

# Asian and Latin American City Competitiveness

MARCO KAMIYA\*



This brief summarizes preliminary findings from CAF projects on productive transformation and development in Latin America, and from a Regional Competitive Cities (RCC) study being conducted by CAF - Development Bank of Latin America and the Asian Development Bank (ADB). The study assesses the competitiveness of three cities in Asia—Ho Chi Minh City, Dhaka, and Seoul—and four cities in Latin America—Curitiba, Lima, Bogotá, and Guayaquil—through analysis of urban planning and institutional capacity, as well as cluster strength and value chains. All seven cities face growth-related challenges. However, the Asian cities have been more successful in regional integration of production, services, and infrastructure and in the development of human capital. China's rapid economic growth has also contributed to urban development in Asia. Preliminary findings suggest that private and public-sector coordination in promoting cluster growth and competitiveness, innovative policy, improvements in infrastructure, and human capital development will be critical in all seven cities studied.

## Background

Accelerated urbanization is leading national and local governments to look at cities' role in development. Urban areas—a focus of policy in high-income countries starting in the

1990s<sup>1</sup>—are now viewed as drivers of growth in most regions of the world. By 2050, it is estimated that almost 70 percent of the total global population will reside in cities, a trend that is picking up speed in lower-income countries.<sup>2</sup>

Urbanization is an especially important phenomenon in Latin America and Asia. Latin America is already the most urbanized region in the world, with more than 80 percent of its population in cities,<sup>3</sup> and it is projected that, by 2025, Asian cities will be home to more than half of the world's population.<sup>4</sup> The economic development of Latin American cities is largely fueled by expansion in the natural resources and agricultural sectors. In Asia, city growth is driven in many cases by export-oriented manufacturing and services. For the most part, Asian cities are expanding more quickly than Latin American cities. In East Asia, large and intermediate cities continue to grow at rapid rates. In Latin America, the expansion of megacities, including Sao Paulo, Mexico City and Buenos Aires, is generally happening at a slower pace than in intermediate cities.

Despite clear differences in growth drivers and expansion rates, both regions need to improve city competitiveness and

\*Marco Kamiya is regional principal executive at CAF - Development Bank of Latin America.

<sup>1</sup> Ohmae, Kenichi (1996) *The End of the Nation State*. Free Press, New York.

<sup>2</sup> United Nations (2012). *World Urbanization Prospects, 2011 Revision*. Department of Economic and Social Affairs. New York.

<sup>3</sup> UN-Habitat (2012) *The State of the Cities of Latin America and the Caribbean*. Nairobi, Kenya.

<sup>4</sup> Cadena, Andrés, Richard Dobbs and Jaana Remes. "The Future of the City: The Growing Economic Power of Cities," *Journal of International Affairs*, Vol. 65, No. 2, Spring/Summer 2012. Columbia University. New York.

# FOREWORD

The Inter-American Dialogue is pleased to publish this issue brief prepared by Marco Kamiya, regional principal executive for public policy and competitiveness at CAF - Development Bank of Latin America. An expert on productive competitiveness, Kamiya has written widely on industrial cluster development, financing challenges for small and medium-sized enterprises, and production networks in Latin America and Asia. This brief, which summarizes initial findings from a Regional Competitive Cities study conducted by CAF and the Asian Development Bank (ADB), compares cluster development and competitiveness in three cities in Asia—Ho Chi Minh, Dhaka and Seoul—and four cities in Latin America—Curitiba, Lima, Bogotá and Guayaquil.

Kamiya's paper is the fourth in a series of economics briefs published by the Inter-American Dialogue's China and Latin America Program. Previous contributors to the series have addressed such topics as China's approach to renminbi internationalization in Latin America, China's free trade agreements in Peru and Chile, and commodities-related trends in the region.

We are pleased to recognize Open Society Foundations and The Henry Luce Foundation for their assistance in publishing this and forthcoming China and Latin America economics briefs.

## Margaret Myers

Director, China and Latin America Program

## Michael Shifter

President

sustainability. Governments, in coordination with the private sector, have a crucial role to play in shaping urbanization policies. Regional development banks will also be important contributors, funding strategic infrastructure and providing the capital for development initiatives.

