

The Role of Competitive Cities as a Response to Regional Challenges in Latin America

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Abstract

In the article, a phenomenon of urbanization of Latin America was analysed in terms of its impact on the level of competitiveness of the cities. A role that cities play in Latin America's economy was emphasized. The author has examined a number of reliable reports on competitiveness of the cities and on this basis formulated its assessment of the level of competitiveness on a global basis, including identifying strengths and weaknesses of the cities, key areas for strong economic development and proposes recommendations. Based on the analysis of available data and source reports, the main trends in urbanization have been identified that may affect the dynamics of the Latin American city's competitiveness.

Keywords: competitiveness, urbanization, economic development, Latin America

JEL Codes: O54, R11, R58

Introduction

Latin America is the most urbanized developing region in the world. Since 1950, Latin America urbanized at an exceptional rate, raising its urban population as per cent of total from 50 per cent to 82 per cent now. This figure is expected to grow to 86 per cent by 2050. Brazil and the southern cone may reach that level by 2020. In 2015, as much as 13% of world's urban population lived in Latin America. São Paulo, Mexico City, Lima or Bogota are examples of the largest cities in the world, with an ever increasing number of inhabitants. Over the past two decades, the region's urban population and economic growth has been increasingly taking place also in intermediate-sized cities, which are expanding exponentially.

The growing level of urbanization transfers into greater competitiveness opportunities, but also creates new difficulties. To sustain their growth, the region's cities need to address challenges not only to their economic performance but also to the quality of life of their citizens, sustainable resource use, and the strength of their finances and governance. In the article, a phenomenon of urbanization of Latin America will be analysed in terms of its impact on the level of competitiveness of the cities. A role that cities play in Latin America's economy will be emphasized. The special focus will be put on the Emerging and Sustainable Cities Program (ESC), non-reimbursable technical assistance program providing direct support to national and subnational governments in the development and execution of city Action Plans, enhanced by the Inter-American Development Bank (IDB). Some guidance on the future development of cities will be revealed.

The terms "competitive cities" and "city competitiveness" have become commonly used by researchers, journalists, political leaders, economic development practitioners, and others. The definitions vary, but some common issues can be found. According to McKinsey Global Institute [MGI, 2013] city competitiveness can be defined as the set of factors – policies, institutions, strategies and processes – that determines the level of sustainable productivity of a city, where sustainability encompasses economic, environmental and social issues. For the purposes of this article "a competitive city" is understood as one that successfully facilitates its business and industries to create jobs, raise productivity, and increase the incomes of citizens over time. Competitiveness can be achieved by investing in institutions and infrastructure, training citizens and promoting innovation, with adequate financing and private sector support. Worldwide, improving the competitiveness of cities is a pathway to eliminating extreme poverty and to promoting shared prosperity. Competitive cities are hubs for growth and innovation. Thus, competitive cities are drivers of economic development [World Bank, 2006, OECD, 2006, 2014].

Literature review

In reviewing literature published by the World Economic Forum, OECD, McKinsey Global Institute, Brookings, the World Bank, and other, several patterns can be noted. Most literature considers four major categories of policy levers as being integral to city competitiveness [Brookings Institution Metropolitan Policy Program 2007, 2011, 2012, 2013; Centre for Cities

2013, 2014a, 2014b, 2015; Cities Alliance 2006; McKinsey Global Institute 2012, 2013; OECD 2006, 2013, 2014; WEF 2014; World Bank 2006]:

- Institutions and regulations – the importance of a taxation and regulatory system, a transparent and efficient public administration, and the use of special measures to address environmental degradation, social cohesion, and traffic management.

- Infrastructure and land – at lower income levels, institutions, regulations, and basic infrastructure tend to be crucial drivers of competitiveness, while at higher income levels, human capital, advanced infrastructure, and innovation systems become crucial for sustained economic growth and job creation;

- Enterprise support and finance – regular dialogue with businesses, means to attract investors, public-private partnerships, training and mentorship networks for small and medium enterprises (SMEs), and seed capital.

