Globalization and cities

SUMMARY: Globalization brings new opportunities for many cities, especially those that are or can be key centres of production, distribution and services for the globalizing economy. But globalization is also producing an increasingly unequal world in terms of the distribution of income, assets and economic power. This growing inequality can be seen between nations (with many nations receiving little benefit) and within nations (as new investment is concentrated in a few locations). It can also be seen within cities, as certain areas concentrate the enterprises which serve global markets and those who receive high incomes, while other areas are bypassed and often face declining employment and decaying infrastructure.

Globalization and the reforms that support it are producing a world economy that is similar to national economies in terms of free movement of capital, income and goods. But few of the mechanisms for redistribution and social protection that can be developed within nation-states to moderate growing inequalities are possible at a global level. Hundreds of millions of city dwellers (and of those living in small towns and rural areas) lack basic infrastructure and services and safety nets – and international aid has done little to reduce this backlog. There is also no “democratic global government” which can ensure compliance by transnational corporations with social and environmental policies and make them answerable to citizens who gain no benefits or who lose out.

A globalizing world brings to the fore the need for:
- competent, effective, representative local governments in each city and city district to ensure that citizens get a better deal and receive basic services and social protection;
- redistributive mechanisms at national and global levels that support local authorities and representative organizations of the urban poor in helping to limit globalization’s social and spatial selectivity;
- checks on the power of transnational corporations to leverage subsidies, form monopolies, engage in unfair practices and avoid liability for pollution and occupational health problems.

I. INTRODUCTION

FEW CITIES REMAIN untouched by the global economy or by the products or operations of the international corporations that have such a large role within it. In this sense, globalization is increasingly inclusive. Some nations have much wealthier economies due to the greatly increased scale of international trade and international integration of production that underlie globalization. But globalization is also producing an increasingly unequal world in terms of the distribution of income, assets and economic power, within nations and between nations. Large sections of the world’s urban (and rural) populations are receiving little benefit and many lose out. The proponents of globalization suggest that these are temporary costs that are, or will be, outweighed by the benefits, or that they would have been poorer without globalization.

International trade in which international corporations have key roles is hardly new. But the current scale, scope and speed of international exchanges is unprecedented. So too is the extent to which it is operated and managed by transnational corporations outside of national governments: “...the dynamic and often unmediated interactions among global actors that creates a new complexity between policy and practice.” Thus, one characteristic of globalization is the shifts in power from governments to corporations. National governments have been pressed to reduce their role in regulating or controlling the flows of goods, capital and information across their boundaries, so trade, tariff and investment barriers have been removed. Many government functions have also been privatized. The removal of some trade and tariff barriers around the world’s wealthier economies has helped strengthen the economies of some low- and middle-income nations (as production locating there could enter formerly protected markets). But the governments of the richest nations like to promote free trade only in those areas which suit their economies (or vested interests).

II. GLOBALIZATION AND CITIES

WHAT DO THESE changes bring for cities – the key centres of production, distribution, services, finance, and command and control for the globalizing economy? The growing cross-border flows...
of raw materials, goods, information, income and capital help form a new network of cities that are the key sites for its management and servicing. Certainly, new opportunities – but for how many cities? Most international investment is concentrated in a small proportion of the world’s cities. And for whom within these cities? How many of the 1.6 billion people living in urban centres in Africa, Asia and Latin America benefit from globalization? How will globalization affect urban labour markets (and thus incomes and employment opportunities)? How will it affect the economies of the tens of thousands of smaller urban centres in which a high proportion of the world’s urban population live? How will it affect basic service provision and housing costs (and land costs for housing needs)? How will it affect government capacity to address the needs of their citizens?

It is difficult for any city government to combine encouraging new inward investment with ensuring that citizens’ needs are met. With limited funding at their disposal, choices have to be made. Do they prioritize investments in an export-processing zone, airport or convention centre, or investments in extending water and sanitation to those unserved by it? Powerful vested interests often promote the former, which is then prioritized. Many cities have invested heavily in infrastructure and facilities to attract new investment or show that theirs is a “world city”, and there are many half-empty high-tech parks, underused export-processing zones or trade centres and massive land development schemes with no clear prospects. In the extreme competition for foreign investment, local authorities offer concessions which greatly limit the local benefits from new investments. Most city governments also have little capacity to change broader national or regional contexts, which so influence their attractiveness to new investment. The same is true for most national governments within low- and middle-income nations.

