

McKinsey Global Institute



June 2012

Urban world: Cities and the rise of the consuming class



The McKinsey Global Institute

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Urban world: Cities and the rise of the consuming class

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Growing cities ...

From 2010 to 2025, the GDP of the City 600¹ will rise by over

\$30 trillion

... or nearly **65%** of global growth

The Emerging 440² cities will contribute

\$23 trillion

... or **47%** of global growth to 2025

Over

\$10 trillion

in additional annual investments needed in cities by 2025

1 billion

new consumers in emerging market cities by 2025

1 The top 600 cities by their contribution to global GDP growth 2010–25.

2 Emerging market cities in the City 600.

... and their rising consumer demand

60% of the new urban consumers will be in the Emerging 440 cities

Annual consumption in Emerging 440 cities is set to rise by

\$10 trillion by 2025

Cities are expected to need to build floor space³ equivalent to

85% of today's building stock—an area the size of Austria

Nearly

80 billion

cubic meter increase in municipal water demand expected in the world's cities by 2025

Over

2.5 times

today's level of port infrastructure needed to meet rising container-shipping demand

³ Floor space for commercial and residential buildings, including building replacement.

Executive summary

A wave of urbanization propelling growth across emerging economies is a welcome fillip for a world economy that continues to have pockets of acute fragility. Cities have been the world's economic dynamos for centuries, attracting skilled workers and productive businesses and benefiting from economies of scale. Urbanization and per capita GDP tend to move in close synch as countries develop. But what is different about today's wave of mass urbanization is its unprecedented speed and scale. It is not hyperbole to say that we are observing the most significant shift in the earth's economic center of gravity in history.

The move to urban living is lifting the incomes of millions of people around the world. In cities, one billion people will enter the global "consuming class" by 2025, with incomes high enough to become significant consumers of goods and services.¹ Around 600 million of them will live in only around 440 cities in emerging markets that are expected to generate close to half of global GDP growth between 2010 and 2025.²

The incomes of these new consuming classes are rising even faster than the number of individuals in the consuming classes. This means that many products and services are hitting take-off points at which their consumption rises swiftly and steeply. By 2025, urban consumers are likely to inject around \$20 trillion a year in additional spending into the world economy. Catering to the burgeoning urban consumer classes will also require a boom in the construction of buildings and infrastructure. We estimate that cities will need annual physical capital investment to more than double from nearly \$10 trillion today to more than \$20 trillion by 2025, the lion's share of which will be in the emerging world.

This huge sum of consumption and investment could inject more than \$30 trillion of annual spending into the world economy by 2025—a powerful and welcome boost to global economic growth. But there will be challenges, too. Rapidly urbanizing emerging economies and their increasingly wealthy consumers are already driving strong demand for the world's natural and capital resources. The global investment rate and resource prices have jumped and could rise further.

1 We define consuming classes or consumers as those individuals with an annual income of more than \$3,600, or \$10 per day at purchasing power parity (PPP), using constant 2005 PPP dollars.

2 We refer to these dynamic cities as the Emerging 440. This group comprises the 443 cities in emerging markets within the top 600 cities globally by GDP growth to 2025, a group we dub the City 600.

Cities can be part of the solution to such stresses, as concentrated population centers can be more productive in their resource use than areas that are more sparsely populated. But if cities fail to invest in a way that keeps abreast of the rising needs of their growing populations, they may lock in inefficient, costly practices that will become constraints to sustained growth later on. How countries and cities meet this rising urban demand therefore matters a great deal. Beyond the direct impact of the investment, their choices will have broad effects on global demand for resources, capital investment, and labor market outcomes.

How companies and governments react to this tectonic shift will fundamentally shape their future prospects. In this updated research on the urban world, the McKinsey Global Institute (MGI) focuses on the major expansion of consuming classes in cities, particularly those of emerging economies, and examines the impact of their increased demand on investment in buildings and infrastructure, including ports and municipal water supply, all using our updated Cityscope database (see Box E1, “MGI Cityscope 2.0”).

