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Southern Cities: Locomotives or Wagons of National Development

By Alvaro Comin and
Maria Carolina Vasconcelos Oliveira

Introduction

Development of information technologies and increasing economic integration between nations inspired and gave some plausibility to theses that space and location would lose relevance as “variables” in value chains. The idea of a horizontal, “plain world” where productive agents relate through networks and information flows is usually associated to loss of importance by Nation States and convergence between regions.

Although plausible, the “plain world” thesis¹ clashes with counterevidence forming a vast investigation ground about cities’ economic dynamics, specially “big cities”, metropolitan areas, city-regions, global cities – the nomenclature can be broad. The typical context of much of that debate is that of developed countries, the USA and Europe in the first place, followed by Japan; or New York, London and Paris, Saskia Sassen’s global cities². The top place is occupied by global cities, and there are lower variations of hierarchic models and classifications for lesser cities in wealthy countries and also in major cities in the so-called developing countries.

In the present article, we discuss the course of development of São Paulo, Brazil – the core city of one of the world’s largest metropolitan areas (now with over 19 million inhabitants or about 10% of the country’s population) and top city in Brazil for economic development. The aim is to add elements that help to better specify the dynamic of large urban centers in countries such as Brazil – of large size as well as more recent and uneven development – stressing aspects that are usually not highly valued in this debate, namely: a) connections between “regional” and “national” levels; b) the importance of taking into account region’s histories; and c) the distinct meaning that some changes associated to globalization have for developing countries.

In the following section, we shall summarize some historical aspects of São Paulo’s development, in an attempt to show how the high concentration of Brazil’s development in that region resulted from a combination of “local” elements, generated mainly after the late 19th century with encouragement and planning by the nation state after the same period. The importance of some national dynamics for the city’s development is underlined here.

In the third section, to examine recent changes the city’s economy is undergoing, we take some recurrent topics for the debate on the economy of major cities, namely: a) the sector-oriented nature of the region’s (industrial or post-industrial) economy; b) the extension of its agglomerating field (regional, national, or international); c) and its functions as a space for innovation and circulation of knowledge. The broad centrality of the region for the dynamism of Brazilian economy is underlined here.

Finally, in conclusion, we explore some of the ambivalences of urban hyperconcentration of development in countries such as Brazil, pointing out the fact that it solves (or mitigates) the problem of those countries’ lack of nobler assets (such as highly skilled workforce, networks of companies providing special services, density of financial institutions, universities etc.) but it also extends their strong regional inequalities and deepens the social-spatial segregation dynamics in those large metropolitan areas.

The nation and the city’s development

Differently from most European and Asian cities, which appeared long before the nation states they belong to, in Brazil as well as in nearly all the America, cities are the product of multiple migration processes. Massive use of African slave labor has left a deep mark (which remains today) on regional distribution of economic development and particularly on the make-up of urban labor markets, without which the process of capitalist change cannot take place.

Even though it was founded early during Portuguese colonization, in 1554, São Paulo remained a small trading post

of minor importance until the end of the 18th century. The activities that used to drive the interests of the Portuguese crown so far, especially sugar and precious metals, were located in different parts of the colony. Only with the expansion of coffee over lands that now make up the countryside of the state of São Paulo, the city grew in importance as a hub for trade and banking activities driven by the new and highly profitable crop. The region's development took place during Brazil's transition to being a free nation, which happened in 1822.

As it is widely known, in the 19th century, England embraced the abolition cause and started putting high pressure on American countries that maintained the institution of slavery even after they became independent. Brazil was one of the last countries to abolish slavery, but, since mid-19th century, slave trade to the country was banned. Therefore, coffee-based economy in the new exploration regions, located in the province of São Paulo, was less percolated by slavery and became an early center for massive foreign immigration. From the middle of the 19th century until the middle of the 20th century, Brazil (with São Paulo as the core destination) received successive waves of highly varied origin: Italians, Spaniards, Germans, Poles, Russians, Syrians and Lebanese, Jews, Japanese, Korean, to mention only the most numerous groups³. Not many people know it, but São Paulo has the highest amount of Japanese descendents in the world, after Japan, of course.

