The Regional Economy of Helsinki from a European Perspective
Project group

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# Contents

Preface .................................................................................. 5

1 INTRODUCTION .................................................................. 7
2 THE METROPOLISES IN EUROPE ........................................ 8

3 SIZE OF THE METROPOLISES ........................................ 10
   Population ......................................................................... 10
   Volume of production ..................................................... 11

4 ECONOMIC STRUCTURE .................................................. 12
   Importance of the service sector ...................................... 12
   The role of manufacturing .............................................. 13

5 LABOUR FORCE .................................................................. 14

6 PRODUCTION AND PRODUCTIVITY ...................................... 16

7 ECONOMIC GROWTH OF METROPOLISES IN 1995-20021 ....... 18
   Population growth ......................................................... 18
   Employment growth ....................................................... 19
   Production growth ......................................................... 20
   Relation between city growth and national growth ............. 20

8 FUTURE ECONOMIC GROWTH IN METROPOLISES ................. 22
   Employment forecast ..................................................... 22
   Production forecast ....................................................... 23

9 THE HELSINKI REGION FROM AN INTERNATIONAL PERSPECTIVE ........ 25

SOURCES ........................................................................... 27
Preface

This study aims at an overview of both similarities and differences between European metropolises with regard to the economic structure and the growth rate of the economies. The current state and the future development prospects of the economy in 45 metropolises in Europe are analysed. One specific aim of the research is forecasting future economic growth. All 25 member countries of the EU as well as Norway and Switzerland are included. The study is based on research made by The European Economic Research Consortium (ERECO) and co-ordinated by Cambridge Econometrics (UK).

Almost all of the metropolitan regions are considerably more productive than their host countries. This means that the per capita value-added goods and services produced in the metropolitan regions is higher than the respective ratio for the entire country. One third or even a greater share of the Gross Value Added (GVA) in Western and Central Europe is generated in the metropolitan regions, even though their share of the population is about one-fourth. Seppo Laakso, ERECO’s associate in Finland and researcher of this study, brings about the fact that metropolises provide agglomeration benefits for business, explaining the higher productivity and greater innovation of firms in the metropolises than in other areas.

In the near future, up to the year 2008, GVA and employment growth in European metropolises are expected to be slower compared with the outcome of the second half of the 1990’s.

This study is a joint project conducted by City of Helsinki Urban Facts and the Business Development Department of the City of Helsinki Economic and Planning Centre.

Helsinki, October 2004

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1 INTRODUCTION

The western and central regions of Europe are among the most urbanized areas in the world. Approximately 80% of the population of these regions live in urban areas. However, the cities and towns differ considerably with respect to size, urban structure and economic base, ranging from small agricultural towns to huge mega-metropolises. This wide range of size distribution of urban areas is an essential feature of the urban network in Europe.

The largest urban areas are generally called metropolises – even though there is no universally accepted definition for a metropolis. In this study, any large and economically significant urban area is viewed as a metropolis. Normally, the geographic area of a metropolis does not equate to that of an administrative municipality, but rather consists typically of a central city – usually one, but in some metropolises two or more - and a variable number of suburban municipalities around it. In other words, by a metropolis we mean a functional urban area.

European metropolises as well as being large centres of population are also major centres of economic activity. Indeed, they are the motors of Europe’s economic growth, providing benefits of agglomeration for businesses, and attracting the most dynamic companies and fastest growing industries. Hence, the higher productivity and greater degree of innovation within them compared with other areas.

The Helsinki Region is the only urban area in Finland. Moreover, because of its size and economic significance, it is also the only area that can be termed a metropolis. Its population exceeds that of the six next biggest Finnish urban areas put together. On a European scale, by contrast, it is only a medium-sized or even small metropolis, for example, it has only one ninth of the population of the Paris Region.

This study provides a comparative overview of the economy of European metropolises. The emphasis is on the comparison of Helsinki with other European metropolises with respect to size, economic structure and economic performance. Of particular interest is the role of Helsinki and other metropolises in the economic growth of their home countries, as well as their impact on Europe as a whole.
2 THE METROPOLISES IN EUROPE

This study is based on empirical research carried out and published by the European Economic Research Consortium1 (ERECO). The research work was led and co-ordinated by Cambridge Econometrics Ltd. The Finnish partner in the project was Kaupunktutkimus TA Oy (Urban Research TA Ltd).

