

BUILDING ASIAN REGIONAL BUSINESS HUBS:

Business expectations for tomorrow's centres of commerce



Building Asian regional business hubs

TECHNOLOGY & INNOVATION

"With a shift towards digitisation and more competition than ever [among business hubs], a digital city is going to be the most competitive"

Mr. Martin Powell, head of Urban Development at Siemens Global Center of Competence for Cities

Impact of global urbanisation is relieved by investment in high-speed connectivity to deliver basic services more effectively

Seoul boasts one of the highest broadband speeds in the world which is used to provide public services such as e-health, e-education, and e-government

FINANCIAL ENVIRONMENT

"Financial services are seen as both a supporting service and a growth area"

Mr. Kim Leng Yeah, Professor at Sunway University Business School

Developing new, innovative financing structures opens up investment opportunities and deeper access to more markets

Kuala Lumpur is a growing hub for Islamic banking, which provides support and creates a market niche for businesses

HUMAN CAPITAL & LIVEABILITY

"You cannot talk about a business hub or smart city without mentioning the importance of safety"

Mr. Hong-Eng Koh, global chief public safety expert of Huawei Technologies Co., Ltd

Tax break incentives, implementation of measures to ensure personal safety, and establishment of innovation parks increase a city's attractiveness

Cyberjaya, an IT-themed city outside Kuala Lumpur, was established to encourage startups and foreign ICT companies to set up in the area

REGIONAL COLLABORATIONS

"All capital cities have the potential to improve as part of regional economic integration, which fosters greater cooperation and will drive trade and investment flows"

Mr. Girish Ramachandran, head of Business Advisory SEA of Arcadis

Trade agreements between cities strengthen relations and connect aspiring business hubs with global counterparts

Shenzhen's rapid development into a manufacturing, technology, and financial hub

INFRASTRUCTURE

"Good connectivity with other business centers within the region are important given the trends of regionalisation and globalisation"

Mr. Kim Leng Yeah, Professor at Sunway University Business School

Investment in transport infrastructure enables people and goods to move around effectively

China's OBOR US\$50bn investment in rail, bridges, ports, and energy



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About the report

Building Asian regional business hubs: business expectations for tomorrow's centres of commerce is a report from The Economist Intelligence Unit (EIU) commissioned by InvestKL, which examines the future of business hubs in Asia.

The EIU bears sole responsibility for the editorial content of this report. The findings do not necessarily reflect the views of the sponsor.

Kim Andreasson was the author of this report and Charles Ross was the editor. To better understand the drivers and inhibitors of developing business hubs in Asia, interviews were conducted and supplemented with wide-ranging desk research.

Our thanks are due to the following interviewees for their time and insights:

- Olivier Blaringham, vice-president APAC, Subsea7
- Hong-Eng Koh, global chief public safety expert, Huawei Technologies Co., Ltd
- Hosuk Lee-Makiyama, director, European Centre for International Political Economy (ECIPE)
- Yeah Kim Leng, professor of economics, Sunway University Business School
- Steven Pedigo, director of NYU Schack Institute Urban Lab and director of the Creative Class Group
- Martin Powell, head of Urban Development at Siemens Global Center of Competence for Cities
- Girish Ramachandran, head of Business Advisory SEA, Arcadis

Executive summary

Becoming a better business hub is a common objective for cities in order to attract successful companies and human capital to generate more income and provide improved services for residents. City governments are therefore implementing a range of initiatives to improve their business environment, from tax incentives for foreign businesses to smart and sustainable city development projects.

Based on extensive desk-research and interviews with executives, this report finds that there are many challenges towards quickly becoming a centre of commerce. Although every city possesses its own unique advantage, aspiring regional business hubs are better off by collaborating with established ones rather than competing with them.

The key findings of the research are as follows:

Infrastructure: Traditional infrastructure such as roads, ports, and airports, remain important to developing a better business hub, despite the increased use of digital technologies. This is exemplified by the Chinese One Belt, One Road (OBOR) initiative to improve infrastructure across the region. At the same time, every city suffers from some sort of challenge in this regard: ranging from natural disasters to air pollution and road congestion.

Technology and innovation: Broadband-speed Internet is key to seize on emerging technologies and to develop smart city initiatives and attract innovation businesses. Cities can stimulate a supportive environment by rolling out free high-speed WiFi networks but also need to be cognisant of cyber security, often neglected at a local level as it is often seen as the remit of the national government.

Financial environment: Financial services can be both a supportive industry and a growth area of its own. Cities are commonly seeking to seize on both aspects. In regards to the latter, aspiring hubs are looking to capitalise on niche banking such as Islamic financing to differentiate themselves from established financial centers. Most cities are also looking to embrace innovation in the industry, such as fintech by providing the necessary regulatory reforms.

Regional collaborations: Generally speaking, business hubs don't change overnight. Collaboration instead of competition is particularly important in Asia, a region which constitutes about 40% of global trade in goods and services. The rise and demise of potential free trade agreements (FTAs) is headline news and regional infrastructure initiatives such as OBOR are likely to play a key role moving forward.

Human capital and liveability: Better educational opportunities are an obvious cornerstone to building a better business hub. However, cities have traditionally sought to supplement such efforts by attracting multi-national companies (MNCs), which bring with them foreign expertise and workers. More recently, however, the way to attract talent is to enhance 'liveability,' which is increasingly seen as a difference-maker between successful hubs and those that lag behind.

Long-term strategy: All cities have an opportunity to establish themselves as a regional (or global) business hub. Development and investment into smart city initiatives, for example, is currently a trend across the region. The keys to success, however, among aspiring hubs is to establish a long-term vision and being able to execute it, as well as in specialising in certain area(s) to differentiate itself from the competition.

