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Capital cities in CEECs – global and national importance in the eve of the global crisis

Warsaw, RSA Network Seminar, Crisis and cities: dual world of capital cities, 23rd September 2011

Plan of presentation

1. Metropolisation process

2. Global and national importance of capital cities regions in CEECs

3. Impact of the crisis based on Warsaw case study (selectedaspects)

Metropolisation - selected stylized facts (1.1)

1) Shift from industrial to informational (knowledge based) economy.

2) Segmentation of global economy:

- **high** segment: comparative advantage based on ability to create and adapt innovations. Concentrated in **metropolises**;
- **low** segment: comparative advantage based on price. Located in **non-metropolitan areas.**

3) Evolution of spatial linkages: development of non-regional linkages of companies and the formation of world city network

4) Main drivers of this process are:

- advanced producer services sector,
- multinational companies,
- research intensive industries,
- IT technology development.

How to measure metropolisation? (1.2)

1. Advanced producer services:

- FINANCIAL INTERMEDIATION (NACE J) → banking/finance, insurance
- REAL ESTATE, RENTING AND BUSINESS ACTIVITIES (NACE K) → accountancy, advertising, law, management consultancy, public relations ***BUT also:*** *security, cleaning etc.*

2. Command and control functions:

- DIRECTLY - LOCATION OF THE LARGEST COMPANIES HEADQUARTERS
- INDIRECTLY - AIRLINES CONNECTIONS

3. Research intensive industries:

- HIGH AND MEDIUM-HIGH TECHNOLOGY INDUSTRY BRANCEHS e.g. pharmaceutical industry, biotechnology, aerospace (NACE 30, 32, 33), (NACE 24, 29, 31, 34,35)

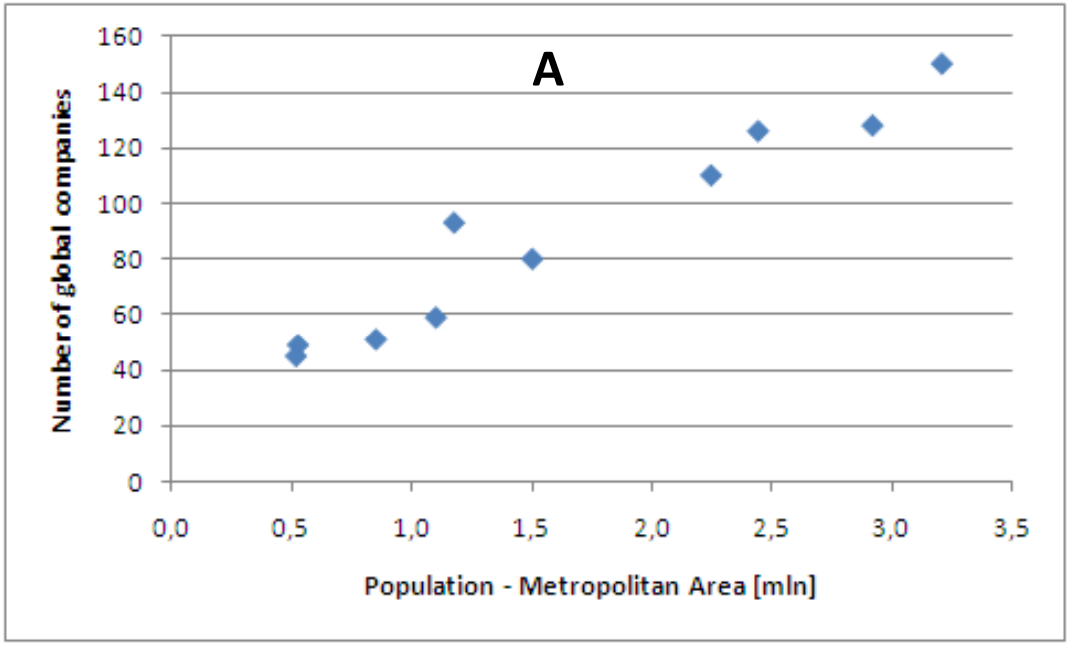
4. ITC network and infrastructure:

- DOMAINS, SERVERS AND BROADBAND CONNECTIONS

Global connections of CEECs capitals – business service sector (2.1)