- Skills and innovation – strong educational institutions, the alignment of training/educational curricula with the needs of local business and industry, and arts and culture to attract international talents and investment.

However, it seems to be difficult to achieve consensus on how to compose, use and evaluate those policies and investments, how to balance scarce resources, how to regulate the processes for making decisions, the choice of partners/main actors, the techniques/policies for implementation etc. Some reports (OECD, World Bank, Cities Alliance, Brookings) tend to emphasize a collaborative approach between various actors in a city and with government. Other reports (WEF, McKinsey Global Institute) stress the need for city leaders to envision and push a development agenda from the front. In some approaches [OECD, Cities Alliance, World Bank] economic development as a long-term strategic effort, requiring reliable financing, timelines for implementation, ownership of the process from stakeholders, and a collaborative approach is underlined.

In 2015 the World Bank published a study encompassing 750 cities around the world investigated in the period 2005-2012 [Kilroy, Mukim, Negri, 2015]. The authors analyse the conditions necessary for making a city competitive. The conclusion arrives that there is no single recipe for becoming a competitive city, but still some common patterns can be identified and some suggestions can be formulated. According to the World Bank [2006, 2015], McKinsey Global Institute [2012, 2013], OECD [2014], competitive cities require:

- economic development set as a priority by city governments;

- successful cooperation of public and private entities willing to resolve city's problems;

- successful cooperation with cities or tiers of government to resolve problems exceeding the possibilities of solving a single city.

In each case, the focus on economic structure, policy levers and growth coalitions is crucial [Dijkstra, Poelman 2014; Kilroy, Mukim, Negri, 2015].

Sustained long-term economic success in most case-study cities has been observed: the growth of existing firms, the attraction of outside investors, and the creation of new businesses. Successful cities do not just rely on attracting outside investment to spur economic growth. They balance business recruitment with assisting the growth of existing firms – which typically account for the largest share of new jobs in most economies – as well as with helping the formation of new businesses. Competitive cities focused these policy levers on economywide interventions as well as on specific industrial sectors.

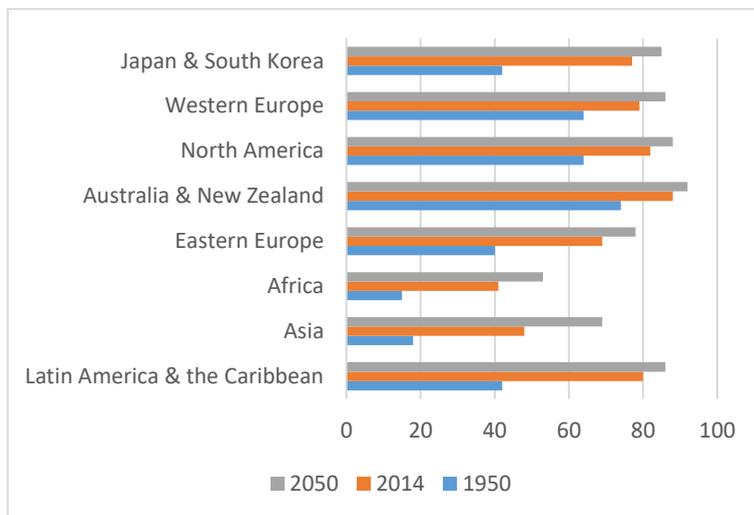
Cities at all levels of income and with different industrial structures and political regimes have found ways to increase jobs, raise incomes, and strengthen productivity, thus benefiting their citizens. Their path depends on their starting point, size, endowments, economic vocation, economic structure, and administrative remit. Cities can improve their performance by using a custom process for designing and implementing a strategy and by using tools that are already available. These tools include strategic analysis of the local economy and external market trends and opportunities, public-private dialogue, and techniques for harnessing the political economy during implementation. The competitive cities among 750 examined by World Bank explicitly or implicitly used some of these tools to make informed decisions according to their specific needs [Kilroy, Mukim, Negri 2015]. It can also be argued that advances in globalisation, information and technology revolution, and farreaching structural change is altering the terms of competition between cities [Krugman 1996; Jensen-Butler 1997; Begg 1999; World bank, 2006; Storper, 2013; Roberts, Blankespoor, Deuskar, Stewart, 2017].

