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A Dynamic City in the European Urban Network

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Preface

In most European countries, typically 30–40 % of the national GVA (Gross Value Added) is produced in the capital region and other major metropolises. In the case of Finland, 34 % of the national GVA is produced in the Helsinki Region. At the same time almost all of the metropolitan regions are considerably more productive than their respective countries. GVA per capita in Helsinki is approximately 50 % higher than the national average.

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 capitals of new EU countries, like in Warsaw, Budapest and Prague, foreign investments, construction and the restructuring of the economy were engines of growth.

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

The main feature of the anticipated economic development during the coming years is the remaining of the growth rate of production at rather modest level. This is also the main explanation for slow growth in employment. The mean predicted GVA growth of the cities is 2,3 % p.a., which is slightly less than in the period 1995–2003.

The study is based on research made by The European Economic Research Consortium (ERECO) and co-ordinated by Cambridge Econometrics (UK). Seppo Laakso, ERECO´s associate in Finland and researcher of this study, brings about that the metropolises provide agglomeration benefits for business, explaining the higher productivity and greater innovation of firms in the metropolises than in other areas. The metropolises lead economic growth in Europe. All across Western Europe, the emphasis has shifted from physical manufacturing to the development of ideas, new products and creative processes. This has become known as the knowledge economy.

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, November 2005

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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 distribution of size 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 of 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 where the population exceeds one million. Moreover, because of its size and economic significance, it is also the only area in the country 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.

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 the metropolises, including Helsinki, in generating economic growth in their respective home countries, and their impact on Europe as a whole.

2 METROPOLISES IN EUROPE

This study is based on empirical research carried out and published by the European Economic Research Consortium (ERECO). The research work was led and co-ordinated by Cambridge Econometrics Ltd. The Finnish partner in the project was Kaupunkitutkimus 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, Norway and Switzerland. The set of metropolises consists of 45 urban areas. In most countries, the capital is included. However, 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, whereas in the big EU countries the study embraces several major metropolises 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 functional urban areas of the metropolises are not defined by homogeneous criteria. In some cases the area of the metropolis is significantly larger than the functional urban area whereas in others 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 actual functional urban region, in spite of the fact that it is not exactly the same as the area normally defined as the Helsinki Region.

The data that underlie 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 inter-metropolis variation and the differences between Helsinki and other metropolises.

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

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 bound up with the economic structure and economic growth potential, as will be shown in the following sections.

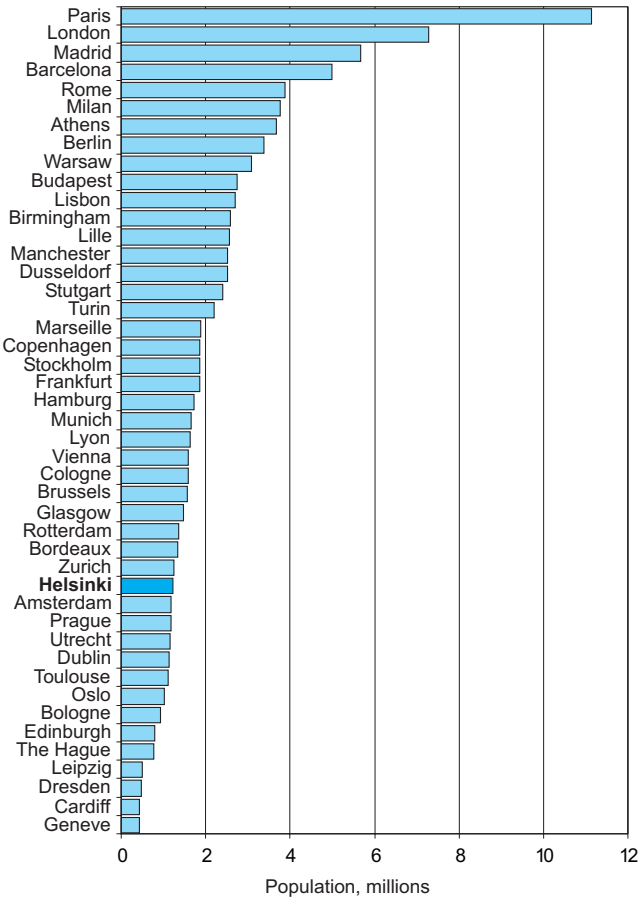
The size of a metropolis is crucially dependent on how its area is defined. As mentioned in the previous section, the metropolises in this study are not defined by homogeneous criteria. Rather it is the particular local definition used and the NUTS level selected that dictate the statistics of each metropolis.

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. Based on the definition of area in this study, Paris, with 11 million inhabitants, is the biggest metropolis in Europe, and 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 two mega-metropolises above, 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 and Copenhagen's population of 1,9 million each put them in 19th and 20th position, while Oslo stands at 38 (1,0 million).

