



TIGER

Territorial Impact of Globalization for Europe and its Regions

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1. What drives globalization?

Globalization is either considered as a new era or as in continuity with long terms trends in the world capitalist history. From the latter view point, the extension of markets is in the very nature of capitalism. The increase in cross border flows between economies of the world is not a new or recent phenomenon. As early as the sixteenth century, European powers built a world system of economic exchange, supplying their own needs, which resulted in growing trade across seas. At the end of the nineteenth century, many specialists identified a first wave of globalization associated with a sudden acceleration of exchange and the shrinking of time and space due to improvement in transport and communication technologies, however it was not until the end of the 1990s that an intensity of trade (as a ratio of world GDP) equivalent to that in 1913 was achieved. In contrast, since 1990, the growth of trade and FDI across the world has reached unprecedented levels, higher than ever before until the 2008-2009 world financial crisis and recession. Nor are migratory flows a specific feature of the recent wave of globalization in terms of their intensity. However, some decisive changes associated with globalization processes can be identified: though proximity still matters, the geographical reach of human flows has increased in recent decades; in addition to classical migrations from poor to rich countries, there has been growth in the mobility of qualified labour at a global level, as indicated by the increasing mobility of students and highly qualified labour embedded in global city networks. Hence some main drivers of globalization prolong and accelerate long terms trends: the improvement of transport and technologies; increasing flows of goods and services; increasing human mobility; flows of capital, notably through foreign direct investments. What is really new about globalization then?

First, major firms play an essential role in globalization processes. They act on a global scale through the integration of global production networks. This means that the production of goods and services is controlled by major economic actors that have global strategies for the location of functions within integrated value chains. The resultant investments across the world, give rise to increasing flows of goods, people and knowledge within major firms. In brief, the increasing flows across the world do not anymore result only from increasing exchanges between economies endowed with different types of resources but are mainly embedded in

global value chains controlled and dominated by major economic actors who are deeply connected within and between them. The second distinctive feature of the recent wave of globalization lies in the importance of financial flows which have exploded as a result of liberalization, and the emergence of global financial actors able to relocate capital to the most profitable lines of business almost instantaneously. Hence, the increase of FDI at a global level has been accompanied by the increasing mobility of capital on financial markets, notably stock exchanges.

In most studies, globalization is defined as a market and/or technology-driven process (improving transports and technologies, increasing flows goods and services, globalizing strategies of firms etc) and the role of policy and territorial 'assemblages' is barely mentioned as a driver of globalization through trade liberalization and financial deregulation. Though, globalization has been largely initiated and boosted by political decisions in line with the (neo)-liberal ideology which dominates international organization such as the WTO¹ : "The system's overriding purpose is to help trade flow as freely as possible — so long as there are no undesirable side-effects — because this is important for economic development and well-being.". We can identify several political decisions that have been decisive here. First, there has been the creation of regional agreements, most of them being first and mainly based on free trade principles. Second, there has been a continuous liberalization of trade at multilateral level, mostly within the WTO. Third, major powers, mainly the US and the EU, have signed numerous bilateral free trade agreements. Fourth and finally, there has been a tremendous deregulation of financial investments.

Finally, globalization interrogates the role of the states as a decisive actor in the global economy, the only one that really seems able to regulate the economy on a large scale. By no doubt, its regulatory power has been diminished by the "bordering" of its regulatory power compared to the "debordering" strategies of economic actors. As underlined, this is also a result of political decisions associated with liberalization taken notably by the most developed nation states in the three last decades. Moreover, the power of states is also hampered by a re-scaling process of policy toward supra-national forms of decision making at global/macro-regional levels and at regional/local levels.

When the focus is on territorial development, the major question raised is how these flows as well as the strategies of public and private actors, are spatially organized around the world. We distinguish two functional levels at least to consider the place of Europe and European territories in the world: *cities* and *macro-regions*.

2. The city as a functional level of the global economy

In the global economy, (large) cities play a major role by connecting actors through complex global networks within and between cities and by playing an interface role between the global and regional/national/continental economies. Increasing flows across the world result in the growing importance of cities that concentrate gateway functions, notably benefiting from agglomeration effects in various domains. Thus the movement of goods and people is highly dependent on major infrastructures located in gateway cities. We demonstrate this process in maritime as well as air connections. Concentration in major gateways does not only result from the importance of fixed capital but also from the "size effect"

¹ http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm

which allows economic actors, such as air companies, to have the necessary flexibility. Moreover, global advanced business (producer) services firms with offices worldwide, operate through cities which are the vital locations for concentrated international sources of talented labour and knowledge crucial for innovation.

