天津外国语大学(天外)
Tianjin Foreign Studies University (TFSU)

Global Economics

Online class starts at 08:00

(Beijing Time, GMT+8)

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The geoeconomics of Global Cities
Exploring new avenues for expanding business internationalization

This lecture suggests some advances in the study of global city geoeconomics as the role of the international corporate sector has not yet been heavily covered in the existing literature. In addition, it was anticipated that the economic intermediation role of major world cities and others **would decline** with the new wave of economic globalization and the acceleration of information and communication technologies (ICT)-based instant communication since the early 1990s. However, **the exact opposite has taken place**, and competitive rankings of global cities have even emerged and resonated worldwide since the turn of the century.

Global City concept

A global city is usually considered as an important node in the global system. This concept is derived from world economic history, development economics and urban geography, but more specifically from sociology since the early 1990s. Inspired by the masterpieces of Saskia Sassen (1991, 2001), it suggests that globalization is facilitated by strategic hubs according to a hierarchical organization of the global trade and financial system.

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The Entrepreneurial Advantage of World Cities: Evidence from Global Entrepreneurship Monitor Data". The paper suggests that global cities provide a specific entrepreneurial climate

2 Global cities: interdisciplinary approach and theories

It is generally accepted that a global city is a major urban center acting as a node in the world economic and financial system. The emphasis is put on the regional and international linkages of global cities. They are an object of research interest in various disciplines such as geography and urban studies, history, economics, sociology, politics, and more recently entrepreneurship and management.

2.1 Definitions

Considering the historical importance of world cities (Abu-Lughod, 1989; Braudel, 1984; Dollinger, 1970), social sciences have studied the role of cities as economic, historical, geographic, political, and socio-cultural centers (Currid, 2006; Friedmann, 1986; Jacobs, 1969, 1984). While the cross-border intermediation role of cities has been documented by numerous scholars (e.g. Braudel, 1984; Wallerstein, 1974), a new type of network among cities has been identified since the post-1989 new wave of globalization.

A new research avenue has emerged aiming at the integration of entrepreneurship combined with the entrepreneurial ecosystems of global cities. Such systems offer high spatial concentrations of services

2.2 International classification of global cities

The concept of a ‘global city’ was first promoted at Princeton University by sociologist Saskia Sassen in her book The Global City: New York, London, Tokyo (Sassen, 1991). The term ‘world city’ goes back to the 19th century, describing the control of a disproportionate density of global business activities in the port of Liverpool as suggested by the Illustrated London News in 1886.

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2.2 International classification of global cities

