Policy issues in the urban South[1]

MANIE GEYER*
Urban and Regional Planning,
University of Potchefstroom,
Potchefstroom, RSA

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ABSTRACT

The process of globalisation has gone through different phases of evolution since the 1960s and has affected different parts of the South differently during each phase. This paper starts with characteristics of the current phase of global regionalization and how it impacts economically on different parts of the developing world. It explains what advantages and disadvantages the neo-liberal economic development approach hold for the South and how different parts of the South are responding to them. It shows what challenges the lagging South face in its quest to reconnect to the global economy. The paper then moves on to the concept of sustainable urban development and how the market could be made more accessible to large parts of the lagging urban South within the framework of sustainable development. It analyses the current structure of the informal urban economic sector and demonstrates how vertical integration could be achieved between the formal and informal urban economic sectors in the urban South. Finally it looks at different models of sustainable urban development and what consequences each holds for economic development in the urban South.

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INTRODUCTION

When one seriously considers the development trends in the urban South it is hard to find areas in which one could generalise because of the area's great economic, social and cultural diversity. Consequently, this chapter will begin by looking at the impact that globalisation had on the economic conditions in the South. It identifies economic factors that have led to the phenomenon of global regionalization and the different roles regions in the South have been playing in global core-peripheral economic relationships over the past two decades. It classifies developing countries into four groups and shows how global federalism has impacted on the way in which developing economies have been moulded over the past three decades. Matters that will be addressed in this part of the chapter include: regional economics, global competition in the developing world and demographic trends. It will go on to discuss the impact of these factors on divisions of labour in the South and on migration trends.

Looking at the urban South against the backdrop of global economic trends, the chapter secondly deals with the concept of economic growth and the limitations posed by human capital in the developing world on economic sustainability, environmental sustainable development and sustainable urbanization. The chapter looks at how the market principle has to be adapted to tie in with current economic structures of the urban South. It analyses the informal urban economic structure in the developing world and shows how elements of it can be reconciled with the traditional formal urban economic sector in the urban South. Finally, it discusses different approaches to urban sustainability and ways in which urban development policies in the South can be reconciled with current options in urban sustainability.

THE SOUTH IN GLOBAL TERMS

Changing global divisions of labour

Generally, globalisation is associated with the relative ease with which goods and information cross international boundary lines across the globe. It integrates economies around the world and reduces social differences between nations. The instantaneous transmission of images and information to once secluded corners of the globe causes the world to 'shrink'. A global localism is being created, and as a result, local views and behaviour are being influenced by people's perceptions and behaviour elsewhere in the world (Cyr, 2001; Allen and Thompson, 1997; Harvey, 1989; Giddens, 1990). The apparent decreasing differences in tastes and needs between nations increase market sizes and the interdependence between countries. Although elements of globalisation or the extent of its impact have been questioned before (Beinart, 1997; Douglas and Wind, 1987), globalisation is by and large being regarded as a growing force in the development of economies all over the world. The corporate world plays a key role in driving the process. There is a rapid growth in offshore financial markets, an explosion in mergers and acquisitions, nationally and internationally, and all the time corporations are becoming less dependent on one nation's economy alone (Emmerij, 1992).

In the process the fragmented global economy of the cold war era is being replaced by a rapidly integrating global economy. However, social and cultural differences between nations remain a limiting factor. While global differences are often drawn in spatial-economic terms, the divide in social-cultural terms has become more marked in certain circles in recent years (Breathnach, 2000; Smith, 1995). According to some, large parts of the developing world have been, and are still being disadvantaged by the process of globalization (Amin, 2001). Resistance is consequently growing against the social, religious and economic influences of the West, particularly amongst Muslim and African nations. Parts of the Muslin world visibly resist the growing global homogenisation, while sections of Africa accentuate the continent's need to find its own 'auto-centeredness', its own cultural version of an African 'renaissance' (Geyer, 2002; Tsheola, 2002; Sihlongonyane, 2001; Kaya, 2001).

In the original global division of labour, manufacturing was concentrated in the core regions of the world while the periphery was lagging behind. Up until the 1960s, core-peripheral relationships were largely exploitative – the North providing manufactured products to the South in exchange for primary products. Towards the end of the 1960s globalization entered a new phase. During this period of regional restructuring economic changes were brought about by global shifts in manufacturing. While the North maintained an advanced form of global corporate dominance (Graham, et al., 1988), production processes were selectively moved from high labour cost core areas to low-wage countries with quality labour and good infrastructure (Frobel et al., 1980; O'Loughlin, 1989). This resulted in a new international division of labour, the dispersion of production processes from core areas to what Wallerstein (1974) calls semi-peripheral areas, causing the replication of core labour markets in such peripheral regions (Sassen, 1991). In the process the global economic space was transformed, from the original First, Second and Third World divide to one where distinct areas of growth in the Third World can be distinguished from the lagging Third World.

Since the 1990s, the world has witnessed yet another wave of spatial economic changes. After the demise of the Soviet Block, a new arrangement of political economic associations evolved. The mixture of post- and neo-colonial relationships that were forged during the 1960s, which resulted in what appeared to be a fragmented arrangement of economic relationships between core and peripheral regions (Poon, 1997), are now becoming a more organized arrangement of economic super blocks. On the one hand there are the more-or-less clearly defined core-peripheral divisions of the Pacific Rim centring around Japan, the Americas around the United States, and Central and Western Europe around the Anglo-Franco-German core (Emmerij, 1992; Vernon, 1996; Lipietz, 1997). On the other hand, a new underlying strategic residual force seems to be emerging, causing (members of) the Russian Federation, the Middle East/North African bloc and Central Asia, to be slowly gravitating towards one another. Links between the potential members of this emerging block are still tentative, very loose and unstructured. Some associations are of a historic political, religious, and/or cultural nature, others are based on similar resources and natural conditions, and others on strategic global geo-political interests. In the process a new global division is being created. It consists of: (i) the core regions in the North that contain most of the head quarters of enterprises with a global reach, (ii) the inner periphery consisting of the newly industrialized countries of South East Asia and the 'near-industrialized' or 'transitional' economies of Central and Eastern Europe, Latin America, and China, and (iii) the outer periphery. The latter, which consists of 'middle and low' income countries (Arnold, 1997) can be loosely subdivided into three groups: (i) Third World countries such as South Africa and Botswana, (ii) Fourth World countries such as Ghana, Tanzania, Zambia, and Uganda, and (iii) the Fifth World countries such as Liberia, Somalia, Sudan, Zaire, and

Zimbabwe. The latter are symbols of political-economic, demographic, social, and environmental stress, over population, crime, and the erosion of borders (Shaw, 1994).