Therefore, as important as accumulation of capital from coffee exports – which was one of the elements to define the role of the city in the later industrialization process – the early formation of a free urban labor market was a decisive factor for the region and the city to become a center for the development of capitalist activities. Migration flows (especially from Italy and Spain) that settled in the city gave it a labor force including numerous workers already skilled in manual trades and having factory experience. Among them, those who were better off when they arrived formed the initial core of the industrial bourgeoisie and some built real business empires at their times. Those immigrants also brought to Brazil the experience of trade unionism, anarchism, socialism, and fascism. Later on, under the military regime (1964-1985), the region would also see the emergence of the substantial union protest movement that would influence the country's recent history. The major immigration waves are also to be credited with the "cosmopolitan" or multicultural air that the city sustains nowadays: no other city in Brazil displays such cultural diversity in its origins as São Paulo.

Wealth created by coffee (which accounted for two thirds of Brazil's export revenues in the first half of the 20th century) and lower dependence on slave labor placed São Paulo at the core of political power at the beginning of the republican period. Monarchy and slavery were two faces of the same coin. The end of slavery in 1888 took place over a year before the fall of the monarchy. Regional oligarchies whose power was based on slavery were sidelined and, under the hegemony of São Paulo's coffee oligarchies, the Brazilian State acted strongly to guarantee accumulation in that industry. At the peak of the Great Depression (1929), Brazil's government bought and burned huge amounts of coffee to sustain the profitability of businesses.

The 1930 Revolution, which to a large degree created contemporary Brazil, marks the beginning of the cycle of industrialization through import substitution. In order to enter the Second World War at the allied side, the government bargained with the US resources and technology to establish heavy industry. Many of the new investments were made in the São Paulo area (including infrastructure, such as transports, telecommunications, and energy), where industries such as steel, oil refining, and petrochemicals were implanted. From the 1950s on, when a long cycle of fast growth started in Brazil's economy (in the 1970s the industry grew at rates above 10% a year), São Paulo's metropolitan area was chosen to receive the automobile complex that was one of the motive powers of that growth cycle. Other important industrial complexes, such as metal-mechanic, electro-electronics, plastics and capital assets, for instance, also tended to concentrate strongly in the region, since a broad segment of specialized providers was being established there, as well as skilled industrial labor, financial institutions, and the most important port in the country located nearby, in Santos, about one hour from the state capital. Therefore, between the 50s and 70s, São Paulo's metropolitan area accounted alone for over half of the country's industrial product. Since Brazil's industrialization model was highly sustained by multinational capital, business environment in the city was transformed by the presence of major industrial conglomerates, chiefly American, German, Italian, French, and Japanese. That certainly contributed to give the city a business environment that was much more cosmopolitan than the rest of the country.

As can be imagined, the city and its surroundings became a center attracting migrants from all over Brazil, and it resulted in an exponential growth for the city. From 1950 to 2000, Brazil underwent its demographic revolution

(fertility rate fell from 5.9 to 1.3 children per woman) and it became a urban country (urban population went from 36% to 81%). The big change was even stronger in São Paulo. Along that half century, the country's population trebled, that of the state of São Paulo increased fourfold and São Paulo city grew five times, from little over 2 million inhabitants in 1950 to more than 10 million in 2000. The process, however, has already been reversed and now the city is on its way to stabilizing its population. Several factors contributed to that: reduction in migration flows and their redirecting to other regions of more recent development; high cost of living and soaring land prices; lower demand for unskilled labor. The city now grows slowly and tends to expel lower-income populations to its outskirts, thus creating a new sort of spatial segregation of poverty.

This historical digression shows that São Paulo is presently a reasonably cosmopolitan and internationalized urban hub, concentrating industries that are more capital- and knowledge-intensive, because the country as a whole channeled much of its development to the region. In a pattern that is more or less typical of developing countries, urban hyperconcentration serves the imperative of regionally concentrating nationally scarce resources such as capital for productive investments, social services, and more advanced education and research institutions. It can be said that the hyperconcentration strategy has "worked" since the country got to take the leap, becoming one of the world's 10 largest economies – but at the cost of regional and social inequalities that are proverbial in the world.