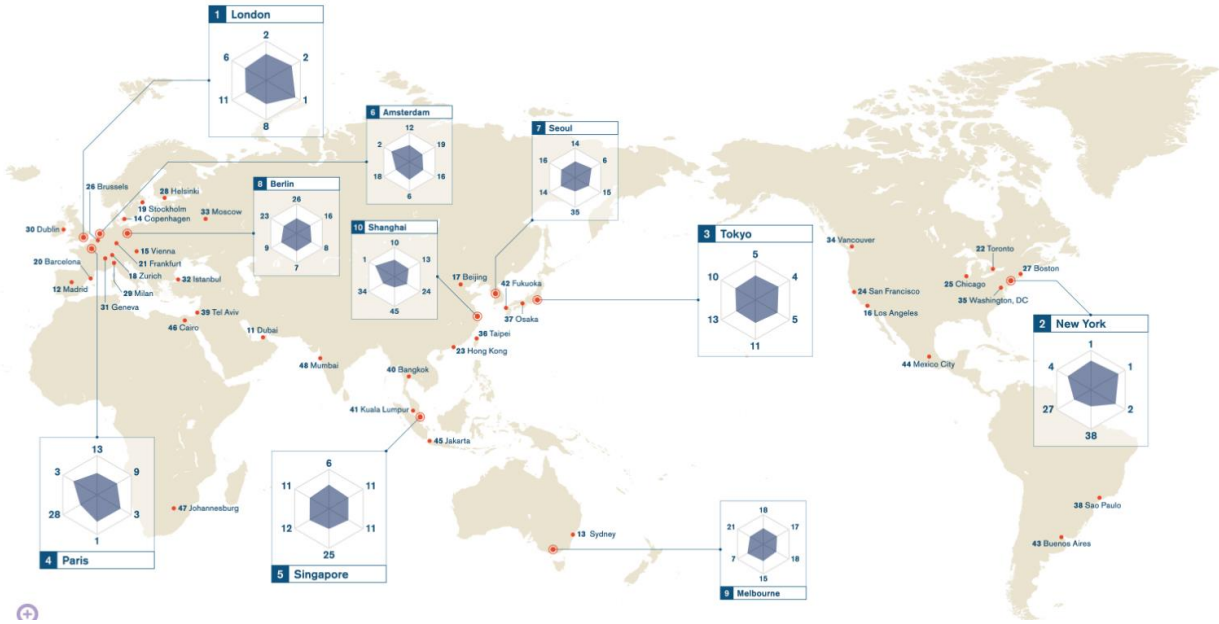
Patrick Geddes also used this term later in 1915 (Doel & Hubbard, 2002). The role of global cities is compared to other categories of cities (Jacobs, 1969, 1984; Friedmann, 1986), to their involvement in networks of cities (Taylor, 2004), or in terms of high concentrations of services (Acs et al., 2008; Castells, 1996). The first attempt to better categorize and rank global cities was made in 1998 by British academics (Beaverstock et al., 1999). They established the Globalization and World Cities Research Network (GaWC) as a kind of roster ranking cities based on their connectivity through four ‘advanced producer services’: accountancy, advertising, banking/finance, and law. The GaWC inventory identifies three levels of global cities and several sub-ranks. Since 2004, it has included some new indicators while continuing to rank urban economic factors more heavily than political or cultural ones. Since 2008, the GaWC has suggested the following categorization:

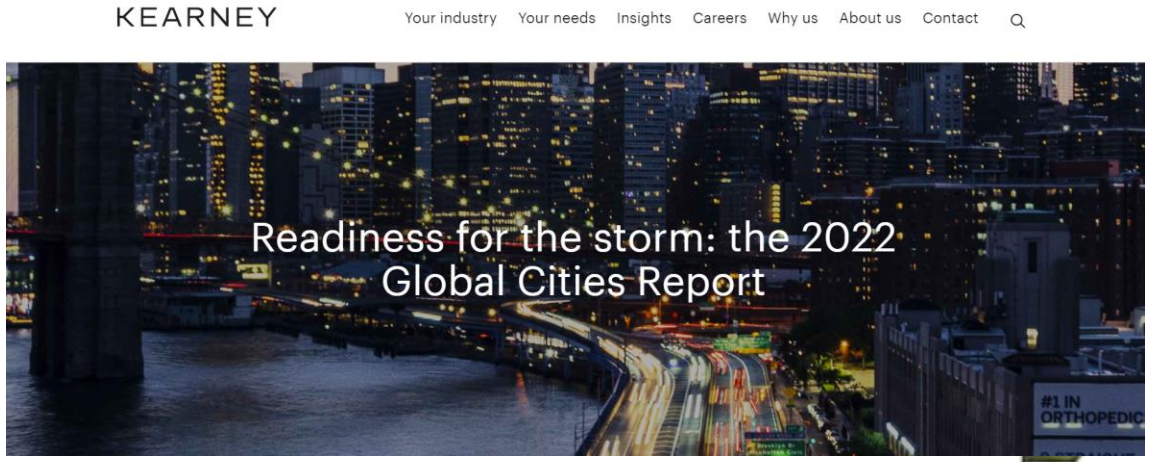
2.2 International classification of global cities

- Alpha++ cities are London and New York, which are more integrated with the global economy than other cities.
- Alpha+ cities complement London and New York City by filling advanced service niches for the global economy.
- Alpha and Alpha– cities link major economic regions to the world economy.
- Beta cities link moderate economic regions to the world economy.
- Gamma cities link smaller economic regions to the world economy.
- Sufficiency cities concentrate a sufficient degree of services so as not to be dependent on world cities.

