

> The City as a Market System

Austin Kilroy
World Bank

CIIP Competitive Industries and Innovation Program

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19-20 MAY, 2016 | LUSAKA, ZAMBIA

› The City as a Market System

- What is a city?
- What is a high-performing city?
- What we found:
 - Policies and interventions;
 - Growth coalitions;
 - Implementation.

Why cities?

> “I have never
felt salvation
in nature.
I love cities
above all.”

-- *Michaelangelo, ~1500*

...Not just because they are sexy.

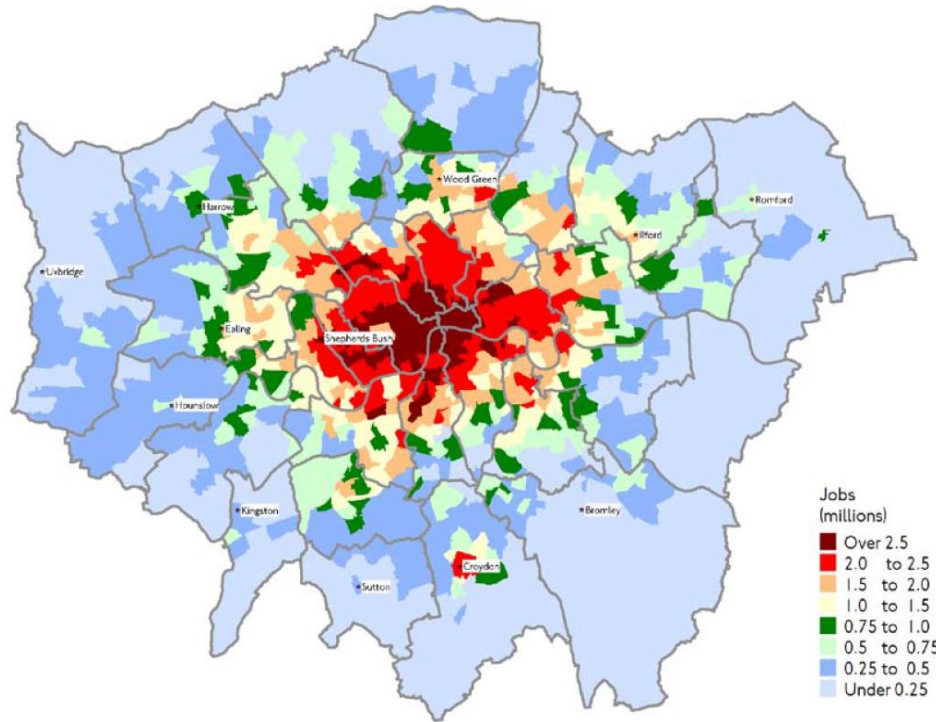
> 'Market systems' in a city context

- People and firms come to cities because cities are MATCHMAKERS:
 - *Labor* pools;
 - *Infrastructure* needs;
 - *Knowledge* spillovers.
- Matchmaking is a market....
- Cities work best where this market is most efficient.



> 'Market systems' in a city context

Figure 5.6 Number of jobs available by mass public transport within 45 minutes travel time, 2012.



LONDON

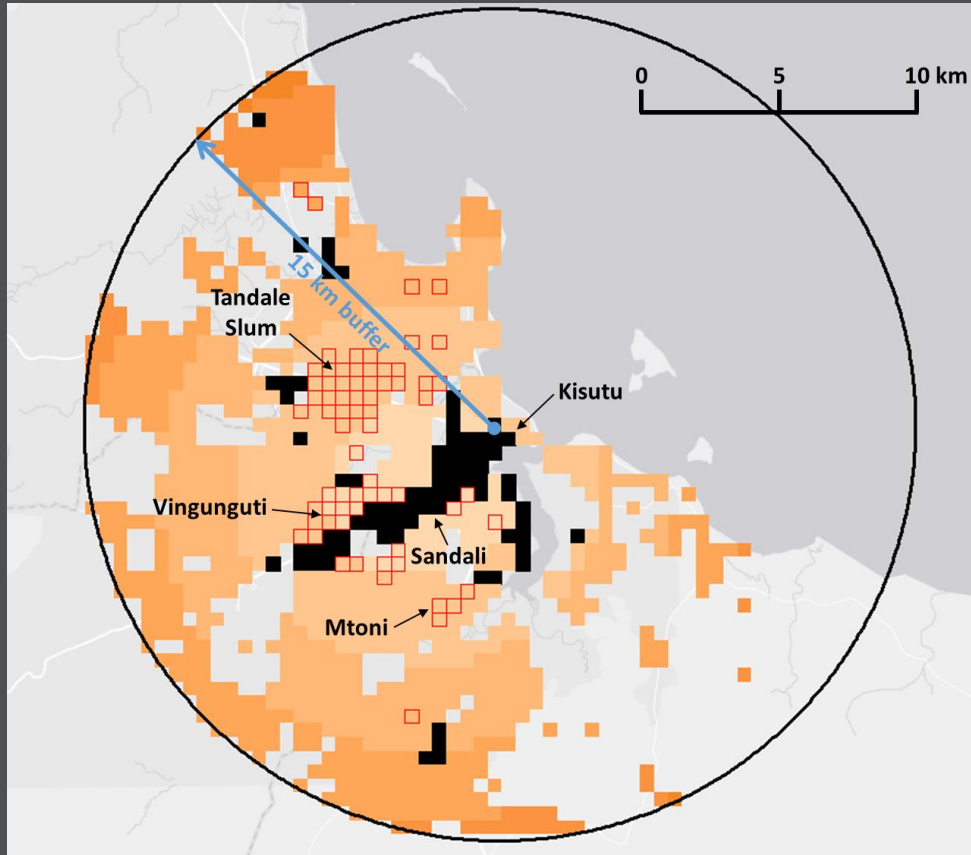
2.4 million jobs accessible within 45 minutes from the center of the city



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> 'Market systems' in a city context



**Lack of mobility
traps people into informality**

- Residential Irregular
- Commercial/Industrial

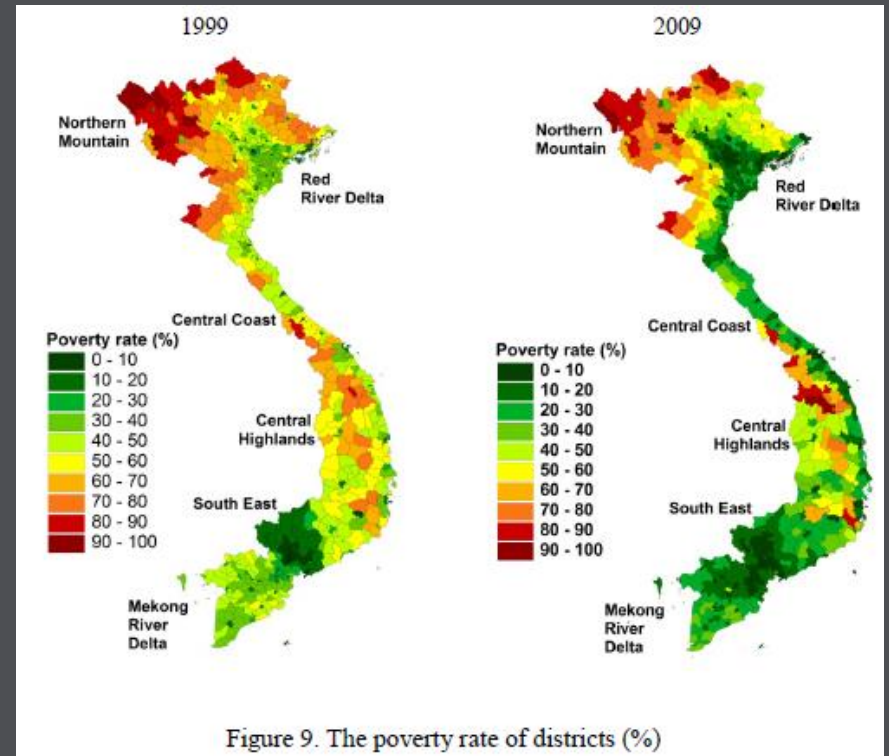
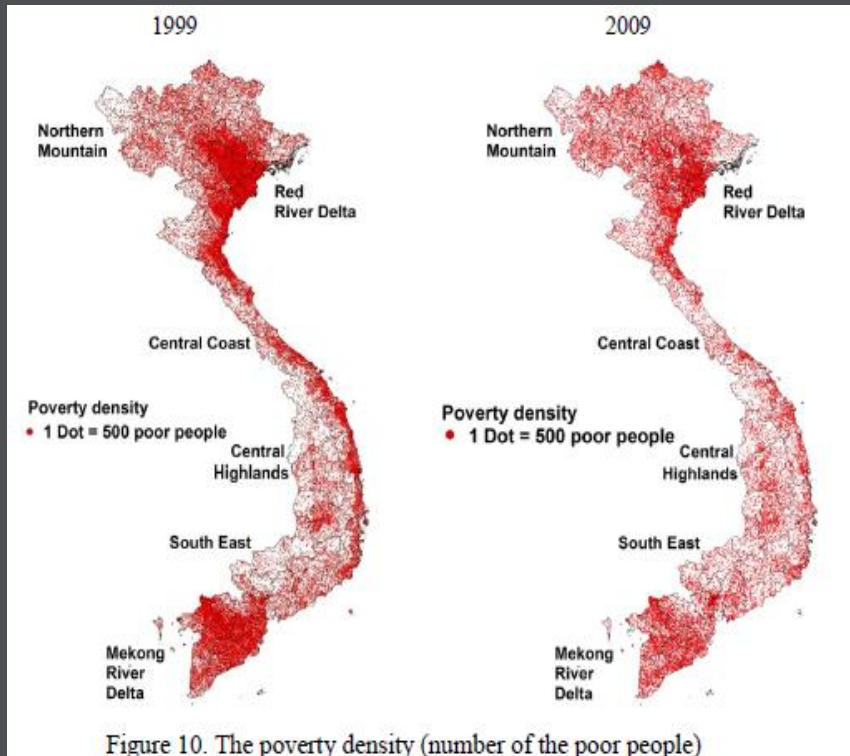
Residential Regular to
Commercial/Industrial 8.9 km

Residential Irregular
to Commercial/Industrial 5.7 km

Dar es Salaam c. 2010

*Average Distance from Residential Area
to Commercial/Industrial Area*

> Cities are really important for poverty reduction



- Absolute numbers of poor people are higher in cities
...but the poverty *rate* is lower than in rural areas.