The city and national development

These city-regions are locomotives of the national economies within which they are situated, in that they are the sites of dense masses of interrelated economic activities that also typically have high levels of productivity by reason of their jointly-generated agglomeration economies and their innovative potentials. In many advanced countries, evidence shows that major metropolitan areas are growing faster than other areas of the national territory, even in those countries where, for a time in the 1970s, there appeared to be a turn toward a dominant pattern of non-metropolitan growth. In less-developed countries, too, such as Brazil, China, India and South Korea, the effects of agglomeration on productivity are strongly apparent, and economic growth typically proceeds at an especially rapid rate in the large metropolitan regions of those

countries. The same metropolitan regions are at once the most important foci of national growth and the places where export-oriented industrialization is most apt to occur. (SCOTT & STORPER 2003, p. 581).

The passage above brings important aspects that should be underscored, notably the idea that city-regions are not floating in the world; they are embedded in national territories. Important authors such as Manuel Castells (1999) embrace the idea that the rise of information technologies and economic globalization would imply the decline of nation-states and lead to a world similar to a constellation of nodes, in a cities network. That controversy is much broader than the debate on cities and it cannot be developed here, but the major crisis of 2008 reminds all of us how much national states are still the backbones of global economy. Financial businesses (and financial capital is always pointed out as the fastest-flowing and most de-territorialized form of capital) were rescued by their respective national states. And the fact that people in England and the Netherlands were hit by the bankruptcy of a major financial institution from Iceland led the government of those countries to rescue their citizens and demand compensation for lost funds from the government of the small Nordic country. Today, it seems clear that the funeral of nation states, so boasted in the 1990s, was premature.

Three aspects deserve attention for being closely related to the role of large cities in developing countries. They are: a) the importance of manufacturing industry; b) the extension of the gravity radius of those cities; and c) their role in innovation and production increment processes. We will return to the problem of relations between regional and national in conclusions.

a. A post-industrial city?

Post-industrialist theses are not new and have several different versions, but they basically converge on the idea that today's highly informational, technology-intensive development designs cities for economies based on the creation and circulation of immaterial goods, with manufacturing process losing importance. That trend finds its zenith in large cities. Of course, authors such as Castells (1999) and Sassen (2001, 2006) know perfectly well that the decline of manufactures – especially those that are more characteristic of the Industrial Revolution – in highly wealthy countries, mainly in Europe, have a counterpart in the huge industrialization process experienced by developing countries in recent decades. Seen from the "South",

what is going on seems to be more a major industrial revolution than the emergence of an essentially tertiary post-industrial economy. Not that the so-called “new economy” does not develop itself in those countries – there are several good examples to the contrary – but it does not replace the crucial role that manufacturing industry plays and will continue playing in nations of more recent development. However, that did not prevent the academic field, common sense view, and – which is more serious – policymakers from associating “modern” metropolis and tertiary industries. That happened in Brazil. Let us see, then, how the recent history of the city of São Paulo illuminates that controversy.

As has been exposed in Section 2, São Paulo was the epicenter of Brazil’s industrialization process in the first decades of the 20th century. In the mid-1950s, its metropolitan area concentrated over 50% of the country’s industrial production, with less than 10% of its population. From the 1970s on, induced by the federal government, a process of relative deconcentration started in the manufacturing industry, parallel to the expansion of new development frontiers towards the Midwestern and Northern regions of the country. Even so, the state of São Paulo (of which the city is capital) still concentrates the same 50% of Brazil’s industrial production that used to be gathered only in its metropolitan area, since areas adjacent to the metropolitan area were those where manufacturing industry advanced the most. A 150-km radius from the centre of the city includes about 40% of the nation’s industrial production, revealing that new industrial investments, which started avoiding the city as well as its metropolitan surroundings after the 70s, were still attracted by the area where several large companies, especially multinationals, had their corporate headquarters. That is why several Brazilian experts have been talking about the formation of São Paulo’s macrometropolis, a conurbation of nearly 30 million people including four metropolitan areas adjacent to São Paulo’s, where several sorts of industry are concentrated, from the most traditional to highly innovative ones.

