

**Realising the Diversity Dividend:  
Population Diversity and Urban Economic Development**

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## **Realising the Diversity Dividend: Population Diversity and Urban Economic Development**

### **Abstract**

This paper critically examines the increasing use of population diversity as a source of competitive advantage and distinctiveness within policies promoting urban economic development. Rising levels of population diversity are a characteristic feature of many urban areas and this has led to increased policy attempts to realise a so-called 'diversity dividend'. Yet much of this policy thinking demonstrates a restricted understanding of the nature of the relationships between diverse populations and urban economic change. Through a comprehensive review of existing theoretical and policy practice in relation to population diversity, this paper identifies an often narrow focus upon higher skilled and income populations and their needs within much urban economic policy thinking. It is argued that a more critical and wide-ranging approach to the complex relationship between population diversity and city development is required if a more just form of urban economic development is to be achieved.

## Introduction

Awareness of population diversity as an economic asset to be realised in the search for increased urban competitiveness has become increasingly evident within the practice of urban economic development. In seeking to identify the basis of their competitive advantage within an ever more globalised economy, cities have consistently sought to identify distinctive features such as those relating to skills and knowledge, image and identity, firms and industries and the built environment (Turok, 2009). Related to all of these, albeit to varying extents in different city contexts, is the extent and nature of population diversity. The mix of population characteristics of the residents and workers of a city is a key component, particularly within an economic context where skills and knowledge embedded within the workforce are seen as central to achieving high levels of productivity and competitive advantage. Yet population diversity not only contributes to a different mix of human capital in terms of formal and tacit skills, knowledge and education, but also creates new markets for goods and services, new business networks and opportunities for innovation and entrepreneurship, and urban environments attractive to attract workers, investors and visitors.

Although population diversity is related to urban economic competitiveness in multiple ways, what is notable is the lack of systematic theoretical and empirical investigation into these relationships and the urban policy challenges that they present. Indeed, much recent urban policy activity has been influenced by two contrasting discourses. On the one hand, a focus upon the rhetoric of population diversity as an inherently positive force with regard to urban economic development within a liberalised, global economy (e.g. Florida, 2002; Ghilardi, 2006; Wood and Landry, 2008; Zachary, 2000). On the other, diversity as a largely problematic dimension of urban development, providing a source of tension between varied communities and generating major challenges for social, political and economic inclusion (Goodhart, 2004; Grillo, 2007; Putnam, 2007). As a result there has been a lack of critical engagement with how in practice population diversity plays into wider processes of urban economic development and the fundamental tensions that exist between the pursuit of material equality and diversity within the development of socially just cities (Fainstein, 2005; 2009)

This paper addresses the lack of critical thinking upon the relationship of population diversity to urban economic competitiveness in relation to current 'boosterist' accounts of the so-called 'diversity dividend'. The paper examines the basis of current arguments that diversity provides a competitive asset in urban development by separating out for analysis a number of major strands of current theory and practice: skills and knowledge development, enterprise activity, creativity and innovation, diaspora business networks and diverse urban environments. This discussion identifies a number of fundamental tensions across this agenda and demonstrates how current thinking and practice frequently feeds into a narrow policy focus upon the high skilled members of diverse populations at the expense of the interests of the majority lower skilled and income ethnic populations.

## **In search of the diversity dividend**

Population or cultural diversity is an established feature of many cities. Indeed the presence of a culturally diverse population is frequently considered as one of the defining features of world cities. Yet what has been significant over the last 30 years has been the increased level of population mobility associated with economic globalisation and its varied spatial impacts (Williams, 2009). This has seen not just an increase in the scale of flows but also changes in the origins, destinations and types of flows. The result is greater diversity within established cosmopolitan cities as well as within a range of other urban contexts where past populations had been more homogenous. The characteristics of this population diversity are wide ranging and often changing rapidly. These relate not only to the ethnicity and nationality of the population but also to language, religious traditions, cultural values and practices, regional and local identities, migration channels and legal status (Vertovec, 2006). The diversity, or in some cases 'superdiversity' (Vertovec, 2006; 2007) that results, is evident in the demographic make-up of the city and the range of available goods and services as well as in the complex interrelationships with other places and communities across the globe.

Since the seminal work of Jacobs (1961;1969), there has been recognition of the importance of population diversity as a vital component in the development of vibrant urban neighbourhoods and in the cross fertilisation of ideas across the world of work. More recently, research on the importance of skilled migration flows (Iredale, 2001; Kuznetsov, 2006; Solimano, 2008) and of diverse cities in attracting the so-called 'creative classes' to generate innovation and knowledge flows (Florida, 2002), has become increasingly influential within policy debate and practice. As global competition between cities has increased (Musterd and Murie, 2010), for those cities where population diversity is a significant feature of the urban context, there has been increasing awareness of diversity as an important part of their asset base, providing a point of differentiation and source of competitive advantage (Bodaar and Rath, 2005; OECD, 2010). In seeking to realise the 'diversity dividend' city boosters have pursued a number of different strategies from the branding of cities as vibrant, multicultural locations to attract investors, tourists, events and high skilled workers (Musterd and Murie, 2010; Rath, 2007), through to the promotion of ethnic businesses (Baycan-Levent and Nijkamp, 2009;;Hart et al, 2009; Ram and Jones, 2008), diaspora trading networks (e.g. Kitching et al, 2009; Kuznetsov and Sabel, 2006) ethnic quarters and festivals (Shaw, 2007), and innovative and creative activity (Florida, 2002; Wood and Landry, 2008).