2. Latin America’s urbanization trends

Latin America is most urbanized developing region, with over 80 percent of its population living in cities¹, which is far ahead from the world’s average of 66%. Urbanization in most countries of the region began to increase in the second half of the 20th century. Urbanization in Latin America began earlier than in other regions and managed to develop at a considerable faster rate. Since 1950 Latin America experienced 93% growth of urbanization rate which did not happen in any other region on this scale. The countries whose urbanization levels have grown most are Colombia and Brazil, with an average annual growth of nearly 1.3% between 1950 and 2015.

The ongoing shift from country to town has contributed much to Latin America’s growth, primarily due to economies of scale raising the productivity of expanding cities and reducing the cost of delivering their basic services. As several reports indicate, cities are crucial to Latin America’s overall economy. About 260 million people live in the region’s 198 large cities – defined as having populations of 200,000 or more. Large cities together generate more than 60 percent of region’s GDP (which is more than 1.5 times the contribution expected from large cities in Western Europe). The 10 largest Latin American cities alone contribute to half of that output. Such a concentration of urban economic activity in the largest cities makes Latin America comparable to the United States and Western Europe in this respect but not to many other emerging regions.²

Fig. 1. Share of urban population by regions, as % of total population (1950, 2015, and 2050)



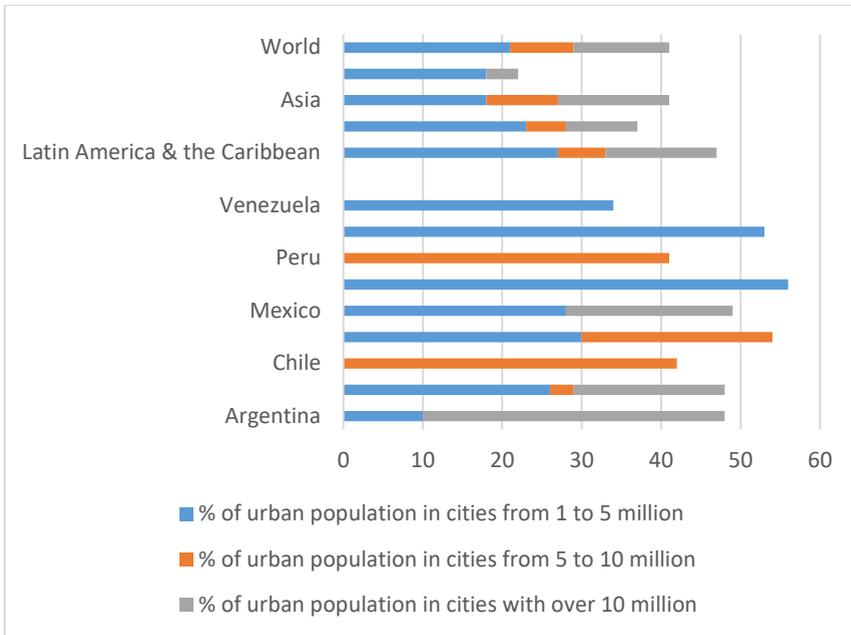
Source: Based on the data of BBVA Research [2017].

The Latin American cities are steadily expanding. This trend creates complexity of problems with urban planning, sustainable development and effective city management. Inequality, violence and organised crime are the main problems in urban areas [Glaeser, Joshi-Ghani, 2014; Ferreyra, Roberts, 2018]. Insecurity is the prime concern for most people in Latin America, ahead of jobs. The poor are the first to suffer from the widespread violence, and their improvised homes are the most exposed to extreme weather events and natural disasters. Latin American cities are the most unequal and often most dangerous places in the world, with social divisions generating strong geographical segregation between its residential districts and favelas hardwired into the urban mozaïque [Parangua 2012].

¹ In comparison, the EU is 74% urbanized, while China and the whole East Asia and Pacific 50% [BBVA Research, 2017].

