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UK Cities in the Global Economy

Hannah Brown

UK Cities in the Global Economy: September 2008

Executive Summary

Every UK city is affected by globalisation, which shapes the economy in which businesses and individuals compete. Globalisation drives structural change – helping to explain the decline of heavy manufacturing in Birmingham, and the growth of London as one of the world's pre-eminent financial services centres. It also influences long-term population falls we have seen in Northern cities like Liverpool, and population growth in Cambridge.

Globalisation makes cities and city-regions more important as hubs of economic activity. But globalisation also means that some places, like London and Manchester, will be more important than others, Carlisle or Southend, in driving UK growth. Cities – and local leaders – need to consider policy interventions that help their economies adjust to global realities, and be more realistic about their economic role.

Overall, globalisation benefits the UK economy. But it produces winners and losers. Some cities will do better than others as a result of globalisation, while some individuals will be less well off. Government needs to be more honest about this, not just focusing on net benefits at the national level. Policy interventions should not – and cannot – aim to reverse globalisation trends, but instead should focus on supporting those who may lose out in the transition to a more competitive economy.

The current downturn risks exacerbating adverse effects, and encourage short-termism. But policy needs a longer-term focus – implementing measures that facilitate sustainable job creation, increase prosperity, grow competitive and innovative businesses[1], stimulate skills development, and ensure inclusive growth.

1. Centre for Cities will be publishing research on supporting innovation-led growth in cities in Autumn 2008.

This report offers cities a new framework for responding to globalisation, based around five principles.

- **UK cities are relatively small. They should collaborate with neighbouring areas in more effective city-regions, and promote city-regional brands like 'Greater Manchester'.**

- **Cities need to prioritise connections to their key markets to play more effective roles as regional growth hubs.**

- **Cities need to focus on what they're good at. Strategic decisions to support business and 'back winners' should be based on a realistic assessment of local strengths and assets, avoiding unrealistic aspirational goals.**

- **Local authorities should work through the UK Trade and Investment (UKTI) network to encourage trade and investment, highlighting support for companies taking their first steps to export and ensuring the local business environment attracts inward investors in key growing sectors.**

- **Cities need more powers to actively support individuals that are adversely affected by offshoring and inward migration, and help them to develop their skills and adapt to the global labour market. At the high end, cities need to do more to attract the high skilled labour local economies need to compete in growing industries.**

"Cities need to focus on what they're good at"

Introduction: what is globalisation?

'Globalisation' is used to cover a broad range of economic, social and environmental trends. This paper will examine specific impacts of global economic integration on UK cities, such as economic restructuring and specialisation, trade and investment, and migration and labour market effects.

Global integration is changing the economic environment in which businesses and individuals in cities operate, compete and work. Since the end of the Second World War international barriers to trade have begun to be eroded by successive rounds of the GATT and the creation of the WTO[2], and this has driven growth in trade and prosperity, both in the UK and globally. According to the WTO, total trade in 2000 was 22-times the level of 1950[3]. International agreements are now also seeking to drive greater trade in services and information technology, and liberalising global capital markets, creating new opportunities for growth. However, the recent collapse of the latest round of WTO negotiations indicates that there is not yet a firm consensus around continued liberalisation. This highlights the need for policy to realise the benefits at a local level to garner support for further integration.

"Cities are more important in a global economy - not less"

Globalisation is nothing new. But the present period of globalisation is notable for the scale and pace of global change. Ever more countries are integrating into the world economy. The major – and most commented upon – impact in recent years has come from the integration of China and India into the world economy and the opening up of the Former Soviet Union. This has had a particular impact on the global labour market, as about 1.5 billion extra workers have joined the global economy, effectively doubling the world's labour force[4]. The labour market effects from greater mobility of people and jobs are a key feature of today's globalisation – and have a significant and visible impact on cities' economies, generating both winners and losers.

Cities are more important in a global economy – not less. Globalisation increases the importance of urban areas as centres of growth, as specialisation, scale and location increasingly determine the competitiveness of business clusters.

As an open economy with strong global trading links, the UK as a whole has been able to benefit from globalisation, attracting investment and reaping value from trade. However, as discussed further below, the impact across the UK has been uneven – while some cities have been well-placed to benefit from global trends, others still need to adapt and face a more challenging transition.

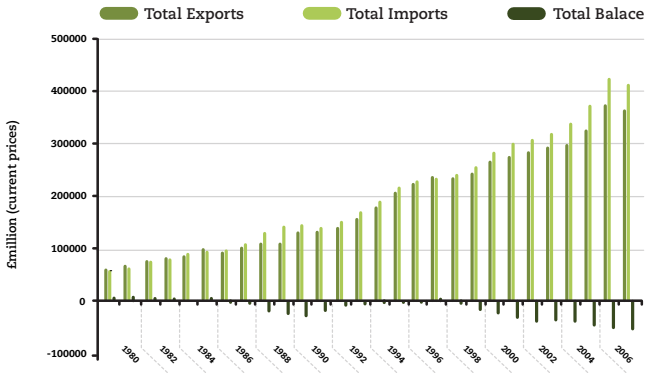
Trade has grown rapidly over the last three decades. The UK has benefited from access to new markets as well as growth in imports that increase benefits to consumers and the economy through greater choice and more competitive prices. The UK particularly benefits from strength in services

2. The WTO (World Trade Organisation) was established in 1995 as the international organisation dealing with the rules of trade between nations. It replaced successive rounds of negotiations under the GATT (General Agreement on Tariffs and Trade) since 1947.
3. www.wto.org
4. Freeman R (2006) The Great Doubling: The Challenge of the New Global Labor Market

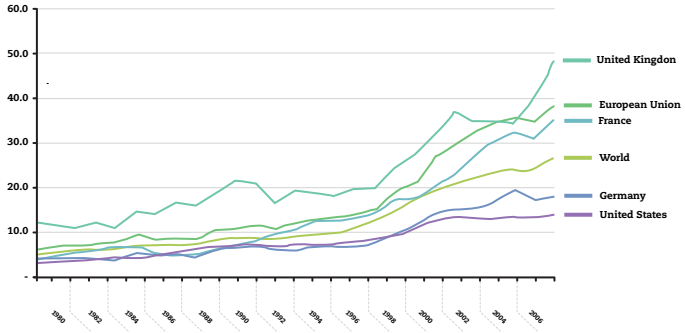
– in April 2008 the surplus on services trade was £3.3 billion[5]. The UK is the world's second largest exporter and third largest importer of commercial services, and the seventh largest exporter and fourth largest importer of merchandise trade[6]. In addition, as one of the most open economies in the world in terms of investment, the UK has been an attractive destination for foreign capital flows while its companies have also invested with a global outlook.

"The UK is the world's second largest exporter and third largest importer of commercial services"

UK international trade 1980-2007



Inward FDI stock, % GDP, 1980-2006



Source: UK Pink Book; UNCTAD

5. ONS
6. WTO 2007

How has the UK economy adjusted to global economic forces?

Adjustment to globalisation necessarily entails structural change. This can be seen in the change in the make-up of the economy over the last few decades. In the UK the shift to services – which now account for around 80 percent of total employment, up from 63 percent in 1980[7] – has been more marked than in other OECD economies. Global competition has led the sectoral composition of the UK economy to shift towards services in line with comparative advantage[8]. The impact of this has varied from place to place, depending on the sectoral strengths of different cities and regions, as can be seen comparing the experiences of Reading, with a cluster of financial and business services, and the West Midlands, which, with more traditional manufacturing sectors, has experienced a tougher transition.

"Adjustment to globalisation necessarily entails structural change"

Manufacturing

Initially, the sectors most affected by globalisation were those which were most easily tradable – in particular low-value manufacturing. Firms have become increasingly able to access world markets and source production in locations with lower labour costs, and so many of these industries have migrated from higher-cost developed countries. Consequently in the UK these more traditional sectors entered a period of decline. Many of these were industries that had historically developed clusters in particular locations, and so the effect of decline has been geographically concentrated in the UK's old industrial cities. Examples include textiles in Belfast and Manchester and ship-building in the North East.

But the other side of the coin is the opportunities globalisation has created for higher tech and higher value areas of manufacturing. These activities have prospered and the UK retains a trade surplus in them. These manufacturing sectors rely on innovation and highly skilled labour, and value can be retained as intellectual property and lead through to higher wages in the local economy. Cities with competitive firms in these sectors – such as Rolls Royce aerospace in Derby – have been able to prosper from increased global trade and investment.