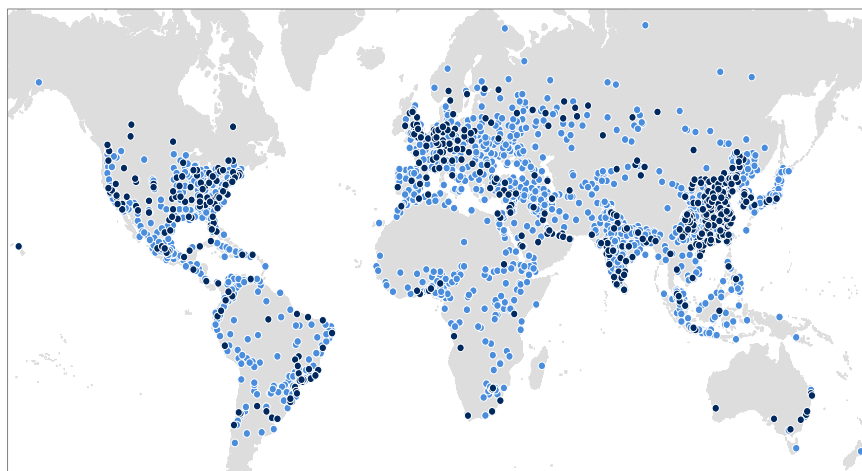
Box E1. MGI Cityscope 2.0

The MGI Cityscope is a database of more than 2,600 cities around the world that allows us to understand the evolving shape of global urban economies; extract many different city rankings and groupings by region, variable, and target market; test the growth momentum from doing business in particular geographies; and develop projections of growth in urban markets of a range of products and services (Exhibit E1). The database is, to our knowledge, the largest of its kind. It can help answer a range of questions relevant for the decisions that companies and policy makers need to make: Which cities will contribute the largest number of children to the world? Where will most new entrants to the workforce and most senior citizens be? Which cities will experience the fastest expansion among consuming classes?

Exhibit E1

The City 600: MGI's Cityscope identifies the world's fastest-growing megacities and middleweights

- The City 600¹ (600)
- Additional cities in MGI Cityscope (~2,000+)



¹ Top 600 cities ranked by absolute projected GDP growth between 2010 and 2025.
SOURCE: McKinsey Global Institute Cityscope 2.0

Box E1. MGI Cityscope 2.0 (continued)

For each city, the database includes data for 2010 and forecasts for 2025 on population by age group (children below the age of 15), working-age population (aged 15 to 64), and the older population (aged 65 and above), GDP and per capita GDP (at market and purchasing power parity, or PPP, exchange rates as well as at predicted real exchange rate, or RER), and number of households by income segment (in four income categories defined by annual household income in PPP terms: less than \$7,500, \$7,500 to \$20,000, \$20,000 to \$70,000, and more than \$70,000). MGI has developed city-specific data from existing public survey data, MGI's city-level datasets developed as part of our previous research, selected data from external providers, and MGI's country- and region-specific models of city growth to 2025.

This report draws from an updated version of the Cityscope 2.0 database, which now has a broader set of variables that shed light on the diversity of urban market growth prospects across different industries. The new Cityscope metrics include a view on markets such as deposits by city, and estimates of residential and commercial floor space, container demand, and municipal water demand.¹

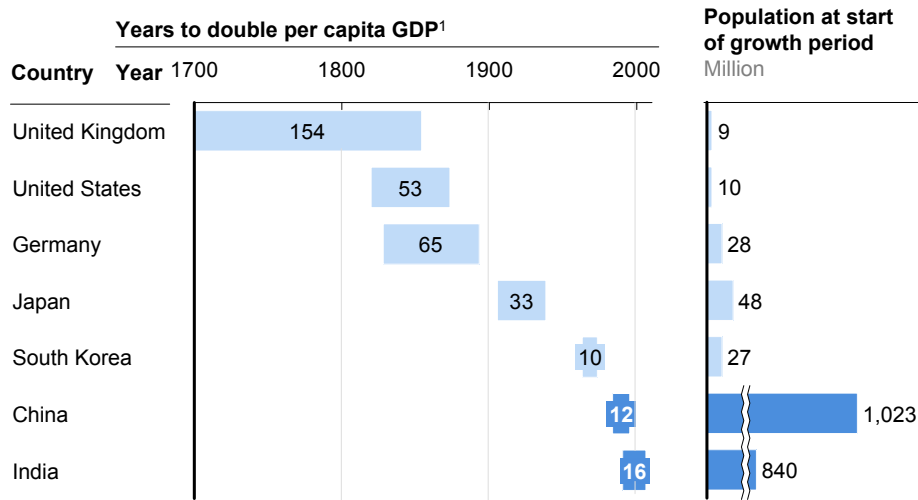
1 Projecting the economic and demographic evolution of cities over the next 15 years is inherently subject to multiple sources of uncertainty, and companies need to test the robustness of their business decisions against a broader set of plausible scenarios. See the appendix for more detail.