The study covers 27 countries in western and central Europe. All 25 EU countries are included and, in addition to them, Norway and Switzerland. The set of metropolises consists of 45 urban areas from these countries. In most countries the capital is included. In each of the Nordic countries, the capital is the only metropolis in the study: Helsinki in Finland, Stockholm in Sweden, Copenhagen in Denmark, and Oslo in Norway. This is also the case in most other small countries of the EU, while in big EU countries several major metropolises are included along with the capitals. The new EU countries are represented by Prague in the Czech Republic, Budapest in Hungary and Warsaw in Poland. The metropolises of the study are presented on the map below.

Most of the metropolises have more than one million inhabitants. In addition, there are some smaller urban areas which are included because of their major economic or administrative significance. On the other hand, some urban areas with more than one million inhabitants are excluded.

The area of each metropolis is defined using the statistical regional divisions (NUTS) of the EU or the equivalent division in the case of non-EU countries. Thus, depending on the country and urban area, a metropolis is defined at one of the following levels: NUTS 1, NUTS 2, NUTS 3 or NUTS 4. Most of the metropolises in the study fall into the NUTS 3 category. Helsinki is the only region defined at NUTS 4 level (Helsingin seutukunta).

As a consequence, the areas of the metropolises are not defined as functional urban areas by homogeneous criteria. In some cases the area of the metropolis is significantly larger than the functional urban area while in certain instances the area is clearly smaller. This affects the results of this study in some cases, especially when the size of the area is considered. That said, as far as Helsinki in concerned, the NUTS 4 area corresponds reasonably well to the real functional urban region, in spite of the fact that it is not exactly the same as the area normally defined as the Helsinki Region1.

The data concerning economic, labour and population statistics are in general based on the official statistics of each country. Nevertheless, there are problems in some cases with the comparability of data. However, the study gives a reasonably reliable picture of the variation between metropolises and the differences between Helsinki and other metropolises.

The forecasts concerning economic developments are based on the views of both the national experts of each country and those of Cambridge Econometrics, the co-ordinator of the project.

2The Helsinki Metropolitan Area (Cities of Helsinki, Espoo, Kauniainen and Vantaa) and the 8 fringe municipalities.
Map 2.1: Metropolises in Europe
3 SIZE OF THE METROPOLISES

The ranking and relative differences with respect to size give an interesting picture of the network of European metropolises. The size of an urban area is essential not only for its own sake but also because it is related to the economic structure and economic growth potential, as will be shown in the following sections.

The size of a metropolis is crucially dependent on how its area is defined. As mentioned in the previous section, the metropolises in this study are not defined by the criteria of a functional urban area. The definition used and the NUTS level selected determine the figures of each metropolis.

**Population**

Population is the most common measure of the size of urban areas. Rank ordering by population of European metropolises is presented in Figure 3.1. According to the definition of area in this study, Paris, with 11 million inhabitants, is the biggest metropolis in Europe. London, with a population of 7.3 million, is second. It should be noted that in this study London covers only the areas of Inner London and Outer London, whereas in some other statistical sources the functional urban area of London is significantly larger. The next six metropolises in rank order, after the above two mega-metropolises, are Madrid and Barcelona, each with about 5 million inhabitants, followed by Rome, Milan, Athens and Berlin, with populations of 3.4–3.9 million.

Helsinki, with 1.2 million inhabitants, ranks 32nd among the metropolises in this study. Helsinki’s population is approximately one ninth that of Paris. Stockholm’s population of 1.9 million puts it in 19th position, while Copenhagen stands at 20 (1.8 million) and Oslo at 39 (1.0 million).

From the point of view of the European urban network the size distribution of major cities is interesting. There are the two mega-metropolises (Paris and London), but after them there are several steps down in the size distribution with numerous cities of approximately the same size on each step. This indicates that Europe still consists of several national or sub-national urban networks.

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3 According to the definition used by the UN London had 9.6 million inhabitants in 2000 (Statistics Finland).

4 Note that some urban areas in Germany, Italy and UK not included in this study are bigger than Helsinki w.r.t population.
Volume of production

Another criterion by which to analyse the size of urban areas is volume of production. The size ranking of the European metropolises with respect to total gross value added (GVA) is presented in Figure 3.2. Paris is overwhelmingly the leading metropolis in terms of production and the size difference between Paris and most other metropolises is even greater in this respect than it is when comparing population size. The reason is that Paris is one of the most productive cities in Europe. Helsinki’s rank is 23 on the GVA scale, while it is 32 in terms of population. The volume of production in Helsinki is approximately one ninth that of Paris and about the same as in Amsterdam, Athens and Marseille. The rank of eastern European metropolises Warsaw, Budapest and Prague is significantly lower with respect to production than with respect to population.