City ratings

1. https://en.wikipedia.org/wiki/Global_city
2. https://www.kearney.com/global-cities/2022
3. https://mori-m-foundation.or.jp/english/ius2/gpci2/index.shtml





2.3 Command and control center

In history, there have been command centers, where important decisions influenced a nation, a region or even a whole continent. For example, Rome was the control center of the Roman Empire. In the ancient Northern European Hanseatic system, a sea-based city would gain importance mainly from trade. This was reproduced later in the West (London, New York), and in East Asia by Hong Kong and Singapore as trading city-states.

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2.4 Concentration of services

Jacobs (1984) defines dynamic and static cities. Dynamic cities project economic activities as centers of innovation and trade, and concentrate human skills. In contrast, peripheral or static cities do not contribute to overall economic wealth. They are trading houses where goods are only conveyed but with little added value. They tend to remain the 'hinterlands' of dynamic cities (Taylor, 2004).

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Static and Dynamic cities

2.5 Networks of cities

2.5 Networks of cities

Another focus is to envisage global cities in terms of their linkages to other cities (global and not). Jacobs (1984), Sassen (1991), Castells (1996) and Taylor (2004) adopt a geographic and spatial approach. There is space for cities and transaction flows in the global system. Thanks to ICTs, products and services can be interconnected across borders, independently from their spatial location, and global cities take leadership in this transnational process. Such interconnectivity stimulates within and among global cities a highly entrepreneurial environment based on information, knowledge, creativity and innovation. These concepts are quite distant from the more traditional notions of global cities envisaged as control or command centers.

2.6 Entrepreneurship and globalization

Global cities can be analyzed through various lenses (hierarchical functions, servicing concentration, networking integration), and different typologies can coexist. For example, in the case of Europe, besides London and Paris, several other types of strategic cities coexist in a relatively small spatial geography; Geneva or Zurich are far more global than many others despite their small populations.

2.6 Entrepreneurship and globalization

As indicated by Zucchella and Scabini (2007), a firm may benefit from ‘strategic enhancement’ as follows:

- Easy access to reliable information by means of business-to-business (B2B) associations, service centers and corporate consortia, reduces search costs.
- Knowledge and technological spillovers are possible thanks to high numbers of Schumpeterian imitative processes and high rates of business spin-offs.
- Access to human resources is facilitated, in particular to highly specialized professionals.
- Rapid connections are made available to backward and forward linkages associated with international value chains and large domestic or regional markets.
- A variety of options are offered to share infrastructure, logistics and networks among firms and subsidiaries located close to each other

2.7 Theory of global cities

Existing theories have established that global cities are territorial nodes essential to the sustainable development of world trade and financial flows along global value chains. Furthermore, due to their high concentration of foreign MNCs and affiliates, they provide an exceptional density of specialized services and project various types of entrepreneurship capacities linking their hinterland to regional and world markets.

3 International business management, global cities and SME internationalization

Internationalization of firms has been studied across different research domains such as strategic management, entrepreneurship, international business, organizational theory and small business economics (Bell et al., 2003; Peiris et al., 2012; Ruzzier et al., 2006; Zucchella & Scabini, 2007).

It has been recognized that SME growth is essential for any national economy (Coviello & Munro, 1995) as SMEs are responsible for the vast majority of existing firms, jobs and income creation both in industrialized and developing countries

3.1 Limitations of MNC theories

SME specialists suggest that theories mainly derived from internationalization of MNCs, cannot be fully applied to SMEs (Ruzzier et al., 2006). Differences in terms of size, internal resources, management, and external outreach strategy make it difficult to apply such theories across the board. However, they may provide a holistic understanding of internationalizing SMEs, for instance by focusing on the costs of transaction to internationalize.