The functional and gateway role of cities in the global economy raises a number of issues which have important political implications:

1 – Cities and the regional scale

The functional role of cities first raises the issue of the role of regions with regard to two major ideas (Hall and Pain, 2006; Lennert, 2010):

- cities are the functional entities through which economy operates and may be the motor of regional and national growth;
- regions are normative powers and the basic divisions for territorial policies in Europe and do not fit the functional areas of major cities.

2 – Cities do not only compete, they also cooperate

On the one hand, city governments compete to attract labour, events, consumers and investments. In this regard, cities have been more and more influenced by “entrepreneurialism” aiming at providing the best possible environment for business. This is highly related to the re-scaling process of governance from the state toward sub- and supra-national levels. On the other hand, as already discussed, major cities *as a process*, are specialized in various functions and have complementary roles in their European and global networks. The importance of cooperation and complementarities between city economies has been highlighted in this project by the diversity of gateway functions of urban areas in Europe. This diversity is functional but also geographical. As far as the functional specialization of cities is concerned, we observe a strong correlation between the different types of functions: the cities’ role in advanced business services, as commanding centre for firms, as major hub for air connections or as nodes for real estate investments are strongly correlated with each other. This might be called a scale – instead of a functional – specialization of European cities (Figure 1). In addition to this scale specialization of cities, strongly linked to their position in the European urban system, we certainly observe a geographical specialization of cities in their gateway functions (Figure 1). Of course the most important cities have the more global geographical profile but still show specialization: London is the most global European city in the geographical scope of its networks but still shows specializations toward Northern America or Eastern Asia; Paris is a global city, nevertheless showing specific linkages with Africa; Madrid is the European gateway for Latin America etc.

3 – How city size, connectivity and functional specialization impact on growth?

The issue of cities and competitiveness is a very complex one, which has relevance at two different scales: what is the relation between competitiveness (in an economic sense), size and connectivity at the level of cities; and how does the functional role of major gateway cities impact on the growth of Europe as a whole? We discuss both questions separately though they are of course strongly linked.

At the city scale, looking at Europe during the last two decades, we do not only observe the ability of global cities – and mainly London as the main European gateway city – but also first national cities to benefit from globalization and increasing connectivity between cities. In this context, the re-concentration of activities and strategic functions does not only occur at a global scale but also at a national scale, even within the integrated European market. This has certainly

proved true during the 1990's, while this process has seemed to slow down after 2001. Indeed, few empirical studies have actually demonstrated the existence of a re-concentration of activities to the benefit of large cities. The precise reasons behind the unequal and geographically uneven strength of re-concentration are likely to reflect specific development paths of cities across time and space. Moreover, in-depth analyses have highlighted the complex links between cities' economic growth and connectivity: we found no significant impact of cities' connectivity (and size) on their economic performances since 2000. This has important political implications. Though some cities have clearly benefited from their position in networks at European and global levels, there seems to be no direct correlation between city connectivity and GDP growth in the recent period. The emphasis of some local governments on increasing their network position in different areas therefore not only raises the issue of their capacity to promote connectivity in such networks but also uncertainty about the direct impact on territorial economic performance.

At the EU/ESPON scale, "Metropolitan areas play an important role in sustaining the EU's global competitiveness" (EC, 2011b, pp. 16-19). The functional role of (major) cities in the European and global economy has been widely illustrated in this project. In a way, the hypothesis is that European wealth now depends on the connectivity and economic wealth of major European cities. Though the importance of major cities for Europe is in no doubt, based on our findings, there is a lack of evidence to show that further strengthening of major gateways would enhance the competitiveness of the EU territory as a whole. We believe it is not possible to answer such a direct question in an unambiguous way. There are many different parameters other than urban structures and hierarchies, which are likely to explain relative territorial economic performances and these are of major importance for territorial cohesion. Moreover, the way policy could strengthen European gateways is another difficult question. This is because agglomeration effects at global and European scales to the benefit of some cities are largely the result of decisions of economic actors in a very broad sense and public decisions have probably poor impacts on this, other than through global economic regulation and investment in the upgrading of transportation infrastructures for example.

3. Macro-regions as a functional intermediate level between the global and national/regional levels

The process of regionalization has been widely illustrated in this project. Hence, globalization should not be understood as undirected interconnections of all territories across the world. Global flows are spatially structured by intense interrelations within macro-regions. In all types of flows studied, distance plays an essential role in the intensity of these relations: trade, migrations, flows of students or air connections. It results in an intermediate level of organization notably from the economic point of view: we call these **macro-regions**. Moreover, the process of regionalization is also a policy-driven process through what might be called 'regionalism', or politically driven integration at a macro-regional scale.