Global Success Built on a Local Asset

One of the most obvious examples of this is Cambridge. Over the last two decades the city's economy has reoriented towards high value growth sectors, attracted to the University – the city's major asset. This has led to major investment to the city and surrounding region, now host to globally successful companies in areas such as pharmaceuticals, biotechnology, nanotechnology, materials sciences and IT. Cambridge and the surrounding area is now one of the most important centres of technology and high tech manufacturing in the world. World-class companies such as Microsoft and Toshiba have invested in cutting-edge research laboratories, reinforcing the competitiveness of the 'Cambridge Cluster'. By looking for opportunities beyond the city boundaries, and enabling firms to capitalise on the base of academic excellence, Cambridge, while still a small city, has developed into a location that competes on the global stage for labour and investment.

7. ONS Time Series data
8. Specialisation resulting from endowments of assets and sectoral strengths relative to competitors.

While the Cambridge story highlights how a city can base sustainable success in manufacturing around a key asset, not every city can follow this path. Different cities have different assets, and some will be more valuable in the global economy than others. Rather than attempt to imitate strategies that have been successful elsewhere, city policymakers need to form realistic ambitions based on local endowments and strengths.

Services

International competition was initially most keenly felt in manufacturing. However, a combination of GATS[9] agreements and improvements in information and communication technologies has begun to drive growth in trade in services sectors too. Now that ever larger quantities of information can be transmitted swiftly down a phone line over long distances, producers and consumers of high value services no longer need proximity to trade, and the recent rapid growth in trade in these areas is likely to continue.

"City policymakers need to form realistic ambitions based on local endowments and strengths"

Significantly for the UK's economy, this has facilitated rapid growth in business services, such as financial and legal services and accountancy. The UK enjoys specialisation and competitiveness in these areas, and they are a major employer in many areas – financial and business services account for 21 percent of jobs in UK cities, and up to 29 percent in some places, such as Reading[10]. In particular, London is on many counts the leading financial centre of the world and, as such, global integration of services has been a real driver for growth. This is not just good for London's economy – it can, with the right links, also benefit other areas of the UK[11]. In addition, these are also network industries, playing a crucial role in supporting economic activity in other areas of the economy and reinforcing globalisation trends.

9. General Agreement on Trade in Services - WTO Treaty that entered into force in January 1995
10. Financial and Related Business Service Jobs - Annual Business Inquiry 2006
11. Lucci P & Seex P (2007) London's Links: Who benefits from London's success? Centre for Cities. This highlighted how London's growth is vital to the whole of the UK's economy, but that regions beyond the Greater South East need to do more to build effective links with London to support jobs and growth.

City economies and globalisation

Cities – accounting for 58 percent of the population and 63 percent of jobs[12] – are the engines of the UK economy. As described below, more intense global competition makes this role even more important. But globalisation doesn't just happen to cities. **Cities need a better understanding of the impact of globalisation on their economies, and the levers available to them to maximise the benefits and minimise the costs.**

Cities are ever more important centres of growth in the economy

Globalisation makes cities more important. As competition has intensified, the economy has shifted so that specialised expertise, intellectual property and other intangible assets are more important to economic success than physical resources and labour costs. This change is often referred to as the 'knowledge economy', and has made location yet more important to the sort of business activity that the UK needs to foster in order to maintain competitiveness and high standards of living. Urbanisation has intensified as these industries tend to be characterised by significant benefits from proximity and co-location of firms and plants, such as, access to a wider pool of skilled labour, informal knowledge transfer networks, and better connectivity to regional and world markets. Moreover, the importance of these 'city benefits' are significant enough to counteract negative effects of clustering such as congestion and higher land costs – financial services firms cluster in the City of London and the West End in spite of higher rents than other areas of London, and this high demand for central locations can be seen in occupation costs in other locations in the UK and internationally.

"Cities need a better understanding of the impact of globalisation on their economies, and the levers available to them to maximise the benefits, and minimise the costs"

	Total Occupation Cost ($ / ft² / annum)	
	In Town	**Out of Town**
London	291.67 (West End) 181.25 (City)	88.54
Edinburgh	91.67	69.79
Manchester	90.63	65.63
Bristol	83.33	67.71
France - Paris	122.65	84.15
US - New York	70.26	39.03

Source: King Sturge (2007): Global Industrial and Office Rents Survey Q4 2007. Total occupation costs include rent, service charges and local taxes

As companies face ever more intense competition, production is increasingly mobile, not just within Europe, but globally. Global forces strengthen the impetus on businesses to choose the location that will best enhance their competitiveness. This in turn increases the imperative on cities to ensure an attractive business environment.

12. State of the Cities Database

As competition to attract high value business activity intensifies, reforms need to be implemented at the right spatial levels to enable businesses and individuals in the UK to compete more effectively in the global economy. Sometimes this will mean policies implemented beyond cities' administrative boundaries, recognising the 'real economy' in which businesses operate. While cities are competing internationally, they will increasingly need to collaborate at a city-regional level to maximise location benefits for businesses[13]. **Cities need to understand their real economy, identifying opportunities to collaborate with other regional centres, capitalising on their core assets, fostering competitive firms and attracting investment in a global environment – these should be the overarching principles for their economic policy agenda.**

"Cities can't rely on historical sources of growth"

However, while globalisation creates opportunities for some, cities dominated by more traditional sectors, where labour costs are still a more important factor in business competitiveness, will face a more difficult adjustment to competition from new global sources. At the extreme this could start to pull apart established clusters – as was seen in the decline of the once-strong linen industry in Belfast in the mid-twentieth century in the face of low cost competition from other parts of the world. **Government needs to be honest about this impact on traditional industries, and this must be taken into account in local economic policies and strategies. There is a clear rationale for Government intervention to support those cities and the individuals within them who stand to lose from globalisation in the short to medium term to enable them to benefit in the long run, for example with targeted interventions to reskill workers whose traditional sources of employment are at risk.**

City Clusters – Different Futures

Seafood around Hull and Humber

Located on the Humber estuary, Hull has a strong historical tradition in seafood and seafood processing. This historical cluster has developed over the years, with firms clustering around the large port – the city's key asset. The seafood industry in and around Hull now supplies 70 percent of seafood eaten in the UK, with 120 companies creating 10,000 jobs in the local economy[14].

But cities can't rely on historical sources of growth. The industry is now increasingly facing global competition, driven by factors such as the rise of China and technological developments which have reduced transportation costs. Developments in freezing technology have allowed fish products to be commoditised and transported internationally, vastly increasing the number of potential suppliers and processors with which local firms compete. There has also been rapid industry consolidation as firms attempt to remain competitive – since the mid-1990s secondary processing firms have grown, and increased employment by 15 percent, but as much of their

13. See Marshall A & Webber C (2007) The case for better transport investment: agglomeration and growth in the Leeds City Region, Centre for Cities, which sets out how transport planners should prioritise access to large city centres within a region, recognising the economic benefits of this to the wider region.
14. Competitiveness (2008) The Humber seafood clustering efforts in Yorkshire, UK – case study for the European Commission

sourcing is now from around the world, small primary processors have gone out of business, and employment has fallen by 42 percent[15]. China is now the world's top seafood supplier[16], and some North Sea fish is now sent there for processing and then returned to the UK market. In its current form, the future success of the seafood cluster in Hull is threatened by increasing low cost global competition.

High-tech engineering around Bristol

Bristol has developed a specialised competitive industry cluster around advanced engineering, electronics and ICT. The city is a centre for design activity in electronics, hosting major firms such as Hewlett Packard, Toshiba Telecommunications Research and Orange, and also a cluster of newer firms with global ambitions that have been attracted by the talent in the city, such as ClearSpeed, Icera and PicoChip. High tech engineering and aerospace are other strong sectors for the city, clustered around major firms such as Airbus and Rolls Royce, but also with strong links to the local economy – 76 percent of the supply chain are SMEs.

Infrastructure developments and local institutions have supported the growth of the cluster. The fast-speed internet access enabled by the M4 corridor cabling and the strength of the universities are a key factor in the attractiveness of the city. The universities work with major employers to address emerging skills shortages. Bristol University has launched a 4-year engineering doctorate course, with three quarters of the time spent working with a collaborative company, providing the specific skills employers need, and also establishing a strong base of pre-competitive research. Bristol University and the University of the West of England both offer aeronautical engineering degrees and relevant courses are also offered by the local City of Bristol and Filton colleges. The city benefits from the cluster of internationally competitive high tech firms, but it shouldn't be complacent and needs to ensure policy interventions, for example in transport, planning and skills, support their success.

