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Cities, Regions and Competitiveness

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TUROK I. (2004) Cities, regions and competitiveness, *Regional Studies* **38**, 1061–1075. Competitiveness is a complex concept used in a variety of ways and contexts. The paper reviews some of the main ideas, particularly as they apply to cities and regions. Its definition should include the relative position of a region's firms in external markets, the productivity of local resources and the extent to which they are used. Competition takes both an institutionalized form (local public agencies competing overtly for investment and other resources) and, more importantly, a less organized form involving firms trading in wider markets. There are two contrasting perspectives on the competitive advantages of city-regions. One emphasizes the benefits of scale and diversity that flow from concentrations of economic activity. The other stresses the quality of the interactions between firms and supporting institutions. Recent studies suggest that the significance of localized business networks or clusters might be exaggerated and that a broader perspective of city-region competitiveness is required.

City-region competitiveness Productivity Agglomeration economies Business networks Clusters

TUROK I. (2004) Les grandes villes, les régions et la compétitivité, *Regional Studies* **38**, 1061–1075. La compétitivité est une notion complexe que l'on emploie dans diverses façons et contextes. Cet article cherche à faire la critique de quelques-unes des principales idées, notamment en ce qui concerne les villes et les régions. Sa définition devrait inclure le positionnement relatif des entreprises régionales sur les marchés extérieurs, la productivité des ressources locales, et leur taux d'utilisation. La concurrence prend et un caractère institutionnalisé (sous forme d'organismes gouvernementaux qui se font ouvertement concurrence pour l'investissement et d'autres ressources) et, plus important encore, un caractère moins organisé impliquant des entreprises qui font du commerce sur des marchés plus vastes. Il y a deux points de vue opposés quant à l'avantage compétitif des cités-régions. L'un souligne les atouts de l'échelle et de la diversité qui proviennent de la concentration de l'activité économique. L'autre met l'accent plutôt sur la qualité des rapports entre les entreprises et les services d'assistance technique. Des études récentes laissent supposer que l'importance des réseaux ou des regroupements commerciaux de proximité s'exagère et qu'il faut une interprétation plus large de la compétitivité des cités-régions.

Compétitivité des cités-régions Productivité Economies d'agglomération Réseaux commerciaux
Regroupements

TUROK I. (2004) Großstädte, Regionen und Konkurrenzfähigkeit, *Regional Studies* **38**, 1061–1075. Konkurrenzfähigkeit ist ein komplexer Begriff, der auf verschiedene Arten und in verschiedenen Zusammenhängen angewandt wird. Dieser Aufsatz bespricht einige der meist gebrauchten Ideen, besonders im Hinblick auf Großstädte und Regionen. Seine Definition sollte die relative Stellung der Firmen einer Region im Außenhandel enthalten, sowie die Produktivität einheimischer Mittel, und das Ausmaß, in dem sie verwertet werden. Wettbewerb erscheint sowohl in institutionalisierter Form (wenn ortsansässige öffentliche Agenturen sich offen um Investierungen und andere Mittel bewerben), und, was wichtiger ist, in weniger organisierter Form, wenn Firmen auf weiter entfernten Märkten handeln. Man kann die Wettbewerbsvorteile einer Großstadtregion aus zwei gegensätzlichen Perspektiven sehen: die eine betont die Vorteile von Umfang und Vielfalt, die sich aus Konzentrationen wirtschaftlicher Betätigung ergeben, die andere legt Gewicht auf die Qualität der gegenseitigen Einwirkungen auf Firmen und Rückhalt gewährenden Institutionen. In jüngster Zeit durchgeführte Untersuchungen legen nahe, daß die Bedeutung örtlich begrenzter Geschäftsnetzwerke oder Cluster übertrieben sein dürfte, und durch eine breitere Perspektive der Konkurrenzfähigkeit von Großstadtregionen ersetzt werden sollte.

Konkurrenzfähigkeit von Großstadtregionen Produktivität Ballungswirtschaften Geschäftsnetzwerke
GER clusters

TUROK I. (2004) Ciudades, regiones y competitividad, *Regional Studies* **38**, 1061–1075. El concepto de competitividad es un concepto complejo que se ha utilizado de muchas formas y en muchos contextos distintos. Este artículo revisa algunas de las ideas principales, particularmente aquellas que se aplican a ciudades y regiones. Su definición debería incluír la posición relativa que las empresas de una región ocupan en los mercados externos, la productividad de los recursos locales, y el grado hasta el cual se hace uso de ellos. La noción de competición adquiere tanto una forma institucionalizada (organismos públicos locales que compiten abiertamente por inversiones y otros recursos) y, más importante todavía, una forma menos organizada que implica el comercio en mercados más amplios por parte de las empresas. Existen dos perspectivas opuestas sobre las ventajas

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competitivas de las ciudades-regiones. Una de ellas enfatiza los beneficios de la escala y la diversidad que fluyen de las concentraciones de actividad económica. La otra acentúa la calidad de las interacciones entre las empresas y las instituciones de apoyo. Estudios recientes sugieren que puede que se haya exagerado la significancia de redes comerciales o de clusters localizados y que se requiere una punto de vista más amplio cuando se habla de competitividad ciudad-región.