III. GROWTH WITH LITTLE REDISTRIBUTION

“GLOBALIZATION PROCEEDS SELECTIVELY, including and excluding segments of economies and societies in and out of the network of information, wealth and power that characterizes the new dominant system.” Globalization’s social and spatial selectivity can be seen on three geographic levels:

- **Internationally**, as most low-income and many middle-income nations have little prospect of attracting foreign investment. Meanwhile, opening up to the world economy has destroyed many local industries that previously provided livelihoods for many urban dwellers.

- **Within nations**, as international investment and enterprises are concentrated in one of two cities. Most cities do not have the capacity to engage seriously in global competition for investment and are too far from major trunk transportation to attract it.

- **Within cities**, as certain areas concentrate the enterprises serving global markets (company headquarters and the producer services they use; international tourism) and the homes, shopping centres and recreational facilities of higher-income groups, while other areas are bypassed, with declining employment and decaying infrastructure. The development of gated communities also makes it possible for the wealthy to avoid contributing to the costs of services in the wider city. Rising land prices in cities, which attract foreign investments and the increasing orientation of public infrastructure investments to the private sector, often further exacerbate inequalities.

In all cities, there are formal and informal measures that moderate social and spatial inequalities. Informal measures can be particularly important where governments are too weak or ineffective to ensure formal provision of basic infrastructure and services. In Karachi, informal enterprises provide water, sanitation, schools and health care to large sections of the lower-income population. They also allow many low-income households to obtain land relatively cheaply. This is largely because government officials allowed middlemen to act as informal brokers and land developers, using government land. In many other cities, governments have tolerated informal processes which allow poorer groups to get land for housing. This does not mean that they get good quality, well-located land nor that it is free – but at least they get land for their homes. This is a tacit recognition that these groups have the right to a home (and land) which is independent of their purchasing power. Perhaps also a recognition of the importance of these groups in the city economy. What will happen to low-income groups’ access to housing in cities where there is less public sector land for them to occupy and where land allocation is increasingly through market mechanisms?

Another common informal redistributive mechanism has been public utilities tolerating illegal connections made by low-income households. Again, this is not an ideal system, not least because of the leaks created by illegal connections to water pipes, the dangerous wiring from illegal electrical connections and the financial drain on public companies from lack of payment. Privatized utilities are unlikely to tolerate such informal redistributive mechanisms. The hope is that they will produce a more efficient service and offer low-income households good quality piped water, sanitation and electricity at prices they can afford. But, to date, there is not much evidence for this, at least in terms of provision for water, sanitation and garbage collection.
IV. THE VULNERABILITY OF CITIES

IT IS NOT only poor urban populations that are vulnerable to changes from globalization; so too are the economic bases of many cities due to hyper-mobile capital. Economic crises have become more common as greater concentrations of economic power are accompanied by greater local turbulence because of “vagabond” capital that rapidly shifts from one location or sector to another, in search of the highest returns. Again, governments have less power as so much trade consists of flows of resources, goods and services within very large corporate networks.

V. THE LACK OF MECHANISMS FOR GLOBAL REDISTRIBUTION

THE GROWING INEQUALITY within a globalizing world is compounded by the lack of compensatory mechanisms – to help strengthen the economies in the poorer areas and to provide safety nets for the people who lose out. The world economy may be increasingly interconnected, but it has neither the mechanisms for redistribution and social protection that exist within nation-states nor the political system through which these mechanisms were fashioned. Many proponents of globalization suggest that political measures are not necessary, as the benefits of the expanding, globalizing world economy will “trickle down” to those people and places that currently do not benefit. But there is not much evidence that this is happening in large areas of the world.

Rapid economic growth within nation-states produced similar differential impacts to “globalization” (albeit on a more localized scale), with economic growth concentrated in certain areas, growing income inequality and, for many, a loss of income or livelihoods. But in all the nations that have sustained economic growth over long periods (and which, as a result, now have high average incomes), political and social pressures ensured that the social and spatial selectivity of benefits were not too concentrated. Governments were pressed to provide universal and/or means-tested services and redistributive measures that included:

• universal provision of basic infrastructure (piped water, sanitation, drainage) to virtually all homes, and basic services (health care, emergency services, garbage collection...);
• universal access to primary and secondary education, and widening provision for tertiary education – through provision for schools and higher-education institutions, and special measures to support retraining and reskilling, to allow those whose skills were no longer needed to get back into the labour force;
• safety nets that ensured basic incomes for the unemployed and those unable to work (and, usually, special measures to provide shelter to those unable to afford it and to help low-income families with children);
• protection of the labour force against exploitative wages and dangerous working conditions;
• measures to support economic growth or regeneration in the poorer areas (including investment in transport and communications infrastructure).

