

World Cities, Nation-States and Global Competition

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Abstract

Global economy can be defined as a system where strategically dominant activities work as a single unit in real time, on a planetary level, while contextual factors which are not considered as functional are excluded because of their structural irrelevance. This brings about a continually evolving dynamic scene; a sort of society in which the material basis of all processes consists of flows (financial, technological, image creation and information flows), where power and wealth are organized in global networks that transport flows. These flows are asymmetric and express the power relationships among different actors in a global scenario. In this situation, we have seen the role crisis of Nation-States, which are structurally weak for two reasons: their areas of authority are insufficient to control global flows; the plurality of local identities tends to delegitimize the national representation. In opposition to the Nation-States crisis we can see the growing importance of the strategic role of networks in global cities.

Keywords: World Cities; Nation-States; Global Competition; Global Companies; Market-Driven Management

1. Flow Economy, Global Corporation and Nation-States

'Globalisation has generated new social and economic complexities that induce nation-states – under conditions of increasingly open and more permeable communication – to compare their different growth potentials and thus to adopt different policies based on their specific cultural, socio-economic, educational, and welfare aspects'.¹

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By contrast, successful global companies are operating with a sort of competitive market-driven management philosophy where there is a predominance of the competitive customer value management, which means selling to variable groups of customers, as well as continuously straightly confronting with competitors.

The market-driven management of these enterprises is characterized by:

- Market driven activities (first with straight reference to competitors, and then to the demand), not simply focused on demand-segmented customer satisfaction;
- Market policies based on continuous innovation to meet the changing unsteady demand;
- New valuation metrics of competitive key factors (especially the intangible ones) that give rise to the company performance.ⁱⁱ

'Market-driven corporate management is therefore defined by: a cultural dimension, with behavior standards and value (corporate responsibility) that are consistent with the complexity and transparency of global markets; an analytical dimension based on continuous monitoring of the competition system based on modern corporate economics in a state of instability; and, finally, action, where time is the vital factor (time-based competition), in a logic of corporate management oriented to the changeable relationship between demand and supply'.ⁱⁱⁱ

In order to support these dimensions in management, market-driven global companies have been able to go simultaneously through the ways of globalization and, in particular:

- Dimension: they are international and go beyond the boundaries of nation-states;
- Time horizon: they follow long-term strategies and use methods which cannot be compared to those of the political, administrative or educational world;
- Complexity: they are able to efficiently manage differences, multi-nationalities, risks, and to exploit the resources quickly adapting to the constant changes in the environment;
- Information and communication: they are directly connected to the world and act swiftly and effectively.^{iv}

Global economy can therefore be defined as a system where 'strategically dominant activities work as a single unit in real (or potentially real) time, on a planetary level'^v, while contextual factors which are not considered as functional are excluded because of their structural irrelevance.

This brings about a continually evolving dynamic scene we may call 'flow society', i.e. 'a sort of society in which the material basis of all processes consists of flows (financial, technological, image creation and information flows), where power and wealth are organized in global networks that transport flows'^{vi}. These flows are asymmetric and express the power relationships among different actors in a global scenario.

In this situation, we have seen the role crisis of nation states, which are structurally weak for two reasons. 'On the one hand, their areas of authority are insufficient to control global flows. Their organization is generally too rigid to be adapted to the constant changes in the world system. On the other hand, the plurality of local identities who aspire to be represented by the Nation-states brings about processes that are increasingly conflicting, and ultimately tend to delegitimize the very idea of national representation'.^{vii}

'Basically, it becomes more and more difficult for nation-states to build bridges between the global system and local socio-economic systems'.^{viii}

However, local governments in nation-states, though being more flexible, adaptive and empathic, have endemic weaknesses that reduce the effectiveness of governance.

They suffer from a status of administration 'dependency' on central states, they have a limited financial capacity and are likely to slip into a sort of political localism that can spill over into fundamentalism.

In opposition to the nation-states crisis we can see the growing importance of the strategic role of networks in global cities in the scenario outlined by 'flow economy'.

Such a role was originated from a series of circumstances which can be summed up as follows:

- Since the beginning globalization was characterized by the effects of dispersing economic activities on a global scale. This situation was due to the increasing mobility of capital, which increased in the 80s and reached its peak between the '90s and today;
- Decentralization of ownership and control were not achieved as a consequence of dispersing economic activities. Indeed property became more and more centralized, whereas the management of profits remain edunivocal. '[...]Transactions between business companies and their affiliates (and various other types of subcontracting firms)represent a good share of global trade. Internal trade in business companies is not to be literally seen as free market trade, even if the growth of global trade has been fancied about as based on the expansion of free markets. In order to understand the role of cities in global economy, we must consider that there are administered exchanges which, as such, require various functions of management and command';^{ix}
- New management requirements are dictated by the increasing complexity of markets, together with the increasing centralization in the management of highly dispersed activities. Both have given rise to highly centralized centers of command and control in global cities. That's why the need is felt for a range of specialized services for business companies working in global cities, which are designed to make the completion of control functions easier.