This regionalization process has been simultaneous to globalization rather than contradictory to it: between 1986 and 2007, the internal trade of the EU increased from 27% to 42% of total GDP, while external trade developed from 15% to 21% of total EU GDP. This development is so pronounced that regional integration is now considered by world institutions as a necessary step in the direction of multilateral free trade (World Bank, 2009). That being said, big economic assemblages of the EU and NAFTA can still be considered as relatively

closed economies, with a ratio between trade and GDP of respectively 20.6 and 14.6%. As a consequence, large developed economies mainly rely on their own markets and producers, even in integrated global sectors such as the automotive industries.

If we turn now to the functional relations of Europe, it has been shown that they largely go beyond EU borders to include European Union non members (Iceland, Norway, Switzerland, Western Balkans) but also the Eastern, South-Eastern and Southern 'neighbourhood', respectively former USSR Republics, Turkey and the near-East, and Northern Africa. All these areas have intense functional relations with the EU in terms of human flows, FDI, trade of goods and services, or air connections. However, these relations are not balanced and can be described as core/periphery relations: while core European countries mainly sell services and goods with medium and high technological content, they buy raw materials (Russia, Algeria, Libya etc.), notably energy, and low added value manufacturing goods (Morocco, Tunisia, Egypt, Turkey); human flows, notably students and qualified labour, are attracted toward West European countries, still perceived as lands of opportunities, while tourist flows take the reverse direction.

Yet, because the European neighbourhood is *de facto* part of the functional Europe, the EU should (and does) pay attention to what happens there. In the EU2020 strategy, neighbourhood is only briefly mentioned in a rather "paternalistic" way: "The Europe 2020 strategy is not only relevant inside the EU, it can also offer considerable potential to candidate countries and our neighbourhood and better help anchor their own reform efforts. Expanding the area where EU rules are applied, will create new opportunities for both the EU and its neighbours" (EC 2010a, p.23). The influence of Europe certainly goes beyond the EU borders yet at the same time while the neighbourhood regions are important, they are not the main partners of the EU in its economic relations. As a result, in its relations with the neighbourhood, the EU focuses on strategic issues such as energy, security and immigration. Also, the EU tries to deepen its economic relations by signing free trade agreements with neighbouring countries, and more generally, as mentioned in the EU 2020 strategy, by trying to apply EU rules in order to create "new opportunities for both the EU and its neighbours". However, this is not part of a full development strategy for the neighbourhood though neighbouring countries do receive large shares of EU aid.

As underlined, the territories for which Europe matters are not necessarily those that matter for Europe. EU 2020 strategy particularly insists on emerging markets when considering the place of Europe in the world: "A part of the growth that Europe needs to generate over the next decade will need to come from the emerging economies as their middle classes develop and import goods and services in which the European Union has a comparative advantage" (EC, 2010a, p.22). The relatively weak position and declining influence of the EU as a whole in the so-called emerging economies (Brazil, India, China) might be considered a weakness in attempts to benefit from the development of emerging economies which are the major new world arenas for globalization. In contrast, the US is the main partner of the EU in nearly all types of relations; while much less important than the US, Russia, China and Japan are essential economic partners of the EU in terms of trade, knowledge exchanges, investments and/or networking in advanced services.

4. The place of European territories in the global economy: diagnosis and policy options

The place of Europe and European territories in the global economy can be articulated at three different levels of interrogation:

- i. How should Europe position itself in the global economy?
- ii. Which territorial policies can help to improve the position of Europe in the world, while at the same time improving territorial cohesion?
- iii. How can European territories improve their performance in the global economy?

1. The position of Europe in the world

Europe is among the most prosperous area in the world. It is also a major and powerful actor. Focusing on flows, we show that Europe is the first trade power in goods and services; it is the first provider of direct investments around the world, though it is second in attracting world investments; it concentrates 40% of the headquarters of the 500 biggest world firms; it has the highest position in the international division of labour; it attracts migrants from low to high qualified from all over the world. Moreover, it has been shown that despite the intensity of internal contradictions, notably between the EU and member states, the EU can be considered as a true political actor, which shows coherence in its external action.

At the same time, Europe is a declining power in the world. To take one example, the share of Europe in inter-block regions has been declining from 28% at the end of the 1960s to 22% in 2008. In all types of flows but migrations, we highlight the shrinking influence of Europe in the world, more and more limited to the neighbouring countries.