"In a competitive international economy cities need to remain attractive locations for high value businesses"

Economic clusters are not a new phenomenon – the growth of many of the UK's cities was founded on industrial agglomerations. However, the differing fortunes of different clusters as the international economic environment changes show that cities cannot be complacent about past success. In a competitive international economy **cities need to remain attractive locations for high value businesses, which requires a wide range of policy areas to work together – delivering the right skills, providing a suitable housing offer and quality of life to attract the right labour, delivering appropriate business premises and the infrastructure and linkages that firms need to succeed. This will require a better articulation of the needs of the business community but most importantly greater policy cooperation between Whitehall departments, regional agencies and across city-regions.**

15. ibid
16. Glitnir (April 2007) EU Seafood Industry Report

"Not all cities can, or should, aspire to be global cities"

How 'global' can UK cities aim to be?

Globalisation reinforces the economic importance of cities. However, only a select few cities are truly 'global'. Other cities need to determine their niche within the international economy.

- **London – a global city:** A very small number of cities are truly 'global' –centres of political, economic, commercial and infrastructure networks, acting as international hubs and drivers of the world economy and attracting labour and businesses from international pools. In terms of economic significance and international connectivity, London ranks alongside the likes of Tokyo and New York as a global city, and this impacts on the rest of the UK economy. The strength of London benefits the whole of the UK and policy interventions should support the capital's growth[17].

- **Regional cities – global niche:** Other UK cities cannot, and should not, aspire to match London's economic links with the rest of the world. Cities' size, economic history and geography, sectoral make-up and connectivity will determine their level of exposure to the global economy. UK cities outside London are more likely to have close links at regional, national or European level, than global. These cities can identify the niche within which their economic base can compete and use this to drive the wider economy. Bristol attracts global firms in areas such as telecommunications and the city is positioned as the driver for the West of England and the wider South West economy, focusing on links with Bath and North East Somerset, North Somerset and Gloucestershire.

- **Local cities:** Cities first and foremost need to ensure they are well-connected into their local economies and hinterlands. Aspirations to compete and succeed in the global economy need to be realistic and founded on a sound economic base, and some cities will benefit from a more local outlook. For example, given its proximity and close links to London, Brighton is unlikely to be a major global player in its own right. Rather, the city needs to remain an attractive location, and ensure closer links to other growth areas within the Greater South East, such as the Gatwick Diamond, Crawley, and Guildford.

Not all cities can, or should, aspire to be 'global cities'. But all cities in the UK, whether they are global, regional, or local centres of growth, will be impacted by continuing global economic integration and a more competitive environment. All UK cities need to understand the impact of globalisation on their local economies and take strategic and policy decisions in that context.

17. Lucci P & Seex P (2007) London's Links: Who benefits from London's success? Centre for Cities

This paper now considers five key areas where cities need to focus policy efforts in order to ensure that they attract skilled labour and grow competitive firms, and support businesses and individuals in the transition to the global economy:

1. UK cities are relatively small. They should collaborate with neighbouring areas in more effective city-regions

2. City economies need to prioritise connections to their key markets to play more effective roles as regional hubs

3. Cities need to focus on what they're good at, 'backing winners' based on a realistic assessment of local strengths and assets

4. Cities should work through the UKTI network, supporting companies taking their first steps to export, and ensuring the local business environment attracts inward investment

5. Cities must actively support individuals adversely affected by offshoring and inward migration. They must also do more to attract the high skilled labour essential to compete in the global economy

These policy priorities are explored in more detail below.

"Location factors matter in attracting high value businesses in the global economy. But scale matters too"

1. UK cities are small, and need to look beyond their borders to collaborate with their neighbours

As previously discussed, location factors matter in attracting high value businesses in the global economy. But scale matters too. UK cities are relatively small compared to their global competitors, in terms of population and economic weight. In 1950 London, Manchester and Birmingham counted among the top 30 urban agglomerations in the world by population, with London the third largest city in the world. By 2005, London was the only UK city in the global top 30 and had fallen to number 25. UK cities are also small measured by economic weight – in 2005 London was ranked 6th globally, with only three other UK cities in the top 150 – Birmingham at 71, Manchester at 73 and Leeds at 85[18]. And – other than London – they are not growing as fast as other world cities – projections to 2020 show London at number 4, but Birmingham, Manchester and Leeds falling to 79, 82 and 108 respectively.

Even though UK cities are small on the global scale, they are often close together. Within a 40 mile radius around Manchester (equivalent to the travel to work area of London) are Sheffield, Liverpool, Bradford, Leeds and a cluster of other smaller towns and cities. The potential economic weight of this multi-city cluster reflects the need for smaller UK cities not just to build on their specialised, niche areas of competitiveness, but also to look beyond their borders and collaborate with their neighbours to maximise economic weight within their city-region.

18. PWC (2007) UK Economic Outlook 2007, using Purchasing Power Parity.

Cities are open, interconnected economies. Businesses already demonstrate this, taking the 'real economy', connectivity, and access to wider markets into account in location decisions. There are clear examples of how clusters of knowledge-based, high-value industries already work beyond city limits. City policymakers too need to think at the 'real economy' level. As previous Centre for Cities research has shown, policy interventions need to look beyond the confines of the city[19]. Encouraging long-term competitive businesses and high value jobs in key sectors will require policymakers to take long-term decisions to ensure effective links between neighbouring cities, and between cities and their hinterlands. Where cities' key markets are regional and national, these links should be prioritised. Cities with more global potential need to look to connect key industries with international markets.

"City policymakers too need to think at the 'real economy' level"

High-value sectors look beyond city limits

Financial Services – Leeds & York

Leeds has developed into the leading national financial and business services centre outside London and Edinburgh. It has a critical mass of firms and is a key part of the economy, employing over 110,000 people, or nearly 27 percent of the workforce.

The city of York – 25 minutes away by train, 40 minutes by car – traditionally had an economic base founded on railways and confectionary, with a relatively low skills base. However, following the decline of traditional manufacturing the city's economic base has shifted towards services. The city has successfully grown a financial and business services sector, with firms attracted to York's proximity to the Leeds financial centre, but also York's relatively lower location costs and an enhanced quality of life. The Leeds city-region has prioritised supporting financial services across the region as an important driver of growth. The sector now accounts for about 13 percent of York's workforce. Within the framework of the city-region, Leeds and York – and other cities such as Bradford and Wakefield – are starting to take a wider geographic view of emerging bottlenecks such as transport connectivity, congestion and infrastructure: the 'Golden Triangle' housing initiative to address affordability between Leeds, York and Harrogate is one example – a three-way partnership between the Local Authorities to ensure the labour market supports the cities' economies.

Reaching out - University cooperation

Like the cities they locate in, British universities are small, but they operate in an increasingly competitive market for international students, staff and funding. In recognition of this, universities are beginning to reach out to forge regional partnerships that bring together centres of excellence to realise benefits of scale that would otherwise be unachievable.

Hull and York Medical School was established in 2003, responding to a national need for more doctors and building on well-established complimentary

19. Marshall A & Harrison B (2007) Connecting Cities: Local Transport, economic connectivity, and economic growth, Centre for Cities; Marshall A & Webber C (2007) The Case for Better Transport Investment: Agglomeration and Growth in the Leeds City Region

areas of expertise – the University of Hull has research strength in cardiovascular and respiratory medicine, gastrointestinal and cancer surgery, and oncology, while York's bio-science and health science departments are highly rated for both teaching and research.

Bristol and Bath Universities responded to the needs of their local economy for more specialised skills, and collaborated to establish an Engineering Doctorate Centre for the Management of Systems for Enhanced Performance. This centre is based in Bristol, but is industry-driven and supported by both universities in teaching and research.

"In a global world, delivering this level of cooperation beyond administrative borders needs to be the norm, not the exception"

The Sub National Review has the potential to take a step towards implementing the city-region agenda in a way that could make a real difference to city economies – enabling city-regions to be more effective in crucial areas such as transport, skills, planning and economic development. But, one year on, we still need to see it deliver on this potential. The recent adoption of the proposal for the Greater Manchester Congestion Charge and the Transport Innovation Fund (TIF) bid is an example of how Local Authorities are starting to realise the need to look beyond their borders, but the uncertainty surrounding the referendum on the proposal in December also highlights the difficulties in delivering this change. **In a global world, delivering this level of cooperation beyond administrative borders needs to be the norm, not the exception**.

2. Connecting the economy

Cities that have a competitive niche can succeed in the global economy. But good connectivity is essential in order to enable competitive businesses to operate more effectively and access markets and opportunities for growth. Connectivity – traditionally through transport and now also through communications infrastructure – supports economic success in cities, connecting them to wider markets both nationally and globally, linking people to jobs, goods and services to markets, embedding supply chains, and supporting trade.

