

TIGER

Territorial Impact of Globalization for Europe and its Regions

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Table of contents

Introduction	1
1. The macro-regional scale: Europe in the global economy.....	2
2. The city/regional scale	4
2.1. Which EU policy: where to invest to face the challenge of globalization whilst reinforcing territorial cohesion?	4
2.2. Adapting the regional/local policy to the city/regional potential in the global economy	5

Introduction

Globalization has been defined as a growing interdependence between the different territories of the world. However, it should not be understood as undirected interconnections of all territories across the world. Indeed, naive, early readings of globalization announced the 'death of geography', notably focussing on the potential locational impacts of new communication technologies. Our analyses, following many others, demonstrate the inaccuracy of this reading of globalization. We highlight in this project how distance and agglomeration economies have become even more central through the analysis of financial, trade, human and knowledge flows. It results in two decisive functional scales for globalization: city and the macro-region.

Cities are the result of agglomeration economies which derive from the advantage firms and people take of proximity. In the global economy, (large) cities play an increasing role in connecting actors through complex global networks within and between cities and in playing an interface role between the global and regional/national/continental economies. Increasing flows across the world result in a growing importance of cities that concentrate gateway functions, notably benefiting from agglomeration effects in various domains. Consequently, the movement of goods and people is highly dependent on major infrastructures located in gateways.

As an illustration of the importance of distance, many authors also insist on the existence of **macro-regions** between the local/national and the global scale, be it from an economic or political point of view. This means that in most flows, we observe intense relations within large regions of the world, mainly in the most developed areas, Europe, Northern America and to a lesser extent, Eastern Asia. As might be expected the European Union appears as the most advanced territorial assemblage in this process of *regionalization*, notably because its economic integration has been accompanied by a process of political integration. In contrast to fears expressed in the 1990s, globalization and regionalization have been simultaneous processes since both internal and external trades of major macro-regions have been developing together at very high rates. However, despite the huge increase in openness in major world regions, it must be noted that big economic ensembles 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%.

Finally, on a political level, **the nation state** remains a decisive actor, the only one that really seems able to regulate the economy on a large scale. Of course, its regulatory power has diminished as a result of the 'bordering' of its actions compared with the 'debordering' strategies of economic actors. 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 toward regional/local level.

Taking into account the two main scales of globalization, 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 macro-regional scale: Europe in the global economy

Europe is a major actor in the global economy. In all types of flows, Europe is the first or second world region in importance: though it concentrates around 6% of the world population, it accounts for 20% of inter-regional air connections, for 22% of inter-regional trade of goods and 27% of inter-regional trade of services, for 31% of inter-regional in/out flows of FDI, 21% of inter-regional migrations and 23% of inter-regional student flows. That being said, the European decline is in no doubt: for example in trade, the EU and close associates (Switzerland, Norway and Iceland) accounted for 22% of the inter-regional trade around 2008 vs. 28.3% in 1968.

However, Europe keeps a high and dominant position in the international division of labour. Though there is a quantitative shift in world trade towards Eastern Asia for nearly all types of products to different degrees, 'old core countries' remain highly specialized in the most technologically advanced segments of production and in knowledge intensive services, and in particular the position of Europe has been quite stable in the international division of labour. More generally, European territories – though having unequal positions – stand high in the value chain, specializing in the most technological segments or in the commanding and control functions. Finally, the weight of European firms in the global economy is of major importance, confirming the position of control of European firms: Western Europe concentrates 40% of the headquarters of the 500 biggest world firms, before Northern America and Japan, with respectively 33 and 15% in 2008.

In Europe, as in other parts of the world, we observe a simultaneous process of regionalization and globalization: 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. That being said, the EU can still be considered as a relatively closed economies, with a ratio between trade and GDP of respectively 20.6, and 27% when the trade of services is included. As a consequence, large developed economies mainly rely on their own markets and producers and Europe appears as an integrated area, whose relations are mainly internal: 86% of European maritime links (95% when neighbourhood is included), 84% of air connections (91% with the neighbourhood), 70% of the trade of goods (79% with the neighbouring countries), 79% of European FDI, 32% of links in advanced producer services and 40% of migrations (64% when neighbourhood is included) are internal, that is between European countries or cities.

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. However, the territories for which Europe matters are not necessarily those which matter

for Europe. In particular, in most relations and flows, the major partners of the EU and close associates include Northern America, by far the most important economic partner, and Eastern Asia, in particular the emerging power of China.

