# TERRITORIAL COMPETITION IN THE NEW ECONOMY. DIFFERENT STRATEGIES IN DIFFERENT URBAN SETTINGS

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**Abstract**. Territorial competition in the New Economy comprises a variety of strategies, both direct and indirect ones. In this paper, first the most common direct strategies (traditional, ICT, cultural) are discussed from an interdisciplinary perspective (urban geography, economic geography and urban economics, at least). Then, some indirect real estate and housing strategies (value creation, affordability) are discussed. After that, the post-socialist context (where Richard Florida's ideas have a high uptake) is examined as a specific case of dynamic territorial competition process. Finally, a summary and conclusions are given.

**Key words**: agglomeration economies, new economy, territorial competition.

## 1. Introduction

Taking the traditional *Weber's law of the location of industries* as a starting point, the location of all business activity is determined based on the physical distance to suppliers and demanders, together with a few other tangible factors, notably costs of transportation and labour. According to this general text-book theory of economic geography, the location of a factory is primarily dependent on the nature of the product: that is to say, if the product during the course of the processing is loosing or gaining weight. If the weight is decreasing during the processing of the end product, the optimal location is close to the supplier, but if the weight is increasing, it is close to the demand. A steel factory for example, is then being localised close to the suppliers of raw material – iron ore, which in turn is being localised close to the supplier of energy – coal. A furniture factory in turn is being localised close to the consumers (e.g., Ely and Wehrwein, 1964).

In a post-Fordist production system where lighter industries and services have taken over the abovementioned does not hold. In the industrialised Western World an urban transition has occurred since the mid 1970s – in post-socialist cities the same changes begun *c*. 20 years later. When the old manufacturing industries were unable to compete for central locations and had to move out of urban areas, these locations were replaced by completely different kinds of functions. As a consequence, urban economies do not rely on heavy industry anymore (amidst this general tendency, Germany makes an interesting exception insofar as the manufacturing of cars and maccines were subsidised by the federal government in the 1990s, and thereby could remain in urban areas).

Today the premises for city development lie elsewhere. Nahiduzzaman & Aldosary (2012) argue that the increasing spread of sophisticated ICT will lead to a virtual movement away from physical movement, and that, as a consequence, the resulting changes in city structure will be beneficial from the point of view of physical and social environment, competitive land use and transportation system. One could also say that agglomeration economies (agglomeration benefits) have a new meaning with the ICT revolution, in so far as the benefits of nearness of several firms and support functions does not have to be of the immediately perceivable kinds such as cost pooling or shared logistics networks.

There are even indications of widening agglomeration economies: that growth is likely to occur outside metropolitan areas due to improved availability of business environment, communication and transport infrastructure as well as the education of the labour force that resides outside the core cities, as Dijkstra (2009) predicts. Indeed, New Economy affects the functional diversity and spatial structure of metropolitan regions. Bontje and Burdack (2005) compare two European *Edge Cites*: around Paris and in Randstad Holland. In Europe the tendency is for headquarters and producer services to locate in the core, whereas other functions move to the periphery. They call the European manifestations of this phenomenon 'City-Edge', rather than its established American counterpart Edge City. They find that such a pattern complements the city centre, and, unlike the corresponding situation in the US, also involves some public accountability.

Within this problem area it is obviously difficult to generalise across different kinds of geographic and institutional settings – we could argue that each place is unique and so is each era of place making. The theories of agglomeration commonly focus on the relationship between city growth (in both economic and demographic terms) and various factors of productivity and density; however, these theories fall into two broad groups: those that are based on the spread of knowledge and those that focus on other issues such as welfare, culture or leisure (see e.g. Glaeser and Resseger, 2009). In this paper a similar divide is evident. It is furthermore to observe that this review concerns urban areas and city/metropolitan regions only. Thus more rural regions are left out of the analysis. On the other hand, the arguments are not tied to any minimum city size thresholds, which means that in principle territorial competition could work for relatively small settlements as well – as long as they are marketable and have something 'to sell' in the national and international competition of urban territories, and that there is evidence of a pro-growth stance within the core economic and political actors.

Given that the manifestations of urban transition and widening agglomeration economics are so diverse across urban space, to tie all these 'loose ends' together requires strong assumptions. In this paper it is assumed, in sharp contrast to Paul Krugman and his followers who deny or just neglect territorial competition, that, in order to meet the challenges of the new economy, cities *do* compete more than before, and that they have distinct strategies for how to offer the necessary incentives for the prospective firms and consumers. Cities must compete for investments, and in order to enhance their appeal, policies are helpful (see van Weesep, 2000). However, different contexts generate different frameworks for analysis of such relations [cf. D'Arcy & Keogh (1997, 1998); van der Krabben & Lambooy (1993); Haila (1999); Healey (1991, 1998); and van Weesep (1996, 2000)]. In what follows, both direct and indirect territorial competition strategies are reviewed to illustrate the richness of this discourse. To my knowledge, this is a first attempt to compile such a review.

## 2. General theoretical perspectives on competitiveness of firms and territories

### *2.1. Innovation in agglomeration economies*

Local governments, like firms, have two routes to innovations: either to increase diversity and quality, or cost cutting in order to reach affordability goals. As for the latter strategy, cost minimizing, in the tangible/direct sense, is increasingly left out of more modern evolutionary economic geography (EEG) analyses on Western/industrialised countries where *value creation* takes the centre stage. This is because of the outsourcing to low cost countries seems to be too dominating tendency in this context. Analyses of costs are thus restricted to mere 'sunken' costs and other intangible/indirect conceptualizations. When looking at the essence of EEG analyses we come to agglomeration economies – a concept that already is recognised in urban neoclassical economic NCE theory. In classic formulations agglomeration economies were seen as belonging to two main types: (1) localization economies (localization benefits, Marshall): nearness of firms within one and the same industry; (2) urbanization economics (urbanization benefits, Weber, Jacobs): nearness of firms across industries. However, in the New Economy context the picture becomes far more nuanced than that of a sharp distinction between (1) homogeneity and (2) heterogeneity of activities.