3.2 SME internationalization: the Uppsala model

Different models of behaviors have been identified regarding SME internationalization. In the 1970s, SME internationalization was considered a gradual or incremental process. Two models were developed: the 'I-Model' or 'innovation model,' and the 'U-Model' or 'Uppsala model.'

- In the I-Model, each SME internationalization step is seen as an opportunity (Gankema et al., 2000), and the main focus is on export capacity (Ruzzier et al., 2006). In general, three steps are identified: (i) pre-export, (ii) initial export, and (iii) advanced export.
- The U-Model suggest that a firm increases its international linkages through gradual overseas market learning (Johanson & Vahlne, 1977, 1990). New competences are acquired incrementally to enter new 'psychic distant' markets as the process involves differences in language, education, and business practices.
- Born global

3.3 SME network and resource-based approaches

SMEs entering distant markets need to consider financial, marketing and organizational implications. In order to shed light on these aspects, two additional analytical models are useful.

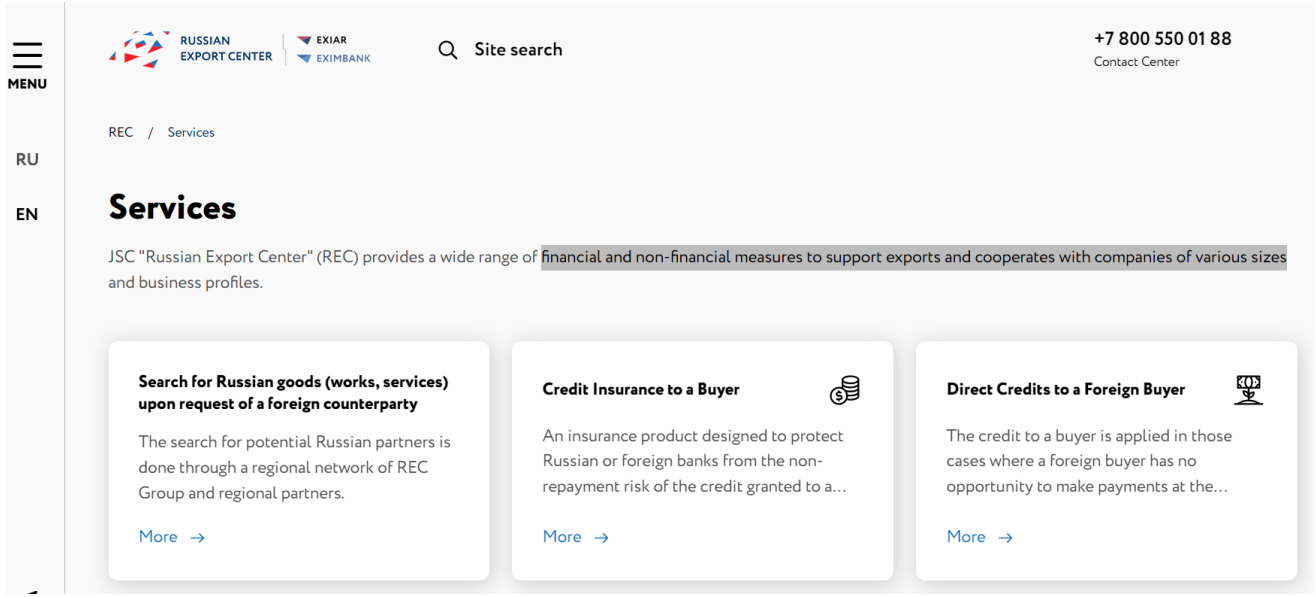
- The network approach considers any firm as a part of business networks. It looks into the linkages between its business development and the role of external actors. The analysis is derived from the U-Model, as Johanson adopts a network perspective to explain internationalization motives (Zucchella & Scabini, 2007).
- The resource-based view is derived from strategic management, and analyzes the use of resources to develop competitive advantages. Resources can be tangible (e.g. capital, facilities), intangible (e.g. patents, knowledge), or in the form of capabilities (e.g. ability to determine entrepreneurial opportunities) (Zucchella & Scabini, 2007). Both approaches consider ‘internal’ and ‘external’ resources as the total assets of a firm. The development of both models go ‘hand in hand’ (Ruzzier et al., 2006).

