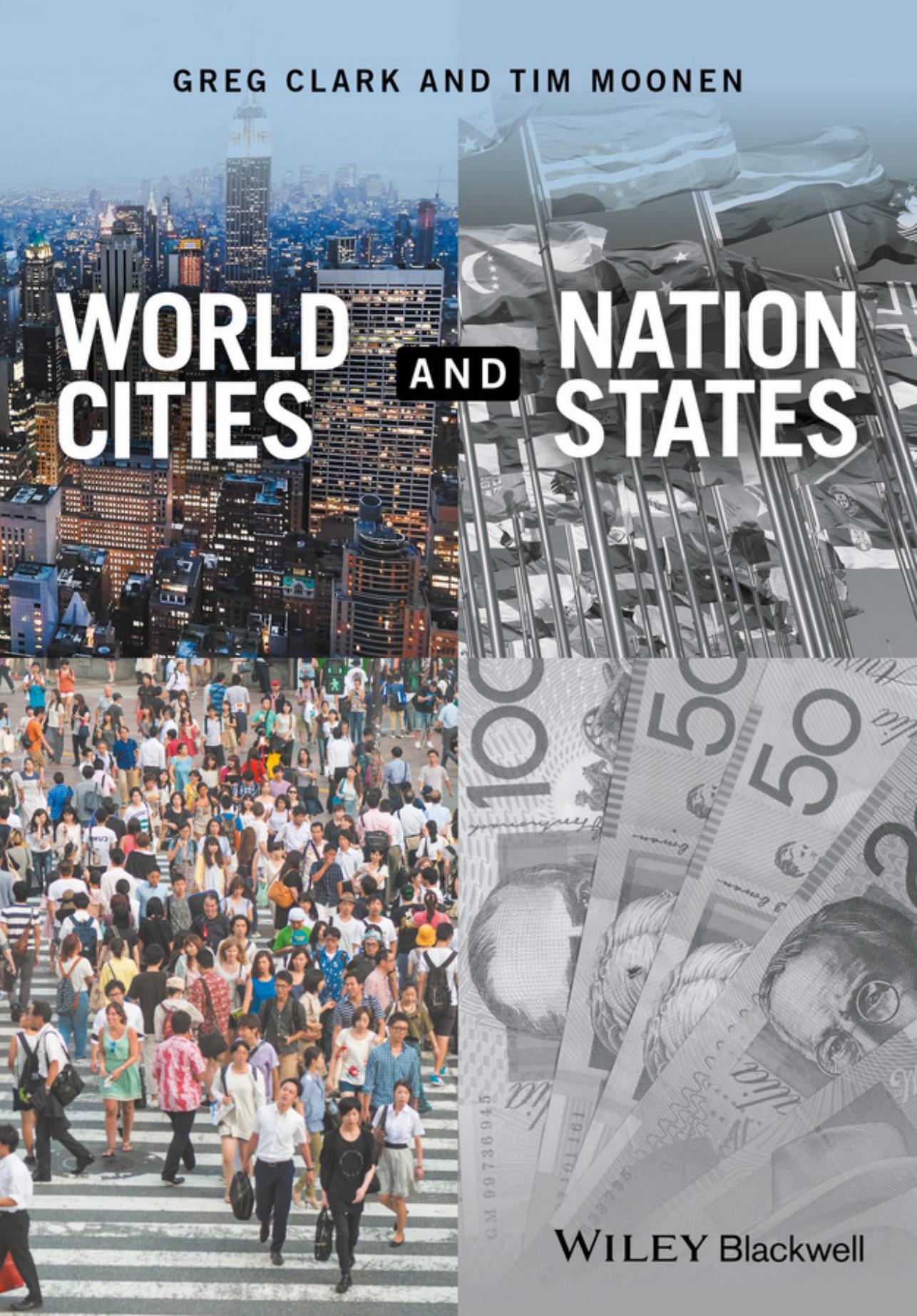


GREG CLARK AND TIM MOONEN



# WORLD CITIES AND NATION STATES

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*For Julia and Lucy*



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# Preface

This book has grown out of an initial study that was prepared for the Moscow Urban Forum in 2014. We wanted to inform the global discussion about the ways in which nation states were adjusting to the globalisation of major cities. The debate within nations about the role of their largest and most globally oriented cities varies hugely from one country to another. In some countries this is almost a national obsession, with continuous argument about whether having a global city is a net advantage or disadvantage. In some other countries the debate is almost totally absent, with either complete invisibility or complete acceptance of the global roles of major cities.

For the original study we consulted numerous books and academic journal articles to capture the latest insight into how the rise of world cities is changing government structures in nation states, and how both city and national governments are adapting to the new balance of power. We reviewed prominent contemporary books written in Europe, Asia and North America, and drew from the most recent findings of the World Bank, OECD and relevant international financial institutions.

For this book we identified 12 major world cities that reflected a range of geographic locations, constitutional structures, city statuses and development stages. Together these 12 cities' GDP exceeds \$7 trillion, accounting for roughly a tenth of global GDP. We gradually built up 12 case studies, drawing on recently published books, academic journals, independent media, international benchmarks and local studies and reports.

The ideas and arguments for this book evolved through extensive consultation with current and former senior members of city governments, and with national officials with responsibility for urban policy. Our research also engaged with political science and urban development experts in each of the 12 cities, as well as with business leadership organisations in many of the 12 cities.

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# Foreword

This book begins with a simple premise: if the 20th century was defined by the nation state, our current century will be one driven by global cities. Beneath this observation, however, lies a complex web of implications for leaders across the world and across levels of government and society. In this insightful book, the authors show how adaptive nation states, in partnership with dynamic world cities, point the way towards a shared global future.

