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# THE ECONOMIC MAP OF URBAN EUROPE

**Helsinki in the European Urban Network**



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# Contents

Preface . . . . .	5
1 INTRODUCTION . . . . .	7
2 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 . . . . .	15
7 ECONOMIC GROWTH OF THE METROPOLISES 2001–2004 . . . . .	16
Population growth . . . . .	16
Employment growth . . . . .	17
Production growth . . . . .	17
Why do metropolises grow faster than other regions? . . . . .	18
8 FUTURE ECONOMIC GROWTH IN METROPOLISES . . . . .	19
Employment forecasts . . . . .	19
Production forecasts . . . . .	19
9 HELSINKI IN THE EUROPEAN URBAN NETWORK - A SYNTHESIS . . . . .	21
SOURCES . . . . .	24



# Preface

The economic map of urban Europe presented in this 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. 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.

The 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). Seppo Laakso, ERECO's associate in Finland and researcher of this study, brings about 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 explaining the faster growth rates of big cities. Though, 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 or diversity. 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.

An essential part of the research carried out by ERECO is the medium term forecasting of the metropolitan economic growth. Predictions for the period 2005–2010 are made for production (GVA), employment and a few other economic variables using an econometric model developed and applied by Cambridge Economics. Rates of employment growth of big cities are expected to accelerate compared with those of the period 2001–2004. The mean predicted employment growth of the cities is 0,9 % p.a. in the period 2005–2010, which compares with 0,6 % p.a. in 2001–2004. Also the GVA growth in metropolises is expected to speed up in 2005–2010 compared with the past period. The mean predicted GVA growth of the cities is 2,3 % p.a., which is higher than in the period 2001–2004 (1,9 % p.a.)

Among European metropolises Helsinki is a modern and dynamic city. The service sector is the dominant industry. The share of the economy occupied by the public sector is above the average of the all the metropolises together, and above the share in the other Nordic capitals, except Copenhagen. In the sector of market services Helsinki specialises predominantly in transport and communication. Looking forward to the year 2010, the growth rates of GVA, employment and population are expected to accelerate again in Helsinki compared with the slower growth period of 2001–2004.

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

Helsinki, November 2006

Asta Manninen  
Acting Director  
City of Helsinki Urban Facts

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Office of Economic Development



# 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. In most cases, the geographic area of a metropolis does not coincide with 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 (hereinafter Helsinki) is the only urban area in Finland where the population is more than 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 comprises 45 urban areas. In most countries in this survey, the capital is included, except in the case of Switzerland where Zurich and Geneva have been selected. 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 Baltic states are included in group of countries but the capitals are absent from the set of metropolises. The cities 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 areal extend 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).

One consequence of the above is that the borders 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 findings of this study in some cases, especially when considering the size of the area. That said, as far as Helsinki is 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 standard definition of the Helsinki Region.

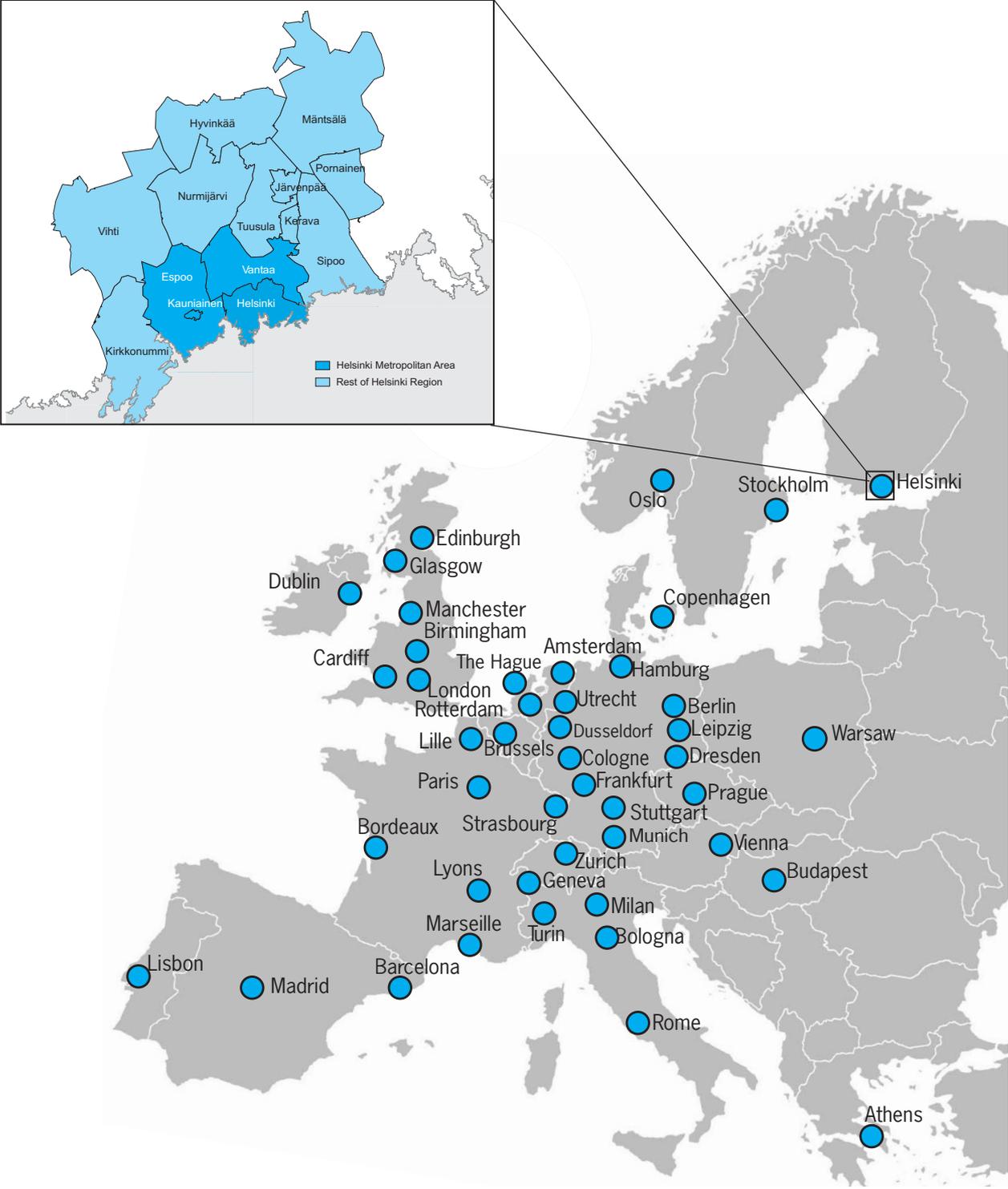
The data that underlie economic, labour and population statistics in this study are in general derived from the official statistics of each country. Nevertheless, there are problems in some cases with the comparability of data. However, the study gives a reasonably reliable picture of the inter-metropolis variation and the differences between Helsinki and other metropolises.