Introduction

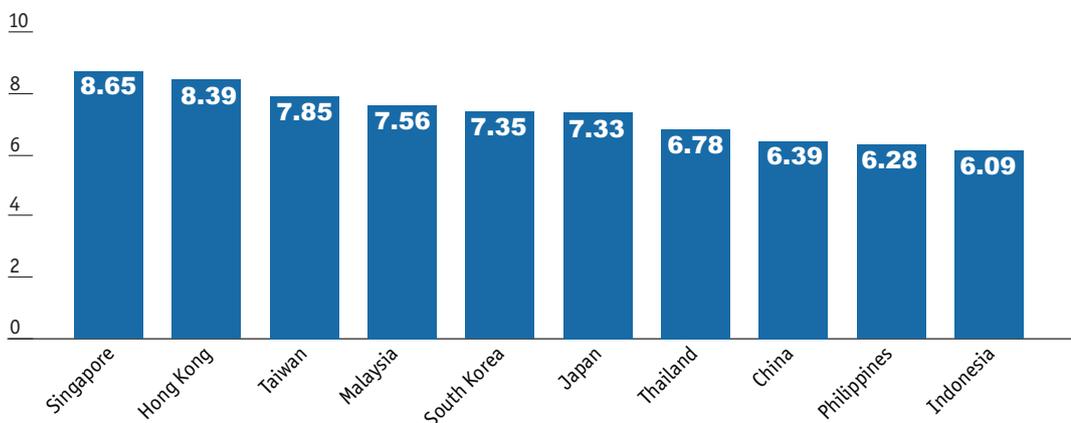
Cities strive to become better business hubs to attract investment and talent that enhance the general living environment for all residents. To do so, they deploy a wide range of strategies, ranging from tax incentives to the development of smart cities, which leverage ICTs to create new solutions to old problems. Cities that successfully move up the development trajectory from manufacturing to also attract knowledge and innovation-based industries stand to benefit greatly from a socio-economic perspective in terms of outcomes for its residents.

As the fastest growing region in the world, Asian cities are well-positioned to take advantage of the opportunity to create sustainable business hubs. "We try to measure the impact of this development," says Girish Ramachandran, head of Business Advisory SEA at Arcadis, a consultancy. However, the Sustainable Cities Index 2016 commissioned by his organisation and conducted by the Centre for Economics and Business Research, a UK economics consultancy, shows only three Asian cities in the global top 20: Singapore, Seoul, and Hong Kong. "They are

Figure 1: Best place to do business

Business environment rankings 2014–18, selected countries

(Score/10)



Source: The Economist Intelligence Unit¹

¹ http://www.eiu.com/Handlers/WhitepaperHandler.ashx?fi=BER_final_2014.pdf&mode=wp&campaignid=bi_zenviro2014

“You need strong government support to improve as a business hub.”

Yeah Kim Leng, a professor at the Sunway University Business School, Malaysia

successful because they are able to implement projects and programs more effectively [than other cities in the region],” summarises Mr Ramachandran. It’s one indication that not only can Asian cities do better in building their business hubs but that they also face strong competition from established ones in doing so.

Building a better hub

The cost of doing business environment in a country is an important measure for enterprises as they consider their investment options. Research from The Economist Intelligence Unit shows that the Southeast Asian countries of Indonesia, Philippines, and Thailand, lag behind regional leaders Singapore and Hong Kong (see figure 1). National governments with weak scores must therefore improve in this regard in order to enable their cities to seize on potential foreign investment opportunities.

Every city can become a better business hub and compete with established ones as long as it has

national government backing as well as a plan and a vision, according to interviews conducted for this report. “You need strong government support to improve as a business hub,” says Yeah Kim Leng, a professor of economics at the Sunway University Business School in Malaysia, and mentions good governance, transparency, low levels of corruption, and a conducive business environment as measured by the World Bank’s Ease of Doing Business as basic ingredients to create a better business hub.

It is not rocket science. Everyone knows what needs to be done but the difficult part is how to do it in practice. Poor city planning and a lack of private and public coordination are cited as key obstacles for many cities. This report outlines key challenges and opportunities that cities in Asia face in building a better business hub across five areas: infrastructure, technology and innovation, the financial environment, regional collaborations, and human capital and liveability.

1 Infrastructure

From a regional perspective, the availability of infrastructure, such as airports, roads, and railways remain important in building a better business hub to enable people and goods to move around more effectively. For example, regional carriers, such as AirAsia, a low-cost airline, help create a more equally competitive environment for all cities in the region. “Good connectivity with other business centers within the region are important given the trends of regionalisation and globalisation,” says Dr Yeah.

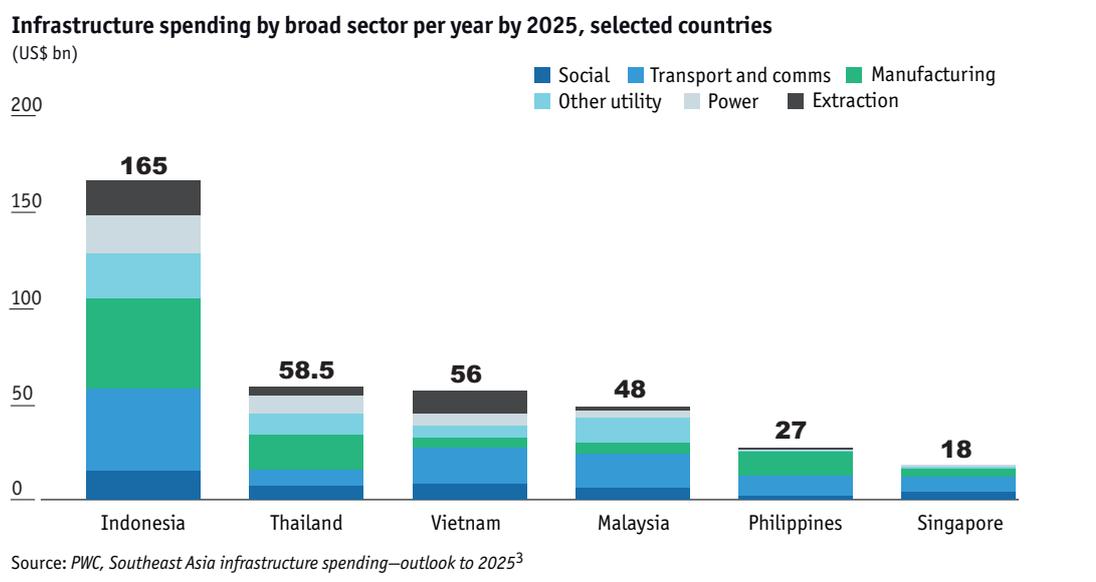
This is also the idea behind Chinese investment, such as the “One Belt, One Road (OBOR)” initiative that will likely create opportunities for more cities in terms of improved regional infrastructure. To date, China has spent US\$50 billion on rails, bridges, ports, and energy that

will eventually cover more than 60 countries to develop an economically beneficial backbone.² Countries in Southeast-Asia are also projected to spend significant sums on infrastructure in the coming decade themselves (see figure 2).