### *Diversity and urban economic growth*

The emphasis of the diversity dividend discourse is to build upon endogenous economic strengths and realise more fully the potential economic advantages that accrue from the presence of a diverse population within the economic development process (e.g. OECD, 2010). Economic theory identifies a number of impacts that population diversity has upon economic choice (Alesina and La Ferrara, 2005). These include an affect on individual preferences (for example an individual's

inclination to operate with members of their own group), the strategies individuals adopt (for example advantages to undertake transactions with members of one's own ethnic group), and upon the production function (for example a trade off between the productive benefits of diversity in terms of different skills, experience and work practices, versus costs that emerge from difficulties over communication and possible conflict). The potential benefits of diversity appear most apparent in production (i.e. through productivity gains achieved through the mix of skills) particularly within more advanced economies, but costs arise from the inability to agree on common public goods and public policies among diverse populations.

The focus upon the economic benefits of diversity to urban growth within the diversity dividend approach is somewhat surprising given that the evidence in the economic development literature has either demonstrated the *negative* economic impacts of diversity upon growth (e.g. Alesina and La Ferrara, 2005; Easterly and Levine, 1997) or shown inconclusive or only minor positive impacts (Lee, 2010; Lian and Oneal, 1997; Ottaviano and Peri, 2006). Results of quantitative studies undertaken with regard to international development point to how reductions in trust, increased polarization, and the promotion and adoption of inappropriate policies within diverse societies can have negative effects on growth (Alesina and La Ferrara, 2005; Easterly and Levine, 1997). In addition, studies of the impacts of immigration have identified a degree of negative impact upon the labour market opportunities of native workers (Angriest and Kugler, 2003) particularly with regard to lower skilled occupations (Borjas, 2003).

These quantitative economic models demonstrate a number of limitations in terms of their ability to classify different ethnic groups in a meaningful manner and the measures they employ (Lee, 2010) as well as in terms of applying their findings across quite different developmental contexts. Yet the most fundamental problem evident across these studies relates to identifying causal relationships between diversity and economic development. Noteworthy here is Florida's assertion that diversity and the presence of the creative classes can lead to urban economic growth. This has generated intense criticism (Hoyman and Faricy, 2009; Markusen, 2006; Peck, 2005) and led Storper and Manville (2006: 1257) to conclude that: "Tolerance and diversity probably perpetuate existing growth more than they start it. That is tolerance and diversity can probably feed a virtuous circle once it begins but are outgrowths of economic development rather than its initiating causes".

Indeed it is notable that theoretical and empirical studies of economic development more broadly have traditionally paid little or no attention to the role of population diversity within the development process; a perhaps somewhat surprising situation given the recurring historic importance of migration flows to the development of cities and nations. Instead the emphasis within traditional economic growth theory is upon factors such as the presence of highly skilled workers, open economies, a stable political environment and technology and innovation. Whilst all of these may be influenced by levels of population diversity and migration flows, diversity itself is either seen as a largely neutral factor, or at best a necessary but not sufficient condition for urban growth, contributing to rather than driving, urban economic growth (Storper and Manville, 2006).

## *Diversity, social inclusion and community cohesion*

Although much discussion on urban growth and the diversity dividend has centred upon the role of high skill workers, the most evident challenges arising from the presence of migrant and ethnic minority populations within urban economies relate to issues of social inclusion, community cohesion and economic participation. The reality of urban life for many migrant and ethnic minority populations is that of poorer living conditions and lower levels of employment and income than that of the majority population. Within ethnically diverse urban populations, there are frequently longstanding issues of deprivation, racism, discrimination and exclusion (e.g. Cabinet Office, 2003). Recent increases in levels of immigration, combined with the consequence of terror attacks and the global economic downturn, have also led to growing concerns about deteriorating community relations and a loss of social capital in diverse urban areas (Grillo, 2007; Putnam, 2007). With evidence of trends towards increased xenophobia and anti-immigration sentiment within many European cities (Semyonov et al, 2006), there has been increased questioning over the most appropriate response and a notable shift away from past multicultural policy agendas (Joppke, 2004).

Against this background, recognition of the positive economic impact that diverse ethnic communities make to the urban economy provides a powerful contribution to the development of a constructive narrative surrounding diverse city populations (CIC, 2007). Different ethnic communities themselves are keen to contest negative representations of minority groups as deprived, dependent or a source of civil unrest, and emphasise their contribution towards economic vitality, entrepreneurialism and wealth generation. City authorities too desire a climate conducive to positive community relations and the avoidance of high profile examples of community tension and conflict that might have a harmful effect on their image and discourage investment and visitors. In this wider agenda, delivering the 'diversity dividend' therefore also requires recognition of the potential *disbenefits* of diversity and appropriate policy interventions to encourage economic and social inclusion, build trust, overcome polarization and promote agreement on common goods and public policies between communities. Whilst there has been a wide range of activity by urban authorities related to these issues (e.g. CLIP network, 2010; OECD, 2006), much of this has been motivated by social and political objectives and rather divorced from the economic policy agenda.