And cities have been driving poverty reduction over time.

➤ So what do cities have to offer?

- **Agglomeration economies** – market size, productivity, learning spillovers
→ Makes cities efficient



- **Inclusion** – access to opportunities, amenities, and services
→ Makes cities kind



> What does this mean for us?

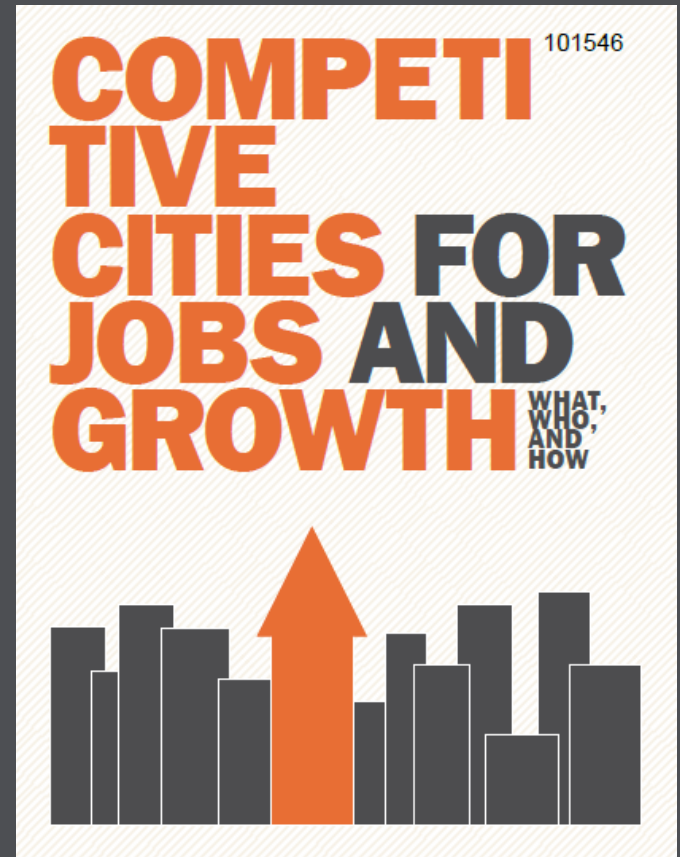
> 'Market systems' in a city context

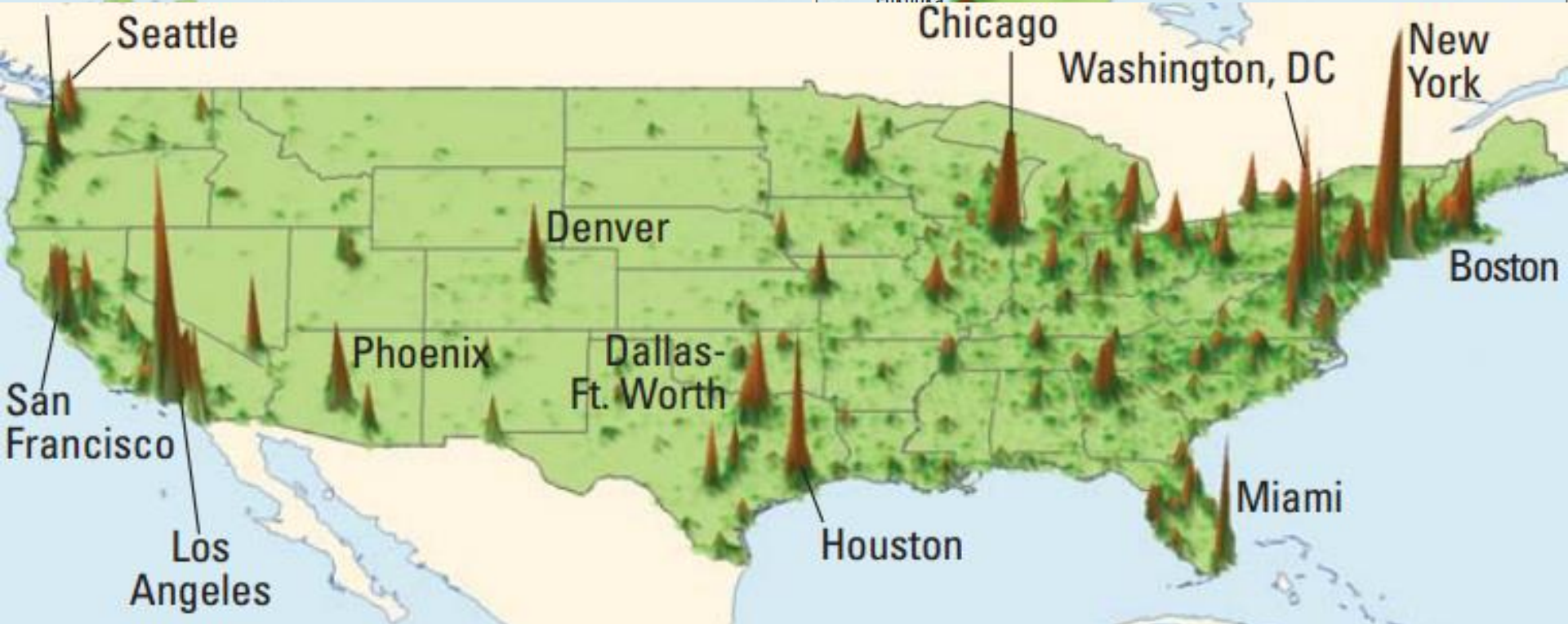
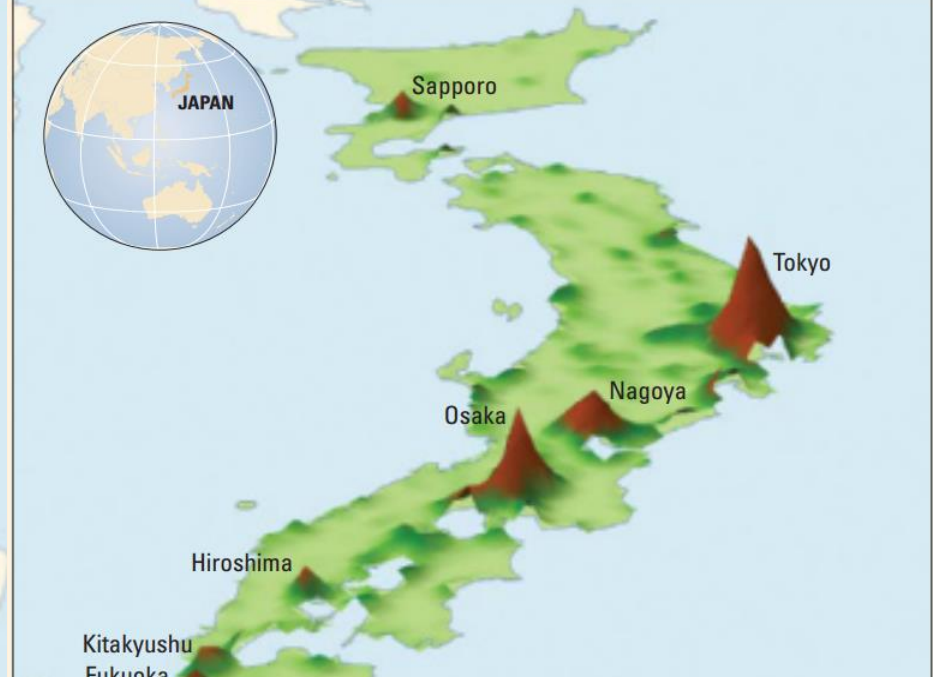
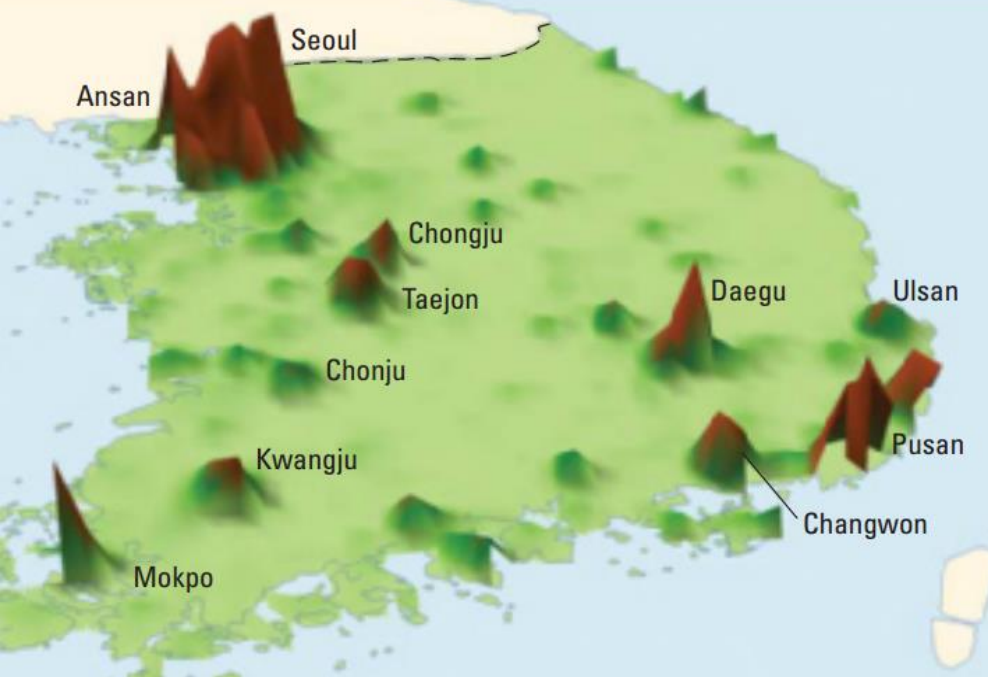
- This doesn't mean leaving markets to run themselves
→ *(it needs strategic interventions)*
- Markets often fail unless there is dialogue and joint action amongst market participants
→ *(it needs a growth coalition)*
- And there needs to be planning and implementation
→ *(not just markets! 😊)*