THE GLOBAL ECONOMIC BALANCE IS SHIFTING TO EMERGING CITIES

Until 1500, Asia was the center of gravity of the world economy, accounting for roughly two-thirds of global GDP. But in the 18th and 19th centuries, urbanization and industrialization vaulted Europe and the United States to prominence. We are now observing a decisive shift in the balance back toward Asia—at a speed and on a scale never before witnessed. China's economic transformation resulting from urbanization and industrialization is happening at 100 times the scale of the first country in the world to urbanize—the United Kingdom—and at ten times the speed (Exhibit E2).

Exhibit E2

Incomes are rising in developing economies faster, and at a greater scale, than at any previous point in history



¹ Time to increase per capita GDP in PPP terms from \$1,300 to \$2,600.

SOURCE: Angus Maddison; University of Groningen; *Resource Revolution: Meeting the world's energy, materials, food, and water needs*, McKinsey Global Institute, 2011.

The recession that has hit the United States and Western Europe particularly hard has accelerated the shift in the global economic balance. From 2007 to 2010, the GDP of large Chinese cities rose from 20 percent of that of large cities in the United States to 37 percent.³ In these three years alone, three more Chinese cities reached megacity status with populations of ten million or more—one new megacity a year. Contrast that with the developed world, whose urban landscape is far more mature. Between now and 2025, Chicago is the only city in the developed world expected to pass the ten million population mark. But the speed at which the global balance is changing is not simply a China and Asia story. In 2007, the GDP of Latin America's cities was 26 percent that of their European counterparts; by 2010, that figure had risen to 37 percent.

Urban growth is highly concentrated in just a few hundred cities and will continue to be.⁴ Our analysis suggests that just the top 600 cities by their contribution to global GDP growth to 2025—a group we call the City 600—will generate nearly 65 percent of world economic growth in this period. Today, the City 600 is home to just over 20 percent of the world's population but accounts for nearly \$34 trillion, or more than half, of global GDP. Between 2010 and 2025, we expect the City 600's combined GDP to nearly double to \$65 trillion.

But the most dramatic chapter of today's urbanization story is the role played by the so-called Emerging 440. These emerging market cities in the City 600 will

³ We define cities as broader metropolitan areas that include both a core city and surrounding metropolitan regions integrated into a connected urban region. Large cities include metropolitan areas with 150,000 or more inhabitants in developed regions and 200,000 or more inhabitants in developing regions.

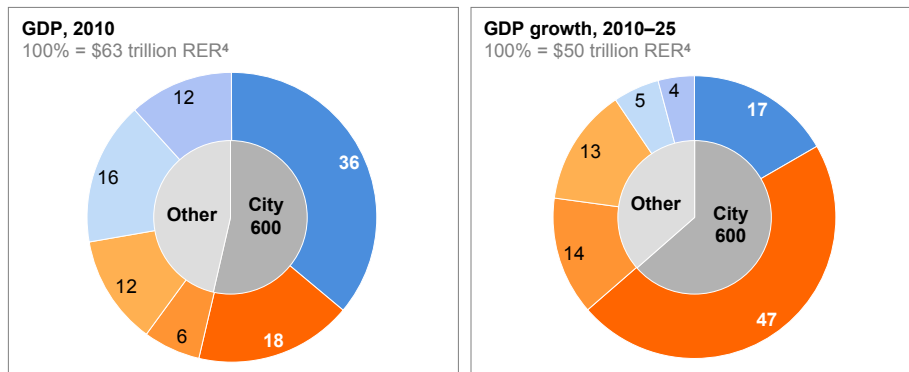
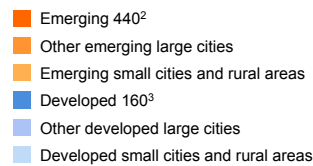
⁴ The GDP growth projections are based on MGI's Cityscope 2.0, which assumes that global GDP will expand at a compound average rate of 4.0 percent per annum to 2025. See the appendix for a more detailed discussion of our methodology. While projections for individual cities are inherently subject to wide bands of uncertainty, the broad patterns across types of cities or regions in the scenario we describe are directionally robust across a reasonable range of key assumptions.