Competitividad ciudad-región Productividad Economías de aglomeración Redes comerciales *Clusters*

JEL classifications: O18, R11, R38, R58

INTRODUCTION

The notion of competitiveness has become pervasive in urban, regional, and national economic analysis and policy during the last decade. However, its prolific use has outstripped coherent definition or robust evidence of its validity. In fact, the term is far from straightforward and has been used in many different ways and contexts. The purpose of this paper is to review and provide a preliminary assessment of some of the main interpretations of the concept, particularly as they apply to cities and regions. Two key questions explored are: in what sense do such places compete, and what are their underlying sources of competitive advantage in contemporary advanced economies?

The idea of competitiveness implies identification of a fundamental determinant of place prosperity, i.e. the basis for sustainable growth in modern economies. Competitiveness is not really an end in itself, more an indication of the drivers and dynamics of economic success. It is important therefore to go beyond descriptive economic measures, such as income per capita or employment trends, to explore the underlying sources of improved economic performance. What are the common physical, economic, social and institutional resources or assets of a city-region that influence the performance of its firms?

It can be argued that the notion encompasses three important determinants of economic development, particularly the following:

- Ability of local firms to sell their products in contested external markets ('trade').
- Value of these products and the efficiency with which they are produced ('productivity').
- Utilization of local human, capital and natural resources (e.g. the 'employment rate').

Competitiveness is a function of complex interrelationships between these variables. If it is reduced to any single one of them, it risks representing the determinants of place prosperity too narrowly. There remain further questions about the factors underlying these features that require deeper analysis, such as the determinants of productivity (innovation, investment, skills, infrastructure, entrepreneurship, etc.), as well as many difficult measurement issues. The term can conceal important variations between the competitive positions of different branches of the regional economy (diversity). It can also obscure variable economic performance over time (volatility) and the uneven consequences of competitive success for different social groups and areas (inequality).

The structure of the paper is as follows. The next two sections outline why competitiveness has become such a widespread concern among local, regional and national authorities. The third and fourth sections consider the functions of overt competition between places involving public organizations. The following three sections explore the changing sources of and obstacles to urban and regional competitiveness involving firms. The conclusion provides some reflections on the most recent ideas.

ORIGINS OF COMPETITIVENESS

Two of the main reasons for the notion of competitiveness gaining currency are the increasing international mobility of capital and more open national markets – *globalization* for short. Economies have become more interconnected through rising exports and imports and increasing foreign direct investment. This has occurred because of declining trade barriers, falling transport costs and the growth of transnational corporations (TNCs). The emergence of new economic powers, particularly in Asia, and generally more competitive markets for products and services have intensified the pressure on costs and increased economic insecurity and the risk of instability. More integrated financial markets and international agreements between governments have made it more difficult to pursue traditional macro-economic policies independently.

Consequently, a variety of micro-economic, supply-side measures have been put forward to improve the efficiency of firms' internal processes and to enhance the quality and value of their products, and thereby secure their share of world markets and jobs. Productivity in this broad sense of creating or enhancing competitive advantage has been portrayed as central to long-term economic progress. It is important for regions and nations to pay their way in the world in terms of exporting sufficient goods and services to pay for imports. Therefore, productivity and trade performance are closely related to competitiveness.

Some governments have tended towards a low-cost, laissez-faire approach to raising competitiveness, including liberalization of domestic markets, privatization of public utilities, relaxation of environmental standards and withdrawal of other 'burdens on business' (H. M. Government, 1994, 1995). By reducing the levels of regulation and taxation, they have tried to lower the costs of production and create more flexible labour markets to establish a business context conducive to greater price competitiveness and higher profitability. This is intended to generate growth by stimulating private investment, encouraging enterprise and attracting foreign capital.[1]

Other governments have recognized limitations in low-cost competition, including the diminishing returns from cost cutting, the ease with which competitor nations may react in the same way, and the fact that the burden of lower costs may have to be borne by individual tax payers and workers in lower earnings, poorer working conditions and inferior public services. To protect people and places from a 'race to the bottom', they have pursued more active policies to enable firms to compete abroad through 'non-price' or quality-based competitive advantages intended to be more enduring, such as more sophisticated and reliable products or greater customer responsiveness. They have supported the development and application of new technologies, better workforce and management skills, or singled out key industries for special assistance to help them move up the value chain. In some high-income economies, there has been a tendency to demote the role of manufacturing, on the assumption that standardization of volume production techniques and falling transport costs favour cheaper locations abroad (e.g. Department of Trade and Industry, 1998, 2001).[2] The alternative high-value, knowledge-intensive services are said to require more emphasis on building scientific expertise, enhancing technological innovation and strengthening human capital – 'technology and skills' for short. These strategies vary in their implications for different regions and social groups in ways that need to be spelt out more explicitly for judgements to be made about their adequacy.