Where do these findings come from?....

> 'Market systems' in a city context

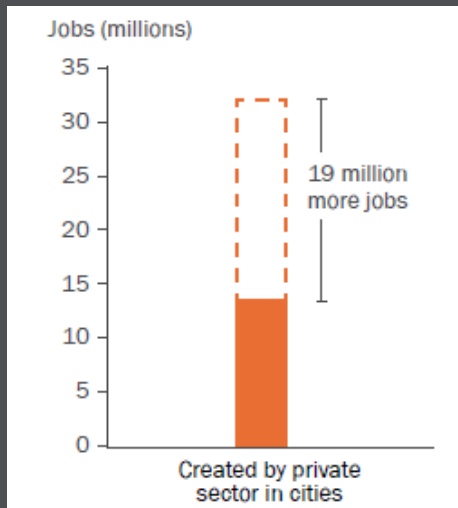
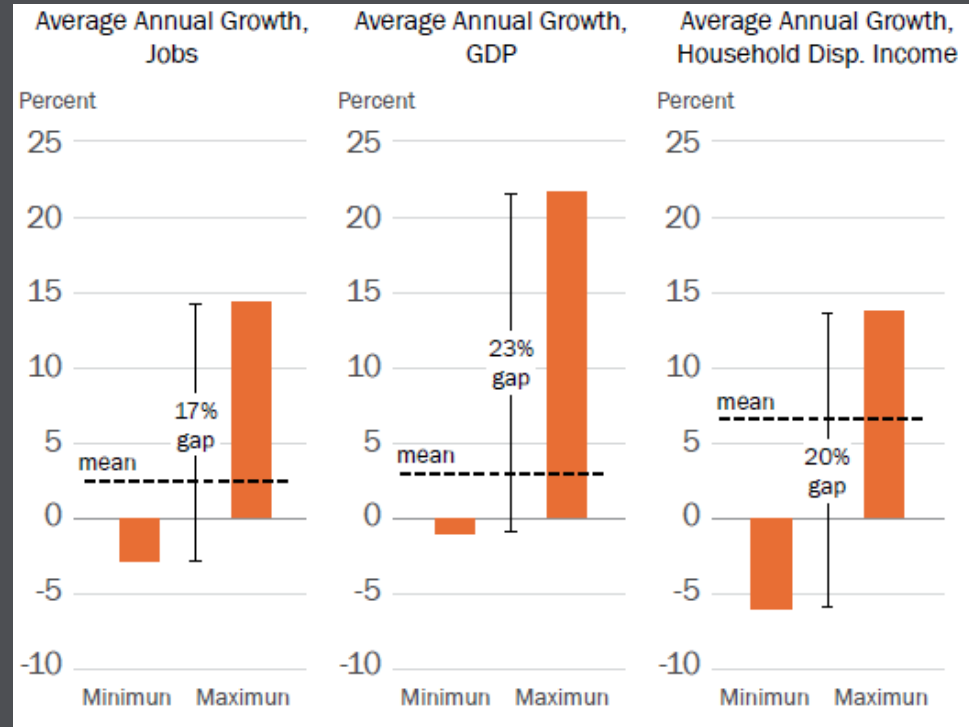
- Will tell a story based on evidence of 'what works':
 - Data on 750 cities worldwide;
 - 6 structured case studies of high-growing cities;
 - Secondary literature;
 - Firm-level econometrics;
 - Lots of conversations.





> What does it mean to be a high-performing city?

- Markets tend to cluster...
...in cities.
- But cities are not performing equally.



What would happen if we brought the average city up to the standard of the top quartile?



Romania

Croatia

Bosnia and Herzegovina

Serbia

Bulgaria

Albania

Greece

Turkey

Georgia

Armenia

Syria

Iraq

Jordan

Israel

Libya

Gaziantep

Google



WHAT WOULD YOU DO.....?

- Land is **dry and ill-suited for agriculture.**
- Not a port city; **210km from a port.**
- **Low skilled population.**
- **No high-tech clusters.**

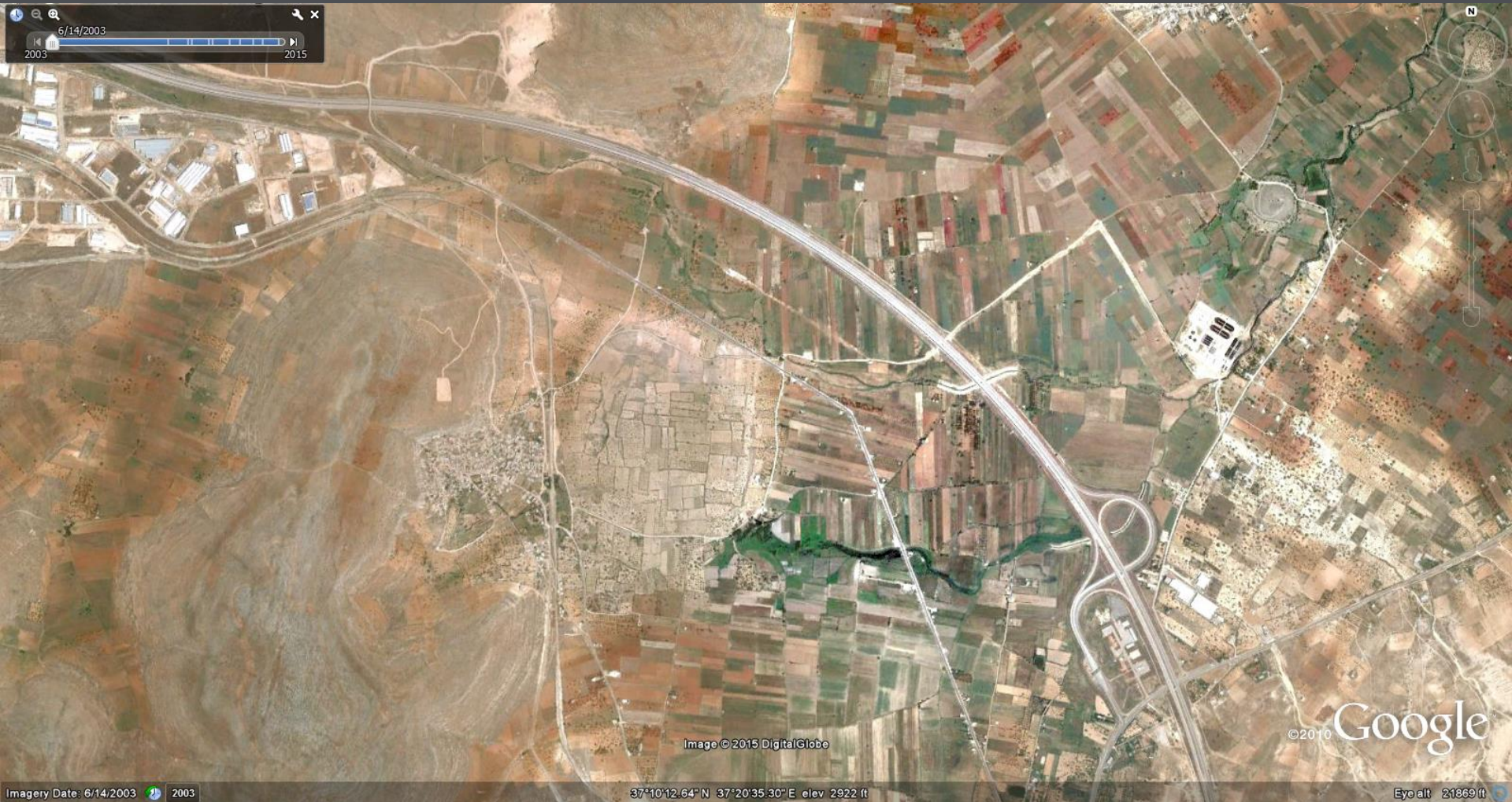


> What would you do?