In response to the rising role of cities, we need to rethink the traditional arrangements of power between nations and regions. As responsibility shifts downwards, we need to reimagine the roles of legacy institutions that were intended to mediate between countries and invent new institutions that connect and empower cities. And as these global cities expand, we need to ensure that prosperity does not come at the expense of sustainability and equity.

Accelerating urbanisation is a natural response to trends in the global economy. International trade encourages specialisation, which, in turn, rewards agglomeration. By clustering skilled workers and similar types of industrial activity, cities and regions become more innovative and more productive. And despite predictions to the contrary, the benefits of proximity in both manufacturing and services have only increased from new technologies, thanks to everything from shortened product cycles and rapid prototyping to increased demand for customisation.

Still, these very forces of concentration, globalisation and connectivity that are causing the emergence of global cities are also creating challenges within them. Their rise in prosperity can also often come at the expense of secondary cities, increasing inequality across places. As economic hubs, they become magnets for migration, leading to challenges around settlement and integration. And cities that grow too fast or whose growth is too ungoverned often can develop in inefficient and unsustainable ways.

In many parts of the world, governance at the city level is showing it can innovate much more quickly than national governments, and these innovations are being shared and adapted by agile networks of global cities. But the message of this book is that global cities and nation states share a mutual interest in inventing solutions to the problems of our new urban century, and giving cities the tools to implement them at scale. Nation states therefore still have a pivotal role to play. There are a number of areas – national defense, international trade and the social safety net – where national governments must continue to set the rules and provide a stable environment. They also remain the most important source of long-term and large-scale investments in basic research, setting the platform for an innovative economy. But within a host of other policy areas, the best role for national governments is to be a partner – allowing their global cities the flexibility to customise solutions to their distinct challenges.

The rise of world cities in the global economy is not disappearing anytime soon. This reality demands a re-evaluation of how cities relate to their respective nations and to each other. These pages offer that valuable analysis – including both a look at the current variation of government systems across the world and a perspective on what cities need moving forward.