Given our increasing emphasis in evolutionary spatial processes, the relationship between innovation and location is paramount here. From an empirical point of view the important variables are variants of learning labour force and technological change – sometimes interrelated, sometimes not, but in any case, a defining force that gives urban areas a continued edge over their rural counterparts (Glaeser and Resseger, 2009), or at least until we have reason to assume away this edge – which in theory might happen one day. It is in any case assumed that agglomeration is interdependent with innovation and economic growth; a change in one triggers a change in the other. For example, a halt in innovation and growth within a significant industry is likely to lead to deglomeration of the urban economy. In this vein, theoretically a number of issues are often raised concerning innovation: (1) it is about knowledge creation; (2) and also about cooperation; (3) it has a spatial dimension (geographical scope); (4) it is a localised – not placeless – process; (5) it is interactive; (6) it is a social process; (7) it involves a systemic change from hierarchical governance structures to network governance structures; (8) it can work on different spatial scales; (9) spillovers might occur within a given industry – although this is debated; Philip McCann questions the motive for management/knowledge employees of firms within the same branch to share their secrets with each others. This debate (i.e. the last of the issues listed above) requires further explaining.

In a rather radical comment, McCann (2008) argues that spillovers are definitely not an argument for the localisation type of agglomeration benefits/economies. His evidence shows that companies in the same field do not talk to each other; instead, what matters for clustering together of firms in the same field is a greater skill pool and better connections. By implication, if the role of urbanisation economics – where also spillovers matter among professionals in different branches – then increases in relation to that of localization economics, investing in city cores and inner cities where the heterogeneous functions tend to be situated subsequently becomes also more sustainable than investing in office or hi-tech parks and shopping centres in more peripheral locations. He goes on to denounce work such as O'Brien's *The End of Geography* (1992), Cairncross' *The Death of Distance* (1997), and Thomas Friedmann's *The World is Flat* (2005). He argues that, instead of shrinking, economic activity is dispersing, and with the emergence of *super regions*, the general importance of agglomeration economies has increased since the early 90s. More and more people live in cities. The perceived world of McCann is 'spiky' with high value industries and low value industries alternating in space (cf. Kanó & Vas, 2013).

*Buzz* is an important new concept in this context: a generic characterization of liberal and marketable local circumstances that attract visionary talented professionals and, in doing so, encourages their spontaneous meetings. The nuanced understandings for the spatial clustering of the New Economy were elaborated further by Bathelt and colleagues (2004), who argued that it is not only 'local buzz', but that also 'global pipelines' matter in the process of knowledge creation. When knowledge is partly of the local, tacit kind and partly of the external, codified type, clusters matter for knowledge creation. First of all, face-to-face can be anywhere but buzz is something that requires static atmosphere, which is why city cores of cultural cities do well here. However, whether these clusters of new creation only should involve close spatial proximity is a debated issue, as knowledge creation to a great extent also is dependent on the generation of variation. In other words, a certain heterogeneity is required – learning from similar minded but with not too long cognitive distances. There is notably a trade-off between outwards and inwards looking strategies, and on the other hand the more firms there are in one and the same place the better it normally is for increasing the chances of engaging in learning.

Unfortunately, empirical quantitative studies on the topic are rare and a lack of hard evidence on the role of innovation in agglomeration economies persists. However, regression analysis undertaken by Knudsen and colleagues (2008) found out a positive relationship between the density of creative workers and metropolitan patenting activity (proxy for spillovers and innovation). This would suggest that it is really density and creativity together, rather than just informal expressions of either one attribute, as is usually assumed, that generates face-to-face contacts among the creative workers and subsequently innovation. Almeida (2007), in turn, finds evidence about the existence of specialization (i.e. localization economies) in the manufacturing sectors, but not of any existence of diversity (i.e. urbanisation economics) or competition (in the sense of Porter). She argues that her method based on employment growth is an improvement compared to the standard method of employment-based regressions. Elsewhere McCann (2007) modelled how face-to-face interaction impacts the land use costs and location choices of innovative firms. He concluded that, how this occurs, only partly follows orthodox neoclassical urban economics models (i.e models based on three variables: land price, land use and location relative to the CBD).

Evidently, ICT companies tend to cluster together and local/regional policy tries to support this spontaneous clustering; at the same time economic development has brought negative environmental externalities which we need to mitigate. The issues are many – for example, that tacit knowledge concentrates in cities, whereas the regional level tends to be undermined. The bottom line is that we need *sustainable consumption and production*. Moreover, as there will be opportunities there will also be threats, and these occur often in the third world. Thus this picture is spatially uneven – geography matters indeed (see Hudson, 2009).

When innovation based agglomeration benefits are being discussed, it is to note that already Marshall concluded that 'an atmosphere cannot be moved' – even if this could be considered to be within a neoclassical view. Here are several sources of arguments that, on a general level, are in agreement with such sentiments. According to Veblen, Polanyi, Granovetter, and most recently Storper (1997) economic action is embedded in social situations (following the 'old institutionalist' formulation). However, at the end of the day the extent to which firms are coupled is an empirical issue – originally brought up by Marshall. And it is fair to say that this view is subsequently popularised by Porter (90s) and criticised by Ron Martin (mid 1990s). The question is how certain industrial districts got clustered together, the knife industry in Sheffield (established gradually since Medieval times) being a textbook case in point.

### *2.2. Territorial competition strategies in relation to ICT*

Already in the 1950s Tiebout was the first one to theorise territorial competition; today a debate continues between Krugman's (New Economic Geography, NEG, extended NCE-theory) and Camagni's postulations (evolutionary economics and regulation school) in relation to *enterprise parks and also more cultural development strategies* of territorial administrative units (jurisdictions in the US context). Let us now examine the arguments involved here.

Krugman's new economic geography takes its starting point in neoclassical dynamics, where it is the firms in the same branch that compete and form clusters and networks. According to this model only competition among firms affects growth rather than any strategies of territorial competition implemented by local governments. Camagni (2002) and Vatne (2005) in turn propose that regions and cities compete for investments, firms, residents and tourists (and in some cases also for subsidies offered by EU, World Bank etc.), and need to identify at least one specialisation strategy for a successful competition. In the New Economy, when companies and people establish themselves in a given area or region, an increased density of them together with the tighter and larger social networks that result from the spatial interaction of their professional employees improves the preconditions (and increases the likelihood) for technological and entrepreneurial innovations. Thus, contrary to Krugman's

NEG, Camagni and Vatne suggest that also cities and localities can and should compete in order to avoid being without any role in the new international division of labour, and that, in this competition clusters, proximity, local networks and intensive collective cooperation among specialised actors in regional innovation systems play a crucial role in order to economise on technological externalities. Subsequently, these objectives should be subject to investigation.