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5The GVA figures of non-euro countries are converted to euros using exchange rates but not purchasing power parity (PPP). PPP would give higher GVA values especially for cities of Eastern European countries.
4 ECONOMIC STRUCTURE

Importance of the service sector

Common to almost all the big cities is the great importance of the service sector. In the metropolises of this study the service sector’s share of total employment is 78% on average, whereas in all countries of the study, the service sector employs two-thirds of the workforce on average.

However, there are significant differences between the cities as regards the share of employment and the specialisation of the service sector. The domination of the service sector is highest in London, Amsterdam, Stockholm, Brussels, Rome and Paris. In all of these cities, the service sector’s share of employment is around 85% or more. Helsinki is also one of the group of service sector-oriented cities of Europe in spite of the fact that the percentage is slightly lower than in other Nordic capitals: the service sector in Helsinki employs 79% of the workforce.

Within the service sector, the public administration and public service sectors in Rome, Berlin, Stockholm and Copenhagen employ over 35% of the workforce. In contrast, slightly less than 30% of the workforce in western and central European countries and in metropolises altogether is employed in these sectors. Naturally, capital cities employ more in the public sector because of the concentration of central government functions and associated activities. This clearly affects the economic structure of Rome and Berlin. In the Nordic countries, the high proportion of public sector employment can partly be explained by the significant role of municipalities and counties in providing education, social and health care services. In Helsinki, public administration and services employ a slightly higher share than the average of all the metropolises in the study. Nonetheless, the figure is lower than in Copenhagen or Stockholm.

A large private service sector is a common feature of all metropolises. On average, half of the workforce in the European metropolises is employed by private services, while the equivalent figure for western and central Europe as a whole is 40%. The highest concentrations of private service sector jobs in Europe are found in London, Amsterdam and Brussels, where over 60% of the workforce is employed in this sector. In Helsinki, the figure is 47% of the workforce. Warsaw is the exception as it still has a rather poorly developed private service sector.

In the private market services sector in the metropolises approximately 30% of the jobs are in the wholesale and retail trades, while a slightly bigger share is found in the group titled “other market services”, which include consultancy, marketing, property management, renting services etc. The rest of the private service jobs are in hotels and restaurants, transport and communications, and financial services. While Helsinki differs remarkably from the rest of Finland with re-
spect to its industrial structure, its service structure is quite similar to that of other metropolises in Europe. However, the share of transport and communications among all jobs is significantly higher in Helsinki than in the metropolises on average, indicating that Helsinki specialises greatly in those industries associated with logistics, and acts as a transport and communications hub for the whole of Finland. The share of wholesale and retail jobs also exceeds the average of the metropolises while the shares of hotels and restaurants and of financial services are lower than in metropolises overall.

The role of manufacturing

Nineteenth and twentieth century industrialisation generated massive economic development in almost all of the cities which today are the metropolises of Europe. More recently, the service sector has grown and expanded at the expense of manufacturing industries in nearly all large European cities. In most metropolises, manufacturing employs a smaller percentage of the workforce and accounts for a value-added production rate clearly below that of the average of the 27 countries in this study. The manufacturing and construction sector employs 20 % of the workforce in the metropolises on average, while the equivalent figure for western and central Europe as a whole is 28 %. In Helsinki, the figure of nearly 21 % is slightly higher than the average of all the metropolises.

That said, manufacturing industry still has a solid role to play in the economy of many European metropolitan areas. It employs over one-third of the workforce in Barcelona and slightly less in Milan, Stuttgart and Turin. One or several clusters of predominating industries are to be found in each of the following: Milan and Barcelona have textiles, machinery and instrument industries, and in Stuttgart and Turin there is a cluster of automotive manufacturing and associated industries. In fast-growing metropolises in eastern and southern Europe, for instance Budapest, Prague, Madrid and Athens, the construction industry forms the predominant cluster. It is worth noting that most of the industrialised metropolises in Europe cannot be characterised as declining cities. On the contrary, Milan and Barcelona, for example, are among the most dynamic and economically robust metropolises in the whole of Europe.
5 LABOUR FORCE

The labour force is the most important resource for production in all metropolises, especially when most big cities are highly specialised in the labour intensive service sectors. Unfortunately, the data available for this study does not allow an in-depth analysis of the quantitative and qualitative properties of labour in each metropolis.