Figure 3.1: The Population of metropolises in 2003

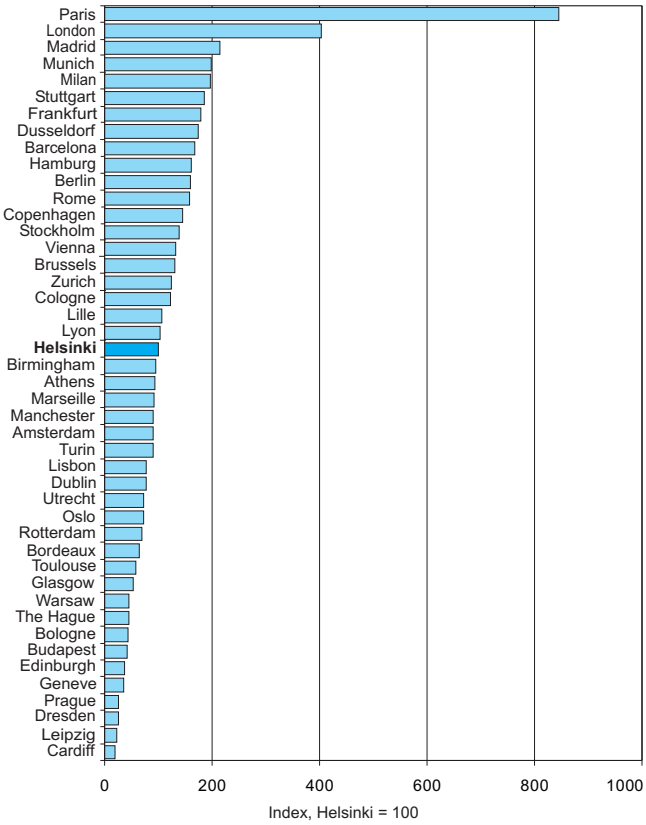


From the point of view of the European urban network the size distribution of major cities is interesting. There are the two mega-metropolises (Paris and London), but after them there are several steps down in the size distribution with numerous cities of approximately the same size on each step. This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

Volume of production

Another criterion by which to compare the size of urban areas is the volume of production. The size ranking of the European metropolises as measured by 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. In addition to being number one in terms of population, Paris is also one of the most productive cities in Europe. Helsinki stands 21 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 Lyon, Birmingham, Athens and Marseille. The ranks of eastern European metropolises Warsaw, Budapest and Prague are significantly lower when measured by production than in terms of population.

Figure 3.2: The Gross Value Added of metropolises in 2003 (Index, Helsinki=100)



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 79 % on average, whereas in the 25 EU countries in the study, the service sector employs on average two-thirds of the workforce.

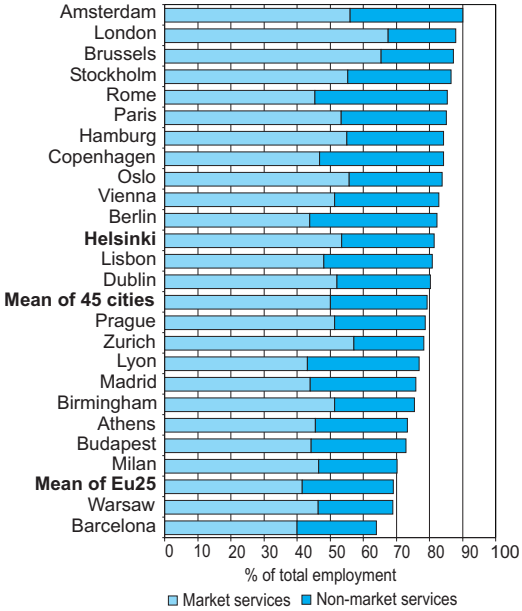
However, if we look at the share of employment and the specialisation of the service sector in each of the cities, we see significant differences. The domination of the service sector is highest in Amsterdam, London, Brussels, Stockholm, Rome and Paris. In all of these cities, the service sector's share of employment is 85–90 %. 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 81 % of the workforce.

Within the service sector, the non-market sector – dominated by public administration and public services – in Rome, Berlin and Copenhagen employ over 37 % of the workforce. In contrast, altogether 28 % of the workforce in the EU countries but also in metropolises are employed in these sectors.

Naturally, capital cities have more employed in the public sector because of the concentration of central government functions and associated activities. This clearly affects the economic structure of cities like Rome and Berlin. In Helsinki and the other Nordic capitals the municipalities have a significant role in providing education, social and health care services, thus have sizeable concentrations of public sector workers at municipal level while the national public administration is not as heavy as in larger EU countries. In Helsinki, public administration and services employ approximately the same share as the average of all the metropolises in the study.

A large private service sector is a common feature of all metropolises. On average, half of the workforce in the European

Figure 4.1: The share of the service sector (market services and non-market services) of employment in selected metropolises (all capital cities plus the next largest city of each big country) in 2004



metropolises are employed by private services, while the corresponding figure for the 25 EU countries is 42 %. The highest concentrations of private service sector jobs in Europe are found in London and Brussels, where over 65 % of the workforce are employed in this sector. In Helsinki, the figure is 53 % of the workforce. In most capital cities in southern and eastern Europe the private service sector is still smaller compared with the mean of the metropolises.