Camagni (2002) shows how territorial competition based on *absolute advantage* goals is a valid assumption on a local or regional level. (The national level is different due to other mechanisms as noted below). Here we have both the locality's view and the firm's view. The methodology (behavioural or otherwise) to study these objectives ought to use 'collective' concepts, i.e. exactly how territories provide preconditions (1) for firms and (2) for innovation using an *urban regional policy*. To give an example, in Vienna, the government has a favourable approach to investment in public management of services (Pessina and Scavuzzo, 2010). Thus the local government strategy can be oriented towards quality maximizing instead of cost minimizing.

Using Camagni's proposition about an absolute (thus not Krugman's comparative) advantage, the aim of the urban growth strategy is on one hand to attract investments, and on the other hand to profile a role in relation to the international division of labour – territories have to be active, otherwise a crisis will occur. Here several factors are of importance, not the least the local governance impact on investment decisions of companies and enterprises. The opportunities and threats caused by globalisation involve qualitative aspects and immaterial elements related to knowledge factors and culture. From a firm' s point of view, in turn, the global competitiveness (or just competitiveness caused by globalisation) necessitates firms to attract high quality human capital, which subsequently requires that territories possess new relational factors. This implies the methodological validity of a collective 'territory' and strategy. This is all part of a criticism of Krugman's NEG.

The competitiveness imperative entails that urban governments have to be much more innovative and entrepreneurial – and by the same token: also more risk and profit oriented than the more passive urban management culture before. Because of this securing a better economic and social future becomes crucial. This furthermore signifies a change from managerialism to entrepreneurialism. According to Camagni the issue is about trying to secure a competitive advantage (so this is absolute, not the comparative one which Krugman propagates). This requirement of competitiveness in some cases lead to what is known as Urban Boosterism: using public-private-partnership (PPP) as a tool the idea is to set up a balance of reward and duties for each actor who contributes to the urban development effort. In such a situation the private sector bears the risk (although this claim is debated by critical voices such as Greenfield (2013), who argue that it is the public who more often than not bears the risk) and caters for the quality, but makes and takes the profit. Against this background of local governments' documented activity to attract certain types of people and companies, and in any case investments and often also subsidies, we know now that Krugman is wrong insofar as we deal with smaller territorial units than nation states. Cities and regions compete actively, but as for nations – we are not sure, as they can adjust prices, wages and currencies in order to retain their competitiveness in a global competition among countries.

When examining the evidence of actual strategies implemented, we must observe that some localities may not have a role in the international division of labour. As a consequence, the inhabitants of those locations become worried and try to improve things (political localization). This then triggers proactive territorial strategies to attract firms, investment, professionals and tourists. It can be argued that second cities cannot compete with their size; instead they need active promotion campaigns by the municipality to build networks with other cities and hinterlands of the city. Hamburg, for instance, is networking with its hinterlands across three states, 14 counties and 80 municipalities; and applies 'coop-petition' (cooperation and competition) with Berlin – the political capital! Aarhus, an university town, in turn, relies on a substantial public sector and a young population, and has avoided much of the problems of the financial crisis that Copenhagen faced (see Schmidt-Sørensen, 2009). The crucial issue is that, while capital cities can attract knowledge workers more than smaller cities, the latter can offer pleasant environment for talents (van den Bergh, 2009).

Turok (2004) argues that a broader economic and policy perspective to urban development and competitiveness than the new perspective based on business clusters and networks is required (cf. Budd & Hirmis, 2004; Kitson et al., 2004). Malecki (2004) in turn argues that strategies vary: that traditional economic policies are still important as ICT based competitiveness strategies (the 'high road') are more difficult to aim at. No optimal development model exists as imitation is difficult and new trajectories emerge spontaneously in space, Boschma (2004) notes. The mix of factors to take into account is complex, these authors all argue (in a special issue of *Regional Studies*). Elsewhere, Wood (2009) criticises the importance of service-based innovativeness and competitiveness policies in the English urban system which is dominated by London and offer little support to other UK cities. He makes the point that London gains more service-led success even without having R&D policy.

Lastly in this vein, when we talk about territorial competition using images and brands we can find a similarity between the qualitative criteria used in two seemingly different fields, namely Marketing and Urbanism. Cities are differentiated products, and this differentiation defines their economic relevance. Use of image to get financial gains is possible here just as with product marketing strategies. When the challenge is to create tools for a marketing of a city, brands come handy. This is confirmable by comparison of architectural and design solutions of big cities. (see Pompe and Temeljotov Salaj, 2014).

### *2.3. Alternative strategies based on culture and creativity*

It has also been argued that the successes and failures of cities and regions in the post-industrial context are much a product of cultural factors in relation to economic, political, social and spatial factors. This strand of the territorial competitiveness literature focuses on the aesthetic aspects and the cultural industry of cities instead of the direct ones related to production (Jayne, 2006;

Musterd & Deurloo, 2005). This is a more demand-oriented strategy of territorial competition, where various leisure and service functions of the professional middle/upper classes are the focal point. This often is supported by building strategies aimed towards improving the prestige of the inner city, for example by raising symbolic buildings and monuments in the city core. It is usually cities with old manufacturing industrial background or port functions (e.g. Liverpool) that must adapt this kind of strategies when they lack extensive advanced producer services. In other words, these areas have not acquired the knowledge based infrastructure of the New Economy, and therefore have to resort to another strategy aimed at the heritage of the city/region. Such more indirect strategies of place promotion are used for explaining *gentrification* processes; the city must be able to offer a dynamic inner city housing milieu together with various services to the sought after urban professional workforce in order to attract investment. (See e.g., Zukin 1987, 1998; Jayne, 2006; cf. Bounds & Morris, 2006).

