Territorial Capital: a new Perspective on urban Competitiveness?

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overview

urban competitiveness
  ▪ changes in understanding
  ▪ governance challenges

meaning of territorial capital
  ▪ urban regional assets
    ▪ understanding
    ▪ meaning of governance

conclusions
  ▪ a new perspective?
  ▪ what can we learn?
Competitiveness is a meaningless word when applied to national economies. And the obsession with competitiveness is both wrong and dangerous.

Krugman, 1997, S.22

**arguments**

- increasing competition between cities
  - loss of productive activities through globalisation
  - footloose firms through tertiarisation
  - similar conditions on national level through economic integration into the EU

- problems of unutilized potentials (productive factors)
  - due to new conditions of accessibility
  - new urban/metropolitan 'hinterland' and market potentials

→ concerns firms acting globally in networks
  - only about 10% urban economic performance

→ concerns small and medium sized firms acting on the interregional level – very often in a transborder context
  - a rapidly increasing or decreasing share for urban economic performance
theoretical arguments for endogenous agglomeration

new economic geography

1. explains the endogenous and cumulative process of the agglomeration of activities in economic and demographic terms

2. agglomerative development: result of the interaction of
   - increasing returns to scale and of transport costs enforcing firms
     - to concentrate production in one unit
     - to locate this production unit near to final demand of intermediate markets or consumers
   - attraction of inhabitants (migrants) and firms because of
     - job opportunities and
     - supply of high qualified work force with moderate salaries

3. peripheral regional development based on its specialised endogenous growth potential as a result of
   - its attractiveness for complementary economic functions
   - local functional endowment factors (for production) as relative advantages
     - Krugman 1991; Maier and Tödtling 2002: 111 ff
agglomeration (i.e. spatial concentration) of competitive economic activities predominantly depends on

- increasing agglomeration economies
  - returns to scale interlinked in a cumulative way with
    - convenient (qualified, cheap) factor costs and market potentials
    - enhanced through decreasing transaction costs (transport, information, other barriers)
  - intrinsic trend for specialisation and clustering

- effects of innovation
  - growing impact on productivity of labour and capital the higher the level of development (productivity, technological standard) already is
    - implies a path dependency of many cities and regions

→ clear focus on agglomeration economies
change in understanding

- simple concept
  - concentration on economic performance as relevant output only
  - potentials of supply and factor costs as decisive influencing factors

- complex concept
  - consideration of economy, society and policy as an interlinked system
  - multidimensional description of the urban development
    - economic performance and standards of living as relevant output

“[…] the ability of an economy to attract and maintain firms with stable or rising market shares in an activity, while maintaining stable or increasing standards of living for those who participate in it”

Storper, 1997

governance challenge

"…as a proactive city which is able to mobilise local, social, political and economic resources in a coherent institutional framework to develop and sustain a long-term support for a clear economic development strategy."

Parkinson, 1997, S.125
urban-regional competitiveness: a maze?

issues of urban-regional governance and development policy

own conception based on Begg, 1999, S.802
from competitiveness to territorial capital

assets of cities
- analogy to the formation of a firm / company
- basic argument: transaction costs
  - nach Coase (1960)
- city’s specific assets
  - identification of cultural, economic, social characteristics as starting point for specialisation and positioning

perspective from an entrepreneurial point of view (entrepreneurial understanding)
- economic factors (real estates, labour, capital, knowledge)
  - relative advantages through convinient endowment factors
  - in particular, cheap production factors
- strategic factors
  - absolute advantages through friendly/convenient environment for firms through the reduction of transaction costs

Consequence
→ the emergence of a pure managerial approach instead of a proactive understanding of development considering private, semi-private and public actors
In an economic perspective, territorial capital is regarded as a distinct bundle of factors which:

- attracts investments and
- makes the return of certain investments higher than in other regions

OECD, 2001, p.15 f

→ higher return for certain kinds of investments because they are better suited to the area and use its assets and potentials more effectively

In a policy related perspective, kind of meta concept considering:

- inhomogeneous potentials and assets and
- regional diversity across cities and regions in Europe
- governance challenges within and across regions

→ every (urban) region has its own territorial relative and absolute advantages for certain kinds of investment
→ specific territorial governance efforts necessary for its mobilization
territorial capital in a comprehensive perspective

functional factors
- size
- geographical location
- production endowment
- traditions,
- climate, natural ressources
- quality of life
- ....
→ relative adv.

untraded interdependencies as social capital
- customs
- informal rules
- understanding
→ enabling cooperation, co-option of ideas, mutual assistance and solidarity
→ absolute adv.