account for close to half (47 percent) of expected global GDP growth between 2010 and 2025 (Exhibit E3). The Emerging 440 boasts 20 megacities, including Shanghai in China, São Paulo in Brazil, Istanbul in Turkey, and Lagos in Nigeria. Together these megacities will generate an estimated \$5.8 trillion of GDP growth by 2025, a compound annual growth of 7.6 percent—almost double the growth rate expected for the global economy as a whole. But more than 400 cities of the group are middleweight cities with populations of between 200,000 and ten million, spread out across 57 countries and every continent except for Oceania. We expect these middleweights to grow even faster at an 8 percent annual compound rate, contributing \$17.7 trillion in GDP growth by 2025. In the Emerging 440, China is an important part of the equation with 242 cities in this group, of which 236 are middleweights. Latin America has 57 cities in this dynamic group, 53 of them middleweights including Belo Horizonte in Brazil and Cali in Colombia. South Asia, including India, has 36 cities in this group. There are 28 Indian middleweight cities in the Emerging 440, including Bangalore, Pune, and Kochi. Africa and the Middle East together contribute 39 cities to the group, and 37 of them are middleweights, including Angola’s capital Luanda, Kumasi in Ghana, Port Harcourt in Nigeria, and Doha in Qatar.

Exhibit E3

Emerging 440 cities are poised to deliver close to half of global GDP growth

Contribution to global GDP and GDP growth¹
%



1 Global GDP and GDP growth figures include 2,600+ large cities in Cityscope, as well as smaller cities and rural areas.
 2 The Emerging 440 is 443 emerging market cities in City 600.
 3 The 157 developed market cities in City 600.
 4 Real exchange rate (RER) for 2010 is the market exchange rate. RER for 2025 was predicted from differences in the per capita GDP growth rates of countries relative to the United States.
 SOURCE: McKinsey Global Institute Cityscope 2.0

EXPANDING URBAN ECONOMIES ARE CREATING WAVES OF NEW CONSUMERS

The increasing size and power of cities in emerging markets have tangible and dramatic economic benefits that translate into rising incomes. We expect to see one billion more people in cities worldwide become members of the consuming classes, with enough income to buy the very basic necessities and to have some discretionary income to spend on consumer goods and services. That’s a rise of 70 percent from today. These growing consumer classes will drive rapid growth in demand for many goods and services. Across all large cities, we expect annual household consumption to rise by more than \$20 trillion to 2025—of which about

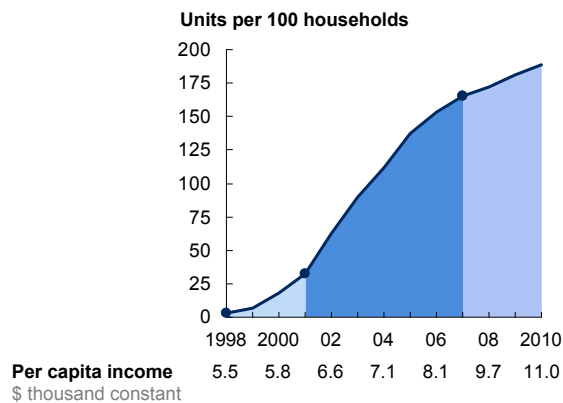
\$14 trillion will be in large cities in emerging markets. In the Emerging 440 alone, we see consumption increasing by more than \$10 trillion.

The growth in demand for many consumer goods will exceed the expansion of the consuming classes for two main reasons. First, household incomes are rising faster than the number of households and individuals in consuming classes. Second, and more important, higher shares of the populations of many large emerging economies, including China and India, are moving into income segments where the consumption of many goods and services takes off rapidly (Exhibit E4). In China, for instance, spending on dining out starts to take off at annual incomes of around \$3,000 per household and, by about \$9,000, is on a firm and steep upward trajectory. Spending on transport and communications starts increasing strongly as incomes reach around \$6,000 per annum.⁵ The recent growth in Chinese consumer markets reflects these inflection points. Between 2004 and 2011, per capita sales of electronics and video appliances rose fourfold and clothing and shoes rose fivefold in real terms, outpacing a 3.4 times increase in per capita income during that period.