3.4 SME market entry and BDS

Business development services

Business development services (BDS) refer to a wide range of non-financial services used by entrepreneurs to help them improve the performance of their businesses, access to markets, and ability to compete. The role of BDS in the development of enterprises is widely recognized throughout the world.

According to Fujita (1998), SMEs generally choose among several modes to enter a market: licensing, subcontracting, know-how and technology transfers, foreign direct investment (FDI), joint ventures, international partnerships and management contracts, mergers and acquisitions. In order to overcome financing limitations and to mobilize other resources, SMEs can get public or private business facilitation from supportive institutions or from B2B linkages (Fujita, 1998; Bell, 2003). Based on the existing literature on BDS, a clear distinction is made between financial services provided by various institutions (accounting and auditing firms, banks, brokers, credit guarantee funds, insurance companies, etc.), and non-financial or technical institutions (coaching, training, legal counseling, technology incubation, scientific and testing services, etc.) (Fujita, 1998).



3.5 SME internationalization integrative model

Different integrative models have been developed (Ruzzier et al., 2006; Zahra & George, 2002a; Zucchella & Scabini, 2007). An SME can mobilize resources either internally, or acquire them externally. Internal development refers to investment and innovation. External acquisition refers to strategic partnerships in order to 'introduce new products, services and ideas in the market' (Zucchella & Scabini, 2007, p. 126). It involves SME outreach to a wide range of financial and technical inputs provided by business linkages, supportive organizations and/or inter-personal networks.

3.6 SME internationalization to distant markets

SMEs are understood as foreign to a given distant market. The notion of distance can be geographical but also cultural and even psychological. SMEs generally choose among several modes to enter distant markets: licensing, subcontracting, know-how and technology transfers, FDI, joint ventures, international partnerships and management contracts, mergers and acquisitions. Each mode can be conceived in a consecutive and gradual manner, and it has various types of internal financial and organizational implications (Fujita, 1998). A number of studies have been conducted using network and/or resource-based approaches.

3.7 Network approach

Based on the revisited U-Model of Johanson and Vahlne (2009), recent studies analyze ‘the process of how an SME actively enters its internationalization-relevant network’ (Schweizer, 2013, p. 81). They focus on OECD highly innovative SMEs developing new international networks to distant markets, in particular to Japan and South Korea. The process contains four phases (Schweizer, 2013, pp. 97–98):

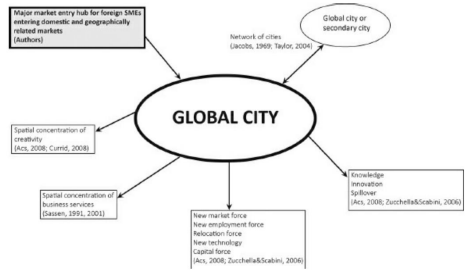
Phase 1: Recognition of the existence and liability of outsidership (not being part of the relevant networks)

Phase 2: Identification of the relevant network

Phase 3: Re-bundling of the firm’s resources and capabilities

Phase 4: Accessing, managing, and leveraging opportunities identified in the new network

3.8 Resource-based approach



Some authors have investigated the changes in terms of actors, activities and mobilized resources during the SME internationalization process (Nummela, 2002), often combined with the network approach. Nummela, for instance, has studied the internationalization of Finnish manufacturing SMEs and their interaction with external and supportive institutions (business associations, professional consultants, public services, subcontractors, universities). Ojala also underlines the importance of supportive networks in the internationalization process of knowledge-based Scandinavian firms interested to enter the Japanese market (Ojala, 2009). Most available studies tend to focus on software SMEs and the development of linkages with larger clients without taking into account a holistic approach as indicated in Figure 1 (Moen et al., 2004; Reuber & Fischer, 1997; Zain & Ng, 2006).