The forecasts in this study 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.

**Table 2.1: Key indicators of the Helsinki Region**

	Population 2005	Employed population 2004	Jobs 2004
City of Helsinki	560 900	275 700	370 400
Helsinki Metropolitan Area	988 300	490 000	576 800
NUTS4 Helsinki Region (Helsingin seutukunta)	1 235 500	609 800	656 800
Functional Helsinki region (14 municipalities)	1 274 700	628 800	668 400

Map 2.1: Metropolises in Europe



# 3 SIZE OF THE METROPOLISES

Various criteria are used to measure the size of a metropolis, and the ranking and relative differences in 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.

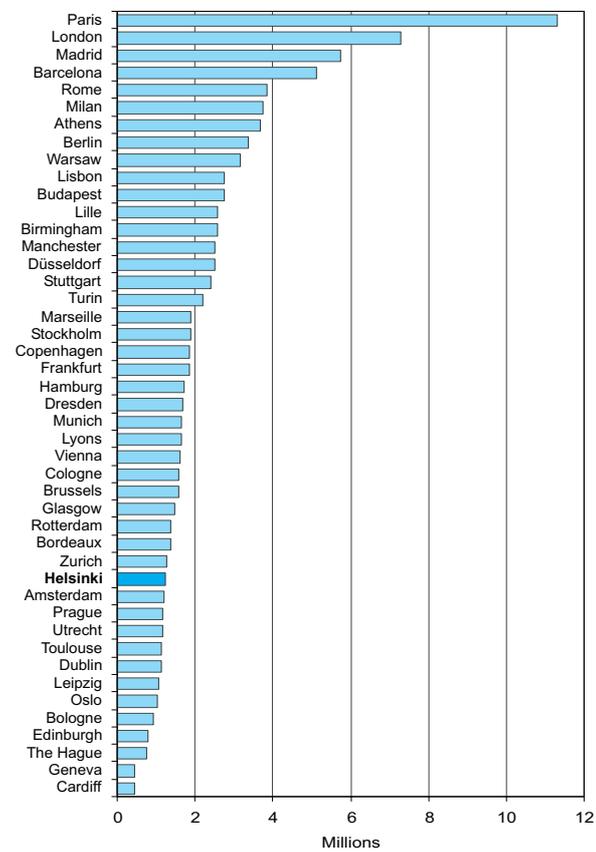
## Population

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 11,3 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 with 5,8 and Barcelona with 5,1 million inhabitants, followed by Rome, Milan, Athens and Berlin, with populations of 3,9–3,4 million.

Helsinki with 1,2 million inhabitants ranks 33<sup>rd</sup> among the metropolises of 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 19<sup>th</sup> and 20<sup>th</sup> position, while Oslo stands at number 40 (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 below them there are several steps down in the size distribution, with numerous cities being of very similar size at each level. This indicates that Europe still consists of either several national or sub-national urban networks.

**Figure 3.1: The population of metropolises (2004)**

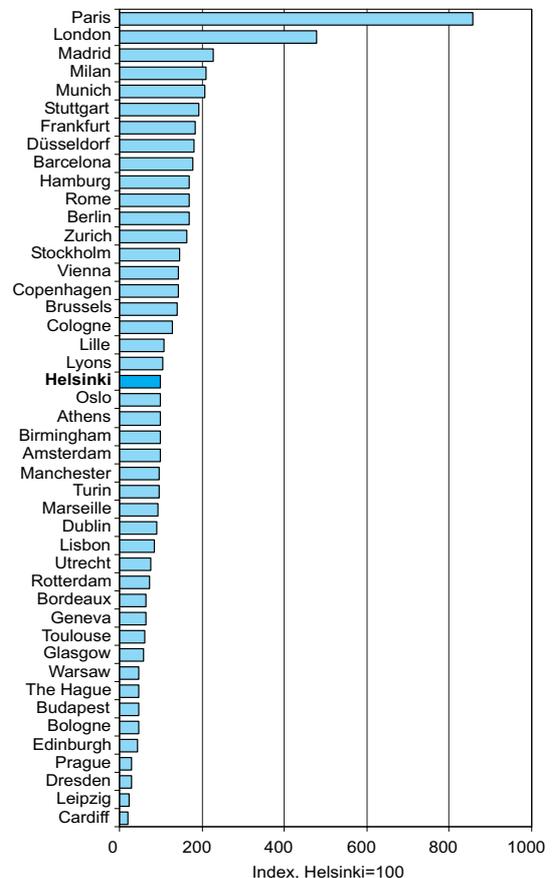


## Volume of production

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 and it reveals a different picture from that measured by population.

