

Global Cities

The changing urban hierarchy

Economist

Mark Britton

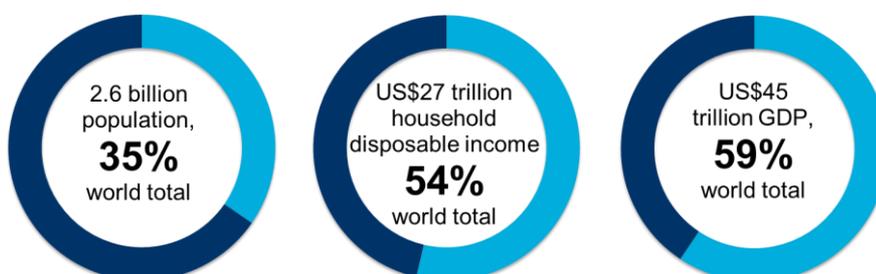
Associate Director

- The top 780 Global Cities currently produce almost 60 percent of all world economic activity, and they will grow in importance as urbanisation continues. By 2035, these cities will be home to almost half a billion additional people with GDP rising by \$32 trillion (constant 2015 prices and exchange rates).
- We forecast significant growth disparities between cities and therefore expect to see considerable changes in the world order over this period. Many of today's emerging market cities, particularly in Asia, will continue to progress along the development path and the balance of urban economic power will shift further east as a result.
- By 2035, Asian cities will account for almost half of global city activity, overtaking the aggregate of European and North American cities in just over a decade.
- But we still expect most of today's urban superpowers to retain their positions as the largest cities in terms of GDP in 2035, led by New York, Tokyo, London and Los Angeles.
- However, Paris is expected to drop out of the top 5, replaced by Shanghai, which will also be joined in the top 10 by three other rapidly growing Chinese cities: Beijing, Guangzhou and Tianjin.

The expanding footprint of Global Cities

The economic landscape is evolving, with urban centres at the forefront of change. The current global footprint of the 780 city regions covered by our Global Cities dataset accounts for just over a third of world population. Furthermore, in terms of economic and consumer power, these cities are much more important with residents possessing more than half the world's disposable income and generating almost 60 percent of global economic activity.

Global footprint of the 780 cities in 2016



Source: Oxford Economics

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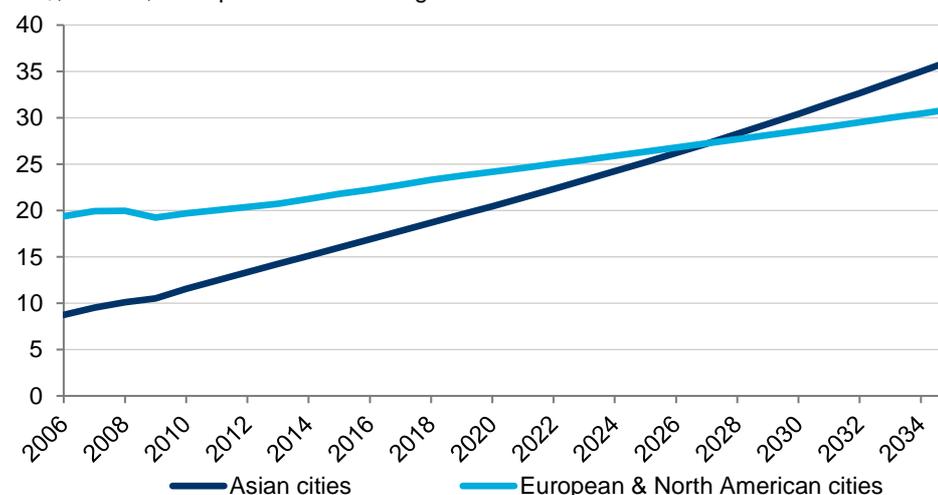
And we expect cities' share of global activity to rise further. By 2035, the global 780 cities will be home to almost half a billion additional people. There will be 264 million more people in employment and the value of GDP will rise by an extra \$32 trillion (constant 2015 prices and exchange rates).