Transport is both a driver and a feature of globalisation and economic development. Global trade would not have grown without the rapid reduction in transport costs and increases in connectivity brought about by the development of first the railways, then air routes, and then container shipping. But equally, as cities' and countries' economies expand, their transport needs grow and change.

The development of many UK cities has been influenced by step changes in transport. This is clear looking at cities that grew up as centres of trade and logistics around large ports, such as on the Humber, at Southampton, Liverpool, Bristol and Belfast. The development of the railways stimulated the growth of many urban areas along the East Coast and West Coast mainlines. And the international importance of Heathrow has been a major driver of growth along the M4 corridor connecting a chain of cities: London, Reading, Swindon, Bath, Bristol, Cardiff and Swansea.

York – Connectivity Matters

York is a good example of how the development of transport infrastructure fostered the growth of the city, and how connectivity needs to adapt to continue to support economic performance. The city's economic development in the nineteenth century was boosted by its central location on the main North-South railway. This created employment, reduced the price of coal to York's industries, and stimulated the growth of the city as a location for both business and tourist overnight stays. The rail network continues to be of importance to the city, with frequent trains enabling business travellers to reach London in less than two hours, and Edinburgh in two and a half hours.

The city still needs to improve connections to the regional economy, for instance to Leeds. But with an eye to the needs of the modern economy there is now a focus on other forms of connectivity: the city, in conjunction with BT, is now striving for improved broadband infrastructure for York and the North Yorkshire region through the NYNET initiative, increasingly important to the knowledge-based businesses it wants to attract around the University.

"Targeted transport investments are crucial to enable businesses based in UK cities to succeed in domestic and international markets"

The other side of the coin is that poor or inadequate transport links hold back growth in some cities, particularly in many Northern cities, while congestion around better transport links threatens to create a bottleneck constraining future success in growing urban areas. Transport infrastructure grew up around traditional economies, and where it doesn't effectively link people to the jobs of today, it can affect prosperity and living standards at the local level[20]. **Targeted transport investments are crucial to enable businesses based in UK cities to succeed in domestic and international markets, and to continue to attract high value investment and jobs. These connections should be prioritised in Regional Strategies and Multi-Area Agreements.**

Isolation threatens a modern economy

Hull grew up around the ports on the Humber – Hull, Goole and Immingham – becoming a major regional centre for the North of England with important links to Scandinavia, the Baltic, Rotterdam and Zeebrugge. The Hull and Humber Ports city region hosts one of the UK's largest port complexes – the three ports handle 81 million tonnes of freight a year – but the value of this major asset to the city and the wider region is limited by inadequate transport links to the rest of the UK. The rail links to the port are reaching capacity – it is already one of the UK's largest rail freight arteries, and even with rail capacity improvements, an increase of 92 percent in road HGV movements was forecast between 2001 and 2016[21]. Road freight into the port is held back by poor roads - congestion on the A63 Castle Street link impacts both the efficiency of the Port, and internal connectivity in the city's economy. The Humber Bridge, opened to traffic in 1981, was expected to connect and open up the economies on both sides of the estuary, but the benefit of this link is held back by toll charges – up to £18.30 for goods vehicles.

20. Lucci P & Hildreth P (2008) City Links: Integration and Isolation, Centre for Cities
21. Faber Maunsell (2005) Hull Freight Strategy

Poor connectivity threatens the revitalisation of Hull's economy, and prevents the city from retaining more of the value from the port. Even though exposure to increased competition may initially cause some local businesses to suffer, it will eventually provide the incentives for more productive, sustainable businesses, bringing greater value to the city's economy. With the Institute of Logistics at Hull University, the city could better exploit the port as a driver for growth. **Improving Hull's transport links should be a priority for the city to enable the city to capture more value from the port. In addition, better connecting Hull's economy will expose previously sheltered businesses to competition from elsewhere in the UK, and some transitional support will be required for local businesses and individuals to help them adapt to a more efficient economy.**

"Globalisation reinforces the importance of clustering in high value industries"

In the modern economy it is not just physical connectivity that matters to competitive businesses – reliable and efficient broadband connections increasingly matter too. In 2005 the value of internet sales was £103 billion, double the amount in 2002, and made up a third of all sales by non-financial services businesses. Online business is particularly important for the wholesale, retail, catering and travel sectors, which are big employers in many UK cities and account for £47 of every £100 sold on the internet[22]. Urban areas in the UK fare better in terms of broadband connectivity than rural areas, but there are wide discrepancies between cities and regions in the UK, with major cities such as London, Edinburgh, Glasgow and Leeds benefiting from a strong broadband infrastructure and wider availability of high speed options. This connectivity is important for businesses seeking to compete and reach out to new markets. **Cities, particularly those that may be geographically isolated, need to support their businesses in the global economy by working with broadband providers to deliver fast, robust networks**.

3. Competitive Clusters – Backing Winners

Globalisation makes cities more important, and makes it more important that cities focus on their real economic strengths. As noted earlier, as globalisation reinforces the importance of clustering in high value industries, many cities have been host to the development of concentrations of competitive industries. Specialised clusters also contribute to the diversity we see between cities' economies, and the policy environment needs to reflect cities' different economic and structural make-up by ensuring that individual cities have the flexibility and ability to tailor policy measures to their own needs, rather than a uni-fit national approach.

How can economic development strategies take sectoral strengths into account and foster competitive clusters?

Firstly, it is important that strategies are based on a thorough and detailed understanding of the specific sectoral strengths and key assets of the local

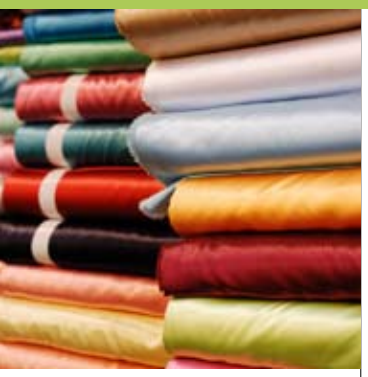
22. ONS (2007) Focus on the Digital Age

economy. Too often, policy statements at the national level are translated down into regional and local economic policies without consideration of whether this is appropriate to the place. Similarly, policymakers witnessing successful growth of an industry elsewhere attempt to recreate this without understanding the base on which it was built. The table below shows 'priority sectors' identified by the nine RDAs as strategic priorities or for cluster development.

"Too often, policy statements at the national level are translated down into regional and local economic policies without consideration of whether this is appropriate to the place"

RDA	Priority Sectors
Advantage West Midlands (13)	Aerospace; automotive; building technologies; business & professional services; environmental technologies; food & drink; high value-added consumer products; ICT; manufacturing; medical technologies; rail; screen image & sound; tourism & leisure
East of England Development Agency (14)	*The latest RES submitted to BERR in June 2008 has moved away from identifying priority sectors. However, the draft for consultation identified the following:* Agriculture & food processing; automotives manufacturing; construction; creative & cultural industries; energy & off-shore industries; environmental goods & services; financial & business services; high technology & advanced manufacturing; ICT; pharmaceuticals & life sciences; public sector; R&D; heritage, tourism & leisure; transport gateways
East Midlands Development Agency (4)	Transport equipment; construction; food & drink; healthcare
London Development Agency (4)	Creative & production industries; innovation; life sciences; environmental sectors
North West Development Agency (11)	Advanced engineering & materials (chemicals, aerospace, automotive, advanced flexible materials); biomedical (biotech, pharmaceuticals, medical devices); business & professional services; creative & digital industries; energy & environmental technologies; food & drink
One North East (9)	Chemicals and pharmaceuticals; automotive; commercial creative; defence & marine; energy; food & drink; health & social care; knowledge-intensive business services; tourism & hospitality
South East England Development Agency (6)	Sector consortia: digital content; marine technology; health technology; environmental technology & services; built environment; aerospace & defence
South West Regional Development Agency (8)	Advanced engineering; ICT; marine; food & drink; tourism; creative industries; environmental technologies; bio-medical
Yorkshire Forward (7)	Advanced engineering & metals; bioscience; chemicals; digital industries; food & drink; healthcare tech; environmental tech

Source: Analysis based on Regional Economic Strategies - listed in References



Apart from the large number of 'priorities', it is striking how many have picked common industries. This raises questions about how sectoral strategies are developed:

- How far are these priorities based on aspirations rather than real economic strengths?
- Eight out of the nine have selected creative, cultural or digital industries – could this have been driven by the Whitehall-led drive[23] to highlight the importance of the creative industries, rather than economic analysis?
- Seven out of the nine now prioritise environmental technologies and services – is this a response to the national prominence of environmental concerns, rather than local assets and strengths?
- Where are sectoral strengths based on global linkages, rather than a regional base?