Exhibit E4

Consumer goods tend to follow an adoption S-curve as incomes rise

China example: Penetration of mobile telephones, 1998–2010



- | | | |
|---|---|---|
| <p>Low affordability income</p> <ul style="list-style-type: none"> ▪ Product still too expensive for most consumers ▪ Market growth rate below income growth | <p>Take-off income</p> <ul style="list-style-type: none"> ▪ Incomes reach a threshold where product becomes affordable for consumers ▪ Market growth takes off at a rate that can substantially exceed income growth | <p>Saturation income</p> <ul style="list-style-type: none"> ▪ Market reaches high penetration ▪ Market growth slows down |
|---|---|---|

SOURCE: Chinese National Bureau of Statistics; McKinsey Global Institute analysis

Growth patterns will vary among products and services for three main reasons. First, as incomes rise, consumers choose where they spend the additional available income, and some products take off at lower incomes than others. Purchases of products with low unit costs such as snacks and bottled drinks accelerate at a relatively early stage of the income curve, beauty products somewhat later, and luxury products, such as fashion and fine wines, later still. Services tend to take off at higher income levels. For example, travel for leisure and retail banking services for deposits start climbing once per capita income reaches \$18,000 per annum.

⁵ McKinsey Insights China, *2010 annual Chinese consumer study*, McKinsey & Company, August 2010.

Second, products and services vary in the shape of their adoption curve and then in the rate of growth of mature, well-penetrated markets. Refrigerators have a very steep adoption curve but then experience a sharp slowdown in growth once a market reaches saturation when sales tend to focus on replacement or higher-quality items. But spending on clothing, a necessity, displays sustained growth fueled by spending by low-income households and higher-income households that tend to purchase higher-quality, more expensive items. Third, there are geographic differences in demand for cultural and demographic reasons. Many Indian households are vegetarian, for instance, and therefore meat consumption across income levels is lower than the global average. One-third of the population in Nigerian cities is aged below 16, and sales of baby food are unsurprisingly far above the global average at similar income levels.

These variations only underline the need for companies to understand their target markets in forensic detail. The top urban markets in different demographic segments (e.g., older people with middle incomes or higher; or new young entrants to the lower middle class) as well as for different products (e.g., laundry care) and demand for commercial floor space and municipal water are all different (Exhibit E5). Indeed, on these five “hot spots” for growth, the likely top cities are in three different continents: Shanghai and Mumbai in Asia; Lagos in Africa; and São Paulo and New York in the Americas. So depending on the products they sell, and the segments in which they specialize, companies need to have a detailed knowledge of which cities offer the most promising markets.

Exhibit E5

Top 20 hot spots for growth by 2025

Cityscope rankings by growth, 2010–25

Emerging regions

Developed regions

Rank	Elderly, higher-income consumers ¹	Young entry-level consumers ²	Laundry care products ³	Commercial floor space ⁴	Municipal water demand
1	Shanghai	Lagos	São Paulo	New York	Mumbai
2	Beijing	Dar es Salaam	Beijing	Beijing	Delhi
3	Tokyo	Dhaka	Rio de Janeiro	Shanghai	Shanghai
4	Tianjin	Ouagadougou	Shanghai	Los Angeles	Guangzhou
5	Mumbai	Khartoum	Mexico City	Tokyo	Beijing
6	São Paulo	Ghaziabad	Moscow	Washington, DC	Buenos Aires
7	Osaka	Sanaa	Bangkok	Dallas	Kolkata
8	Chongqing	Nairobi	Istanbul	São Paulo	Khartoum
9	Delhi	Luanda	Manila	Guangzhou	Dhaka
10	Nanjing	Baghdad	Johannesburg	Chicago	Istanbul
11	Guangzhou	Kampala	Belo Horizonte	Houston	Dallas
12	New York	Ibadan	Porto Alegre	Tianjin	Pune
13	Seoul	Lusaka	Buenos Aires	Moscow	Las Vegas
14	Hong Kong	Kinshasa	Tianjin	Atlanta	Karachi
15	Wuhan	Kano	Tehran	Miami	São Paulo
16	Kolkata	Abidjan	New York	Hong Kong	Hyderabad, India
17	Shenyang	Abuja	Foshan	Mexico City	Lagos
18	Los Angeles	Bamako	Santiago	Shenzhen	Moscow
19	Toronto	Chittagong	Shenzhen	Phoenix	Wuhan
20	Ahmedabad	Port Harcourt	London	Istanbul	Manila

1 Growth in population aged 65+ with household income >\$20,000 at PPP.

2 Growth in population aged ≤14 with household income \$7,500–\$20,000 at PPP.

3 Predicted growth in consumer spending on laundry care products based on a city-level market demand growth model.

4 Including replacement floor space.

SOURCE: McKinsey Global Institute analysis

GROWING EMERGING MARKET CITIES REQUIRE INVESTMENT TO BUILD CAPACITY

The world's new urban consumers will have an impact far beyond sales of goods and services. To cater to their needs, cities will need to invest heavily in infrastructure. We estimate that cities will need annual physical capital investment to more than double from nearly \$10 trillion today to more than \$20 trillion by 2025. Urban centers in emerging economies will make most of this investment.