Similar things have happened at sub-national levels. More intense competition within product markets, greater mobility of capital and rising unemployment have heightened awareness of external threats. Some policy responses have been overtly competitive in a defensive sense, including attempts to protect vulnerable industries or to discourage business relocation by offering subsidies in some form (Cheshire and Gordon, 1996). Others have been proactive, including 'place marketing' and incentives to attract mobile private investment. City boosterism reflects more aggressive competition to promote flagship events, build iconic projects and attract tourism, skilled mobile population and public investment, using both price and the quality of the environment. It follows a tradition of policies that were less explicitly competitive, including increasing the business formation rate and strengthening the managerial and technical capabilities of local firms to help them enhance their market position and grow.

Recent initiatives seek to exploit novel 'urban assets', such as specialized labour pools, university research, institutional networks and even the lifestyle, cultural amenities and tolerant social milieu of cities (Leadbeater and Oakley, 1999; Landry, 2000; Florida, 2002). By developing distinctive indigenous strengths and promoting business learning, they seek to avoid vulnerability to mobile capital and a race to the bottom. They aim to attract and retain talented people and to develop special technologies in order to export knowledge-intensive products. Indeed, an emerging literature suggests that cities contain unique resources that make firms in the knowledge economy more internationally competitive: 'city-regions are coming to function as the basic motors of the global economy' (Scott, 2001, p. 4). According to a recent government report, 'the factors of productivity in advanced knowledge based economies are concentrated in cities' (Office of the Deputy Prime Minister [ODPM], 2003, p. 1; also H. M. Treasury, 2001).

GOVERNMENT VIEWS OF COMPETITIVE LOCAL AND REGIONAL POLICIES

European governments have traditionally been ambivalent about competitive sub-national initiatives because of their uncertain net contribution to the national economy. Some have become more supportive over time, hoping to shape them to serve national purposes and for political expedience when macro-economic policies have been more constrained. Indeed, local development has increasingly replaced traditional equity-based regional policies in countries such as the UK (Anyadike-Danes *et al.*, 2001; H. M. Treasury, 2001, 2003a; Organization for Economic Co-operation and Development, 2001). These sought to reduce spatial disparities by guiding investment away from congested areas to lagging regions with underused resources. Such carrot-and-stick policies have been scaled back because of concerns about their cost effectiveness and fears about firms being diverted out of the country through growth restrictions in buoyant areas.[3]

Instead, the focus of spatial policy has switched to encouraging development from within by exploiting indigenous strengths. There is less emphasis on mobile investment and the transfer of jobs between regions and more on creating environments where high-quality businesses can start and succeed. This draws on endogenous growth theory where growth is seen to arise from enhanced local productivity and innovation through investment in human capital and research in leading areas of the economy (Crafts, 1996; Martin and Sunley, 1998). This is supported by various arguments that innovation, institutional learning and the exchange of creative ideas (knowledge spillovers) occur most effectively in industrial clusters organized at the city-region level (MOSS KANTER, 1995; COOKE and MORGAN, 1998; PORTER, 1998).

The shift in approach occurred initially within the framework of 'top-down' regional and national policies. The main business development and training programmes were delivered locally but controlled centrally to prioritize national objectives. Over time, the aim has been to decentralize economic responsibilities to regional and local organizations in order to permit greater responsiveness to variable conditions on the ground and increased effectiveness rather than having a centralized 'one size fits all' approach (H. M. TREASURY, 2001, 2003a, b).[4] These bodies now cover the whole country rather than selected 'assisted areas' to maximize growth potential wherever it exists. This 'bottom-up', locally led approach encourages more explicit territorial competition, prompting a concern that localities in a weak position at the outset will lose out to areas with greater resources and competitive strengths (ANYADIKE-DANES *et al.*, 2001; HOUSE OF COMMONS, 2003). It is another sign of a shift in emphasis in spatial policy from equity considerations to national efficiency.

Governments have also sought to ensure that sub-national policies reinforce national competitiveness by encouraging a focus on skills, productivity and international markets. The first Competitiveness White Papers devoted special attention to London because of its supposed unique contribution to the UK economy as an international financial centre and tourist attraction (H. M. GOVERNMENT, 1994, 1995). The UK's other cities were bundled together and relegated by the statement that they required regeneration to become more internationally competitive. Their role as important centres of manufacturing with a substantial contribution to UK exports was ignored. The Urban White Paper stated that English cities needed 'to compete on a global scale for jobs and investment' (DEPARTMENT OF ENVIRONMENT, TRANSPORT AND THE REGIONS, 2000, p. 13). This fails to recognize that most branches of most urban economies do not and need not compete in international markets. Many cities could prosper by serving predominantly regional and national markets, especially as services become a larger share of their economies (TUROK and BAILEY, 2004b). At least as important a challenge for many of them is to maintain an adequate supply of property, land and infrastructure to avoid unnecessary relocation of expanding firms to surrounding towns.