Table 1 shows the changes in the makeup of São Paulo’s economic sectors between 1997 and 2005. Even though the relative weight of the manufacturing industry decreased in the period, the segment still accounts for over 10% of businesses, especially considering that it displays high rates of formal labor and wages above market average.

It is worth pointing out that the Brazilian debate on changes in the economy of São Paulo (of its metropolitan

area, in fact) was strongly tied to the manufacturing industry versus service industry disjunctive, mainly influenced by international literature, as if those two fields were not pervaded by one another. The fact is that changes in businesses’ organizational models (de-verticalization, mergers and acquisitions, local and global outsourcing) and the emergence of countless new products and services that are not dissociable – such as computer hardware and software – make the attempt to treat manufacturing industries and service industries as static increasingly mistaken⁴. Therefore, a more appropriate classification seems to be that which, instead of separating manufactures and services, distinguishes them in terms of the knowledge and technology they involve⁵.

Examining São Paulo’s productive structure in this way shows that manufacturing industry is less a process of exhaustion than an intense movement of reorganization. There is an increase in the number of highly technology-intensive industries and a decrease in less technology-intensive ones. A similar movement takes place in the service industry: the more sophisticated or more intensive ones in terms of knowledge (telecommunications, computers, financial activities, advertisement, media) – are the ones displaying the highest growth in the city, adding to the dynamism of remaining manufacturing industries instead of merely replacing them.

Therefore, São Paulo’s (and that possibly applies to cities such as Mumbai, Shanghai or Seoul⁶) current development is not a case of transition from an industrial to a post-industrial or tertiary structure, but rather the accumulation of functions. It plays that role because it enormously concentrates the national assets that are very relevant both to manufacturing and service industries. This point is quite important regarding the problem of internal inequalities in those countries.

b. A command city

Saskia Sassen (2001) defines global cities (New York, London and Tokyo) as centers for command and articulation of production systems worldwide. The fact that directly productive activities have spread over the developing world in search of lower costs and new consumer markets is one of the justifications for the trend to concentrate the functions of articulation and command in large cities with advanced infrastructure in finance, telecommunications, trade, and business services in general. Reduced to national or regional scale, several major cities play a similar

Table 1: Establishment, employment and wage mass according to major industries MSP, 1997 and 2005*

Industry	1997					2005				
	Establishment		Employment		Mass	Establishment		Employment		Mass
	Abs	%	Abs	%	%	Abs	%	Abs	%	%
Transformation Industry	74.286	14,0	549.050	22,4	23,7	80.314	11,8	459.761	16,3	18,4
Service Industry	219.241	41,2	1.250.324	51,0	57,8	277.766	40,7	1.578.478	55,9	61,1
Trade	216.020	40,6	470.691	19,2	13,4	302.147	44,3	641.834	22,7	16,7
Construction	22.463	4,2	179.471	7,3	5,2	21.689	3,2	143.174	5,1	3,8
Total	532.010	100,0	2.449.536	100,0	100,0	681.916	100,0	2.823.247	100,0	100,0

*in Real on 12/2006. Inflator: INPC/IBGE Source: RAIS/TEM By CEBRAP

role. According to Duranton and Puga (2005), those cities transit from a pattern of “sector specialization” (agglomeration of manufacturing chains), to a pattern of “functional specialization”, based on command and support activities, which “serve” the several production chains that are no longer located in their own territory.

The nationwide economic relevance of São Paulo is usually measured by its weight in national product: the city accounts for about 12.5% of Brazil's GDP (with 5% of the population). Its relative decline due to growth in other regions induces a false image of loss of importance. The “functional” importance of the city as a command and articulation center of Brazil's regional economies, shows an enlargement of its gravitation area, not only in strictly productive terms, but also as a center for shopping and leisure, specialized medical services, and as a core gateway for foreign relations.