A variety of challenges

Individual cities still grapple with a number of challenges to their physical infrastructure for a number of reasons that vary across the large and diverse region. Some cities suffer from natural disasters and have to prioritise their mitigation. In Bangkok, flood prevention is a top priority in order to provide reliable infrastructure services and retain—or attract—businesses. The 2011 floods, for example, illustrated that it is an issue that can have a severe negative impact on global

Figure 2: Future foundations



² <https://www.nytimes.com/2017/05/14/world/asia/xi-jinping-one-belt-one-road-china.html?ribbon-ad-idx=4&rref=world/asia&module=Ribbon&version=context®ion=Header&action=click&contentCollection=Asia%20Pacific&pgtype=article>

³ <https://www.pwc.com/sg/en/capital-projects-infrastructure/assets/cpi-sea-infrastructure-spend-summary-201405.pdf>

“There are short-term wins but to overcome the road congestion and air quality problems, the key is in putting in place long-term plans.”

Martin Powell, head of Urban Development at Siemens Global Center of Competence for Cities

supply chains and hence something the city must address in order to avoid future disruptions.

Other areas of concern prevalent in the region are road congestion and air pollution, both largely attributed to rapid development. “In particular in places with rising middle classes that can now afford a car and seize on the opportunity to buy them,” observes Martin Powell, head of Urban Development at Siemens Global Center of Competence for Cities. Most cities struggle to address these issues. “Reversing road congestion is difficult and any interventionist policies are deeply unpopular,” adds Mr Powell. Beijing, for example, has started to limit the number of car licenses it issues.⁴ Singapore, meanwhile, is enhancing its Mass Rapid Transit (MRT) to improve public transportation system efficiency, including development of the new Downtown line that began operations in 2013 but will continue to be expanded until 2024, amongst other efforts to keep congestion at bay. Kuala Lumpur has also implemented a number of public transportation options to improve infrastructure ranging from the “MyRapid” card that can be used for travel

across light rail transit, monorail, and bus rapid transit systems to the introduction of the KLIA Ekspres line that serves the airport.

Light at the end of the tunnel?

“There are short-term wins but to overcome the road congestion and air quality problems, the key is in putting in place long-term plans,” suggests Mr Powell. Ho Chi Minh City, for example, is building more public transportation options and is currently in the process of building a subway system; however, such long-term plans can take 10-15 years to implement.

Although it is hard to make generalisations about such a diverse region as Asia, many cities and countries have an opportunity to make quicker decisions in terms of planning processes due to their system of government. “Decision-making can be a lot quicker, particularly in China,” says Mr Powell. “That means that solving a particular problem can be done much faster,” although he cautions that it can also be dangerous to jump on something too quickly without thorough planning that is the norm in the West.

⁴ <https://www.nytimes.com/2016/07/29/world/asia/china-beijing-traffic-pollution.html>

2

Human capital and liveability

Attracting talent is fundamental to improve as a business hub. "Everyone knows what needs to be done," says Dr Yeah. "The difficult part is how to do it." Local education is key to development towards a knowledge-based economy and if that doesn't suffice, then cities are looking to attract it from abroad.

Traditionally, one strategy cities have employed is to lure multi-national companies (MNCs) with tax breaks and other various benefits, such as the establishment of business and innovation parks. Cyberjaya in greater Kuala Lumpur, for instance, was created to attract foreign ICT companies based on the simple equation that MNCs bring with them world competitiveness and experts, which can stimulate the development of domestic companies.

This is now changing. "For a long time, the economic drivers were about attracting the right types of companies or big company," says Steven Pedigo, director of NYU Schack Institute Urban Lab and director of the Creative Class Group. "Now it's about liveability," and says this shift in importance has gradually increased over the past 15 years.

A difference-maker

Hence, leading cities have embarked on trying to sell themselves directly to high-skilled foreign workers by providing a good quality of life as an incentive to relocate. "There is a growing need to attract foreign talent," says Dr Yeah. "To do that a city needs unique selling points to increase its attractiveness to expats and improve as a

regional business hub." In this equation a good job is no longer enough to attract and retain talent. "You can no longer look at a job on its own [to attract talent]," says Mr Ramachandran. "Equally important now among those business hubs who do better is how well they cover 'liveability' aspects."

"Liveability" can be a vague concept; however, The Economist Intelligence Unit, which has created a global ranking of cities since 2002, offers a simple definition: the location which provides the best living condition (see ranking in figure 2).⁵ This can range from obvious educational opportunities and transportation options to a renewed emphasis on culture and security.