In the private market services sector in the metropolises approximately 32 % of the jobs are in the wholesale and retail trades, while a slightly bigger share is found in the group titled "other market services" - consultancy, marketing, property management, renting services etc. The remainder 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 respect to its industrial structure, compared with other metropolises in Eu-

rope its service structure is quite similar. However, the share of jobs in 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 held by hotels and restaurants and 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 share clearly below that of the average of the 25 EU-countries in this study. The manufacturing and construction sector employs 20 % of the workforce in the metropolises on average, while the equivalent figure for European Union as a whole is 25 %. In Helsinki, the figure of 19 % is slightly lower 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 only 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 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 a strong cluster. It is worth noting that most of the industrialised metropolises in Europe cannot be characterised as declining cities. On the contrary, some of the manufacturing oriented cities are among the most dynamic and economically robust metropolises in the whole of Europe.

Figure 4.2: The division of jobs in private services in Helsinki and European metropolises in 2004

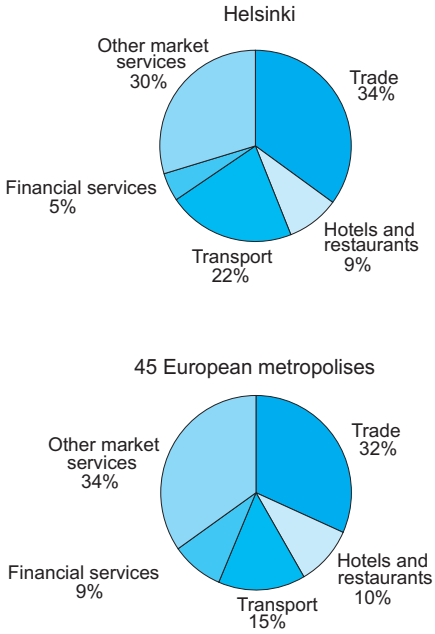
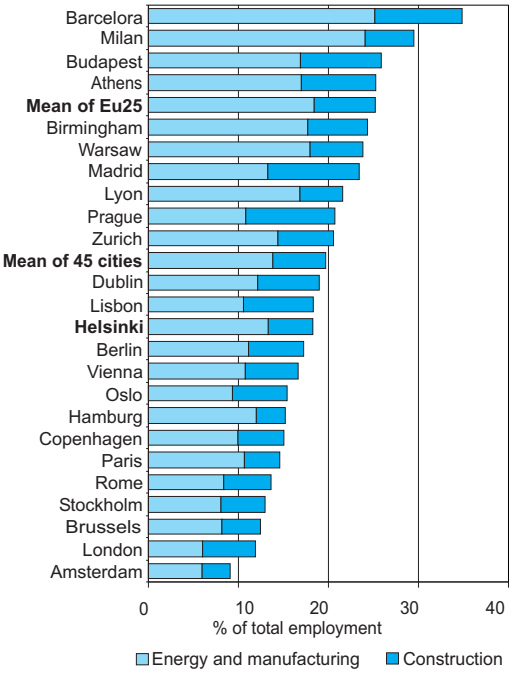


Figure 4.3: The share of energy & manufacturing and construction employment in selected metropolises in 2004

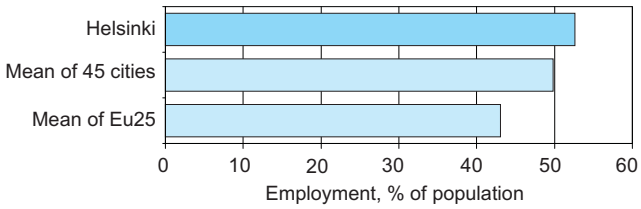


5 LABOUR FORCE

The labour force is the most important resource for production in all metropolises, especially when most big cities specialise highly 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 people per 100 inhabitants – is significantly higher in metropolises (50 %) than in the EU countries as a whole (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. In Helsinki, the activity rate is slightly higher than the average of the metropolises. This is also the case in the other Nordic capitals – Oslo, Stockholm and Copenhagen.

Figure 5.1: The number of employed per 100 inhabitants in Helsinki compared with the mean of cities and the EU in 2003



The average unemployment rate of metropolises (7 % in 2003) is approximately 2 percentage points lower in metropolises than in EU countries on average. 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 between European metropolises, rates vary from 2 to 18 percent. 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. In Helsinki, the rate of unemployment – 7 % in 2003 – is the same as the mean of metropolises but higher than in other Nordic capitals.

6 PRODUCTION AND PRODUCTIVITY

The Gross Value Added (GVA) per capita is a rough indicator both of the productivity and the income level of an area. In this study, thse 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.