## **Dimensions of population diversity and urban economic development**

It is possible to identify a number of different dimensions to the relationship between population diversity and urban economic development which are routinely drawn upon in current policy thinking and practice. Key elements routinely invoked as having a positive role within processes of urban development relate to the development of skills and knowledge, enterprise activity, creativity and innovation and diaspora business networks, as well as producing diverse urban environments. These different approaches and the policy responses they have generated are set

out in Table 1. Much existing analysis of population diversity and urban economic development focuses on just one of these dimensions or, more confusingly, elides a number together. Although these dimensions are often strongly intertwined, separating them out allows clearer analytical specification of the different issues relating to each approach and their implications for policy development.

(Insert Table 1 here)

### *Skills, knowledge and labour migration*

The element by which population diversity is most clearly linked to the economic competitiveness of the city is through its provision of an array of skills, knowledge and experience to the labour market via processes of inward labour migration. The positive impacts of labour migration for host cities in ensuring appropriate skill levels and overcoming areas of labour shortage to support city economic growth are well established. High-skill labour flows have attracted particular attention given the current economic orthodoxy that knowledge and skills are key drivers of economic success within a 'knowledge-based society' (Iredale, 2001; Kuptsch and Fong, 2006). The accepted path under numerous city development strategies to achieve and retain economic competitiveness is to shift towards a high skill, high value, high productivity and innovative economy - a growth model predicated upon the existence of a set of well-developed supply-side human-capital attributes (Glaeser, 2000). The presence of specialised skills related to clusters of economic activity is recognised as important not only to achieving high levels of productivity and innovation across diverse sectors, but also to attracting in investors, businesses and workers. Drawing in high skill immigrant labour provides a critical mechanism by which pools of specialist and advanced skills are developed, refreshed and extended, bringing not only appropriate levels of formal education and training, but also experiential and tacit knowledge, and high levels of ambition and commitment, to sponsor urban and regional growth (Saxenian, 2002; Yu-Ling Luo and Wei-Jan Wang, 2002).

In discussion of the relationship between skills and knowledge and labour migration, a distinction is frequently made between high-skill and low-skill flows, not just because of their different characteristics and impacts but also as they evoke very different official and public reaction. This divide is starkly set out by Kuznetsov and Sabel (2006: 10): "high-skill talent is welcomed in virtually every country while most low-skill immigrants are illegal. High-skill professionals provide tangible benefits to the receiving country in terms of new business creation and human capital; unskilled immigrants are perceived as draining the budget for social expenditure and threatening solidarity".

This dichotomy over the relative economic value and desirability of high and low skill migrant workers is frequently embedded within the operation of national immigration systems and urban economic policy. Yet the resulting narrow focus upon the need to attract and retain high skilled and mobile labour is problematic for a number of reasons. First, such a dichotomy is rooted within a narrow conception of skills and knowledge that fails to recognise the wider types of tacit and 'uncommon' knowledge

embedded within migrant workers. In contrast, a conceptual starting point that considers *all* migrants as 'knowledgeable workers', (Thompson et al, 2001) - knowledge carriers and learners in possession of tacit knowledge beyond formal codified skills and knowledge (Williams and Balaz, 2008) - provides a basis for valuing the knowledge and skills of all migrants and how these can play into the urban development process.

Second, the integration of heterogeneous high skill migrant workers into urban labour markets encounters significant constraints. Much immigrant labour is employed significantly below its skill level (e.g. Spencer et al, 2007), with migrants having to invest in acquiring 'nationally specific' human capital in order to access jobs and pay levels in line with their skills (Williams, 2009). In practice, the integration of skilled migrant workers into urban labour markets frequently demonstrates important variability by gender and between ethnic and racial groups (e.g. between Western and non-Western migrants) and professions (Syed, 2008). These 'glass ceilings' encountered by skilled migrants result in a significant underutilisation of human capital within the urban economic development process.

Finally, this view underplays the fundamental role that lower skilled migrant labour plays within the operation of many contemporary urban economies (Sassen, 2001; Storper and Scott, 2009), Lower skilled migrants routinely meet the labour needs of a growing, low wage urban economy. In many cities, the predominance of migrant workers in certain low skill service sectors and dirty, dangerous and demeaning jobs - work essential to the effective functioning of the city but which existing residents of the city are often unwilling to undertake - creates what has been termed a new migrant division of labour (Wills et al, 2010). Yet the negative labour market economic impacts of immigrant labour flows - in terms of displacement effects on host city workers, the depression of wage levels and discouragement of skills development within the indigenous workforce - are most apparent within the low wage sector (Borjas, 2003; Dustmann et al, 2008). As a result, official and public responses to lower skill migrant flows are more contradictory and contested. Although members of host communities often recognise the important contribution made by the presence of immigrant labour in low wage sectors, concerns are frequently voiced that large flows of lower skilled migrant workers lead to a loss of opportunities and resources (e.g. employment and housing) and place additional pressure on existing public sector provision (e.g. housing, health, education) (Garner et al, 2009). Importantly such attitudes vary significantly at the local level. This reflects that the impacts of migrant flows are often spatially concentrated and constituted within particular places that have specific histories and experiences of immigration (Keith, 2005).