In this context, the main EU policy documents insist on some key points when Europe's position in the world is tackled:

1. **Europe must act to avoid decline** (EC, 2010a);
2. **European growth will depend on its capacity to grasp opportunities from globalization** which are related notably to growing emerging markets (EC 2011b).
3. **The importance of neighbourhood and worldwide relationships**: "The success of the EU 2020 strategy will depend not only on the integration between Europe's regions but also on their integration with neighbours, and even with worldwide relationships" (EC, 2011b). The EU 2020 strategy adds that "The Europe 2020 strategy is not only relevant inside the EU, it can also offer considerable potential to candidate countries and our neighbourhood and better help anchor their own reform efforts. Expanding the area where EU rules are applied, will create new opportunities for both the EU and its neighbours".

How can this project inform about these objectives?

1. **Europe will not avoid decline** in the sense that the demographic and economic weight of Europe will go on decreasing. This is a long term trend that has been documented by highlighting the diminishing weight of Europe in most economic flows but also the decrease of its functional influence in many parts of the world. As stated by the "Europe in the world" ESPON project, only enlargement will allow the maintaining of the importance of Europe in the world, though enlargement process may affect the EU political coherence and efficiency. The European decline should not necessarily be considered a problem since this is relative to the development of large parts of the world as opposed to its actual

level of prosperity. At the same time, as illustrated throughout this report, whatever the nature of flows considered, Europe remains a major global economic actor and this is not likely to change in the near future.

2. The openness of Europe and the role of the neighbourhood. In the relevant policy documents, it is strongly argued that Europe's position in the world will depend on its openness and that it will benefit from wider integration with the neighbourhood and more distant parts of the world.

Though Europe is an open space, it is also and mainly an integrated economy. Trade accounted for around 14% of ESPON GDP in 1996 and reached nearly 21% in 2007. If services are included, we assess this ratio at around 27% of GDP. This is still a moderate figure, which highlights the decisive importance of the internal European markets. Europe also attracts students and workers from increasingly diversified origins. Cities are embedded in global networks through transport of goods and people, but more decisively in advanced business services, notably financial services located in Europe's major global cities however the latter have not been responsible for the biggest global connectivity increases of European cities. But Europe is before all an integrated economy: it is first illustrated by the intensity of cross border trade, FDI, migrations, knowledge and human daily flows resulting in the fact that European countries mainly have intense interrelations with each other. Moreover, this functional Europe goes beyond the limits of the EU or the ESPON space and includes Northern Africa, the near Middle East and the former Soviet Republics. But the integration of the European economy goes far beyond that. It also results in very integrated and dense networks of cities in which for example firms of advanced business services use European global cities for their global operations, as well as by the existence of integrated European value chains as illustrated by the clothing and automotive industries. Here again, without doubt, the neighbourhood is a part of this integrated European economic space.

The openness of Europe is not territorially neutral given the unequal vulnerability to the global economic pressure and thus potentially impacts territorial cohesion (figure 2). First, polarization in favour of metropolitan areas – though unequal in space and time – has been observed during the two last decades, especially in Central and Eastern countries. Second, when considering European territories that participate to the global economy mainly through manufacturing goods, we also highlight the unequal vulnerability related to the technological level and position of territories in the European and global value chains. Though the weak position of regions specialized in low added value goods is often mentioned, the vulnerability of "in between areas" has been particularly highlighted in this study. This position is related to the inability to compete with regions benefiting from processes of accumulation in technology, qualified workforce etc. from Northern and North-West Europe, but also to the increasing pressure from countries with lower labour costs.

Considering this we can identify two important implications. First, the openness of the European has been and remains a political choice, albeit independent of territorial politics, market forces act at a global scale. Due to the high level of internal integration and the importance of the European market, the EU has other possible political choices than the pursuit of total openness and trade liberalization. Second, neighbourhood is *de facto* a part of what we have called functional Europe. Though the importance of neighbourhood is mentioned in official EU texts, we cannot speak of an EU strategy for the neighbourhood apart from the idea that EU rules, notably EU economic rules, should apply to the neighbourhood to the benefit of both the EU and neighbouring countries. This

vision will remain “paternalistic” for so long as clear and shared vision and development strategies are not deployed for the neighbourhood.

2. Where and how to invest to face the challenge of globalization whilst reinforcing territorial cohesion?

In the territorial state and perspectives of the European Union, it is explicitly recognized that “Metropolitan areas play an important role in sustaining the EU’s global competitiveness” (EC, 2011b). This can be interpreted as a way to achieve smart growth since “EU metropolitan areas, while being of a relatively modest size, host the most advanced worldwide services and most innovative high-tech manufacturing sectors” (EC, 2011b). A third way of saying this is that metropolitan areas are decisive for Europe to grasp the opportunities of globalization. Of course, in this report, the role of metropolitan areas has been widely illustrated as the vital gateways of globalization: Europe needs ports, airports, centres of services, knowledge production and innovation as well as financial gateways that reach necessary thresholds of concentration to benefit from agglomeration economies in these different fields. However, we also discuss the lack of empirical evidence that can confirm a direct link between growth in GDP across the EU as a whole and the wealth-generating capacities of the major European gateways.