New considerations

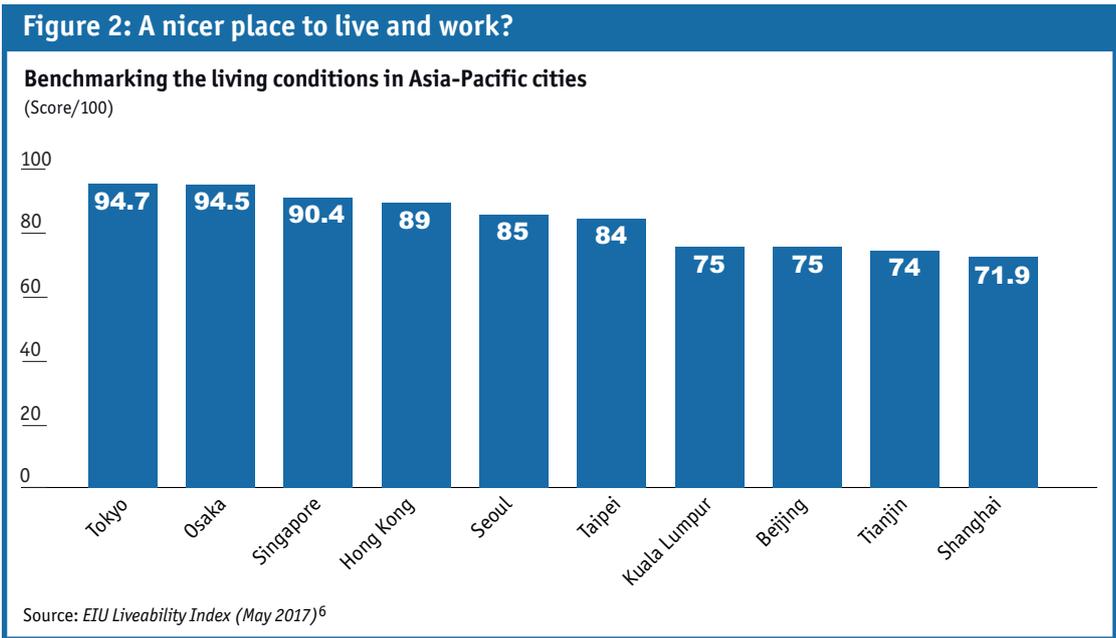
To become a tier 1 business hub, there needs to be greater emphasis on working culture. "Our industry is very international and multicultural," says Olivier Blaringham, vice-president APAC, at Subsea7, an engineering, construction and services company that serves the offshore energy industry. "We bring different nationalities from different cultures to where our clients need us." Hence employees need to find the local working culture acceptable.

Physical security is also receiving renewed attention, particularly perhaps in the wake of terrorist attacks in some western business hubs, such as Berlin, London and Paris. In the personal safety category in the Safe Cities ranking from The Economist Intelligence Unit, Asian cities

"For a long time, the economic drivers were about attracting the right types of companies or big company, now it's about liveability."

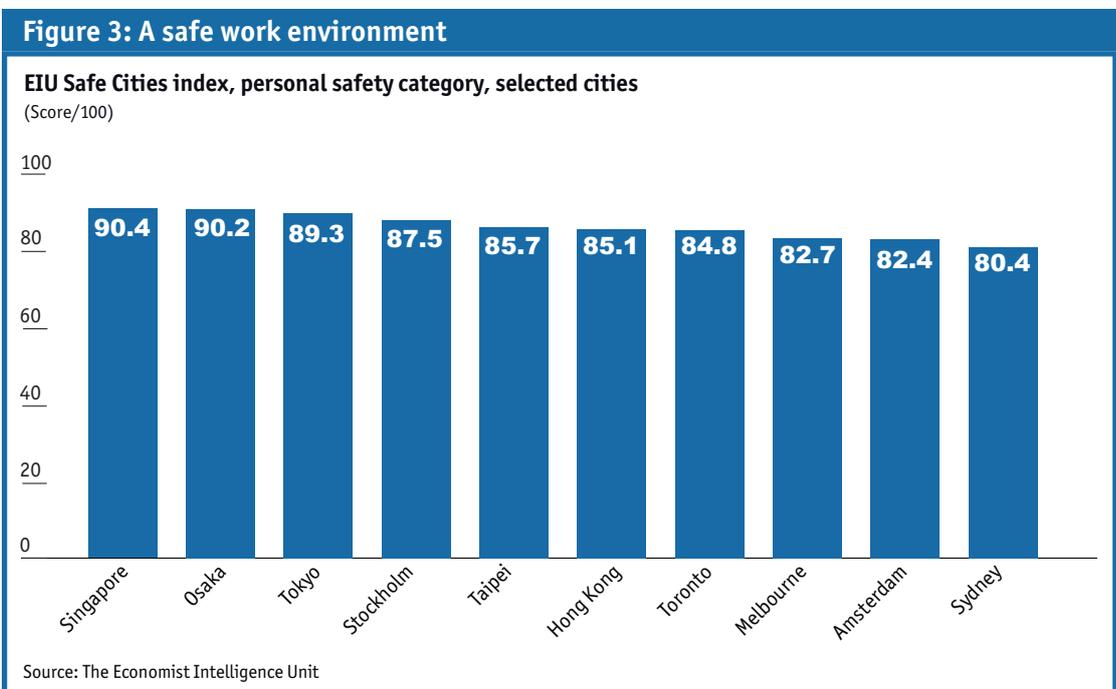
Steven Pedigo, director of NYU Schack Institute Urban Lab and director of the Creative Class Group

⁵ <http://www.eiu.com/topic/liveability>



fare very well in this regard compared to their western counterparts (see figure 3). Still, given global developments, physical security must remain an ongoing concern for all centres of commerce. “You cannot talk about a business hub or a smart city without mentioning the importance of safety,” says Mr Koh. Firstly, most businesses would not invest in a place that is

unsafe. Secondly, residents or expats living in the city might be inclined to move or even migrate to another country if they cannot have a peaceful life. “The problem for cities is that it is precisely those who have the capability and can afford to move that are generally the ones that you want to keep,” says Mr Koh.



⁶ <http://www.eiu.com/topic/liveability>

A simple question

Mr Pedigo suggests there are some 300m people worldwide who possess high-skills and are mobile in terms of open to moving to a new location. "They don't make location decisions based on employment opportunities but rather on the basis of liveability," he says. At a bare minimum, cities therefore have to get the basics right in order to attract this group of people.