The activity rate of the population – the number of employed per 100 inhabitants – in selected metropolises is presented in Figure 5.1. It shows that the activity rate is significantly higher in metropolises (50 %) than in the total area of 27 countries (43 %). There are several reasons for this difference. The age structure itself explains a part of the difference, because the percentage of the population that is of working age is higher in metropolises than in the countries as a whole. However, the main reason is that more jobs are generated and labour markets function better in metropolises than in other regions. The activity rate is highest – nearly 70 % – in Amsterdam and Zurich, and about 60 % in Dublin, Hamburg, Helsinki and Prague. The highest figures may be partly explained by the fact that in these cities the data represent jobs located in the area rather than employed people living in the area. Consequently, people commuting to these cities from locations outside the metropolis cause additions to the figures.

In addition to Helsinki, all the other Nordic capitals – Oslo, Stockholm and Copenhagen – have higher activity rates than the average of the metropolises in this study. The lowest activity rates are 40–45 %. A high proportion of elderly people in the population, a high unemployment rate and low participation of females in the labour markets are the main factors explaining the low activity rates in these cities.

The average unemployment rate of metropolises is more than 2 percentage points lower in metropolises than in the area on the whole. This reinforces the idea that urban labour markets operate well, and in turn generate jobs more effectively than is the case in other areas of a country. That said, there are large differences in unemployment rates between European
metropolises. This is partly due to differences in statistical sources and institutions concerning unemployment. However, the figures also represent the balance of labour demand and supply. The highest unemployment rate, nearly 17%, is in Berlin. In many large capital cities, for instance Paris, Rome, Madrid and Athens, the unemployment rate clearly exceeds the mean of all metropolises. The lowest unemployment rates are in Amsterdam, Dublin and the Nordic capitals, and also in Budapest, in which the statistics may not be comparable with those from other metropolises. In Helsinki, the rate of unemployment is higher than the levels of other Nordic capitals but is still clearly below the mean of all the metropolises.

Figure 5.2: The unemployment rate of selected metropolises in 2002
The Gross Value Added (GVA) per capita is a rough indicator both for the productivity and the income level of an area. In this study, the GVA figures are based on regional national accounting in each country.

As mentioned in section 3, the GVA figures of non-euro countries are converted to euros using exchange rates but not purchasing power parity (PPP). PPP would give higher GVA values, especially for cities of eastern European countries but lower values, for example, for Helsinki.

As is seen in Figure 6.1, the average GVA per capita of the metropolises is nearly one half higher than the average of the 27 countries, indicating that metropolises are more productive and richer zones than the countries as a whole.

There are many reasons which explain the high productivity of the metropolises. The capital-intensive enterprises of manufacturing and specialized services are concentrated in large city regions because of optimal operating conditions. The possibilities for harnessing economies of scale, competition, the availability of skilled labour, along with efficient transport and communication networks are the strengths of metropolises. In addition, primary production – essentially the sector of low productivity – is absent from the metropolises.

One third of the GVA in the 27 countries of Europe is generated in the metropolitan regions, even though their share of the population is one fourth. The two economically most significant metropolises, namely Paris and London, produce together approximately 7% of the total combined GVA of all 27 countries.

The highest GVA per capita in western and central Europe (in 2002) is in Zurich, where it is over three times as high as the average of all the countries. The next metropolises in the ranking are Hamburg, Brussels, Oslo, Amsterdam and Paris, followed by Vienna and the other Nordic Capitals, i.e. Stockholm, Copenhagen and Helsinki, where the GVA per capita ratio is about two times as high as the average for all 27 countries.

One of the main factors explaining the GVA per capita differences between metropolises is the national GVA per capita. Figure 6.2 shows that there is a strong correlation between city GVA and national GVA per capita. This is natural because normally the economic structure and performance of the country and major metropolises in that country are closely related. In most European countries, typically 30–40% of the national GVA is produced in the capital region and other major metropolises.
At the same time almost all of the metropolitan regions are considerably more productive than their respective countries. In other words, the per capita value-added goods and services produced in those regions are higher than the respective ratio for the country overall. This is demonstrated in Figure 6.2, where the position of the city above the diagonal line indicates that the GVA per capita in the city is higher than in the country. Only in the metropolises located in eastern Germany, and in a few manufacturing cities in Italy, Germany, the UK and France is GVA per capita lower than in the country.