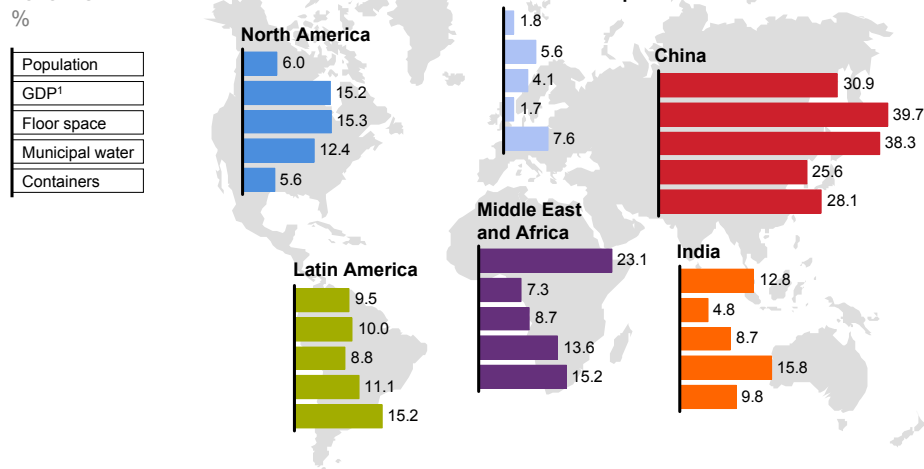
MGI has looked at three sectors in particular detail—buildings, port container capacity, and municipal water distribution (Exhibit E6).

- Buildings.** By 2025, cities will need to construct floor space equivalent to 85 percent of all of today's urban residential and commercial building stock. In the Emerging 440 alone, we see demand for residential and commercial floor space growing by 44,000 square kilometers. The urban building boom will require cumulative investment, including for replacement buildings, of nearly \$80 trillion.
- Container capacity of ports.** The capacity of ports to handle global container traffic needs to rise by more than 2.5 times from today's level to meet rising consumer demand for products across the globe. The investment needed to expand port capacity to 2025 exceeds \$200 billion by our reckoning, with 85 percent of it taking place in emerging markets.
- Municipal water.** We expect urban municipal water demand to rise by almost 80 billion cubic meters, equivalent to more than 20 times the water consumption of New York today and 40 percent above today's urban global level. Serving rising demand will require cumulative investment in water supply and wastewater treatment of about \$480 billion by 2025, of which about \$200 billion will be in the Emerging 440.

Exhibit E6

All regions contribute to growth in urban demand, but China's share is highest in key categories

Contribution to urban growth, 2010–25



¹ GDP measured at expected real exchange rate.

NOTE: Other developed and emerging regions account for 16.0, 17.4, 16.0, 19.8, and 18.6 percent of growth in population, GDP, floor space, municipal water, and container-demand growth, respectively; floor space growth includes replacement.

SOURCE: McKinsey Global Institute Cityscope 2.0

Surging urban consumer demand, and the investment necessary to meet it, is on course to inject more than \$30 trillion of additional annual spending into the world economy by 2025. This is undoubtedly a welcome source of growth. But consumption and capacity building in the developing urban world are already straining the global supply of capital and natural resources. The urban world has already contributed to a jump in the global investment rate from 20.8 percent of GDP in 2002 to 23.7 percent in 2008, followed by a dip during the global recession of 2009.⁶ Increases in the prices of energy, land, food, and water in the first decade of the 2000s have wiped out the decline in prices observed during the entire 20th century.⁷ The new consumers we see to 2025 will only increase the stress on demand and prices, potentially for a prolonged period.

So national, regional, and local governments, as well as businesses, need to manage the consumption and investment boom. Cities have the potential to handle the stresses well. Densely populated urban centers can use resources more productively than dispersed cities and rural areas. Nevertheless, most growing cities can do better in this regard. Cities that under-invest in infrastructure and fail to keep pace with their expanding populations and their demands—or indeed invest inefficiently or in the wrong things—can find themselves hitting barriers to growth. Conversely, if cities manage their capacity building well, there is a large opportunity not only for the world's investors but also to build more productive capacity that is less costly and more efficient in environmental terms for decades to come.