Local public policies have also been affected by wider national reforms, which were influenced in part by government belief in competitive markets. Some reforms have sought to alter the culture of the public sector through greater emphasis on enterprise and opportunity at the expense of need and entitlement (KEARNS and TUROK, 2000). Competition has been used for resource allocation in transport, regional policy and special urban initiatives in education, health, housing and employment (H. M. GOVERNMENT, 1994, 1995; OATLEY, 1998). Competitive bidding is intended to provide pressure and rewards for public organizations to be more imaginative and efficient in service design and delivery. Privatization and contracting out of services and utilities have also opened new areas of the urban economy to market forces, including transport, water, environmental maintenance and catering. Competition has increased between all sorts of organizations *within* cities as well as between them, making strategic planning and coordination of policy implementation more difficult. There has been insufficient consideration of the circumstances in which competition is appropriate and where it is not.

FUNCTIONS OF COMPETITION BETWEEN CITIES AND REGIONS

Competition *between firms* is believed to have two main benefits for economic development (CARLIN *et al.*, 2001; BEATH, 2002). First, it provides a *selection* mechanism; firms with out-dated products or inefficient processes do not survive, while new entrants introduce better products and techniques. Selection by exit and entry reallocates resources from inefficient producers and declining sectors to more efficient and growing ones (H. M. TREASURY, 2001). Second, it provides strong *incentives* to existing firms to improve their technology and organization. The threat posed by rivals encourages them to become more innovative and efficient, which increases their market share, lowers the average cost of production in the industry and reduces the price to consumers.

Both mechanisms are said to improve productivity and growth across the economy. Firms often try to limit competition by securing a dominant position in their markets or by colluding to agree prices or market share. Government regulation is needed to prevent this. Competition may also have important costs arising from market failure – neglect of research and development (R&D), training, derelict land and other externalities – which also calls for government action. In practice, competition often coexists with various forms of cooperation. For instance, firms under pressure may collaborate with their suppliers and customers to expand their expertise, develop specialist products and improve their access to markets (KITSON and MICHIE, 2000; PORTER, 1990). Beyond a certain point, some forms of collaboration become collusion, which is why business associations have sometimes aroused suspicion.

Competition between places cannot operate in the same way. The agents and their powers are different and competition is moderated by other resource-allocation mechanisms. Considering *selection* first, cities cannot go bankrupt if they are uncompetitive, unlike businesses. New entrants also emerge infrequently and are insignificant compared with most markets in which firms operate, since building new urban economies is obviously costly and slow. Most countries have public finance systems that cushion the impact of economic decline. Local authorities in the UK and many other parts of Europe are insulated because most of their funds originate from central government based on their resident population, which is slow to adjust to decline. There is an element of need in their funding allocation, which partially compensates deprived areas. Areas of job loss also gain from social welfare expenditure for people out of work, which is another economic stabilizer. This centralized financial system protects UK cities and regions from the spiral of decline that can face distressed US cities within a more decentralized regime (HILL and NOWAK, 2002).

Yet, places still stagnate and decline, even if they do not 'close down'. There may be local reasons, such as exhausted natural resources or wider shifts in the demand for their products (BEGG *et al.*, 2002). National transfer payments may delay the process, but they will not reverse it without productive investment. New urban areas also emerge over time, showing a dynamic process of change at work that must affect the functioning of the economy in the long term. Edge cities and new towns may grow on the back of the amenities, services and markets of their neighbouring cities, without their physical and financial costs. Some of the fiscal stabilizers have also been pared back to cut government expenditure. Greater reliance on private finance for infrastructure and competitive bidding are bound to have more uneven spatial outcomes than previous procedures. Growth pressures and property shortages in successful regions mean that local authorities are often encouraged to respond to market demand and allow new development, not try to steer private investment through planning restrictions or strategic use of public infrastructure (TUROK and BAILEY, 2004b). So, although selection in territorial competition is unlikely to alter the structure and efficiency of the economy in the short-run, it may be becoming more relevant. Some of the consequences are discussed below.

Similar observations can be made about *incentives*. At issue are the benefits to the area from engaging in competitive policies in relation to the costs (CHESHIRE, 1999). This calculation is much more complex for cities than for firms since they are not single entities driven by the objective of profitability.[5] Even productivity is an insufficient over-arching aim since it can be increased simply by using fewer resources (e.g. labour shedding), which increases neither real prosperity nor an area's competitiveness. Some places would find it easier to enhance their prosperity (and their contribution to national output and prosperity) by activating underemployed resources (such as increasing the employment rate) than by raising productivity (BAILEY *et al.*, 2002; BEGG *et al.*, 2002). In addition, city authorities have less control over their assets and liabilities than firms, so the links between what they do and the outcome is more indirect and uncertain. The calculation is bound to vary between the markets in which cities compete, depending on the characteristics of the competitive process and who experiences the benefit and burden. It is also likely to vary in different countries depending on the link in the financial system between a city's economic performance and its tax receipts. In general, one might expect cities with inherent economic advantages at the outset to be more inclined to participate in competitive activities than those in weaker positions, because they stand more chance of success.