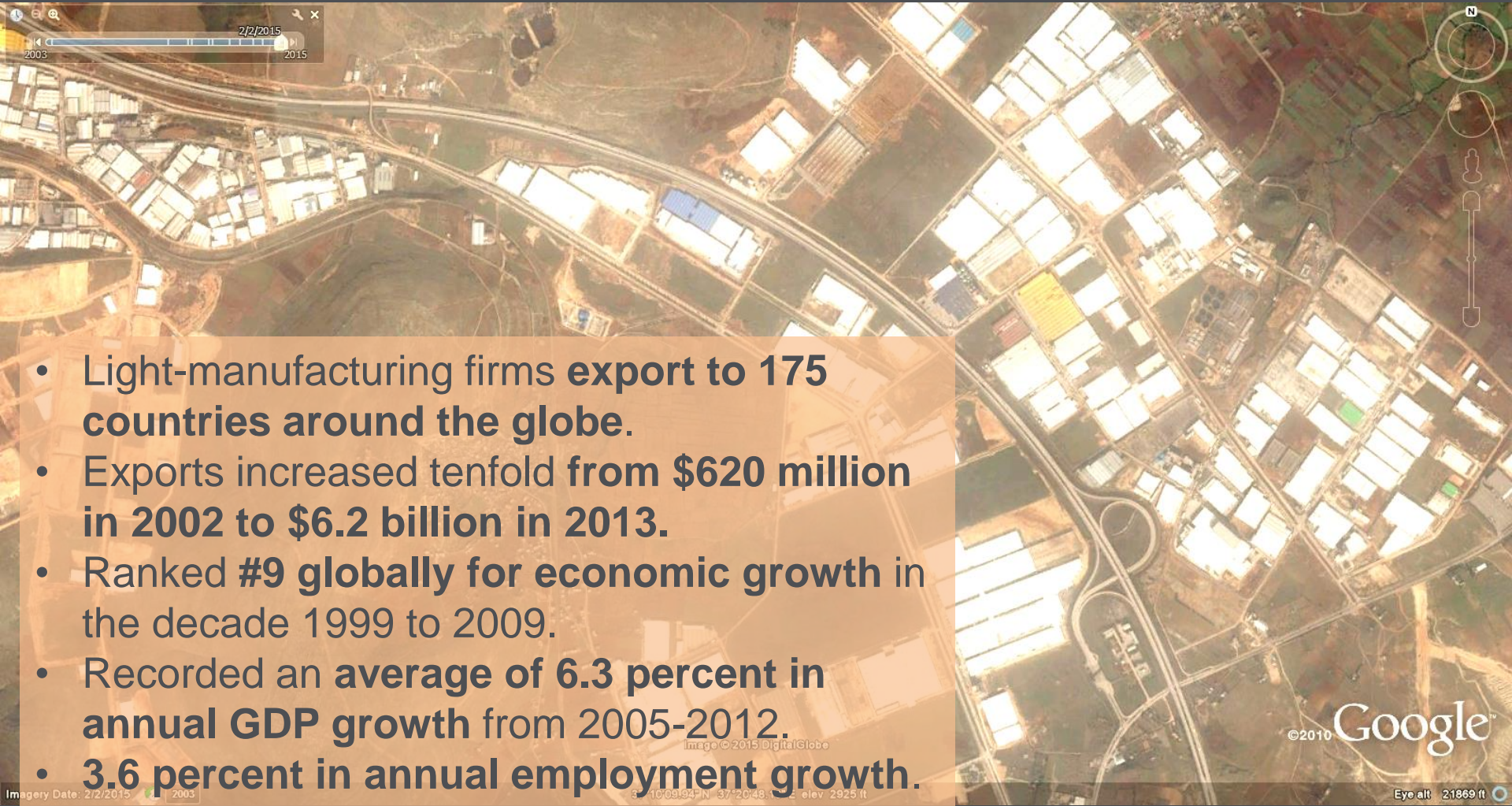




Gaziantep (Turkey), 2003



Gaziantep (Turkey), 2014



- Light-manufacturing firms **export to 175 countries around the globe.**
- Exports increased tenfold from **\$620 million in 2002 to \$6.2 billion in 2013.**
- Ranked **#9 globally for economic growth** in the decade 1999 to 2009.
- Recorded an **average of 6.3 percent in annual GDP growth** from 2005-2012.
- **3.6 percent in annual employment growth.**

> What patterns can we observe in successful city economies?

> Which sectors are driving growth?

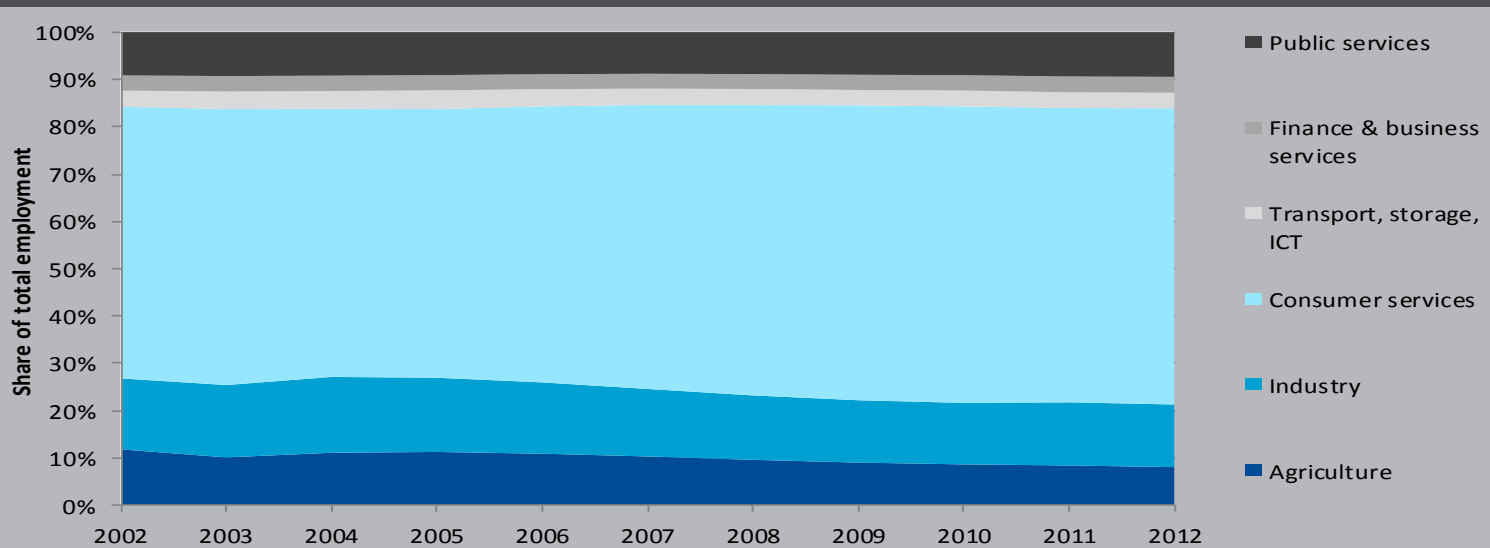
1. Tradable Goods & Services



Source: Analysis using Oxford Economics city-level data for 750 cities worldwide, 2005-2012

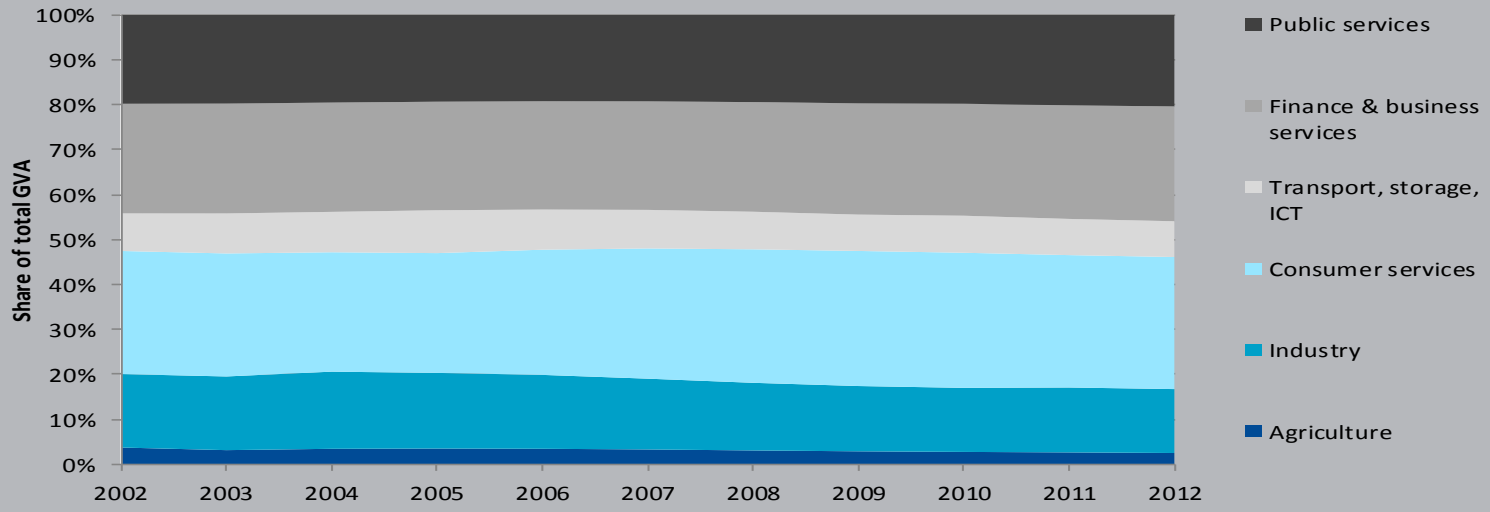
> Which sectors are driving growth?