The figure also shows that the gap between the metropolis and the country with respect to GVA per capita tends to be wider in high-income than in lower-income countries. In other words, the richer the country, the bigger is the gap between the capital city and other major metropolises, and the rest of the country.

Figure 6.2: Gross Value Added per Capita in metropolises vs. countries in 2002
The economic growth of metropolises during the past few years (1995–2002) is analysed using three variables: population, employment and production (GVA).

### Population growth

Population change in a given area over a given period of time is based on net migration and natural population change i.e. the difference between births and deaths. According to several studies, migration is related to local supply and demand of labour and to many other regional and individual factors (see Laakso and Loikkanen 2004). Natural population changes are related to the age structure of the population together with age- and sex-dependent mortality rates and age-dependent fertility rates.

According to Figure 7.1, the population grew faster in metropolises – approximately 0.45 % annually – than in the 27 countries on average (0.3 % p.a.) during the period 1995–2002. Population growth was fastest in Dublin – annual growth rate 1.4 %. The Nordic capitals Oslo, Helsinki and Stockholm also grew rapidly (1–1.3 % p.a.) Population declined significantly in Berlin, Prague and Budapest. In addition, the number of inhabitants decreased in the cities of the Eastern Germany, and some other manufacturing cities in central Europe.
Employment growth

Along with the populations, employment also grew significantly faster in metropolises when compared with national figures. The average growth rate in the metropolises was 1.8 % p.a. while the average growth in the 20 countries was 1.0 % p.a. (Figure 7.2).

Employment growth was very rapid in Dublin, 7.8 % p.a. from 1995 to 2002. The next fastest growth rates were in Helsinki, 3.9 %, and Amsterdam, 3.5 %, followed by Brussels, Madrid and Barcelona. In the other Nordic capitals employment growth was slightly lower than the mean of the cities. Employment declined in Berlin by almost 1 % annually.

There is a clear correlation between employment and population growth, as is illustrated in Figure 7.3. However, there is a lot of variation between cities in the mid-range. This indicates that in many metropolises there is considerable flexibility in the local labour markets and consequently employment growth does not automatically lead to massive inward-migration. On the other hand, there is significant migration to metropolises that is not directly linked to local labour markets, for example immigration from other countries. In addition, natural population growth significantly affects population growth whereas it is only loosely related to labour markets, at least in the short run.

Figure 7.2: Employment growth in selected metropolises in 1995–2002

Figure 7.3: Relationship between population and employment growth in metropolises in 1995–2002
Production growth

Not surprisingly, production grew faster in the metropolises (2.9 % p.a.) than in the countries as a whole (on average 2.4 % p.a.) during the period 1995–2002.

The growth rate of GVA was fastest in Dublin, 10.1 % p.a., closely followed by Warsaw. In Helsinki, the growth rate of GVA was 6.5 %, while in Stockholm it was 6.1 % and in Budapest 5.1 %. In Oslo, GVA growth was 4 % and in Copenhagen 3.2 %, slightly higher than the mean of the metropolises. GVA declined in Berlin by almost 1 % annually, like the employment.

The relation between GVA and employment growth is illustrated in Figure 7.5. In general, there is a correlation between GVA and employment growth. However, in the mid-range (GVA growth 1.5–3 % p.a.) there is a lot of variation in employment growth. There are some exceptions, such as Stockholm, where employment growth has been rather modest compared with GVA growth. In Prague and several other eastern European metropolises the rapid restructuring of the economic structures has led to a fast increase in productivity slowing down the employment increase relative to production growth.

Relationship between city growth and national growth

The above figures show that as a group the metropolises of Europe have grown faster than the mean growth of the respective countries with respect to population, employment and production. Economies of scale and the benefits of agglomeration are important factors that explain the faster growth rates of big cities. However, within the group of metropolises, the size of the urban area does not provide a clear explanation for short or middle-term differences in growth.