The changes in the city's productive structure pointed out in the previous section is consistent with the strong influence of the city, especially towards the new frontiers for expansion of Brazil's economy, in the Midwestern and Northern regions, thousand of kilometers away. According to the study “The influence regions of cities – 2007”, conducted by the Brazilian Institute for Geography and Statistics, IBGE, the network of cities whose core economic connection is São Paulo includes 1,028 towns that, together, concentrate 28% of Brazil's population (51 million inhabitants spread over 2.3 million sq kilometers – over a third of the country's territory) and 40.5% of its GDP, reflecting the more than proportional concentration of that regional aggregate. Within its influence area the city of São Paulo stands out with a per capita gross product that is 66% higher: 21.6 thousand reais⁷ compared to 14.2 thousand for the other towns in the group. For a comparison, the second most important economic center – Rio de

Janeiro – influences 264 towns with little over 20 million inhabitants (11.3% of Brazil's population), which, together, accounted for 14.4% of the national GDP, in 2005. And, in that case, the difference between the income in the center (Rio de Janeiro, with 15 thousand reais) and the other towns (14.8 thousand) is only residual.

Besides, of the 1,124 largest companies operating in Brazil, 365 are located in the city of São Paulo (420 in the whole estate), reinforcing the idea that changes in the city's production structure include thickening of command functions for business activities. Among the 50 largest financial institutions (in total assets), according to Brazil's Central Bank, 32 are located in the city, showing its major role as a financial center (especially in the private sector).

c. The city as an environment for creativity and knowledge

Big cities are different not only for being big, but also because they are particularly prone to developing production activities based on knowledge and creativity. Literature points out some reasons for the association between urban environments and knowledge circulation, and a large part of them is related to the main input of chains based on those assets: labor. Even though it is argued that such industries might generate jobs for different profiles of workers, it is generally agreed that skilled workers are mostly needed in those industries. Activities involving innovation of any nature depend on proximity – not only spatial but also cognitive, organizational, and cultural⁸ – and fluidity of interactions within those professional networks. The more recent the processes involved are, the more they spend on face-to-face contacts and specific social networks⁹.

Major urban concentrations are, by and large, reservoirs of those workers, not only because they tend to prefer denser and more diversified spaces in terms of job offers (where they can earn more and remain part of specialized social networks), but also due to other advantages provided by large cities (more sophisticated consumption, culture and leisure equipments, health services, good quality schools for their children etc.)¹⁰. It is true that, for historical reasons (specially high income concentration and urban planning), São Paulo is far from entering the list of Brazil's best places to live; the city is challenged by chronic traffic jams, pollution, floods, and high crime rates. But it is certainly the job market with the broadest and best paid career opportunities for skilled workers.

São Paulo concentrates a substantial part of the country's infrastructure. Of all college graduates in Brazil in 2004, 30% were in the state of São Paulo and 12% in its capital. Between 1996 and 2003, 15,711 people received PhD degrees, over 60% of the country's total, about half of which were in the city of São Paulo. The city hosts the largest university in the country, which is also the leading Brazilian institution in international scientific production indicators. In this item, measured by articles published on internationally indexed journals, Brazil's history in recent decades is highly positive: the country jumped from 0.2% of the world's production in 1980 to 1.5% in the current decade. Nothing less than half that production comes from the state – 25% only at the University of São Paulo (USP), whose largest campus is located in the capital.

The city of São Paulo has numerous highly complex health equipments, which draw patients not only from all over Brazil but also from neighboring countries. It also has the most varied offer of cultural and leisure services in the country – 319 movie theaters, 110 museums, and 160 theaters¹¹. It is a major consumption center that gathers from world brands to shopping centers such as that at 25 de Março Street, where over 800 thousand people circulate every day, drawing retailers from the whole country and an increasing number of neighbors from South America and even African countries. Few people would describe São Paulo as “beautiful” or “pleasant”, but in spite of that, it is by far the largest tourism destination in Brazil, especially because of business tourism.