1. Tradable Goods & Services



Tradables usually account for a small proportion of jobs directly...

(20% in Addis Ababa)



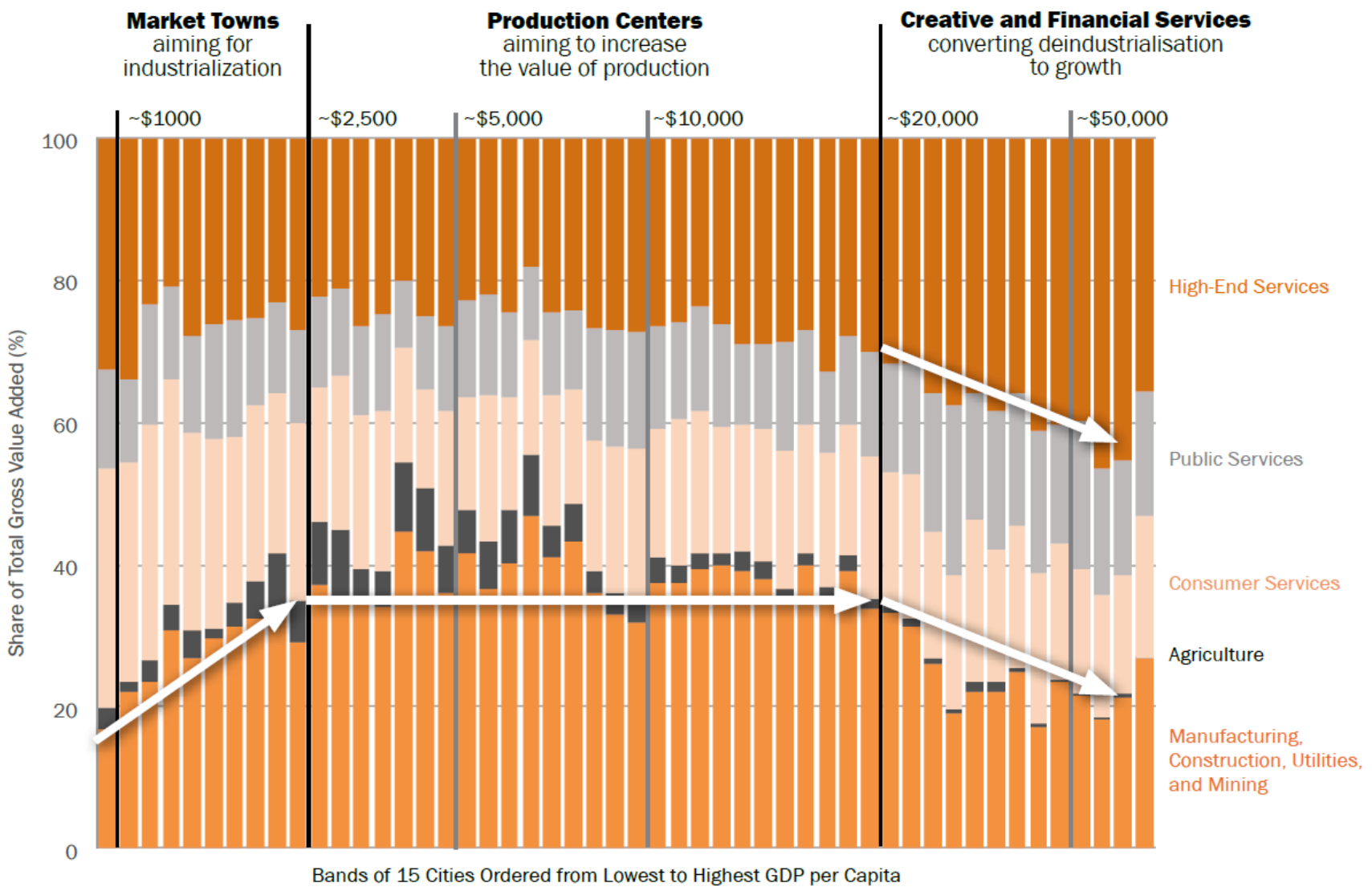
...but a huge proportion of GVA– and hence creating jobs in other sectors.

(50% in Addis Ababa)

> How does this change at different levels of income?

2. Structural transformation at lower incomes....

.....and Efficiencies at higher incomes



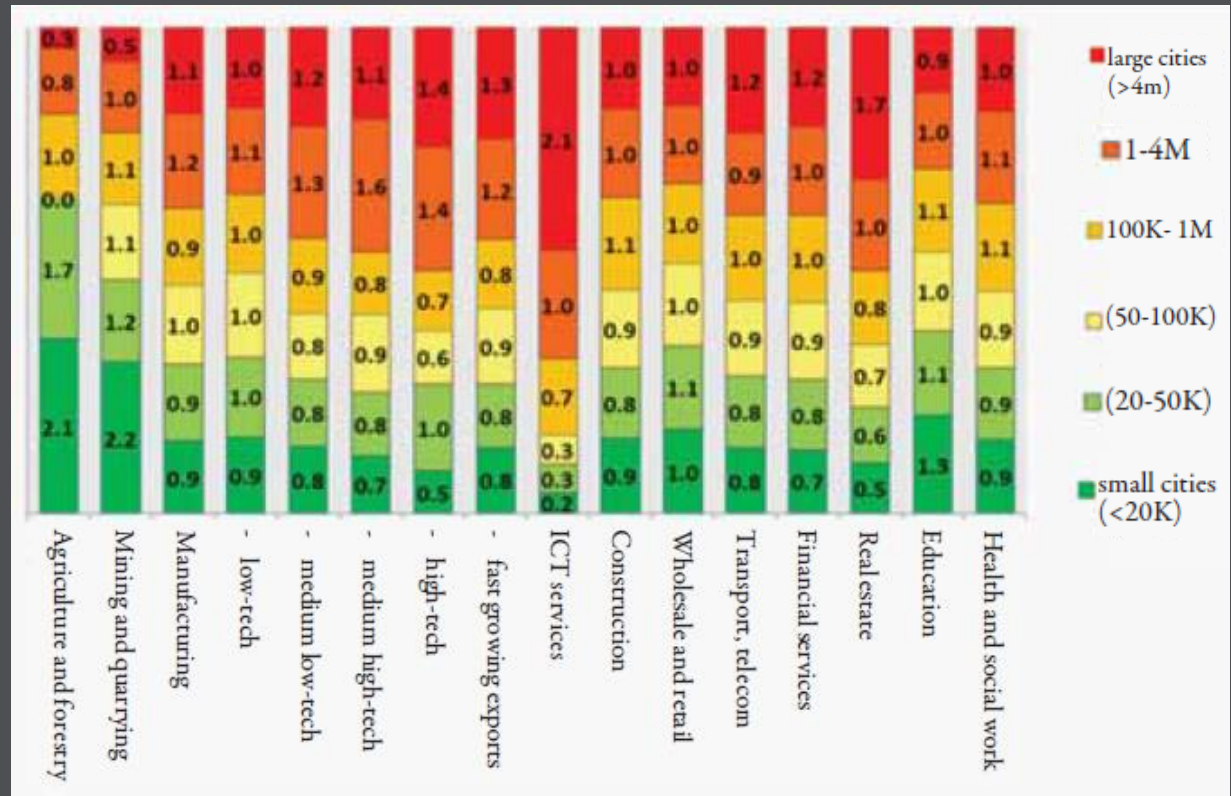
> ...and in different sizes of cities?

- Large cities have a diverse mix of industries

- Critical mass in a number of value chains.

- Secondary and smaller cities often specialize, to reach efficient scale of production

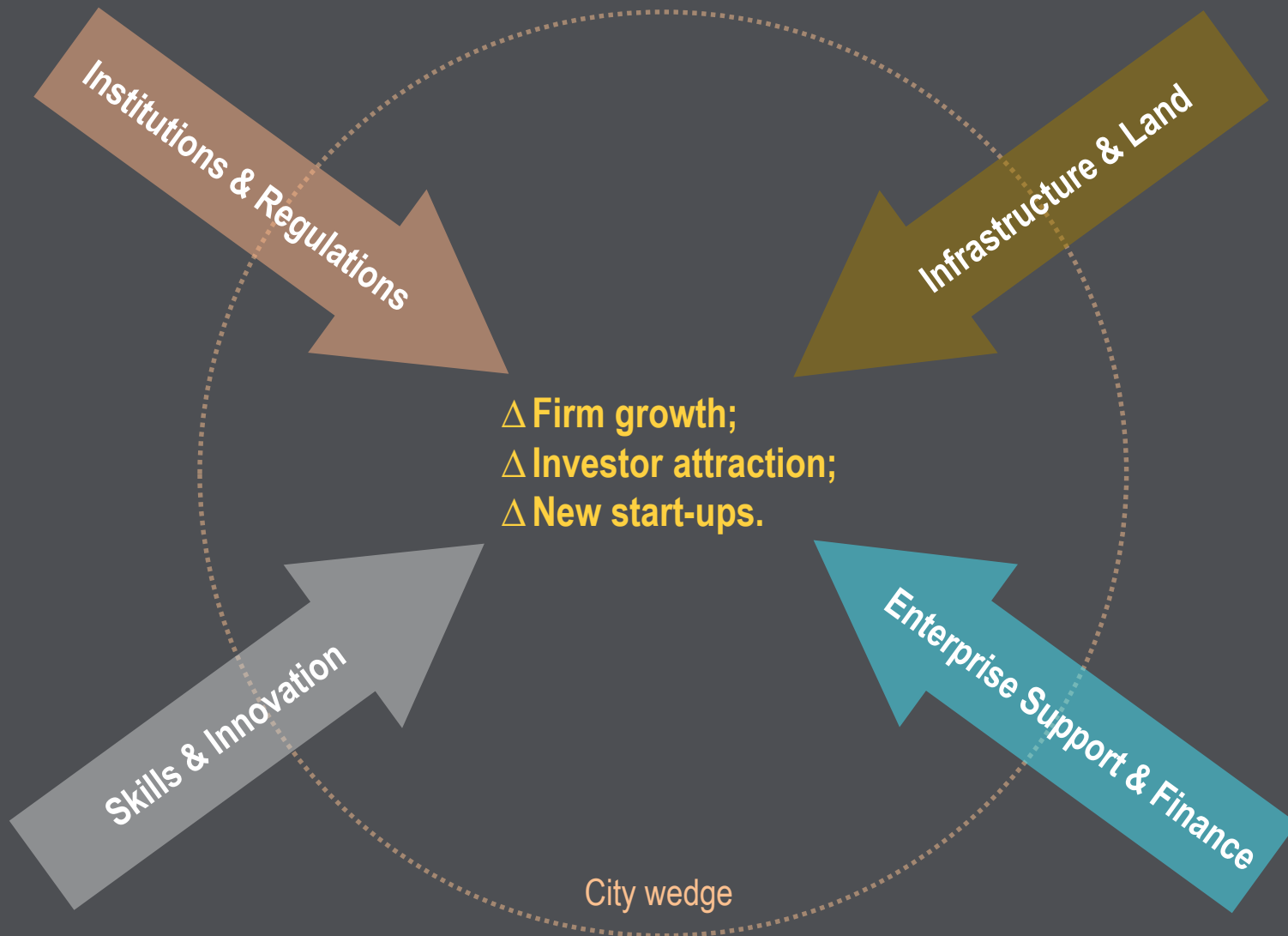
- Critical mass in one or a few value chains.