But we forecast significant growth disparities between cities and therefore expect to see considerable changes in the world economic order over this period. The world's urban centre will continue to shift eastwards, particularly as growth in a number of cities in the West is likely to be constrained by an ageing, and in some cases declining, population.

Asian cities will be at the forefront of this shift. The aggregate GDP of Asian cities will overtake the sum of those located in Europe and North America in just over a decade. To put this into context, just ten years ago the aggregate GDP of European and North American cities was twice the size of Asian cities.

Aggregate city GDP, 2006-35

US\$, trillions, 2015 prices and exchange rates



Source: Oxford Economics

Chinese cities account for a large part of this growth. The GDP of the 150 Chinese cities covered in this study already exceeds that of the largest European cities and will overtake North America's cities by 2022. By 2035, the aggregate GDP of Chinese cities is forecast to more than double from almost US\$11 trillion today to over US\$25 trillion (measured in 2015 prices and exchange rates). This means that Chinese cities alone will account for almost half of the increase in global city GDP and will represent around a third of total urban GDP by 2035. By contrast, the combined output of the 58 North American cities covered in our analysis will rise by US\$5.3 trillion, followed by non-Chinese Asian cities (US\$4.7 trillion) and then European cities (US\$3.4 trillion).

Chart 1

GDP in Asian cities projected to exceed Western peers in just over a decade

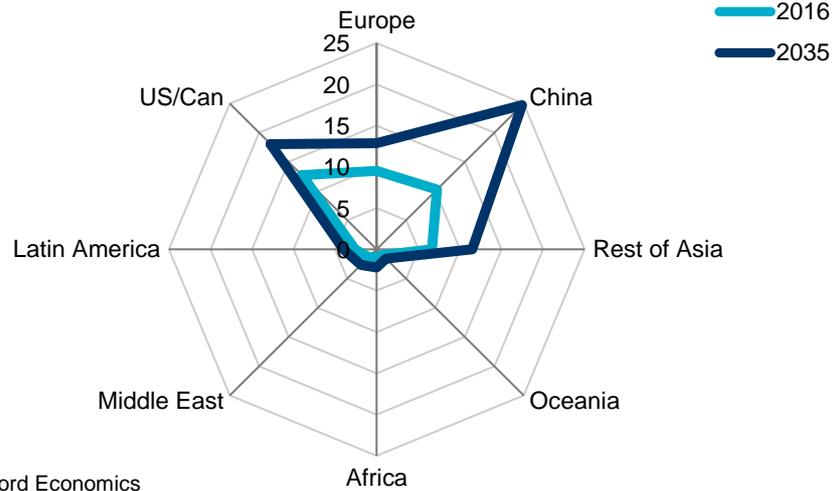
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Chart 2

Chinese cities will account for a third of total urban GDP in 2035.