"Cities should use policy levers to back key sectors, using core levers such as planning, transport and skills to meet business needs"

Cities should use policy levers to back key sectors, using core levers such as planning, transport and skills to meet business needs. However, too often these priority sectors stem from Central Government statements, rather than a rational assessment of the local economy. Cities and regions need to be realistic in their sectoral priorities, based on an understanding of how clusters of competitive sectors develop, are particular to place, and cannot be arbitrarily created. This should be used to inform approaches to cooperation such as Integrated Regional Strategies and Multi Area Agreements.

Local and regional policymakers need to put in place the policies that will support key sectors' future growth – 'backing winners' and supporting innovation, such as 'Software City' in Sunderland. But this is distinct from old-style industrial policy that 'picks winners' – local authorities are not well-placed to guess future market development and select the winning businesses and sectors of the future. **Rather, cities need to understand the needs of their business base and use the policy levers they have to, for example:**

- **Develop Local Economic Assessments on a sound understanding of the city's existing economic strengths and areas of competitiveness, on which to base strategies and policy reforms.**
- **Ensure a supply of labour with the skills businesses need, by bringing local colleges and universities together with employers, Local Authority Enterprise teams and local Economic Partnerships.**
- **Attract highly-skilled specialist workers from national and international labour markets, including through improving quality of life and ensuring an appropriate housing offer, based on local economic needs[24].**
- **Respond to business' infrastructure needs to provide adequate growth space and appropriate connectivity to national and international markets.**

23. Such as DCMS/BERR (2008) Creative Britain – New Talents for the New Economy – a strategy document for the creative industries, and HM Treasury (2005) Cox Review of Creativity in Business: building on the UK's strengths
24. Gibb K O'Sullivan T & Glossop C (2008) Home Economics: How Housing Shapes City Economies, Centre for Cities

4. Capitalising on the global economy – supporting trade, attracting investment

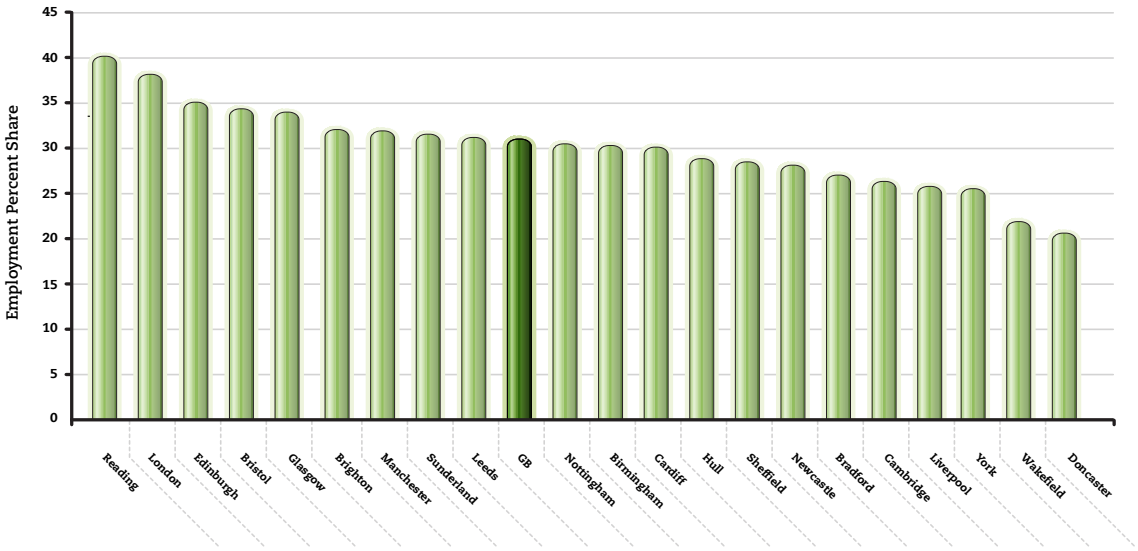
There are two key flows by which businesses in cities integrate with global markets – international trade, and foreign direct investment. This section considers both in turn.

Trade

As set out earlier, rapid growth in international trade flows has been a key feature of recent trends in globalisation, principally in merchandise trade, but also in services. But UK cities are integrated into the international trading system to very different extents – as shown in the chart below.

"European markets are growing at a much slower rate than emerging economies, implying that UK companies are missing out in accessing new sources of growth"

Share of employment in the top 20 exporting sectors



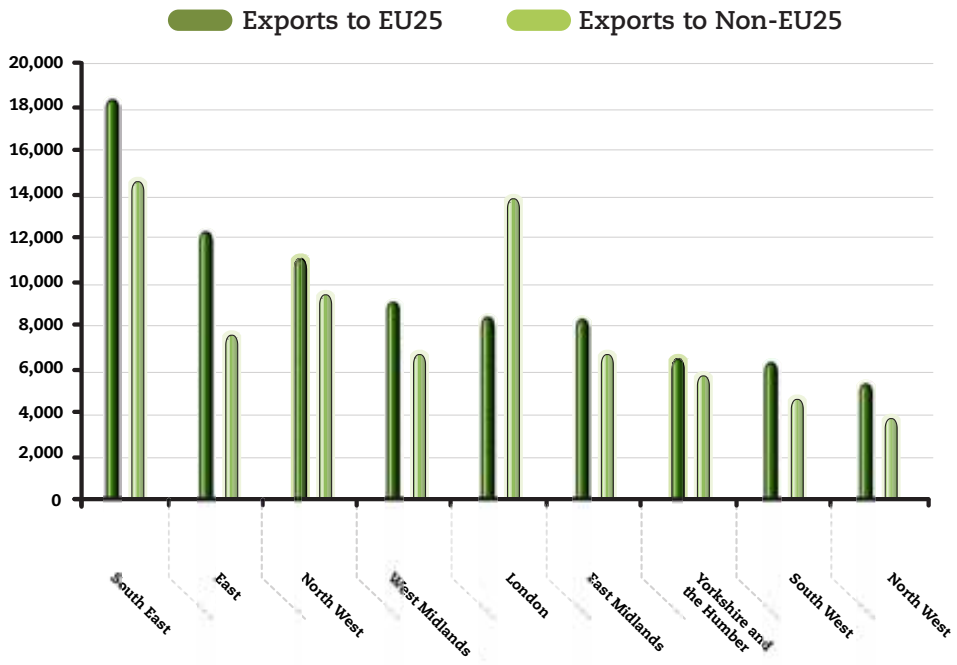
Source: ONS Input/Output tables, 2006; ABI, ONS 2007

The degree to which trade in the UK is truly 'global' also varies. Throughout the world, the majority of trade is still between world regions of similar levels of development, but the rise of the Asian economies in recent years has led to rapid growth of trade flows between Europe and Asia. This growth of new markets and the rise of the middle class in emerging economies creates significant opportunities for UK businesses to grow and expand.

However, in many areas of the UK, businesses are only just beginning to take advantage of these global opportunities. As can be seen in the chart below, the majority of exports in all other UK regions still remain within the EU, indicating that most UK businesses still think at best on a European scale, rather than internationally. But this is limiting – European markets are growing at a much slower rate than emerging economies, implying that **UK companies are missing out in accessing new sources of growth.**

"Cities need to do more to support their local business community in accessing growing export markets"

Value of Regional Exports (£m)



Source: HMRC: Exports of Regional Trade Statistics: 06/03/08

This is particularly relevant in the current economic slowdown, where growth in developing and emerging economies provides a counterbalance to the sharper deceleration in developed economies – developed economies are expected to grow at slightly above 1 percent in 2008, while developing countries and the CIS are expected to maintain GDP growth above 5 percent and import growth above 10 percent[25]. **Cities need to do more to support their local business community in accessing growing export markets, working with small businesses on first steps to exporting, and using UKTI more effectively.**

Reaching out to new markets

Bristol established a 'sister city agreement'[26] in 2001 with Guangzhou in China, and has started to take this beyond cultural and development cooperation. The Bristol-China Partnership is making efforts to establish closer trade and investment relationships between the two cities, particularly in advanced engineering, environmental technologies and creative industries and UKTI has taken Bristol trade delegations there to explore opportunities for business cooperation. However, these efforts are still relatively small-scale, and policymakers need to explore what further support they can give to businesses to encourage them to expand into new markets, from increasing awareness of new opportunities, to technical expertise on how to deal with different IP environments, and networking with other businesses which may have relevant experiences.