Bruce Katz,  
Centennial Scholar, Brookings Institution  
June 2016

# **Section I Introducing world cities and nation states**



# 1

## Introduction: Clash of the centuries?

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The emergence of ‘world cities’, urban areas that are becoming global in character and orientation, is one of the most important phenomena of our time. World cities<sup>1</sup> are where much of the money, the knowledge and the decisions that shape the 21st century are generated. Their influence has propelled humanity beyond the inflection point from the ‘age of the nation state’ and into the ‘age of cities’. And yet this new age inherits all the identities, institutions and organising principles of the nation state system. The tensions, trade-offs and opportunities that arise out of this unstable equilibrium are the subject of this book.

World cities confront nation states with a historic opportunity and challenge. These dynamic agglomerations of people, industries and infrastructure have the

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<sup>1</sup>In this book, a world city is defined as one that not only participates in national and regional networks, but also influences and directs global flows of trade, investment and population. World cities host high concentrations of industries whose value chains are globally integrated, such as banking, electronics, ICT, telecoms, cars and tourism. They serve as national, regional and global headquarters for globally trading firms. Their employment and productivity advantages are magnets for domestic and overseas migrants, and their political and cultural importance makes them popular visitor gateways and aviation hubs. World cities also tend to assemble major institutions of knowledge, culture and recreation. They are not always national capitals, not least because several federal nations have deliberately created alternative capital cities.

There is debate in the literature as to whether ‘global city’ and ‘world city’ should be used synonymously. We follow Christof Parnreiter in viewing the differences to be too small to demand a sharp separation in an overview of this nature. Cf. Parnreiter (2013).

potential to help a national economy be more globally connected and productive, and to spread multiple benefits across national systems of cities through connectivity, economic specialisation and co-operation. Their activities might increase the connection of their national economy to global systems of trade, investment and talent. They also provide entry points to international markets, and are the spur for entrepreneurship and clustering activity for globally trading firms and sectors. In an increasingly urbanised global economy, world cities help to build the ‘business brands’ of nations and provide them with reputational advantages.

But world cities also depend on nation states and national governments in order to manage the effects of their global integration. Rapid population growth and diversification, urban restructuring and a surge in international investment can lead to multiple challenges. Inflation, congestion, stretched housing and labour markets, exposed infrastructure deficits, land-use dilemmas, ill-equipped city systems, sensitive environmental weaknesses and social divisions can all be ‘side effects’ of becoming a world city.

At the same time, national governments want to pay attention to the performance of other cities, towns and rural areas, and many look to address the impact the world city has on how other cities and regions within the nation develop. The world city may be understood in theory to offer competitive advantages and major contributions to fiscal resources, but the most visible effects may be de-population or de-clustering of other cities, or extreme concentrations of business, jobs and investment in one place. These challenges lie at the heart of the relationships and friction between nation states and their world cities, and lead to concerns about whether the ‘world city model’ is always a good one to adopt. Such apprehensions were very visible during the debate in the UK as to whether to leave the European Union and the subsequent fallout of ‘Brexit’, but they are also becoming increasingly influential in many other world cities and nation states.

In the current period, some world cities and national governments are beginning to embark upon a range of different forms of negotiation and collaboration around these issues that have major implications for the futures of both. These emerging dialogues and co-operation aim to address the understanding of the world city model and its needs, enhance the complementary roles of multiple cities within a national system, increase or improve governance and investment in the world cities, or develop national policies and platforms that can support different kinds of cities with specific tools and interventions. In this book we explore this new ground by examining the different ways in which world cities and nation states are contributing to each other’s shared goals.

Each city’s organisational and legal framework is different and complex, and the range of institutional dynamics in the world’s major cities has not been compared in this way before. The book draws on the latest practical experience of 12 cities around the world – in Asia, Europe, Latin America and North America – to identify the trends and innovations in relations between central governments, state or provincial governments and their main international gateway city. Drawing upon a mix of local and governmental insight and global expertise, we identify recent innovations and reforms in governance, communication, investment and planning between different tiers of government. The book pinpoints the potential for nation states to leverage their world city to achieve mutually

beneficial national outcomes, but it also raises challenges to the world city model that should be the focus of concerted attention.