Aggregate city GDP

US\$, trillions, 2015 prices and exchange rates



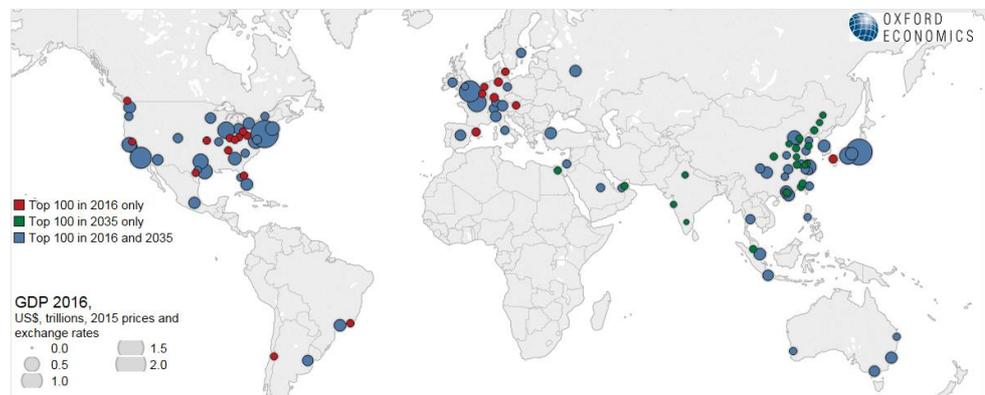
Source: Oxford Economics

Chinese cities climb the rankings, but western giants retain top spots

Although we project a further shift eastwards, we expect the urban superpowers of today to retain their positions as the largest cities in terms of GDP in 2035, led by New York, Tokyo, London and Los Angeles. Shanghai completes the top 5, at the expense of Paris, while Beijing, Guangzhou and Tianjin also take up positions in the top 10.

The more significant changes occur further down the rankings. Indeed, Chinese cities will move rapidly up the global city GDP league table. Today there are 18 Chinese cities in the world's top 100 ranked by absolute size of GDP and by 2035 there will be 15 more, with Dongguan, Jinan and Xian climbing the rankings. Four non-Chinese Asian centres also enter the top 100: Mumbai, Delhi, Bangalore and Kuala Lumpur.

Largest 100 cities by GDP, 2016 and 2035



Map 1

By 2035 there will be more Asian cities in top 100 than in Europe and North America combined.

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These new entrants come at the expense of a number of cities in the West. The number of North American cities in the top 100 will fall by 11 to 27 in 2035, with cities such as Pittsburgh, Indianapolis and Vancouver failing to maintain top 100 status. In Europe, we expect seven cities to drop out of the top 100, leaving just 14. Those falling out of the top 100 from Europe include capitals cities (Amsterdam, Brussels, Copenhagen and Vienna), as well as Barcelona, Frankfurt and Hamburg.

Largest 20 cities, ranked by GDP in 2035 (constant 2015 prices and exchange rates)

Table 1

Four of today's largest 5 cities remain in place in 2035.

City	Change since 2016		
1 New York-Newark-Jersey City (US)	→	0	
2 Tokyo (JPN)	→	0	
3 London (UK)	↔	1	
4 Los Angeles-Long Beach-Anaheim (US)	↘	-1	
5 Shanghai (CHN)	↔	5	
6 Beijing (CHN)	↑	9	
7 Paris (FR)	↘	-2	
8 Guangzhou, Guangdong (CHN)	↑	14	
9 Chicago-Naperville-Elgin (US)	↘	-3	
10 Tianjin (CHN)	↑	17	
11 Shenzhen (CHN)	↑	14	
12 Dallas-Fort Worth-Arlington (US)	↘	-4	
13 Chongqing (CHN)	↑	17	
14 San Francisco-Oakland-Hayward (US)	↘	-2	
15 Washington-Arlington-Alexandria (US)	↘	-6	
16 Houston-The Woodlands-Sugar Land (US)	↘	-5	↑ 7
17 Osaka-Kyoto (JPN)	↓	-10	↔ 2
18 Suzhou, Jiangsu (CHN)	↑	15	→ 0
19 Philadelphia-Camden-Wilmington (US)	↘	-6	↘ 2
20 Boston-Cambridge-Newton (US)	↘	-6	↓ 3

Key

↑ 7 Up > 7 places

↔ 2 Up 1 to 6 places

→ 0 No change

↘ 2 Down 1 to 6 places

↓ 3 Down > 7 places

Source: Oxford Economics

Whilst Asian cities see their presence in the top 100 rise, the shift in other developing markets is less significant, at least in terms of GDP. Latin America loses two cities from the top 100 – Santiago and Rio de Janeiro. We expect the number of cities in the top 100 located in the Middle East that we currently cover to rise to four, with Dubai moving up 25 places to 89th. However, the emergence of Middle East cities is an area to watch, particularly if authorities are able to successfully implement some of their ambitious plans for city development. For

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example, the Saudi Arabian government aims to build a new megacity (named Neom), with the goal of diversifying its economy to focus less on crude oil.