There is little or no direct incentive for UK cities and regions to promote economic growth because the revenue from business rates is pooled nationally and distributed as part of local authorities' overall funding allocation, which is driven by a formula.[6] This grant system generally cancels out the effects of changing property values on local authority revenues and household deprivation on their expenditure. Only population growth has any real fiscal effect and this is not necessarily positive. Growth imposes costs through transport congestion and environmental damage, and requires investment in physical and social infrastructure (H. M. TREASURY, 2003b). Lack of public funds to tackle congestion and shortages of housing and schools may limit the capacity of places to grow. In addition, administrative boundaries separating residential suburbs from commercial cores complicate assessment of the effects of growth since the costs falls unevenly and the benefits leak out. Public authorities often encounter considerable political opposition to new development, particularly towards new roads and housing around existing suburbs, and especially in pressurized regions. Therefore, decision-makers face many considerations that can more than offset the gains from growth.

Nevertheless, a competitive political system, electoral pressures to create and safeguard jobs, and lobbying by selected business interests to help them grow mean that all except the most prosperous dormitory suburbs and towns normally make some effort to maintain or enhance their economic position. The intensity of their effort is bound to be sensitive to the economic cycle. The form it takes may also be symbolic as much as substantial. There are opportunities for most areas to access special resources for this purpose, such as regeneration budgets from central government, European funds or Lottery money, although the scale may be limited in non-assisted areas.

One of the difficulties facing local decision-makers is uncertainty about *what* policies to pursue. Their choice may be influenced by central government controls, the rules of other external funders, the pressure for visible actions, fashionable ideas or advice from consultants. They may also be swayed by special interests for whom the payoffs from development are more clear cut, such as major property owners or other business groups that stand to benefit from increasing demand and rising land prices and rents (Logan and Molotch, 1987; Stone, 2001). Other economic interests with larger numbers, smaller individual stakes and more diverse concerns tend to find it harder to organize for collective action. This raises the obvious danger that the selected policies favour narrow interests. Overall, there is little doubt that there has been a steady growth in sub-national policies in the UK as in other European countries that are explicitly or implicitly competitive, even if the rationale is sometimes open to question and the incentives are not clear cut, as they are in North America.

NEGATIVE AND POSITIVE FEATURES OF INSTITUTIONALIZED COMPETITION

Overt competition between places has not traditionally been considered important for understanding the dynamics of economic growth. Common descriptions of the process as 'displacement' and 'zero-sum' imply it is unproductive and to be discouraged, since one area's success may only come at the expense of others (Cheshire and Gordon, 1998). This has long been the Treasury view of urban policy (Maclennan, 2000), and it now appears to be its view of traditional regional policy. Place-based competition may be wasteful if subsidies are provided to encourage business relocation, especially is this prompts retaliation in the form of inflated subsidies or concessions on environmental or employment standards (a negative-sum game). There is a history of predatory poaching or beggar-my-neighbour behaviour in the US through sizeable inducements offered for firms to move between areas (Organization for Economic Co-operation and Development, 2001). The European Union has become concerned about Member States subsidizing such movement, or being blackmailed by firms threatening to move. Limits have been imposed on state aid in recognition that governments may turn a blind eye to such behaviour by local authorities if their competitor locations are abroad. Yet, European integration and business mobility mean that competition occurs increasingly on an international basis. TNCs are more proficient than local firms at extracting subsidies by playing places off against each other (Win, 1995).

There are other instances where place-based competition may lead to a misallocation of resources from a national or even a local perspective. Civic pride and rivalry can cause unnecessary imitation and wasteful duplication of public facilities, especially between adjacent areas. They can lead to expensive promotional efforts for symbolic purposes and unwarranted incentives to host major sporting and cultural events. Meanwhile, support for sectors that are much bigger generators of sustainable economic activity may be neglected because they have a lower profile or the competition is less visible. Rivalry between neighbouring cities and towns can also mean they undermine the reputation and image of both, and fail to recognize or develop complementary assets that would be beneficial all round. By sharing their knowledge, financial and physical resources in collaborative ventures, they might benefit from economies of scale and scope, and thereby gain a collective competitive advantage in relation to other places (Turok and Bailey, 2004a). Efforts are currently being made to encourage collaboration between the eight major regional cities in England, and between each of them and their surrounding subregions (ODPM, 2003).

Finally, competition between cities and regions can generate substantial human costs and widen social inequalities if there are consistent losers. Places may be at a disadvantage at the start, perhaps through a peripheral location, a burden of physical dereliction, or outmoded educational or technical institutions. Market forces may exacerbate disparities by skewing resources towards areas with more immediate commercial prospects or confidence among investors. Decline may be self-reinforcing with weakened corrective mechanisms. Privileged cities and regions may become increasingly prosperous by attracting away investment, entrepreneurial skills and talent. This will fuel their development process, at some wider cost in imbalanced labour and housing markets, inflation and slower national economic growth. There is evidence of consistent disparities across Britain's cities and regions over the long post-war period (Begg *et al.*, 2002; Parkinson *et al.*, 2003). The distributional consequences arising from an unequal spread of competitive assets are usually ignored in documents promoting a decentralized, implicitly competitive approach to economic development (e.g. H. M. Treasury, 2001). A recent Select Committee inquiry recognized the contradiction in the government's target to encourage the growth of all regions and at the same time to reduce the gap between them: 'To reduce differences, emphasis must be given to the less prosperous regions. Treating unequal regions equally is not a recipe for reducing disparities' (House of Commons, 2003, p. 26).

