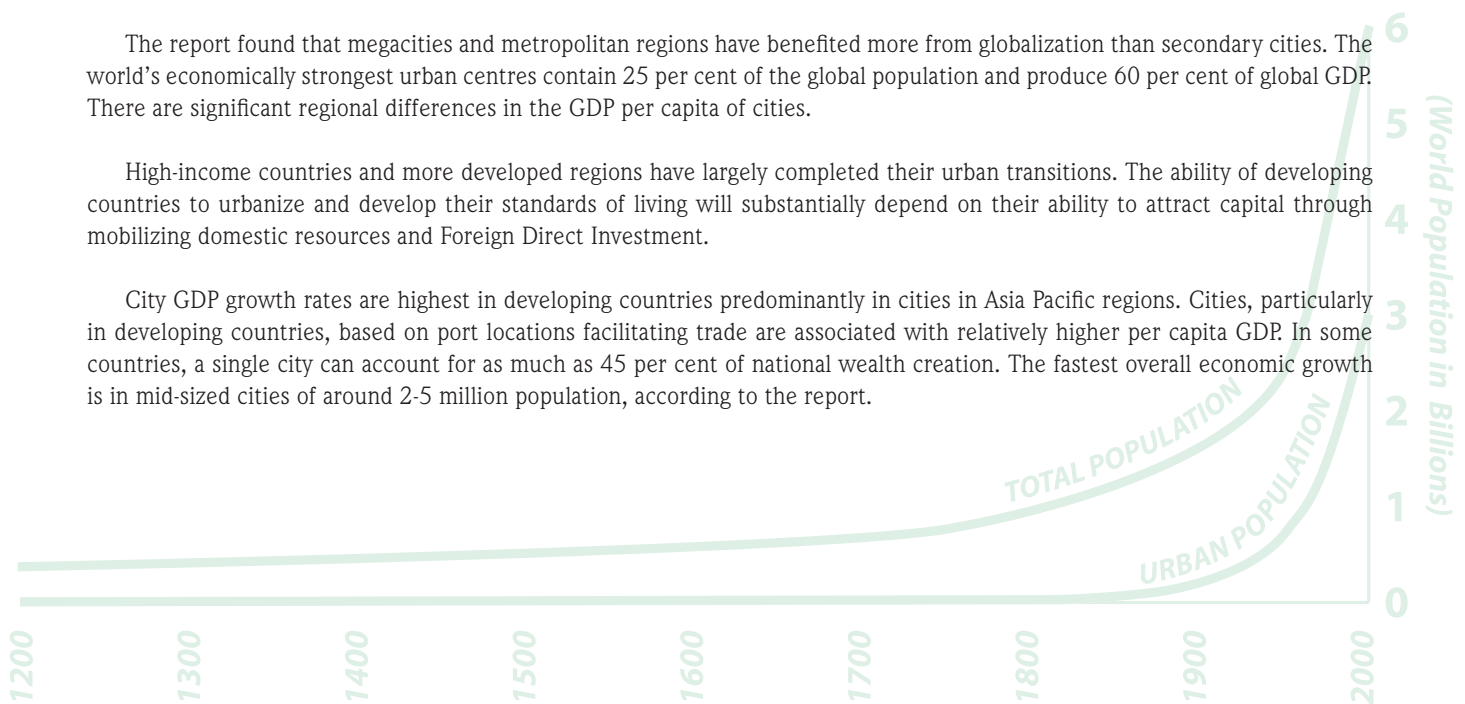
UN Under-Secretary-General and UN-Habitat Executive Director, Dr Joan Clos, said: "Cities now generate around 80 per cent of global GDP and cannot be ignored as a major source of income and development. The link between planning and economic development policies for cities must be integrated across all levels of government if we are to maximize the potential for equitable social and economic growth."

### Larger cities benefitting more than smaller ones

The report found that megacities and metropolitan regions have benefited more from globalization than secondary cities. The world's economically strongest urban centres contain 25 per cent of the global population and produce 60 per cent of global GDP. There are significant regional differences in the GDP per capita of cities.

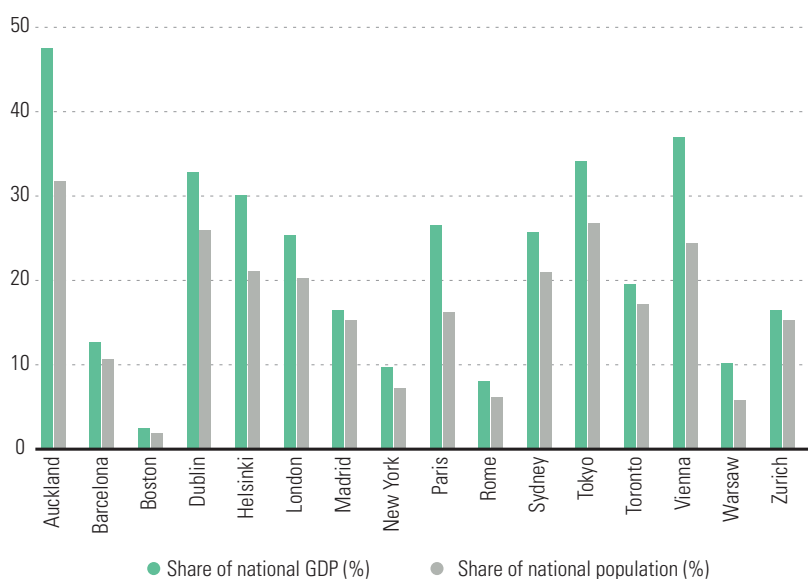
High-income countries and more developed regions have largely completed their urban transitions. The ability of developing countries to urbanize and develop their standards of living will substantially depend on their ability to attract capital through mobilizing domestic resources and Foreign Direct Investment.