Policies that caused economic change

The current phenomenon of global regionalization has been brought about by a whole sequence of fundamental policy changes in the developed world over the post-Second World War period. First, the financial control structures that were brought about by the Great Depression of the 1930s and the Second World War were beginning to be dismantled during the late-1960s and 1970s. In the process capital became increasingly liberated while the First World cities lost their manufacturing industries. New York lost 35 per cent of its manufacturing employment in the 1970s and London around two-thirds over a slightly longer period (Harris, 1995). Increasingly, transnational companies started to locate in what is now known as 'newly industrializing countries' because production costs were lower there and the investment climate in those countries was more accommodating (Chan, 1996). This was a period characterised by a change in the structure of industry, from monopoly capitalism to flexible accumulation, and from a nation-state focus to a transnational focus in capitalism (Robinson, 1996; O'Loughlin, 1989). Locally, privatisation of public institutions started to gain popularity, but it was only during the 1980s that the process really gained momentum.

In response to the recessions of the early- and late-1970s the developing world resorted to protectionism in order to protect its local businesses. In their drive towards greater financial independence from colonial powers, many developing nations resorted to policies of subsidised and uncompetitive import substitution. In a climate of protectionism some domestic industries flourished, many of them operating at well below minimum efficient scale. State controlled regulation and planning became a regular feature in those economies. As a result of insufficient monitoring measures and control, debt in the developing world escalated (Roberts, 1978). Although the increasing number of debt reschedulings over the past twenty years (Callaghy, 1997) shows that debt is still a major inhibiting economic factor in the developing world, some of these countries have started to reverse their protectionist policies since the late-1980s. They are now beginning to turn to more liberal policies of less government control and market driven economies focussed on the promotion of export industries (Bhagwati, 1997; Black and Mitchell, 2002; Harris, 1995). According to Kim (2001) this is a clear indication of the reality of global 'economic' and 'political determinism'.

The impact of foreign direct investment

The flow of foreign direct investment (FDI) is a very commonly used parameter for the measurement of economic relations between nations. FDI is usually affected by the political and institutional stability, and demand, supply and cost conditions in a country. Due to less favourable trade-offs between the potential returns on investments and direct and indirect cost factors such as restricting tax, tariff, quota and surcharge structures, developing countries are generally not as popular as investment destinations, as the developed world. It is therefore not surprising that, for many years, more FDI has been flowing to the North than to the South, and that the proportion that has flowed to the North has been increasing relative to the South (Cyr, 2001; Allen and Thompson, 1997). In 1967, 67 per cent of the world's FDI stock was located in the North, a percentage that has increased to 81 by 1991. By the beginning of the 1990s the FDI stock in the US alone exceeded that of the entire developing world, while the stock in the UK exceeded that of Asia (Koechlin, 1995). Since the latter part of the 1990s the situation has changed somewhat, however. During the period, overseas development assistance (ODA) for the South stood at around $50-55 billion, while FDI increased from $25 billion to around $200 billion (Holliday, et al. 2002). In 1997 the developing world received approximately 42 per cent of all FDI (Loots, 2002). Most of it has been flowing to the Pacific Rim, Central Europe and Central and South America, however, which makes FDI regionally biased, and 'invested interests' and 'cooperating competition' important factors in globalisation.

Part of the reason why most FDI still flows to the developed world while the bulk of the remainder flows to a relatively small selection of developing countries in the inner periphery is because comparative advantages remain a major factor in international trade (Poon, 1997). Contrary to the past when comparative advantages were largely interpreted in terms of the availability of natural endowments at a particular location, it is increasingly becoming a strategically constructed phenomenon through industrial targeting and networking (Vernon, 1996). Transaction costs are another restricting factor in the dissemination of goods and services, despite decreasing friction of distance, especially in the exchange of information. It is still in the interest of transactors to move to areas where agglomeration advantages exist (Parr, 2002) and where incidents of transactions are globally higher (Storper and Scott, 1995) while transportation costs are kept low. Intra-industry trade, i.e. the internalising of markets trough vertical integration, is the third important factor that contributes to DFI convergence. A fourth factor is the concentration of high quality labour in the North and in parts of the South. The current high performance global economy requires high order thinking skills and the North and the Pacific Rim have been able to attract significant amounts of FDI because they have invested massively in education over many years. This has boosted their economic performances, while the inward looking economic policies of (especially) Sub-Saharan Africa and its low quality of labour have made it a high risk area for investment (Marshal, 1995). Africa's share in the world population, for instance, increased from around 9.7 per cent in 1970 to almost 13 per cent in 2000, its GDP declined from around 3.4 to 2.3 per cent, its exports from a little under 5 to 2 per cent, and its FDI from 5.75 to 1 per cent over the same period (OECD, 2002). This is a clear indication how disconnected Africa has become from the rest of the world economy over the years.

However, the importance of FDI as a development factor should not be overestimated. In reality it usually only forms a relatively small percentage of domestic investment in developed countries, i.e. around 5 per cent from 1960 to 1991 (Koechlin, 1995). Also, FDI as a percentage of local investment overall does not seem to be increasing dramatically over time. According to Bairoch (Beinart, 1997), as a percentage of GDP, FDI of the developed world in 1914 and 1993 was roughly on the same level, i.e. approximately 11 per cent, while FDI inflows of the world as a whole stood at 2.2 per cent in 1998 (World Bank, 2000).

Mega cities of the South

As a result of the economic changes that have occurred across the globe over the past five decades, major shifts in global urbanisation have also occurred over the period. In the early 1950s New York City, London and Tokyo had populations of around 8 million at the time, while the populations of large cities in the South such as Buenos Aires, Sâo Paulo, Mexico City, and Cairo varied between 1.5 and 5 million (Merriam, 1962). Since then, the world's gravity point in mega city development has shifted dramatically towards the developing world. In 1984, thirty-four cities had populations greater than five million, only nine of them were cities in the developed world (Fox, 1984). Of all the people who lived in cities with populations greater than 5 million in 1950, more than 50 per cent were Europeans and Americans. Today, less than a quarter of the people in such cities are from those regions, and it is expected that this percentage will decrease to around 10 per cent over the next decade. South America and Asia, especially India, China and parts of the Pacific Rim are all experiencing urban explosions, and based on the current low levels of urbanization in low-income countries, especially Africa (see Tables 1 and 2) there is a great potential that this explosion of the urban South could continue well into the twenty first century.