At the same time, the objective of inclusive growth explicitly refers to territorial cohesion in the EU 2020 strategy. In the Territorial Agenda 2020, this objective is made explicit: “Policy efforts should contribute to reducing the strong territorial polarisation of economic performance, avoiding large regional disparities in the European territory by addressing bottlenecks to growth in line with Europe 2020 Strategy” (EC, 2011a).

In this framework, several general alternatives exist in the territorial policy of the EU when the challenge of globalization is taken into account:

- To invest mainly in the global cities, which are the gateways of globalization, in order to improve Europe’s position in the world;
- Or, since the global/major cities are already well connected in the global networks, should we rather support second-ranked or even smaller cities to be better connected to the global and European networks?
- Or, by putting the emphasis on territorial cohesion, should the EU instead persist in a redistributive regional policy aiming at providing conditions for better performance in less developed regions?

These are crucial questions for the regional policy of the EU and we do not pretend here to provide the answers but rather we put forward elements of reflection derived from the analyses presented in this report. We reflect here on two specific options however these should not necessarily be interpreted as alternatives – a nuanced balancing of priorities is likely to be necessary to support sustainable development and growth across a diverse territory: a redistributive policy toward less developed regions; a reorientation of regional policy putting more emphasis on gateway cities.

Combining an opened up Europe with a shift toward major cities as a motor of growth in EU regional policy raises a number of issues:

1. The link between economic growth and city connectivity and size cannot be clearly established by empirical evidence;
2. The idea that the wealth of major European and national cities will benefit non metropolitan territories is not empirically proven;

3. The impact of public investments toward the most developed areas of the EU can be questioned since, by definition, it will concentrate in globally networked cities, endowed with developed infrastructures (transport, education etc.) and specialized in high economic functions already at the top of value chains;

4. The economic openness of Europe could potentially impact on the development of regions facing competition from less developed areas where labour is cheaper, both in Eastern Asia and in the European neighbourhood, which are specialized in weak functions or low added value sectors and also regions where labour costs are already high even though technological know-how is still moderate, as we observe in many non metropolitan Mediterranean regions (in Southern Italy, Northern Portugal, Greece, central Spain outside Madrid etc.). The weakness of such regions in relation to European competitiveness objectives might also be observed in many areas of Eastern Europe in the near future, once they have reached a certain development level, because of similar structural features, notably an in-between position in the international division of labour, combined with weak entrepreneurialism (endogenous development) and a weak territorial embeddedness of transnational firms that have massively invested there. In a global context of financial crisis and recession, regions still lacking the capacity to move up in the value chain would be at risk, thus a weakening of EU "territorial investments" in favour of less developed regions raises potential future problems. Hence, the historical justification of European regional policy, as a tool to help less developed regions to resist the economic shock to unequal competition due to their integration in the European market – and nowadays more and more to the global market – is still relevant today. Moreover, convergence has been the trend in recent decades and EU investments have produced concrete outcomes that have improved daily life in less developed regions albeit the economic impact of regional policy on competitiveness is difficult to demonstrate.

In conclusion, the vision for an open Europe combined with a wholesale reconfiguration of European policy, notably in favour of metropolitan areas as motor of growth, is highly questionable because the openness of Europe is likely to increase the vulnerability of weaker regions. The debate on European economic openness does not seem to be politically relevant today. In other words, since increased economic openness might reinforce regional inequalities, it can be argued that regional policy should continue to act to preserve territorial cohesion. As a consequence, it is argued here that the challenge of globalization makes regional policies to support growth in peripheral and under-developed regions and their cities through redistributive funding more pertinent than ever. In section 3 we present some elements of reflection on the orientations of such a redistributive policy.

At the same time it is clear from our results on the importance of cities in a global context that gateway cities must not be ignored in regional policy as has until recently largely been the case. Cities across the EU have a key role to play in adding value to production in the wider regional and European economies. It is important not to simply focus on the major agglomerations of London and Paris or even other major business cities in the economic 'core' of Europe, as having fixed positionalities in the world economy. Of course their positions are strong compared with those of capital and other cities in peripheral regions but the latter can benefit from network connectivity with existing gateways, and as seen, developed cities (for example in the US), are subject to downward trajectories in an increasingly fluid global context. At the same time, as already discussed, it is far from clear that the position of cities in networks is enhanced sustainably by public sector boosterism policies. Furthermore policies on regulation, taxation, planning controls etc. can also have unintended consequences which can

compromise a city's engagement with external networks (Taylor *et al.*, 2003). So it must be ensured that policy does not inadvertently compromise the sustained functioning of gateways and also that honed direct interventions ensure that funds (increasingly in the Western world, private sector funds) are raised and used to invest in public infrastructure developments necessary to maintain efficient essential services even in successful global gateways.