Therefore, global city networks can be seen as potentially able to successfully meet the challenges set by the 'economy of flows', since they can play on the following aspects, which will be explored in the rest of the article:

- The growing economic importance of current and future global cities, which can be appreciated both by more traditional parameters such as GDP, and through more sophisticated and complete metrics;
- The emergence of a new competitive environment linked to the amending process, both demographic and socio-economic, on which global cities will be able to exercise significant influence;
- The capacity of a global city network to move using logic and tools in some ways similar to those adopted by global firms operating in market-driven perspective.

2. Global Cities

Globalization, as we have seen, has made 'the importance of supra national Public Governance clear, which is strongly oriented to the government of the relationships between public entities of different nation-states. It also aims to give up a strictly local institutional framework, characterized by general structures and based on the pre-eminence of formal check-points and permissions. In short, a model of government with prominent central hierarchical structures over local authorities.'^x

Global network management needs have enhanced centrality in institutional relationships with individual local structures within global strategies and behavior aimed at promoting integration and exchange. Individual nation-states therefore need an increasingly integrated global vision aimed at developing big cities as leaders in knowledge production.

These cities 'occupy a strategic position in global economy because of the concentration of leading functions and high quality level firms able to supply world market-driven services to production. More generally, they are mostly internationalized cities in terms of overall economy and social structure'.^{xi}

They are particularly characterized by de-materialized production processes and very deep knowledge addressed to consumers' demands which appreciate the features of intangible products and services.

Therefore, the new frontier of urban management is a way to get cities ready to face global competition by focusing on three growth factors:

- Connection: getting cities connected in circuits communication, telecommunication and information circuits on a regional, national and global scale;
- Innovation: thanks to the ability of raising knowledge about economic activities, possibly obtaining and elaborating critical information;
- Institutional flexibility: i.e. internal competence and external autonomy in negotiating the city articulation both with the firms and the institutions working on a supra-local level.^{xii}

From a general point of view, If we analyze the condition of art in global cities (aggregating them by geographical areas), we can refer to a research work by 'Globalization and World Cities Research Network' (GaWC)^{xiii}, published by the magazine 'American Foreign Policy'^{xiv} in 2008, which classifies the 60 top global cities according to five parameters: business activity, human capital, information exchange, cultural experience, political engagement.

These parameters are interesting because they represent non-conventional metrics that effectively integrate such measures as population, area, density of population and Gross Domestic Product (GDP) per capita.

If we classify the data by homogeneous geographical areas we can see that the Asian continent is predominating as for population parameters, surface and the GDP in 2008 (Table 1).

Table 1: Population, area and GDP 2008

Geographies	Population (in millions)	%	GDP 2008 (in \$ bn)	%	Area (km ²)	%
Africa	22,9	7%	290	2%	3	5%
Asia	202,3	58%	4.566	33%	24	40%
Central America	8,9	3%	390	3%	1	2%
Europe	53,5	15%	2.785	20%	17	28%
North America	21,7	6%	4.660	33%	9	15%
Oceania	4,4	1%	213	2%	1	2%
South America	32,7	9%	1.092	8%	5	8%
Total	346,4	100%	13.996	100%	60	100%

Source: authors' elaboration

However, considering these data, there are still many global cities in Europe and North America ranking among the top 15 ranking of GaWC (Table 2). In particular, there are five Asian cities, 4 European cities and 6 American cities.

This position is also reflected in the significant analysis by GDP in 2008 which includes six North American cities, three Asian cities, three European cities, two South American cities and one Central American city among the top 15 global cities.

Table 2: Ranking of Global Cities 2008

Ranking	City	Business activity	Human capital	Information exchange	Cultural experience	Political engagement
1	New York	1	1	4	3	2
2	London	4	2	3	1	5
3	Paris	3	11	1	2	4
4	Tokyo	2	6	7	7	6
5	Hong Kong	5	5	6	26	40
6	Los Angeles	15	4	11	5	17
7	Singapore	6	7	15	37	16
8	Chicago	12	3	24	20	20
9	Seoul	7	35	5	10	19
10	Toronto	26	10	18	4	24
11	Washington	35	17	10	14	1
12	Beijing	9	22	28	19	7
13	Brussels	19	34	2	32	3
14	Madrid	14	18	9	24	33
15	San Francisco	27	12	22	23	29

Source: Globalization and World Cities Research Network

But these are the different considerations that can be made when considering the estimation of the same geographic areas and cities provided by Price water house Cooper, which integrates the information of GaWC and projects the data of GDP to 2025.^{xv}

First, at the aggregation level, we see that, in spite of a general increase in GDP, we are faced with (Table 3):

- Very different differentials in increase (ranging from 35.6% of GDP increase in North America to 116.9% in Africa);
- A substantial change in the internal composition of the global GDP (think, for example, of Asia, whose relative weight fell from 33% to 38% of global GDP).