Using Stoke-on-Trent, UK, as a case in point, Jayne (2000) criticizes the universality and simplicity of promoting cultural strategies of consumption for territorial competition post-industrial city competition. Capital and cultural symbolism are indeed linked through two kinds of assets of the city:

1. Having a 'glorious past' opens possibilities for the reuse of historical buildings and spaces; the new use would target the conspicuous consumptions of elites and tourists.
2. If a 'low street culture', working-class traditions and ethnic celebrations exist, then these elements ought to be 'commodified' too.

Thus the idea is to make a narrative: the inner cities become 'urban villages', and thereby vibrant, cosmopolitan, entertaining and 'happening' spaces, underpinned by strong regional economics with professional post-industrial business cores together with innovative/progressive institutional and political vision. However, this remedy does not work for all places. In some cases there are failures in the repackaging: especially smaller manufacturing industrial cities have problems here. Consequently, they need an active policy effort to re-energize the city centre – otherwise the result is mere intra-urban territorial competitions.

Following Jayne (2006) this cultural promotion of post-industrial cities and regions – 'the cultural industry' – would be a more demand related strategy of territorial competition. The discussion concerns how culture is a determinant of the (new) economy, and its spatial component 'place promotion'. The idea here is to provide "archetypal space for new aestheticised lifestyles". Here symbolic buildings and monuments in the city-core, as well as focusing on various kinds of leisure and services for the professional middle/upper classes is the key to success. How to construct places, where certain people want to be in and belong to – especially in the city? Here aesthetics matter for identity formation (cf. Sharon Zukin's analysis of loft-living). Citing Allen Scott, Jayne argues that production should however not be neglected either in this era of overemphasis on consumption. Jayne underscores the importance of a more nuanced understanding of the consumer/urban cultures in this context.

Rosenstein (2009), on the other hand, is more critical about 'culture-led development' and 'cultural development' strategies of cities. Using evidence from New Orleans as a case in point, she argues that if cities do not recognise and systematically promote the cultural lives of urban neighbourhoods and their residents the attempts to revitalise urban centres and develop local economies are doomed. This is an argument against the contemporary Richard Florida's popular 'creative city' thesis, and indirectly then also an argument against Jane Jacobs' modern urbanization economics conceptualisations from the sixties. Thus more systematic efforts – that is to say, competitiveness policies – are needed. Another counterargument comes from a complexity theoretic position: that copying the successful physical or social planning/policy measures (best practices) taken in one place does not guarantee the emergence of a vivid and thriving urban neighbourhood elsewhere as this emergence of qualities tends to come by surprise (Walloth, 2014, p. 128-129).

Evans (2009) in turn argues the opposite: that the problem with the promotion of creative spaces and industry clusters is that these goals are being achieved using old industrial economic interventions and policy rationales. Here he notes that cities here see an opportunity to justify the redevelopment of industrial zones and other expansion and regeneration goals with the argument of creative and knowledge clusters. Thus, the city is merely using old tactics (i.e. redevelopment) to implement a new strategy (i.e. knowledge clusters). This is akin to the argument of Aspen (2013), who criticizes Oslo for landing such [sic] outmoded redevelopment strategies referred to as 'zombie urbanism'.

This discourse could also be understood in relation to *local sustainability* and local strategies for *sustainable development*. It is in any case with the help of meanings attached to physical structures that we market the city for the particular target group, be it then about more entrepreneurial- production or cultural-consumption aspect. Here we can give many particular examples, and none of them is categorically to be considered better than the other. [See also Sepe (2006) on a suggestions how to analyse place identity within a planning and sustainability framework.]

Without doubt, applying a strategy of local creativity where high-culture and ICT are used together can comprise an economic and sustainability innovation. For example in Salzburg the annual summer festivals involve a big screen on the old town square, where people who do not purchase a ticket to the actual opera performance can enjoy it live, like a football match, together with reasonably priced drink (or even a meal); this set up is supported by Siemens (Fig. 1).

### *2.4. Comparison of creative cities*

Studies on the 'creativity of cities' with a comparative element have also been carried out already. Van Winden and colleagues (2007) place European cities in a colourfully labelled typology as follows: of the cities located within a metropolitan area, Munich, Amsterdam and Helsinki are 'Metropolitan Stars', Manchester, Dortmund and Rotterdam 'Metropoles in transition', and Leuven a 'Pearl'. Of the other cities Eindhoven is a 'Star niche player', Enschede and Aachen 'Nicheplayers in transition', and Münster an 'intellectual'. The question is now whether policy should aim at backing the winners, or reducing the deficit of the cities that are placed unfavourably – that is 'Metropoles in transition' and 'Nicheplayers in transition', respectively.


**Fig. 1**. Salzburg festival big screen show of an opera.

The comparison of how capital is accumulated and concentrated in London and Randstad Holland by Kloosterman and Lambregts (2007) also needs to be noted in this context. The correct assumption of these authors is that not all towns but only dynamic city regions can sustain their agglomeration economics. In particular, global city-regions form/remain where general technological, economic and regulatory processes of change are articulated in a local spatial sense. McCann (2008) argues that recent institutional (EU, NAFTA etc), technological (transport, ICT) and organisational (outsourcing, off-shoring etc) changes are occurring at the same time. The further issue at stake is whether a concentration or deconcentration of capital occurs, and in either case, whether it occurs in the regional or in the country-level scale – or both. Kloosterman and Lambregts (2007) conclude that, in the long term view stretching back to pre-industrial times, both regions (i.e. London and Randstad) have been subject to similar external forces, but much due to their different pre-industrial starting points, their development occurred on rather different external tracks: Randstad is compared to London less concentrated regionally – although more concentrated in relation to the rest of the country.

More recently, two comparative studies have been carried out in the context of an EU funded research project 'Accommodating Creative Knowledge – Competitiveness of European Metropolitan regions within the Enlarged Union (ACRE)'. To summarise the key findings from each study, Martin-Brelot et al. (2010) test two of Florida's hypotheses with European data (questionnaire of 2300 respondents in 11 cities), namely that creative people are especially mobile, and that their city choices would depend more on 'soft' factors than 'hard' ones. Their findings however suggest that this is not the case, although they find that 'soft' factors nevertheless have a role in retaining such workforce. Bontje et al. (2011), in turn, conclude that it is unlikely that creative knowledge city-regions conform to one single type. This study is based on qualitative-descriptive data of three cities, namely Amsterdam, Budapest and Birmingham. Bontje and colleagues (2007) illustrate how each city has a set of factors related to its specific history which today impacts its knowledge-intensive and creative industry base.