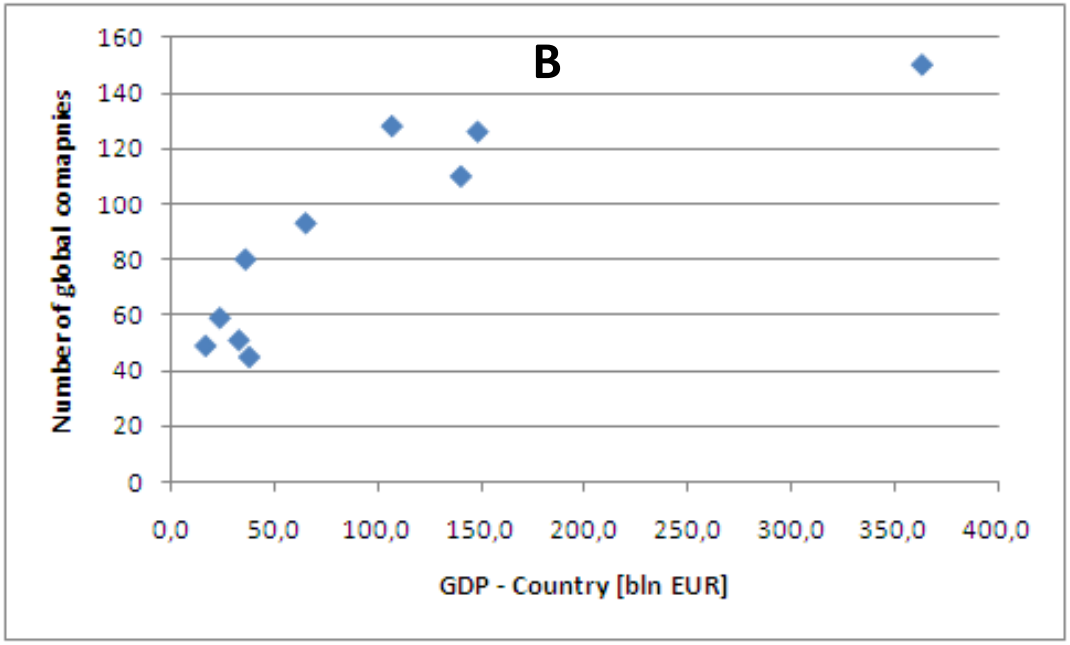
City	CB Richard Ellis (2011)		GAWC (P. Taylor) (2000)	
	Rank (197 cities)	Number of global APS comapnies (max: 350)	Rank (315 cities)	Connectivity index for 100 global APS companies (max. 1,00 - London)
Warsaw	12	150	39	0,42
Budapest	20	128	45	0,41
Prague	21	126	29	0,43
Bucharest	29	110	83	0,25
Bratislava	35	93	113	0,21
Sofia	53	80	121	0,20
Riga	76	59	154	0,16
Vilnius	86	51	179	0,14
Tallinn	89	49	176	0,14
Ljubljana	93	45	185	0,14

Global connections and size (2.2)



- (A) **metropoliran area size (population)** (supply – labour market)