Table 3: GDP 2008-2025

Geographies	GDP 2008 (in \$ bn)	% of the total GDP 2008	GDP 2025 (in \$ bn)	% of the total GDP 2008	% increase 2008 - 2025
Africa	290	2%	629	3%	116,9%
Asia	4.566	33%	8.683	38%	90,2%
Central America	390	3%	745	3%	91,0%
Europe	2.785	20%	4.065	18%	46,0%
North America	4.660	33%	6.320	28%	35,6%
Oceania	213	2%	298	1%	39,9%
South America	1.092	8%	2.104	9%	92,7%
Total	13.996	100%	22.844	100%	100%

Taking into account the data of the top 15 global cities reported in Table 2, we see that only Beijing accounts with a growth rate of 200.6% in GDP against an average rate of 39.4% as for the remaining 14 cities. Besides, if we consider the entire sample of global cities taken into account by the research work as the top 15 in terms of GDP growth, we find 13 Asian cities and two African cities.

3. Global City Networks

Until now we have focused on the role and development prospects of global cities. However, their importance lies primarily in the mutual relations they are able to establish.

Among the cities previously considered, for example, there are two strategic triads.

They are very important to the development of global economy. The first triad is made up of New York, Washington and London, and the second is made up of Shanghai, Beijing and Hong Kong^{xvi}.

As for the first one, these cities are important because they have played a very significant role as leaders of economic globalization. The second triad is important because the cities have continued with globalization and, as already mentioned, have shifted economic power to the East.

Other cities can be added that are becoming global hubs and intersection points for city networks, thus broadening their range of influence.

The characteristics and the subdivisions of these city networks have many traits in common with the corporate networks. In particular:

- For each of the network components they need to generate the advantages associated with the exchange of knowledge and the circulation of information;
- Their function is to develop and consolidate a leadership position also connected to the reputation and image that you can get within the network.

As a matter of fact, when the network grows in size, not only do the inner links increase, but so do outward relationships. Both forms of contact help to promote the city and improve its ability to compete on a global scale.

Since we are aware of the outstanding role played by global cities in the economic, political and social system, we wonder how their power is expressed and divided within city networks.

We can say that we cannot analyze the origin of the power of a global city without referring to the network in which it is inserted. 'If powerful cities are those which exert some kind of influence or control over what happens around them, then powerful city networks are what enables such cities to exercise those abilities. City powers, if one can put it like that, are mobilized through networks, it is the forms of interaction and exchange which take place through a complex of networks which are constitutive of a city's powers [...] Networks of power and influence are not like electrical 'circuits' that are simply switched on by fortunate cities in the right locations, nor are they conduits for the 'flows' of power.^{xvii}

We must not, therefore, believe that the power of a city is simply due to its size or to other inner characteristics that are independent of the connecting network that was built up over the years. The role of a city and, as a result, its influence is largely related to its being part of a network that allows to overcome space limits in an urban area and also go beyond national ones. In this way, we can consider the non-geographic aspects of a city that enable it to exert its influence in a wider horizon, which, ultimately, may be the entire network.

It is the very position of a city as a hub, i.e. the intersecting point of a network that allocates power. A logical consequence is that, when the composition of a network changes, the ties and relationships at the origin of a city influence can as well vary and create new poles.

As for the nature of this influence, it can be analyzed by checking the ability to use expertise and resources all over time.

In this perspective, it is easy to understand how the leading positions in a network are created in the poles which have the greatest ability to have high-level expertise and mobilize resources in order to achieve and exercise forms of control over great distances. In this, a city network is quite similar to corporate networks: the ability to influence the relationships in a network critically depends on the skill to negotiate solutions with counterparts within the same network.

In other words, the network power is shaped more like a 'cooperating' power than as an 'opposed' power. Consequently, forms of competition tend to replace elementary forms of competition, as those in business. The supranational nature of city networks which is characterized in the manner explained above, finally explains the crisis of nation-states.

The crisis is a consequence of globalization which, on the one hand, enables the development of global flows and on the other hand strengthens particularism, specific situations, individual identities.

