OPINION 4

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Agglomeration Externalities and Fast Growing Cities of the South

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CHANCE 2 SUSTAIN

The awarding of the 2008 Nobel Memorial Prize in Economic Sciences to Paul Krugman, the doyen of the so-called New Economic Geographers, heralded the revival of spatially oriented analytical tools that had for some time lain dormant in the economic policy mainstream. The subsequent publication of the 2009 World Development Report titled, *Reshaping Economic Geography* (World Bank, 2009), witnessed a variety of analytical and policy tools being proposed to help explore and inform dynamics around regional economic concentrations as well as the absence of such concentrations around the world. The Report stated, with a level of confidence that is characteristic of the Bretton Woods Institutions, that, "Rising concentrations of economic production are compatible with geographic convergence in living standards and the market forces of agglomeration, migration, and specialization can, if combined with progressive policies, yield both a concentration of economic production and a convergence of living standards." (World Bank, 2009: 2)

The concept of agglomeration is often central to the discourse of economic geographers, and increasingly to other observers of the dynamics of regional and locality interactions. It is also used far more widely and loosely in popular discourses to describe urban spaces as in "urban agglomerations". However, this discussion is more interested in the specific application of the term in light of its implications for thinking about the interaction between economic processes and urban spaces. The term was first associated with thinking on economic development by Alfred Marshall who described, in light of the experience of the industrial revolution in the United Kingdom, the tendency for firms to locate in proximity to one another in growing industrial cities. He suggested that there were increasing returns to firms and society – or external economies of scale – in the growing concentration of activity in space: "When an industry has thus chosen a locality for itself, it is likely to stay there long: so great are the advantages which people following the same skilled trade get from neighbourhood to one another. The mysteries of the trade become no mysteries; but are as it were in the air, and children learn many of them unconsciously ... Employers are apt to resort to any place where they are likely to find a good choice of workers with the special skill which they require ... The advantages of variety of employment are combined with those of localized industries in some of our manufacturing towns, and this is a chief cause of their continued economic growth. (1920, 271)." (Marshall quoted in Rosenthal & Strange, 2004: 11)

Strange (2008) defines urban agglomeration related to this usage as, "the spatial concentration of economic activity in cities. It can also take the form of concentration in industry clusters or in employment centres within a city. One reason that agglomeration takes place is that there exist external increasing returns, also known as agglomeration economies. Evidence indicates that there exist both urbanization economies, associated with city size, and localization economies, associated with the clustering of industry. Both effects [reflect] geographically. Theoretical research has identified many sources of agglomeration economies, including labour market pooling, input sharing, and knowledge spillovers. Empirical research has offered evidence consistent with each of these." (Strange, 2008[1])

A variety of perspectives have been provided as to what the concept and its associated ideas might mean for urban policy. In the first instance, it is often used, as it is in the 2009 World Development Report, to make a case for policy makers

1 Accessed from < http://www.dictionaryofeconomics.com/article?id=pde2008_U000064 > doi:10.1057/9780230226203.1769 on 25 August 2010

to recognize the scope of urban areas to lead national economic development as opposed to the lower potential of the rural context. It is also used to explain the ongoing appeal to entrepreneurs and businesses of an urban location, and often a specific urban location where they are able to best harvest positive externalities. This thinking has often been taken a step further with it being argued that geographic clusters of enterprises in related industries, forming part of an agglomeration of firms, can develop forms of coordination and collaboration to compete more effectively in global markets (argued for instance by Porter, 2000 & 2003, and Schmitz, 1995, for small firm clusters).

However, core to the deployment of the idea of agglomerations is also the recognition that such concentrations, and in particular those with scope to support a deepening and broadening of economic processes, are by no means evenly distributed across space. Sassen (2000) has made the case that core agglomerations in "world cities" show a tendency to concentrate strategic and higher value processes, often in corporate headquarters, giving them primacy whilst other cities, even with agglomerations of similar activities, can be left with more limited formations lower down in the strategic hierarchy. Scholars such as Castells (1996) have noted how such processes are not necessarily the product of natural laws but rather constructed in networks of power relations that explicitly seek to capture benefits in specific locations. Harvey (1989) has suggested that these dynamics perpetuate the inequalities of capitalism and carry with them resultant processes rendering much of the world at the mercy of exploitative practices, often reinforced by actors, in regions of the world most in need of enhanced economic prospects.

