CHAPTER 5

Economic City Diplomacy

Abstract Economic development is today the strongest driver of city diplomacy—and it generally enjoys the broadest level of local and national political support. Economic city diplomacy mainly aims at providing cities with the tools to position themselves in the global competition to attract investments, companies, tourists, talents, students—and international events. Alongside this goal—symbolized by the spread of international rankings of city competitiveness—cities have put in place a number of economic cooperation practices, including knowledge exchange and the co-creation of joint programs. The chapter will analyze this apparent contradiction between economic competition and cooperation, and present the added value of the economic dimensional city diplomacy to cities of all sizes. The second part of the chapter will take into consideration the economic impact of hosting international events. Finally, the conclusions will offer an insight into the possible impact of COVID-19 to the economic component of city diplomacy.

Keywords City diplomacy · Global cities · City competitiveness · Global cities · City rankings · Urban development · Global events · COVID-19
The Rise of Economic City Diplomacy

The economic dimension of city diplomacy consists of a set of measures meant to reinforce economic relations with foreign actors and enhance local economic development.

Since the 1990s, the relatively fast expansion of this diplomatic action is linked to the rising desire of municipalities to direct their international efforts toward those actions promising faster and easier return on investment. Just like national economic diplomacy, this component of municipal action generally features the dual goal of boosting economic growth and job creation and is used both to strengthen an already positive trend or to reverse economic stale or decline.

While most city diplomacy dimensions are deeply grounded in solidarity and cooperation goals, the economic one mainly stems from local self-interest, even though notable exceptions exist. As a result, cities face the challenge of integrating this dimension in a coherent general city diplomacy strategy: how to connect international competitiveness-driven measures with the level of cooperation required for successful city diplomacy? How to link the desire of cities to climb economic hierarchies and the apparently conflictual goal of harnessing the potential of city-to-city partnerships in a plurality of fields—including economic development? As highlighted in Chapter 2, history teaches that cities’ desire to excel has always been coupled with the need for them to cooperate to prosper. City diplomacy represents the tool to provide cities with the direction to follow in order to solve this conundrum.

Winners and Losers of Globalization?

The widespread belief that economic globalization has led to the emergence of a small group of “winners” and large numbers of “losers” is corroborated by sound quantitative research. In its comprehensive report on the competitiveness of the 750 biggest cities in the world, the World Bank has highlighted that the top 5% of cities has obtained as much foreign direct investments (FDIs) as the bottom 95% of cities combined, and that the top 10% of cities achieved 9.2% annual jobs growth, compared with 1.9% in the remaining 90% (World Bank Group 2015, 12).

The fact that a little group of cities has economies which match those of middle-size countries (Tokyo with South Korea, New York City with
Spain and Canada, London with the Netherlands) (Florida 2017) is just the consequence of a structural change of our economy described by Dutch-American sociologist Saskia Sassen by introducing the term of global cities (Sassen 1991). As illustrated in Chapter 1, these cities represent the backbone of today’s global economy, concentrating in themselves the headquarters of main international firms, as well as the many services these companies need to smoothly run their networks, i.e., the consultancies in the fields of management, accountancy, advertising, banking/finance, and law.

Such definition is reflected in many international rankings of urban competitiveness, the most famous of which is “The World According to GaWC“, published biennially since 1998 by the Loughborough University’s Globalization and World Cities Research Network. In this list, the position of cities, ranked in alpha, beta, and gamma, is based upon the magnitude of their business service connections to other major cities around the world (707 in the 2018 edition). This ranking value the contribution of private businesses in an intricate economic network composed of cities, reinforcing the point that “cities in networks need each other” (Derudder Ben et al. 2012, 2).

Other city rankings include indicators such as Cultural experience and Political engagement (A.T. Kearney’s Global Cities Index) or Cultural Interaction, Liveability, Environment, and Accessibility (Global Power City Index by the Mori Memorial Foundation). The inclusion of such elements has an impact on the rankings: Paris ranked 8th in the 2018 edition of World According to GaWC, 3rd in the 2019 Global Cities Index by A.T. Kearney and 4th in the 2019 Global Power City Index.

What all these ranking reveals is that, indubitably, there is an international economic hierarchy of cities. Most of these rankings are, in fact, dominated by Western cities, even if a small group of cities from the Global South is beginning to rise (Myers 2018). This geography has further fueled an international debate about winners and losers of economic globalization.