Table 1 Population and urban growth in Africa

	Total pop(mil.) 1980(1990)2000	Av/ann/grwth % of total 80(90)2000	Urban pop % of total 80(90)2000	Av/ann/grwth % of urban 80(90)2000
Sub-Sahara	380.7(508.3)659.8	2.9(2.9)2.7	23.0(28.1)34.5	5.0(5.0)4.8
North	88.4(114.1)138.0	2.6(2.6)2.0	44.6(49.2)53.9	3.5(3.6)2.9
All	469.1(622.4)797.8	2.8(2.9)2.6	27.1(32.0)37.9	4.5(4.6)4.3

(World Bank, 2002)

Table 2 Urban population growth in global regions

Countries	Pop 1980 (mil.)	Pop 1998 (mil.)	Pop Growth 80-98(98-2015)	Urban Pop % of total 70(80)98	% Pop in prim city 80(95)	% Pop in cities>1m. 80(95)15
Low income	2,527	3,536	1.9(1.3)	18(22)30	13(13)	7(10)13
Middle income	1,114	1,474	1.6(1.0)	49(56)65	22(21)	18(22)24
High income	789	886	0.6(0.3)	73(75)77	17(17)	30(32)33
E Asia/Pacific	1,398	1,817	1.5(0.8)	19(22)34	12(9)	9(12)15
C/E Eur C Asia	426	475	0.6(0.1)	52(59)66	15(15)	14(16)18
L Amr. / Carib	360	502	1.8(1.3)	57(65)75	27(25)	24(28)28
N Afr / M East	174	286	2.8(1.8)	41(48)57	31(27)	17(21)24
S Asia	903	1,305	2.0(1.5)	19(22)28	9(11)	6(10)13
S-Sahara	381	627	2.8(2.2)	19(23)33	28(29)	5(8)12

(World Bank, 2000)

However, the economic growth in the South had not been nearly as dramatic as the population shift over the same period. Low-income economies are still largely agricultural driven and their per capita income have remained low (Table 3). In fact, apart from cities that are very well endowed by natural resources, such as cities near oil fields in the Middle East, only the economies of a relatively small number of cities in the Pacific Rim have shown significant progress since the 1970s – mostly as a result of the world-wide shift in post-Fordist manufacturing. In recent years, however, more DFI has been flowing from developed countries to developing countries nearby them than before. In the process, countries in the Pacific Rim are now becoming stronger spatio-economically associated with Japan, Central Europe with Western Europe, and Central America with the USA. Mega cities in the Pacific Rim that form part of the 'flying geese', manage to attract industries that are no longer viable in the South East Asian urban core (Marcotullio, 2001), while cities such as Mexico and those to the north of it benefited significantly from NAFTA. Cities in the global outer periphery has been lagging behind ever since.

Table 3 Size of the economies of global regions

Countries('98)	**GNP 1998 (Bn$)**	**97-8 % ($)**	**GNP/c 1998**	**97-8 %**	**GPP 1998 ($)**	**GNP/c % of labour 70(90)**	**Agri-labour Trade % of GDP 70(98)**
Low income	1,842	3.5	520	1.8	2,170	75(68)	12(46)
Middle income	4,401	-0.1	2,990	-1.3	5,990	40(28)	30(56)
High income	22,592	1.4	25,480	0.9	23,420	11(5)	29(44)
E Asia/Pacific	1,802	-1.5	990	-2.6	3,280	76(68)	24(75)
C/E Eur C Asia	1,044	-0.4	2,200	-0.5	5,510	33(23)	--(71)
L Amr. / Carib	1,933	2.1	3,860	0.5	6,340	41(25)	20(32)
N Afr / M East	581	3.7	2,030	1.6	4,630	50(35)	--(53)
S Asia	560	5.7	430	3.7	1,940	71(63)	12(29)
S-Sahara	323	2.2	510	-0.4	1,440	78(68)	47(59)

(World Bank, 2000)

For this reason the mega cities of the South play significantly different roles as global players compared to mega cities in the North. Global and world cities in the North serve as apexes in the networks of urban systems in the globalizing economy, while cities in the South are facing significant disadvantages. The distinguishing trademark of global cities is their ability to attract skilled labour and high value-added activities with a global reach. They are globally recognised nodes of creative thinking, innovation, information, fashion and culture, which provide specialized expertise and services and house multinational companies and substantial sources of investment capital. They act as the 'command and control centres' of the global economy (Sassen 1991; 1997; Knox, 1994; Beaverstock, et al., 1999). Despite attempts to find a more comprehensive theoretical framework for the understanding of the concept of global cities, such as understanding it in the context of larger networks of globalized urban centres (Smith and Timberlake, 1995; Jones, 2002, Geyer, 1998) global cities continue to be distinguished from other centres in terms of the number of command and control functions that are located in them. As a consequence, mega cities in the South and North are often analysed on equal terms.

There are several reasons why this approach to mega city research is inappropriate for mega city analysis in the South (Geyer, 2003). One is the fact that the spotlight falls mainly on the impact of the global reach of technologically sophisticated multinationals, the number of Furtune 500-firms located in mega cities, and the amount of FDI that is attracted by them. In the process a wide range of issues related to the impact of globalization on layers of less economic sophistication in such cities tends to be blurred out. An economic picture is portrayed in which the 'techno-literati' of the world (Golding, 1996) take centre-stage in an exclusive economic environment, while a large percentage of the 'techno-illiterati' that live in the 'information-ghettos' of the world (cities) is being marginalized. Globalisation not only impacts directly on the survival of the lagging economies of the inner and outer peripheral regions of the world, it also impacts directly on the marginal sector inside mega cities (Friedmann and Wolff, 1982; Graham, 1999; Graham and Marvin, 1996; Warf, 2000; Geyer, 2002). Just as the global competitiveness of global core regions leads to an increase in global underdevelopment in certain global peripheral regions at the macro scale, globalisation also tends to cause an increase in inequality and polarization at the micro urban scale, both in the developed and developing world. According to Sassen (1991) it causes a middle-classlessness in those societies, the proliferation of highly skilled professions followed by the 'casualization' and 'informalization' of a wide range of other economic activities. This leads to hourglass-shaped urban economies in the North (Hamnett, 1996) and pear-shaped mega city economies in the South.