### *Enterprise activity*

Ethnic minority populations have long been considered as providing a positive input to the entrepreneurial life of the city. As Baycan-Levent and Nijkamp (2009; p.377) point out: "ethnic participation in terms of self-employment and ethnic entrepreneurship is increasingly seen as a powerful economic force and a contributor to solving structural labour market imbalances in many industrialized

countries". Certainly the evidence from across Europe demonstrates that in general immigrants are more likely to be self-employed than similarly skilled native-born workers and that self-employment rates of immigrants are higher in many countries than those of native-born (Baycan-Levent and Nijkamp, 2009).

The positive impact of migrant and ethnic enterprise upon the competitiveness of urban and regional economies has centred upon the instances of ambitious, strongly motivated migrants, particularly those with high level skills and/or business contacts and experience, in setting up, high tech, high-productivity enterprises. In the well documented case of Silicon Valley, the significant presence of immigrant entrepreneurs, accounting for around one third of the workforce, has played a key role in the development of this leading regional economy (Saxenian, 2002). Whilst much research has focused upon high tech immigrant entrepreneurs (e.g. Hart et al, 2009), other research has demonstrated that in-migrants are more ambitious and innovative in their enterprise activity than other groups across different industries (Levie, 2007). A generational dimension also appears significant, with second and third generation entrepreneurs appearing to have a greater economic impact, not only as they normally possess higher levels of human capital but also because their hybrid identities and positionality between different cultures, provides additional business opportunities (Pécoud, 2002; Peters, 2002; Smallbone et al, 2005);

Crucially though, the economic impact of immigrant entrepreneurs within the urban economy reflects not only their individual skills and ambitions but the nature of demand side conditions; that is the 'opportunity structures' provided by uneven, spatially constituted market conditions (Kloosterman and Rath, 2001). In this respect the research evidence demonstrates the need to avoid developing stereotypical images and discourses surrounding the immigrant and ethnic entrepreneur. First because there is considerable variability in the level of entrepreneurial activity which is related not only to the characteristics of different migrant and ethnic communities, but also to national and local contexts and a range of other factors, including age and generation, migrant type, education and class (Kloosterman and Rath, 2001; Ram and Jones, 2008; Sepulveda et al, 2010). This variability is frequently more significant than any overall average figures related to enterprise rates across all ethnic groups, demonstrating the need to avoid simplistic assertions as to how diverse populations and enterprise activity are interrelated.

Second, because the higher rates of enterprise activity among migrant and ethnic groups reflects in large part the operation of adjustment and coping mechanisms by immigrants in the absence of alternative labour markets options, rather than any inherent preference for self-employment and enterprise (Baycan-Levent and Nijkamp, 2009; Blackburn and Ram, 2006). The difficulties of labour market integration (high unemployment rates, low participation rates, confinement to low status jobs) provide powerful reasons to move into self-employment. Entry into entrepreneurial activity on this basis also means that the vast majority of ethnic business is located within sectors with low barriers to entry (e.g. restaurants, cafés, retail, personal services, cleaning etc.) often within localised, and ethnically limited markets. This fundamentally constrains the possibilities for growth, value and employment creation and the development of urban supply chains and positive multiplier effects. Overall

the low value added nature of the activity, its high displacement effects and the low level of additional income produced, in addition to the well documented problems that such businesses have in 'breaking-out' into wider markets, places important limits upon its impact upon the wider urban economy (Barret et al, 2003; Blackburn and Ram, 2006; Ram and Jones, 2008).

Recognising the nature and variable economic value of migrant and ethnic enterprise activity clearly questions assumptions that this will solve, rather than reproduce, structural problems within urban economies. It also signals the importance of considering the wider benefits that arise from migrant and ethnic business activity, rather than focusing only upon a narrow economic case. In this respect the wider contribution of ethnic business to develop services that meet local needs, enhance community development, and build social capital through the mutual provision of advice and information exchange, also needs to be recognised (Lyon et al, 2007).

### *Creativity and innovation*

Perhaps one of the most intriguing and underexplored aspects of how population diversity plays into urban economic competitiveness relates to its role in sponsoring creativity and innovation. Florida argues that creativity is sparked when 'technology, talent and tolerance' spontaneously interact in particular urban neighbourhoods: "seething with the interplay of cultures and ideas" (Florida, 2002: p.227). But the extent to which cultural diversity does produce creativity and innovation within cities and *how* it does this, remains curiously under specified and under researched.

The evidence that diversity can drive innovation and creativity principally relates to the knowledge, skills and networks embedded within a diverse population. Attention has particularly focused upon the contribution of high skilled migrant workers and entrepreneurs to the innovation process, with the case of Silicon Valley frequently cited as a key exemplar (Saxenian, 2002; Zachary, 2000). However, the presence of diverse workforces more broadly, is also identified by some as a driver of creativity, providing wider information networks, better decision-making and problem solving capacities and less risk averse work teams (Bassett-Jones, 2005; Latimer, 1998). Other studies however have emphasised the downside to workplace diversity, pointing out heterogeneous groups experience more conflict, higher turnover, less social integration and more communication problems than more homogenous ones (Williams and O'Reilly, 1998). A diverse population is also recognised as significant in providing demand for a greater diversity of goods and services and prompting innovation, particularly through processes of hybridisation of ideas and practices (Ghilardi, 2006). Certainly there are plenty of anecdotal examples of this in creative industries related to music, food, film and fashion, with second generation migrants often appearing to be particularly important in this process (Pécoud, 2002; Peters, 2002).