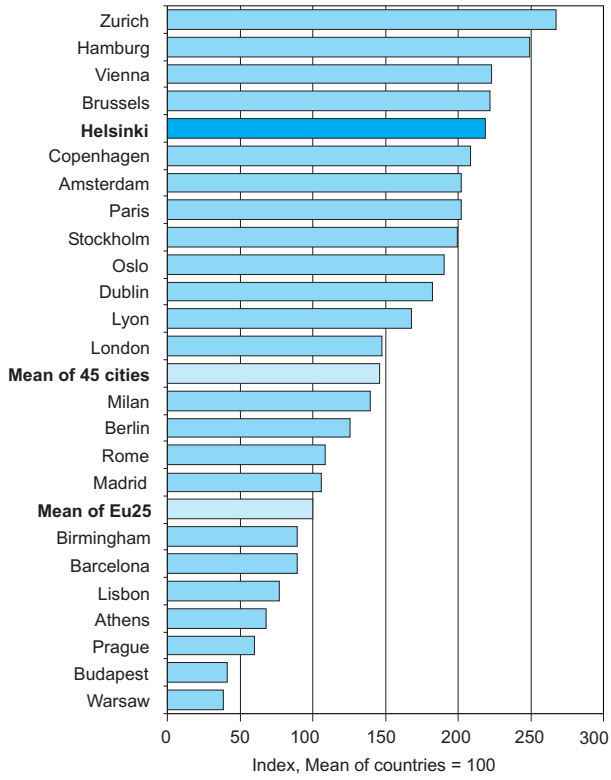
As is seen in Figure 6.1, the average GVA per capita of the metropolises is nearly one half higher than the average of the 25 EU countries, indicating that metropolises are more productive and richer zones than the 25 countries as a whole.

There are many reasons which explain the high productivity of the metropolises. For a start, the capital intensive enterprises of manufacturing and specialist services are concentrated in large city regions because of optimal operating conditions. The opportunities for harnessing economies of scale, and the competition, and 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.

Over one third of the GVA in the 25 EU countries 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 the EU.

The highest GVA per capita in western and central Europe in 2003 is found in Zurich, where it is over two and half times as high as the average of all the countries (the EU 25) with current exchange rates. The next metropolises in the ranking are Hamburg, Vienna and Brussels, followed by Helsinki, Copenhagen, Stockholm and Oslo, and in turn by Amsterdam, Paris and Dublin. In Helsinki, the GVA per capita ratio is about 2,2 times as high as the mean for the 25 EU countries.

Figure 6.1: Gross Value Added (euros) per capita in selected metropolises in 2003 (Index, Mean of countries=100)

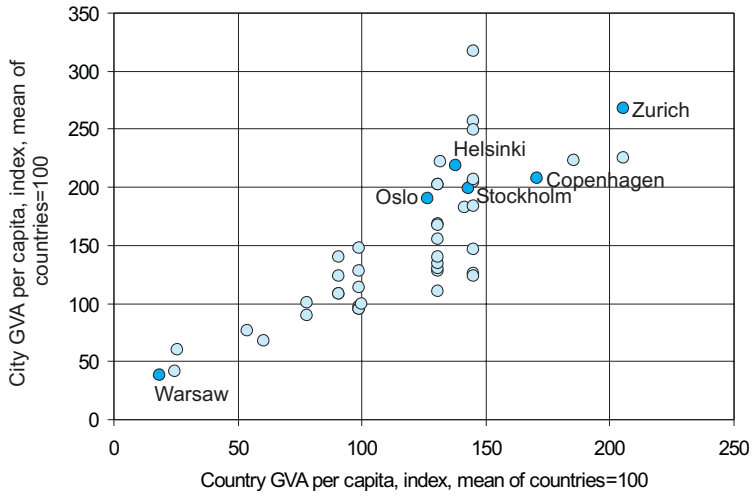


One of the main factors explaining the GVA per capita differences between metropolises is the national GVA per capita. Figure 6.2 shows that there is a strong correlation between city GVA and national GVA per capita. This is natural because typically the economic structure and performance of a country and that of its major metropolises are closely interwoven. 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 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 2003