Considering differences in the cityness of cities in advanced countries in the West compared to those in advanced and developing countries outside the West, the question should be asked how universally acceptable the application of Western definitions of cities are outside the West (King, 1997; Robinson, 2002). Based upon this, the question could further be asked how applicable global city rosters are when they are compiled in terms of narrowly selected ranges of criteria. Linked to this, difficulties arise when global city rosters are compiled while disregarding the fact that global cities in advanced countries are by and large embedded in larger core regions of equal if not greater cumulative global significance. These cities and extensive urbanised regions around them have become spatially integrated to such an extent, that, what holds true for individual global cities in terms of capital accumulation and access to markets and resources globally, also holds true for the urban networks around them. In contrast, stand-alone mega cities (some of them emerging global cities) in developing countries are often embedded in economically less developed areas with comparatively scarce infrastructure and skilled labour (Geyer, 1998). These areas are unable to provide significant support to the modern economic activities that are clustered in the mega cities. As a result they cause a steep decline in global significance with increasing distance from the apex of such emerging global cities in contrast to global cities in global core regions that enjoy significant economic support from associated urban agglomerations in their vicinity.

From an international development perspective, core regions in the North are not the only areas that are advantaged by international economic forces of cumulative causation. Emerging global cities in the South present similar advantages to prospective multi-national developers, albeit at lower levels of intensity and scale than those in the North. They serve as popular FDI destinations with agglomeration advantages far outstripping those of other areas in their vicinity. Serving as gateways to large economically less developed regions in the developing world, certain strategically located cities in the South have already become nodes of global significance. Others are nodes of sub-continental and even continental significance, or have the potential to become such nodes in the future (Geyer, 1998). Just like their counterparts in the North, these nodes in the South also attract large numbers of international migrants, most of them usually unskilled and originating from the region. Scores of migrants from Sub-Saharan Africa migrate to South Africa, many of them ending up in the inner urban areas of the country's mega cities. Similarly, a sizable proportion of the people from Asia and the Pacific Rim migrate to cities such as Singapore (Alden, 1996), and people in South America to the large urban agglomerations in that region. Those that can compete for employment migrate to countries in the North. These two migration streams are indicative of the process of international differential urbanization (Geyer, 1998), i.e. higher qualified migrants trying to find a new life in the North, while less qualified labourers who cannot make it to the North migrate from more remote peripheral areas of the South to the most vibrant cities in the region (Geyer, 2003).

Closely associated with the problem of global block formation and the role that mega cities in the South play as migration and FDI destinations in their regions, is the problem of choosing the most appropriate economic development approach.

DEVELOPMENT FRAMEWORKS OF THE PAST

Neo-liberalism

Opposing views on whether the emphasis in economic development should fall on local or the export industry, are not new. Soon after the Second World War ended the debate intensified on the potential of the 'basic' or 'urban building' versus the 'non-basic' or 'urban serving' sector to bring about economic growth (Alexander, 1954; North, 1955; Tiebout, 1963; Leven, 1966). Since then the intensity of the debate on the development of the South has not diminished at all, only the focus has slightly shifted. This is clearly demonstrated by the way in which the advantages and disadvantages of neo-liberal economic development policies are still being debated in the literature. As a result of the successes that were recorded by the newly industrialized countries of the Pacific Rim over the past three decades in attracting FDI and creating economic growth through industrial development, the established global network of big business and international funding organizations still by and large regards the main elements of neo-liberalism as the most appropriate way of achieving economic development.

Proponents of neo-liberalism support the expansion of a social responsible free market system and the stimulation of private initiative. First, they believe that the reduction in financial control measures paves the way to foreign direct investments. Protectionism, they argue, does not breed competitiveness and is not conducive to the improvement in productivity levels in the local businesses sector. Indications are that when markets are opened, the range of products broadens, the quality of products tends to improve overall, and with it also labour productivity. Second, because not all public services are always provided efficiently by the public sector, proponents of neo-liberal economics believe that, ideally, the privatisation of most public services would result in more effective management of public services and create a climate that is conducive to growth of the private enterprise. When privatisation involves the selling of public assets it also serves as a symbolic countermove against the growth of government. However, due to high management costs to make assets sellable and the usual capital market thinness that characterises developing economies, their payoff is often not great (Bienen and Waterbury, 1989). Third, they believe that the curbing of domestic demand would reduce imports and generally improve balance of payment conditions in countries. Ways in which this can be achieved is by allowing the price of basic goods and services to rise through the elimination of subsidies and by tightening interest rates. Fourth, they believe that increasing exports would earn the necessary foreign exchange for such countries to pay off their debt. Exports are normally stimulated when hurdles to the inflow of FDI, such as tariffs, quotas and surcharges are removed. Finally, they believe that, in the long term, education and training produce a more productive labour force (Lipschutz, 1991).

Within this development framework, a country's institutional setup, its natural resource base, and the quality of its labour force which allows it to meet ever changing technology and skills requirements are key factors that determine the country's ability to compete in the international market. The OECD has been working hard to develop capabilities to conduct objective and accurate industrial development policy benchmarks. They include: R&D infrastructure, educational profiles of labour forces, corporate governance structures, employment regulations, labour costs, taxation, and energy and telecommunication infrastructure (United Nations, 1999). Although attempts are now being made by the lagging South to create a more attractive economic environment for international investments (see NEPAD, 2001) many countries in this part of the South still have a long way to go before reasonable international competitiveness becomes a reality (Geyer, 2003).

Criticism of the lagging South

Critics of neo-economic liberalism, on the other hand, believe that the approach has not delivered the desired results. Despite faster gains in income and life expectancy and literacy improvements in low- and middle-income countries compared to high-income countries, the ratio of the average income of the richest to the poorest country in the world has increased from 30:1 in 1960 to 60:1 today (MMSD, 2002). Worldwide the inequality in wealth and power is growing. According to Robinson (1996: 22) this amounts to permanent 'structural violence' against the world's majority. People in the South who have no access to health, clean water and sanitation and who live in poverty count in the billions. The population of the region grows exponentially because more then eight out of ten new births now occur in the developing world (Alden, 1997).