Figure 1 SME/global city geoeconomic interlinkages

3.9 Knowledge management approach

As part of the resource-based approach, recent studies underline the role of internal/external knowledge mobilization and management, introducing a clear distinction between gradually internationalizing SMEs and globally born SMEs. In the first category, SMEs do mobilize their internal knowledge of proximity markets, where they have started to internationalize during the first five to ten years of the process. Globally born SMEs are, for instance, young high-tech start-ups, which perform in very specific segments of high-tech markets in manufacturing or services, and can (but not always) expand overseas rapidly, including to distant markets.

3.10 Vicarious learning

- SMEs may capitalize on internal knowledge accumulated during their initial phases of internationalization, especially vis-à-vis markets of proximity, and then expand gradually to more distant ones in order to connect, in particular, to difficult emerging markets such as in East Asia.
- They may also source external knowledge from other SMEs and business networks having already established such connections and accumulated experience locally. Vicarious learning is one of the concepts developed by social cognitive theories developed since the 1960s.

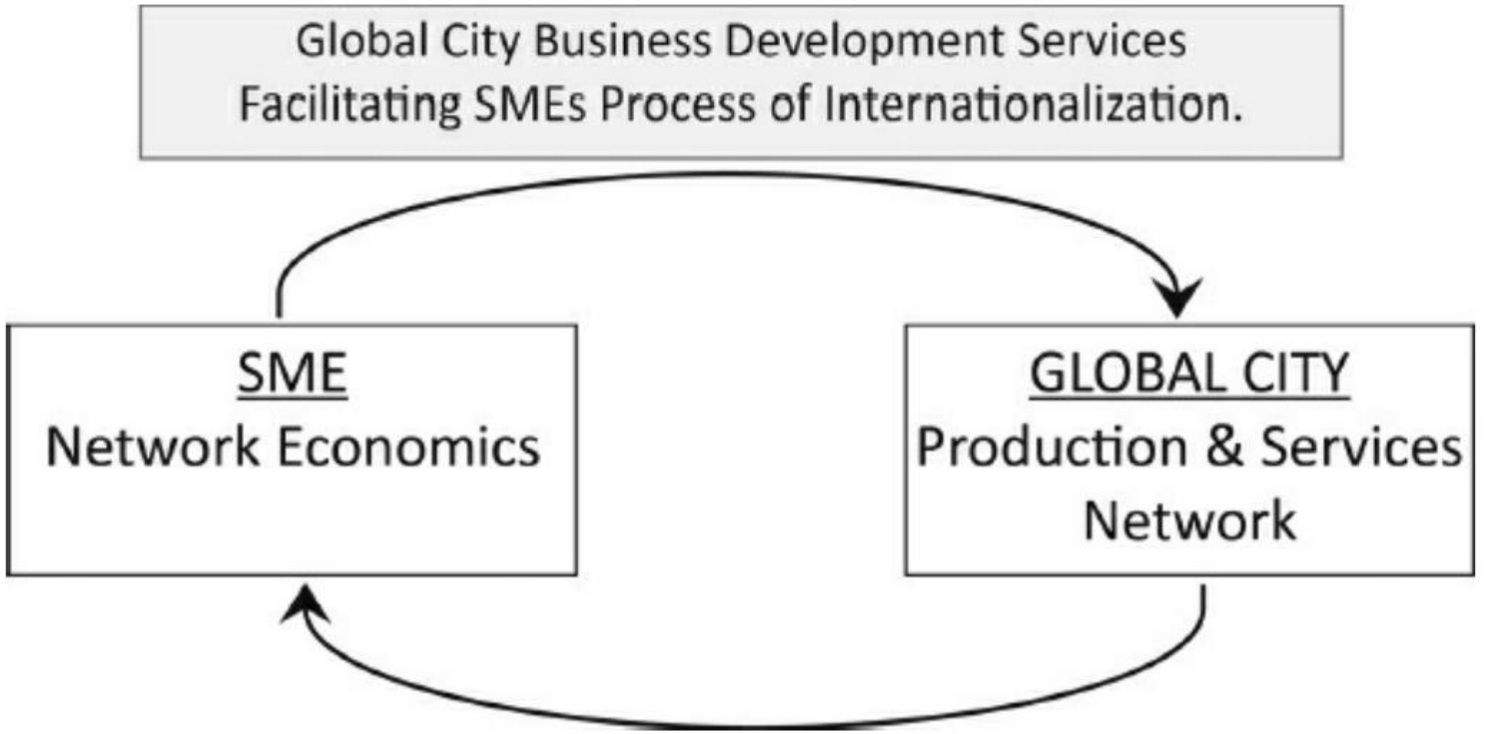
3.11 Implications for SME internationalization theory