– important factor of global service firms location

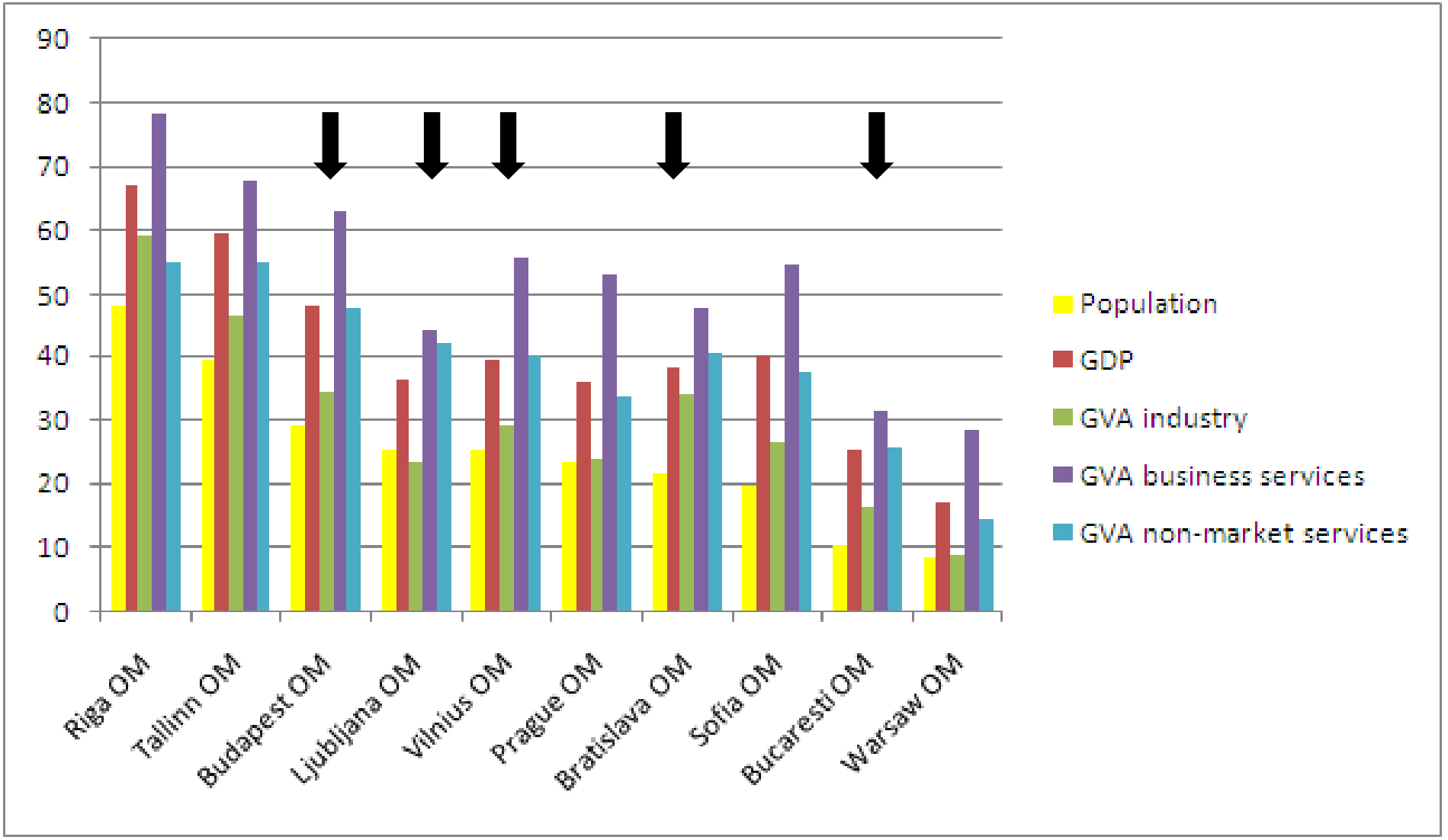


- (B) **national economy size (GDP)** (demand – services)

– quite important factor of global service firms location

Primacy of capital city regions (2.3)

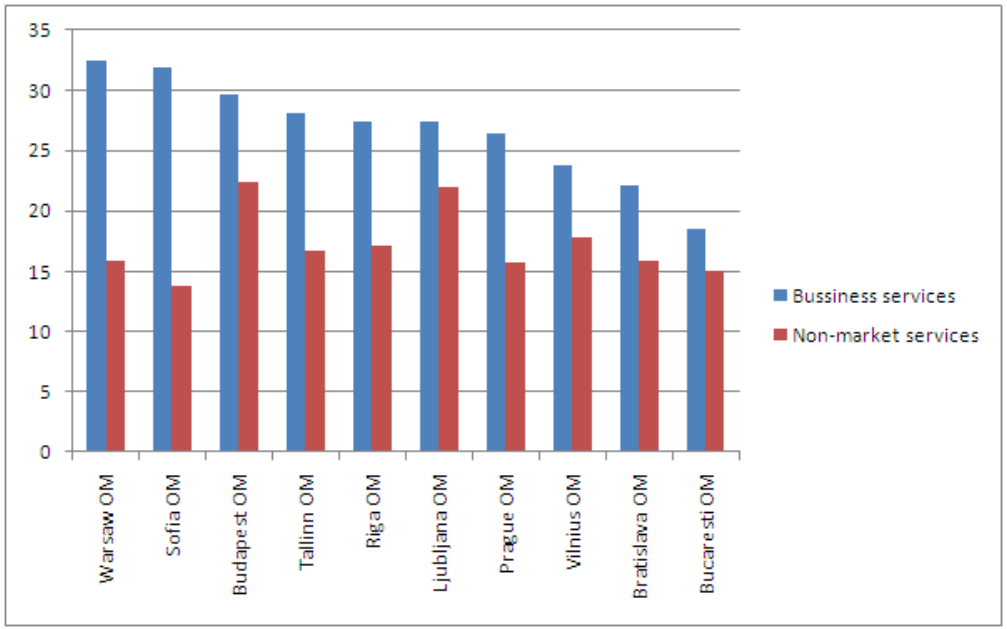
Country share % [2008]