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. Thus, in addition to being number one in terms of population, Paris is also one of the most productive cities in Europe. Helsinki stands at 21 on the GVA scale, whereas 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, Oslo, Athens and Birmingham. The rankings of the eastern European metropolises of 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 (2004) (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 in this study the service sector share of total employment is 80 % on average, whereas in the 25 EU countries taken as a whole, the service sector employs on average 70 % of the workforce.

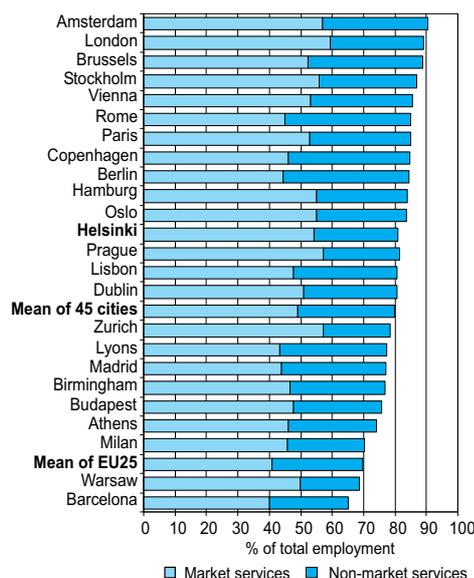
However, if we look at the share of employment and the specialisation of the service sector in each of the cities, we see significant differences. The predominance of the service sector is highest in Amsterdam, London, Brussels, Stockholm, Vienna and Rome. In all of these cities, the service sector share of employment is 85–90 %. Helsinki is also a service sector oriented metropolis, in spite of the fact that the percentage is slightly lower than in other Nordic capitals: the service sector in Helsinki employs 82 % of the workforce.

Within the service sector, there is the non-market sector, which is dominated by public administration and public services. In Rome, Berlin and Copenhagen the non-market sector employs over 38 % of the workforce. Altogether, 29 % of the workforce in the EU countries and 31% in metropolises are employed in these sectors.

As might be expected, capital cities of big countries have more people employed in the public sector because of the concentration of central government functions and associated activities. This clearly affects the economic structure of such cities as Rome and Berlin.

The situation is different in Helsinki and the other Nordic capitals. In these cities, the municipalities play a significant role in providing education, social and health care services, and in turn they have sizeable concentrations of public sector workers at municipal level — relative to their national public administration. In Helsinki, public administration and services employ approximately 36 % of the workforce.

**Figure 4.1: The share of the service sector (market services and non-market services) of employment in selected metropolises (capital cities plus the next largest city of each big country) (2005)**



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 corresponding figure for the 25 EU countries is 41 %. The highest concentrations of private service sector jobs in Europe are found in London, Zurich, Prague and Amsterdam, where nearly 60 % of the workforce are employed in this sector. In Helsinki, the figure is 54 % of the workforce. In most capital cities in southern and eastern Europe the private service sector is still smaller than the mean of the metropolises.

In the private market services sector of the metropolises approximately 32 % of the jobs are in the wholesale and retail trades, while a slightly larger share is found in “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,

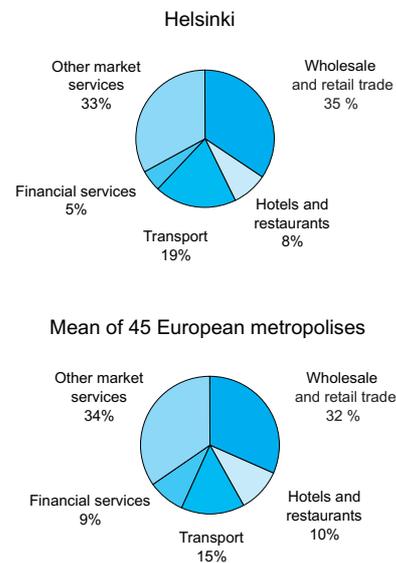
set against other metropolises in Europe its service structure is fairly similar. However, the share of jobs in transport and communications among all jobs is significantly larger in Helsinki than in the metropolises on average, indicating that Helsinki specialises greatly in those industries associated with logistics, and thereby 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 45 metropolises, whereas the shares held by hotels and restaurants and financial services are lower than in metropolises overall.