environment as an intangible factor dependent on combination of
- institutions
- rules & practices
- strategies and policies
- ...
→ providing creativity and innovation
→ absolute adv.

territorial capital approach
- OECD, 2001, p.15 f
- similar to factors of urban competitiveness but agglomeration effects are not decisive
- factors comparable to my description before –
  - based on Begg, 1999, and Parkinson, 2003
territorial capital

enhances understanding of urban competitiveness

- focus on intangible assets
  - includes further dimensions
    - social, cultural, environmental, etc.
  - providing absolute advantages
    - enforcing specialisation and positioning
- emphasizes the importance and meaning of governance
  - for adequate territories across regions
  - to strengthen the organisational capacity
    - cooperation of corresponding stakeholders
    - identification of a territory’s capital and perspectives
    - precision of economic specialisation
    - definition of its position against other regions
Territorial capital
combination of functional endowment factors AND the knowledge/the ability to make best use of endogenous assets.

*basic functional endowment elements*
natural features, material and immaterial cultural, technical and social heritage; locally bounded qualities and potentials
  - *Parkinson, 1997*

*basic relational elements*
goods like networks, clusters, cooperative initiatives, etcetera as cognitive, social, cultural and institutional capital
  - *Storper, 1997; Healey, 1997*
a new perspective in research and governance advice?

- no
  - basically, reasoning on urban-regional development in the same way based on NEG – approach
  - issues and challenges of urban governance efforts regarding urban development already known - in particular in the economic and social dimension

- yes, partly
  - specific assets as relational elements become important
    - untradeable elements and specific environment
    - governance as endogenous element of territorial capital
  - clear reasoning towards specialisation through
    - the enforcement of functional endowment factors and corresponding potentials and
    - the enforcement of relational elements of specific assets in order to enhance its territorial capital
  - concept applicable to non-urban and peripheral regions
conclusions

→ competitiveness is not meaningless for many cities and regions

→ spatial development is not based on agglomeration effects or metropolitan functions only, but on its specific territorial capital
  ▪ absolute advantages through specific assets become increasingly important and provide interregional trade and socio-cultural exchange
  ▪ however, risk of dependence for distinct regions through monostructured economy

→ the territorial capital approach seems to be realistic and fruitful for spatial development in CE and SEE due to the diversity of assets across all regions and cities in Europe

→ territorial capital is less used in an optimal way the more boundaries and borders
  ▪ affect transaction costs of economic activities, resp.
  ▪ restrain the evolvement of untraded interdependencies or productive/innovative environment
thank you for attention
Territorial Capital and Governance

- in a Central and Southeast European perspective
- Meaning for urban and regional development
- Challenges
- Research issues
increasing pressure of competition between cities and regions

Economic restructuring

- globalisation and technological change
  - mobility of firms, capital
  - changing locational profile
- process of integration in Europe
  - reduction of barriers
  - new market potentials
    - new challenges for cities and urban regions

Political goals on the EU level

- Lisbon targets 2000
  - enforcement of the EU’s competitiveness increasingly based on the concept of European metropolises
- territorial agenda / cohesion – Leipzig
  - emphasize of diversity in territorial capital across EU as a chance

→ discussion about:
  → enforcement of the urban competitiveness
  → the meaning and influence of its territorial capital
Workshop: hypothesis

- spatial development is based on agglomeration effects or metropolitan functions only
  - they provide highest returns and agglomeration economies
  - only large cities will grow and have competitive economic activities
- for spatial development a specific territorial capital essential
  - absolute advantages through specific assets become increasingly important for territorial cohesion
    - accessibility, trade, socio-cultural exchange
  - however, risk of dependence through monostructured economy
- embeddedness of firms as an urban-regional asset and precondition of competitiveness
  - less conflicts, more participation/interaction, less transaction costs
→ the territorial capital approach seems to be realistic and fruitful for spatial development in CE and SEE
  → enormous diversity of assets across all regions and cities in CE and SEE
  → its utilisation is suboptimal through different reasons
    → ....
    → .....
→ territorial capital is less used in an optimal way
  ▪ the more boundaries and borders
    ▪ cause transaction costs for economic and sociocultural activities
      activities, resp.
    ▪ restrain the evolvement of untraded interdependencies or
      productive/innovative environment
→ in particular, this is the case
  ▪ the later/more recent the European integration
    process/enlargement took place
  ▪ the more historical reasons are responsible for
    fragmentation resp. integration
  ▪ the less the capacity of the administrative system is
workshop

further arguments and hypothesis

- ....
- .....