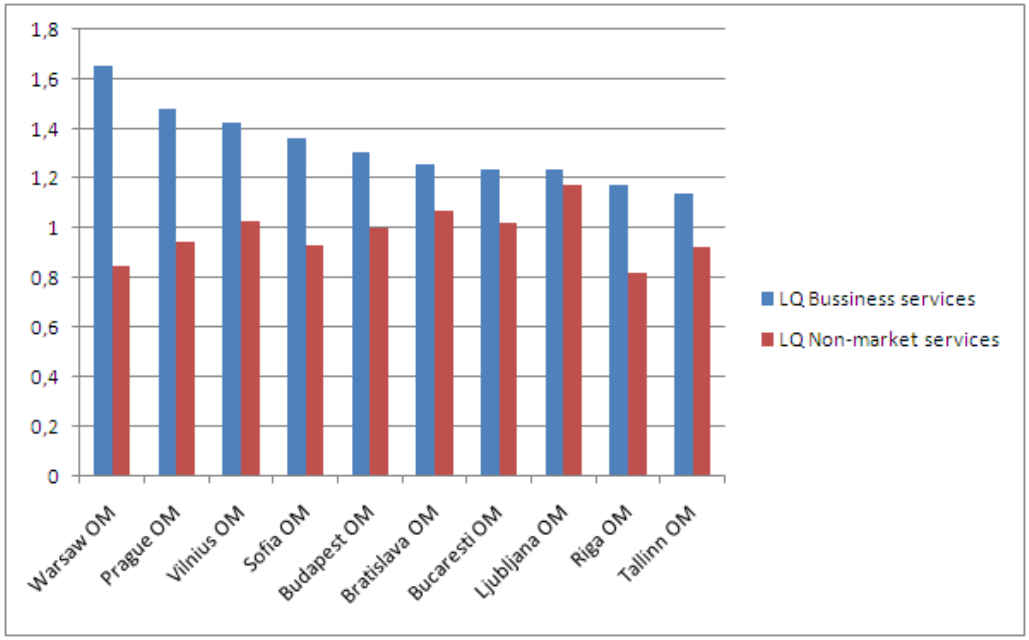
- dominant significance of bussines service sector
- importance of public services (in relation to GDP)

Business services vs. non-market services (2.4)

GVA (Gross Value Added) share [2008]



LQ (Location Quotient) GVA share [2008]



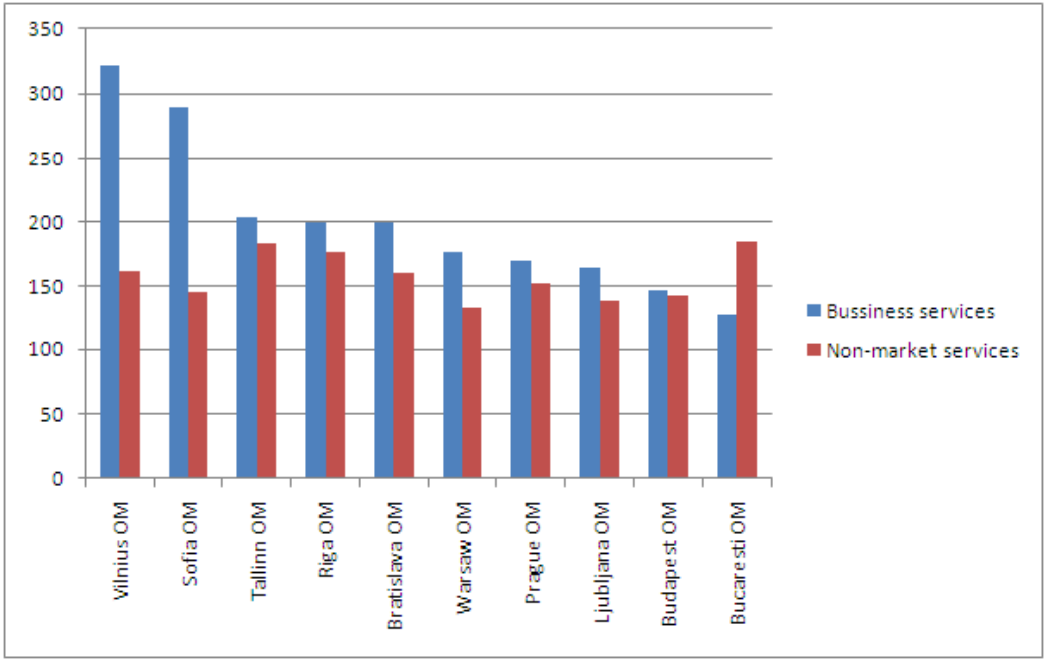
Reference points:
London MA: (BS) 49.3% vs. (PS) 21.3%
Paris MA: (BS) 44.8% vs. (PS) 21.9%

- quite **mixed situation** partly related to the primacy of the capital city in national settlement system