Competition, of course, can also have positive consequences. Pressure on local bodies may prevent complacency and encourage timely delivery of suitable economic infrastructure, services and skills. It is important for cities to maintain their economic base, especially with public resources under scrutiny. Cities may seek to develop special areas of technological expertise and institutions to help firms access new markets. Provision of serviced land and property can facilitate business growth and avoid disruptive relocation of firms to surrounding areas. Similar points apply to the retention and attraction of mobile population. City authorities may build on their distinctive features, physical heritage and cultural traditions to develop new and original ways of attracting external visitors and investors. This can extend the range of investment opportunities, widen the choice of tourist destinations and enrich the quality of life for local residents. An emphasis on quality, diversity and differentiation (dynamic advantages) is much more likely than imitation and cost-cutting (static advantages) to produce a positive developmental effect overall, rather than zero-sum. The possibility remains that weaker cities will be less well equipped to compete on aspects of quality and better positioned to compete on cost for lower-value projects, because of their cheaper property and lower wages.

There is understandable ambivalence among commentators about deliberate encouragement of institutionalized competition (OATLEY, 1998; TUROK and HOPKINS, 1998). Competition is unlikely to be always or inevitably beneficial, or indeed harmful. Much depends on the form it takes and the context in which it is pursued, including regulation of counter-productive and underhand competitive practices by national authorities and the existence of compensating policies where appropriate. Governments have a role to play in creating an environment that encourages desirable practices, such as enhancing productive capacity, maximizing the use of underemployed human and physical resources, and stimulating institutional innovation. Simple diversionary activities may be discouraged, unless there are sound economic and social reasons. For instance, it could be argued that spreading development more equitably across the UK regions would increase sustainability in economic, social and environmental terms by reducing development pressures, overcrowding and investment requirements for additional housing, schools, transport and other infrastructure in the South East, while making better use of under-used resources and economizing on transfer payments to lagging regions (HOUSE OF COMMONS, 2003). Employment transfers between regions of course could occur through deliberate dispersal policies towards the public sector as well as through territorial competition.

Competition between places is a reality, especially in an unorganized form through firms trading in wider markets. Indirect competition for population through labour and housing markets is also important. The ongoing performance of firms can be influenced by various attributes of their areas – as will be discussed below – in ways that vary from sector to sector. This is a more important feature of territorial competition, with more significant economic consequences, than the visible battles between public agencies to host prominent events or to win challenge funds. The concept of competitiveness can help one understand these dynamics by prompting questions about the local conditions and resources that help firms sell their products in wider markets. It has become popular to suggest that specifically *urban* assets have become important sources of competitive advantage for firms in an era of more integrated markets and higher quality products and services. According to PORTER (1998, p. 90), for example, 'The enduring competitive advantages in a global economy are often heavily localised, arising from concentrations of highly specialised skills and knowledge, institutions, rivalry, related businesses, and sophisticated customers'.

URBAN SIZE AS A SOURCE OF COMPETITIVE ADVANTAGE

One of the striking features of modern societies is the geographical concentration of economic activity. In England, for instance, 80% of the population lives in towns and cities of over 10 000 population covering only some 7% of the land area (DEPARTMENT OF ENVIRONMENT, TRANSPORT AND THE REGIONS, 2000). Nearly half (43%) of Britain's jobs are still in its 20 largest cities (TUROK and EDGE, 1999). This tendency for firms and population to concentrate in a limited number of places suggests that cities and towns have advantages as economic locations, although the influence of land-use planning controls, institutional inertia and the inherited infrastructure need also to be borne in mind. At the risk of over simplification, one can distinguish two contrasting interpretations of concentration. The differences between them underlie current debates about the development of cities and regions. They share a common view that location affects economic processes and that city-regions contribute positively to the national economy. However, they emphasize different ways in which geography influences economic performance. They also have different implications for policy, including whether to promote industrial diversity or specialization, to devote priority to enhancing hard assets (e.g. infrastructure or labour availability) or soft assets (e.g. institutional networks or specialized knowledge), and to foster competition or cooperation between firms and other local organizations.

The emphasis in the first perspective (discussed below) is on the benefits of size and diversity that flow from having a concentration of economic activity and population within easy reach. The second perspective (also discussed below) stresses the quality of the relationships between firms. The classic concept of *agglomeration economies* emphasizes the 'positive externalities', or external economies of scale, scope and complexity, that follow from co-location of many businesses. Geographical proximity and size increase the opportunities available to firms and reduce the risks to which they are exposed (STORPER, 1997; GORDON and MCCANN, 2000; PARR, 2002). Size and proximity reduce the cost of labour and business services, and help to improve the efficiency with which inputs are used via better management, improved workforce skills or better production techniques. Agglomeration also increases the opportunities available to workers and to organizations that provide business and personal services, so the gains extend beyond individual firms and increase the overall productivity and growth rate of city economies.