### The role of manufacturing

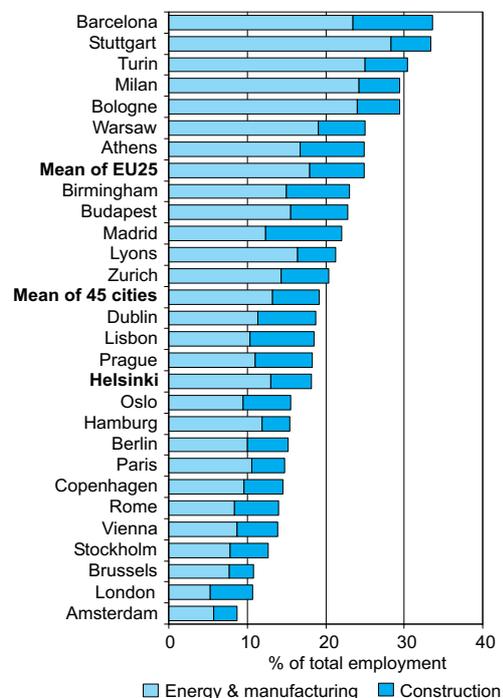
Nineteenth and twentieth century industrialisation generated massive economic development in almost all of the cities which today are the metropolises of Europe. More recently, the service sector has grown and expanded at the expense of manufacturing industries in nearly all large European cities. In most metropolises, manufacturing employs a smaller percentage of the workforce and its share of value-added production is clearly below that of the average of the 25 EU countries in this study. The manufacturing and construction sectors employ 19 % of the workforce in the metropolises on average, while the equivalent figure for the European Union as a whole is 25 %. In Helsinki, the figure of 18 % is slightly lower than the average of all the metropolises.

That said, the manufacturing industry still plays a substantial role in the economy of many European metropolitan areas. It employs almost 30 % of the workforce in Stuttgart and about one-fourth of the workforce in Milan, Turin, Bologna and Barcelona. One or several clusters of predominating industries are to be found in each of the following: Milan and Barcelona have textiles and 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 Barcelona, Madrid, Athens, Lisbon and Prague, 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 to be found anywhere in Europe.

**Figure 4.2: The breakdown of jobs in private services: Helsinki and European metropolises (2005)**



**Figure 4.3: The share of energy & manufacturing and construction employment in selected metropolises (2005)**



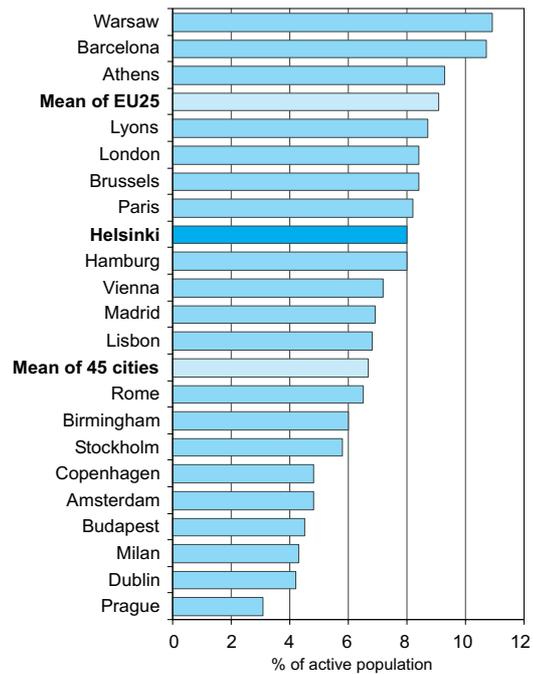
# 5 LABOUR FORCE

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 the labour force in each metropolis.

The economic activity rate of the population – the number of people employed 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 part of the difference, because the percentage of the population that is of working age is higher in metropolises than in the EU 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.

The average unemployment rate of metropolises was 6,7 % in 2004, i.e. over 2 percentage points lower than the average of the 25 EU countries. This reinforces the theory that urban labour markets operate well, and in turn generate jobs more effectively than is the case in other areas of a country. There are large variations in unemployment between European metropolises: rates range from 3 % to 17 %. This is partly due to differences in statistical sources and national differences in behaviour in the labour market and regarding registration for unemployment. However, the figures also represent the balance between labour demand and supply. In Helsinki, the rate of unemployment – 8 % in 2004 – is higher than the mean of metropolises and higher than in Nordic capitals Copenhagen and Stockholm, where the unemployment rate was below the average of the metropolises.

**Figure 5.1: The unemployment rate in selected metropolises (2004)**



# 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, the GVA figures are based on regional national accounting in each country.

It must be noted that the GVA figures for 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 in eastern European countries.

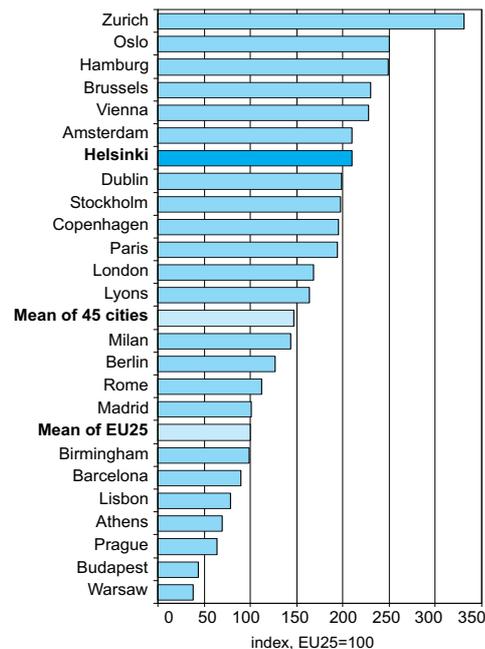
As is seen in Figure 6.1, the average GVA per capita of the metropolises is nearly one half higher than the average of the 25 EU countries, indicating that metropolises are more productive and richer zones than the 25 countries as a whole.