² China’s top ten cities, for instance, contribute around 20 percent of the nation’s GDP [WEF, 2014].

Fig. 2. Share of urban population in big cities (as % of total urban population, 2015)



Source: Based on the data of BBVA Research [2017].

Fig. 2. Number of big cities in Latin America (2014)¹



Source: Based on the data of BBVA Research [2017].

Despite efforts in the past 20 years to redistribute resources and evident success of social programmes, 122 million city residents in Latin America still live in poverty, mostly in shanty towns and contributing to informal economy [Gocłowska-Bolek, 2015]. Improving such dwellings and their surroundings has contributed to their stability, all the more necessary given the housing shortage. But the challenge is not to move the slum population to the outskirts of cities, because it would

¹ The number of cities with population of at least 1 million is equal to 105 in China, 58 in India, 13 in the Russian Federation, 11 in Indonesia, 8 in Turkey, 6 in South Africa and 1 in Poland.

take them away from their work and modern amenities, but try to include them effectively into the city fiber [BBVA Research, 2017].

3. The key role of cities in Latin America

According to McKinsey Global Institute estimation, Latin America's 198 large cities are expected to generate 65 percent of the region's growth over the next 15 years [Kilroy, Mukim, Negri, 2015], which is equivalent to about 6 percent of expected global GDP growth, as well as more than 1.5 times the contribution expected from Western Europe's large cities and similar to the level anticipated from India's.

Latin America's top ten cities are considered most critical for the economy due to its size and contribution to countries' GDP [Gollin, Jedwab, Vollrath, 2016; Kilroy, Mukim, Negri, 2015]. However, in many of them the rate of economic growth has declined since the era of rapid urbanization. Since 1970., growth rates in Brazil's São Paulo and Rio de Janeiro have dropped from above the national average to below it. Mexico City's metropolitan region, for instance, has posted a slower pace of growth than the average of Mexico's 45 middleweight cities. Other leading cities in the region have also recently grown more slowly than the "middleweight" cities, which we define as those with populations of 200,000 to 10 million.

Tab.1. Latin America's biggest cities (2015).

Rank	City	Country	Population	City's GDP per capita
1.	Mexico City	Mexico	22,976,700	16,239
2.	Sao Paulo	Brazil	20,847,500	25,651
3.	Buenos Aires	Argentina	15,481,800	35,906
4.	Rio de Janeiro	Brazil	12,460,200	23,176
5.	Lima	Peru	10,674,116	15,531
6.	Bogota	Colombia	9,135,800	21,497
7.	Santiago	Chile	7,164,400	28,929
8.	Belo Horizonte	Brazil	5,595,800	20,134
9.	Guadalajara	Mexico	4,687,700	14,206
10.	Caracas	Venezuela	3,260,200	15,891

Source: World Atlas [2017].

Many of the region's top ten have started to run up against capacity constraints as urban management struggles to keep pace with the demands of expanding metropolitan regions that have swallowed up smaller towns that neighbor them but are outside their jurisdiction. Planning and policy have often been uncoordinated and funding hasn't been sufficient to meet growing needs. Many cities have outgrown the capacity of their infrastructure, the design of their transportation systems, and their ability to deliver adequate public services, making it difficult to get things done efficiently and effectively.

As a result, cities are not generating enough high-productivity jobs to employ an expanding labor force and have thus raised informal economic activity to damagingly high levels. Unless the very largest cities significantly increase their productivity and the number of jobs they generate in the formal economy, as well as boost the efficiency of their operations and management, MGI expects their growth rates to remain below the average for the region's large cities [Kilroy, Mukim, Negri, 2015]. That could drag down Latin America's overall rate of growth.

4. Latin American cities in global rankings of competitiveness

There are several global rankings that compare cities in the world, taking into account different categories, one of which is competitiveness, and the methodology constantly raises some discussions. Most often, the largest cities in the world are compared, among them also Latin American cities find their place, although not in the leading positions.

In the A.T. Kearney Global Cities Report [2018], the most competitive cities are: New York, London, Paris, Tokyo and Hong Kong. The authors of the report tend to consider 27 aspects grouped into five major areas: business, human capital, information exchange, cultural experience and political participation.