7 ECONOMIC GROWTH OF THE METROPOLISES 1995-2003

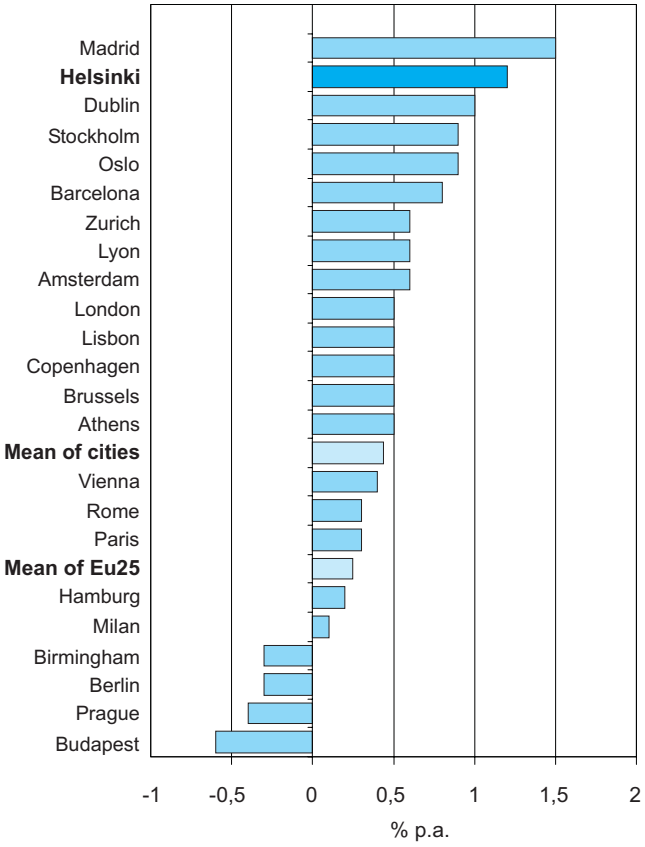
The economic growth of the metropolises during the past few years (1995– 2003) is analysed using three variables: population, employment and production (GVA).

Population growth

Population change in a given area over a given period of time is based on net migration and also on 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 caused by shifts in 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 0,4 % annually – than in the 25 EU countries on average (0,2 % p.a.) during the period 1995–2003. Population growth was fastest in Madrid – annual growth rate 1,5 % – followed by Toulouse (1,4 %) and Helsinki (1,2 %). Of the other Nordic capitals Oslo and Stockholm also grew rapidly: 0,9 % p.a. Population declined significantly in Budapest, Prague and Berlin and also (outside the selected metropolises of Figure 7.1) in some manufacturing cities in the UK and central Europe.

Figure 7.1: Population growth (% p.a.) in selected metropolises in 1995–2003



Employment growth

Along with their rising populations, employment also grew faster in metropolises when compared with national figures. The average growth rate in the metropolises was 1,2% p.a. while the average growth in the 25 EU countries was 0,9 % p.a.

Employment growth was particularly rapid in Dublin, 4,8 % p.a. from 1995 to 2003. The next fastest growth rates occurred in Helsinki, 3,2 %, and Madrid, 2,9 %; Amsterdam and Barcelona followed in turn. In the other Nordic capitals employment growth was slightly lower than the mean of the cities. Contrary to what was experienced in other major metropolises employment declined in Berlin.

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 midrange. 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 1995–2003

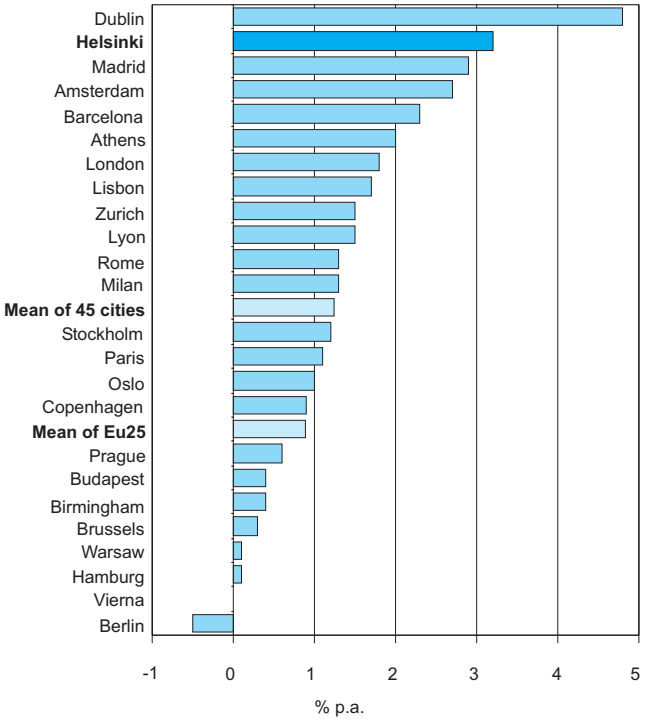
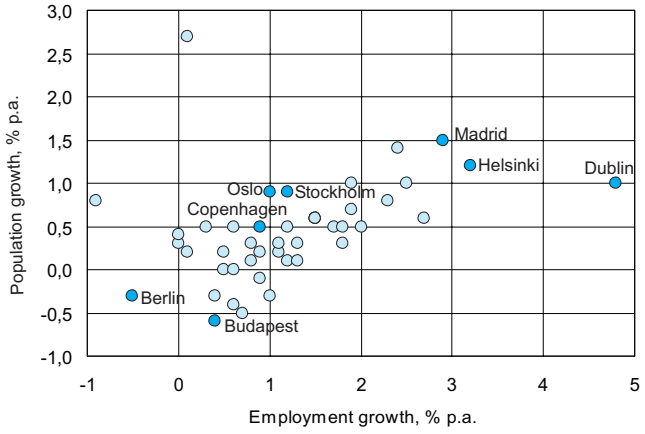


Figure 7.3: Relationship between population and employment growth in 1995–2003



Production growth

Unsurprisingly, production grew faster in the metropolises (2,5 % p.a.) than in the countries as a whole (2,3 % p.a.) during the period 1995–2003. However, the gap was quite small and has diminished during the last few years.