There are three principal kinds of economic benefits, or 'centripetal forces' (KRUGMAN, 1998), originally identified by MARSHALL (1920). First, firms gain from access to a more extensive labour pool, which makes it easier to find specialist skills. Workers also benefit from a bigger choice of potential employers and better career prospects. Second, firms can gain access to a greater range and quality of shared inputs and supporting industries, such as specialized maintenance, marketing or design services, transport and communications facilities, and venture capital. Cities are good locations for suppliers and distributors of all sorts of business and commercial services because of the size of the market available. Third, firms gain from a greater flow of information and ideas. There is efficient transfer of trade knowledge and intelligence between firms through informal contacts, chance meetings or movement of skilled labour and management. These knowledge spillovers help to disseminate good practice and facilitate the development of new products and higher quality processes. A further important distinction is often drawn between 'localization' economies, which are associated with specialized infrastructure, services and skills geared to particular branches of economic activity, and 'urbanization' economies, which relate to generalized urban assets (such as airports, educational institutions and municipal services) that serve a diverse industrial structure.

To gain most of these benefits, a city requires no particular organization acting on its behalf, or any special loyalty or shared values between firms, apart from the provision of public goods or non-traded infrastructure and services. Companies are independent units operating with flexibility in a market environment. Competition is the driving force and firms do not tend to cooperate on matters beyond their short-term interests (GORDON and MCCANN, 2000). Proximity increases the opportunities for them to trade, recruit suitable labour, access specialized know-how and reduce market uncertainties, all of which help to improve their performance. The scale of activity in the city and the number of firms determines the significance of these benefits – basically the larger the better. The density and heterogeneity of firms are also sources of dynamism and creativity in strengthening the 'critical mass'. City-regions may acquire cumulative advantages over other places as a result of these 'regional externalities' (PARR, 2002), leading to self-reinforcing growth.

A recent study of the competitiveness of the London metropolitan region supported this perspective: 'The real strength of the London agglomeration effect ... seems to consist in the random possibilities for connections and stimuli made possible by its sheer scale and diversity' (BUCK *et al.*, 2002, p. 136). Another study of innovation in London, Paris and Amsterdam reaffirmed the importance of size and diversity in these metropolitan regions in allowing firms to 'pick and mix' their inputs and connections with suppliers, research establishments, technology transfer institutions and technical training centres (SIMMIE *et al.*, 2002). Firms also benefited from access to international airports, enabling them to gain 'time proximity' for face-to-face contact and effective knowledge transfer with international suppliers and customers.

Until a few decades ago, urban growth was the dominant trend throughout the world. Few doubted the advantages of cities and the connection between industrialization and urbanization. The received wisdom was that scale and diversity were central to successful cities, and that cities, in turn, enhanced national economic performance. Writers such as JACOBS (1969, 1984) explored in detail the role of cities in economic development as a result of their versatility and dynamism. The variety of skills and productive capacities enabled cities to improvise, adapt and innovate across many products and processes. This led to the successful replacement of imports by local production, boosted exports and it caused explosive growth, including manufacturing, and business and consumer services. Moreover, economic development was not a smooth, consensual process. The practical problems and inefficiencies of large cities induced creative responses and generated new goods and services for export that fuelled further growth. Jacobs also studied cities that had become more specialized over time. Although this enabled efficiency gains, Jacobs argued it was a recipe for stagnation in the long run because of the loss of adaptive capacity. The message was that the city had enormous strengths as a diverse, but interconnected, system.

COMPETITIVE DISADVANTAGES OF CITIES

Two important processes challenged this thinking from around the 1970s and raised doubts about the value of cities to the national economy. First, *deurbanization* caused a shift in population and firms out of many city cores towards suburbs and surrounding towns. Dispersal was partly a reflection of urban land constraints hampering the needs of modern production for extensive plant layouts, coupled with a shift from transporting freight by rail to motorway. There was also a search for cheaper premises and compliant labour for routine assembly work and back-office functions. Relocation of jobs was accompanied by residential decentralization, which had its own momentum with rising incomes, car ownership and people's preferences for more space, gardens and their own homes. Deurbanization suggested that economic success did not require proximity and urban density; the friction of distance seemed less important than had been understood. It also coincided with a growing interest in regions rather than cities as units of analysis and explanation.

Yet, deurbanization was more pervasive in some countries than others, depending on car and home ownership levels, public transport and attitudes to sprawl. It did not necessarily contradict the advantages of agglomeration, bearing in mind changes in the organization of industry and falling transport costs. There were also costs, or *diseconomies of agglomeration*, which had been neglected by Marshall and some of his successors, and which offset the advantages. Two diseconomies operate as the scale of a city increases. First, dense concentrations of activity increase the demand for local land, which force up property prices and rents for all land uses. Competition for land also causes displacement of lower-value industrial uses and routine office-based services by commercial and residential uses. Second, concentration causes congestion, which adds to business costs and worsens the quality of everyday life for residents. It is often difficult for established cities to improve their basic infrastructure radically to cope with congestion because of the disruption caused.