The cities in the RCC study were chosen because of their growth trends, importance as intermediate territories, and

diverse urban-planning policies. The study uses two types of analysis to measure drivers of competitiveness. The first is a form of qualitative analysis that looks at 56 attributes of competitiveness related to the cost of doing business, dynamics of the local economy, human resources and training, infrastructure, government responsiveness to business needs and quality of life (see Table 1 for examples).

**Table 1. Key Drivers of Competitiveness**

Key Driver	Dhaka	HCMC	Seoul	Bogotá	Curitiba	Guayaquil	Lima
Quality of life	1.73	3.26	3.54	2.90	3.34	2.84	3.31
Dynamics of local economy	4.13	3.24	3.31	3.25	3.10	3.09	3.57
Human resources and training	2.25	3.14	3.38	3.80	2.50	2.82	3.40
Infrastructure	1.65	3.12	3.71	2.70	2.72	3.63	2.93
Responsiveness of government to business needs	1.43	2.97	2.96	2.55	2.69	3.16	2.86
Cost of doing business	2.33	2.69	2.68	2.90	2.67	3.17	2.70
Overall average index ranking	2.25	3.07	3.26	3.02	2.96	3.12	3.29

"Regional Competitiveness of Cities in Asia and Latin America: Preliminary Summary Report," CAF and ADB, May 2013.

The second involves competitive gap analysis of the two most competitive and rapidly growing industrial clusters in each city. Industrial clusters are agglomerations of primarily small and medium-sized firms that promote competition, reduce externalities and transaction costs, and stimulate the local economy through innovation and collaboration. The competitive clusters were identified from conversations with private-sector representatives in each city and from shift-share analysis.<sup>5</sup>

Preliminary findings suggest that the textile and ready-made garment cluster is most competitive in Dhaka and Ho Chi Minh City; in Seoul, software and information technology clusters stand out. The software sector in Curitiba, gastronomy in Lima, and fashion industry in Bogotá emerge as the most dynamic in those cities, although a variety of factors have contributed to their success. The software cluster flourishes in Curitiba due to industry strengths, including the use of advanced technologies and collaboration among firms. Gastronomy in Lima and fashion in Bogotá are service sectors that have evolved in tandem with city and national income growth and are tied to the recent expansion of the middle class.