## **Urbanisation and globalisation: The age of world cities**

History shows that cities tend to embrace international opportunities in waves and cycles (Clark and Moonen, 2013). Which cities take part in a given wave may depend on major geopolitical events, key industries, new technologies, connective infrastructures or the whims of city, mercantile and/or national leaders. What is clear is that today, more cities than ever are participants in the cycle of globalisation that began after 2008–9. Many of them have no prior global experience, while others draw on a legacy of earlier phases of outward-facing trade and engagement; as new sectors emerge and integrate, and as some countries increase or resume their global orientation, new world cities are emerging all the time.

One upshot of 21st century globalisation is that more countries have seen their leading city or group of cities become international commercial and corporate management hubs and visitor destinations, serving large customer and client markets in their wider regions beyond national borders. National policymakers find that these cities fundamentally alter the migration patterns of workers, set new business and service standards and have a major impact on the number and kind of international firms, capital and visitors that a nation attracts.

The previous cycles, in which world cities such as London, New York and Tokyo thrived, hinged on cities playing hub roles in finance, business, media, leisure tourism and commodities. In the current cycle, science, medicine, ICT, cleantech, traded urban services, higher education, design and real estate are now prominent activities for globalising cities. World cities have also become complex visitor economies – not just attracting holidaymakers but also students, researchers, events and congresses. Established and emerging world cities all compete for investors, entrepreneurs and start-ups by focusing on liveability, culture and urban regeneration.

This new cycle of world cities is shaped by a clearer grasp of the mistakes of the past and concerns for the future. The 2008–9 financial crisis exposed the weaknesses of city development approaches that had become over-dependent on one sector – be it financial services, real estate, IT or tourism. Its fall-out has also highlighted the fragile investment profile of many cities as they seek to update and renew their own systems – housing, education and infrastructure. It has also focused attention on cities' environmental and spatial resilience, and how to avoid becoming 'locked in' to an undesirable development path.

This current cycle has also homed in on the growing inequalities within and between cities, which has prompted a tide of pessimistic opinion in many countries opposed to the perceived impacts of the 'world city model'. In many cases, national leadership and public discourse have become more equivocal about whether and how to support major urban centres on their globalisation journey. This cycle of globalisation is therefore unusual because the growing international economic roles of world cities are coinciding with a rise in nationalism, separatism and hostility to immigration (Dowling, 2014; Hashi, 2014; Seib, 2014). These are difficult tensions to resolve.

## The future imperatives for world cities

World cities face a number of similar or overlapping challenges that require facilitation and support from national governments. They have little choice but to adapt to increased competition for mobile firms, jobs, people, goods, capital and services (Herrschel, 2014). They face demands to address the externalities that accompany intense demand, such as housing supply constraints, income inequalities and over-burdened infrastructure. Most have to operate in a context of constrained public investment and cuts to intergovernmental transfers and grants. Sub-national public investment declined by up to a fifth within the OECD in the five years after the financial crisis, and evidence from non-OECD countries indicates this drop is even more stark (Allain-Dupre, 2015). Because even world cities have to achieve ‘more with less’, they have to appeal to alternative sources of international investment, which usually demands that they present a simple and consistent strategy, and assemble a clear pipeline of competitive projects for development. Given these combined imperatives, the leadership of world cities is by no means straightforward.

The distinctive elements of this new cycle of world cities – wide-ranging competition, new industry trends, strategic awareness and conflict between the ‘winners’ and ‘losers’ of globalisation – all demand a fresh set of relationships and partnerships with leaders and agencies in national government. Nation states are only just getting to grips with this new terrain. As this book demonstrates, the agenda for the future is now coming into view.