While to a large extent being critical about the solely 'cultural-creative' arguments, these studies pick up a specific issue within the creative city debate: apparently, almost all European cities these days try to have some kind of educational or research institute, and if not that, then some creativity or cultural aspirations on the agenda. In particular, it is amazing how uncritically and easily Florida's dogma has been taken on board in urban CEE and Post-socialist contexts as will be discussed in section 3 below. Namely, it is fair to say that culture and creativity views are debated because of two reasons: (1) cultural industries appear to be as prone to concentration in urban core areas as other knowledge based sectors; and (2) they lack the potential to create the large numbers of high productivity jobs necessary for successful economic restructuring (as Allen Scott would argue).

### *2.5. The negative outcomes of reuse and restructuring of space in the New Economy*

Unfortunately, growth in New Economic conditions also brings negative externalities and spatial inequality. Not everyone benefits from the reuse and restructuring of space which territorial competition strategies might bring. At a grassroots level often such sentiments can lead to more organised counter-activity aimed at protecting some specific elements of the original urban environment. The argument of the protection of a place specific alternative culture has been discussed by Shaw (2005), who compared cases where a viable alternative scene has established itself in ruin buildings in the respective city centres of Berlin, Amsterdam and Melbourne, respectively. While the extent of the phenomenon varied between the cases, the common feature for the appropriation of such space is a spontaneity that is firstly, at odds with public planning aimed at protection of buildings, at least in the beginning, and secondly, has an anti gentrification agenda.

Using Amsterdam as a case, Musterd & Deurloo (2005) add to the discussion on the interrelations between the New Economy and the cultural industry, with particular attention to the functioning of the housing market and the availability of attractive residential milieus. They attack the popular view by Florida about the simplicity of replicating successful city growth strategies based on the creative knowledge activity. Such a view cannot be accepted in a European city such as Amsterdam, where preconditions for growth (i.e. particular context and path-dependence) matters in different ways: on one hand the infrastructures for production and culture are favourable, but on the other hand, the supply barriers with respect to the housing and property market impede such processes of taking place. (This is argued in more detail in the next section). Thus, these authors argue that Florida's US-based ideas are not applicable everywhere; while Amsterdam has a long tradition and the necessary infrastructure in producer and cultural services, the problem arises because of the shortage of housing and business-space in the 'key' areas favoured by the actors of the creative knowledge economy' and these are in fact also the areas where gentrification is taking place or is bound to take place (cf. Freeman & Braconi, 2004; Kauko, 2005, 2009). In similar vein Hutton (2009) carries out a systematic evaluation of the new economy in relation to regeneration of the community and city, and concludes that these tendencies have a destabilising effect on low-income residents.

Jones & Evans (2013) criticise the notion of homogeneous commercial 'culture' – this since the first regenerated waterfront was produced in Baltimore in the 1970s. They also argue that design issues, even where the aim is in accordance with urban sustainability goals, such as social mixing, tend to be contradictory. They furthermore note that different types of agglomeration economies work in different types of cities, and that the on-going financial crisis accentuates the disparities between cities. The corollary of all this impossibility to generalise is that different types of competitiveness strategies fit different institutional circumstances. According to Jones & Evans (2013), two basic situations need to be taken in consideration as the cities woo businesses and visitors. One is to build new attraction points. The other is to build on existing heritage. In the UK the financial crisis has had a bad effect on the realisation of both these situations – apart from London – these authors point out.

Next the discussion moves to the role of land and buildings in this reuse and restructuring process involving ICT, culture and creativity issues of both business and policy relevance. Even as we move towards a virtual economy, the headquarters and homes of workers always need attention in terms of valuation and physical design. The central role of land and buildings can in fact omnipresent and multifaceted: a precondition to economic growth and a consequence of growth (cf. D'Arcy & Keogh, 1998). The asset view emphasises market and valuation; the physical view in turn looks at developments and refurbishments. Furthermore, this area of research and development is likely to offer some promising routes to greening the economy and making it more socially and economically sustainable through innovations in construction and real estate sector as here is more possibilities to improve the situation compared with many other important sectors of the economy such as transport or manufacturing.

## 3. Real estate and housing as indirect strategies

### *3.1. The local economic growth agenda*

On top of traditional economic benefits, knowledge related progress and aesthetic-cultural elements, also the role of urban property markets can have a bearing on a city's competitiveness. This potentially occurs in two different ways: first, a well-functioning property market (i.e. one where the supply of office space reacts to demand impulses) is a prerequisite for good economic performance: company headquarters need reasonably priced office space of sufficient quality; and *vice versa*, a well functioning property market is bound to generate good economic performance. Thus, in order to obtain appropriate management and a good quality of the built environment, the property investment market has to function, and this requires that public and private bodies alike have a knowledge of value creation. (van der Krabben & Lambooy, 1993; D'Arcy & Keogh, 1997, 1998; see also Cheshire, 2005; Musterd & Deurloo, 2005)

A case can be made for using this competitiveness strategy of improving the commercial office, retail and residential market performance in tandem with various cultural city development strategies. An improved property market competitiveness (or lack thereof) is said to depend on images of large scale building projects in (or near) the city centre. Such revitalizing has more cultural than functional implications, in the sense that the role of the buildings is indirect: they possess indicator symbolic value that also becomes economic value through changing the image of the city-core which otherwise would be seen as declining in relative terms. Furthermore, these cultural strategies can vary depending on whether the focus is on the building structures or on the supposed activity of the people to be attracted – entrepreneurs, investors, creative professionals and tourists. The discourse here is much tied to the global city thesis and involves concepts of ambivalent iconography that are common to many contemporary Western cities. (Grubbauer, 2006; Lehrer & Laidley, 2006; Zaleczna & Schneider, 2006).