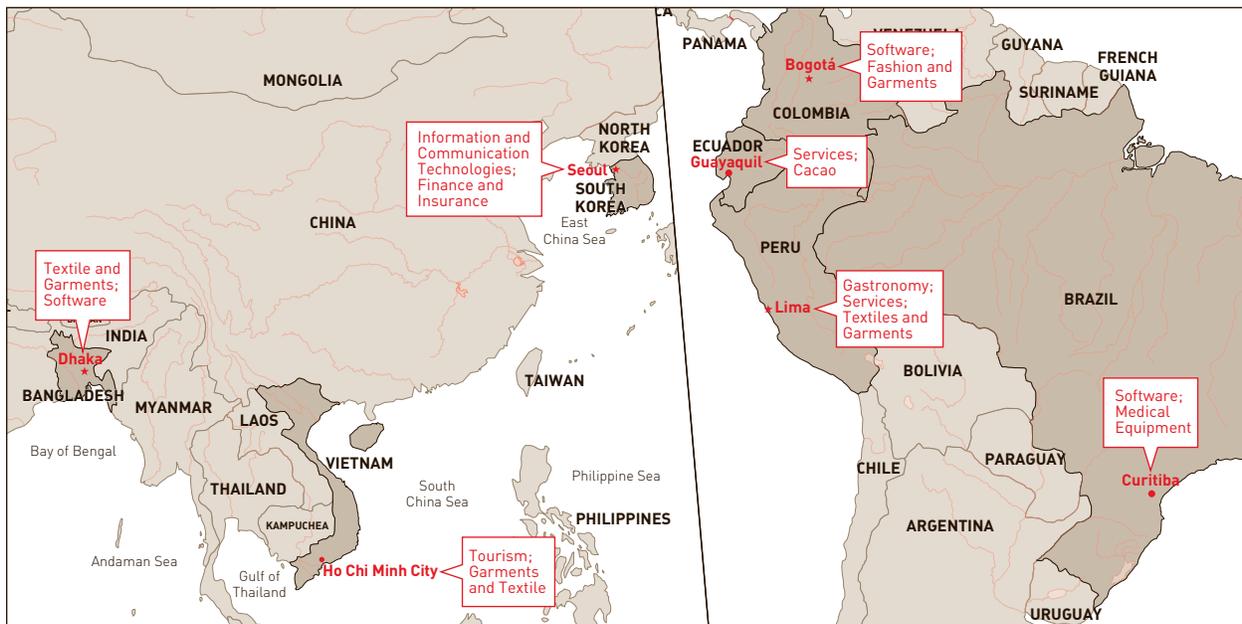
## Improving Cluster Competitiveness

Most of the high-performing clusters are export-based, requiring a degree of competitiveness in international markets. The qualitative portion of the study identifies several factors that have been and will continue to be critical to competitiveness and cluster development in the cities studied.

### 1. City competitiveness requires innovation and strong technical capacity.

The rapid urbanization evident in Asia and parts of Latin America calls for new vision in addressing infrastructure, information technology, urban spaces, and a growing middle class with evolving consumption patterns and demands. Latin American cities are making some progress on that front. The efforts of municipal leaders have attracted investment to Guayaquil while Lima and Bogotá benefit from fast growth in Peru and Colombia, respectively. Expansion in Curitiba is linked to sustained urban planning. But the innovative approaches that strengthen internal cluster capacity—and set the stage for long-term competitiveness—remain in short supply in Latin America.

**Figure 1. High Performing Clusters in Select Latin American and Asian Cities**



<sup>5</sup> See *The Competitive Advantage of Nations* by Michael E. Porter. (New York: The Free Press, 1990).

All seven cities contain special industrial areas and economic zones, but only Seoul and Curitiba adequately promote industrial specialization and agglomeration. Furthermore, despite their urban locations, Latin America's prestigious educational institutions and universities are not always linked to the industrial clusters and, therefore, do not support technological innovation and transformation. There is some evidence of clustering and value-chain development within natural resource-based industries in parts of Latin America, but the cities in the RCC study generally lack the skilled managers and technical specialists necessary for the development of industrial clusters. This is true in Guayaquil, for example, despite some success in facilitating business creation and attracting investment. If anything, industry is increasingly dispersed in most of these metropolitan areas. That reduces the agglomeration effect, increases transaction costs, and dilutes competitiveness.

## 2. Regional coordination of production is key to city competitiveness.

Latin American cities have no joint strategy for regional trade integration. Difficult geography and weak production

networks contribute to this problem, as do diverging trade strategies. Pacific Alliance members and observers seek enhanced opportunities for integration and trade among themselves and with Asia, while Mercosur nations support a different trade agenda.

The three cities in Asia demonstrate greater openness to trade than those in Latin America, and their exports are higher thanks to productive integration of goods and services across the region. Seoul stands out as the most advanced in terms of per capita GDP, employment, ease of doing business, and other criteria (See Table 2). Ho Chi Minh City in Vietnam and Dhaka in Bangladesh are also high growth cities. They are located in corridors that benefit from maritime and road infrastructure. They also enjoy development policies that strengthen economic complementarities and integration among countries and cities.

## 3. The public sector plays a critical role.

City growth and development require government promotion of infrastructure development (and regional infrastructure integration), innovation, strategic investment, and urban planning. Initial findings of the RCC study indicate that low

**Table 2. Economic Indicators**

Indicator	Dhaka	HCMC	Seoul	Bogotá	Curitiba	Guayaquil	Lima
GDP per capita (2011/2012)	\$1,800	\$3,260	\$24,261	\$9,943	\$12,379	N/A	\$13,344
Primary sector employment	4.5%	2.3%	0.02%	0.7%	0.2%	15.7%	3.9%
Manufacturing and building employment	40.0%	43.3%	6.06%	21.5%	17%	18.4%	16.3%
Services and trade employment	55.5%	54.4%	84.99%	76.5%	82.8%	65.9%	54.0%
Main export industries	ready-made garments, manpower	mining, agriculture, seafood, IT software	transport equipment, machinery, chemicals products	planes and aircrafts, coffee, flowers, medicines	cars and tractors (including parts and components), agricultural machinery, integrated circuits	bananas, seafood, fish, cocoa	traditional mining, oil, gas, textiles
World Bank's Doing Business Indicator	45th	N/A	8th	45th	130th	139th	N/A