25. WTO (2008) World Trade 2007, Prospects for 2008
26. Bristol City Council website

However at the local level, globalisation is often seen as more of a threat than an opportunity, and this is often reinforced by media commentary. This is apparent when looking at economic strategies – for instance, the West of England Partnership's Economic Strategy[27] – which covers Bristol, Bath & North East Somerset, North Somerset and South Gloucestershire – contains very little on encouraging businesses to look to new markets as a source of growth – the word 'export' does not appear. Indeed, in many cases global trends are seen as negative in SWOT analysis, and focusing on the short-term negative effects of increased competition and offshoring without highlighting longer-term benefits and opportunities. **City and regional authorities need do more to highlight opportunities arising from international economic integration to local businesses and develop strategies accordingly**.

"In a more globalised world the UK's regional cities need to do more to attract inward investment"

Investment

Increasing international investment is making the economic composition of UK cities more global. Investment by internationally successful firms benefits local economies by creating jobs, introducing new ideas and processes, and encouraging innovation and productivity throughout the supply chain[28]. As an open economy, with a positive and welcoming attitude to investment, the UK does well in competition for international investment, attracting 713 projects in 2007, 19 percent of all European FDI project announcements[29]. But some regions and cities do better than others.

How well-distributed are the benefits from FDI in the UK? In 2002/03, London, the South East, and the East of England attracted 47 percent of all inward investment projects into the UK[30]. While this reinforces the success of London as a 'global city', it indicates that to be more effective drivers of regional growth in a more globalised world **the UK's regional cities need to do more to attract inward investment**.

The RDAs approach to inward investment would benefit from being more strategic – competing with each other by establishing individual overseas offices is likely to be ineffective in attracting additional investment compared to a more coordinated approach through UKTI's existing infrastructure. Local efforts to attract investment need to be based on an understanding of what drives investors' foreign investment decisions. While many of these factors are driven by national policy – such as the business tax and regulatory environment – or dependent on cities' histories and inherent characteristics – such as geography and economic structure – **cities themselves can, and should, do more to understand their business and investment base and create an attractive business environment for multinational firms. They need to continue to pursue efforts to improve the business environment using levers on planning, transport and skills, and work through the UKTI framework to make links with investors and develop a 'brand' with which to market their local strengths and assets.**

27. West of England Partnership (January 2008) The West of England: Economic Strategy – Delivering a sustainable and prosperous economy
28. See, for example: Haskel J Pereira S Slaughter M (2004) Does Inward Foreign Direct Investment Boost the Productivity of Domestic Firms? The Review of Economics and Statistics
29. Ernst & Young (2008) European Investment Monitor
30. By number. Invest-UK: Direct Investment Project Successes.

Sectorally, European FDI trends are shifting in line with structural change, with projects largely being attracted in sectors such as software, and financial and business services, with more traditional sectors becoming less attractive, and this creates opportunities for cities with emerging clusters in these sectors to attract international investment.

	Number of FDI projects		Percentage growth
	1997	2007	
Business services	93	467	402
Publishing	15	69	360
Other transport services	60	177	195
Software	209	474	127
Financial services	123	235	84.15

Source: E&Y Investment Monitor

"Compared to other ex-industrial northern cities, York has successfully restructured its economy"

Why companies choose to invest in UK cities

While London dominates as a destination for FDI projects in the UK, other cities have been able to attract high value investment by understanding business' needs and marketing core strengths effectively to foreign investors.

Belfast

With corporate operating costs significantly below Dublin, London and other UK cities, Belfast can market itself as a competitive location for investment, in spite of lower corporate tax rates available across the border. Cost is not the only attraction and the city has begun to develop niche areas of strength – OCO Consulting cites Belfast as second only to London in attracting FDI projects[31], and Northern Ireland as the top European country for software development and technological support operations. Invest Northern Ireland and European support were utilised to bring in a joint venture with the Boston-based Center for Integration of Medicine and Innovative Technology and the Belfast-based Sensor Technologies & Devices, worth over $800,000, to develop a wireless heart monitoring system. This has also brought in £1m in venture funds.

York

Compared to other ex-industrial northern cities, York has successfully restructured its economy from its traditional manufacturing base to services, and an emerging focus on high tech industry oriented around the University. This has enabled the city to bring in high value foreign investment, which is attracted by the strength of the University, combined with relatively low costs, and good infrastructure links, and financial services linked to the Leeds cluster. In 2006 Florida-based StarCompliance Software expanded their European headquarters with a $4m investment in a software development centre at the University of York, with plans for a further $1.5m investment per annum on sales and marketing.

31. OCO Monitor (2007)

Sunderland
Sunderland attracted a major plant investment from Nissan in the 1980's which now employs a workforce of over 4,000 jobs and contributes to 10,000 supply-chain jobs. The plant is the most productive in Europe, and the UK's largest car exporter. The impact on the local economy has been significant, absorbing labour from declining traditional industries – and long-lasting, Nissan has recently announced that the production of a new compact model will start in Sunderland in 2010, which adds a third shift and will increase the workforce to 5000 by the end of the year. This commitment by the company has been supported by national Government and local institutions – Gateshead College has developed a bespoke NVQ 2 training course at the Automotive and Manufacturing Centre of Excellence, including a replica production line.

"There are two ways that globalisation of labour markets manifests itself – greater mobility of jobs and greater mobility of people"

5. Globalisation, cities and individuals

The impact on labour markets is one of the more commented on and controversial aspects of globalisation. While the UK as a whole stands to reap economic benefits from attracting international labour and outsourcing production, in some places these processes can cause significant and localised economic pain, which needs to be addressed.

There are two ways that globalisation of labour markets manifests itself – greater mobility of jobs and greater mobility of people. To some extent immigration restrictions restrict the mobility of people across borders, but both trends are visible, and both have a significant impact on our cities, as the centres of population and jobs in the UK. The following section will consider both forms of mobility in turn.

Offshoring – mobility of jobs

International movement of labour is restricted by immigration and border controls. But this does not prevent labour market competition at the global level – where workers can't or won't move, jobs can, through investment and offshoring. Foreign Direct Investment – discussed earlier, enables the UK to attract jobs in the global economy. The other side of the coin is offshoring – the outsourcing of production or intermediate production of goods and services to other locations in different cities, countries and continents. This process is one of the more prominent and controversial features of globalisation, but its real economic impact is not often well understood.

Employers will consider 'offshoring' production for a number of reasons, of which lower labour costs are only one. Their investment decisions also take into account the availability of a workforce with the skills required, labour market flexibility, infrastructure, intellectual property, tax and regulation. With growing capabilities in emerging economies, reduced transport costs, and advances in communications technology, labour market competition through offshoring is increasing. Sunderland now competes with Bangalore for new contact centre jobs, while computer games developers in Brighton need to remain at the cutting edge of technology in order to keep their work from shifting to growing centres of competitiveness in Canada or Malaysia. Migration controls with the stated objective of protecting domestic labour markets would do nothing to stop this competition.

Offshoring is beneficial to the UK at whole economy level. As firms are able to compete more effectively in world markets they are able to grow and create more value and more employment for the domestic economy[32]. A number of studies looking at the impact of offshoring on employment at the industry and economy level show that the employment effect can be positive, or at worst neutral, and this new employment tends to be of higher value than the offshored jobs.

But, while the UK as a whole benefits, at sub-regional and city levels the displacement impacts of offshoring are more prominent. These costs make local concerns entirely rational, as cities experience large-scale and painful job losses as manufacturing and assembly plants and call centres are closed to shift work abroad. Offshoring may only be responsible for about 3.5 percent of job losses in the UK[33], but where they occur they are significant, and for the cities where the jobs were – particularly cities with large employment shares in more traditional industries – the impact can have long-term implications. In 2005 a swathe of transport manufacturing redundancies were announced due to companies restructuring and moving production abroad, with around 1,500 Alstom train jobs going in Washwood Heath, Birmingham and Eastleigh, and Bombardier shedding 1,250 jobs across Derby, Wakefield, Crewe and Doncaster. And this is not limited to manufacturing – in 2006 Norwich Union moved 7,800 jobs overseas out of a total UK workforce of 36,000.

"While the UK as a whole benefits, at sub-regional and city levels the displacement impacts of offshoring are more prominent"

This also explains why media and political attention tends to focus on offshoring to emerging markets, despite the fact that evidence[34] shows that the vast majority of offshoring by UK multinationals is to other developed countries – only a small amount – 8 percent of manufacturing jobs and 4.5 percent of service jobs – are offshored to India and China. However, it is rational that this small proportion of offshoring is such a controversial feature of globalisation – vulnerable workers that see their jobs offshored to developing countries face higher adjustment costs than those where offshoring is to OECD countries, precisely because their skills will not be easily transferable to the higher value, growth sectors of the UK. The relative differences between input prices and technology between the UK and India are greater, and will be linked to more significant changes in industrial specialisation, and so will result in greater adjustment costs[35]. For the individual, the penalty can be in the form of long periods of unemployment or having to accept lower wages. That the UK economy as a whole and workers with higher skills may benefit is little consolation.