## Nation states in the urban age

The 20th century is now, in retrospect, widely regarded as the century of the nation state (Waltz, 1999). The global economy experienced a sustained surge in growth and trade after 1945, and it is easy to forget that during those decades national governments deliberately tried to prevent industrial and office development becoming over-concentrated in their major cities. Subsidies, regulations, financial instruments and the relocation of business parks and public sector jobs were used to de-centralise economic activity and spread growth more evenly. Policies were also put in place to curb population concentration. This approach was evident in cities as varied as London, Paris, Seoul and Tokyo. Brazil went one step further and relocated its capital city from Rio de Janeiro to inland Brasília partly in order to de-centralise industrial activities and reduce growth in its large southern cities.

Not all national governments were proactive or successful in these efforts. Some tried to mitigate the externalities of their world city but succeeded only in disrupting cluster agglomeration and damaging overall competitiveness. Others failed to provide a consistent legal and regulatory framework or delivery mechanism to allow world cities to thrive. Many have now abandoned the hope of homogeneity on a national scale and are devising new approaches for their nation and world city (Bunnell, 2002; World Bank, 2009).

This book is about the transition that has since taken place from the age of the nation state to the age of cities. It explores how nation states are responding to

the largely unanticipated urbanisation of the global economy with new policies, reforms and methods of joint working. It analyses whether, why and how nation states really have become more place-specific in their approach to their cities, and what the implications are for city competitiveness and national cohesion (Hill and Fujita, 2011).

The twin processes of urbanisation and globalisation have required nation states to re-think traditional approaches. Not only do they face the rise of world cities, they also have to recognise three other essential trends that are explained and explored in this book:

1. Metropolitanisation;
2. Systems of cities;
3. Internationalisation of multiple cities.

The first trend that nation states have to take seriously is the emergence of city regions and metropolitan areas. As cities grow they expand beyond their set borders and boundaries, and their economic and social 'footprint' becomes ever larger. If national and state governments fail to respond to this phenomenon, what follows are large and expensive co-ordination failures between neighbouring municipalities that are politically independent of each other and yet are functionally inter-dependent, sharing a common business community, labour market, infrastructure platform and housing system. National and state governments can adjust to the growth in city regions by changing the boundaries of cities, by creating additional co-ordination vehicles, by reforming city governance or by incentivising co-operation in other ways (Arretche, 2013).

Nation states have to adapt to a second trend – the need to accommodate 'systems of cities' with complementary roles (World Bank, 2009). Within and across national borders, networks of cities often form a complementary system of different functions and specialisations. This often demands new national approaches. In China, for example, since the mid-2000s the national urban policy has begun to plan its huge scale of urbanisation by identifying large regional city clusters as strongholds of future sustainable development. The Pearl River Delta, Yangtze River Delta and the Beijing–Tianjin–Hebei regions have all become the subject of regional plans, with the aim of accelerating development, bridging regional divides and restructuring the economy.

The third trend to which nation states have to respond is the emerging capacity of multiple cities in the same nation to acquire international roles. As new waves of globalisation occur, new economic sectors internationalise and integrate, and a larger range of cities has the potential to enter the global system of trade and exchange. This can lead to nations having more than one 'world city'. While this is already common in larger nations (for example, in the United States New York, San Francisco, Los Angeles and Chicago might all be seen as world cities, and in China Hong Kong, Beijing and Shanghai all have global reach and roles), this can also occur in much smaller nations. In Switzerland, both Zurich and Geneva are world cities. Elsewhere in Europe, Barcelona and Madrid, and Munich, Berlin and Frankfurt, are all examples of more than one city developing clear international roles within the same country. We find similar phenomena in

## **8 World Cities and Nation States**

South Africa (Cape Town and Johannesburg), Australia (Sydney, Melbourne and now Brisbane) and Canada (Toronto, Vancouver and Montreal). In many other countries, from the UK and France to Russia and Japan, a second city has a clear aspiration to become the second world city to complement their more established world city sibling.