In contrast to size, the structure of the economy has a crucial influence on the economic performance of a city. A rough division can be made between metropolises in terms of versatility. At one extreme, there are versatile cities such as London,

![Figure 7.4: GVA growth in selected metropolises in 1995–2002](image)

![Figure 7.5: Relationship between employment and GVA growth in metropolises in 1995–2002](image)
and Paris, which have several strong export clusters. These metropolises have the best chances of growing in a stable manner because the booms and busts of individual clusters or industries normally balance each other out. At the other extreme, there are cities highly dependent on one single cluster, typically a branch of manufacturing. In this case, the economic development of the city is dominated by fluctuations in this key cluster. When the key cluster grows fast, the city grows fast, too, but if the cluster suffers from long-lasting structural trouble, this will limit the growth opportunities of the entire metropolis for a considerable time. During the period 1995–2002, rapid growth in Dublin, Helsinki and Stockholm, for example, was driven by their expanding ICT sectors. By contrast, growth in Berlin, Rome, Vienna and Brussels was held back by the modest growth in the public sector that is concentrated in these cities.

Macro-economic development at national level is a significant factor explaining differences in growth between metropolises. Figure 7.6 compares GVA growth rates in metropolises and their respective countries during the period 1995–2002. The figure indicates strong correlation between urban growth and national growth. The interpretation is that growth rate variations between European metropolises are mainly explained by differences in macro-economic development at national level. However, in each city in the study, except Berlin, the growth rate of the metropolis is higher than in the respective country.
8 FUTURE ECONOMIC GROWTH IN METROPOLISES

An essential part of the research carried out by ERECO is the middle term forecasts of the economy of metropolises. Forecasts are made for production (GVA), employment and a few other economic variables using an econometric model developed and applied by Cambridge Economics. The forecasts are based on detailed analysis of the development of economic sectors at European, national and regional level. The analysis is made by Cambridge Econometrics in close cooperation with specialists in each country.

Employment forecast

The employment growth of big cities, presented in figure 8.1, is expected to slow down compared with the growth rates in 1995–2002 (Figure 7.2). The mean predicted employment growth of the cities is 0.7 % p.a., which compares with 1.8 % p.a. in the period 1995–2002. However, the growth rate of metropolises is expected to remain above the predicted mean of countries (0.5 % p.a.).

If the forecasts are accurate, the differences between cities will become smaller with respect to employment growth during the next period. According to the predictions, employment growth will be fastest in Madrid, Athens and Barcelona, 1.6–2 % p.a. In Zurich, Milan, Dublin and Helsinki, the growth rate is expected to be clearly above the mean of metropolises, as well. By contrast, employment growth in the other Nordic capitals is predicted to remain below the mean of the cities.

The main reason for the slower employment growth is the anticipated slow down of production, because employment growth is closely related to production growth (see Figure 7.5.)
Production forecast

The main feature of the anticipated economic development during the coming years is the slowing down of production growth. This is also the main explanation for developments in employment. GVA growth in most metropolises (Figure 8.2) is expected to be slower than in the period 1995–2002 (Figure 7.4). The mean predicted GVA growth of the cities is 2.0 % p.a., which is 0.8 % p.a less than in the previous period. The growth rate of metropolises is expected to be only slightly above the predicted mean of the countries. This indicates that the gap in the economic growth between metropolises and other regions will probably widen only marginally in the near future.

According to the forecast, the capitals of three new EU member states, namely Prague, Warsaw and Budapest, will form the fastest growing group of metropolises. They are expected to have growth rates of 4–6 % p.a. in 2002–08. The leading city of the previous period, Dublin, will come next, with 3.5 % growth, followed by Athens, Helsinki, Oslo and Stockholm. Only Copenhagen among the Nordic capitals is predicted to grow slower than the mean of the cities. GVA growth rate in Berlin is predicted to remain significantly below the level of other metropolises from 2002 to 2008 – as was the case in the previous period 1995–2002.

Figure 8.3 demonstrates the relationship between the past GVA growth (1995–2002) and the growth forecast for 2002–2008. It shows that, in general, cities which grew fast in the previous period are expected to grow fast in the future, and vice versa. However, in most fast-growing cities, such as Dublin, Warsaw, Helsinki and Stockholm, the growth is expected to decelerate, while in cities which grew slowly in the past the growth is expected to accelerate.
In new EU member countries the economy is expected to grow reasonably speedily, reflecting the prospects of their metropolises. The recovery of the worldwide ICT markets is expected to maintain economic expansion in such cities as Dublin, Stockholm and Helsinki. However, many big cities in central Europe will suffer from structural problems in the local economy, in turn negatively affecting their economic prospects.

However, even at lower growth rates, metropolises are expected to remain the motors of the European economy in the next few years.