These critics believe that a number of factors associated with economic neo-liberalism keep on marginalizing lagging economies (Amin, 2001; Sihlongonyane, 2001; Tsheola, 2002; Lipschutz, 1991; Kaya, 2001). The first is the fact that poor countries have accumulated heavy debt burdens over time and the burden is growing all the time. Debt often exceeds the capabilities of marginalized countries to overcome them in the near term, resulting in endless cycles of debt refinancing and a continuing flow of capital from developing countries to pay off debt to industrialized countries. Second, there is a continued emphasis on the exporting of products that do not have large markets, or whose markets are declining in economically advanced countries. In many cases there is not enough specialization in export products between developing countries, resulting in the oversupply of certain product lines and consequently the depressing of prices of those products on the international market. Although the focus on the export market tends to improve competitiveness and productivity locally, the urban poor in developing countries do not necessarily benefit directly from it (Lipschutz, 1991). To enable them to compete internationally, production processes have to be internationally competitive, hence the shift in focus, normally, from labour-intensive to capital-intensive production processes. In the process the lowly skilled labour force looses ground, the labour force becomes stratified and inequity deepens (Aguilar, 1997).

There are often indirect side effects to the sequence of depressing factors at the local urban level. First, excessive premature urbanization often occurs in developing countries. When too many people migrate to large urban agglomerations in lagging countries that do not have the ability to successfully compete for employment in the urban market, over-urbanization occurs. Large numbers of such people often live in squalid conditions with little hope that they will ever be able to improve their lot significantly over the short term under current economic conditions (Mukherji, 2002). However, compared to rural poverty in developing countries, indicators generally are that urban poverty seems to be the lesser of the two evils.

As the urban population becomes stratified, high-wage workers with a national and international orientation operate within the formal urban economic environment, while the lowly skilled workers lag behind (Aguilar, 1997). Due to increasing capital mobility, massive shifts in capital could occur over a relatively short period of time within the urban South when urban decay sets in. Because cities are the most dynamic component of the space economy of the developing world (Harris, 1997), such shifts in capital could have devastating effects on cities or parts of cities. Business closures could occur causing crises in urban labour markets there. This has happened in many of the metropolitan and intermediate-sized cities of South Africa in recent years. Soon after the political transition, black migrants started infiltrating parts of central areas of major cities. This infiltration was accompanied by the invasion of those areas by the informal economic sector, followed by an increase in crime and urban decay and the subsequent relocation of formal businesses to areas where conditions are more conducive to formal business activities (Geyer, 2003).

MAKING MARKETS WORK IN THE SOUTH

Pillars in the Southern economic markets

As was stated before, the focus in the neo-liberal economic development approach is on economic growth by means of procuring appropriate technology, increasing labour productivity, creating investment opportunities by removing obstacles of industrial development and international trade, and mobilizing capital. This approach has been constantly criticized by the lagging South (Kaya, 2001), because many developing nations in Africa and South America have been lagging behind in economic terms, and are continuously losing ground, despite the successes that have been achieved with neo-liberalism in the Pacific Rim over the last four decades. To overcome deprivation in the South more and more voices have been going up for sustainable development (Hall, 1996). With this development framework in mind, the emphasis is shifting from conventional neo-liberal economic thinking as the principle vehicle to bring about economic growth, to ways in which new global market principles could be used to complement the economic strengths of the South. Two issues are of importance in this regard. First, how neo-liberal economics could be adapted to suit the circumstances of the lagging global periphery. Second, how elements of the new flexible global economic environment, in which capital can shift from one production branch to another and from factory production to informal subcontracting, could be exploited to supplement current approaches of development in the South.

From a corporate perspective two groups of factors impact on sustainable development. Making markets work for all is one of the key principles in the creation of wealth and life improvement. Well-structured, open, and competitive markets that take cognisance of inequities, inaccessiblilities, and injustices are still one of the best ways of advancing economically lagging communities. The correlation between national scores on the Index of Economic Freedom and the Human Development Index clearly shows that governments that try to fulfil the role of the private sector keep their citizens poor (Holliday, et al., 2002). One sure way of prolonging inequities globally is by maintaining protectionist policies, especially in the North. At the same time, liberated and unobstructed markets do not guarantee accessibility to all. To make it work for all, especially in the South, lagging groups should be allowed easier access than before. Equitable markets create wealth, increase competition, foster innovation, create creativity and ultimately improve people's quality of life. Creating streamlined, equitable and accessible markets is the responsibility of both the private and the public sector.

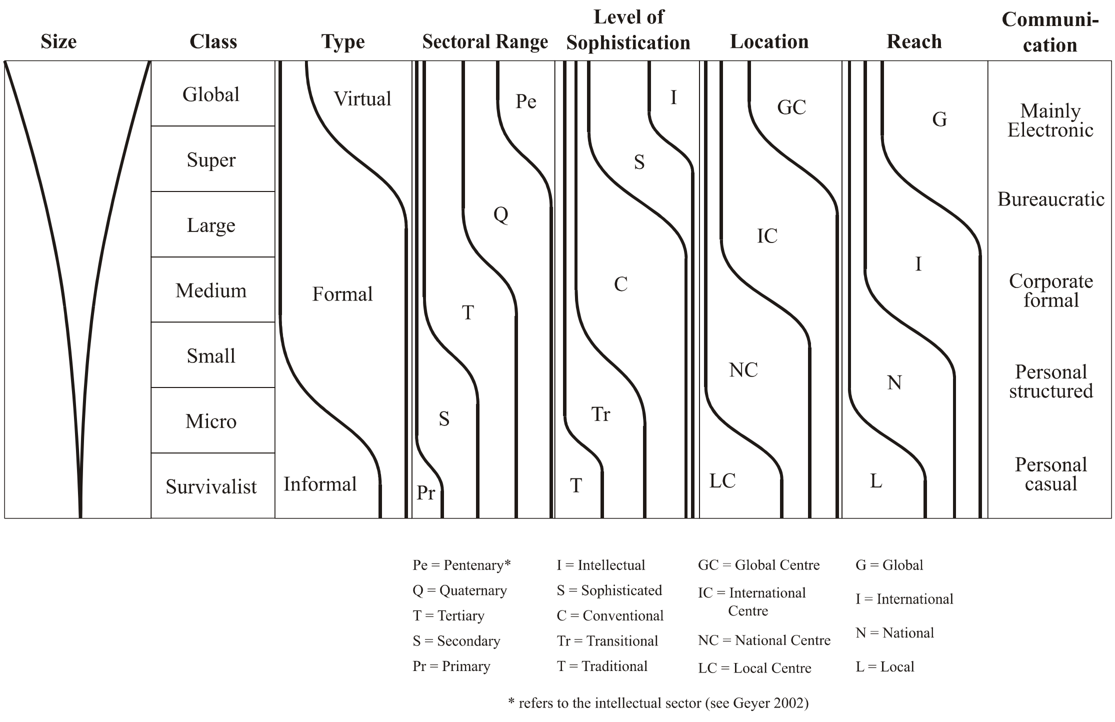
Second, the financial and political regimes of developing economies are equally important in creating a sound economic environment in which business can prosper because FDI tends to flow to areas where investments are safe, where labour is productive, and where trade-distortions and financial obstacles are the least. The marginal South does not have a particularly good record in this regard. However, more FDI is also not a short-term solution because foreign investment has a long-term horizon and is often of the kind that is unlikely to provide sufficient employment to the unskilled and semiskilled masses in the cities to radically change conditions for them. Creating a business environment that will accommodate the entire labour force of the South remains a challenge. This implies that the urban South will have to learn to live with an economic dichotomy, i.e. a formal sector that normally does not sufficiently provide employment to a large component of the lowly skilled members of the labour force, and the informal sector that seems to be the only viable option for a large percentage of the latter. Reducing the gap between the formal and informal sectors and building partnerships between the two sectors in order to increase the ability of the urban populations of the South to improve their living standard, should be strived for all the time.

