www.elsevier.com/locate/cities

doi:10.1016/j.cities.2005.01.001

Cities, Vol. 22, No. 2, p. 109–122, 2005

Printed in Great Britain
0264-2751/$ - see front matter

Creative industries in East Asia☆

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Available online 5 March 2005

Throughout East Asia, the growth process and its sources are changing in a number of important respects, especially for middle and higher income economies. Growth will increasingly come from the strength of innovative activities in these economies instead of factor accumulation as in the past. Recent research suggests that such innovative activities, especially in producer services and the creative industries, are concentrated in high-tech clusters in globally linked cities. The development of such cities is influenced by ongoing structural changes and initiatives by governments and firms. This paper explores these issues and suggests how policies and institutions can induce and furnish an urban environment that supports innovative activities that in turn lead to rapid growth.

Keywords: East Asia, creative industries, economic development, urban economy

Across East Asia,[1] the growth process and its sources are changing in a number of important respects. For the middle and higher income economies, innovation capability rather than resource inputs will determine a significantly higher share of their overall growth. Recent research (Yusuf and Evenett, 2002; Yusuf et al., 2003) suggests that innovative activity is concentrated in high-tech clusters within larger, globally linked dynamic cities. Thus, the future performance of East Asia is likely to rest on the innovation systems in selected urban centers. Such development will be influenced by a number of ongoing structural changes in East Asia and will be guided by a range of initiatives taken by governments and by firms. This paper seeks to elucidate these changes and initiatives. It is divided into four parts. Part I briefly sketches the trends that will provide the context for urban-centered growth led by innovation. Part II summarizes the findings from recent research on growth that underscores the role of productivity, urban services, and skills. Part III examines the contribution that elements of the urban milieu can make to growth, such as the efficiency of urban services, the degree of competition and the supply of skilled and creative workers. Part IV concludes by indicating how policies and institutions can induce and furnish an urban environment that supports rapid growth.

Unfolding trends

A number of trends crystallized during the second half of the twentieth century and are likely to persist well into the twenty-first. First, with the rural sector accounting for an ever-smaller share of GDP, the drivers of growth are mainly urban activities.[2] Even in low income countries such as Indonesia and Vietnam, industry is supplanting agriculture as the principal determinant of growth performance. Second, the urban sector is now dominated by service activities that together account for three quarters or more of urban GDP in most countries. In the core areas of mega-cities, services are virtually the only employers, with

☆The findings, interpretations, and conclusions expressed in this study are entirely those of the authors and should not be attributed in any manner to the World Bank, to its affiliated organizations, or to members of its Board of Executive Directors or the countries they represent.

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[1]East Asia in this paper refers to China, Hong Kong, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand.

[2]Close to 40% of the employment in the US is concentrated in the most densely urbanized 1.5% of the country's land area (Scott and Storper, 2003).

manufacturing having moved to suburbs and edge cities. Third, the fastest expanding component of this urban services sector is composed of a number of business services and creative industries with high value added. In the former category, we include marketing, financial, legal, and accounting services. The latter category comprises the more IT-intensive activities such as design, publishing, multimedia, software development, video entertainment and movie making. Fourth, a steady decline in transport costs and a continuing shift in the mix of products consumed—towards lighter items of higher value—is beginning to negate the desirability of dispersing urban centers and of locating urban centers close to natural resources. These trends in both the level and significance of transport costs, together with widespread automobility, could lead to a greater concentration of the population in a few, geographically favored and polycenteric urban areas.[3] Fifth, in the high-income countries and to an increasing extent in the middle-income ones as well, up to one third of GDP growth derives from rising total factor productivity. These gains in productivity are the result, by and large, of product, process and functional innovations allied with improvements in the management of firms in the effective assimilation of IT, and in allocative efficiency across the entire economy. Financial sector development, independently and through its impact on export industries, together with increased competition arising in no small part from much greater openness to trade, have contributed to these advances (Beck, 2002; Greenaway et al., 2002; Lawrence and Weinstein, 2001; Levine, 1997). Sixth, the pace of innovation is directly associated with the supply of skilled workers, a rising proportion of whom work for the creative industries; the scale and quality of university infrastructure; investment in research (Lederman and Maloney, 2003); and the focused acquisition of innovative capability in selected areas. Seventh, and finally, urban centered growth is powerfully facilitated by a liberal yet effective regulatory framework that promotes competition, combined with institutions that protect economic rights.

These seven characteristics of growth in the early twenty-first century, together with the projected urban concentration of people, demand a fresh approach to development in the East Asian region, one that interweaves the key elements of the growth process with a dynamic urban context.

The empirics of structural change

In East Asia, as in the rest of the world, the trend is towards greater urbanization and the next few decades are likely to see an intensification of this trend. The urban sector accounted for 39% of the population in 2001. It ranges from 22% in Thailand to 82% in Korea.[4] Projections by the UN suggest that urbanization rates will climb to more than 50% by 2025 for the region as a whole, and to 47% in China.[5]

The movement of people from the rural areas to urban centers is mirrored in the composition of GDP in the region. All the economies in East Asia have experienced a reduction in agriculture's contribution to GDP over the 1980–2001 periods. The declining contribution of agriculture is paralleled by an increase in the contribution from services, except for China, Indonesia, and Thailand, where the reduction in share of agriculture is offset mainly by an increase in the share of industry, especially manufacturing activities. This tendency is most visible in the high-income economies of East Asia. For instance, in Hong Kong, 85% of the GDP is derived from services, up from 67.5% in 1980, with half of the GDP being generated by producer services alone (Tao and Wong, 2002). Moreover, Hong Kong and also Singapore have emerged as net exporters of services as of 2001 (Hong Kong General Chamber of Commerce, 2003). The bulk of economic activity has also gravitated towards the services sector in Japan, Korea, and Taiwan. Furthermore, firms in manufacturing sectors undertake a range of service functions for their own internal purposes, although these are not classified as services officially (Daniels and Bryson, 2002). This is taken to extremes by the highly integrated state-owned enterprises in China, many of which even supply schooling, hospital, and bakery services to their employees. However, even in the US, it is estimated that up to three quarters of all workers in the manufacturing sector engage in service activities (Wirtz et al., 2002).

A decomposition of GDP growth into its sectoral components reveals the rising importance of the growth of service sectors for overall economic growth. Manufacturing was the motor of growth through the 1980s in East Asia but this began changing from the early 1990s, when services displaced manufacturing not only in Japan but also in Korea, Singapore, and Taiwan. Furthermore, it was the performance of the services sector that averted a

[3]Glaeser and Kohlhase (2003) observe that in the US the average cost of moving one tonne by a mile fell from 18.5 cents (in 2001 dollars) in 1890 to 2.3 cents in 2002. Reflecting this decline, the share of the transport sector, not including air travel, dropped from 9% of GDP to a little over 2%.

[4]Needless to say, urbanization rates in Hong Kong and Singapore are both 100%.

[5]Half of the population of China's coastal provinces from Shandong down to Guangdong, already lives in urban areas (Solinger, 1999).