The growth rate of GVA was fastest in Dublin, 9 % p.a., closely followed by Warsaw. In Helsinki, GVA grew at 7 %. Next in order were Budapest, Prague, Stockholm and Madrid. In Oslo and Copenhagen the growth rates were close to the mean of the metropolises. In Berlin GVA declined, as did employment.

The relationship between GVA and employment growth is illustrated in Figure 7.5. In general, there is a strong correlation between GVA and employment growth. However, in the midrange (GVA growth 1,5–3,0 % 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 systems has led to a fast increase in productivity, which had the effect of slowing the rise in employment relative to production growth.

Why do metropolises grow faster than other regions?

The above figures show that as a group the metropolises of Europe have grown faster than the mean growth of the respective countries in terms of 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 population does not provide a clear explanation for short or middle-term differences in growth.

Unlike 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

Figure 7.4: GVA growth in selected metropolises in 1995–2003

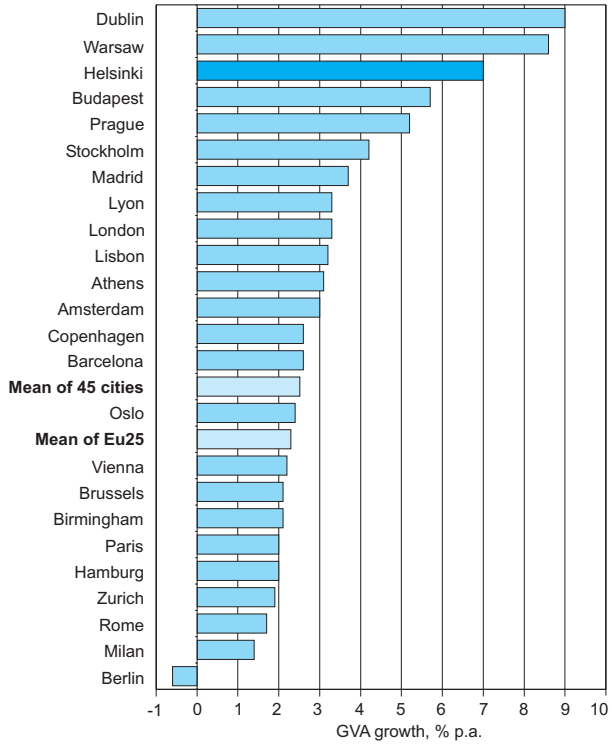
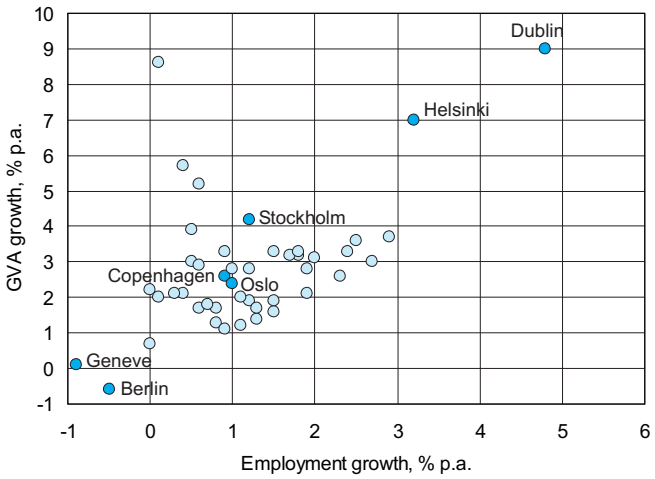


Figure 7.5: Relationship between employment and GVA growth in 1995–2003



one extreme, there are cities such as London and Paris, which have several strong export clusters. These versatile metropolises are most likely to experience stable economic growth 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 rapidly, 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 1995–2003, rapid growth in Dublin, Helsinki and Stockholm, for example, was driven by their expanding ICT sectors. Similarly, Warsaw, Budapest and Prague also experienced rapid growth, in these cases the engines were foreign investments, extensive rebuilding programmes and the restructuring of the economy. By contrast, growth in Berlin and Rome was held back by a modest expansion in the public sector that is concentrated in these cities.

The economies of metropolises are closely tied in with those at national level. Consequently national macro-economic development is a significant factor explaining differences in growth between metropolises. Hence, a sluggish national economy is likely to lead to a slower growing metropolis. However, in most cases the growth rate of the metropolis is still higher than in the respective country.