Other observers have cautioned against the tendency to consider agglomeration in isolation of other societal processes, not just because of their inherent asymmetry whereby the spillovers are harnessed unevenly in society, but also critically because positive externalities, or external increasing returns for capital investment, can often be accompanied by negative externalities that society as a whole has to bear (Rigg et al, 2009). The potential for the dumping of negative externality type problems such as congestion is one that many fast growing developing country cities around the world are all too familiar with: each individual actor might not cause a major problem, but often these aggregate across a collective of firms and do cause problems that are notoriously difficult for the public sector and civil society to respond to. Often weaker public sector bodies are left clutching self-regulation type solutions that fall short of providing meaningful limits on the more destructive consequences of firms that often, contrary to classical economic theory, collaborate not just to compete better but also to side-step negative effects of their collective endeavour. Brenner (2004) has also pointed how firms often work to craft, in alliance with other elites, particular forms of governance in spaces that are likely to serve their interests.

Deliberate strategies to harness agglomeration economies can also be observed in cities traditionally seen to be part of the developing world, aimed not only at redeveloping historically dominant urban centres, but also creating new growth nodes. Even at the neighbourhood scale, whether in the more formal or less formal dimensions of the economy, processes of agglomeration can be noted in areas where certain types of trade or informal production cluster. In Durban, South Africa, a new international airport is constructed by the provincial government and airport parastatal with the express agenda of cultivating agglomerations not yet part of the city's economic landscape (Robbins et al, 2011). In Chennai, India, information technology-related businesses congregate together with various tertiary training providers and take advantage of rapidly increasing public investment in critical infrastructure, alongside property speculators, enhancing agglomeration effects with their mix of office blocks and residential towers on the city fringe. In Mumbai, the construction of Navi Mumbai was a deliberate attempt to provide companies with better infrastructural surroundings, accompanied by high-spec housing developments for their staff.[2] In these cases developers tend to trumpet the benefits of a fresh start, avoiding the negative externalities of that are viewed as a consequence of past city development choices.[3]

Although agglomeration processes have always been part and parcel of urban development, there is clearly a trend in policy circles in favour of enhancing or engineering them. Policy-makers situated at various levels of government, working in conjunction with other actors, are seeking to position cities as highly entrepreneurial spaces with strong global orientations. Under such circumstances the strong likelihood exists that even more aggressive moves will be made to enhance agglomerations or capture new ones. In the rush to harness these opportunities, risks are likely to be taken which will see not just the imbalanced distribution of negative externalities to the detriment of marginalized urban residents and the environment, but also ongoing pressures to subvert city agendas in a distorted manner so as to capture critical public resources and also capture assets such as land for the benefit of corporate growth seeking agendas. The absence of deliberative city development processes involving a full spectrum of actors and a disproportionate orientation of dominant systems of knowledge towards agglomeration seeking projects, without a coherent social (and for that matter environmental) agenda, presents considerable risks to longer-term sustainable urban development.

Within this context challenges for effective city governance are substantial, and often aggravated by the competing

2 Thanks to Aurélie Varrel and Isa Baud for these suggestions from India.

3 It is ironic that often these very same actors were influential in past city development paths, the consequences of which they are now eager to try and sidestep.

interests of different layers of state actors in an already crowded urban space. Civil society formations are also likely to struggle to be heard in such a context. However, the very same forces that work for firms in urban environments, and thus make them popular to governments seeking to support their transformative potential, are also of relevance to other actors in urban space. Insights from colleagues working in some Brazilian cities as well as those working in dense informal settlements across the Chance2Sustain project cities point to processes whereby skill and knowledge spillovers – between a range of actors – can potentially contribute to processes with a greater scope for resilience and social justice[4]. Processes that enhance the accountability of those in political power and create foundations for inter-actor learning are highly relevant in supporting complex systems of agglomeration. These involve harnessing capabilities beyond the traditional confines of elites as well as actively working to address negative externalities, often borne disproportionately by the urban poor, and improve distributional patterns from the gains.

4 Drawn from conversations with Chance to Sustain team members Adrian Gurza Lavalle , David Jordhus-Lier, Dianne Scott and Einar Braathen.

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