The limited empirical evidence that exists demonstrates the existence of certain positive relationships between ownership and workforce diversity and innovation at the sectoral level (Lee and Nathan, 2010; Sparber, 2006). Sparber (2006), for example, demonstrated that racial heterogeneity in the US was associated within

increased productivity in most industrial sectors. He argued that sectors with highly educated workforces gain most from diversity (e.g. legal services, health services, finance, computer manufacturing and engineering) facilitating creative decision-making and problem-solving and product development. Yet in such studies the impacts of diverse ethnic and migrant populations upon innovation appear to be relatively modest and ascribing causal relationships remains difficult.

For urban development, the spatial embeddedness of any relationship between creativity and diversity becomes critical. In his historical analysis of 'creative cities', Hall (1998) explores the 'creative milieu' that exists within particular cities at certain historical moments to demonstrate how nearly all the great creative cities were cosmopolitan, drawing in talent from across the empires they controlled to renew their 'creative bloodstream' (Hall, 2000; p.646). He argues that creative cities are ones in which outsiders, whether from the provinces or abroad, can enter and experience a sense of ambiguity arising from the opportunity to pursue ideas alongside a sense of 'otherness', all within a context of instability and turbulence. However it also needs to be acknowledged that processes of creativity and innovation are found too in more stable, homogenous urban environments. Furthermore, in certain circumstances, a highly diverse population can hinder processes of creativity, if certain ethnic groups withdraw into their own cultures as a source of defence against change (Landry, 2008).

The existing literature points to the interaction of a range of factors in the production of creative milieux of which the presence of diverse populations is but one. It is notable that very few studies specify the mechanisms by which diversity may, or may not, lead to increased creativity and innovation (Baycan-Levent, 2010), with the vast literature on industrial clusters and regional innovation saying little about the role of population diversity. Research on cities and creativity focuses instead on the general nature of urbanity, with its critical mass, diversity, connectivity and interaction pushing forward certain types of creativity characterised by specialisation, niches and hybrid ideas (Landry, 2008), and says surprisingly little about how diverse populations actually play into this urban development process. What is apparent is that 'diversity' on its own is not enough to stimulate creativity in urban contexts (Andersson, 1985; Hall, 1998). The composition of the diverse population is important, with highly skilled and knowledgeable individuals essential to the process, but there also needs to be a degree of openness to incomers and migrants and their ideas - what has been referred to as a place's 'absorptive capacity' (NESTA, 2008) - so that cross-cultural fertilisation and interaction can occur.

### *Diverse urban environments*

Within a competitive city marketplace the presence of diverse, vibrant, urban environments has been increasingly recognised as a distinctive element that can be used to market cities to potential residents, visitors and investors (Florida, 2002; Musterd and Murie, 2010). Diverse, open, tolerant, cosmopolitan cities are considered as attractive to various groups, most notably in terms of urban competitiveness, to high skilled workers and employers who need highly educated workforces. Florida (2002) argues that the presence of diverse urban communities -

diverse not just in terms of ethnicity but also in terms of sexuality and lifestyles - acts as a magnet to the mobile creative class who, he asserts, want to live in edgy, mixed use, (and normally gentrifying) inner urban neighbourhoods.

That vibrant, cosmopolitan urban living provides a 'cool' city image attractive to certain social groups is one relentlessly reproduced in the arts and media. However the manner in which the presence of diverse urban environments contributes to city competitiveness remains less well understood. A central issue here concerns the nature of causality; that is whether diverse urban neighbourhoods are a cause of urban economic growth processes as Florida (2002) claims, or a consequence, as others have demonstrated (Shearmur, 2007). In fact, the attraction of diverse, edgy inner urban areas to high skill and income workers is far more transient and less universal than claimed by Florida. Many such workers prefer safer, securer and more homogenous suburban urban living environments and the behaviours, aspirations and lifestyles of the large and heterogeneous 'creative class' differ markedly (Markusen, 2006). Indeed the majority of ethnic neighbourhoods are never colonised or visited by those working in high skill occupations, yet they do perform a critical role in the competitiveness of the urban economy in terms of providing low cost living environments for low wage workers (Sassen, 2001). In reality individuals and groups live, work and use the varied spaces of large, multicultural cities in multiple and often contradictory ways (Keith, 2005; Storper and Manville, 2006), so the role that diverse urban districts play within particular economic processes is similarly varied and evolving and not reducible to simple relations of cause and effect.

Alongside cosmopolitan city living providing an attractive amenity to high skilled workers generally, is the more specific role of particular ethnic quarters – the Chinatowns, 'Little Vietnams', Manilatowns - which offer an 'exotic' experience to attract visitors (Rath, 2007). The use of ethnic diversity in the tourist offer and the development and branding of 'ethnic quarters', is now well-established practice. Typically this sees selected ethnic districts rebranded as 'ethnic quarters', named, and "re-imaged and sign-posted as physical expressions of the new cosmopolitanism" (Shaw, 2007: 189). These are then promoted to the majority culture and international tourists as an experience complementary to the established commercial areas and historical districts.