No theory has so far captured the whole SME internationalization process. The Uppsala model developed in 1977 and revised in 2009 has remained dominant along three key concepts, as follows:

Branch Marketing

1. SMEs tend to internationalize gradually and incrementally, and seldom to distant markets before having accumulated first-hand experience in foreign markets of proximity.
2. SMEs have to cope with high risks and transaction costs to reduce the ‘distance’ of overseas markets.
3. Identification and use of functional and social networks by SMEs imply access to territorial and institutional actors providing business intermediation services to approach distant and risky markets, such as in emerging East Asia.

Figure 2 A tentative SME/global city conceptual framework



4 Conceptual framework

This lecture aims to contribute to the construction of a conceptual framework which combines two sources of knowledge, namely global city theories and SME internationalization theories. SME quantitative and qualitative surveys exist in a number of global cities, but they concentrate mainly on the study of domestic SMEs, and consider both domestic and foreign SMEs as only one SME category.

In addition, national SME surveys available do not concentrate on major cities exclusively, nor the specific category of global cities. Theories and classifications of global cities have been built so far exclusively based on MNC data.

Task 1

Choose the city and apply the concept of Global city on it. Determine the type of the global city based on the International classification of global cities given in the lecture.

Share the highlights of why you consider it as a global city.

Q&A session.

1. https://www.kearney.com/global-cities/2022
2. https://mori-m-foundation.or.jp/english/ius2/gpci2/index.shtml

Task 1

Yile Qin 2007574055

New York is a global city. The city received excellent results in Cultural Interaction's "Tourism Resources" and "Visitor Amenities". Working Environment also improves.

2007574042李弈乐LiYile

Hong Kong is an international city. Here are some possible reasons:

Location: Hong Kong is located in the famous commercial center of East Asia, which makes Hong Kong a convenient transportation hub.

Business environment: Hong Kong is one of the freest economies in the world and has unique advantages in doing business.

Education and technology: Universities in Hong Kong have a high reputation in terms of global ranking and research level.

Zou Yujie 2007574016

Singapore is a global city because it is one of the command and control centers in East Asia，full of vitality and business concentration，with a well - developed urban networks and encourages entrepreneurship and globalization.

2007574048XinHairong

I consider Tokyo to be a global city that serves as a hub for land, sea and air transportation in Japan, as well as a modern international city and one of the world's leading tourist cities. Tokyo also has an ample transportation network that makes the area quite convenient for transportation and shopping.