**Figure 8.3: Relationship between past GVA growth in 1995–2002 and GVA growth forecast in 2002-2008**
Helsinki is the only metropolis in Finland. The population of the Helsinki Region is 1.2 million, there are 700,000 jobs in the region and the value of the gross value added (GVA) is approximately 40 billion euros. Put another way, Helsinki’s share of the national population is 23%, and it has 30% of the jobs and 34% of GVA of Finland as a whole. Compared with the rest of the country, the economy of Helsinki is heavily based on business and financial services, trade and logistics, culture and leisure services, research and development (R&D), high technology manufacturing and services, higher education and national level administration.

Viewed from the extensive markets of western and central Europe Helsinki’s location is remote. However, this disadvantage has effectively been eliminated by sophisticated communication technology and a modern transport infrastructure. A high level of education among the labour force together with systematic investments in R&D and in other human capital have made it possible to specialise in high technology export products in which the transport cost to main market areas is not a crucial factor. At the same time, Helsinki is located optimally from the point of view of national markets as well as the markets of north-west Russia and the Baltic countries. Helsinki’s role within Finland is essentially to act as a trade, transport, communication and service hub for the rest of Finland and her neighbouring countries. Helsinki also acts as a node in international networks for the whole country.

Compared with other European metropolises Helsinki is a modern and dynamic city. The service sector is the dominant industry as in most other metropolises. The share of the public sector is at the same level as that of the average of the metropolises but lower than in the other Nordic capitals. In the sector of market services Helsinki specialises predominantly in transport and communication. The share of manufacturing is also approximately the same as in metropolises on average but clearly lower than in Finland, and in European countries as a whole. In manufacturing, Helsinki specialises particularly in electronics and the graphics industry. With the exception of machinery industry and food processing, the share of traditional heavy manufacturing is marginal.

Consequently, Helsinki is a productive and wealthy city. GVA per capita in Helsinki is approximately 50% higher than the national average and the city is one of the group of 15 wealthiest metropolises in Europe.

Helsinki grew rapidly during the period 1995–2002. When all the 45 metropolises are ranked in terms of growth rate, Helsinki was third in population, employment and GVA growth. However, it must be noted that the starting level in 1995 with respect to employment and production was low in Helsinki due to economic crisis in Finland in the early 1990s.

Looking forward to the year 2008, the growth rates of GVA, employment and population are expected to decelerate in Helsinki, as in most other European metropolises. Despite this, Helsinki will remain among the fastest growing cities with respect to all variables, according to forecasts. The relatively positive economic prospects for Helsinki are based on several factors. In spite of several risks and uncertainties, Helsinki’s ICT sector is still competitive and well-placed in the global markets and will be able to take its share of the worldwide growth in demand. The expansion of the private service sector is predicted to continue, due to domestic consumption, and demand for housing will keep investments in residential property at a high level. Renewed economic growth in Russia is expected to benefit manufacturing, trade, transport and business services in Helsinki. Moreover, rapid growth is likely to continue in the new Baltic and east European EU...
member countries, enhancing markets for Helsinki-based industries.

While the mid-term prospects for Helsinki are reasonably optimistic the city faces several challenges to be competitive location for firms and to provide welfare for inhabitants in the longer run.

Helsinki needs new strong industrial clusters to complement the modern ICT cluster and traditional industrials and make the industrial basis of the city more versatile. This is needed to eliminate the risks of the strong volatility of the global ICT business and modest growth prospects of manufacturing. In general terms Helsinki should become more dynamic and more innovative to become a fruitful basis for growing new industrials and to attract domestic and foreign investments. In more practical terms the infrastructure, transport system, education and local services as well as the functioning of labour markets and housing markets need to be developed.

The ageing of the population means a challenge for the labour supply in the Helsinki region. Without migration surplus the number of working age population would start to decline within a few years. A permanent flow of working age in-migrants will be necessary to keep the labour markets of Helsinki functioning. It is evident that an increasing proportion of the migrants will come from abroad in the future meaning that the share of population with foreign origin will gradually approach the level of typical European metropolises. The obstacles limiting the integration of immigrants to the society should be removed, for example by smoothing the way to labour markets for foreign students having finished their studies. In Helsinki – like in all metropolises – migrants give an essential contribution to the urban diversity and innovative capacity. This should be fully utilized to develop Helsinki as a multi-cultural city.
Sources