Castells describes the duality when he speaks of the space of flows and the space of places. He sees in global cities as perfectly element synthetical elements as physical places and articulations of global flows. The same cannot be said about states. Indeed nation states are defeated both by comparison with the space of flows and the space of places.

They are often organized by such rigidity and bureaucracy that it's hardly possible to develop the adaptability and flexibility skills which are required to deal with the changing global landscape. That's why states tend to be in a position of weakness as to global flows, which they fail to control properly, since their authority is limited by territory.

4. The Development of a New Competition

Global cities are experiencing in the same way as other urban, suburban or rural areas, a process amending demographic and socio-economic environment. This determines necessary impact on the supply systems of manufacturing and service companies, as well as on systems of local public services (health, education, transport, etc.).

In this scenario there is obviously a stress on competitive tension, especially considering the condition of oversupply experienced by most of the markets.^{xviii}

Private and public companies must therefore adjust their business model. Big global companies tend to exalt 'the achievement of vital economies in costs (supplying, production, distribution, communication and sales). Globalization, in particular, requires the abandonment of competitive reference to a closed domain, coinciding with special physical or administrative contexts. The huge financial benefits that can be achieved by the pursuit of growing dimensional economies dimensional (supply-driven management) do not however disregard the lines of conduct which are focused on meeting demands and primarily on competitive comparison'.^{xix}

In addition to what was said before, supply systems must also take due account of environmental changes considering the tendency to change that characterizes urban centers, the composition of households, life expectancy, income distribution, etc..

The challenge that market-driven companies are facing are represented on one hand by the growth of competition and on the other by the need to adapt their offer to the real modified needs of markets.

These companies are likely to stand up global competitors by developing policies referred to time-based competition, mostly oriented to reduce time to market. But they must also improve two specific competences: understanding markets (market sense) and relating with them (market relations)^{xx}.

In the perspective of the growth of global cities, market-driven companies define strategic plans aimed at developing offensive strategies to increase their market share, their competitive position and diversification of their growth^{xxi}.

The March 2011 McKinsey & Company^{xxii} report deeply analyzes the development which will affect global cities in the coming years.

The report says that by 2025 25% of the labor force, 15% of the young population (below 15) and 35% of over sixty-fivers will be living in the 600 largest cities in the world.

By the way, in addition to their significant size, most global cities (i.e. those included in the advanced economic positions), because of increased life expectancy of the inhabitants will have to face a particular situation whereby most retired people^{xxiii} will be the major end-consumers.

In such a perspective, companies developing business-to-consumer relationships will necessarily be forced to reset their offer. The market-driven firms that can meet the needs of the market will reap the benefits by consolidating competitive advantage.

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^{iv} Cf. Philippe De Woot, *The Challenges of Economic Globalisation: Business, Competition and Society*, *Symphonya. Emerging Issues in Management* (www.unimib.it/symphonya), n. 2, 2002.

^v See Jordi Borja, Manuel Castells, *La città globale. Sviluppo e contraddizioni delle metropoli del terzo millennio*, p. 15, De Agostini, Novara, 2002.

^{vi} Manuel Castells, *The Information Age: Economy, Society, and Culture: Volume I. The Rise of the Network Society*, Oxford, Blackwell, 1996.

^{vii} See Jordi Borja, Manuel Castells, *La città globale. Sviluppo e contraddizioni delle metropoli del terzo millennio*, p. 19, De Agostini, Novara, 2002.

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^{ix} See Saskia Sassen, *Le città nell'economia globale*, p. 51-52, Il Mulino, Bologna, 2010.

^x See Silvio M. Brondoni, Ouverture de 'Public Governance and Global Markets', in *Symphonya. Emerging Issues in Management* (www.unimib.it/symphonya), n. 1, 2004.

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- ^{xix} Cf. Silvio M. Brondoni, *Market-Driven Management, mercati globali e spazio competitivo d'impresa*, in *Market-Driven Management, Corporate Governance e spazio competitivo d'impresa*, Silvio M. Brondoni (edited by), Giappichelli, Torino, 2010, p. 10.
- ^{xx} See George S. Day, *The Market-Driven Organization*, The Free Press, New York, 1999.
- ^{xxi} See Roger J. Best., *Market-Based Management*, Pearson Education, Upper Saddle River, 2005.
- ^{xxii} See *Urban world: Mapping the economic power of cities*, McKinsey&Company, March, 2011.
- ^{xxiii} McKinsey also says that increase in life expectancy will also affect developing countries, and that the 423 cities analyzed (out of 600 cities in total) which are located in these areas will contribute to more than 180% to the living of over sixty-fivers in the sample. For example, it is expected that Shanghai will double its elderly inhabitants in comparison with New York.