12:30

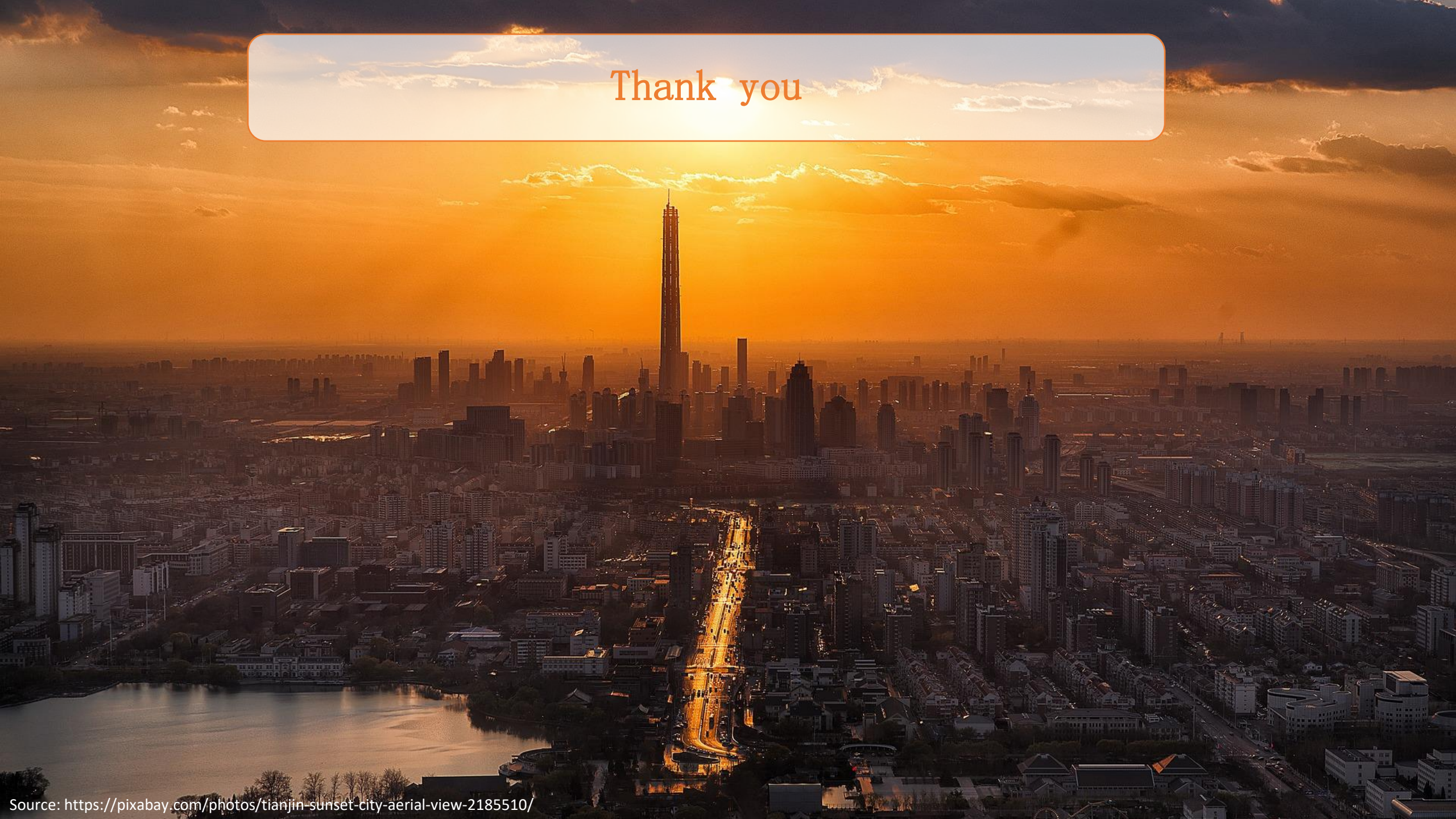
张博宇

Guangzhou should be one of fhe global city i think,you know we can meet many companies in there which are suppliers or middleman.But anyway,we can find so many import goods in every single business center or just in supermarket,whats more,not only the goods,about the transport we still can acknowledge that this city have a validity street plan so that you can buy almost same things no matter where is your location.

2007574023GongXirui

Hong Kong is a global city with a historical backdrop of China, but at the same time has a great deal of freedom and activity in the market, attracting many foreign investors to invest in the city, while at the same time, because of its excellent geographic location, surrounded by the sea and warm climate, it also provides a great boost to the tourism and shopping industry. It is the window of communication between China and the world.

Thank you



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