Importantly, the urban planning and infrastructure investment choices made today will determine how well cities are prepared for sustained growth after the expansive urbanization wave passes. After most people have already moved to urban regions, cities will need to find new sources of productivity gains and economic growth. Urban centers that have built well-functioning and efficient environments for businesses and individuals will be in a better position to attract skilled workers and grow more productive businesses.

BUSINESSES NEED TO USE SCIENCE AND ART IN THEIR STRATEGY FOR EMERGING CITIES

To capture the significant opportunity that urbanization offers them, companies need to take a scientific approach to locating the most promising markets for their businesses. Urban markets will be highly diverse, and many of the fastest-growing segments are likely to be in middleweight cities in emerging economies that are simply not on the radar screens of many companies. As illustration, many companies might be hard-pressed to identify the geographic location of Surat, Foshan, and Porto Alegre, let alone even the broad characteristics of their economies. Yet all three have populations of more than four million. Surat is in western India and accounts for about two-fifths of India's textile production; Foshan is China's seventh-largest city by GDP; and Porto Alegre is the capital of Rio Grande do Sul, the fourth-largest state in Brazil.

6 *Farewell to cheap capital? The implications of long-term shifts in global investment and saving*, McKinsey Global Institute, December 2010 (www.mckinsey.com/mgi).

7 *Resource revolution: Meeting the world's energy, materials, food, and water needs*, McKinsey Global Institute and McKinsey & Company's Sustainability and Resource Productivity Practice, November 2011 (www.mckinsey.com/mgi).

Companies that understand the shifting urban marketplaces relevant to their businesses and build an early presence with sufficient scale are likely to benefit from being the incumbent with better market access and higher margins. Looking at cities rather than countries as a whole can be eye-opening. Take laundry care products as an example. We expect to see more sales growth of these products in São Paulo than in either France or Malaysia over the next decade.

Yet, disappointingly, most companies are still not looking at cities as they calibrate strategy. A new McKinsey survey finds that less than one in five executives is making location and resource decisions at the city, rather than the country, level—and respondents did not expect this low share to increase over the next five years. Of those surveyed, 61 percent say that their executives do not plan at the city level because cities are perceived as “an irrelevant unit of strategic planning.”⁸ There are business decisions for which city-level intelligence may matter little. Nationwide business or public-sector sales accounts with limited consumer contact, or decisions about where to locate plant in resource-intensive industries are examples. But for companies whose ultimate customers are consumers, the capacity to understand specific urban markets enables more effective decisions on pricing, channels, and marketing, and is an asset for identifying the right talent and relationships.

Even those companies that arm themselves with the detailed city-level knowledge to identify the most promising markets for their products then need to allocate resources efficiently and master the art of execution in diverse and rapidly evolving emerging markets.

THE POLICY AGENDA DIFFERS IN DEVELOPED AND EMERGING CITIES

Rapidly growing cities in the developing world face a complex and challenging managerial task in keeping pace with their expanding populations and their rising expectations. To avoid constraints on their growth, cities need to be able to plan the urban environment for sufficient housing and effective transportation, ensure that sufficient finance is available to support both operational and capital spending of electricity, telecommunications, water, and other services, and, through smart regulation, provide an environment that encourages entrepreneurialism and business investment.⁹ Cities that fail to meet the aspirations of the millions who are migrating in search of better opportunities run the risk of congestion, pollution, and insufficient public services becoming barriers to growth. Growth has already slowed down in many megacities around the globe because they have not kept pace with the needs of their expanding populations.

8 “Relocating for growth,” McKinsey Global Survey, was conducted in February 2012. The survey received responses from 2,962 executives representing the full range of regions, industries, and company sizes. To adjust for differences in response rates, we weighted the data by the contribution of each respondent’s nation to global GDP.

9 Richard Dobbs, Jaana Remes, and Jonathan Woetzel, *Strengthening the foundations of emerging cities*, McKinsey on Society, April 2012 (www.mckinseysociety.com/strengthening-the-foundations-of-emerging-cities). MGI has also discussed urban policy extensively in its reports on urbanization in China, India, Latin America, and the United States. Detailed policy discussions are beyond the scope of this particular report.