8 FUTURE ECONOMIC GROWTH IN METROPOLISES

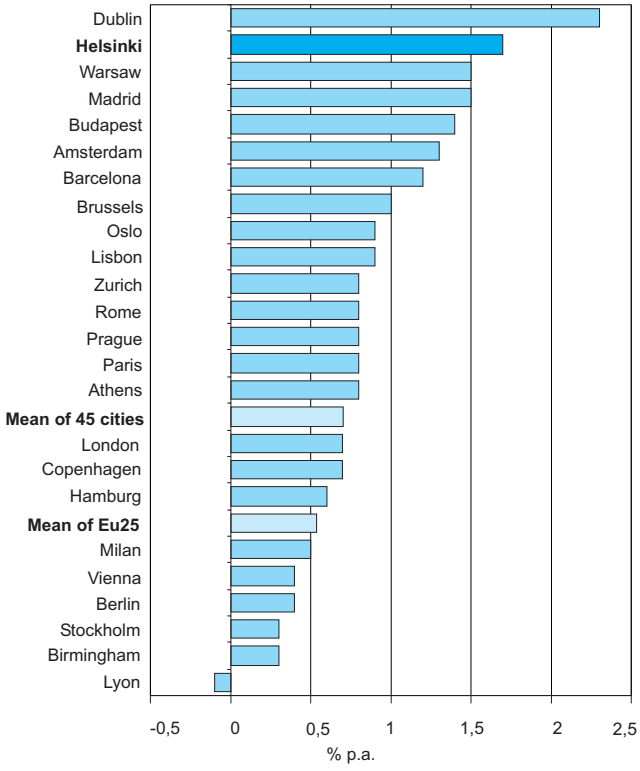
An essential part of the research carried out by ERECO is the medium term forecasting of the metropolitan economic growth. Predictions for the period 2004–2009 are made for production (GVA), employment and a few other economic variables using an econometric model developed and applied by Cambridge Economics. The forecasts are based on detailed analyses of the development of economic sectors at European, national and regional level. The analyses are made by Cambridge Econometrics in close co-operation with specialists in each country.

Employment forecasts

Rates of employment growth of big cities are expected to slow down compared with those of the period 1995–2003. The mean predicted employment growth of the cities is 0,7 % p.a. in the period 2004–2009, which compares with 1,2 % p.a. in 1995–2003. However, the growth rate of metropolises is expected to remain above the predicted mean of the 25 EU countries (0,5 % p.a.).

If the forecasts are accurate, the differences between cities will become smaller in terms of employment growth during the next period. According to the predictions, employment growth will be fastest in Dublin and Helsinki, followed by Warsaw, Madrid, Budapest and Amsterdam. By contrast, employment growth in the other Nordic capitals is predicted to be close to the mean of the cities.

Figure 8.1: The forecast for employment growth in selected metropolises in 2004–2009



Production forecasts

The principal feature of the anticipated economic development during the period 2004–2009 is the continuing modest growth of production. This is also the main explanation for the slow growth of employment. The mean predicted GVA growth of the cities is 2,3 % p.a., which is slightly less than in the period 1995–2003. GVA growth in most metropolises is expected to be slower than in that period and only slightly above the predicted mean of the countries. This indicates that the gap in economic growth between metropolises and other regions will probably widen only marginally in the near future.

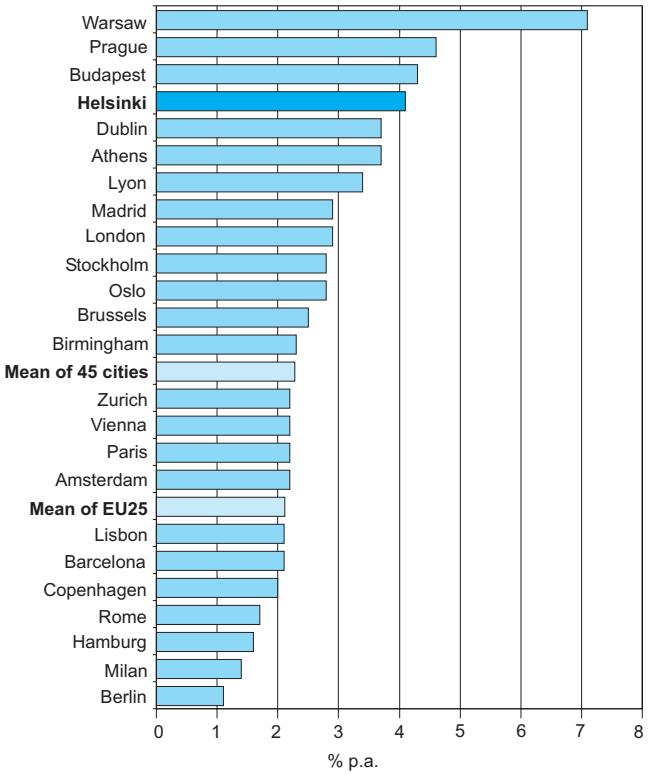
According to the forecast, the capitals of three new EU member states, namely Warsaw, Prague and Budapest, will form the fastest growing group of metropolises. Warsaw is expected to grow 7 % p.a. and the other two about 4,5 % in 2004–09. They are followed by Helsinki, Dublin, the leading city in the previous period, and Athens, with growth rates of 3,5 to 4 % p.a. Oslo and Stockholm are also expected to grow faster than the mean of the metropolises. Only Copenhagen among the Nordic capitals is predicted to grow slower than the average of the cities.