Having learnt some painful lessons from the past, nation states are beginning to identify the opportunities as well as the threats of globalisation and the rise of world cities. National governments can leverage world cities to achieve development goals that are otherwise hard to achieve. They have also become more willing to endorse urbanisation processes because to do otherwise would weaken their attraction as a place for capital or for talent (Herrschel, 2014). This book shows that territorial approaches adopted by national governments are at different points along a continuum between 'old-style' development policies and 'new-style' approaches. The agility with which countries adapt their ways of working shapes not only how effective they are in pursuing their development objectives, but also has implications for the fortunes of their most globally oriented cities.

In this book we evaluate how far world cities are moving forward to secure mutually productive relationships with their nation states and compatriot cities, and how much farther there is to go. We argue that there are many dimensions to this challenge that make it rather more complex than simply a question of growth and productive agglomeration. In the current cycle of globalisation, world cities have to develop the tools and the leadership to plan and guide their own success, but they also need national partners to help them achieve their competitive and citizen aspirations. Equally, world cities have to contribute actively to the health and vitality of the wider national economy, not just through redistributive fiscal mechanisms but also by acting as an interface for engaging with global markets and knowledge, and as a driver of complementary development and dispersed value chains. This also places responsibility on higher tiers of government to ensure that disparities do not become too great and to create viable strategies for balanced and complementary growth. This matrix of shared imperatives is displayed in Figure 1.1.

World city success in its own right	World city contribution to the national economy
Role of national government in helping the world city succeed and compete	Role of national government in managing the consequences of its world city for the rest of the nation

**Figure 1.1:** The four dimensions of successful national government and world city relationships.

## Different models and starting points

The relationships between national governments and world cities are important and far-reaching in all cases, and the message from this book is that their character varies widely. As we show, the mega-trends of continental integration, globalisation and de-centralisation do not play out in the same way for all world cities. Each city inherits a different set of organisations, state structures and path dependencies (see Table 1.1). As such, when it comes to finding a new path conducive to the global urban age, they have a different set of constraints and needs.

Arguably the most decisive factor that shapes the relationship between world cities and nation states is the national system of government. There are essentially four basic types of political arrangement that set the terms for the responsibilities of national government and for the nature of the dialogue between a world city and its national government:

- Centralised unitary systems;
- Federal systems;
- Specially empowered cities;
- Independent city-states.

This typology is the basis for the following sections of the book which compare and contrast the intergovernmental relationships within these distinct models.

### Centralised unitary systems

In centralised government systems, the central government controls most public spending and almost all macro policy on economic competition, taxation, infrastructure planning and immigration. These countries' world cities are usually the capital city and centre of state power, which offers the competitive advantage that

**Table 1.1:** Government systems and city designations in the 12 world cities

	National government system	Higher tiers of govt	Metropolitan government	Special designated city
Hong Kong	Unitary	1	No	Yes
London	Unitary	1	Yes	No
Moscow	Federal	1	Yes	Yes
Mumbai	Federal	2	No	No
New York	Federal	2	No	No
Paris	Unitary	1	Yes	No
São Paulo	Federal	2	No	No
Shanghai	Federal	1	Yes	Yes
Singapore	City-State	0	—	—
Seoul	Unitary	1	Yes	Yes
Tokyo	Unitary	1	Yes	Yes
Toronto	Federal	2	No	No

Note: Under Hong Kong's 'one country two systems model', the city has a high degree of legal and fiscal autonomy akin to a city-state, but within a Chinese national framework that controls security, defence, and foreign relations, and exercises influence more broadly.

national politicians are automatically aware of many of the city's obvious needs. In these nations the tensions between serving the needs of the world city and looking to the effects upon, and needs of, the second tier of cities and a wider set of regions, is often most acute. National leaders, therefore, tend to pay close attention to city policy and major city projects, and most large infrastructure projects depend on at least some national-level capital investment. National policies may also designate key clusters and business districts and set the standard of social housing and public services. Examples include New Zealand, the Republic of Ireland, the United Kingdom, the majority of African countries and, to a lesser extent, France and Japan.

