

European metropolises – major centres of economic activity

Metropolises head the economic growth of Europe today. They provide agglomeration benefits for business, which explains why firms in the metropolises have higher productivity and innovation rates than firms in other areas. People with a tertiary education tend to live in cities, especially in large cities.

Accounting for one-quarter of the population of the 25 EU Member States, the metropolitan regions generate one-third of Gross Value Added in these countries. The two economically most significant metropolises, Paris and London, together produce approximately seven per cent of aggregate GVA across the EU.

In most European countries, 30–40 per cent of national GVA is typically produced in the capital region and other major cities. In the case of Finland, 34 per cent of the national GVA is produced in the Helsinki Region. Also, almost all metropolitan regions are considerably more productive than their respective countries. GVA per capita in Helsinki is approximately 50 per cent higher than the national average.

Let us make a very brief comparative overview of the economy of European metropolises that focus on the knowledge economy. This overview is primarily based on empirical research carried out and published by the European Economic Research Consortium (ERECO). The research was led and co-ordinated by Cambridge Econometrics Ltd. The Finnish partner in the project was Kaupunkitutkimus TA Oy (Urban Research TA Ltd). The diagrams in our

statistics section on pages 45–49 originate from this research, too.

The study covers 27 countries in western and central Europe. All 25 EU Member States are included, as well as Norway and Switzerland. The set of metropolises consists of 45 urban areas from these countries (see map on page 45). In most countries, the capital is included. For each Scandinavian country, the capital is the only metropolis included: Helsinki in Finland, Stockholm in Sweden, Copenhagen in Denmark, and Oslo in Norway. This applies to most other small EU countries, too, but for bigger EU countries, more cities than just the capital may be included. The new EU countries are represented by Prague in the Czech Republic, Budapest in Hungary and Warsaw in Poland.

The highest GVA per capita in western and central Europe in 2003 was found in Zurich, where (with current exchange rates) it was over two and a half times as high as the average of all the EU 25 countries. Next in the ranking came Hamburg, Vienna and Brussels, followed by the Scandinavian capitals Helsinki, Copenhagen, Stockholm and Oslo, then Amsterdam, Paris and Dublin.

The GVA growth rate in 1995–2003 was fastest in Dublin (9% per annum), closely followed by Warsaw. Helsinki (7% p.a.) ranked third, followed by Budapest, Prague, Stockholm and Madrid. In Oslo and Copenhagen growth rates were close to the mean of the metropolises (2.5% p.a.).

The structure of the economy has a crucial influence on the economic performance of a city. During the period 1995-2003, rapid growth in Dublin, Helsinki and Stockholm, for example, was driven by their expanding ICT sectors. In the new EU capitals Warsaw, Budapest and Prague, foreign investments, construction and the restructuring of the economy were engines of growth.

Throughout Western Europe, the emphasis has shifted from physical manufacturing to the development of ideas, new products and creative processes. This phenomenon has come to be known as the knowledge economy.

Cities with knowledge-based economies perform well

Today, cities with knowledge-based economies tend to grow faster in terms of both economy and population than other cities. A key feature of the knowledge-based economy compared with the 'physical' economy is that innovation, rather than the cost of production, is crucial for gaining a comparative advantage. Innovation gives products and services increased value-added and a shield against low-cost competition.

Almost every major European city is undertaking initiatives to foster innovation and to strengthen links between scientific research and commercial enterprises. Many have set up science parks and centres of expertise with links to universities, higher education institutes and research organisations, and with the role of encouraging and supporting innovation-led, high-growth, knowledge-based businesses.

It matters what type of urban network a city operates within

One more factor that has an increasing influence on the economic standing of European cities is the type of urban network within which the city operates.

On the eastern coasts of the Baltic, flows of investment and trade are already integrating the economies of Helsinki, Tallinn, Vilnius and Riga. With the growing flow of goods between Russia and Western Europe today, the major cities of the Baltic region would seem to be entering a stage of higher economic interdependence.

The Scandinavian capitals, including Stockholm and Helsinki especially, have grown fast. They are modern and dynamic cities without major structural problems. Their economies are more oriented towards the growing markets in the new EU countries and in Russia, the Far East and America, and they are less dependent on the markets of the large EU-countries.

Future economic growth of European metropolises

An essential part of the research carried out by ERECO is the middle term forecasts for 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 Econometrics. The forecasts are based on a detailed analysis of the development of economic sectors at European, national and regional level. The analysis was made by Cambridge Econometrics in close co-operation with specialists in each country.

The way things are looking now, the most prominent feature of the economic development in Europe these next few years will be a modest production growth. This is also the main explanation for the expected slow rise in employment. The mean predicted GVA growth of the cities is 2.3 per cent per annum, which is slightly less than during 1995-2003.

Employment growth in big cities is expected to slow down compared with 1995-2003. The mean predicted employment growth of the cities is 0.7 per cent p.a., which compares with 1.2 per cent p.a. dur-

ing 1995–2003. However, the growth rate of the metropolises is expected to remain above the predicted mean of the 25 EU countries (0.5% p.a.).

Helsinki's position

Viewed from the extensive markets of western and central Europe, Helsinki's location may seem remote. At the same time, however, Helsinki is located optimally on its own national market and, especially, with regard to the markets of northwest Russia and the Baltics. Helsinki's role is essentially to act as a hub of trade, transport, communication and service for the rest of Finland and her neighbouring countries. Helsinki also provides a node in international networks for the whole country.

A high level of education among the labour force together with significant investment in R&D and in other human capital have enabled Finland and its capital to specialise in the export of high technology products, for which the transport cost to the main market areas is not a crucial factor.

Compared with many other European metropolises Helsinki is a modern and dynamic city. The service sector is the dominant industry – as indeed in most other metropolises too. The public sector's share of the total economy is average for the metropolises but lower than in the other Scandinavian capitals. In the market services sector, Helsinki predomi-

nantly specialises in transport and communication. The proportion of manufacturing is also approximately the same as in metropolises on average, but clearly smaller than in Finland and in European countries as a whole.

Domestic consumption is expected to continue to drive growth of the private service sector, and demand for housing will keep investment in residential property at a high level. Also, major infrastructure investments such as the new Vuosaari Harbour are stimulating the economy. Strong economic growth in Russia is expected to benefit manufacturing, trade, transport and business services in Helsinki, which forms a logistics hub in the trade between Western Europe and Russia. Demand from China and other countries in the Far East has a positive impact on the ICT and machinery sectors. Moreover, rapid growth is likely to continue in the new Baltic and East European EU Member States, enhancing markets for Helsinki-based industries.

Although mid-term prospects for Helsinki are optimistic, the city faces several challenges if it aspires to provide a competitive base for firms and welfare for inhabitants in the longer run. For example, the ageing of the population implies a challenge to the labour supply in the Helsinki Region. Without a migration surplus, the number of people of working age would start to decline within a few years.

*Asta Manninen
Acting Director*

Helsinki City Urban Facts