The challenge, however, is that liveability is a subjective topic that is also constantly evolving, for instance with the development of smart and sustainable cities. One challenge is that city leaders often do not understand the concept and how to improve governance as there are varied interests from a wide variety of different stakeholders. Mr Pedigo offers a simple rule of thumb: "Does the CEO and his wife want to live in the city?"



3

Technology and innovation

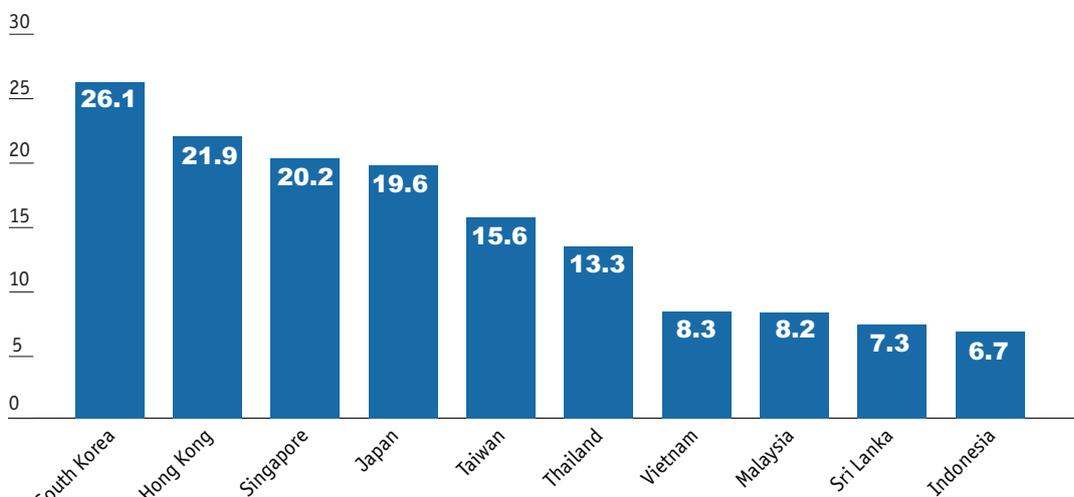
The role of broadband-speed Internet is fundamental to building a better business hub for two reasons. First, as a building block in the development of smart cities in terms of using information and communication technologies (ICTs) to connect physical infrastructure (see case study). Second, to support innovation and a knowledge-based society. For instance, high-speed connectivity is considered a key component to realise visions for e-commerce, as well as benefits such as e-health, e-education, and e-government in terms of delivering public services, something which has been particularly embraced in South Korea generally and Seoul specifically. The country boasts the highest broadband speeds in the region (see figure 4).

“High-speed connectivity is key to competitiveness,” says Dr Yeah. But broadband strategies are generally set at a national—rather than at a city—level. This does not mean, however, that cities are completely unable to improve their own situations. Aside from lobbying the national government for resources, they can build business parks with better connections to attract companies and also provide free high-speed WiFi services to enable businesses, residents, and tourists alike with better connections and in the process make the city a more attractive business hub. It’s a global trend. A recent academic paper shows how the Swiss city of Lugano is capitalising on free WiFi across all these groups.⁸

Figure 4: Connectivity is key, but speeds differ greatly

Asia-Pacific average connection speed, selected countries, Q4 2016

(Average Mbps)



Source: Akamai state of the Internet Q4 2016 Report⁷

⁷ <https://www.akamai.com/us/en/multimedia/documents/state-of-the-internet/q4-2016-state-of-the-internet-connectivity-report.pdf>

⁸ Usage Practices and User Types of a Municipal Wi-Fi Network: the Case of “Wi-Fi Lugano”

Creating a supportive environment

Availability of broadband also needs a strong supporting environment to enable business and people to use it to their advantage. Aside from free WiFi initiatives, which are currently popular throughout the region, cities are also embarking on a range of efforts to enable digital transformation. “Generally speaking, today’s business hubs are creating digital platforms and building eco-systems around them,” says Hong-Eng Koh, global chief public safety expert at Huawei, an ICT and telecommunications company. Establishment of innovation hubs and local government R&D support are two common ways to attract and support existing businesses and to attract new ones.

As cities embrace a supporting environment for digital development, new challenges also emerge and chief among them is cyber security.

In a ranking of Safe Cities from The Economist Intelligence Unit, leading Asian hubs appear to be doing generally well in this area with four (Tokyo, Singapore, Hong Kong, and Osaka) ranking in the top 10 globally in the digital security category; however, improvements need to be made across the region, especially among aspiring hubs (see figure 5). Similar to broadband strategies, cyber security is often seen as the remit of the national government. However, there is no shortage of examples in which city hospitals, power grids, and other institutions have been attacked, which can affect city reputation and raise concerns among businesses. “Governments operate in silos,” says Mr Koh, who authored a paper on collaborative public safety last year. “As cities are competing they need a good cyber and physical protection programs based on public-private partnerships at all levels.”

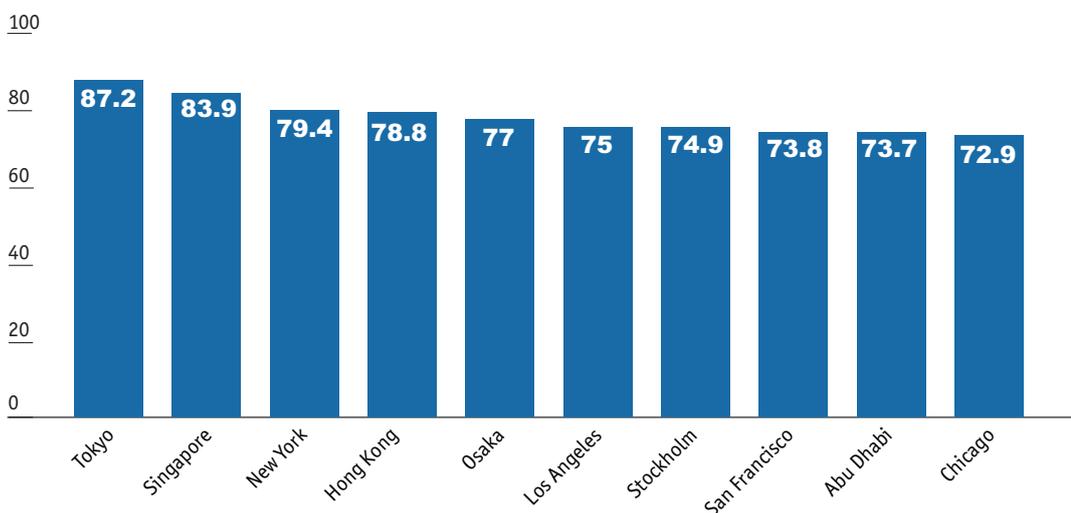
“Generally speaking, today’s business hubs are creating digital platforms and building eco-systems around them.”