In conclusion, our findings suggest that effective regional policy needs to be informed by evidence bases that engage with the specificities of place roles, functions, growth and development support needs across the territory.

We need to go a step further to reflect regional policies at local/regional level that takes into account the position of territories in the global economy. In the territorial agenda, it is stated that (page 7) "The use of social capital, territorial assets, and the development of innovation and smart specialisation strategies in a place-based approach can play a key role... Strengthening research, human capital, the capacity for innovation and bringing ideas to the market are essential... Furthermore, integration of local endowments, characteristics and traditions into the global economy is important in strengthening local responses and reducing vulnerability to external forces" (EC, 2011a).

However, this general assessment runs up against the unequal ability of territories to face European and global competition. For example, at the bottom of the value chains, we have highlighted the difficulties of Bulgarian firms in moving up the chains both because of the local contexts they are embedded in (low qualifications for example) and their present weak position in value chains that are controlled by West European firms.

As already argued, European territories are unequally vulnerable to global competition. Figures 1 and 2 are an attempt to describe the role of gateway cities and the vulnerability of European territories in the global competition. We propose a brief description of the major stereotypes:

1. *Gateway cities at a global, European and national scale (Figure 1).*

Global and national gateways are deeply involved in various types of global and European networks and thus generate what can be called nodal advantages that reflect their strategic positions in the service and financial economy. However, we have also highlighted the apparently weak relationship between city connectivity and economic performance in GDP in the last ten years with the exception of Eastern and Nordic capitals, as well as London. However, no connected gateway city performs badly and there are also signs that they have been more resistant to the recent crisis, at least in terms of inward flows of real estate investments.

What can we draw from our analyses in policy terms?

- Urban policies have a weak impact on city connectivity and improved city connectivity will not necessarily result in increasing competitiveness. Hence, public policies aiming to attract investments in higher and interconnected global functions may be inefficient both at the urban and European scales. We argue here that this process is probably working largely independent of state intervention however challenges of social cohesion, infrastructure, congestion and market regulation must be addressed and dealt with even in the most globally connected cities;
- Priorities of major cities could focus on these major issues that arise from concentration and agglomeration: the challenge of increasing social polarization; the problems of infrastructure and congestion, within metropolitan areas but in addition, increasingly in extended urban functional areas which do not correspond to administrative boundaries yet which present a threat to

sustainable development and their position in European and global networks. The major issues here relate to matters of strategic and joined-up governance.

2. *Manufacturing territories standing high in the international division of labour*

- Because of technological know-how and their capacity to maintain a position at the top of value chains, these territories have been and may benefit further from globalization, notably from emerging markets requiring huge transfers of industrial equipment, and technologies. They are nevertheless very sensitive to global demand as illustrated by the recent global crisis, which has resulted for example in a dramatic drop of sales in the automotive and machine tool industries.

3. *Manufacturing "in between" territories*

These territories have been dynamic by attracting huge investments in medium technological segments of value chains. They have been rising in technological skills during the past decades. But they have also in common their inability to upgrade beyond a certain threshold combined with the risk related to exogenous development (related to big foreign firms) they benefit from, and a weak entrepreneurial fabric. Moreover, in this context, Mediterranean territories have had to face the growing attractiveness of regions from Central European regions, with lower labour costs but qualified workforce. This may explain the structural crises faced by Mediterranean manufacturing regions while in Central/Eastern Europe, an "in-between" position may result in the near future from increasing labour costs and the rising position of some neighbour countries and Eastern Asia.

The challenge for these regions is to reinforce the territorial embeddedness of large foreign firms. There is probably no other way for these regions than "strengthening research, human capital, the capacity for innovation", allowing also to move up in the value chains which can be assisted by the development of advanced services such as financial, management consultancy, advanced logistics etc in regional gateway cities.