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, together with 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 a sector of low productivity – is absent from the metropolises.

Almost 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 2004 is found in Zurich, where it is over three times as high as the average of the 25 EU countries, using current exchange rates. The next metropolises in the ranking are Oslo, Hamburg, Brussels and Vienna, followed by Amsterdam, Helsinki and Dublin. In Helsinki, the GVA per capita ratio is about twice that of the mean for the 25 EU countries.

**Figure 6.1: The GVA (euros) per capita in selected metropolises (2004) (Index, Mean of 25 EU countries=100)**



One of the main factors explaining the GVA per capita differences between metropolises is the national GVA per capita. In general, 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. 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.

# 7 ECONOMIC GROWTH OF THE METROPOLISES 2001-2004

The economic growth of the metropolises during the years 2001–2004 is examined using three variables: population, employment and production (GVA).

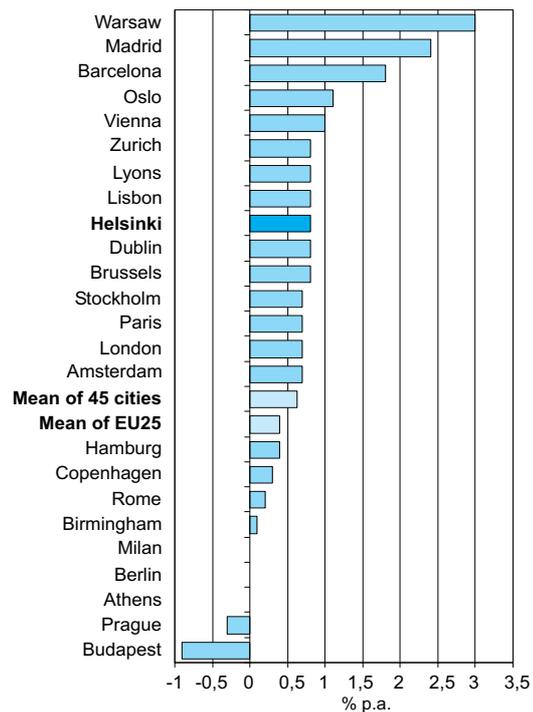
## Population growth

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

Figure 7.1 shows that the population grew faster in metropolises – approximately 0–6 % annually – than in the 25 EU countries on average (0,4 % p.a.) during the period 2001–2004. Population growth was fastest in Warsaw, 3 % p.a., and Madrid, 2,4 % p.a., followed by Barcelona (1,8 % p.a.), Oslo (1,1 % p.a.) and Vienna (1,0 % p.a.). Helsinki’s population growth of 0,8 % p.a. was above the average of the 25 EU countries and metropolises. Population declined significantly in Budapest and Prague and also (outside the selected metropolises of Figure 7.1) in some manufacturing cities in the UK and central Europe.

In Helsinki, the rate of population growth between 2000 and 2004 slowed remarkably compared with the previous decade, when population increased by 1–1,5 % annually. In Helsinki, the slowdown was closely related to a declining demand for labour. However, population growth in Helsinki speeded up again in 2005.

**Figure 7.1: Population growth (% p.a.) in selected metropolises (2001–2004)**



## Employment growth

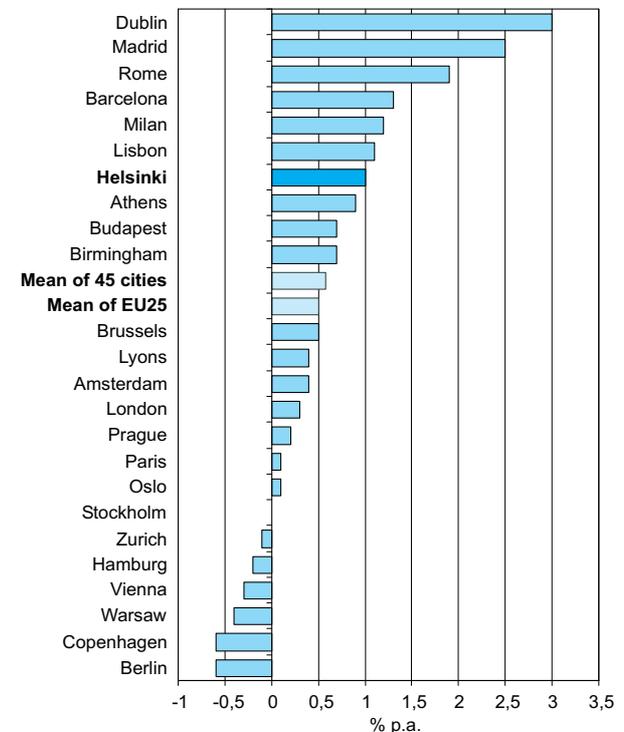
Along with the rising metropolitan populations, employment rates also grew faster in metropolises when set against national figures. The average rate of employment growth in the metropolises was 0,6 % p.a., while the average growth in the 25 EU countries was 0,5 % p.a.

Employment growth was particularly rapid in Dublin: 3 % p.a. from 2000 to 2004. The next fastest growth rates occurred in Madrid (2,5 % p.a.), Rome (1,9 % p.a.) and Barcelona (1,3 % p.a.). In Helsinki, the employment growth rate was 1 % annually; by contrast, in the other Nordic capitals employment growth was lower than the mean of the cities and 25 EU countries, while Copenhagen experienced negative growth. Employment declined also in Berlin, Warsaw, Vienna, Hamburg and Zurich.