Hong-Eng Koh, global chief public safety expert at Huawei

Figure 5: Keeping business safe online

EIU Safe Cities index digital security category, selected cities

(Score/100)



Source: The Economist Intelligence Unit

Case study: a smarter hub

A basic premise behind the motivation to create “smart” or “sustainable” cities—the terms are often used interchangeably—is the rising populations in cities. According to the United Nations, the global urbanisation rate will increase from 54% in 2015 to 66% in 2050.⁹ Cities, therefore, need to become more effective at delivering basic services and hence, physical infrastructure is being digitally connected to overcome the inefficiencies of today across a range of areas, such as transport, energy, water, and waste.

The development of smart cities also overlap with efforts to create a better business hub. “With a shift towards digitisation and more competition than ever [among business hubs], a digital city is going to be the most competitive,” says Martin Powell, head of Urban Development at Siemens Global Center of Competence for Cities. He predicts that a decade from now, everything will be connected via Internet of Things (IoT) sensors and platforms, which will enable cities to become better business hubs by using such data to improve effectiveness.

A place for employees?

Businesses can use smart city initiatives to enhance their own effectiveness, for instance by taking advantage of smart meters to save electricity. The bigger gain, however, might lie in offering a better place to live for employees and to use that advantage to also attract new recruits.

“Smart city development comes back to liveability,” says Mr Powell. For example, smart cities are often installing cameras and central monitoring facilities. Jakarta, Indonesia, has created a “Smart City Lounge,” from which it can monitor transportation through CCTV cameras and GPS to ensure better commutes,¹⁰ which enhances liveability and thus improves the attractiveness of the city for workers and employers alike. Another such aspect, often overlooked, is safety. “Trust is an important ingredient for a business hub,” says Mr Koh. “Once a city has a reputation for being safe with a good justice and legal system, it will attract businesses and investment.”

⁹ https://esa.un.org/unpd/wup/CD-ROM/WUP2014_XLS_CD_FILES/WUP2014-F02-Proportion_Urban.xls

¹⁰ <http://smartcity.jakarta.go.id/about>

4 Financial environment

A strong financial environment is often considered a necessary component to city competitiveness, illustrated by today's leading regional business hubs. To local and foreign businesses alike, the availability of such a financial sector means access to capital in terms of corporate bonds, equity markets, and funding for mergers and acquisitions (M&As), all of which enables them to make investments and become more cost competitive. A strong and stable financial environment regarding local funding is also important to foreign enterprises as they can avoid the risk of currency fluctuations.

Increasingly, however, cities are also recognising the importance of going beyond traditional financing to seize on new opportunities.

"Financial services are seen as both a supporting service and a growth area," explains Dr Yeah. Kuala Lumpur, Malaysia, for example, is seeking to become a hub for Islamic financing in order to support businesses but also create a market niche.

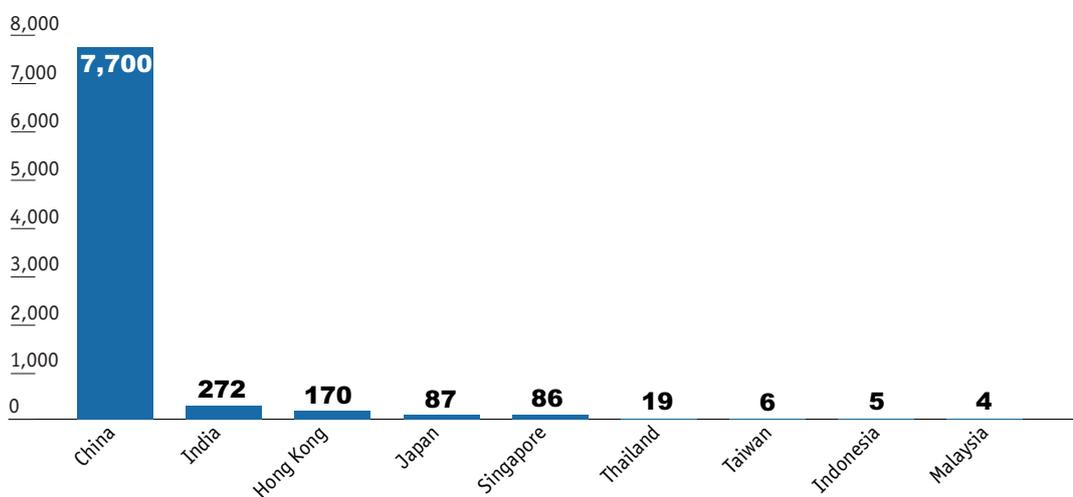
Banking on the future

London, UK, has long been considered a leading financial technology (fintech) hub with Ernst & Young, a global accounting and consulting firm, recently concluding that "the UK has the strongest fintech policy environment, with the most supportive regulatory regime."¹¹ Indicative of this, the Bank of England launched a fintech accelerator program in July 2016.¹² However, with the UK leaving the European Union following

Figure 6: China leads the way in fintech investment

Asia Fintech deal value, selected countries

(US\$m)



Source: *Connecting Global Fintech Interim Hub Review 2017*¹³

¹¹ <https://www.gov.uk/government/publications/uk-fintech-on-the-cutting-edge>

¹² <http://www.bankofengland.co.uk/publications/Pages/speeches/2016/914.aspx>

¹³ <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/Innovation/deloitte-uk-connecting-global-fintech-hub-federation-innotribe-innovate-finance.pdf>

“From an innovation perspective, you need fintech companies.”