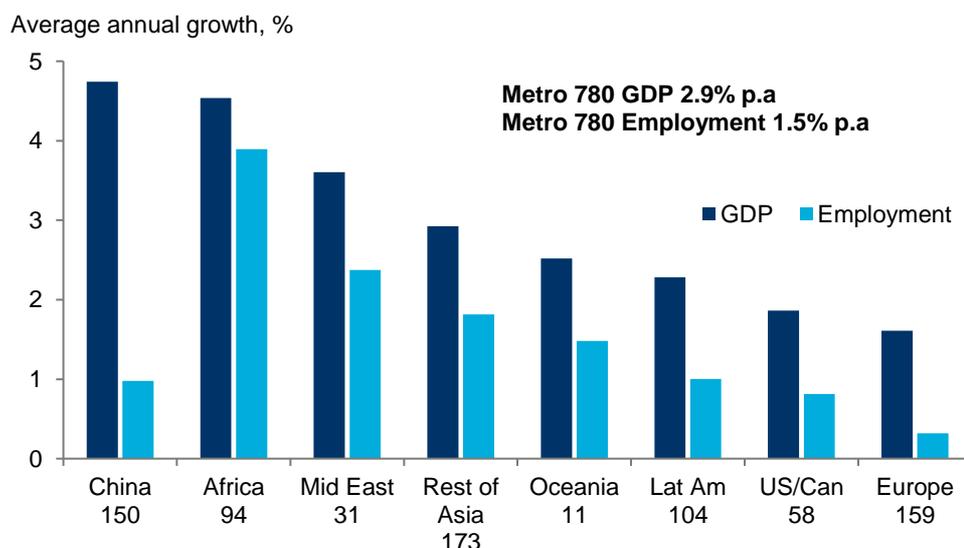
Robust growth in Africa's cities, but many lack economic scale

On the whole, African cities fail to make a significant impact in terms of economic scale. Although we forecast GDP growth for African cities to rank second fastest over the next two decades, behind Chinese cities, these economies are relatively small and it will take a long time for them to attain the scale of others. Indeed, only Cairo is expected to break into the top 100, ranking 84th. African cities do however rank higher in terms of population growth. Rapid urbanisation means that by 2035, Africa will be home to 3 of the most populous 20 cities in the world, led by Lagos (4th) with a population of 28.5 million – more than double its current size.

Chart 3

African cities are forecast to experience strong GDP growth, just below the pace of Chinese cities.

Aggregate city GDP growth, 2016-35



Source: Oxford Economics

The challenges ahead

The combination of further global integration and urbanisation does however create challenges for cities at various stages of the development curve. Rapid population growth in emerging cities requires considerable management to ensure the infrastructure can accommodate the additional people. This includes the provision of adequate housing, support services and transport networks, whilst also developing and maintaining the city as an attractive place to live and work. For example, in China, authorities are already having to implement policies to alleviate some of the negative externalities associated with the rapid expansion

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experienced in some of their megacities, including Beijing and Shanghai, such as imposing limits on population and encouraging growth in new satellite cities.

For developed markets, one of the key challenges will be maintaining competitiveness against emerging cities. Over the past decade, we've continued to see relocations of jobs and activity from the West to emerging markets where labour is cheaper, typified by growth in manufacturing in Asia at the expense of significant job losses in the US and Europe. However, this phenomenon isn't limited to industrial sectors, for example Bangalore is trying to position itself as a new Silicon Valley.

This report provides an overview of the economic outlook for the cities covered in our latest Global Cities forecasting service. The updated dataset is now available to clients of the service, covering 780 city regions around the world, all defined in terms of their larger metro areas. The database covers headline economic, demographic and labour market forecasts, as well as more detailed indicators of performance, such as household income and spending, and growth in employment and output across key sectors.