Building new market structures in the urban South

One of the reasons why the urban South is struggling socially and economically is because there are much more inappropriately qualified people living in the cities than their formal economies can carry. Providing employment to large numbers of people who cannot compete for jobs in the informal sector becomes a constant struggle. To put the scale of the problem in context, roughly one million jobs have to be created to keep pace with rising urban populations in Central Latin America alone. In comparison, two million jobs were created in the United States per annum as long ago as the 1970s, and that in an economy 15 time greater than the combined economies of the region at the time (Fox, 1984).

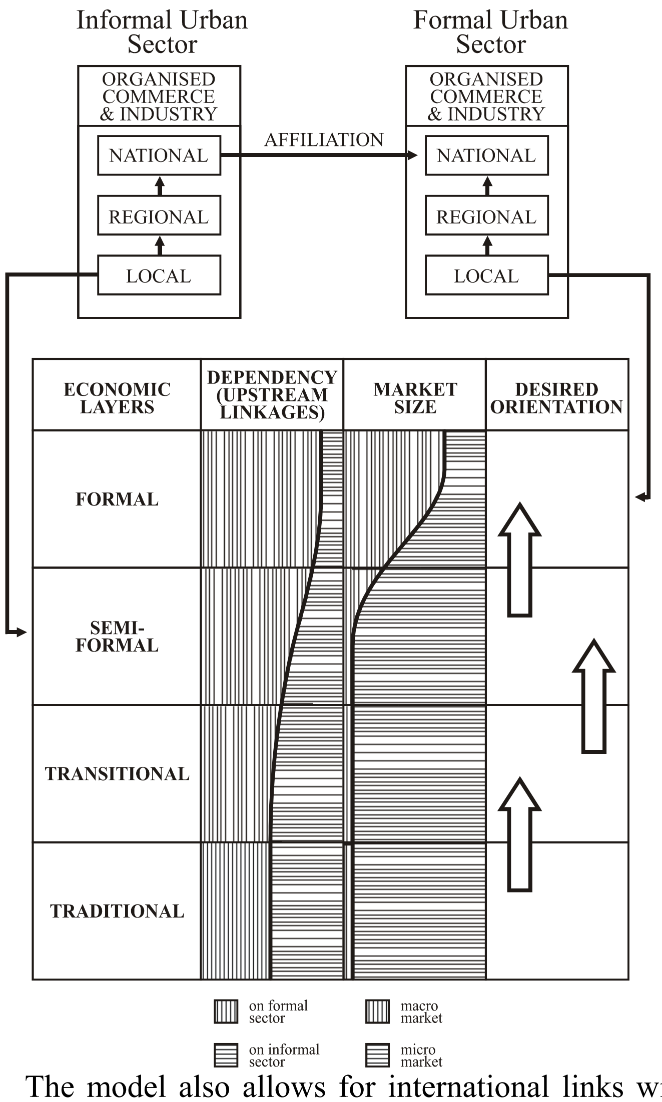
As was said before, creating a new Southern blend of market economy may offer new hope. In countries with long traditions of informal urban activities, smaller enterprises and independent formal and informal producers are often linked to large domestic firms and even multinationals (Aguilar, 1997; Geyer, 1988; 1989). One area in which Southern urban markets could be exploited more vigorously lies in (i) recognizing the inherent structure of the informal urban sector, (ii) expanding and exploiting certain elements of it, and (iii) finding ways in which linkages between the formal and informal urban sectors could be maximized to the benefit of Southern economic society as a whole. One of the reasons why many of the unskilled people, who migrate from rural areas to overcrowded cities in the South, enter the informal urban market is because entering it normally does not require skills, especially at the entry level. However, over-exploitation of the informal economic sector in the urban South resulting in large numbers of vendors offering similar goods of similar quality at the same location, and at cutthroat prices, leaving most of them with barely enough income to survive, is a persisting problem (Penouil, 1981). On the other hand, the formal economic sectors of the urban South, especially those in the deep periphery of the globe not only have to battle against the odds in the global market place, they also often have to cope with growing tax demands of capital hungry local governments to foot their swelling social overhead bills, as well as informal activities that often undermine their viability (Brown and Connell, 1993). As a result of a combination of these factors the emphasis in the lagging developing countries of the world increasingly falls on the lower levels of businesses shown in Figure 1.

Figure 1: Anatonomy of the business sector in the urban South



Indications are that the small and informal business sector in the urban South is becoming more stratified (Figure 2). Traditional informal economic activities, i.e. activities with a large local cultural content, such as local traditional medicine practices, the selling of traditional cuisine, the manufacturing of traditional household goods and equipment, form the lower stratum of the structure. The largest proportion of demand for goods and products in this category lies in urban areas where local population groups are concentrated. The transitional informal economic layer contains businesses that provide goods and services that have some traditional features but are adapted to incorporate more advanced elements and techniques, such as the structured multiplied or even mass production of (stylized) traditional arts and crafts, or the production of modern household goods produced from locally obtained materials. While the largest market for this kind of product lies in the central business areas of cities, their production processes occur in industrial areas and even at home. The upper semi-formal layer consists of the selling of goods and services that are obtained from the formal sector, or that are privately produced from materials that are obtained from the formal sector. The products and services that are offered in this layer could range greatly in terms of their level of technical sophistication, from locally manufactured goods produced for local consumption only, to products that are marketed globally. Although upstream and downstream linkages are sometimes found between the formal sector and each of the three informal strata, the linkages between the formal and the semi-formal sectors are often the most promising for immediate exploitation and expansion.