*Yeah Kim Leng, professor,
Sunway University Business
School, Malaysia*

the Brexit vote, established or aspiring global business hubs in Asia are likely to seize on the opportunity to attract this growing industry, led in particular by China (see figure 6).

As with many technological innovations, fintech is global. In the Fintech 100 list from KPMG, another global accounting and consulting firm, 40 companies come from the US, 20 from EMEA, 18 from the UK and 22 from Asia-Pacific.¹⁴ Goldman Sachs, an American investment bank, has estimated that the revenue at risk of disruption from fintech is worth US\$4.7

trillion.¹⁵ “From an innovation perspective, you need fintech companies,” says Dr Yeah. Regulatory authorities in the region are therefore trying to create a conducive environment to compete with global hubs in order to seize on the innovations that come with it and to deliver cost effective solutions. “It comes back to productivity, technology, and innovation,” says Mr Ramachandran. “You want to move your economy up a few notches, and ultimately to the knowledge and innovation/creative industries, going right up to advanced content.”

¹⁴ <https://home.kpmg.com/xx/en/home/media/press-releases/2015/12/fintech-announcing-the-world-leading.html>

¹⁵ <http://www.economist.com/news/leaders/21650546-wave-startups-changing-financefor-better-fintech-revolution>

5 Regional collaborations

Asia accounted for 40% of global exports and imports of goods and services in 2015, the latest year of data available from UNCTAD.¹⁶ Asian countries have benefitted from competitive trade policies, low-cost manufacturing, and most recently increasing connectivity in terms of transport and communication.

In manufacturing, China has long been the regional powerhouse. But with global diversification strategies and the assembly stage of goods moving out of China and into ASEAN countries where wages are lower, regional supply chains are set to rise in importance. In services, meanwhile, India largely pioneered a successful outsourcing service, particularly in IT led by the city of Bangalore.

Combined, these trends indicate that change is on the horizon and that cities in the region are better off to collaborate rather than to compete. "When you look at Asian success, it coincides with the proliferation of supply chains," says Dr Yeah. "Businesses are able to take advantage of the comparable advantages in different countries."

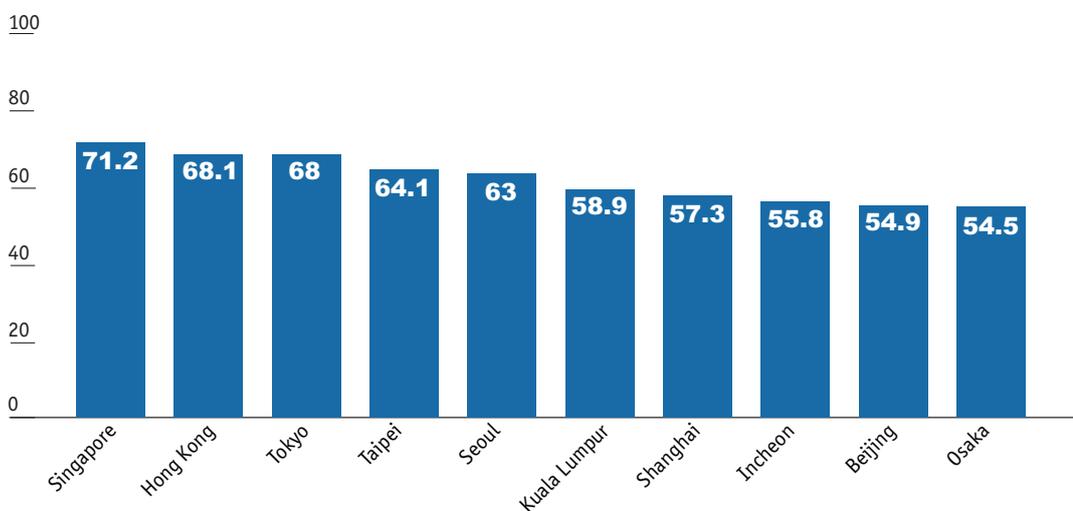
Collaboration instead of competition

Generally speaking, business hubs don't change overnight. Regional leaders are likely to remain for the foreseeable future. For example, an assessment from The Economist Intelligence Unit on regional hot spots in 2025 shows that current hubs are likely to lead the way into the future (see figure 7).

Figure 7: Regional leaders likely to remain in 2025

Benchmarking the future competitiveness of cities, selected cities

(Score/100)



Source: The Economist Intelligence Unit¹⁷

¹⁶ <http://unctadstat.unctad.org/wds/TableView/tableView.aspx?ReportId=89795>

¹⁷ <http://www.citigroup.com/citi/citiforcities/pdfs/hotspots2025.pdf>

“All capital cities have the potential to improve as part of regional economic integration.”

*Yeah Kim Leng, professor,
Sunway University Business
School, Malaysia*

The opportunity for aspiring regional cities therefore lie in collaboration instead of competition. “All capital cities have the potential to improve as part of regional economic integration, which fosters greater cooperation and will drive trade and investment flows,” says Dr Yeah. “The key is to collaborate with other cities,” adds Mr Ramachandran, who mentions Hanoi, Vietnam, as an up-and-coming business hub, in part due to its geographic location and investment opportunities. Decades removed from being a war-torn country, the city’s economic growth reached 8% in 2016.¹⁸

“What we are starting to see is that a lot of smaller-sized and medium-sized hubs communicate and interact with large established ones,” says Mr Ramachandran. “Tier 2 cities have performed remarkably well,” adds Mr

Hosuk Lee-Makiyama, director, European Centre for International Political Economy (ECIPE). Shenzhen, China, for example, developed rapidly from a sleepy town into a manufacturing, technology, and financial hub.