4. *Manufacturing regions in low manufacturing sectors and functions*

We group here together regions located in southern and Eastern Europe mostly located in the Balkans. These territories rely on small and medium firms at the bottom of value chain in labour intensive segments of sectors like clothing. In Eastern Europe, they have been able to maintain competitiveness because of their position in integrated European value chains, the proximity to the European markets, both explaining greater flexibility. However, the increasing competition in these functions and the difficulties of rising in the value chain strongly impact on these regions. Being 'locked' in subcontracting and thus having limited access to resources, knowledge and freedom of decision-making, CEE companies of many branches have mostly instead upgraded their products and processes. They seem to have very limited ability to change their functions within particular chains. This might result in the deep crisis when labour cost reaches a certain level, as illustrated by the case of Northern Portugal. Despite the crisis of "Italian Marshallian districts of small and medium interconnected enterprises", we do not consider these to be part of this group because they have been moving up within the value chains and have been able to diversify their economy, building on endogenous capacities. But in the Balkans, this capacity is just not there and their future growth will require further massive assistance from the EU to strengthen their structural assets and reinforce their human capital as well as their basic infrastructures.

5. *The importance of the local economy across European territories*

Europe is not only an open economy, it is very much an integrated economy. And indeed, many European territories have weak relations to the global economy and

hence are little impacted by the global economic pressure. This illustrates that, in European territories, basic services play a vital role. First, they constitute an important share of the local economy. This relates to the central paradox of globalization: while all economic sectors have become more and more open, with a sudden acceleration in the nineties, developed economies shift toward less open sectors of services, resulting overall in the moderate increase of openness of developed economies such as the EU and the NAFTA. Second, basic services are essential to social cohesion. Third, these services are in a modern economy an essential basis for long term economic growth.