There is a close relationship between the GVA growth of 1995–2003 and that forecast for 2004–2009. It shows that, in general, cities which grew fast in the previous period are expected to grow fast in the coming period. Likewise, those that grew slowly will continue to do so. However, in most of the fast-growing cities, such as Dublin, Warsaw, Helsinki and Stockholm, that growth is expected to decelerate, while cities which in the past had slow GVA growth are expected to experience accelerated economic expansion.

In new EU member countries the economy is expected to grow reasonably rapidly, reflecting the prospects of their metropolises. The recovery of the worldwide ICT markets and the positive impact of growing market areas such as Russia and China are expected to maintain economic expansion in such cities as 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.

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

Figure 8.2: The forecast for GVA growth in selected metropolises in 2004–2009



9 HELSINKI REGIONAL ECONOMY IN EUROPEAN COMPARISON - A SYNTHESIS

Collectively, the metropolises of Europe have been the engine of economic growth in the EU and this role will probably continue in the future. However, there are major structural problems in several metropolises, particularly in central Europe, limiting their growth potential. The most dynamic centres of western central Europe, especially London and Amsterdam, have grown quite fast while many cites oriented towards manufacturing or public administration have grown rather slowly. The overall picture since 1995 is that the big cities of the fringe countries surrounding the old core of the EU have grown fastest and this pattern is predicted to continue. This fringe of growth includes the metropolises of Ireland, Portugal, Spain and Greece, i.e. those having benefited greatly from the regional funds of the EU. Another group consists of the capital cities of the new EU countries of eastern central Europe, which have been restructuring their institutions and economies and attracting foreign investments. In the northern part of the fringe, the Nordic capital cities, especially Helsinki and Stockholm, have grown rapidly. They are modern and dynamic cities without major structural problems. Their economies are particularly oriented to the growing markets of the new EU states, Russia, the Far East and the USA, and they are less dependent on the stagnating markets of the large EU countries.

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 communications 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 costs to the 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 states. Helsinki's role within Finland is essentially to act as a trade, transport, communications and service hub for the whole country and its neighbours. The city also acts as a node in international networks on behalf of the rest of Finland.

Among European metropolises Helsinki is a modern and dynamic city. The service sector is the dominant industry, as is the case in most other metropolises. The share of the economy occupied by the public sector is the same as the average of the all the metropolises together, 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 the national figure, and that of the European countries as a whole. In manufacturing, Helsinki specialises particularly in electronics and the graphics industry. With the exception of the machinery industry and

food processing, the percentage taken up by traditional heavy manufacturing is marginal.

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 10 wealthiest metropolises in Europe.

Helsinki grew rapidly during the period 1995–2003. When all the 45 metropolises are ranked in terms of rates of economic growth, Helsinki was third in terms of population, second in employment and third in 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 the economic depression in Finland in the early 1990s.

Looking forward to the year 2009, the growth rates of GVA, employment and population are expected to accelerate again in Helsinki compared with the slower growth period of 2001–03. The growth will probably not be as fast as it was between 1995 and 2000. However, 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. Also, major infrastructure investments, such as the new Vuosaari port, will positively influence the economy. Strong economic growth in Russia is expected to benefit manufacturing, trade, transport and business services in Helsinki, which will continue to act as a logistic hub in the trade between western Europe and Russia. Demand from China and other Far East countries will have 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 countries, enhancing markets for Helsinki-based industries. In contrast to most other European metropolises, Helsinki is less dependent on the markets of central and western Europe.

While the mid-term prospects for Helsinki are reasonably optimistic the city faces several challenges if it wants to remain a competitive location for firms and, also, provide adequate welfare for its citizens in the longer run.

Helsinki needs new, strong industrial clusters to complement the modern ICT cluster and traditional industries and thereby diversify its economic base. This would greatly diminish the risks associated with the considerable volatility of the global ICT business and the modest growth prospects of manufacturing. In general terms, Helsinki should become more dynamic and more innovative in order to attract not only new industries but also more domestic and foreign investments. In more practical terms, the infrastructure, transport system, education and local services need to be further developed, and the labour markets and housing markets need to function more flexibly.

The ageing of the population presents a challenge for the supply of labour in the Helsinki region. Without a migration surplus the number of people of working age will start to decline within a few years. A permanent flow of working age immigrants 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 having foreign origin will gradually approach the level of typical European metropolises. With this in mind, obstacles hindering the integration of immigrants into society should be removed, for example by smoothing the entry of foreign graduates into the labour markets. In Helsinki – as in all metropolises – migrants make an essential contribution to the urban patchwork and innovative capacity. This should be fully exploited to enable Helsinki to become a successful multi-cultural city.

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