But cities can respond to this and identify opportunities to recover from structural dislocation caused by offshoring, in the same way as responding to industrial decline. Sunderland provides an example of a city where many traditional shipbuilding jobs were displaced to more competitive global competitors. The city responded by identifying a potential growth opportunity and focusing economic development around two key sources of employment – contact centres and automotive production. The city is now in a better position to benefit from the global economy, attracting significant foreign investment – the Nissan plant is the most productive in Europe, and out of 19 private sector employers that employ over 500 people, 10 were foreign-

32. McKinsey Global Institute (2003) Is it a win-win game? showed that for every $1 of US service activity that was offshored, the US economy gained $1.14, distributed between importers, re-employed workers, consumers and shareholders.
33. Görg H Greenaway D & Kneller R (2008) Offshoring and the UK Economy, GEP – compared to a turnover of around 15 percent of the private sector workforce, based on 2005 figures.
34. Görg H Greenaway D & Kneller R (2008) The Economic Impact of Offshoring, GEP Research Report – evidence based on 925 firms in manufacturing and 1,928 in services
35. OECD Employment Outlook 2007

owned, almost all in the automotive industry or contact centres[36]. However, Sunderland still suffers from high worklessness, and to ensure that the local economy can benefit from globalisation, the city needs to ensure its workforce has the right skills and aspiration to succeed, and continues to attract globally mobile jobs.

Cities need to be proactive in tackling the costs of industrial change:

- **supporting displaced labour in finding and adapting to new employment in new growth areas for the local economy**
- **focusing on improving the local labour offer and targeting efforts to attract investment in sectors that can provide a source of jobs and growth in the global economy**

"Perceptions of the level of immigration in UK cities can be exaggerated"

Migration – mobility of labour

International migration is a more obvious feature of global labour markets, and, as with offshoring, is another example of the uneven impact of globalisation in different local areas. Labour will be attracted to move across borders by the opportunity of employment at better wages or conditions than in the country of origin. This principle is true at both high and low skill levels but the policy implications for UK cities are different for different segments of the labour market.

How global are our cities' labour markets?

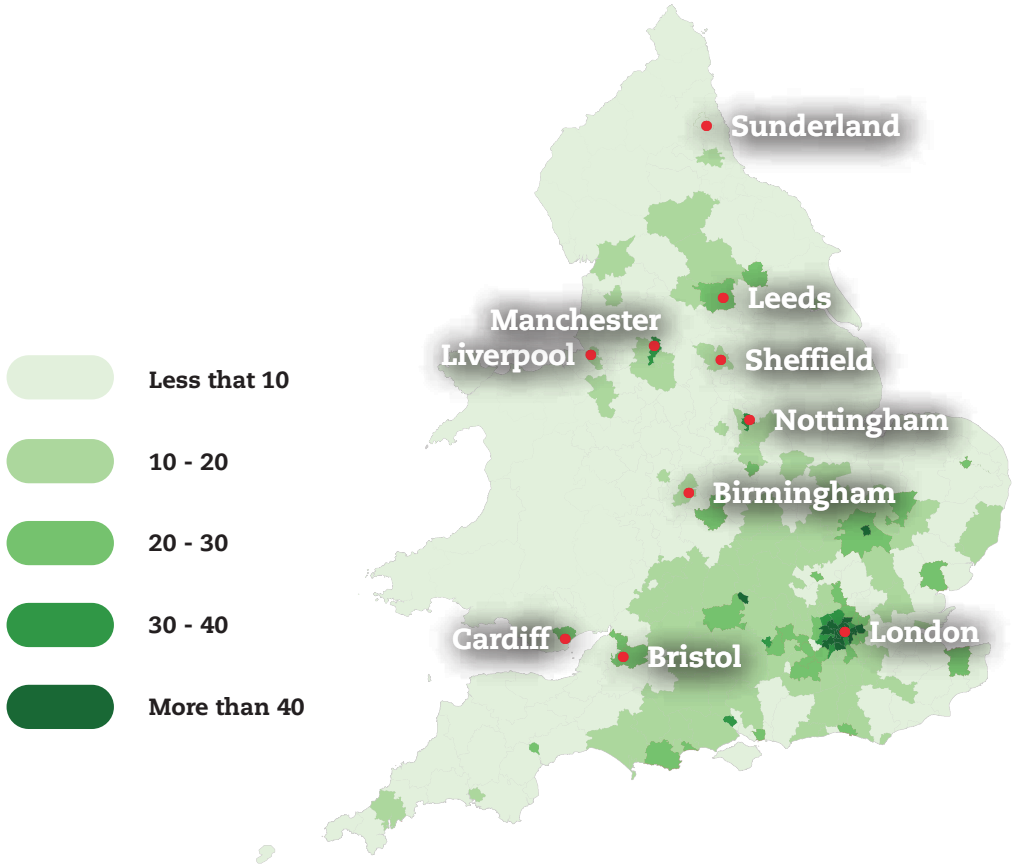
There is much debate on the impact of immigration on UK towns and cities, particularly following the accession of poorer, eastern European countries into the EU in 2004 and the lifting of labour market restrictions.

As would be expected, labour is attracted into more affluent cities with better employment opportunities, such as York, Brighton and Bristol. Nevertheless, the levels of foreign migration are relatively low compared to the situation sometimes portrayed in the media, with the exception of London, which has a much more global economy.

Research on the economic impact of migration on the UK labour market is still relatively sparse, but findings[37] suggest that the net effect on the UK economy is positive. Taken as a whole, migrants have complementary skills to the UK labour force, and a significant negative effect on unemployment at the national level is unlikely as migrants tend to be attracted where there are labour shortages. In 2006 Q4 the proportion of the UK working age population born overseas was 12.5 percent, compared to 7.6 percent in 1996 – a significant increase, but over a decade when unemployment fell and employment rose[38].

36. Invest in Sunderland - Facts and Figures
37. See, e.g. Blanchflower D (2007) Recent Developments in the UK Labour Market. Bank of England Quarterly Bulletin, 2007 Q1
38. Lump of Labour Fallacy

Volume of net international migration per 1,000 population (2001-2006)



Source: ONS - Migration indicators by LA areas in England and Wales, mid 2001 - mid 2006

"While migrant workers raise the earnings of high-skilled and medium-skilled native workers, they can reduce wages at the lower end"

But even if there is no real unemployment effect, as labour supply increases, low-skilled workers may suffer from downward pressure on wages which exacerbates wage inequality – research for the Low Pay Commission[39] found that while migrant workers raise the earnings of high-skilled and medium-skilled native workers, they can reduce wages at the lower end, albeit by a small amount. In cities with large populations of low skilled workers, this impact may be keenly felt.

But this does not imply that migration should be restricted. Rather, as with offshoring, it suggests the need for policies to improve local labour supply and enable the local labour force to compete. Employers' main reasons for employing migrants instead of workers from the home labour force are not based on lower wages and cost cutting. A survey by the British Chambers of Commerce[40] found that over 45 percent of businesses surveyed employed migrant labour principally because local candidates lacked the required skills or experience, the next most common reasons were greater productivity or a better work ethic. Only 5 percent employed new migrants because of lower wage costs. This suggests that local employers will employ migrant labour when local labour is unwilling, unable, or unavailable to do the jobs required at the offered wage.

39. Dustmann C Frattini T & Preston I (2007) A study of migrant workers and the national minimum wage and enforcement issues that arise. Commissioned by Low Pay Commission www.econ.ucl.ac.uk/cream/pages/LPC.pdf
40. British Chambers of Commerce (2007) Migration: Plugging the Gap

Further restrictions on migration may not be the right way to address the concerns of low-skilled UK workers. **In cities where migration is increasing alongside concentrations of worklessness and unemployment, local authorities need to be more pro-active in targeting supply-side labour market interventions that support local residents in competing for jobs, and developing the skills necessary to progress.** Interventions such as one-stop job shops following a large plant closure can improve local labour market flexibility, and Employment and Skills Boards can help to ensure that local skills interventions can respond to employers' needs[41].