Ethnic quarters and associated cultural activities and events, such as festivals, carnivals and religious celebrations, have often been successful in attracting significant higher spending, visitor numbers and diversifying the tourist offer in a number of cities (Chang and Yeoh, 1999; Collins and Kunz, 2007). Yet the economic and social impacts of this development strategy upon the residents of these areas, is more controversial (Briata, 2009; Collins and Kunz, 2007; Judd, 1999; Laguerre, 2000). The production and marketing of ethnic quarters and events to be consumed by visitors produces notable tensions related to the nature of the ethnic commodity created and who controls the process. Where local ethnic communities are engaged within initiatives that celebrate and promote particular ethnic groups as part of a wider cosmopolitan city, these can provide positive benefits for these communities, boosting economic opportunities for residents, changing negative perceptions and acting to reduce social exclusion (Fainstein and Powers, 2007). Yet where what Laguerre (2000) terms the 'theme-parkisation' of ethnic districts takes place, this can

appropriate, denigrate and exploit cultures and act to contain and marginalise communities within certain geographies and stereotypes. As a result, this can contribute towards racial, ethnic and class tension rather than community development (Briata, 2009; Judd, 1999).

### *Diaspora relations and business networks*

A feature of recent globalising tendencies has been the increased level of transnationalism. This reflects not only of the growth in temporary and permanent migration and the diversity of countries involved, but also technological and communication developments that facilitate the maintenance of strong ties among members of geographically dispersed populations. One consequence of this has been renewed interest in the study of diasporas and their multiple implications to processes of economic development in relation to flows of capital, commodities, labour and knowledge (McCabe et al, 2005).

The study of diaspora business networks has been strongly influenced by analyses of so-called '*guanxi*' or network capitalism related to the large Chinese diaspora (Menkhoff and Gerke, 2002; Yeung, 2004). The potentially beneficial impacts of these transnational networks for both sending and receiving areas have been increasingly recognised in academic research and policy practice, particularly at the level of national governments, viewing diaspora networks as 'bridges' aiding flows of skilled labour, remittances and associated institution building (Kuznetsov and Sabel, 2006). To date, research has focused predominantly upon developing nations and the potential role of diaspora networks in advancing the development process within their homelands, especially in relation to skilled labour migration and financial remittances (Kuznetsov, 2006; Solimano, 2008),

At the level of cities, there has been only limited research into the economic role of diaspora networks. Different types of transnational businesses which develop as diaspora communities are established and become embedded, have been identified (Landolt et al, 1999; Pécoude, 2002; Portes et al, 2002). Research has also demonstrated the various ways that diaspora networks support the development of such business activity in terms of providing resources, knowledge and information and markets opportunities (Bagwell, 2008; Kitching et al, 2009; Portes et al, 2002, Sepulveda et al, 2010) and link areas of labour supply with demand through informal and formal recruitment and brokerage activities (Poros, 2001). These studies demonstrate that the existence of high trust relations among family and members of a wider community can play a fundamental role in reducing transaction costs and enabling linkages, both legitimate and illegal, to be realised and economic opportunities identified and responded to. Yet they also emphasise the heterogeneity of diaspora networks in terms of their geographical coverage, size and maturity. Consequently the range of resources and market opportunities they provide to individual entrepreneurs varies significantly, as does the ability of members of particular diaspora networks to realise any market opportunities, in relation to their available material resources and levels of skills, education and knowledge (Kitching et al, 2009).

Despite growing awareness of the relations between diaspora networks and economic development, understanding the variety of mechanisms that operate and the nature of their impacts on economic development at national and city-region levels, remains limited. Critically, diaspora networks need to be understood as just one factor shaping the development of transnational business activity. As Kitching et al (2009; 700) conclude in their study of Chinese and Vietnamese businesses in London, whilst diaspora networks play a fundamental role in the development of certain kinds of minority businesses they do not: 'negate the importance of class resources such as property, education and skills in processes of business formation and development within minority groups'. Consequently it is qualities of skills, technology and market based rationality that principally determine economic outcomes rather than diaspora relations per se (Hsu and Saxenian, 2000; Menkhoff and Gerke, 2002).

### **Policy challenges**

These different dimensions of the relationship between population diversity and urban economic development present a number of challenges for policy practice. One fundamental dilemma arises from the fact that creative cosmopolitan cities are "almost invariably uncomfortable, unstable cities, cities kicking over the traces" (Hall, 2000; 646). Part of the intrinsic attraction of certain ethnic and bohemian neighbourhoods is as liminal, restless and exotic spaces, yet residents and visitors primarily want stable, secure and regulated urban environments. Any commodification or gentrification of diverse neighbourhoods necessarily means creating safer spaces and hence removing or controlling the very sense of 'edge' that was part of these areas initial 'otherness' (Hannigan, 2007). High skill workers generally want to live in safe, secure middle class residential environments with only occasional and controlled consumption of diverse neighbourhoods. The focus of much current policy practice upon the need to attract and retain mobile, high skill workers and entrepreneurs has produced an emphasis upon delivering a high quality lifestyle with appropriate cultural and leisure activities and good quality residential conditions and service provision. The use of cultural diversity to sell cities as part of this frequently plays into a neo-liberal development agenda that promotes interurban competition, gentrification, middle class consumption and place marketing, and an urban regeneration process that often produces homogenous, sanitised and secure developments aimed to meet middle class residential and leisure needs (Long, 2009; Peck, 2005; Shearmur, 2007).