Florida et al. consider that the distinction between cities based on their capacity to be part of the global economy might lead to broad social consequences, with the development of similar shared “social mores, cultural tastes, and even political leanings” in globalized cities all across the world, and increasingly disconnected from rural and less globally integrated urban centers (Florida et al. 2008, 8). This might contribute to explain tension emerging in different places across the metropolises/rest
of the country fracture, such as in the case of the “gilet jaunes” protest in France (Baléo 2020). Moreover, the wish of some cities to increase their ranking through higher appeal to national and international capital could negatively impact social protections and the quality of life of the most fragile part of the population (Habitat III 2015). In 2008, then United Nations Special Rapporteur on Adequate Housing Raquel Rolnik expressed such concerns in a report to the UN General Assembly: “Urban planning directed to creating so-called “world-class cities” rather than controlling speculation and reining in rising rental and home prices through appropriate land management tools have contributed to boosting property prices in cities and diverted land for higher-income groups” (Rolnik 2008).

Despite being solidly grounded on the political and socioeconomic indicators (OECD 2019), the winners/losers duality risks of oversimplifying a complex and multifold situation build on a multiplicity of causes, including those partially or totally independent on the will of the municipality (e.g., the connection of the city with national infrastructure, lack of national investments and transfers to the local economy). Nevertheless, the scholarly focus on global cities, together with mentioned figures and indicators, should not lead to the misconception that only those cities feature the needed set of scale, resources, and skills to benefit from today’s globalized economy substantially. City diplomacy shows that new forms of international cooperation can enable cities with staling or declining economies to benefit, just like their more successful peers, from knowledge transfers and co-creation opportunities stemming from international partnerships.

**Cities’ Economic Cooperation**

Alongside the competition, economic development has also emerged as a field of cooperation between cities, at both bilateral and multilateral levels. First, cities linked with twinning and cooperation agreements, or with an established interaction based on the participation in networks or projects, often cooperate in exchanging best practices on that field. Over the last few years, this cooperation has mainly focused on the establishment of development cooperation agencies, with cities already having one advising and sharing information with those in the process of creating one (see Box 5.1). Moreover, cities sharing similar economic
conditions—both highly successful global cities, cities suffering from a particular challenge such as unemployment or deindustrialization, and low-income cities—are putting in place a series of multilateral initiatives to cooperate in enhancing their economies. Examples include 45 Urbact projects (May 2020), focusing on strengthening local attractiveness, revitalize small and middle-sized cities’ economies, or jumpstart sustainable and circular economic development. Most regional networks, such as Mercociudades, the Council of European Municipalities and Regions, and CityNet, feature programs and host events on sustainable economic development, thus enhancing peer learning and the spread of co-design of solutions, particularly through the introduction of pilot projects featuring the introduction of new technologies (see Chapter 6).

This duality is often reflected in municipalities’ structure, usually featuring a sector devoted to cooperation and solidarity—the international office/department—and an economic department/agency whose tasks include raising the city’s position in rankings of competitiveness.

Understandably, cooperation between these two sectors—and with the economic development agency, when present—reveals to be a precondition to a thriving city diplomacy strategy. As illustrated in Chapter 1, the economic strategy should be coherent with the other priorities of international action—e.g., by strengthening historic partnerships through joint actions on issues of mutual interests—and making sure the SWOT analysis is constantly updated.

The lack of such strategy—namely of its coordination and evaluation components—might result in short-lived initiatives driven by fads: though some of them might have a positive impact, incoherent actions tend to impede the creation of a strong international reputation of the city based on its competitive advantages.

Finally, the municipal coordination of economic diplomacy should take into consideration a series of risks that might arise from this activity. This includes keen attention to the choice of local and international partners, taking into consideration any potential impact on the reputation of the city stemming from cooperating with controversial economic actors. Moreover, cities should be aware that economic cooperation, particularly involving innovation and technology, bears the risk of knowledge and information stealing—especially in countries with loose intellectual property laws. Therefore, the international relations department should provide involved local actors with all relevant information concerning the
foreign partners, the legal system, and the potential risks. Finally, the city must be aware that the involvement of private partners in economic diplomacy could lead to delocalizing production facilities, with the consequent negative impact on local economy and employment. For an initial evaluation of COVID-19’s potential impact on re-localizing facilities, please see the conclusions of this chapter.

**Urban Entrepreneurialism: Mayors as Entrepreneurs**

The spread of economic city diplomacy largely depends on its inclusion, by elected officials, in the local political priorities.