In Helsinki, employment growth slowed between 2001 and 2004 compared with the second half of 1990s – during which period employment increased by 4 % annually, thus putting Helsinki then among the three fastest growing metropolises in Europe. However, employment growth recovered in Helsinki in 2004.

There is a clear correlation between employment and population growth. However, in some cities population increases without employment growth – at least in the short run – and in other cities the opposite may occur. This indicates that in many metropolises there is considerable flexibility in the local labour markets and consequently employment growth does not automatically lead to major 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 (% p.a.) in selected metropolises (2001–2004)**



## Production growth

Production grew on average slightly faster in the metropolises (1,9 % p.a.) than in the 25 EU-countries as a whole (1,7 % p.a.) during the period 2001–2004. However, this gap is fairly small and has diminished further during the last few years.

The GVA growth rate was fastest in Dublin, 7 % p.a., closely followed by Warsaw. Next in order were Budapest, Prague and Athens. In Helsinki, GVA grew at 3,8 % p.a. In Stockholm, the figure was 2,6 % p.a., whereas in Oslo and Copenhagen the growth rates were below the mean of the metropolises. In Berlin GVA declined, as did employment.

Like employment and population, GVA growth was rather modest in Helsinki from 2001 to 2004 compared with the period from 1995 to 2000, when the growth rate was about 8 %

annually. Major problems experienced in the important Information and Communications Technology (ICT) sector were the main cause of the slowdown. The associated decline in output and employment in this sector were distributed widely across the economy of Helsinki, with the temporary slackening in GVA strongly affecting broader employment and population trends in the metropolis, as well. However, the growth of GVA accelerated in Helsinki again in 2004.

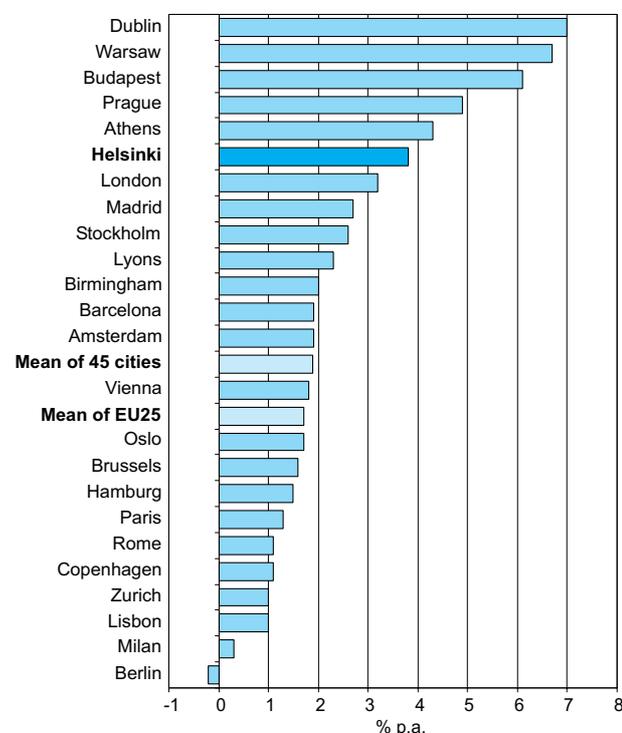
## Why do metropolises grow faster than other regions?

Figures from 7.1 to 7.3 show that as a group the metropolises of Europe have grown faster than the mean growth of their respective countries in terms of population, employment and production. It must be noted that the gaps between metropolises and the whole of the EU area with respect to GVA, employment and population growth were significantly larger in the 1990s than from 2001 to 2004.

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 separation can be made between metropolises in terms of economic diversity. At one extreme, there are cities such as London and Paris, which have several strong export clusters. These economically diverse metropolises are most likely to experience stable economic growth because the economic fluctuations of individual clusters or industries normally balance each other out. At the other extreme are cities highly dependent on one single cluster, typically a branch of manufacturing. In this case, the economic development of a city is dominated by fluctuations in this key cluster. When the key cluster grows rapidly, this city grows fast, too, but if the cluster suffers long-term structural problems, it will limit the growth opportunities of the entire metropolis for a considerable time. During the period 1995–2000, rapid growth in Dublin, Helsinki

**Figure 7.3: GVA growth (% p.a.) in selected metropolises (2001–2004)**



and Stockholm, for instance, was driven by their expanding ICT sectors, whereas from 2001 to 2004 the very same sector caused growth to slow, notably in Helsinki. Correspondingly, Warsaw, Budapest and Prague have 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 merely modest expansion in the public sector 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. Thus, a sluggish national economy is likely to lead to a slower growing metropolis. However, in most cases the growth rate of a metropolis remains higher than that of its respective country.