In addition, within each nation-state, citizens were free to move from poorer to richer areas. Although the extent of government commitment to the above measures varied, as did the priority assigned them (and their effectiveness in reaching the poorest groups), virtually all governments in high-income nations accepted that between 20 and 40 per cent of national income should go on these measures. It was also recognized that they are essential to strong, robust economies and that, without them, economic growth would have been much reduced.

Globalization and the reforms that support it are producing a world economy that is similar to a national economy in terms of free movement of capital, income and goods. But it has no comparable mechanisms for redistribution and social protection and there is no “democratic global government” to implement these mechanisms. A large section of the world’s population enjoys few if any of the measures noted above. For one-third of the world’s people in cities, smaller urban centres and rural areas, there is still critical under-provision of basic infrastructure and services. Most people in low- and middle-income nations have no public safety nets if they lose their jobs or fall ill, and little protection against dangerous working practices and inadequate wages. Also, immigration controls severely limit possibilities to move abroad to areas with more economic opportunities.

Aid programmes might be considered the most important international redistributive mechanism but aid flows are minute relative to the scale of the redistributive mechanisms within high-income nations. Less than 0.4 per cent of global GNP goes to fund aid – compared to the 20-40 per cent of GNP in high-income nations used to fund redistributive measures. In addition, most donor agencies give a low priority to the infrastructure and services that were such important redistributive mechanisms within their own economies – universal provision for water, sanitation, drainage, health care, schools and emergency services. Not surprisingly, there are calls for high-income nations to increase their aid budgets – but are aid agencies and development banks able to manage increased
VI. A GLOBAL ECONOMY BUT NO GLOBAL CITIZENSHIP

ONE KEY FACTOR underpinning universal provision of basic services and safety nets for the unemployed or those unable to work within high-income countries is that all citizens have a vote. There is no comparable voter pressure on international agencies, as the billions of people who have had little or no benefit from globalization have no vote or voice within them. Official aid agencies and development banks are held to account by the high-income governments that fund them, not by citizens of low- or middle-income countries.

There are also issues of accountability with regard to the relationship between citizens and the private sector. Companies and corporations often ignore national and local laws and regulations on occupational health and safety and pollution control, where governments are weak or corrupt. Workers fearful of losing their jobs are also less likely to question dangerous or otherwise exploitative working practices.

Multinationals have the added advantage of being able to shift funds across national borders and avoid liability – as illustrated by the evasion of corporate responsibility by Union Carbide for the Bhopal gas tragedy. This caused the death of over 20,000 people and, nearly two decades after the event, there are still 120,000 chronically sick survivors. Perhaps it is unfair to point to such an extreme case (thankfully there have been very few examples of such catastrophic industrial accidents); perhaps, in general, plants operated by transnational corporations do have safety standards higher than those operated by local firms. But the issue is not only the accident’s impact but also the company’s response. This powerful, wealthy corporation has done everything in its power to limit its liability, shirk its local responsibilities and place blame elsewhere. The corporation’s executives and legal advisors no doubt felt that their responsibilities were to the company and its shareholders; their actions had an economic logic even if they were morally and ethically indefensible.

It is also difficult to believe that the cost of showing generosity and compassion to those affected by this tragedy would have been unaffordable to Union Carbide.

VII. AN UNFAIR PLAYING FIELD; MONOPOLIES AND UNFAIR PRACTICES

As transnational corporations become increasingly powerful (and national governments less so), their capacity to leverage subsidies and other benefits under the guise of choosing the best locations has grown. In extreme cases, the huge costs borne by local government can negate any benefits in terms of employment and spin-offs from new investment.

There is also little to restrict transnational corporations from forming monopolies or engaging in unfair practices. Growing numbers of mergers and acquisitions tend to reduce global employment, reduce competition and allow corporations to gain greater leverage over the whole supply chain – and may focus on profits from short-term investment rather than on long-term contributions to production.

The proponents of globalization stress the benefits that private capital will bring with its investments, know-how and technology transfers. But without strong democratic government structures in each locality, how will local citizens’ interests be represented and the “public good” protected? There are also legitimate worries about the power of transnational corporations to prevent measures needed to limit the increasing strains put on global life support systems – for instance, to limit greenhouse gas emissions.