Conclusions

Because it concentrates, in a very disproportional way, several modern assets, in many aspects São Paulo is close to the profile prescribed in literature for cities that command and feed large economies with innovation. But it is important not to underestimate the negative effects of hyperconcentration or overestimate the positive effects that the density of those factors might create. The limits for the city's development are still dictated strictly by the pace of Brazil's economy, by federal government's policies, and by the dynamism of new frontiers for the country's growth. In other words, São Paulo's gravitational reach is still essentially national, and it tends to expand also through South America as regional integration gains ground. But that limitation is not due to its productive or urban characteristics, but rather to the still restricted degree of internationalization of Brazilian economy.

Urban chaos in metropolis such as São Paulo points out the limits of the hyperconcentrated development model, which characterizes the past and present history of most developing countries. In countries such as Brazil, in a foreseeable future, unfortunately, the best places to study, work, and do business are not the best places to live, if by living we understand having space, pure air and green areas. More than that, those cities summarize very well the developing processes generating extreme inequalities that are quite difficult to revert – well exemplified by Brazilian experience, even with recent progresses.

The current cycle of Brazilian economy has a clear deconcentrating bent, since the poorer or less developed regions are precisely those which grow faster. But given the accumulation of inequalities already established among the country's regions, decades would be needed for convergence in development levels. The poorest regions include the Northeast, which, for historical reasons, sustains closer relations with Rio de Janeiro. More recent developing areas, in the Midwest and the Amazon more to the North, whose growth is driven by export industries (such as soybean, cattle, and minerals), have stronger links to São Paulo. It is forcible to realize that something is symptomatic in a country where individuals must travel thousands of kilometers (by highly precarious or highly expensive means) to have access to a specialized health treatment, a good university or simply to purchase electronic products or watch a theater play. The other side of cosmopolitanism and vibrant life seen in São Paulo (and in some other Brazilian cities such as Rio de Janeiro, Belo Horizonte, and

Porto Alegre) is still the poverty and lack of opportunities that mark urban environment in a large number of Brazilian cities.

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Endnotes

1Friedman (2005). For a critique of that theory, see: Rodríguez-Pose and Crescenzi (2008).

2Sassen (2001, 2006). See also: Scott (2001), Beaverstock et al (1999, 2000). For the globalizing cities in the south debate, see Segbers et al (2007), Yusuf and Nabeshima (2006).

3Nowadays, the city is still a hub for immigration, now mainly of South-Americans, Africans, and Chinese.

4São Paulo is still a major center for the textile and clothing industry, for instance, but it can be said that its structure changed to remain in the city, with the progressive replacement of factory sewing by home sewing, quite probably because the industry finds there not only abundant skilled labor, but also intangible inputs related to design and cultural diversity. On the other hand, services industries, such as call centers, and trade, such as storage facilities of major retail chains, increasingly take on "industrial" dimensions in terms of space, labor intensiveness and management forms.

5See Torres-Freire, Abdall and Bessa (forthcoming).

6Yusuf and Nabeshima (2006) report that, in East Asia, services with fastest-growing job rates are increasingly concentrated in major cities (as educational, informational, health, leisure and business services). For instance, over half of Japan's jobs in research and advertisement are in Tokyo – a proportion that is even higher in cities like Seoul and Taipei. On the other hand, most capital-intensive industrial activities also remains in those centers, and there is even space for some not very competitive activities, although, on average, the whole of those activities tends to be displaced to other areas. That is to say, what is seen is more a qualitative change in the productive structure of those large centers.

7The currency exchange rate is: R\$ 1.00 = US\$ 0,54 (Brazilian Central Bank, February 2010).

8For an exciting discussion on the several dimensions of "proximity" involved in the analysis of innovation processes, see Boschma (2005).

9Brazil has the fourth place among emerging countries in terms of global R&D investments, behind China and South Korea, which spend three times more money in those activities in absolute terms, and Taiwan (small Chinese province with little over 20 million inhabitants), which invests 50% more. But it is ahead of countries such as India, Russia, and Mexico. When only R&D investments by businesses are taken into account, Brazil falls to fifth place (behind Russia), but much behind the leaders South Korea and China (UNCTAD, 2005).

10See Markusen (2006), Markusen and Schrock (2006).

11SP Turis, 2008.

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