Secondary cities offer: lower cost environments, greater proximity to agricultural areas, ... others?

> What did these cities actually do?

> What did cities do to perform well?



➤ There was no single 'ideal' set of policies

Category	Factor	Level of city influence	FIRM TYPE			
			Efficiency seeking	Market-access seeking	Strategic asset seeking	Resource seeking
Location endowments	Proximity to major markets/distributors	○	✘	✓		
	Natural resources	●	✘			✓
Relationship with city	Personal connections between firm and city	○	✓			
	"Soft power": city image, proactive mayor, proactive and responsive IPIs	●	✓	✓		✓
General business environment	Macroeconomic stability and growth potentials	○	✓	✓	✓	✓
	Institutional and regulatory environment	●	✓	✓	✓	✓
	Labor availability, skill and cost	●	✓	✓		✓
	Infrastructure and availability of land	●	✓	✓		✓
	"Sweetener": fiscal and nonfiscal incentives	●	✓			
Level of sector development	New opportunities due to a neighboring country or city moving up the value chain	○	✓	✓	✓	
	Presence of forward- and backward-linkages firms	●	✘	✘		✓
	Presence of similar firms/competitors	●	⚠	⚠	✓	

○ City has no influence
 ● City has influence but not full control
 ● City has major influence or full control

✓ Valued by all firm types (strategic asset-seeking and resource-seeking were not broken out by firm type)
 ⚠ Valued by service firms only (efficiency-seeking refers to back office services; market-access refers to high-end services)
 ✘ Valued by manufacturing firms only

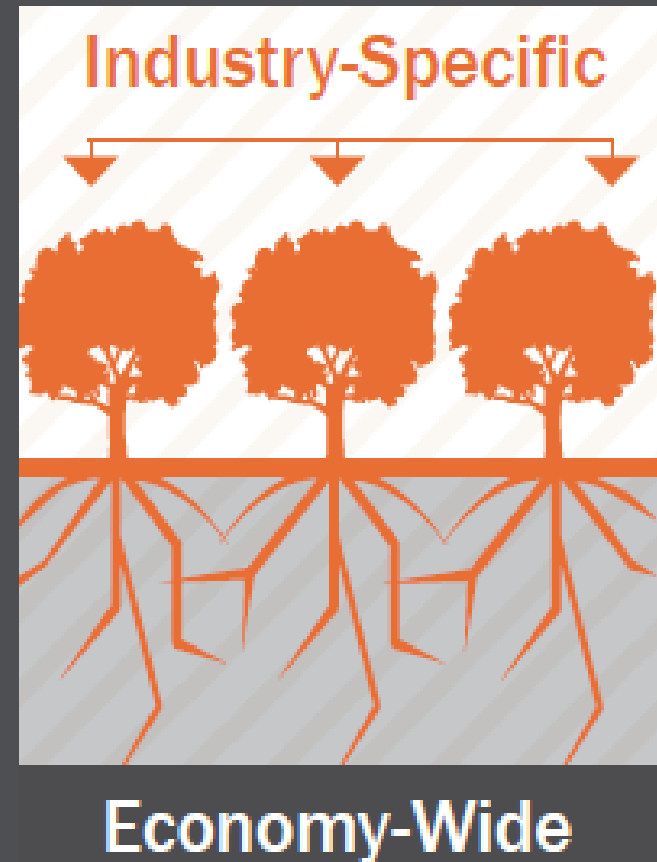
- Firms have differing needs.

> There was no single 'ideal' set of policies

Successful cities *combined*:

- a) industry-specific (sector/value chain) interventions, with
- b) economy-wide interventions.

This is not an either/or choice...



> Who does it?



> Who does it?

Credible individuals with a track record of success (e.g. President of Sanko Holdings, one of the largest firms in Turkey).

Local firms:

- Rivals, but come together on common interests, (e.g. infrastructure upgrades)

Two business chambers:

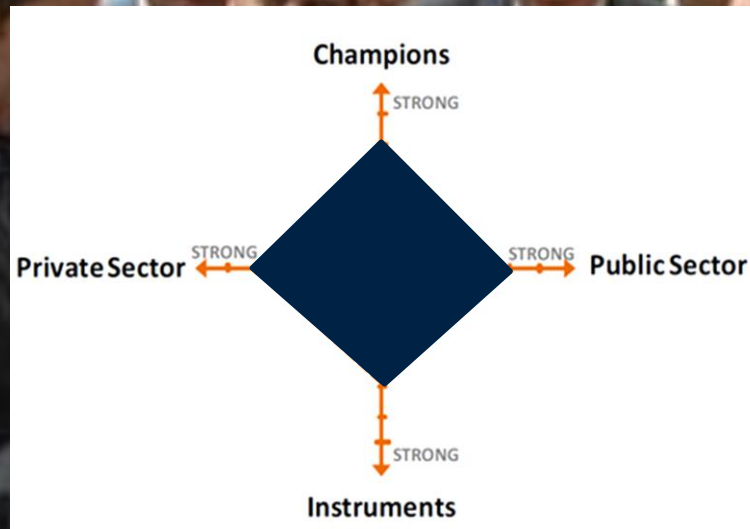
- Large professional staffs, budgets, and political influence.
- Help determine priorities, build consensus, and advocate on behalf of business.

Municipality:

- Supportive, not dominating
- Business-friendly

City Council:

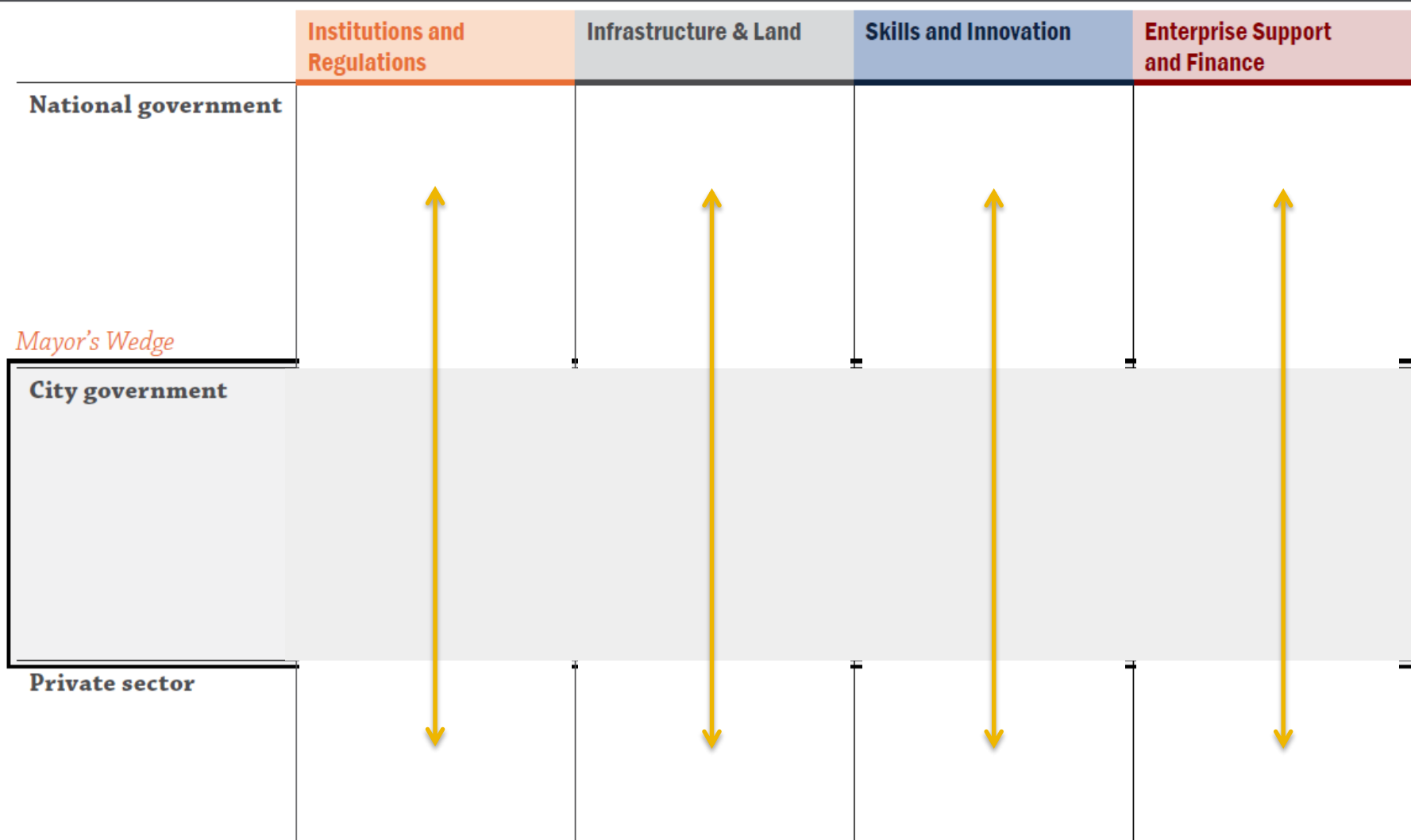
- Forum for information sharing and consensus.
- Members: 80% private sector, universities, or civil society
- Several thematic working groups issuing recommendations.