Figure 2: Model on the integration of formal and informal commerce and industry in the urban South



The model also allows for international links with the local formal and informal sectors. Deteriorating conditions in the South often result in an increase in emigration to the North, legally or clandestine (Morris, 1997). Although this phenomenon holds negative consequences for the urban South, because of the brain drain it causes, it also holds potential for an increase in international remittances because expatriates tend to keep in contact with locals (Afshar, 1998). Initially, remittances are mostly of a financial nature but over the longer run the proportion of remittances in kind often tends to increase (Brown and Connell, 1993). Potentially, this holds benefits for both the initial remitter and the benefactor, especially when remittances in kind become a two-way stream, i.e. when products from developed countries are sold by the benefactor in developing countries and vice versa, to the benefit of both parties.

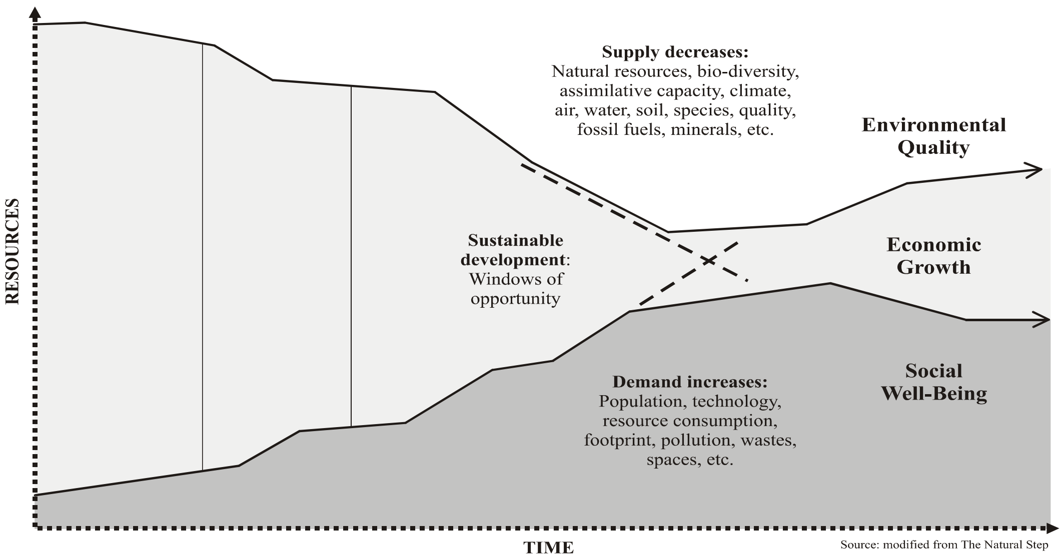
This model (Figure 1 and 2) provides a comprehensive framework that enables one to conceptually integrate the entire range of formal and informal activities in the urban South (and North), from the smallest to the largest, and from the traditional to the most sophisticated businesses. It enables one to mix formal and informal economic activities under different development conditions in the urban South within a new market framework.

NEW MARKETS AND URBAN SUSTAINABILITY

While transforming and streamlining the informal sector in the urban South are aimed at increasing its viability at the bottom end of the market economy, the issue of wasteful practices in the (upper) formal sector of the economy also needs attention. Finding the balance between economic, social and environmental sustainability has never been easy. If too much focus is put in policies on economic growth, environmental and social activists frown upon it. If too much focus is placed on environmental sustainability, economic growth could be jeopardized to such an extent that living standards are compromised. For this reason three anchors are necessary in sustainable development: economic, social and environmental sustainability. In 1987 the WCED resolved that: “Sustainable development seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future. Far from requiring the cessation of economic growth, it recognizes that the problems of poverty and underdevelopment cannot be solved unless we have a new era of growth in which developing countries play a large role and reap large benefits” (Holliday, et al., 2002: 13).

Since the concept of urban ecology has been introduced in California in 1975 (Roseland, 1997), the concept of urban sustainability has become a potentially important factor in the formulation of urban development policy. Essentially, it deals with two issues: the global decline in supply or availability of natural resources and the growing demand for it. In free market economics, the terms ‘demand’ and ‘need’ are often equated with people’s ability or willingness to pay for goods and services, i.e. if someone has a desire for a product or service and the ability and willingness to pay for it, then effective demand or need has been realized (Heilbroner, 1970; Samualson, 1970). In a train of cause and effect this has led to excessive growth in demand in the wealthier parts of the world, which causes the unnecessary expending of resources, which in turn leads to an alarming narrowing of the gap between demand and supply (see Figure 3), and eventually an increase in waste streams.

Figure 3: The desired effect of sustainable development on supply and demand curves



As a consequence of 'wasteful' demand, a distinction is increasingly being demanded between the concepts of 'demand', 'needs' and 'basic' or 'essential needs' (MMSD, 2002). In sustainable development terms the overall objective is to minimize the difference between the latter and the former. To achieve this goal, a number of factors on the demand and the supply side should be addressed. On the demand side, high fertility rates in the South should be reduced, intellectual capacities expanded, wasteful consumption world-wide should be minimized, technologies that intensify resource consumption should be improved, and the ecological footprint of urban settlements in terms of the range and quantities of pollution, wastes, and space should be reduced. On the supply side, the mileage of natural resources should be stretched as far as possible, bio-diversities protected, and assimilative capacities increased.

An important area of research in the field of urban development lies in how economic development can be achieved while minimizing its ecological footprint. This shift in focus has been necessitated by the general proclivity of cities (and nations) to reduce their potential damaging influence on the local environment by importing resources (which cause waste streams and the depletion of resources upstream) while exporting locally generated wastes and pollution downstream (Haughton, 1997). In the past, unbridled capitalism often led to cost transfers as a means to maximize profits locally, nationally and internationally. The question could be asked how many of the shifts of messy industries from developed to developing countries occurred during the period of industrial restructuring, only because of more favourable labour economics, and what role easier environmental policies of 'grow-first-clean-later' (Marcotullio, 2001) played in the process. Eco-sensitive urban policies are now being experimented with to attempt to reduce externalities in current urban practices. They range from eco-centric ('hard' or 'deep green') policies that are unsympathetic to economic expansion, to anthropocentric ('soft' or 'light green') policies that are aimed at balancing the need for environmental preservation and economic development.