"Regional Competitiveness of Cities in Asia and Latin America: Preliminary Summary Report," CAF and ADB, May 2013.

labor productivity, weak business dynamics, and poor inter-regional infrastructure especially affect the Latin American cities' competitiveness. Only Curitiba possesses a strong institutional framework, with urban planning as a focus of development policies. In Bogotá, Lima, and Guayaquil, the public sector's role has changed with political cycles. All four Latin American cities have higher quality of life indicators than their Asian counterparts, but they cannot compete in terms of business dynamics, human capital, and infrastructure.

A regional logic seems to guide Asia's urban development policies, most notably in terms of infrastructure and human capital development. Asian cities compete with one another for investment and trade while still recognizing the need infrastructure and communication systems across borders. Throughout the region, there are integrated production networks for vehicles, household appliances, and other goods. In Latin America, however, intraregional trade is still low and there is less direct competition between cities. A lack of connectivity among urban systems and between cities—especially in terms of trade logistics—negatively affects overall city competitiveness.<sup>6</sup>

All of the cities in the study face increasing vehicle traffic, rising housing costs, and decreasing quality of residential areas. Poor urban conditions have, in some cases, led companies to transfer their businesses to the city periphery or even overseas. In certain cases, these challenges have led to declining investment and employment. The risks associated with climate change, air and water pollution, and environmental waste are also cause for concern. To address these challenges, Seoul has launched a carbon tax and promoted the development of green industries. Authorities in Ho Chi Minh City indicated support for an action plan on climate change. Knowledge of environmental and urbanization best practices, impact evaluation, and effective policy

instruments will be increasingly necessary in the cities studied if competitiveness is to increase, institutional capacity is to grow, and effective public management is to be effective.

## A regional logic guides Asia's urban development policies, most notably in terms of infrastructure and human capital development.

### 4. Private and public sector coordination is also a necessary component.

Added value in local industries and increased productivity will elevate city competitiveness. Value chain upgrading and cluster development are essential to local productive capabilities, but they also require coordination between the public and private sectors. While there is some evidence of government and private sector cooperation on industrial development in the cities studied, limited access to funds and difficult bureaucratic procedures dampen investment growth and industry cluster development. Survey and focus group results from the study indicate Lima and Bogotá have also launched initiatives to promote competitiveness and investment by improving regulations and conditions for investment. Among the seven cities, however, collaboration among private-sector firms is fairly weak and collaboration between the public and private sectors varies.

### The China Effect

The "China Effect," a reference to China's rapid economic growth, has been fundamental to the expansion of cities in Asia and in Latin America. China's demand for raw materials has contributed to growth in large and intermediate cities in Latin America. In Asia, deeper integration of infrastructure and production networks and the internationalization of value chains are largely a result of China's influence.

<sup>6</sup> CAF (2009) *Caminos para el futuro: Gestión de la infraestructura en América Latina*. Caracas; Guerrero, Pablo, Krista Lucenti and Sebastián Galarza (2009) "Trade Logistics and Regional Integration in Latin America and the Caribbean." Inter-American Development Bank, Washington, DC; Mesquita Moreira, Mauricio, Christian Volpe and Juan Blyde (2008) "Unclogging the Arteries: The Impact of Transport Costs in LAC." Inter-American Development Bank, Washington, DC.

Outsourcing and offshoring have created production hubs inside China and throughout Asia. These hubs have strengthened urban zones around production and assembly centers. The integration corridors through Ho Chi Minh

## China has not yet clearly enhanced production integration and value chain internationalization in Latin America.

City and Dhaka are a direct result of stepped-up Chinese production and trade. The “China effect” is further magnified in coastal Asia where air and maritime transport of goods and people is important to the urban economy. China’s pace of growth may be slowing,<sup>7</sup> but the industrial clusters along its coast (Dalian, Beijing, Tianjin, Xiamen, and Hong Kong) and large-scale infrastructure projects (including transnational integration corridors) continue to bring modernization and growth to urban areas in Asia.<sup>8</sup>

In Latin America, by contrast, cross-country linkages within production networks remain weak or even nonexistent. Chinese trade in the region has focused overwhelmingly on commodities and extractive industries, detrimentally affecting manufacturing in certain countries. The extent to which Latin American cities derive any clear benefit from China’s economic engagement depends on their exposure to Chinese trade, their share of commodity exports, and factors like innovation and production capacity.