### **Federal systems with a strong tier of state government**

In many federal systems it is the state or provincial governments that are *de facto* world city managers. This 'middle' tier usually has the authority to decide all the policies that shape how the world city develops: governance, fiscal policy, infrastructure planning and the allocation of resources to urban development or elsewhere. Even though the world city is always by far the largest in the state, the electoral balance in state governments is often tilted towards rural areas or smaller cities. This means that state-level decisions rarely favour a pro-urban or pro-world city agenda.

Most world cities that operate under these arrangements are not national capital cities. Their relationship with the federal government is more remote, often mediated via a state or provincial government. Formally, these world cities are just one of several thousand municipalities vying for federal attention. This makes a customised relationship difficult, and puts the onus on city governments to be proactive and on the metropolitan area to self-organise. Sometimes, the regional expansion of a world city may even spill over the borders of more than one state or province – as with New York City and Brussels – giving rise to obvious co-ordination issues.

National governments in federal systems may issue directives, provide advisory support and fund programmes, but they do not become directly involved in urban governance, and the ministerial focus on the world city may be less sustained. With central grants typically comprising only 5–20% of city revenues, the government's main roles lie elsewhere: their control of economic, population and immigration policies; their ownership of strategic public land; their management of railways, ports and airports; their research and infrastructure investment programmes; their welfare and poverty initiatives; and their national urban and economic development frameworks. Examples of this model include Australia, Brazil, Canada, India and the United States.

### **Specially empowered cities**

A number of world cities enjoy a high degree of autonomy despite being ruled in full or in part by a sovereign national government and/or operating within a federal system. These federal systems are effectively hybrids, where most of the

territory operates through a states and provinces system, but larger and important cities may attain an equivalent status to a state or province and manage their own affairs more directly. Moscow and Shanghai are examples of cities that are directly recognised by their federal governments and have gained a high level of self-governing powers and fiscal resources. Hong Kong is a rather different and unique case, possessing a high degree of autonomy within the 'one country, two systems' approach. Abu Dhabi and Dubai constitute another model of highly empowered emirate cities within a broader confederation.

### **Independent city-states**

A very small number of cities have a fully independent or autonomous structure that means they are not administered as a part of any national government, and have their own diplomatic and military apparatus. These function as unified metropolitan areas with a highly centralised, unitary government and a single parliamentary chamber. The city-state system assigns local bodies formal advisory and management roles, and so they do not form an empowered 'lower tier' of government that is found in cities such as London and Tokyo. Unlike other world cities, being a small city-state demands constant attention to resource management (water, energy). Singapore fits the city-state model more closely than any other major city. Cities such as Berlin and Hamburg are also sometimes described as city-states because of their high degree of self-government, but within this typology they belong among the specially empowered cities because they, of course, are subject to German federal legislation.

### **Other inherited factors**

This book highlights three other important factors which shape the character of city-state relationships in the modern age:

- Size and scale;
- Political polarisation;
- The national system of cities.