- Effectively Organized Industrial Zones
- Funding for education and research
- Tax incentives and trade fairs subsidies
- SME and entrepreneurial assistance

“Gaziantep is the number one of the world in machine woven carpet production. We want to catch Belgium in fitted carpet production.”

> Who does it?



Source: World Bank.

Note: PPP = public-private partnership; R&D = research and development.

> And how to get it done?

“There is a strategy on paper, but it’s not evident to us. What is evident is the various directorates with their own key focus areas— **but that’s not a combined strategy.**”

-- *Executive Director
of city Chamber of Commerce,
South Africa*

“In the Metro growth strategy there are two and a half pages of priority projects. **We need 2-3 focused areas, rather than a wish list.**”

-- *LED professional,
South Africa*

“We thought we had a problem with our industrial development strategy, and instead **we realized the biggest issues were with our management system.**”

--*Minister of Planning,
Central American city*

➤ And how to get it done?

It turned out to be critical for cities to:

- Align budget around strategic outcomes;
- Increase accountability and build staff capacity.



> So: what does this mean for us?

- Looking strategically at markets
→ (*strategic interventions*)
 - Think about the 'audience' of policies and interventions to promote competitiveness--firms' needs;
 - Create a shared analysis and plan to engage with problems and opportunities.

- Dialogue and joint action amongst market participants
→ (*a growth coalition*)
 - Structured dialog, informed by good quality supply-side and demand-side analysis

- Planning and implementation
→ (*not just markets!* 😊)
 - Assess and engage political economy;
 - Adapt plans to capabilities (time, money, capacity);
 - Generate personal accountabilities with rigorous monitoring;
 - Make mid-course corrections.

> Further information

www.worldbank.org/competitivecities

Please contact:

Austin Kilroy

akilroy@worldbank.org



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- **Shifting from sectors and chains to spaces and networks**
 - **What must M4P practitioners know?**

Dr. Shawn Cunningham
Mesopartner



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> Cities are amazing places

Energetic

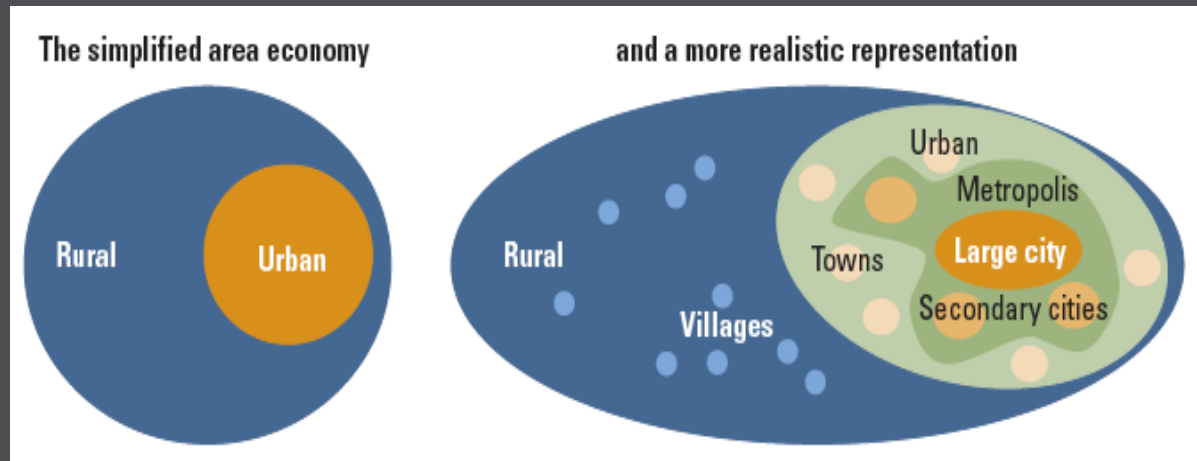
Dynamic

Social

Melting pots of innovation, exchange and social change

Tacit knowledge is "sticky", it likes local!

> Value chains connect different places, but not evenly



- Rural with urban
- Urban with urban
- Region with region
- Local with international
- Linked within: Urban environments are networked economically, spatially and socially, connects individuals with places and industries

> Cities often have incomplete value chains

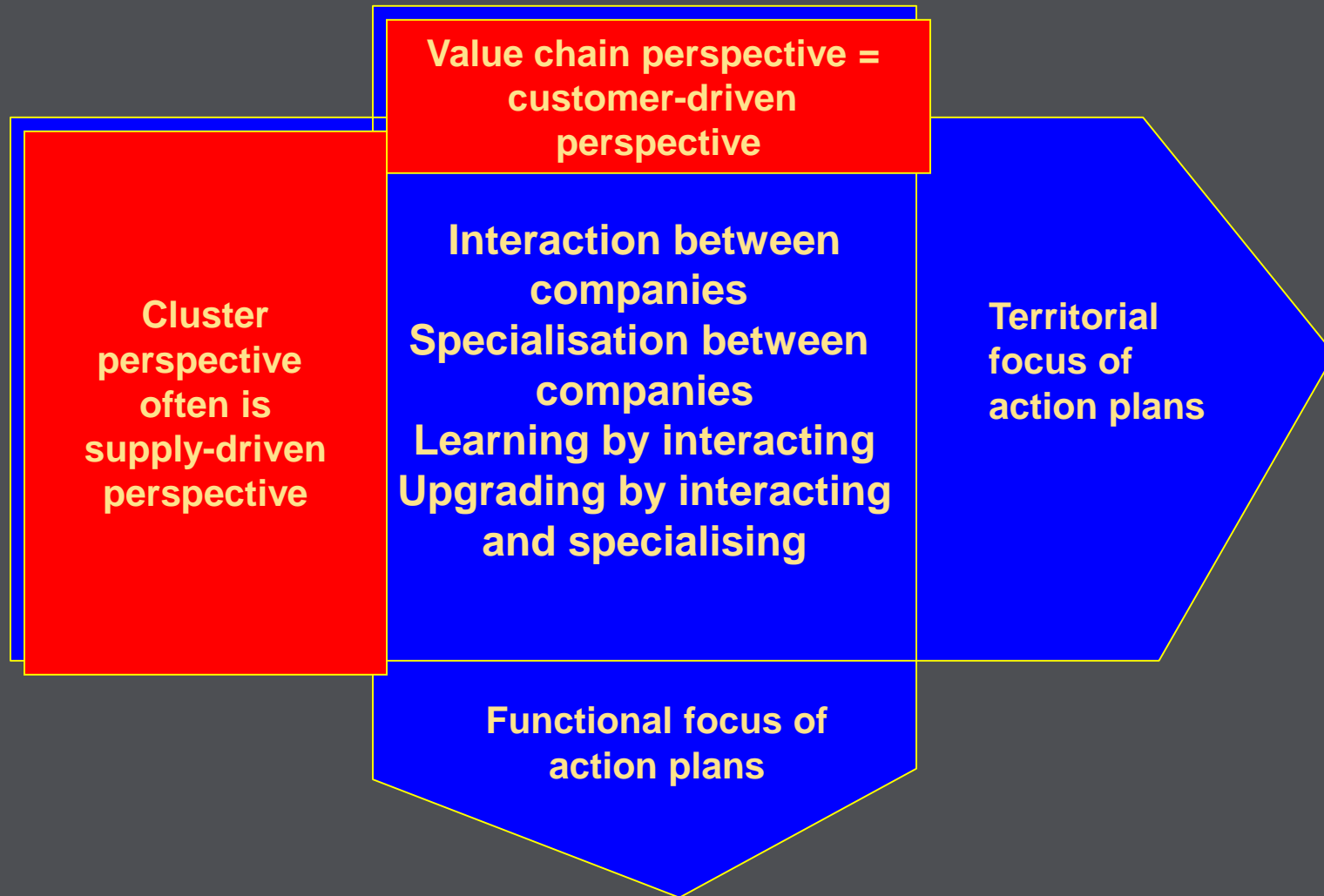
- A few links of a chain – incomplete chains
- Parts of many chains – diverse links
- Institutions spread thin – generic or sometime overly specific institutions
- **Clusters** typically emerge in regions, and can form part of multiple value chains.
- To succeed, the right institutions must emerge to create positive externalities

> History, entrepreneurs, places interact in surprising ways

I always ask business people:

- What is the effect of your location on your business?
- What is the effect of your business on the location?
- Why is your business in this location and not somewhere else?