Cities often seek to attract global service providers to establish an office in their location in order to serve both the domestic market but also to follow India’s model in which they can serve the world. The basic premise is clear: attracting a world-class business brings human capital, which enables a city to move up the development trajectory, and increases visibility. For businesses, Asia is the fastest-growing region in the world and many are trying to establish a footprint in the region to capitalise on economic growth and high skills at lower wages.

¹⁸ <http://hanoitimes.com.vn/economy/2017/01/81e0ad90/hanoi-economic-growth-hits-a-six-year-peak/>

Case study: What future for trade agreements?

Strong trade ties agreed at a national level play an important role in helping to connect aspiring business hubs with regional and global counterparts. Countries in Asia had high hopes for one such agreement—the Trans-Pacific Partnership (TPP), a much-debated and much-anticipated trade agreement among 12 negotiating members—before it appeared to fall apart in January 2017 as the American Trump-administration withdrew from the agreement. According to Hosuk Lee-Makiyama, director, European Centre for International Political Economy (ECIPE), there are now two possible scenarios:

1. TPP11: The agreement moves ahead without the U.S., although Japan has previously argued that the TPP does not make sense without American participation due to lack of market access and there are questions whether Japan would be willing to “play the role of the U.S.” in terms of being the biggest market in the agreement.

2. TPP11+: In order to compensate for the loss of U.S. market access, Australia has suggested to invite China to join the agreement; but is China ready to liberalise?

Plan B

The outlook for TPP might be anyone's guess but the Chinese One Belt, One Road (OBOR) initiative is very real, and one reason to believe that the country may resurrect the agreement. Chinese investment and support is also increasing in the region, potentially overtaking

the American business hegemony. China's OBOR isn't an FTA but can probably do more than any of the FTAs currently in place. “For China it is more than a trade agreement,” says Mr Lee-Makiyama. “It appears to be a strategic soft-power project because there is no business logic behind it but if they want to pay for overseas infrastructure investments, I'm sure everyone will say ‘be my guest’.”

Export-dependent countries in the region are also already pursuing alternative options. Vietnam, for example, revealed during a recent Economist events summit in Ho Chi Minh City that it is looking to bi-lateral and other regional options, assuming the TPP will not be ratified.¹⁹ For instance, the Association of Southeast Asian Nations (ASEAN) promotes intergovernmental cooperation and facilitates economic integration amongst its members. The establishment of the ASEAN Economic Community (AEC) in 2015 is a major milestone in the regional economic integration agenda, offering opportunities in the form of a US\$2.6 trillion market; the AEC Blueprint 2025 was adopted by the ASEAN Leaders at the 27th ASEAN Summit on 22 November 2015.

Looking forward, in 2017 Malaysia also announced the first digital free trade zone in the world to capture on the growing e-commerce market. Known as the Digital Free Trade Zone (DFTZ) this initiative will become operational in phases, starting this year with the first electronic fulfilment hub expected by the end of 2019.²⁰

¹⁹ <https://events.economist.com/events-conferences/asia/vietnam-summit-2016/>

²⁰ <http://www.bakermckenzie.com/en/insight/publications/2017/04/malaysia-launches-digital-free-trade-zone/>

Conclusion

“A lot of cities fail to deliver because there is usually a gap in understanding between the public and private sectors.”

Girish Ramachandran, head of Business Advisory SEA, Arcadis

To become better business hubs, cities need long-term plans and the ability to execute them. This is easier said than done as decision-makers often do not understand the needs of the business community, yet governance and public-private cooperation in building better business hubs will increase in importance over time. “A lot of cities fail to deliver because there is usually a gap in understanding between the public and private sectors,” says Mr Ramachandran.

“Decision-makers generally don’t have the right skills,” adds Mr Pedigo. “They make short-term political decisions when economic development requires long-term planning.” Add to this emerging transformative technologies such as artificial intelligence, drones, 3D printing, and augmented and virtual realities, all of which will have a direct impact on business hubs in the future.

Leading regional business hubs, such as Hong Kong and Singapore, strive to maintain their advantage, in part by becoming better “smart” and “sustainable” cities, efforts which range from connecting physical infrastructure to improving liveability for residents. At the same time, aspiring business hubs across the region are looking to catch up.

No hub will be the same

“Every city can compete if it has a vision,” says Mr Ramachandran. Capital cities have an inherent advantage due to their linkages across the region. However, other cities can become regional business hubs as well as long as they differentiate themselves. Ho Chi Minh City, for example, is a larger business hub than Hanoi, the Vietnamese capital, due to its large port, amongst other differences.

There is an abundance of examples of the specialisation of business hubs in the region: In India, Mumbai is known for finance, Bangalore for IT, and Chennai for manufacturing (automobiles); in China, Shanghai is known for finance, Hangzhou for technology and Guangzhou for manufacturing, which illustrates that cities can create important niches to distinguish themselves both internationally but also within their respective countries as they often take advantage of cheaper labor and land to differentiate themselves. Aspiring hubs may not catch up to established ones any time soon but they can carve out their niche to compete in certain areas on equal footing.

Five key takeaways for businesses

As cities strive to improve their regional (or even global) standing as centres of commerce, businesses continue to watch to determine their future investment and location decisions, in particular in emerging Asia as a source of growth. From a corporate perspective, there is at least one key takeaway to consider across the five identified areas of importance in making such decisions:

Area 1—Infrastructure: Moving forward, business hubs need to offer greater protectionary mechanisms against natural disasters, more effective local transportation options and better international connectivity in terms of travel and trade.

Area 2—Technology and innovation: Broadband infrastructure needs to be continuously upgraded to support the use

of advanced emerging ICTs and cities must have the foresight to invest in local R&D and innovation initiatives.

Area 3—Financial environment: Increase efforts to support a strong and stable local financing market and create an environment for niche products and services, including financial innovation.

Area 4—Regional collaborations: Improve collaboration with other cities across the region, particularly in terms of trade, and enhance their role in regional and global supply-chains.

Area 5—Human capital and liveability: Create innovative initiatives in order to offer access to top talent locally or attract foreign talent to relocate to the city.

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