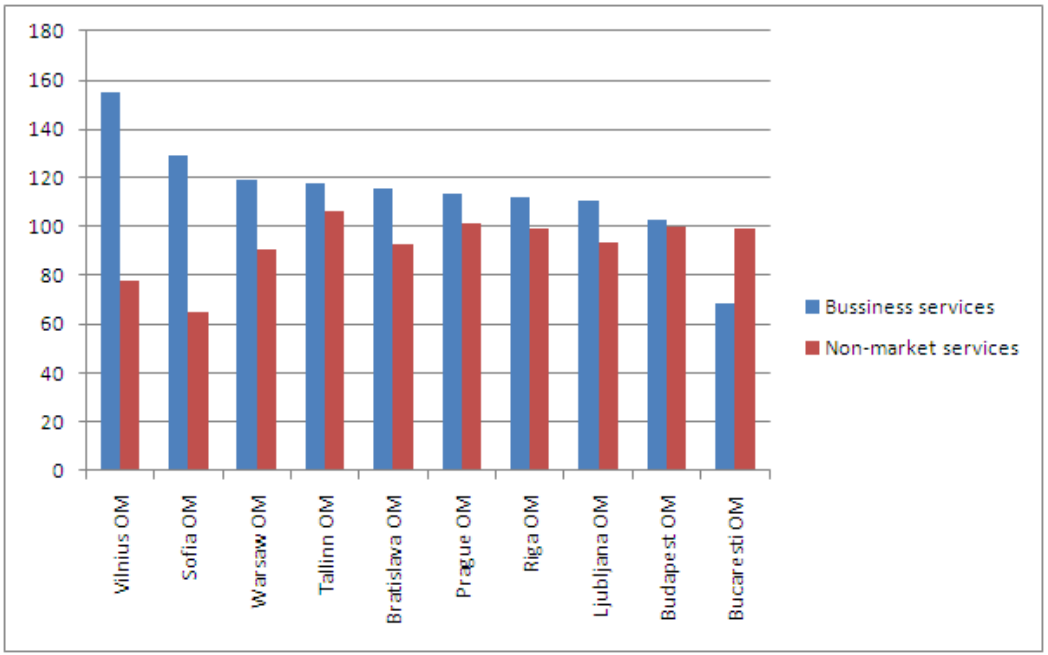
- **Warsaw** – more international than domestic oriented
- **Ljubljana and Budapest** - strong domestic orientation
- **Bucharest and Bratislava**
  - weakness of business service (industrial orientation)
- **Vilnius, Prague and Sofia** – important national business services centres
- **Tallinn and Riga** – highest primacy that cause low location quotient of both types of services

Dynamics of business services (2.5)

a) Real GVA growth 2000-2008



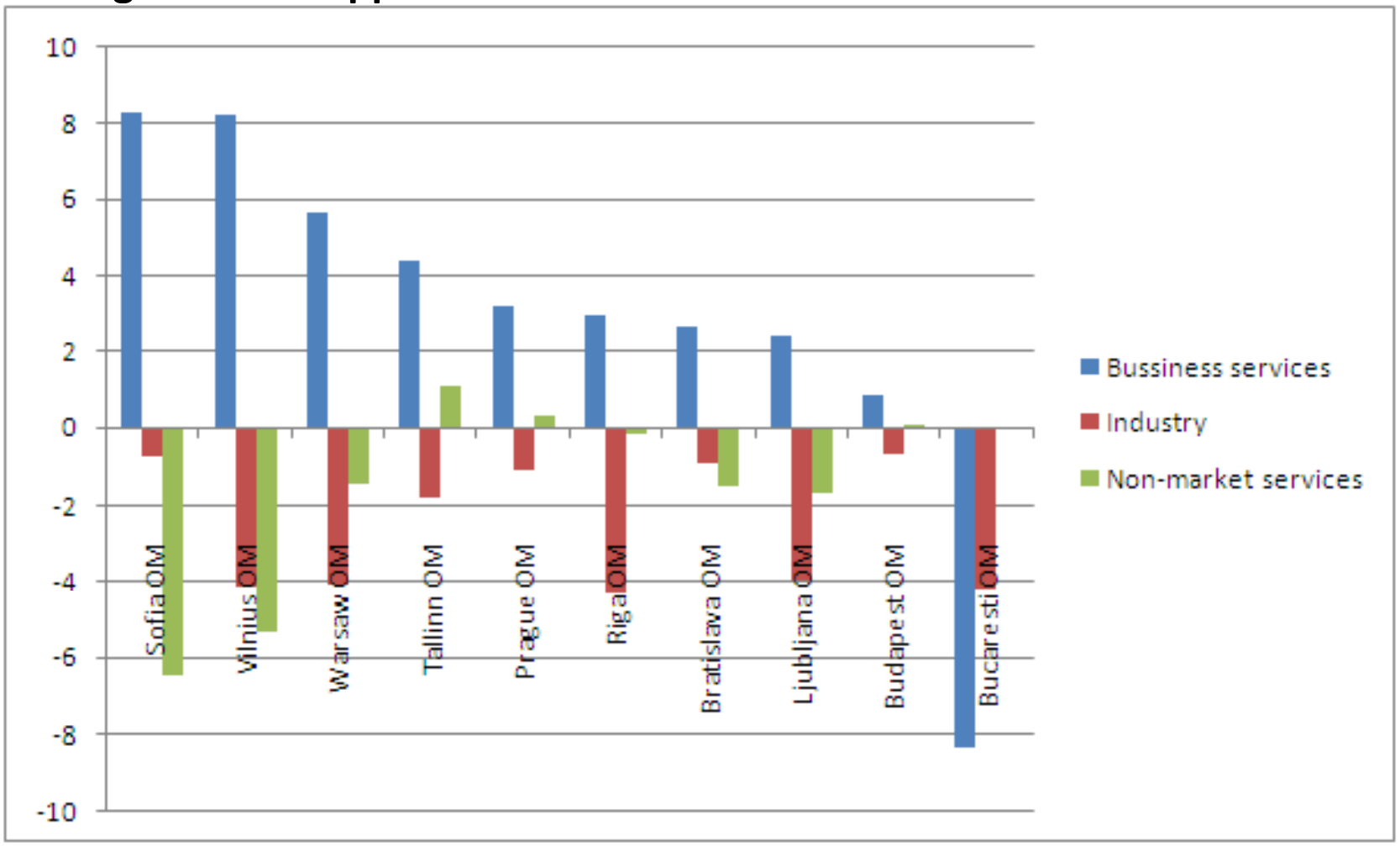
b) GVA growth 2000-2008 [GDP=100]