This policy focus upon attracting high skill workers raises a number of problematic issues. First, competition to attract such workers is intense. For the vast majority of cities, limited demand for labour and/or an urban environment of limited attractiveness, means there is very little a city can do to attract these workers, whatever marketing strategies are implemented (Houston et al, 2008). Second, city strategies in relation to labour migration are constrained by the fact that the regulation of international labour market flows is normally strongly controlled by the central state, which limits their scope to pursue city specific skill needs. Where selective, high skill immigration strategies are pursued, the resulting restrictions upon

flows of less skilled workers frequently impacts disproportionately upon particular ethnic groups. Third whilst such policies benefit the host cities, skilled migrant recruitment also has important negative economic consequences upon the presence of human capital in source regions (Ruhs, 2008) alongside any potential benefits arising from 'brain circulation' (Meyer, 2001; Solimano, 2008). Fourth, given constrained budgets, the justification to support initiatives targeted at high skill workers and entrepreneurs, who by definition are best placed to develop their careers and businesses and access existing support services, remains questionable (Shearmur, 2007). Finally, and perhaps most critically, whilst the economic benefits of high skilled workers are experienced by the city as a whole, the economic *disbenefits* of diversity (e.g. in terms of polarisation, loss of trust and cohesion, labour market displacement) are experienced primarily within lower income neighbourhoods and communities (Keith, 2005; Syrett and Sepulveda, 2010).

In contrast, the challenge of seeking to maximise the economic potential of lower skilled ethnic minority and migrant workers, often resident in low income neighbourhoods and comprising the vast majority of diverse urban populations, is underplayed within the diversity dividend discourse. The socio-economic inequalities that routinely characterise culturally diverse cities often have strong ethnic and racial components (Wills et al, 2010). Seeking to address the multiple barriers that prevent full economic participation in the city presents a set of complex and difficult policy agendas. Given the common preference for encouraging liberalised and flexible labour markets, interventions to tackle the fundamental issues affecting those at the bottom end of the labour market – low pay, working conditions, workplace equality, discrimination, legal status – as they affect all workers, whatever their ethnic background, have been notably absent. Where policy responses have been apparent, these have been supply side employment and enterprise related activities targeted at particular obstacles to economic inclusion (e.g. language ability, low take up of business support, lack of labour market knowledge and networks etc.) as experienced by particular ethnic groups (Deakins et al, 2003; Green, 2007; OECD, 2006, 2010). Where policies have focused upon the particular needs of certain ethnic groups, this can raise difficult issues in relation to equality of access and treatment between different ethnic groups, including host populations, (Harrison, 2009) and the relative efficiency of these policies compared to more universally accessible provision which commonly benefit from economies of scale, a wider range of services and expertise and better performance monitoring. Reconciling these issues becomes more demanding as city populations diversify further, characterised by multiple ethnic communities displaying varying settlement histories and levels of income and integration (Sepulveda et al, 2010; Vertovec, 2007).

## **Conclusions**

Population diversity in the urban environment feeds into unfolding processes of urban economic development in complex, multifaceted and contradictory ways that militate against crude readings of diversity as either a positive or negative force. It is indeed the case that the presence of population diversity can, and often does, contribute positively to an entrepreneurial and innovative urban economic growth

dynamic. However, as this paper has demonstrated, a partial and overly simplistic boosterist reading of the diversity dividend is problematic for a number of reasons.

First, much of the resulting policy practice related to this agenda has been narrowly fixated upon a particular vision of the diverse city; one focused on the needs of high skilled professionals and the production of gentrified and sanitised ethno-landscapes attractive to mobile high skill workers, investors and tourists. At its worse this has encouraged 'bandwagon' urban development, poorly adjusted to the specificities of particular city contexts (Musterd and Murie, 2010; Storper and Manville, 2006). What research findings demonstrate is that population diversity is rarely a determinant of economic outcomes but does play a role – sometimes a highly significant one - in developing the conditions for urban economic growth whether in relation to the development of human capital, innovative capacity, trade linkages or the openness and stability of the urban environment. Critical therefore is a contextualised understanding of relationships between diversity and urban economic development, which should inform the development of strategy and policy within different cities.

Second, this discourse is based upon a restricted and inadequate understanding of the workings of the urban economy. The focus on mobile high skill workers has been at the expense of an understanding of the urban economy in which low skill and wage employment, frequently undertaken by ethnic minority workers, is critical to its functioning. Furthermore, it also fails to recognise the different types of enfolded mobilities that produce complex connections between people and places within contemporary urban economies and the uncommon skills and knowledge brought by migrants across all skill levels (Williams, 2009). Such a limited conceptualisation of urban development has contributed to the ongoing failure to specify the mechanisms and causal relationships that exist between the presence of a diverse population and the economic development process. Relationships remain poorly theorised, often assumed rather than demonstrated, and draw upon a limited evidence base focused on certain sectors, skill levels or ethnic groups. Related policy interventions have frequently run ahead of the evidence base and the scope of what can and cannot be achieved remains weakly understood.