City GDP growth rates are highest in developing countries predominantly in cities in Asia Pacific regions. Cities, particularly in developing countries, based on port locations facilitating trade are associated with relatively higher per capita GDP. In some countries, a single city can account for as much as 45 per cent of national wealth creation. The fastest overall economic growth is in mid-sized cities of around 2-5 million population, according to the report.



**Figure 2.1: Share of GDP and national population in selected cities (developed countries)**

Source: UN-Habitat, 2011f.



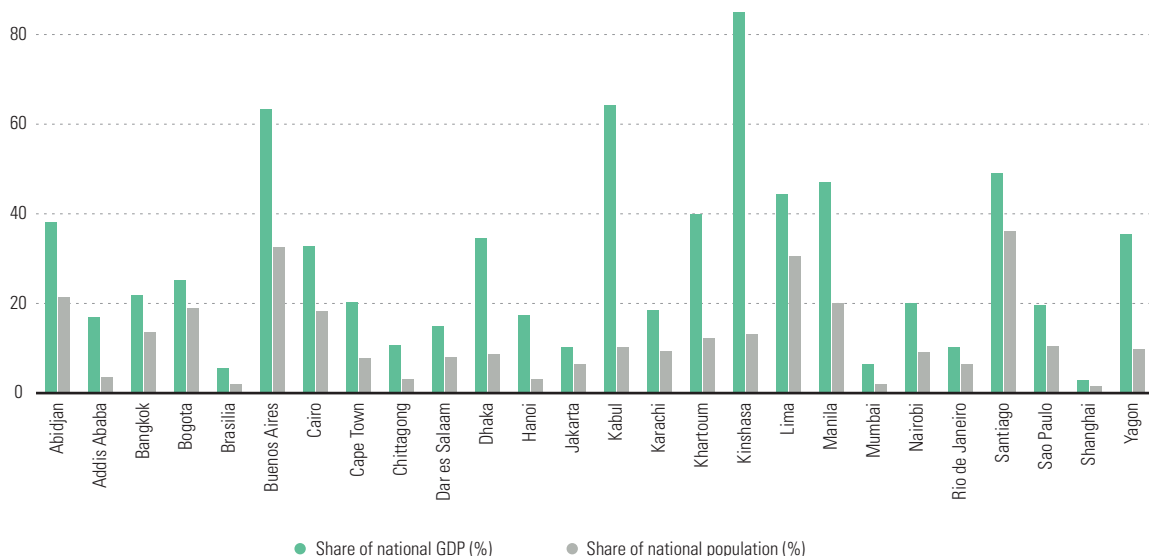
Since the second United Nations Conference on Human Settlements – Habitat II – in 1996, the challenge arising from the growth of cities has increased in scale and complexity with the level of urbanization and economic development being closely interrelated.

However, despite the advantages and opportunity urbanization provides, the report also concludes that cities are the front line of the emerging sharing economy and there is rising inequality between economies of large cities, secondary and small cities.

With rapid urbanization, the growth in formal and regulated employment opportunities is not sufficient to absorb the potential migrant labour force. Cities play a significant role in economic growth and in particular, in improving productivity. Efficient cities facilitate the more productive use of resources; thus facilitating in the creation of wealth and jobs.

**Figure 2.2: Share of national population and GDP in selected cities (developing countries)**

Source: UN-Habitat, 2011f.





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**Contribution of cities to national income is greater than their share of national income**

**Paris: is 16% of the population of France, but accounts for 27% of GDP**

**Kinshasa: is 13% of the population of DRC but accounts for 85% of GDP**

**Metro Manila: is 12% of the population of Philippines but contributes 47% of the GDP**

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## Municipal Finance and Financing Infrastructure

Moving forward, cities must be able to do more with fewer resources, and municipal roles are becoming more complex with tasks that go from job generation, productive development policies, social inclusion, and climate change.

New models of public sector financing of infrastructure and urban development are needed. Strengthening city finances through the better use of public-private partnerships, local land taxes and user charges and the development of more effective and equitable fiscal equalization arrangements between national and city governments is essential for sustainable development.

### Key messages

- i. The link between planning and economic development policies for cities must be integrated across all levels of government.
- ii. Strengthening city finances through public-private partnerships, land taxes and user charges and the development of more equitable fiscal arrangements between national and city governments is essential for sustainable development.
- iii. Providing a legal framework for the decentralization of responsibilities is essential to improving city governance structures.
- iv. Linking urban policy to economic development is critical to improving the competitiveness and performance of local economies.