- **Vilnius and Sofia** – unsustainable growth (?)
- **Warsaw, Bratislava** – poor performance of public service sector (?)
- **Tallinn, Prague, Riga, Ljubljana** – balanced growth (?)
- **Budapest and Bucharest** – lost opportunities (?)

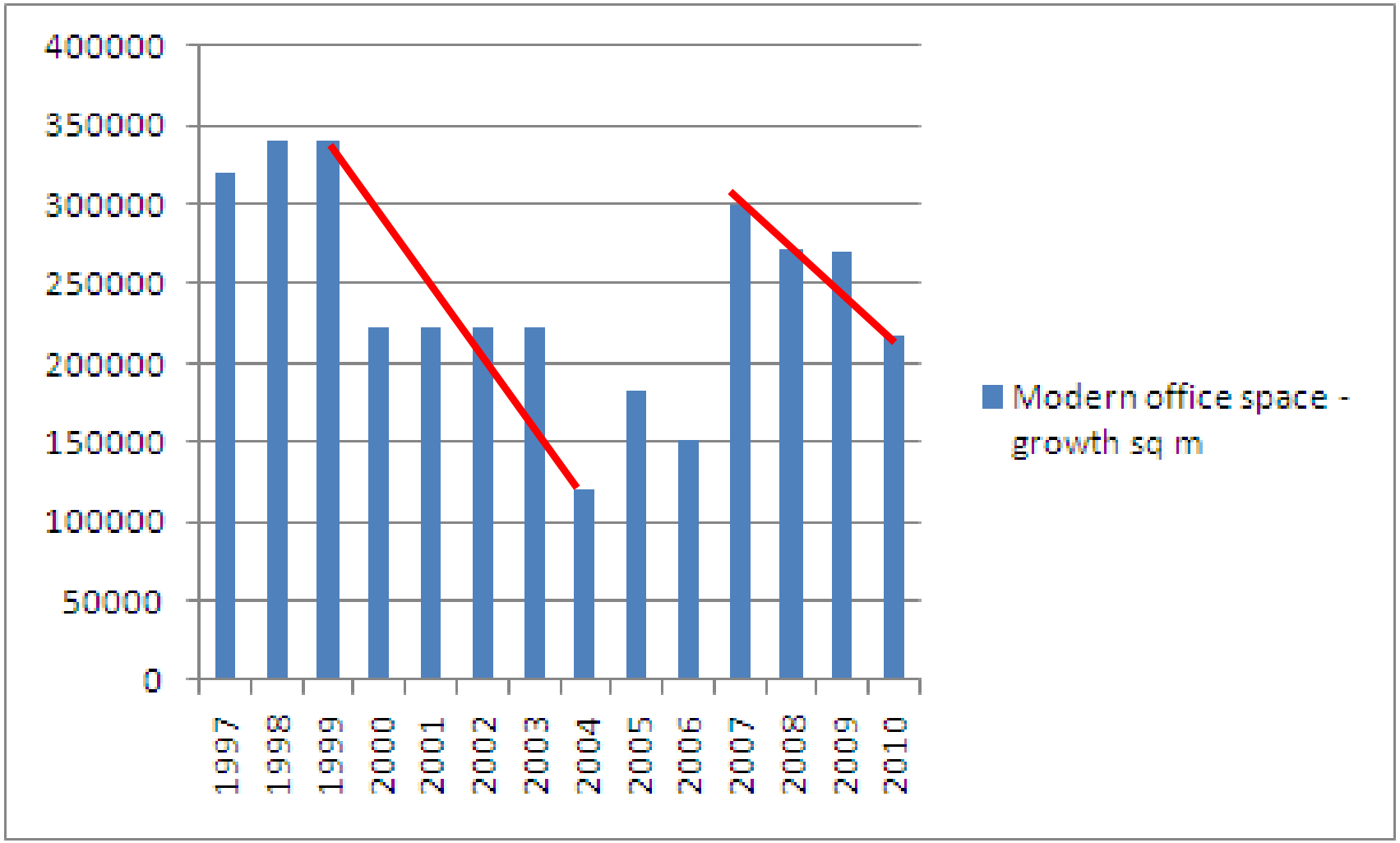
Restructurisation of economy (2.6)