Four categories of urban policies that potentially impact on economic policy, have been identified (Haughton, 1997): the ‘self-relient’ city, the ‘redesigning’ city, the ‘externally dependent’ city, and the ‘fair shares’ city policy. The self-relient city is an intrusive deep green approach to city management. It internalizes economic development by emphasizing local economic development within the confines of the ‘bioregion’ – a region that is economically and politically defined in terms of the natural boundaries of ecosystems. Although application of policies in this group is possible at the micro scale, the location of existing cities not conforming to natural bioregions, or extending over more than one bioregion, makes application of the policy within such a framework difficult, if not impossible. Also, the distance that is created in this model between human activities and natural ecosystems poses a difficulty because the human-versus-nature mindset in ecology is rapidly changing. As a science, ecology deals with the relationship between organisms and their environment, and therefore human activities within the urban environment make humans very much part of the ecosystem, economically, socially and biologically (Picket, 1997; Jensen, 1998; Parlange, 1998). The impact of social and economic networks inside and between urban nodes and their hinterlands, on the natural environment, forms part of the plethora of factors that needs to be taken into account when urban economic development policy is considered.

Redesigning city policy refers to approaches that are aimed at reducing resource consumption and waste streams. The objective is to work with nature and to change the environmentally damaging practices of people in cities. One way of achieving this is through energy savings by compacting the city. While some social overhead capital savings seem possible in this model, significant savings in transport costs ultimately are not guaranteed, since the compacting of cities and the mixing of land uses do not necessarily reduce home-to-workplace traveling. In fact, the densification and mixing of land uses may eventually exacerbate traveling problems overall because land uses that were concentrated in particular areas previously, potentially improving the viability of mass and rapid transit systems, will now be more dispersed throughout the city. From an environmental sustainable point of view, the approach also defeats the objective of creating more livable urban space because compacting city spaces would necessarily result in increasing person-land ratios. Ultimately, it will reduce open spaces, make cities more ‘urban’, and increase pressure on social overhead capital. Mixing and densifying land uses will also put pressure on personal and social space, making it more difficult for people to recuperate psychologically. This could ultimately increase tension between individuals and communities within cities (Geyer, 2001) – something that we have learned from urban practices in Europe during the Industrial Revolution.

Externally dependent city policy is a market-centred approach to environmentally sustainable urban development. It seeks to modify market mechanisms to benefit both the environment and the society at large, without necessarily terminally damaging market systems. “Market reform is essential if sustained development is to be achieved, but this reform must be geographically sensitized, as well as linked to strong social justice programmes and environmental standards setting to ensure that both local and global environmental carrying capacities are respected” (Haughton, 1997: 192). Based on the classic Kutznets (1955) study that pointed to a possible divergence in secular income with economic growth, an underlying understanding of this urban model is a Kutznets-like relationship in economic growth and environmental sustainability – as economic development occurs environmental problems are increasingly overcome (Grossman and Krueger, 1995). An important disincentive against the excessive use of resources could be the realistic pricing of resources and services. Of particular interest in this model is how the cost of externalities could be built into the marketing mechanism, making polluters pay for their actions, especially in cases where wealth expands the locus of environmental challenges from local to regional and eventually to global proportions, as has been found in Asia (Marcotullio, 2001). One of the latest developments in this field is the generation of the Dow Jones Sustainability Index system (DJSI World), the first attempt at benchmarking the financial performance of sustainability of corporations on a global basis (Holiday, et al., 2002).

Fair shares city policy contains elements of all three previous categories. The difference lies in how it targets problems of spatial political, environmental, social and economic disequilibrium, i.e. what are the needs of people and how to balance the benefits of some against the needs of others. The unequal distribution of resources and ways in which to manage the exporting of externalities are important issues in this category.

CONCLUSION

Since the 1970s the industrialized world have experienced significant economic changes which changed the production conditions of entrepreneurs. The economic restructuring that followed impacted significantly on the urban environment of both the developed and developing world. The populations of large urban agglomerations in the developed world started to stagnate and even decline (Fielding, 1989; Geyer and Kontuly, 1996; Geyer, 1996) while new mega cities started to develop in the developing world. In the newly industrializing countries global shifts in industrialization have contributed greatly to urban growth there, while rural poverty remained an important factor in urban growth in the lagging corners of the world. In the process, global block formation continues to favour developing countries that are geographically closer to core regions in the North while the global outer periphery remains relatively isolated.

In the early 1990s a European Commission (EC) identified six factors that are expected to have a major impact on the economic potential of cities in the future. They are: (i) a diverse economic base, especially in the high value-added sectors, (ii) human capital that enables the exploitation of high technology sectors, (iii) educational institutions that would provide a steady flow of skilled workers, (iv) a high quality of life to attract and retain a highly skilled workforce, (v) good transport and communication networks, and (vi) the institutional capacity to exploit potential (Alden, 1997). A key issue that is highlighted in the EC report is the ability of the central, regional and local government sectors to form partnerships with the private sector and local communities. These features are rarely seen in the urban South. Countries that have attracted industries first during the post-Fordist era often followed a develop-first-clean-later approach, while cities in the global outer periphery, such as in Africa, simply fall short in all the departments. It could be said that while informationalization occurs in the economies of the urban North and industrializing South (Hall, 1996), informalization has been occurring in the economies of the lagging urban South.

Based on these views, maybe one should accept the fact that the techno-economic dichotomy of the developed world and parts of the developing world will not be overcome, even in the longer term, unless ways could be found in which local economic development in lagging countries could be speeded up. As long as the gap between development conditions in the North and South remains as wide as it currently is, focusing intentionally on the vertical integration of the formal and informal urban economic sectors in the urban South seems to be one of the methods in which the gap could be narrowed. Recognizing the inherent structure of the informal urban sector and narrowing the gap between the upper, technologically more sophisticated layer of the informal sector and the formal urban sector is one way of making conventional market forces more accessible to the lagging sector of the urban South. In the process lessons that have been learned about the long term affect of unsustainable urban economic practices in the industrializing South should be firmly kept in mind.

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