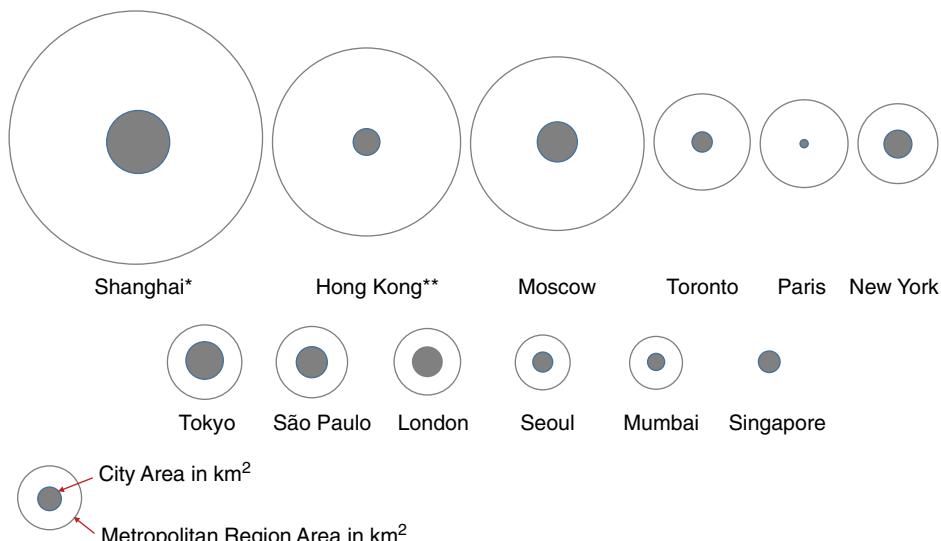
First, world cities emerge in their own spatial context and evolve to have rather different population sizes and geographical scales (see Table 1.2 and Figure 1.2). Size alone is no determinant of the degree of global orientation or world city status. Dubai, for example, has rapidly emerged as a world city despite having a population of less than three million, whereas Mexico City and Cairo have only very limited functions of a world city despite their huge populations. Size and scale not only affect how world cities compete, but also affect their ability to thrive in inherited institutional frameworks. Land-limited cities such as Singapore have not spilled over into a manufacturing hinterland, whereas Hong Kong has been able to through its relationship with the Pearl River Delta. But, for many emerging world cities, the major challenge is dealing with scale and getting

## 12 World Cities and Nation States

**Table 1.2:** Size and scale of world cities and world city regions

City	City population/m.	City size/km <sup>2</sup>	Region	Regional population/m	Region size/km <sup>2</sup>
Hong Kong	7.3	1100	Greater Pearl River Delta	65	55,000
London	8.8	1500	Greater South East	24	39,700
Moscow	12.2	2500	Moscow and Moscow Region	19	47,000
Mumbai	12.6	440	Mumbai Metropolitan Region	21.5	4350
New York	8.5	1100	Tri-state region	23	34,000
Paris	2.2	105	Île-de-France	12	12,000
São Paulo	12	1500	São Paulo Metropolitan Region	21	8000
Shanghai	24.2	6200	Yangtze River Delta	100	100,000
Singapore	5.5	720	—	—	—
Seoul	9.8	605	National Capital Region	26	12,000
Tokyo	13.5	2200	Tokyo Metropolis	36	14,000
Toronto	2.9	630	Greater Toronto Area	6.7	14,000

Sources: Census and Statistics Department, The Government of the Hong Kong Special Administrative Region, 2015; Greater London Authority Datastore, 2015; INSEE, 2016a, 2016b; Russian Federation Federal Statistics Service, 2014; Municipal Corporation of Greater Mumbai, 2015; IBGE, 2015; National Bureau of Statistics of China, 2015; Department of Statistics Singapore, 2015; Seoul Metropolitan Government, 2015; Tokyo Metropolitan Government, 2014; Ontario Ministry of Finance, 2014; Statistics Bureau of Guangdong Province, 2015; Office for National Statistics (UK), 2014; United Nations Department of Economic and Social Affairs, 2014; United States Census Bureau, 2014; EMPLASA, 2016; Statistics Korea, 2016; Geographical Information Authority of Japan, 2014; OECD Stat., 2016.



\* Metro area = Area of Yangtze River Delta Economic Zone

\*\* Metro area = Area of Pearl River Delta Economic Zone

**Figure 1.2:** Comparative size of world cities and their metropolitan regions.