This brief discussion of offshoring and immigration shows that while the UK economy as a whole may benefit from global labour market integration, there may be significant local level costs. Low-skilled labour and cities with a concentration of traditional sectors may feel the harder edge of global competition as traditional skills become less valuable in the UK economy, and these effects combine to exert downwards pressure on wages and increase job displacement, resulting in periods – potentially long periods – of unemployment and long-term wage penalties[42]. **The Government needs to be honest about significant adjustment costs for specific individuals and cities, and support those who bear the cost of global change.** The Centre for Cities will be publishing research on the impact of migration on cities in 2009.

"The Government needs to be honest about significant adjustment costs for specific individuals and cities, and support those who bear the cost of global change"

The migration debate also needs to recognise the impact on the high-skilled end of the labour market, and how the UK needs to attract more highly-skilled labour to meet businesses' changing needs.

Globalisation, and the structural shift to higher-value added economic activity has increased the demand for specialist skills in the economy. In the UK the proportion of employment accounted for by individuals with a tertiary degree rose by 3.5 percent between 1998 and 2008. This contributes to raising innovation and productivity in key sectors of the economy, and if the UK is to maintain high standards of living, a highly-skilled workforce is essential. However, although the UK is close to the OECD average for skill levels, there is room for improvement relative to key competitors. In 2004, tertiary-level graduates accounted for 33.4 percent of UK employees, but this is significantly less than in the US and Germany, at 41.7 percent and 43.1 percent respectively[43].

High skill levels attract investment to an economy, but UK cities first need to work to attract high skills. Agglomerations of high value-added manufacturing and services industries cluster in countries and cities with the specialist skills that they need. Increasing returns to higher skills mean that these workers are best able to benefit from global economic growth. These returns also mean that high skilled labour is increasingly mobile, not just within the UK, but globally. In 2004, about 30 percent of professional and technical migrants to OECD countries originated from Asia, of which 5.7 percent from India and 3.5 percent from China[44].

41. Simmonds D & Bivand P (2008) Worklessness: A city approach. Centre for Economic and Social Inclusion and Centre for Cities
42. OECD Employment Outlook 2007
43. OECD (2007) Science, Technology and Industry Scoreboard
44. ibid

Two of the UK's most globally successful industries – higher education and financial services – rely heavily on international labour. Authorities that are supporting growth potential of these sectors in their cities need to ensure that the right skills are there to attract investment. In attempting to increase the value of the activity in financial services firms in Belfast, the Northern Irish Government, the City Council and the local Universities and Further Education College need to work with employers to meet the skills needs of the businesses they want to attract.

In 2005/06, 19.1 percent of academic staff in the UK were non-UK nationals, and 27 percent of all academic staff appointed in 2005/06 were non-UK nationals[45]. Policymakers need to ensure that the UK continues to be an attractive destination for these skilled workers – the impact of recent policy measures at the national level, such as the residence charge for non-domiciled workers, high visa fees and the reform of the Highly Skilled Migrant Programme into 'Tier One' of the Points Based System, need to be closely monitored. Perceptions that the UK is no longer a welcoming environment for internationally mobile labour could have significant detrimental effects on key elements of successful city economies.

"The UK is currently in a good position to attract highly qualified international workers"

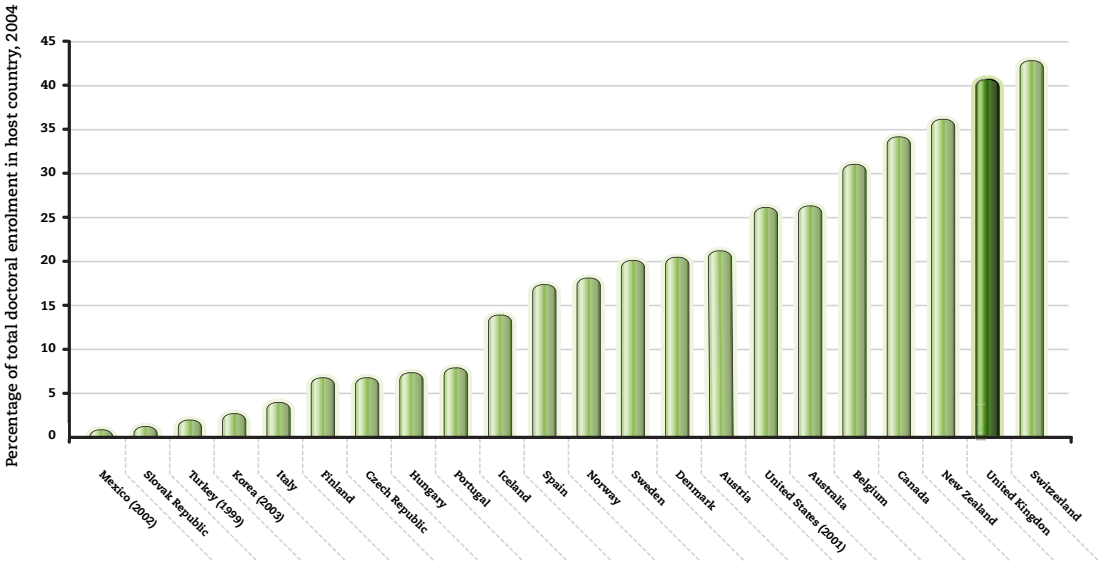
The UK is currently in a good position to attract highly qualified international workers. UK universities host a very high proportion of international doctoral students – amongst the highest in the OECD. International students are attracted by historic links, the widespread use of the English language, and the reputation of UK higher education institutions – UK campuses are the second most international in the OECD, with international students making up 9.6 percent of students at Higher Education Institutions in 2006[46].

This is a real potential opportunity for the economy, both in terms of producing a high level of skills and research, but also in the links that these highly skilled people – if they stay in the UK – will foster with the international economy. This creates an imperative for national government and for cities to ensure that these students are encouraged to stay in the UK after their studies to work and contribute to UK growth. The recent decision to enable non-EU students to be able to apply for leave to remain in the UK to work for up to two years without having a specific job sponsor is welcome, but, as stated above, the impact and tone of new policy interventions needs to be carefully monitored.

45. Universities UK: Talent Wars: the international market for academic staff. July 2007
46. UK Higher Education International Unit

"The Government needs to ensure that the UK economy maintains its tradition of openness and continues to attract and welcome the highly-skilled labour it needs"

Share of Foreign Doctorate Students



Source: OECD Science and Technology Scoreboard 2007

The Leitch Review[47] highlighted the need for the UK to raise skills levels, and set a target for over 40 percent of adults to be qualified to level 4[48] or above by 2020, compared to 29 percent in 2005. The review forecast skills gaps at particular skill levels and in particular occupations, and emphasised the need for more employer engagement and investment in meeting skills needs. However, skills needs will not only vary from sector to sector, but also from place to place. Highly skilled migrants could make a significant contribution to meeting the Leitch targets and sustaining growth in the future.

As this section has shown, the contribution of high skilled migrants is not always adequately recognised in the immigration debate. This risks an increasing number of policy interventions that could make the UK a less attractive destination for high skilled workers. At the same time, as the emerging economies that are the home countries of many highly-skilled migrants grow and income levels rise, the UK and other advanced countries will have to work harder to remain attractive host countries. **The Government needs to ensure that the UK economy maintains its tradition of openness and continues to attract and welcome the highly-skilled labour it needs.**

Cities need to identify their own future skills needs, based on an understanding of their sectoral strengths and integrated into their economic strategies, and cities need to be attractive to the labour force they need, from both national and international labour markets.

47. Leitch Review of Skills (2006) Prosperity for All in the Global Economy – World Class Skills. Final Report
48. First or other degree, NVQ Level 4, Higher National Diploma, Higher National Certificate or equivalents

In Summary

Globalisation is changing the economic environment in which cities exist, and in which businesses and individuals within them operate. Barriers between countries' goods, capital and labour markets are being eroded and industries will increasingly seek to locate in urban areas that enhance their competitiveness.

Global change means that cities and city-regions will become ever more important as engines of growth in a more competitive environment. But, as this analysis has shown, the experience of different cities, and of the individuals within them, will vary. Some cities will be more important than others in the global economy, and while the UK as a whole will benefit, some cities face significant costs from industrial decline as they adjust to globalisation. While globalisation will benefit the UK as a whole, Government and city policymakers need to be more realistic about the relative winners and losers.

It's time for Government, cities and businesses to acknowledge the relative impact of globalisation on different cities and individuals – and develop responses that support both city economies and the people within them through the process of economic change.

"It's time for Government, cities and businesses to acknowledge the relative impact of globalisation on different cities and individuals"

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September 2008

Enterprise House
59 - 65 Upper Ground
London SE1 9PQ

t **020 7803 4300**
www.centreforcities.org