# 8 FUTURE ECONOMIC GROWTH IN METROPOLISES

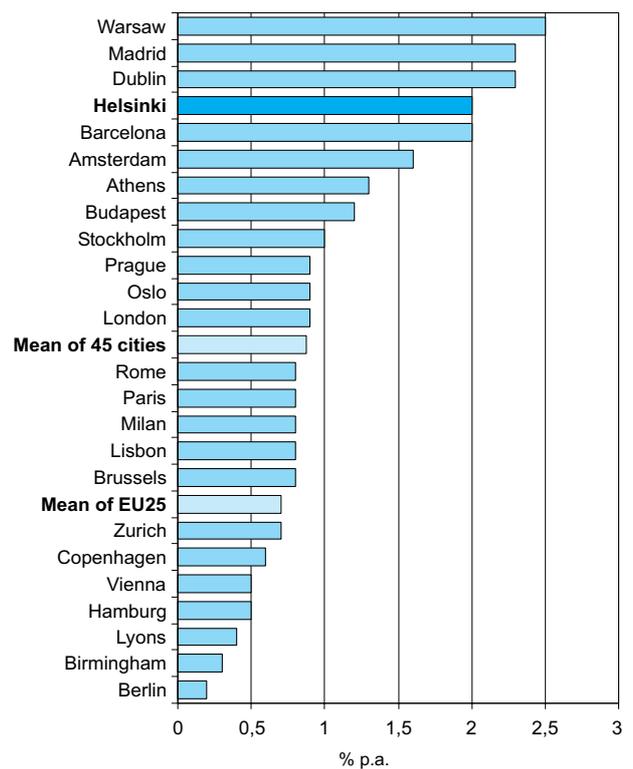
An essential part of the research carried out by ERECO is the medium term forecasting of metropolitan economic growth. Predictions for the period 2005–2010 are made for production (GVA), employment and a few other economic variables using an econometric model developed and applied by Cambridge Economics. 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 accelerate compared with those of the period 2001–2004. Thus, mean employment growth of the cities is forecast to be 0,9 % p.a. in the period 2005–2010, which compares with 0,6 % p.a. in 2001–2004. Also, the gap between the average of cities and that of the EU is expected to widen again, with the mean employment rate of the 25 EU countries predicted to be 0,7 % p.a.

According to the forecasts, employment growth will be fastest in Warsaw, Madrid, Dublin, Helsinki and Barcelona. Employment growth in Stockholm and Oslo is predicted to remain above the mean of the cities, while in Copenhagen the growth is expected to be lower than the average of the 25 EU countries.

**Figure 8.1: The forecast for employment growth (% p.a.) in selected metropolises (2005–2010)**



## Production forecasts

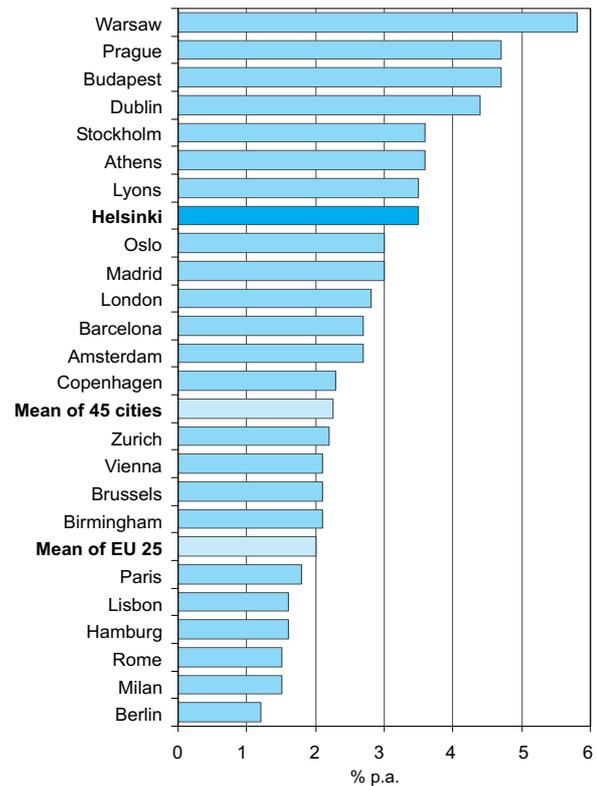
Growth of GVA in metropolises is also expected to speed up in the period 2005–2010 (compared with the previous four years.) Thus, a 2,3 % p.a. GVA growth rate is predicted for the cities, which is higher than in the period 2001–2004 (1,9 % p.a.). GVA growth in most metropolises is expected to be both faster than (in that period) and above the predicted mean of the countries. This indicates that the gap in economic growth between metropolises and other regions will probably widen again 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 5,8 % p.a. and the other two by 4,7 % in the period 2005–2010. They are followed by Dublin, the leading city in the preceding periods, Stockholm and Athens, with growth rates ranging from 4,4 % p.a. to 3,6 % p.a. The growth rate of the GVA in Helsinki is predicted to be 3,5 % p.a., approximately the same as in the previous period. All the Nordic capitals are expected to grow faster than the average of the cities.

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. 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.

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

**Figure 8.2: The forecast for GVA growth (% p.a.) in selected metropolises (2005–2010)**



# 9 HELSINKI IN THE EUROPEAN URBAN NETWORK -A SYNTHESIS

## **The economic map of Urban Europe**

Collectively, the metropolises of Europe are 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, which will limit their growth potential. The most diverse and dynamic centres of western Europe have grown fairly fast. However, many cities oriented towards manufacturing or public administration have grown rather slowly. The overall picture since 1995 is that the big cities of the countries fringing the zones surrounding the old core of the EU have grown fastest and this pattern is predicted to continue. This outer ring 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 peripheries, the Nordic capital cities, notably Helsinki and Stockholm, have expanded 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, China and other Far East countries, and the USA, and as a result they are less dependent on the mature markets of the large EU countries.