China’s presence has brought service sector development to some Latin American capitals and other large cities, although it is generally related to commodities-sector growth elsewhere in the country. In terms of industry, multinationals operating in the region remain focused on basic production and assembly, with much of their attention directed toward Brazil and Mexico. China has not yet clearly enhanced production integration and value chain internationalization in Latin America.

<sup>7</sup> China’s economy grew more than 9 percent in 2012, according to the IMF World Economic Outlook 2013. There may be a deceleration but the growth is projected to exceed 7 percent in the coming years.

<sup>8</sup> Asian Development Bank (2009). *Infrastructure for a Seamless Asia*. ADB Institute, Tokyo.



INTER-AMERICAN  
DIALOGUE

## Inter-American Dialogue Board of Directors

**Michelle Bachelet**, *Co-Chair*, Chile

**Carla A. Hills**, *Co-Chair*, United States

**L. Enrique Garcia**, *Co-Vice Chair*, Bolivia

**Thomas F. McLarty III**, *Co-Vice Chair*, United States

**David de Ferranti**, *Treasurer*, United States

**Peter D. Bell**, *Chair Emeritus*, United States

**Fernando Henrique Cardoso**, *Chair Emeritus*, Brazil

**Ricardo Lagos**, *Chair Emeritus*, Chile

**Enrique Iglesias**, *Vice Chair Emeritus*, Uruguay

**Alicia Bárcena**, Mexico

**Francis Fukuyama**, United States

**Donna J. Hrinak**, United States

**Marcos Jank**, Brazil

**Jim Kolbe**, United States

**Thomas J. Mackell, Jr.**, United States

**M. Peter McPherson**, United States

**Billie Miller**, Barbados

**Brian O'Neill**, United States

**Pierre Pettigrew**, Canada

**Jorge Quiroga**, Bolivia

**Marta Lucía Ramírez**, Colombia

**Eduardo Stein**, Guatemala

**Arturo Sarukhan**, Mexico

**Roberto Teixeira da Costa**, Brazil

**Martín Torrijos**, Panama

**Elena Viyella de Paliza**, Dominican Republic

**Ernesto Zedillo**, Mexico



**Michael Shifter**

*President*



The Inter-American Dialogue is the leading US center for policy analysis, exchange, and communication on issues in Western Hemisphere affairs. The Dialogue brings together public and private leaders from across the Americas to address hemispheric problems and opportunities. Together they seek to build cooperation among Western Hemisphere nations and advance a regional agenda of democratic governance, social equity, and economic growth.

The Dialogue's select membership of 100 distinguished citizens from throughout the Americas includes political, business, academic, media, and other nongovernmental leaders. Sixteen Dialogue members served as presidents of their countries and more than three dozen have served at the cabinet level.

Dialogue activities are directed to generating new policy ideas and practical proposals for action, and getting these ideas and proposals to government and private decision makers. The Dialogue also offers diverse Latin American and Caribbean voices access to US policy discussions. Based in Washington, the Dialogue conducts its work throughout the hemisphere. A majority of our Board of Directors are from Latin American and Caribbean nations, as are more than half of the Dialogue's members and participants in our other leadership networks and task forces.

Since 1982—through successive Republican and Democratic administrations and many changes of leadership elsewhere in the hemisphere—the Dialogue has helped shape the agenda of issues and choices in inter-American relations.

**1211 Connecticut Avenue, NW, Suite 510  
Washington, DC 20036**

**PHONE: 202-822-9002 ■ FAX: 202-822-9553  
EMAIL: [iad@thedialogue.org](mailto:iad@thedialogue.org) ■ WEB SITE: [www.thedialogue.org](http://www.thedialogue.org)**