In particular, impactful economic city diplomacy has often emerged as a consequence of a new approach to local economic development implemented by many mayors and characterized by a proactive, risk-taking attitude toward the international market, namely regarding the attraction of capitals, people, and ideas. This political focus on the global positioning of the city and on supporting locally produced goods and services has led to the definition of mayors as “city entrepreneurs,” whose attitude goes by the term of “urban entrepreneurialism” (Brenner 2004; Acuto 2013).

This trend has deeply impacted city diplomacy, notably through the multiplication of entrepreneurial missions in friends cities—with the mayor acting as the head of local intrapreneurs’ delegations—and the mayor’s participation to business forums both at home and abroad (Stren and Friendly 2019).

In the search for the best conditions to enable this approach, many cities in the Global North took the decision to enhance the local economy through bilateral and multilateral partnerships with cities in other high-income, or fast-paced economies (e.g., China, Singapore, the Gulf monarchies, Brazil), sometimes to the expenses of existing partnerships with the least developed countries.

Moreover, just like in the other dimensions of city diplomacy, the success of the economic one largely depends on the municipality’s capacity to empower local stakeholders and reinforce their international remit. To harness the full economic potential of a city, the World Bank highlights the role of the “mayor’s wedge” in making economic development a local priority and creating “growth coalitions.” These include
local economic actors and other public entities such as neighbor cities,\(^1\) regions, and the central government (World Bank Group 2015).

Finally, one of urban entrepreneurialism’s key components consists of city branding, a practice originating from the private sector that cities use to link their perception by external public and actors with a set of unique and attractive assets and qualities. Branding campaigns are generally designed to encompass all economic dimensions of the city by supporting the external visibility of the goods and services, and by making the city more appealing to foreign companies, investments, talented professionals, tourists, and students.

As it will be further expanded in Chapter 8, this practice’s outcome largely depends on the participation of local public and private stakeholders, such as the tourism office, the chamber of commerce, and the cultural and creative industries.

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Box 5.1: The Spread of Economic Development Agenties

Over the last few years, a rising number of cities has created economic development agencies to enhance urban economic dynamism and national and international competitiveness by means of strengthened cooperation between the public and the private sectors.

They usually consist of mixed economy companies, supporting the city economy by providing a set of services, many of which related to economic city diplomacy, such as:

- City branding;

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\(^1\) Regardless of the existence of institutional frameworks connecting them (e.g. metropolis, province, association of collectivities), neighbor cities might benefit from joining forces—forgetting sometimes fierce historic rivalries when present—and creating a partnership that offers foreign investors and companies a more attractive and diverse offer. In France, the metropolitan city of Nice (Métropole Nice Côte d’Azur) decided to leverage its international attractiveness through enhanced coordination of policies, thus sharing investment and positioning costs and achieving relevant economic results shared between the core city and the 48 smaller surrounding municipalities. Of course, there is no standard form of successful cooperation, as the latter cannot be but the result of partnerships based on local specificities. As Teles warns, “larger communities can entail a greater number of cleavages, but are also more capable of being organisationally developed” (Teles 2016, 36).
- Consulting (usually for free) to potential foreign investors in the city; including information on national and municipal law;
- Supporting the export of local products and services;
- Attracting foreign entrepreneurs;
- Attracting both foreign leisure tourists and students;
- Supporting the city’s bid to major sport, cultural, and business events;
- Cooperating with their foreign counterparts in twin/friend cities.

Two best practices have deeply influenced the spread of such agencies across the world, the New York City Economic Development Corporation (NYCEDC) and London & Partners. The latter has, in particular, supported a series of London’s partner cities in establishing their own agency, including Milan’s Milan & Partners and Rio de Janeiro’s Rio-Negócios.

Direct international cooperation between economic development agencies has also emerged in the framework of the cooperative component of economic city diplomacy. Examples include the “Global Business Exchange” program implemented between 2016 and 2017 by the NYCEDC, Paris’ development agency Paris&Co, and the City of Milan (Milan & Partners not been already in place) to support the international expansion of the three cities’ startups. The initiative consisted of calls issued by the three partners and open to startups wishing to expand their business in one of the two other cities. The selected startups received free acceleration in one of the partner’s own incubators, benefiting from guidance to adapt their product/service to the foreign market.

Sources Minicucci and Carlini (2020), Mendes and Figueira (2017), and NYCEDC (2016).

The Economic Impact of International Events
As mentioned in Chapter 1, international events present a high potential to raise the international profile of the city while boosting its economy both in the short and long term. Nevertheless, over the last decade, many municipalities’ bids for such events have generated intense opposition among residents.