The economic position of the city is important here too. Bryson (1997) notes that, on top of the profitability criterion which all developers consider, local developers also have other considerations: either to apply for a subsidy and join in local authority partnerships (e.g. The Urban Development Grant scheme was introduced in Britain by the Conservative government in 1982, with the aim of regeneration of inner city areas, p. 1452), or, depending on particular regulations and attitudes, to engage in mere refurbishment of obsolete buildings instead of developing them. In contrast to global or national developers, the local developers may have to choose the second best development alternatives, and therefore, non economic factors play a role in their decisions. For example, façade retention in order to convert a redundant commercial building into what Bryson (p. 1446) calls 'post-modern space by the articulation of its existing architectural features with new signs' is one such intangible aspect of the process. Bryson rightly notes that most developments follow entirely different logics as Canary Wharf in London Docklands. At this point one needs to return to Marx's analysis on the rent relations under capitalism, that according to Bryson, would explain the activity of the property developers and investors in relation to time (and lesser so to place). While more important globally, the *differential rent two (DR II)* manifested through building obsolescence, through its life-cycle, is an under-researched topic compared with the locational obsolescence associated with *differential rent one (DR I)*. Namely, using evidence of the Nottingham office building market, Bryson shows that, when the strategy involves refurbishments, the actors engage in "tampering with the value of differential rent II". In general terms, in property development *symbolic capital* creates a significant proportion of the capital value, and this can be conceptualised using Marxian land rent theory onto DR II: rent that accrues to specific advantages of the building, and DR I: rent that accrues to the factors external to the development. Further, in the case of DR I too the factors may be possible to internalise by the developer if the project is sufficiently large so that the external conditions can be manipulated by the developer to make the project profitable.

Mikelbank (2004) investigates the spatial relationships between house price and investment in road-based transportation infrastructure by combining spatial databases in Columbus, Ohio. The framework is based on the effects of public capital investment on the housing market, when either positive or negative price effects have an impact on the local economy. His findings show that that the road investments – even those not begun yet – have 'distinct and significant' impacts on house prices. Furthermore, this has different feedback effects on the behaviour of sellers and buyers: the former wish to wait till the project is finished and reap a premium, whereas the latter wish to buy when the project is still under way in order to obtain an inconvenience discount.

To add one potentially interesting twist to the discussion, Florida and Mellander (2010) carried out a statistical analysis of a cross section of US 331 metropolitan regions in year 2000, and find out that their Bohemian-Gay Index has a positive effect on house prices. In their analysis the impact of higher incomes, higher human capital levels and size-related regional characteristics are controlled for. They therefore also argue that "the influence of bohemian-gay populations functions independently of those factors to condition housing values". This fits, of course, to the traditional understanding of gentrification processes taking place in urban neighbourhoods.

### *3.2. The affordability argument*

As a generic category, a positive relationship between quality and price changes in time indicates *competitiveness strategy 1*. However, also affordability and the quality in relation to price level is important; in other words, how to attract the professional work force by offering reasonably priced accommodation is another issue than that from increasing economic performance: this is referred to as *competitiveness strategy 2*. London, for instance, is a big problem in this respect; while a global city, the housing markets are very dysfunctional there (cf. Cheshire, 2005). Countries with active housing & land policies, for example the Netherlands (albeit not the city of Amsterdam, as shown by Musterd & Deurloo, 2005), and the Northern European countries, traditionally have lesser problems, although cities in one and the same country often have very different policies. (van Weesep, 1996, 2000; Haila, 1999.) Furthermore, for the markets of office, retail and industry the same applies; space-costs in one particular location cannot be too high in relation to competing locations (see Cheshire, 2005).

Cheshire (2005), too, notes the two different strategies of competitiveness concerning the costs of real estate: on one hand space is an input into the production process; on the other, housing costs are related to the real price of labour and are therefore, indirectly, important determinants of the attractiveness of a location. He notes that, "to be competitive London's economy needs to attract highly skilled specialists from a thin world market for such skills and housing costs have to be reflected in the wages offered". He also notes that office space is twice more expensive in Birmingham than in Berlin or Chicago; and that office space in London's West End is three times as expensive as Paris, and even more than three times as expensive as Manhattan.

As already discussed, Amsterdam is well-placed in the territorial competition due to its local history and urban fabric. Like elsewhere, gentrification is in Amsterdam driven by knowledge and especially cultural workers, including western migrants, whereas business-people tend to move to the suburbs. However, in Amsterdam the housing environment and the housing market is a substantial disadvantage, especially, since everyone active in the cultural (and to a lesser extent knowledge) industries wants to live close to their workplace, and since this creative activity is highly concentrated in neighbourhoods where the shortage of housing and business space is the worst (i.e. the city centre, Oud-West and Oud-Zuid), the situation becomes problematic (Musterd & Deurloo, 2005).

A report by the UK-based *Centre for Cities* has similar lines of argumentation (i.e. territorial competitiveness strategy 2). The authors of the report Gibb, O'Sullivan and Glossop (2008) argue that here it is the local – not national – level that really matters to the economic performance of cities. These authors nonetheless augment their argument by adding some elements of competitiveness strategy 1, notably the relationship between local housing markets and city economies (p. 19-20): namely, that the housing market influences the local economy via the labour markets, infrastructure and business and enterprise. Gibb and colleagues underscore the relationship between housing and the city economy at the local level. At the same time they stress however that regional contexts differ: as evidence they compare London with its affordability problem and Newcastle with its lack of high quality existing stock together with an insufficient new high quality building activity. "Competitive cities require adequate supplies of a range of good quality affordable housing that can respond flexibly to demand, and help create and sustain attractive communities within which to live and work", they assert (p. 15). Gibb and colleagues maintain that the link between housing and the economy is indeed important, but that this link unfortunately hitherto is too poorly understood.

### *3.3. For and against the Smart City*

In section 2 the split in modern perspectives to urban economic development was discussed. It can furthermore be ascertained that a similar, and even more pronounced divide exists in the real estate paradigm. Here the Smart City approach can be seen as a real estate development principle where cutting edge technology is utilized to the maximum extent for the modernization of the urban realm. Those who are staunch advocates of this approach much see a promise in the way real estate developments are directed by real time data that increasingly becomes better available, and this in turns, foster democratic and inclusive participation. Moreover, a connection between agglomeration benefits and urban development principles of human capital accumulation and technological change becomes evident here (Glaeser & Resseger, 2009). Well-known examples include the *New Songdo City* in Korea, *Masdar City* in Abu Dhabi and *PlanIT Valley* near Paredes in Portugal (Greenfield, 2013).