VIII. CONCLUSIONS

The need for democratic institutions in each city and city district that are accountable to their citizens and able to ensure they get a better deal within a globalizing world. This includes the need to determine and then defend local priorities – and to ensure that the poorest groups are not the ones always displaced by new developments (see Box 1). It includes the power to protect “the public good” and to ensure universal provision of basic infrastructure and services. Also, the need to discuss whether the tax breaks and other benefits demanded by potential investors are worth providing. In better-managed cities in Africa, Asia and Latin America, formal redistributive mechanisms ensure that piped water and sanitation, good health care systems and primary and secondary schools are available to virtually all citizens. Other key redistributive mechanisms supported by local governments...
include the rule of law that serves and protects low-income groups (as workers, consumers and citizens) as well as higher-income groups, and inclusive political structures. All have importance for cities that can attract and keep foreign investment – as several papers stress, much foreign investment is influenced by the livability of cities.\(^{220}\)

**Box 1: Community-managed resettlement in Mumbai**

Cities which attract foreign investment generally have rising land prices that result in the eviction of poorer groups from well-located areas. In addition, some population displacement is inevitable in any city where the government seeks to improve provision of infrastructure and services; in crowded central city areas, almost any improvement in provision for water, sanitation, drainage, roads, railways, ports, airports and facilities for businesses needs land. Usually, it is the poorest groups who are evicted to make way for such investments and who are further impoverished by this process.

Despite Mumbai’s successful economy, high land prices and limited availability of unbuilt land, a large resettlement programme of “slum” dwellers has taken place that has not impoverished them. The Indian Railways wanted to move 60,000 people who had built illegal homes adjacent to the railway tracks, to increase the railways’ capacity, speed and frequency. But the resettlement was underpinned by strong community organization among the population to be relocated. Community organizations negotiated and developed a resettlement programme that did not impoverish them, with support from local NGOs. This included their involvement in preparing the base line survey of households to be moved and in managing the relocation process, including the allocation of units.

The protection for low-income groups came from a combination of their capacity to develop an inclusive, representative organization; their capacity to negotiate with the authorities and to show ways of organizing the resettlement that did not increase costs; democracy, which kept more repressive solutions in check; and key public officials who recognized the viability of the alternative approach and who supported it.\(^{221}\)

The need for national frameworks to support good local governance. There has been considerable innovation among municipal governments in some countries where national frameworks have supported decentralization and democratic local governments.\(^ {222}\) But effective, democratic local governance is difficult if there is an aggressive national policy to reduce the size of the state and contain social costs. There are also obvious tensions between actions promoted by municipal governments seeking to respond to their population’s needs and economic reforms supposedly necessary for a country’s integration into the global economy.\(^ {220}\)

The need for supportive international frameworks. This includes a higher priority by international agencies in supporting good local governance that, in turn, can implement such redistributive measures as universal provision of basic infrastructure and services, better quality education, the rule of law that protects all citizens, and safety nets for those unable to work or to find income sources. Many international agencies forget that it is largely through local institutions that these will be improved. There is also a need to channel funding direct to community organizations through local funds or local institutions, especially where local governments are too ineffective or corrupt to act in the interests of low-income groups.\(^ {224}\) But a commitment by international donors to supporting good local government is easier made than implemented. Most national governments do not want foreign agencies involved in intensely political issues such as the distribution of power and resources between local and national governments.\(^ {225}\)

*To place checks on the power of multinational corporations and mobile capital, in recognition of the huge benefits they receive from less regulation and fewer trade barriers, and the costs that this can bring for many others. There is a need to ensure that international companies meet certain minimum standards – for instance, in terms of wages, labour practices, health and safety in the workplace, pollution control, waste management, and liability for accidents and injuries – and to demand that these are also met by the companies that they sub-contract. This is not a demand for minimum wages, set at levels which undermine the capacity of low-income nations to attract foreign investment but, rather, set at levels that allow workers to meet their needs.\(^ {226}\) National and local governments should ensure these responsibilities are met – but this is hardly a solution when multinational corporations deliberately invest in nations or cities with weak national or local governments – or use their bargaining powers to ensure exemptions. Perhaps there is also a need to set limits on the subsidies, tax holidays and free land and infrastructure that multinational companies can demand from national or local governments.*

The need for more measures and mechanisms by which democratic local governments can collaborate rather than compete. Can the growing number of intercity organizations and events begin to allow representatives of democratic local governments to work together to develop more influence in the international arena?\(^ {227}\) If there is a growing recognition of the importance of good local governance – for managing globalization, for meeting international targets for poverty reduction – what role
should elected representatives of local authorities and local federations of urban poor groups have within international organizations?

Many of the above points are not so much about globalization as about more effective development. The need for good local governance was recognized decades ago, but the need is heightened by an increasingly globalized world economy.

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