From the official documents, we identify two major challenges when the position of Europe in the world is considered:

1) The thematic challenges: European growth will depend on its capacity to grasp opportunities from globalization which are related notably to growing emerging markets (EU 2020). As illustrated throughout this report Europe is characterized by its very high position in the international division of labour, indicating the specialization in medium and high segments of global production of goods and services, as well as strategic position through the concentration of capital and commanding position, mainly in Western Europe. However, keeping this position notably relies on several decisive challenges:

- i. the migratory challenge. Not only Europe faces the ageing and potential decrease of population but also needs to attract high qualified labour in order to maintain its position in the global economy. In this context, we notably show that Europe has been attractive for students from all around the world. However, Europe faces increasing competition from other parts of the world beside Northern America;
- ii. the knowledge challenge. In order to maintain its position, Europe needs to progress in the knowledge economy and innovation processes.

2) The geographic challenges and the importance of neighbourhood and worldwide relationships for Europe: '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' (Territorial State).

- i. 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. Two issues are important in this context: the lack of means and the issue of reciprocity. Apart from Turkey and Western Balkans, the financial means devoted by the EU to the neighbourhood remains relatively low and this raises the issue of the interests for neighbouring countries to fully collaborate with the EU. Moreover, the neighbourhood policy is a European strategy, whose objectives are not necessarily shared by neighbour countries, focussing in strategic domains for the EU such as migration, security and energy. Hence, rather than a global strategic cooperation between all EU and neighbourhood countries, we observe a series of thematic and regional (Mediterranean, eastern neighbourhood etc.) cooperation. What is needed here is a coherent and shared strategy with the neighbourhood.
- ii. To grasp the opportunities of globalization, the EU also needs overcoming the weakness of Europe in emerging markets. 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. This weakness will only be overcome through the thematic challenges such as immigration and knowledge.

2. The city/regional scale

2.1. Which EU policy: where 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). Another 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. 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'.

In this framework, the territorial policy of the EU has two major alternatives with regard to the challenge of globalization:

- To invest mainly in global cities, gateways to globalization, in order to improve Europe's position in the world;
- Or, by putting emphasis on territorial cohesion, should the EU instead persist in a redistributive regional policy aimed 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 claim to provide answers here. We instead put forward elements of reflection resulting from the analyses presented in this report. We particularly consider two specific options: a redistributive policy toward less developed regions; a reorientation of regional policy putting more emphasis on gateway cities.

On the one hand, 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:

- i. At the city level, the link between economic growth and connectivity and size cannot be clearly established by empirical evidence;
- ii. The idea that the wealth of major European and national cities will automatically benefit non metropolitan territories is not empirically proven;
- iii. 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;
- iv. The increasing economic openness of Europe could potentially impact on the development of regions facing competition from less developed areas where labour is cheaper, which are specialized in weak/medium functions or low/medium added value sectors but also regions where labour costs are already high even though technological know-how is still moderate, as observed in many non metropolitan Mediterranean regions (in Southern Italy, Northern Portugal, Greece etc.). This weakness might also affect many areas of Central-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 still not strong enough 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 due to their integration in the European market – and nowadays more and more the global market – is still relevant today.

In this perspective, the vision of 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. 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.

On the other hand, it is clear from our results regarding 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. 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.

2.2. Adapting the regional/local policy to the city/regional potential 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 (figure 1).

In this perspective, we propose some policy options to deal with the unequal potential strength/vulnerability of European territories in the context of globalization:

1- Gateway cities at a global, European and national scale.

We have underlined the importance of these for the European economy. 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 studies in policy terms?

- Urban policies have a weak impact on city connectivity and improved city connectivity will not necessarily result in increasing competitiveness as measured by GDP. Hence, public sector 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;
- 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 – *Low vulnerability areas.*

By their position at the top of value chains as well as the high technological know how through which they participate to the global economy, these regions can be considered as potentially benefiting from globalization, through the rising demand coming from emerging countries. However, their position is not to be taken for granted, notably because of the increasing position of emerging powers in some technological areas, mainly China. Hence, as illustrated by the sudden crisis faced by the Swedish or German economy at the beginning of the current crisis, the wealth of these areas is also dependent on the world demand of technologies, and hence on the economic wealth of emerging powers.