Successful management of growing cities is no simple task, and cities vary widely in how well they are able to handle the evolving demands on them—one reason that the fortunes of individual cities diverge. To deliver the benefits of economies of scale while minimizing the hazards of rapid growth, cities need to have professional planning and coordination, capable and accountable governance, and sustainable and responsible fiscal management.

Most developed regions have already reaped the majority of economic benefits from urbanization, and city leaders are more likely to be grappling with growth that is too slow rather than growth that is so rapid as to make its management difficult. In the near term, many cities are struggling to overcome deleveraging and persistent unemployment. In the longer term, slower population growth, aging, and increasing global competition are creating headwinds against growth. As we have observed in the past, some cities will outperform their peers while others will decline.¹⁰ How individual cities will fare depends on how well they are positioned to take advantage of—or mitigate the negative impact of—the relentless trends shaping their economic environment.

The first step for cities in developed regions is to understand their current strengths and weaknesses, as well as the impact of demographic and other trends on their prospects. Chicago, for example, has launched a major effort to compile a fact-based profile of the city's strengths and weaknesses as the basis for a new growth strategy.¹¹ Cities then need to translate the audit into tangible initiatives that matter to citizens and businesses. As the balance of global economic power shifts to emerging cities, those urban centers that have good connections—or build them—with the fastest-growing cities in the developing world will be in a better position to take advantage of the opportunity they offer. Cities can also find ways to limit the impact of unfavorable trends.

The way policies and strategic plans are carried out is a critical success factor for national, regional, and local economic development plans, particularly given today's weakening public finances. To sustain and improve their services, most cities will need to be able to do better with less.¹² Involving the private sector can help bring in expertise as well as intelligence about what constraints may be limiting their growth in a particular city and how to overcome them.

¹⁰ *Urban America: US cities in the global economy*, McKinsey Global Institute, April 2012 (www.mckinsey.com/mgi).

¹¹ World Business Chicago, *A plan for economic growth and jobs*, draft update, March 2012.

¹² Francois Bouvard et al., *Better for less: Improving public sector performance on a tight budget*, McKinsey Center for Government and McKinsey Global Institute, July 2011.

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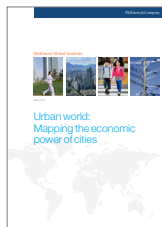
Urban America: US cities in the global economy (April 2012)

The degree of economic vigor that the economy of the United States derives from its cities is unmatched by any other region of the globe. Large US cities generated almost 85 percent of the country's GDP in 2010. In the next 15 years, the 259 large US cities are expected to generate more than 10 percent of global GDP growth—a share bigger than that of all such cities in other developed countries combined.



Building globally competitive cities: The key to Latin American growth (August 2011)

Latin America is a bright spot in the post-recession global economy, with growth rebounding strongly in much of the region. In the years ahead, cities will be critical to regional growth. Latin America is the most urbanized region in the developing world, with 80 percent of its relatively young population living in cities today, a share expected to rise to 85 percent by 2025.



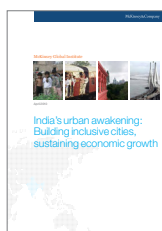
Urban world: Mapping the economic power of cities (March 2011)

Six hundred cities—the City 600—are projected to generate more than 60 percent of global GDP growth to 2025. Within this group, companies need to adjust their strategy to include the 577 fast-growing “middleweight cities.”



Lions on the move: The progress and potential of African economies (June 2010)

Africa's economic growth is creating substantial new business opportunities that are often overlooked by global companies. Consumer-facing industries, resources, agriculture, and infrastructure together could generate as much as \$2.6 trillion in revenue annually by 2020, or \$1 trillion more than today.



India's urban awakening: Building inclusive cities, sustaining economic growth (April 2010)

India has a young and rapidly growing population—a potential demographic dividend. But India needs thriving cities if that dividend is to pay out. New MGI research estimates that cities could generate 70 percent of net new jobs created to 2030, produce around 70 percent of Indian GDP, and drive a near fourfold increase in per capita incomes across the nation.



Preparing for China's urban billion (March 2009)

The scale and pace of China's urbanization continues at an unprecedented rate. If current trends hold, China's urban population will hit the one billion mark by 2030. In 20 years, China's cities will have added 350 million people, more than the entire population of the United States today. By 2025, China will have 221 cities with over one million inhabitants—compared with 35 cities of this size in Europe today—and 23 cities with more than five million. For companies in China and around the world, the scale of China's urbanization promises substantial new markets and investment opportunities.

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