However critical voices, such as Greenfield's (2013) argue that the Smart City approach is nothing but yet another unjust, unethical and an unsustainable business model where real estate development is married with hi-tech solutions based on surveillance data on ordinary citizens – by definition something that is anti-democratic and elitist. As an option, Greenfield proposes a more bottom up approach with a community oriented, softer agenda. *Holzmarkt* in Berlin, a site with sustainable functions aimed at retaining the local ecosystem, revitalizing the neighbourhood and providing a happy, inclusive and informal space for locals and tourists alike, represents an exciting case of such a context dependent real estate development approach. While *Holzmarkt* is partly also a waterfront project, it is based on strikingly alternative business, governance and design concepts. For example, whereas the more normal businesses settled there have to pay market rent for the space they occupy, those who qualify for a sustainable business model only pay a subsidised rent. Indeed, here is a strong presence of uses oriented towards community, environment, culture and leisure, rather than profitability *per se*. Eventually this area is also predicted to be self-sufficient, but one might be sceptic of this: how can the development costs be covered using such an approach? It is however stipulated in the contract with the investor, a Swiss pension found, that unless the approach is viable a more normal development concept based on luxury residences will be applied, which then would result in rather less sustainable outcome (Holzmarkt, 2014).

### *3.4. A synthesis framework*

Following contributions by Haila (1999), van Weesep (2000), Cheshire (2005), Musterd & Deurloo (2005) and others, we can now sketch a model of the relationships between territorial competition and the property and housing markets. Below arrows denote the requirements/needs to succeed in territorial competition in the way conceptualised in this paper so far:
The competition among urban areas and city-regions for new businesses has the following consequences:

1) The demand for (and ideally supply of) high-quality office/retail space in the key locations
2) The demand for (and ideally supply of) talented people who comprise the workforce
3) The demand for (and ideally supply of) high-quality housing stock in the key locations
4) A differentiation in the composition of demand (and ideally supply) between a mass market, luxury products and alternative concepts.

In global cities (such as London and Amsterdam where evidence was collected from) there is shortage of products associated with (1) and (3); as a consequence, problems for the competitiveness. The logical conclusion here is that people do not wish to pay high house prices and companies do not wish to pay high costs for the space they rent or own; however, if they have to do it, they need to get some kind of amenity benefit of this extra investment.

Because of these problems, van Weesep (2000) argues that a redistributive housing policy is still important in the New Economy. The potential to attract investments may be improved by creating economic security and social cohesion of metropolitan areas. The attractiveness of urban areas can be increased – and a cumulative causation of decline reversed – given opportunities offered to continue/counter the development. Local economic development not only follows, but also leads policies, and in this way contributes to territorial competitiveness in the New Economy. The bottom line is that cities must compete for investment, and one strategy is to design policies, including housing policy, to increase the attractiveness of the location for potentially incoming firms and professionals. Here the enticing package of incentives may in fact be unrelated to the requirements of the production process itself. Therefore, it can be argued that housing policy matters for a city that sees itself as being part of a territorial competition at some geographical scale. (Cf. Haila, 1999)

Two issues become relevant in relation to the evolutionary nature of the process of negotiating an apt competition strategy: one, real estate as a business economic entity; two, real estate as a spatial or territorial entity. It is to note that, whereas the *shareholders* are responsible for the development path taken in the former issue, elected officers and other *stakeholders* – at least ideally – have a similar responsibility through public choice mechanisms concerning the latter issue (cf. Bromley, 2008a). Thus, the innovative local government is not to be seen as an oxymoron in the urban real estate context.

## 4. Post-socialist urban circumstances as an especially dynamic case in point

In Russia and to a lesser extent elsewhere in the Eastern Bloc during communism the state guaranteed a lifelong security – at least in principle. Today new phenomena have replaced the old times: images of city is created for competition, and symbolic meanings determine the winners: shopping malls with CCTV etc, and luxury villas and apartments; and losers: the illegal immigrants and the homeless. Among the images created for territorial competition purposes are churches that serve as totems and tourism attractions; cities, like people, also become winners and losers, which in turn leads to ethnic and class conflicts. (Andrusz, 2006; see also Therborn, 2006).

The fast changing Central and Eastern European context is increasingly also being drawn onto the discussion on territorial competitiveness strategies of urban municipalities. Zaleczna & Schneider (2006) compare what they call Class B agglomerations (i.e. cities that are the second largest in their respective countries) from the point of view of creating a competitiveness strategy in terms of the cultural city or the commercial real estate market. They note that the transition created some dramatic shifts in the character of cities. In their list of city relationships, for example, the highly centralised urban structure of Hungary at present (Budapest-Debrecen) is noted to resemble that of Austria (Vienna-Graz) (Cf. van den Bergh, 2009).

As already mentioned, Florida's creativity thesis is apparently taken for face value among city managers in CEE circumstances. Even 'real scholars' are also rather optimistic about the potential of place-promotion strategies in the post-communist urban context (Tsenkova, 2011). As a consequence of this penetration into education it is also increasingly applied in practice and planning. Rittgasszer et al. (2010) discuss the case of Hungary, with focus on the Budapest region. They lend support for the argument that Florida's thesis of creative people moving to areas with favourable 'soft' factors is strongly debatable, because local and regional economic booms do not in general follow people – even competent ones. It is rather the other way around; people move to urban areas and city regions where the economy does well.