Change of GVA in pp 2000-2008



- „Miracle business service economy" – Sofia (?)
- „Deindustrialisation towards informational city" – Vilnius, Warsaw, Tallinn, Riga, Ljubljana
- „Industrial heritage, but intensification of business service sector" – Prague, Bratislava
- „Stagnation" - Budapest
- „Different model of development" –Bucharest (?)

Modern office spaces in Warsaw (3.1)

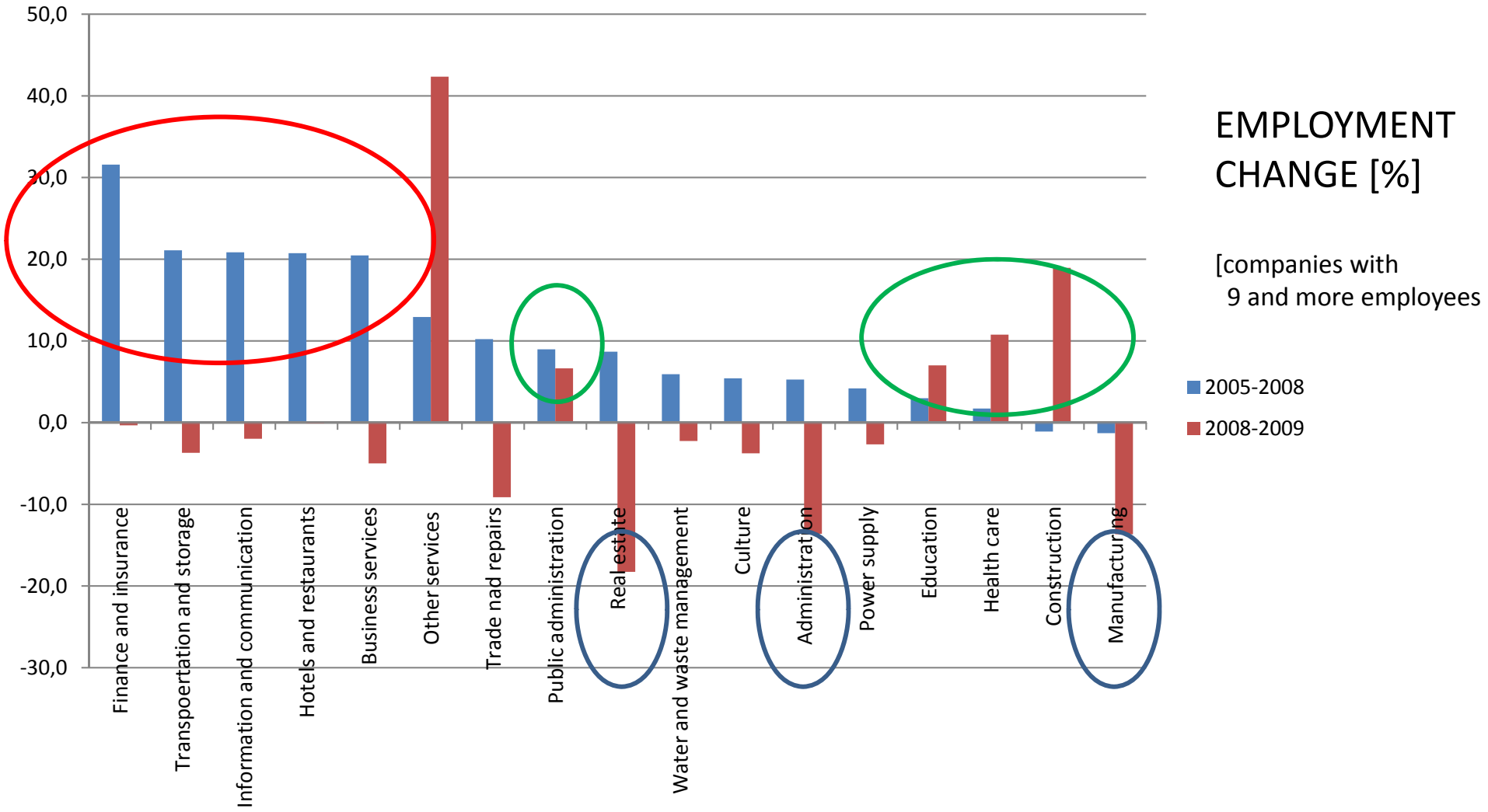


Warsaw: 3.5 mln sq m of which CBC 1.1 mln sq m

Investment outlays annually:

- construction of modern offices: 200-400 mln EUR
- total municipal investments: 900 mln EUR

Labour market structure change in Warsaw (3.2)

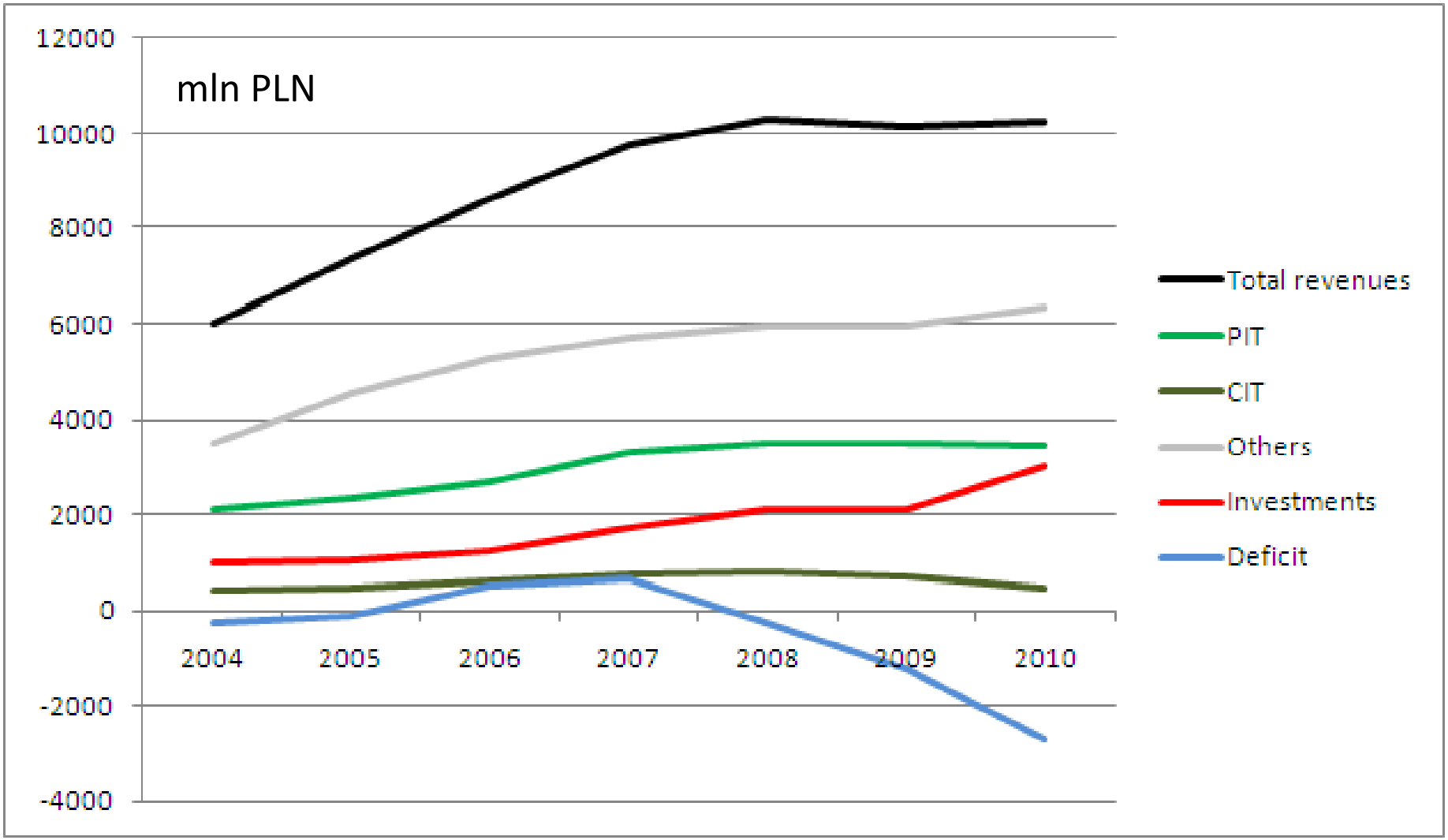


Winners (1): Finance and insurance, Business services, IT sector, Logistics, Hotels and restaurants

Loosers (2): Real estate market, Manufacturing

Soft landing (3): Public administration, Education, Health Care, Construction (public investment)

City of Warsaw budget (3.3)



UE funds 2006-2009 (4 years): **0.7 bln** PLN in total (negligible effect)

UE funds forecast 2011-2013 (3 years)**: 3.3** bln in total (c.a. 10% of revenues)

Conclusions

- Global crisis can be a „verification tool” of previous development models
- Metropolisation to be continued, but vulnerability to the crisis should be differentiated across CEECs
- Losers: in short term real estate market, in long term traditional industries
- Public sector and investment – can be an important source of growth in slow-down period