3 – *'In between' areas*

These regions are characterized by specialization in medium functions and intermediary sectors in the global economy. 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 (due to the dominance big foreign firms) they benefit from, and a weak entrepreneurial fabric in some of these regions. 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 wages 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 – *High vulnerability areas*

In an open Europe, low value functions will probably continue to decline, strongly impacting the Balkans, Northern Portugal and other Mediterranean areas. However, we highlight the low capacity of these regions of moving up in the value chain when their firms are locked into subcontracting positions. This has been illustrated by the crisis faced by Northern Portugal. In the Balkans for example, 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.

Finally, we must underline *the importance of the local economy across European territories*. Europe is far from an open economy, it is very much an integrated economy. 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.

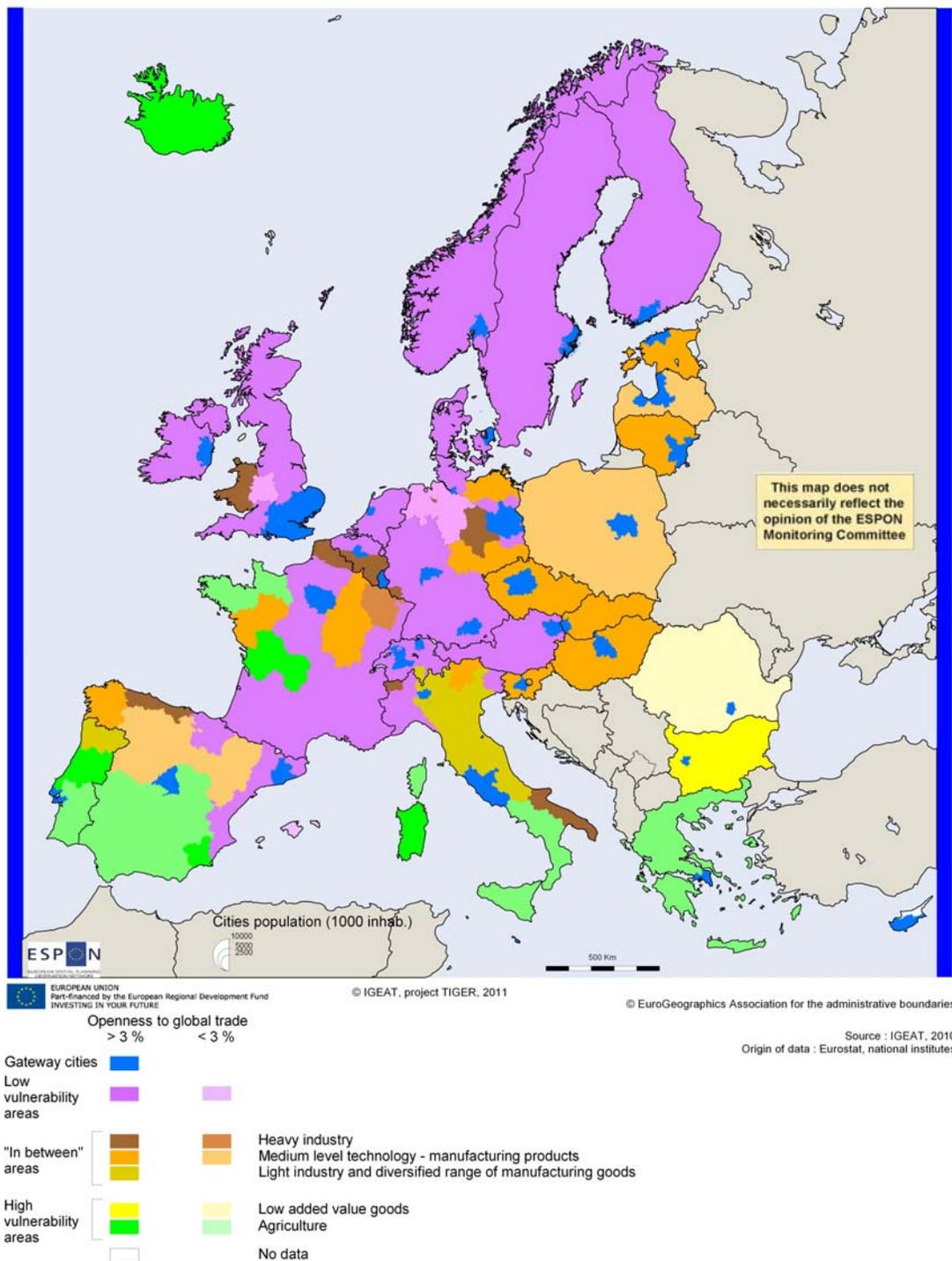


Figure 1. Vulnerability of European territories in the global economy

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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.