Egedy and Kovács (2010) carry out a questionnaire survey supported by indepth interviews of the creative and knowledge workers in Metropolitan Budapest. Their findings show a number of interesting tendencies. Firstly, that Budapest has 45% of all creative companies in the country. These companies are mostly situated on the Buda side – thus an element of agglomeration/clustering exists here too. However, while overrepresented, and experiencing an increase of 30% in the number of knowledge companies, during the period 1999-2007, Budapest is being caught up by provincial cities. Secondly, managers and experts on one hand, and younger workers on the other hand prefer 'hard' factors (e.g. accessibility and subsidies) over the 'softer' ones. Further to this, among the 'soft' ones the managers in creative sectors prefer the prestige of a location whereas their knowledge sector counterparts prefer quietness, with 'cultural milieu' (i.e. elements such as museums, galleries, boutiques and cafes, squares with monuments and celebrated architecture) being a general attraction for all strata (Figures 2-4). Thirdly, barriers to creative industry development were identified in factors such as taxation, affordability, intolerance, corruption, bureaucracy, pollution and social problems (taxation belongs to the older, or more traditional, economic benefit related competitiveness strategies. This is a direct application of the Tiebout model (1956) rooted in NCE welfare economics). Despite these drawbacks, however, the workers of the creative economy were more satisfied with the 'soft' factors than the 'hard' ones. Fourthly, in the Budapest Metropolitan Region the knowledge-intensive industries outweigh the purely creative ones, which is a result of top-down and short-term thinking in Hungary; typically, strategic decisions are more influenced by politics than by professionalism. Lastly, there are some promising prospects despite the issues recognised above: this region is seen as a gateway in development of creative and knowledge industry sectors in CEE (see also Kanó & Vas, 2013).

**Fig. 2**. Traditional cultural milieu in Budapest (Andrassy Boulevard).

**Fig. 3**. Traditional cultural milieu in Budapest (Uránia Cinema and Rákóczi Way).

**Fig. 4**. Uránia Cinema cafeteria.

It can in a specifically CEE context be noted that quality, affordability and diversity of the housing and office stock is not so sustainable in capital cities as in provincial cities, as the comparison between Budapest and Szeged shows. Namely, in the latter city sustainable developments include a relatively large stock of row houses and a bicycle friendly city size and design. To compare, in Budapest, using the same method and data, the analysis suggested that only the cultural dimension is strongly present – for example, via redevelopment schemes on Brownfield sites that leave some of the original built structures intact (see Fig. 5). In that respect, the contrast to the analysis of the smaller city is amazing. Namely, that most of the city comprises residential areas that are green, clean and of mixed character, often also with good public transport. These features add up to a picture that is sustainable by definition. (Kauko, 2013; cf. Rauterkus et al., 2010).

Ongoing field work by this author indicates that in Budapest several problems have risen due to the unsustainable policies implemented by the 'liberal-leftist' state and metropolitan government during the period 2002-2010. For example, to encourage the building of a variant of gated communities (residential park, *lakópark*, *lakókert*), a real estate product meant for the upper-market consumers, can be considered particularly misinformed. The ones built in the inner city are clearly not luxurious enough for those with financial resources. On the other hand, they are far too expensive for the working-class and lower middle class households. Moreover, they are too small for families. It is finally also debatable whether *consierges* and janitors really are necessary to employ here – in fact, some of these developers have already realised this and moved to completely CCTV based security solution. Indeed, security is a vital issue in this context.

Lastly, based on an empirical study from Nanjing, China, the general arguments about the importance of affordable and good quality (comfort, health) – and possibly sustainable – housing presented by Gibb, O'Sullivan and Glossop (2008) in section 2b above hold surprisingly well in a (bigger) Chinese city. Thus we can argue that China is not so different to the West after all. While in the Chinese context of urban real estate sustainability oriented policies are in place in the 11th fifth year plan (2000-10), developers do not have enough incentives to build sustainable housing. That is because the market demand of sustainability and quality features is too narrow. Apart from the richest strata housing consumers want affordable homes near their (current or prospective) jobs; even the richest strata wants comfort more than sustainability *per se*. In this context the solution would be to build healthy, comfortable homes – that are also sustainable. Subsequently, given economies of scale, supply increases would decrease the prices (Hu, 2014).

## 5. Summary

Today the role of the knowledge industry is crucial for urban/regional growth prospects: what are the causes for innovation and diffusion? Here have two competing explanations:

- The spatial nearness of firms (and their nearness to the market place) within a region, as postulated in Krugman's New Economic Geography.
- Economic structures and institutional opportunities (for information and support) provided by the locality, following Evolutionary economics and the Regulation school; this perspective criticises Krugman's model for being too mechanistic, but agrees on the increasing importance of the knowledge industry.

Apart from these explanations, additional or alternative explanations related to the dynamics of cultural economies are postulated by others, most notably Richard Florida.

In this paper arguments stem from a world-view that sharply counters that of Paul Krugman and other 'New economic/regional geographers' who deny the logic of territorial competition and who suggest that clustering can occur where firms consider it most advantageous and without the aspect of locations competing for them. Cities *do* compete more than before for competent professional labour and they have distinct strategies for that. Further, among the more indirect strategies are those concerning the property and housing markets:

- in order to satisfy a demand for suitable office space, we need to supply hi-tech or otherwise attractive work environment at a reasonable cost;
- in order to satisfy a demand for suitable housing stock and housing environments, we need to supply attractive dwellings and housing areas at a reasonable cost.

To sum up the explanations, trends and strategies presented in this paper, urban economic growth depends on the dynamics and processes of industrial conversion and restructuring. To create enterprise parks or in other ways subsidise such activity may be a relevant strategy in a given city or region. In other geographical/institutional contexts it might be more relevant to provide services for the consumers – the cultural industry aspect noted above. It is often important to have a certain image, which often is determined by the type of symbolic buildings raised in the city core. For example, in Rotterdam radical modern architecture and the *Erasmus*-bridge fulfil this function. A third approach to label the city could be to focus on the functioning of the commercial property market; a fourth approach would focus on an affordable and quality controlled local housing market. Finally, it was suggested that the post-socialist context provides a particularly intriguing opportunity for studying these phenomena. Here one needs to exercise caution when looking for linear relationships as it may be that such does not exist anywhere.

**Fig. 5**. Vizafogó in Budapest – large scale redevelopment scheme and middle class 'gated community' with element of cultural sustainability.

## Note

This is also the key note speech of the *eight research conference on constructions, economy of buildings, architecture, urban and territorial development "Sustainable development of the built environment – from vision to reality"*, URBAN-INCERC, Bucharest, Romania, 3 October, 2014.

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