The study, published annually for a decade, collects information from 135 cities to assess their competitiveness, influence and potential. In Latin America, the research included the study of the following cities: Belo Horizonte, Bogota, Buenos

Aires, Caracas, Guadalajara, Lima, Mexico City, Monterrey, Porto Alegre, Puebla, Recife, Rio de Janeiro, Salvador, Santiago, São Paulo [A.T. Kearney Global Cities Report, 2018].

Tab. 2. Latin America most competitive cities (2017)

Rank	City	Country	Position in the global ranking
1.	Buenos Aires	Argentina	25
2.	São Paulo	Brazil	31
3.	Mexico City	Mexico	38
4.	Bogota	Colombia	55
5.	Rio de Janeiro	Brazil	56

Source: A.T. Kearney Global City Report [2018].

In other key study, conducted by the Economic Intelligence Unit of the British weekly "The Economist" and commissioned by the multinational bank Citigroup, Buenos Aires again is outstanding as the most competitive city in Latin America in terms of its capacity to attract investments, businesses, talented professionals and even tourists. The study considered 120 large cities around the world and Buenos Aires ranked 60th in the general ranking, right in the middle of the list. Although the score was far from the most competitive cities in the world, still it was at the top of the region, with better grades than São Paulo, Santiago de Chile, Mexico City, Rio de Janeiro, Panama, Lima, Bogota, Monterrey, Medellín, Guadalajara and Porto Alegre, which were the other Latin American cities studied. There were eight categories that were examined in each city for the study: economic power, physical capital, financial maturity, institutional effectiveness, social profile and culture, human capital, environment and natural hazards and global appeal.

The interesting thing in the case of Buenos Aires is that the best grades were obtained in the non-strictly economic categories. The Argentine capital's strongest areas are: global attractiveness (position 27th of the ranking), human capital (the 43rd) and social and cultural profile (the 57th) [Citibank/The Economist, 2018]. Today, Buenos Aires has a plan in place to build a *ciudad moderna* (modern city). This plan addresses top-of-mind concerns like economic growth, government transparency, quality of life, mobility and the environment. In fact, a 2014 survey by the Inter-American Development Bank shows that residents of Buenos Aires rate safety, inequality, transportation, transparency and health as their top concerns.

The general context, which is also followed by the example of Buenos Aires, shows Latin America lagging behind the regions that concentrate economic power and development. Thus, the cities of the United States and Europe (with New York and London ranked the highest) appear at the top of the ranking, despite the growing concern about their large national fiscal deficits, slow growth and aging population and infrastructure. Many Asian cities, such as Singapore and Tokyo, also appear with dominant positions, reflecting the economic growth of an entire continent.

In the *Hot Spots 2025: Benchmarking the future competitiveness of cities* [The Economist/Citigroup, 2018], another report prepared annually by Citigroup and The Economist, there are several Latin American cities listed, with São Paulo ranked the highest (36th) among the world's most competitive cities today which are likely to retain their advantage until 2025.

In Latin America, major Brazilian cities – São Paulo (36th), Rio de Janeiro (76th) and Porto Alegre (97th) – are expected to improve their competitiveness significantly by 2025. All three cities are among the top 15 risers in the overall index rankings. São Paulo (36th), the Index's most improved, is also the most competitive city among the BRICS countries, while there is no Chinese city among the top 25 most improved cities. This may reflect the progress that Chinese cities have already made on the one hand and the fact that many cities in Brazil still have a bit of catching up to do before they can match the competitiveness of their Chinese rivals, on the other [The Economist/Citigroup, 2018].