> The Cluster and the Value Chain perspective



> Strengthening locational advantage

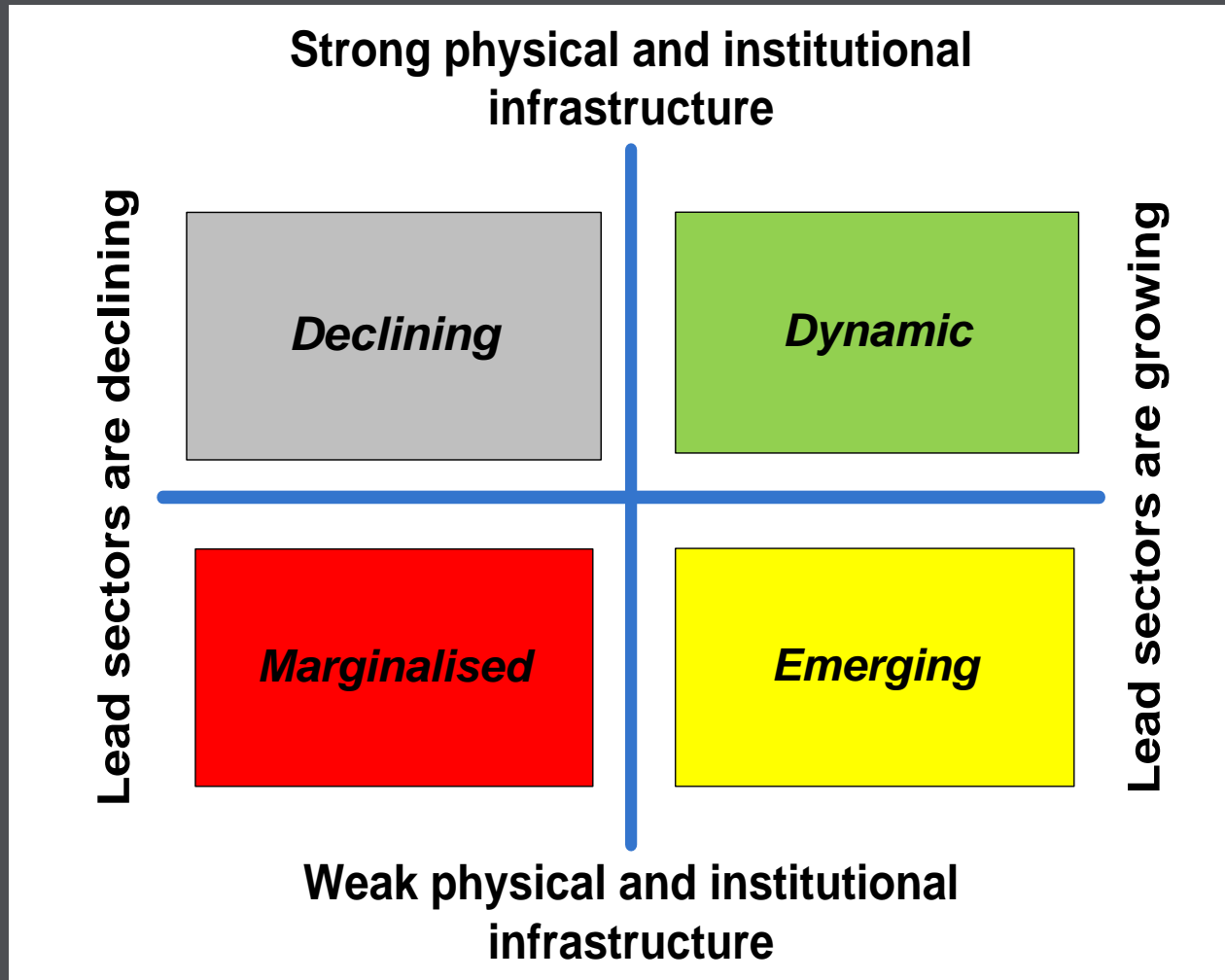
Tangible locational factors



**Intangible factors relevant
for individuals**

**Intangible factors relevant
for enterprises**

> 4 Typologies of places and sectors



➤ M4P programmes can help regional development practitioners to:

Strengthen the "right" institutions

Strengthen the "right" infrastructure

Strengthen the ongoing process of discovery and dialogue

Strengthen locational factors that matters for enterprises and individuals

➤ The polarity between sectors and locational approaches that must be managed

+ Sectoral Approach to PSD	+ Location based approach
- Sectoral Approach to PSD	- Location based approach

Be aware of....

Your Strengths

- A market perspective
- Think systemically about the relationship between industries, supporting institutions, various markets
- Process facilitation approach
- Ability to move between different stakeholders

But remember:

- See enterprises/industries/markets in the context of the regions
- Tension between “integrated planning” & “market orientation” & “community development” – help locals leverage synergies not settle on compromises

> Conclusion

M4P programs can help cities:

- Develop appropriate institutions
- Create positive externalities
- Strengthen locational advantage
- Better understand market trends and requirements
- Address issues like environment, social issues, etc. around value chains/sectors

But M4P programs must remember:

- Cities must be **diverse** to be healthy
- Interconnectedness and interdependence between people and places

> Further information

Please contact:

Dr. Shawn Cunningham
sc@mesopartner.com

www.mesopartner.com



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- When you start with a sectoral approach, at some point you end up in regions. When you start a regional approach, at some point you end up with sectors.
- Create the synergy, tap into the energy



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Helping to think through your decisions

	Competitiveness factors	Sectors		Sizeband		Ownership	
		Manuf. (e.g.)	ICT (e.g.)	SMEs (e.g.)	MNCs (e.g.)	Foreign owned	Local business
Institutions and Regulations	Taxes, licenses, duties Legal system Market regulations Local government						
Infrastructure and Land	Physical infrastructure Social infrastructure Housing						
Skills and Innovation	Human capital Education and research Networks						
Enterprise Support and Finance	Financial maturity Cost of credit						
Agglomeration	Industrial mix/clustering Local supply chains						
Other endowments	Location, history, amenities City image and other intangibles						

All six cities we studied displayed success amidst adversity

1. **Bucaramanga** (Colombia) is **hundreds of kilometers** from the country's capital city and major industrial centers, yet has become a center of research and innovation;
2. **Gaziantep** (Turkey) is landlocked and in one of the **poorer parts of the country**, yet has achieved phenomenal export growth, GDP per capita that is 70% higher than the national average, and produces 57 percent of all machine-made carpets globally;
3. **Coimbatore** (India) is **landlocked** and in a country with plenty of competitor cities of a similar size, yet has achieved income levels double the national average, and has become a center for precision manufacturing, mechanical engineering and textiles;
4. **Tangier** (Morocco) has leveraged its port to **build up its industrial base** in logistics and transportation, mechanical engineering, chemicals, textiles, metals, and automotive manufacturing;
5. **Kigali** (Rwanda) has emerged from **civil war** to an impressive economic rebirth;
6. **Changsha** (China) has engineered a successful proactive industrial strategy in a **provincial** capital.



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What: Institutions and Regulations

What are the initiatives?

Kigali



- Kigali Investors' Forum, a private sector forum, to collaborate with the government to identify specific reforms needed
- Established a One-Stop Shop in 2010 to reduce red tape

Coimbatore



- Private sector driven development of economic zones: developers formed a pipeline of clients during construction, and thus customized facilities and services to their specific needs

Contribution to city's success

- Business climate reform targeted at the most impactful constraints
- Investors now handle all approval needs in one place
- No risk of white elephant – catalytic public funding, gradual scale-up, “demand-driven” investment

What: Infrastructure

What are the initiatives?

Tangier



- Leveraged national investment in a new port to attract foreign investors in automobile manufacturing – by upgrading northern Morocco’s road and rail connectivity

Bucaramanga



- City Chamber of Commerce identified connectivity as a constraint in a 2004 study with key priorities – and utilized it as a lobbying document to the national government

Contribution to city’s success

- The upgraded import-export connectivity lowered production costs and enticed big investors to the city, with job creation and technology transfer
- The fact based request, with links to specific industrial development, has been adopted and connectivity has improved for businesses

What: Skills and Innovation

What are the initiatives?



- Coimbatore's higher educational institutions are "run" by the city's firms
- Local engineering students spend part of each school day on the shop floor



- Competition between vocational schools: funding based on enrollment and employment rates
- Tax credits to firms for sending participants to worker training programs.

Contribution to city's success

- Private sector's involvement in curricula and internships produced a workforce with practical skills
- Changsha ensured an effective training by creating incentives for quality and employability, and lowering barriers to skills development

What: Enterprise Support and Finance

What are the initiatives?



- Joint political lobbying by city and Chamber of Commerce with national government on country funded enterprise support initiatives
- Continuous assistance to firms in selecting and applying for funds

- Active investment promotion through extensive, systematic analysis—not only to find and recruit investors, but also provide targeted investors aftercare
- Investment promotion not in the hands of the public sector – but done jointly with lead firms



Contribution to city's success

- Increased national support to city's firms (more targeted applications, better acceptance rates)
- Coimbatore recognized as a viable alternative to Bangalore and Chennai, with clear assets in a highly educated, English speaking workforce with engineering skills and practical training