

# forethought

*A survey of ideas, trends, people, and practices on the business horizon*



GRIST

## Megaregions: The Importance of Place

by Richard Florida

Nations have long been considered the fundamental economic units of the world, but that distinction no longer holds true. Today, the natural units – and engines – of the global economy are megaregions, cities and suburbs in powerful conurbations, at times spanning national borders, forming vast swaths of trade, transport, innovation, and talent.

The world economy is organized around a few dozen megaregions – areas like the Boston–New York–Washington corridor, or the Shanghai–Nanjing–Hangzhou triangle, or the span stretching from London through Leeds, Manchester, Liverpool, and into Birmingham – which account for the bulk of the globe's economic activity and innovation.

There is no single, comprehensive source for gauging the economic production of the world's megaregions, but a rough proxy is available. Tim Gulden, a researcher at the University of Maryland's Center for International and Security Studies, used satellite images of the world at night to identify contiguous lighted regions. (Nighttime illumination

indicates energy consumption, which corresponds to economic activity.) He then calibrated the light data against existing estimates of national and regional economic output and was able to derive dollar estimates of annual economic productivity (the total value of goods and services produced) for every megaregion. I call this measure the *light-based regional product*, or LRP.

Gulden argues that a megaregion must meet two criteria: First, it must be a contiguous lighted area that includes at least one major city center and its metropolitan region. Second, it must have an LRP of more than \$100 billion. By this definition, there are 40 megaregions in the world. Home to 1.2 billion people – 18% of the global population – these regions combined produce about 66% of the world's economic activity and are the source of 86% of patented innovations.

Consider just a few of the conclusions we can draw from this analysis:

- It's misleading to conceive of the United States as a single national economy or even as 50 state economies. In reality, the U.S. economy is powered by roughly a dozen megaregions, the largest concentrated on the coasts, which stretch into Canada and in some cases Mexico. The Boston-NY-Washington corridor alone, with a population of 54 million people, has an LRP of \$2.2 trillion and is bigger economically than France or the United Kingdom.
- The real economies of Europe are contained not in individual countries but rather in six or seven megaregions. Europe's largest megaregion is the enormous economic composite spanning Amsterdam and

Rotterdam in the Netherlands, Ruhr and Cologne in Germany, Brussels and Antwerp in Belgium, and Lille in France. With a population of nearly 60 million people, and an LRP of \$1.5 trillion, this megaregion's output is bigger than Canada's.

- Megaregions are playing an increasingly significant role in emerging economies around the world. Greater Mexico City is home to more than 45 million people and has an LRP of \$290 billion, more than half of Mexico's total. The megaregion that stretches from São Paulo to Rio de Janeiro produces an LRP of \$230 billion, over 40% of Brazil's LRP, and is home to 43 million people. Surrounding Delhi and Lahore is a megaregion enveloping some 122 million people – making it the world's single largest concentration of population – which generates a \$110 billion LRP. And an extraordinary amount of economic activity flows from just three megaregions along China's eastern coast. The largest in terms of population is the Shanghai-Nanjing-Hangzhou triangle, with more than 66 million people and an LRP of \$130 billion. Indeed, megaregions are the growth engines of emerging economies, even as the people living outside these regions toil in poverty and preindustrial conditions.

The rise of megaregions doesn't mean that globalization isn't real: The amalgamation of technology and trade leads to the dispersal and decentralization of economic activity. At the same time, however, the economic benefits of colocation – the concentration of similar kinds of productive and innovative activi-

ties in the same area – have spurred a strong countervailing tendency toward clustering. Writers like Thomas Friedman have overemphasized the centrifugal forces of globalization, arguing that the world is flat. In so doing, they neglect the equally powerful *centripetal* forces that trigger economic concentration. As Harvard Business School Professor Michael Porter told *BusinessWeek*: "The more things are mobile, the more decisive location becomes. This point has tripped up a lot of really smart people." Amen!

The mistake is to see globalization as an either-or proposition. It's not. The key to finding competitive advantage in this new economic landscape lies in understanding that the world is both flat and spiky: Economic activity is dispersing and concentrating at the same time.

When large numbers of entrepreneurs, financiers, engineers, designers, and other smart, creative people are constantly bumping into one another, innovative business ideas are formed, sharpened, executed, and expanded. The more smart people there are and the denser and more varied the connections among them, the faster a megaregion and its businesses and markets grow. When managers locate a plant or innovation center or target a new market, which country they choose will matter less than which megaregion.

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**Richard Florida** ([florida@rotman.utoronto.ca](mailto:florida@rotman.utoronto.ca)) is the director of the Martin Prosperity Institute and professor of business and creativity at the University of Toronto's Joseph L. Rotman School of Management. His latest book, *Who's Your City?*, from which this article is developed, is due out this month from Basic Books.

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