The mighty metropolis

International cities are now players on the world stage. Mathieu Lefevre looks at how their rise will shape our future

Sometime in the middle of 2009, the number of people living in cities exceeded the world's rural population for the first time in history. By 2050, some 70 per cent of the world's population will live on only 3 per cent of the earth's surface – in cities. These conurbations are becoming global economic and geo-political players to be reckoned with. This will radically affect the way we live, work and plan for the future.

The bulk of urban population growth is taking place in Asia and Africa through migration from the countryside. Globally, about 70 million people migrate each year from rural to urban areas. Countries such as India, China, Indonesia and Nigeria will witness huge increases – upwards of 800 million people – in the size of their urban populations over the next 20 years.

Not surprisingly, cities are the motors of the world economy. The 750 largest account for 57 per cent of global gross domestic product today and this share is projected to rise. A report by the New Climate Economy predicts that 500 cities will account for 60 per cent of GDP growth by 2030. Tokyo today has a larger GDP than all of South Korea or Spain. London's output is larger than Sweden's.

Cities are increasingly asserting themselves on the global political stage. As faith in national governments wavers, former mayors and local leaders are candidates of choice for the highest national office. Italy's Matteo Renzi, the former mayor of Florence, and Indonesia's new president, Joko Widodo and the former governor of Jakarta, are but the latest examples.

Assertive as they may be, cities face enormous and increasingly common challenges. It is striking how conurbations of all sizes and various stages of development struggle with the same problems: gridlock; insufficient housing; poor waste management; lack of clean water and safety. Take traffic: the average speed of a car in Indonesia's booming capital Jakarta is about 5 kilometres per hour. This is true in many large cities, from Beijing to Los Angeles, and is holding back development and productivity – costing billions each year.

Cities are addressing these common challenges by learning from one another. Boris Johnson, London's outspoken and carefully dishevelled leader, talks about his role partly as that of a benevolent copycat. He looks around for great ideas in other cities and then brings them to London as fast as he can. The 'Boris bike' cycle hire scheme – locally named after the mayor but invented in France and copied in over 600 cities – is a prime example of cities learning from each other. Paris has recently taken this a step further by inviting innovators from across the world to 'reinvent Paris' through a global call for ideas.

Another example is the laudable efforts being made on climate issues. The overarching narrative is that cities can get things done on climate change when national governments are slow and inefficient. A growing number of cities are joining international networks such as the C40 climate leadership group that aims to share lessons on climate mitigation and promote a healthy competition among cities. These networks – more than state-to-state platforms – are now important arenas for making and implementing climate deals that work. And cities are certain to be a leading voice during the Paris climate talks later this year.

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Mayors are increasingly asserting their city's geopolitical influence on more traditional national issues such as immigration. The 'London visa' proposed by Boris Johnson would allow London to endorse visa applicants considered to be the brightest candidates to immigrate to the city – not the rest of the UK – in an attempt to bypass the lengthy national immigration process. The idea is that the creative talent of Silicon Valley, Bangalore or Beijing could help establish London as a world centre for innovation. According to the plan, London would receive an annual allocation of 100 of the national government's 1,000 'exceptional talent' visas. Boris Johnson says that London 'only needs to find one Steve Jobs and we have an Apple on our hands'.

The London visa points to a potential clash between cities and the national government. Cosmopolitan and open London, for example, appears at odds with a broader Britain where anti-immigration parties such as the United Kingdom Independence Part are on the rise. London

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São Paulo, Brazil's megacity, which is now a primary destination for multinationals

(where the UKIP vote is comparatively small) seems to want to keep doors open, just when others are seeking to close them. The same is true of Paris with its small National Front electorate, though it is uncertain how this dynamic will play out in the aftermath of the Paris terrorist attacks.

The rise of cities is also in evidence on financial markets. Cities are keen to access capital markets directly to finance their huge infrastructure needs, without having to go through the national level. Fitch, a rating agency, estimates that cities in emerging markets will start undertaking significant borrowing to fund investments in infrastructure projects after years of neglect. This is not new. New York City has been issuing municipal bonds since 1812. What is new is the fact that this practice is expanding to cities in emerging economies. As more power is devolved to cities, local governments will be eager to finance projects through direct borrowing. In many cases, they have a better credit rating than the countries around them.

Some cities, such as Buenos Aires, São Paulo and Bogota, are tapping into the international financial market, whereas others such as St Petersburg and Johannesburg are more active in domestic financial markets. China has cautiously started authorizing some local governments to issue bonds in a new pilot scheme.

One of the most interesting trends of urbanization is the rise of the mid-size city. About 400 of these, which on average count less than 2 million inhabitants, are poised to generate nearly 40 per cent of global growth over the next 15 years. Megacities in developing countries have been the historic engines of growth in emerging markets. These megacities have also been the primary destinations of multinationals since most of the newly affluent live in cities such as Mumbai, São Paulo, and Shanghai. However, mid-size cities in emerging markets are not only expected to generate much of the world's growth in the years ahead, but also to become dramatically richer. Most of the world's middle class (households with income above $20,000) will be in emerging economies by 2025, a reversal from the situation today. Most of these newly affluent people will be in mid-sized cities.

These middle-weights, from Manchester to Lucknow, typically struggle to get out from under the shadow of London and Delhi and they are often – though not always – stuck in low productivity traps. Studies both in developed and developing countries find a positive statistical correlation between productivity and the size of a city – up to a point. Most studies suggest that a city that is 10 per cent larger in population offers wages that are 0.2 to 1 per cent higher. More efficient resource-sharing, better matching between buyers and sellers and faster exchange of knowledge are considered to be the main drivers of higher productivity in bigger cities.

The reason why some mid-size cities in developing countries still struggle in their economic ascent is instructive. In emerging economies, big cities act as centres of innovation but fail to relocate the production of mature products to secondary specialized cities, as is the case in advanced economies. Thus, most of the goods and services in developing countries end up being produced in the most expensive cities at a higher cost. Mid-size cities are stuck with the production of more basic products. As a consequence, most of the high-skilled workforce is still drawn to megacities, impeding the ability of mid-size cities to innovate.

The lesson here is that mid-sized cities should avoid trying to act like megacities and adopt strategies to differentiate themselves and thrive in the shadow of their bigger neighbours. There are some examples to follow: Sharjah in the United Arab Emirates, Chengdu or Hangzhou (mid-size by Chinese standards) or Recife in Brazil.

Mid-size cities seeking a place in the sun would do well to follow the example of American cities. According to the McKinsey Global Institute, it is largely 'welterweight' cities, such as Austin, Texas, and Raleigh, North Carolina, that are driving economic growth in the US. The report shows that US middleweight cities account for more than 70 per cent of US GDP, compared with 50 per cent in western Europe. The reasons for this success vary. Some cities have focused on quality of life (Boulder, Colorado) and affordability. Others have chosen a strategy largely based on fiscal advantage as in the case of Stamford, Connecticut with it large financial services located close to but just outside New York's tax jurisdiction. Others adopt a strategy of just being different. In Oregon, the city of Portland's unofficial motto is 'Keep Portland Weird'. Even as New York and Los Angeles grow strongly, mid-size cities will outpace them.

Throughout human history, cities have provided the bulk of the great ideas and innovations. In a world that is ever more interconnected through technology and cheaper travel and in which state borders are rapidly fading, the city is the entity that will shape the future. Citizens will start looking more and more at local governments for answers to their most pressing issues. Companies are increasingly forming urban – rather than country – strategies. The shared experience of cities will shape the global agenda. Cities also satisfy the universal need for human proximity, the magic ingredient for innovation. This is truly the century of cities.

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