5. Intermediate-sized competitive cities in Latin America

Over the past two decades, the region's urban population and economic growth has been increasingly taking place also in, which are expanding exponentially. In 2015, as much as 13% of world's urban population lived in Latin America. The growing level of urbanization transfers into greater competitiveness opportunities, but also create new challenges. There are some Latin American cities listed below, recognized worldwide as competitive, growing and prosperous. To sustain their growth, the cities need to address challenges not only of their economic performance but also of the quality of life of their citizens, sustainable resource use, the strength of their finances and governance, as well as to overcome natural, security and economic threats due to its entrepreneurial culture, work ethics, and business and political leadership. Strong

economic capabilities have been built over decades through effective cooperation between public and private institutions and the results are encouraging, however much remains to be done in the field [UN, 2012; WEF, 2014; Kilroy, Mukim, Negri, 2015].

Among the cities that best develop their potential using their advantages in relation to their rivals, and which can serve as an example of the best-used assets, the following should be mentioned: Bucaramanga (Colombia), Medellin (Colombia), Guadalajara (Mexico), Monterrey (Mexico), Curitiba (Brazil), Santiago (Chile) or Buenos Aires (Argentina).

Main trends in competitiveness of Latin American cities

After a sharp growth, urbanization in Latin America exhibits signs of moderation. Over the next decades it will expand below the world average. Urbanization is positively correlated with income per capita, as well as with capital, labor and productivity (TFP) measures. However, in spite of displaying high urbanization rates, Latin American countries show relatively low levels of income, capital, labor and productivity [Storper, 2013; Roberts, Blankespoor, Deuskar, Stewart, 2017].

In spite of the positive trends observed on its development and growth [OECD, 2014; Center for Cities 2014b, 2015], urbanization continues to be concentrated in a very limited number of cities. Only Mexico and Brazil have more than a dozen cities with over a million inhabitants, while countries such as Uruguay and Paraguay don't have more than two cities with a population of more than one million residents. There is a certain relationship between urbanization and per capita income, along with the indicators of capital, employment and productivity. In spite of the high rates of urbanization, the countries of Latin America have relatively low levels of income, capital, employment and productivity. For that reason, the predictions of a much smaller expansion than was seen in recent decades, represent a challenge to growth in the region [Kilroy, Mukim, Negri, 2015]. The quality of the infrastructure is not at a high level in the countries of the region, with Chile, Mexico and Uruguay being the least affected in this aspect [OECD, 2014; Center for Cities, 2015].

Productivity rises inasmuch as urbanization grows. According to MGI Reports (2013) the countries with a higher degree of urbanization, such as Chile and Argentina (where it comes close to 90%) productivity is much higher than in nations in the developmental phase, such as Paraguay, where it barely reaches 60%. Still, productivity of Latin American cities lags that of Western European or North American ones. Closing this gap provides Latin America with the opportunity to raise living standards and join the ranks of the world's richest countries [Ferreira, Roberts, 2018].

Given the prominence of cities in Latin America's economy, fulfilling their economic potential is a key to sustaining growth in the region as a whole, according to new research by the McKinsey Global Institute [MGI, 2013]. Yet Latin America has already won a large share of the easy gains from expanding urban populations. Many of the largest cities are grappling with traffic gridlock, housing shortages, and pollution. To sustain growth, these cities must address challenges not only to their economic performance but also to their citizens' quality of life, to environmental sustainability, and to the strength of their finances and governance [Maloney, Valencia Caicedo, 2017; Roberts, Blankespoor, Deuskar, Stewart, 2017].

The relative youth of Latin America's population makes transforming the region's urban economies even more urgent. In marked contrast to Japan and Western Europe – as well as to some developing regions, including China and Eastern Europe – Latin America's working-age population is projected to expand steadily until it peaks, in the 2040s, at around 470 million potential workers. That will be 30 percent more than the region had in 2007 and a net increase of 85 million, equivalent to three-quarters of today's labor force in the United States or Western Europe [Kilroy, Mukim, Negri, 2015].

This expansion offers Latin America a significant demographic dividend if its economies can grow sufficiently to generate enough high-productivity jobs for a large, young workforce—much of it in urban settings. Employed productively in a dynamic, job-creating economy, young workers could create the wealth on which future investment and sustained growth depend. But a failure to create attractive opportunities in the formal sector would mean that informal or even illegal activity might become more likely for young people seeking to provide for themselves and their families.