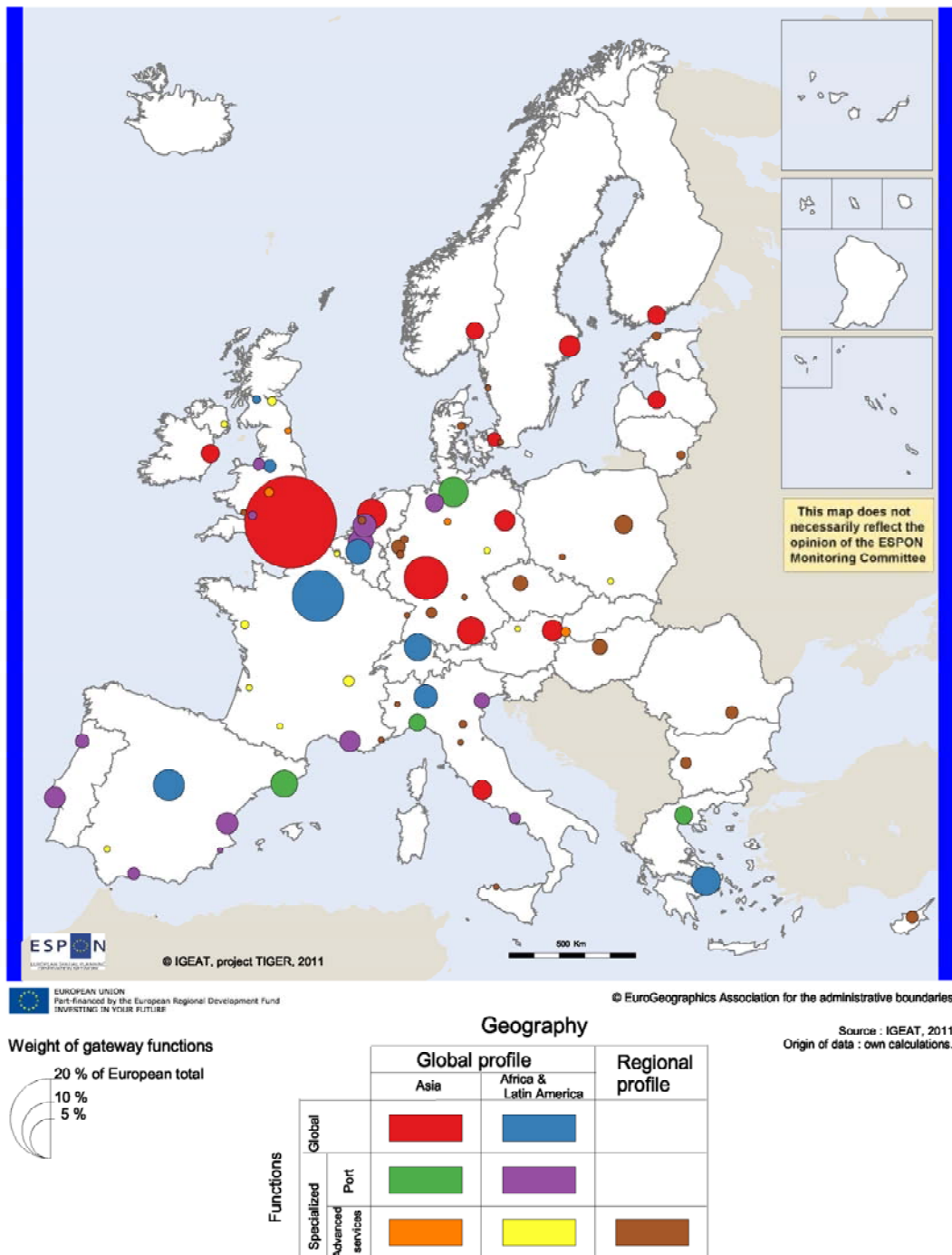


Figure 1. Typology of European gateways

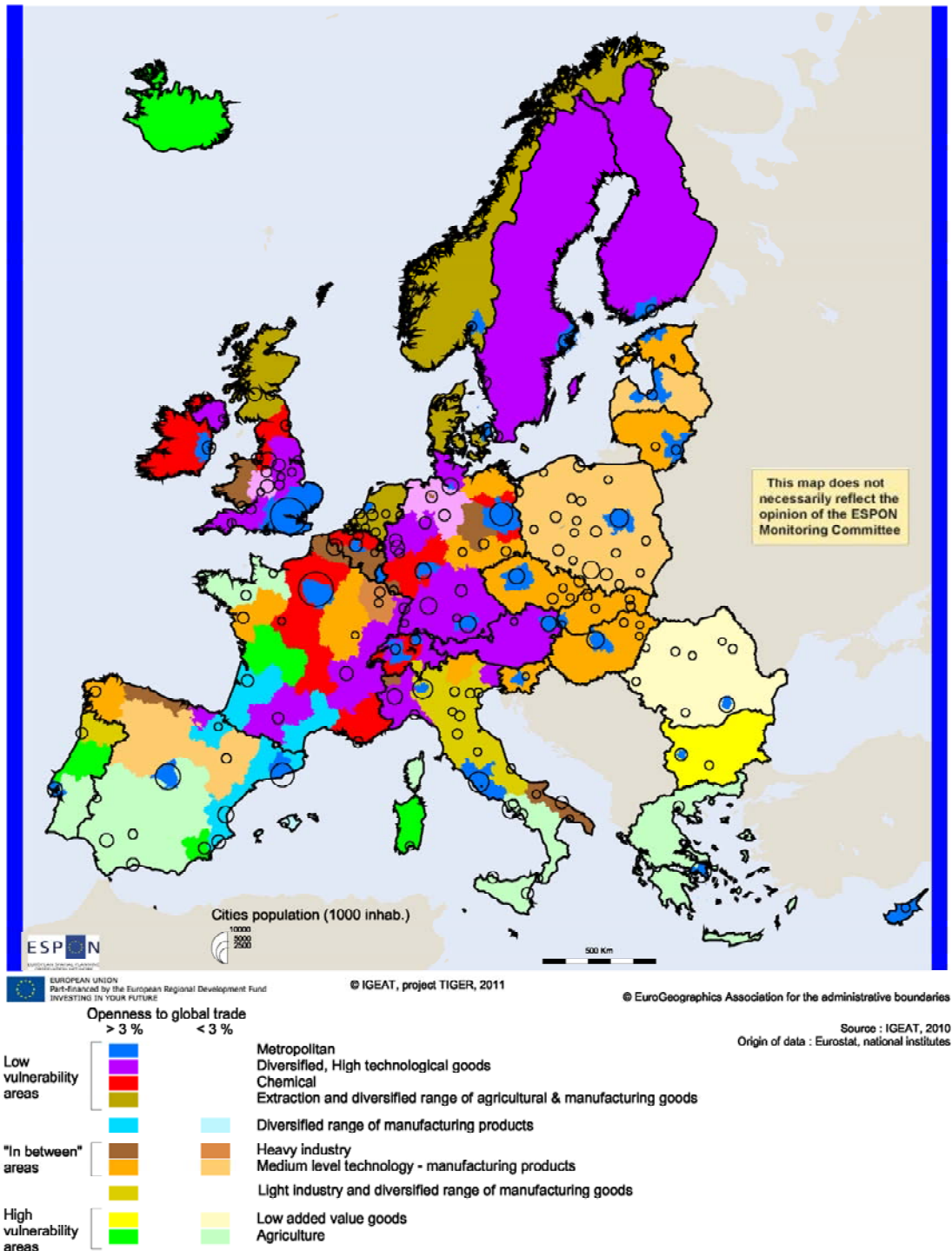


Figure 2. Vulnerability of European territories in the global economy

www.espon.eu

The ESPON 2013 Programme is part-financed by the European Regional Development Fund, the EU Member States and the Partner States Iceland, Liechtenstein, Norway and Switzerland. It shall support policy development in relation to the aim of territorial cohesion and a harmonious development of the European territory.