## **Helsinki as a metropolis**

Helsinki is the only metropolis in Finland. The population of the Helsinki Region is 1,2 million, there are about 700 000 jobs in the region and the value of the gross value added (GVA) is approximately 45 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 may look remote. However, this disadvantage has effectively been eliminated by sophisticated communications technology and a modern transport infrastructure. A well trained labour force coupled with systematic investments in R&D and in other human capital has enabled considerable specialisation in high technology export products in which the transport costs to the main market areas are 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, Poland and the Baltic states. The city also acts as a node in international networks on behalf of the rest of Finland.

## **Helsinki's specialisms**

Among the European metropolises Helsinki stands out as a modern and dynamic city. The service sector predominates, as is the case in most other metropolises.

The share of the economy occupied by the public sector is close to the average of the all the metropolises together. With this respect all the Nordic capitals resemble each other. In the sector of market services Helsinki specialises predominantly in transport and communications.

The share of manufacturing is 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, machinery and the graphics industry. With the exception of 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.

### **Future prospects for Helsinki**

Helsinki grew rapidly during the period 1995–2000, but that growth slowed during the following period (2001 to 2004). In the second half of the 1990s, Helsinki was among the three fastest growing cities among the 45 with respect to population, employment and GVA growth. However, it should be noted that the starting point in 1995 with respect to employment and production was low in Helsinki because of the effect the economic depression in Finland in the early 1990s. In the period 2001–2004, Helsinki's rank dropped but it remained clearly in the upper half of the 45 metropolises in all respects.

Looking forward to the year 2010, the growth rates of GVA, employment and population are expected to accelerate again in Helsinki compared with the slower growth period of 2001–2004. That growth will probably not be as rapid as it was between 1995 and 2000. However, Helsinki will remain among the fastest growing cities with respect to all variables, according to the forecasts used in this study. The relatively positive economic prospects for Helsinki stem from several factors. For a start, despite several risks and uncertainties, Helsinki's ICT sector remains competitive and well-placed in the global markets and will be able to take its share of the worldwide growth in demand. Second, the expansion of the private service sector is predicted to continue, maintained by steady domestic consumption. Beyond that, the vibrant property markets will keep levels of construction investments high, in spite of slightly declining housing demand. And major infrastructure investments, such as the new Vuosaari port, will positively influence the economy, too. Outside Finland, 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 further advance 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.

### **Helsinki's challenges and solutions**

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, at the same time, provide adequate welfare for its citizens in the longer term.

Helsinki needs to diversify its economic base by developing new, strong industrial clusters to complement the modern ICT cluster and its traditional industries. This would greatly diminish the risks associated with the considerable volatility of the global ICT business and the modest growth prospects in manufacturing. In general terms, Helsinki should become more diversified and more innovative in order to attract not only new industries but also more domestic and foreign investments.

The ageing of the population presents a challenge to the supply of labour in the Helsinki region. Without an inward migration surplus the number of people of working age will start to decline within a few years. A permanent inflow 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 must 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 potential. This should be fully exploited to enable Helsinki to become a successful multi-cultural city.

To attract new migrants to the region Helsinki needs to offer more choice in its regional housing markets. As a result of the rather standardised industrial concrete construction of 1960s, 1970s and 1980s Helsinki's housing stock remains dominated by blocks of flats. Moreover, the majority of individual dwellings are rather small. Consequently households have less floor space per capita in Helsinki than in most other European metropolises. However, housing construction has

been active and supply has increased rapidly during the last decades. Helsinki still needs a shift in city planning and housing construction to increase its housing supply still in the future. At the same time, greater diversity in the housing markets will attract innovative and wealthy people to the city.

Looking ahead to the end of the first decade of this millennium, Helsinki has an exceptional historical opportunity to use its city planning instruments to boost its dynamism and innovation. The construction of the new Vuosaari port will release the large, old, inner city port areas to be redeveloped as a mix of residential and business land use. The new port will also release extensive tracts of land in Pasila, in the northern inner city, which are currently used for transporting goods to and from existing inner city harbours. This offers an opportunity to plan and develop new, modern and attractive residential and business areas in the very heart of the city.

Well educated population and strong inputs in research and development both by the private and the public sector are among the evident strengths of Helsinki. They form the basis for knowledge economics which is one of the key factors in city's dynamism. However the innovativeness should be still activated by applying the idea of life-long learning and by supporting people at all educational levels to develop their skills.

Close, active cooperation between these three key local actors – the local public sector, the business sector, and educational and research institutions – promotes a dynamic and fruitful economic environment. Their collaboration also builds networks, and in turn fosters the accumulation of social capital. Good communication and strong trust among the various actors is one of Helsinki's major strengths. In a small country and in a small metropolis "everybody knows everybody", which facilitates engagement. Currently, however, no formal regional forum exists for open discussion and by which to enhance cooperation between these groups.

Regional level decision making concerning such issues as regional land use, housing, the environment, education, migration policy and other topical matters having strong regional dimensions presents a major challenge. One example of a regional level authority is Helsinki Metropolitan Area Council. It is responsible for transport system planning, regional public transport provision, waste management and air quality management across the four municipalities of Helsinki, Espoo, Kauniainen and Vantaa. In addition, there is systematic voluntary cooperation between the municipalities of the region to promote regional competitiveness, efficient land use and transport, and local public services. Whether this voluntary collaboration leads to more formal decision making structures or, ultimately, to the merging of municipalities remains for the future.

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