By the second half of this century, Latin America's demographic profile will look more like Europe's, with the proportion of the population that's economically active not only shrinking but also having to provide for the growing proportion of older people. Unless Latin America's policy makers, businesses, and civil societies take steps to reform and develop their cities and create more productive jobs in the formal economy, the region runs the risk of growing old before it grows rich [Arsht 2014; Kilroy, Mukim, Negri 2015].

There are several programs providing assistance to the cities authorities introduced. One of the most important is the Emerging and Sustainable Cities Program (ESC) – the IDB's non-reimbursable technical assistance program providing direct support to national and subnational governments in the development and execution of city Action Plans. The ESC

employs a multidisciplinary approach to identify, organize and prioritize urban interventions to tackle the main roadblocks that prevent the sustainable growth of emerging cities in Latin America and the Caribbean. This transversal approach is based on three pillars: 1. environmental and climate change sustainability, 2. urban sustainability, and 3. fiscal sustainability and governance [www2].

Stage one of the ESC begins by executing a rapid diagnostic tool to identify the sustainability challenges of a city. Afterwards, topics (i.e. water, air quality, transparency, etc.) are prioritized through the use multiple filters – environmental, economic, public opinion and sector specialist expertise – to identify issues that pose the greatest challenges in a city's pathway towards sustainability. Finally, an Action Plan is formulated, containing prioritized interventions and a set of strategies for their execution across the short-, medium- and long-term [www2].

In stage two, the execution phase begins with the preparation of pre-investment studies for prioritized interventions and the implementation of a citizen monitoring system. There are already some results of the program announced (1. Master Plan: Public Space of the Historic Center of Cumaná – Venezuela, 2. Recuperación Integral del Centro Histórico de Santa Ana – El Salvador; 3. Managing Systems of Secondary Cities; 3. Quetzaltenango: Diagnosis of Competitiveness and Economic Development), another are ongoing [www3].

Conclusions

Latin America, as the global leader in urbanization, deserves special attention in how to capture the economic and social potential of the growth of cities to turn this phenomenon into competitiveness. Creative innovative policies that foster equitable economic growth, sound urban governance, long-term housing and public space management, efficient urban services are needed.

As several studies already referred to indicate, improving the competitiveness of cities is an important factor to eradicate poverty and increase shared prosperity. Latin America's political and business leaders must act decisively on two fronts to improve the performance of the region's cities and turn its demographic profile to advantage: reforming and upgrading the largest cities, on the one hand, and helping a broader group of high-performing middleweight ones to emerge, on the other. While national policies – including regulation – significantly influence how cities are run, local policy choices are also very important to their economic performance. To underpin a stable environment conducive to strong economic development, city policy makers should consider prioritizing following issues [Storper 2013; Kilroy, Mukim, Negri, 2015; www4]:

Economic performance (transparent land ownership and zoning regulation; reliable urban infrastructure, intercity transportation networks);

Social conditions (public safety; accessible housing; efficient public transportation; high-quality education; public-private partnerships to improve access to public services);

Sustainable resource use (improve energy productivity; building regulations; green standards for urban demand; improve urban distribution; make waste management profitable);

Sound urban governance (long-term planning and coordination; sustainable, responsible fiscal management).

In the same time, urbanization in Latin America is to expand less than the world's average in the future, which represents a big challenge in terms of growth in the future. Urbanization levels vary significantly within each country in the region. Several studies indicate that countries with higher urbanization levels exhibit greater levels of capital and better infrastructure. Urbanization is positively correlated with income per capita, as well as with capital, labor and productivity (TFP) measures. Anyhow, in spite of displaying high urbanization rates, all Latin America countries underperform, especially in the category of human capital levels. Productivity is larger in more urban countries, but comparatively small in Latin America [BBVA Research, 2017; www4].

Reassessing the role of cities in overall development of Latin America, these trends have to be recognised and addressed to properly. Prospects of slighter expansion of urbanization ahead represent a challenge in terms of growth for the region and requires more effective approach to governance, management, and cooperation issues to assure higher competitiveness of the cities [BBVA Research 2017; WEF 2014].

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