While bids highly differ in their strategies, they are often perceived by local actors and residents as a risk of bribery and exorbitant costs, coupled with opaque selection procedures (Woertz 2016), as financial scandals led
to the resignation of IOC officials (2002 Salt Lake City Winter Olympics) and sentences against FIFA officials (2010 FIFA World Cup in South Africa).

Such a perception resulted in numerous cancellations of bids. Out of the nine candidates for the 2022 Winter Olympics, seven retired their bids (Stockholm, Oslo, Krakow, Munich, Davos, Barcelona, Quebec City), leaving only Almaty and Beijing compete for the title, the latter being chosen. A similar situation has occurred with the Summer Olympics: the popular protests-led decisions of Hamburg, Budapest, and Rome to withdraw from the 2024 bid, leaving only Paris and Los Angeles. Discussions with the two bid committees led to the 131st IOC Session decision in Lima, Peru in September 2017 of awarding 2024 games to Paris and the 2028 ones to Los Angeles.

The economic impact of such events is also an object of intense debate. While the short-term economic impact of major events is usually granted (investments and new jobs in construction, communication, service industries), the long-term one has varied a lot from city to city. Some cities were able to build a sustainable economic legacy after these main events, such as Barcelona (1992 Summer Olympics) (Woertz 2016) and Milan (2015 Expo). In other cases, the heritage of such events revealed to be a burden: the Summer Olympics in Montréal (1976), Athens (2004) or Beijing (2008) generated massive debts (De Aenlle 2015), while most of South Africa’s football stadiums built for the 2010 FIFA World Cup struggled to be filled even before the COVID-19 outbreak, thus representing a loss of money for the municipalities who own them.

The Impact of COVID-19 on Economic City Diplomacy

Across the world, COVID-19 has deeply impacted urban economies and is likely to generate bold long-term evolutions.

First, the COVID-19’s impact on international trade and production has confronted many cities with complex challenges in terms of PPE and primary need goods’ availability. This might result in a re-localization of productions in order to strengthen the city’s resilience to future shocks. In the long term, such practice might impact the local economy of cities re-localizing, creating jobs and economic development opportunities, while weakening the socioeconomic situation of cities currently hosting these industrial facilities.
While the competition for tourists, investments, and talents stopped almost completely, due to travel restrictions and social distancing measures, city-to-city cooperation on economic recovery was put in place by several city networks. In April 2020 C40 launched the Global Mayors COVID-19 Recovery Task Force, chaired by the Mayor of Milan Giuseppe Sala (C40 2020, 40), whose Agenda, shared in July 2020 through C40’s website, presents a set of principles, guidelines, and best practices to create more resilient, just, and sustainable city economies. Other networks fostering knowledge exchange and debates among members include the International Associations of Cities and Ports (AIVP), the Organization of World Heritage Cities (OWHC), and the Association Internationale des Maires Francophones (AIMF). Capacity building workshops were organized by many actors, including UCLG, the OECD’s Division on Cities, Urban Policies and Sustainable Development, CityNet, Eurocities, and ASToN network (ASToN Network 2020).

As the pandemic continues to ravish vast regions of the world, such a cooperative component of economic city diplomacy prevails on the competition on the lesser amount of international resources available. Time will tell if such a trend will be able to impact the future of city diplomacy sustainably.

Box 5.2: Urban 20

The Urban 20 (U20) was presented in 2017 at the One Planet Summit in Paris by host mayor Anne Hidalgo and Horacio Rodríguez Larreta, Mayor of Buenos Aires. To date, it constitutes one of the highest forms of recognition of the international role of cities.

As G20’s stakeholder engagement group for cities, U20 brings together major cities (27 in 2019) from G20 member states to discuss global challenges, define a common position, and present it as recommendations to G20. At its second summit in Tokyo in 2019, U20 orientated its action toward three priorities: climate action, sustainable economic growth, and social inclusion and integration.

U20 is chaired by the host city of the upcoming G20 annual summit, and its actions benefit from the coordination of UCLG and C40 Cities.

Lacking a permanent staff and a headquarters, U20 appears for now more a knowledge exchange and advocacy group than a fully fledged city
network. Nevertheless, through its connection with G20, U20 has the potential to enhance the role of cities in global finance. Currently, U20 is concentrating its advocacy efforts on reforming international finance to allow cities to borrow money from development banks without the need for authorization and backing by their central government (see Chapter 2).

In the midst of the COVID-19 pandemic, U20 has launched a working group chaired by the City of Rome, advocating for stronger national support to municipal finances, under high stress for having to deal directly with most of the socioeconomic impact caused by the crisis.

Sources U20 Mayors (2018, 2019) and Rodas (2020)

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