Finally, this view downplays or fails to engage with the considerable challenges and economic disbenefits that can also flow from the presence of diverse populations. The desire to provide a positive and simple rhetorical message related to the benefits of the diversity dividend has resulted in a lack of attention to the potentially negative impacts of population diversity upon economic growth, productivity and skills development, as well as to the barriers that prevent ethnic minority populations from participating fully in the economic life of the city. Not only has this led to a failure to advance the economic case for tackling the disbenefits and barriers arising from the presence of diverse populations, it has also led to the adoption of sub-optimal economic strategies, that privilege policy support for neo-liberal strategies or certain interest groups, to the detriment of the development of the wider city economy. At a time when anti-immigration sentiments are rising and past multicultural policy approaches are under attack, this failure to recognise the complex and contradictory multiple relationships between population diversity and

economic development runs the risk of implementing policy interventions that are not only ineffective but also potentially damaging to community relations.

Within the urban policy agenda economic related diversity initiatives provide a potentially powerful means for enhancing economic development, social inclusion and community cohesion through the positive promotion of diverse, cosmopolitan cities. However, for this potential to be realised, policy practice needs to be embedded within the development and understanding of a 'just city', which recognises the importance of social justice, equality and the democratic process within urban economic development, and the inherent clashes and trade-offs required between the pursuit of these different agendas. For interventions to achieve greater effectiveness, they need to be based upon a critical understanding of how population diversity in its various forms contributes to economic development within different urban contexts - something that has to date frequently been lacking. There are considerable challenges involved in developing this policy agenda, however by confronting these challenges and actively seeking to manage and promote diversity in a genuinely socially inclusive manner, there remains considerable scope for effective action rooted at various scales across the city.

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**Table 1 Urban policy approaches to population diversity and economic development**

Theme/Approach	Policy Response	Initiatives
<p><b>Skills, knowledge and labour migration</b> Promote population diversity to increase knowledge and skills levels within the urban economy</p>	<p>Attraction of mobile, high skilled workers: - Create urban environment attractive to high skill workforce - Targeted recruitment for particular skill/cluster needs</p> <p>Acceptance of need for flows of lower skilled workers</p> <p>Recognition of barriers to economic inclusion of migrants and ethnic minorities</p>	<p>Improve provision for high skilled workers (e.g. entertainment, housing, education) Selective immigration systems; support through immigration and integration process</p> <p>Limited and/or weakly enforced regulation of immigration, labour market entry and informal working</p> <p>Predominantly initiatives to tackle labour market barriers (e.g. language training; support for job search activity). More rarely to tackle structural position in the labour market (e.g. living wages; worker regularisation; anti-discrimination regulation). Restrict flows of lower skill and illegal migrants</p>
<p><b>Enterprise activity</b> Encourage entrepreneurial activity within ethnic communities as a means to strengthen the entrepreneurial base of the city</p>	<p>Liberalised business environment facilitating small business start-up</p> <p>Recognition of barriers to ethnic enterprise development</p> <p>Formalisation strategies (coercive and/or facilitative) to move informal business activity into the formal sector</p> <p>Recognition of role of entrepreneurial activity in promoting community development, social cohesion and neighbourhood renewal</p>	<p>Limited or light touch regulation; tolerance of informal business activity</p> <p>Business support to address specific barriers (e.g. access to finance; improved business support delivery)</p> <p>Streamline business registration; encourage voluntary disclosure; advice and financial support</p> <p>Capacity building activity (e.g. support for social and community enterprise)</p>
<p><b>Creativity and innovation</b> Encourage and build upon the presence of diverse populations to enhance creativity and innovation</p>	<p>Attract mobile 'creative class' to the city</p> <p>Develop urban spaces that encourage interaction between diverse groups</p>	<p>Improve provision to attract 'creative workers' (e.g. entertainment, night time economy, culture, arts and diverse neighbourhoods)</p> <p>Planning and development of open public spaces; mixed use housing and consumption sites</p>
<p><b>Diverse urban environments</b> Exploit the presence of distinctive, diverse urban environments to attract workers and visitors</p>	<p>Use diversity and associated landscapes to attract investment, events, visitors and mobile workers</p> <p>- develop 'ethnic quarters' and exotic city-scapes</p> <p>- develop diverse residential areas to attract mobile 'creative classes';</p>	<p>Profiling of population diversity, neighbourhoods and associated culture and events (e.g. festivals, cuisine etc) in city marketing strategies and competitive bidding (e.g. for mega events),</p> <p>Ethnic quarters as consumption sites animated by market, performance and festival type activity. Improve visitor accessibility and safety</p> <p>Gentrification processes; development of 'soft infrastructures' (e.g. arts and culture, nightlife etc)</p>
<p><b>Diaspora relations and business networks</b> Build upon diaspora relations to promote business activity and strengthen trade relations</p>	<p>Develop the capacities of new and existing diaspora networks to encourage transnational business activity</p> <p>Develop bilateral agreements between host and source cities</p>	<p>Actions to increase flows of investment capital, commodities, labour and knowledge and develop support and advice services (e.g. information provision, trade missions, export finance)</p> <p>Pursue initiatives of mutual interest (e.g. skills and knowledge; trade; technology etc.)</p>