The relative importance of the centralizing and decentralizing forces can be expected to vary over time and between different industries and functions, depending on prevailing communication technologies and industrial organization. Governments can influence the outcome, as many European cities demonstrate (PARKINSON *et al.*, 2003). Investment in a good public transport system can alleviate congestion, improve commuting, and facilitate internal information and trade flows. Maintenance of quality public spaces, vibrant central squares and landscaped parks may help to retain residents and attract private investment. A pragmatic approach to building controls, land-use zoning and development on the urban edge can relieve inflated property prices and help accommodate urban growth through incremental expansion along transport corridors.

Britain's core cities have been disadvantaged in at least two respects. First, tight Greenbelt controls and the new towns have encouraged development to leapfrog to less accessible locations beyond the urban fringe (BREHENY, 1999; BEGG *et al.*, 2002). In addition, investment in their economic infrastructure has been neglected over the years because of an anti-urban ethos coupled with a perception that urban problems are essentially social and related to poor living conditions, so priority in capital investment has been given to building houses and improving neighbourhoods (e.g. BAILEY *et al.*, 1999). There has also been resistance from established residential communities to major infrastructure works on the grounds of dislocation, and a legacy of negative experiences following comprehensive redevelopment programmes in the 1960s and 1970s.

Meanwhile, a second and more traumatic process of *de-industrialization* hit the economic base of many cities from around the same period. Facing increasingly difficult circumstances, manufacturers in the UK closed many older inner-city plants to cut costs. This caused large-scale loss of manual employment, curtailed the markets of local supporting industries and damaged the environment through physical dereliction. The scale and speed of the contraction impacted old industrial areas particularly hard, making it difficult to replace lost opportunities or to retrain the workforce (BREHENY, 1999; TUROK and EDGE, 1999). Many cities were badly positioned in relation to surrounding towns, with a legacy of contaminated land, out-dated infrastructure and obsolete skills. Extensive manual job loss also contributed to a range of wider problems, the full extent of which has only recently become apparent, disguised unemployment, inactivity, ill health, premature mortality, personal and community stress, debt, racial tension, family break-up, and neighbourhood abandonment (SHAW *et al.*, 1999; WEBSTER, 2000; AMIN, 2002).

Some interpreted urban de-industrialization partly as the outcome of a new spatial division of labour among large corporations in which production was dispersed to lower cost locations while cities retained higher level managerial and service functions (MASSEY, 1984). These functions had comparative advantage in remaining in the core cities since face-to-face contact mattered to them and they were less dependent on proximity to or demand from production plants. London and the South East benefited particularly from a centralization of strategic control and R&D functions, while regional cities lost many of their corporate headquarters through mergers and takeovers. Others saw de-industrialization as the outcome of a similar process but on an international scale. It was the logical consequence of a new *international* division of labour in which much production went offshore to emerging economies while successful global cities developed a new strategic role. This was to control, finance and support the international network of factories, service operations and markets: 'Alongside the well-documented spatial dispersal of economic activities, new forms of territorial centralisation of top-level management and control operations have appeared' (SASSEN, 1994, p. 1).

CASTELLS (1996) devoted more emphasis to radical shifts in technology in conjunction with internationalization. He portrayed de-industrialization as part of a necessary transition towards a new 'informational' phase of capitalism whereby European and US cities become centres of advanced services dealing predominantly in information processing and control, and serving as nodes within new global networks. 'The new economy is organised around global networks of capital, management, and information, whose access to technological know-how is at the roots of productivity and competitiveness' (CASTELLS, 1996, p. 471). These shared the basic premise that economic relationships within cities had become less important than the position of cities within wider international networks (AMIN and THRIFT, 2002). Cities had become more open systems while still remaining the foci of extensive networks of power and information (MASSEY *et al.*, 1999). The 'presence or absence in the network and the dynamics of each network vis-à-vis others are critical sources of domination and change in our society' (CASTELLS, 1996, p. 469).

NEW SOURCES OF COMPETITIVE ADVANTAGE?

Another set of ideas emerged in parallel, shifting the balance of emphasis back somewhat towards the benefits of interfirm relationships within cities, while still recognizing the influence of global conditions and the role of cities in the wider national and international system. Three new features attracted attention: the importance of collaboration between firms as much as competition; sectoral specialization over urban size and diversity; and soft or intangible locational assets rather than hard or physical assets.

During the 1980s, several writers argued that the economy was moving from an era of mass production to one of *flexible specialization* or *post-Fordism* (PIORE and SABEL, 1984; HALL and JACQUES, 1989; AMIN, 1994). A growth in demand for less standardized consumer products was said to have coincided with changes in industrial technology and the labour process, including the application of computers to various stages of design, production and distribution. A key feature of the argument was that these shifts supported the establishment of local networks of specialized and interdependent firms. According to PIORE and SABEL (1984, p. 265), 'small enterprises bound in a complex web of competition and co-operation' had the flexibility to adapt more readily to changing market conditions, especially in high-technology and design-intensive sectors.

SCOTT (1988, 2002) pursued a similar argument about the horizontal and vertical disintegration of functions in industries facing unstable and competitive markets as a result of the breakdown of Fordism. One of his key propositions was that the shift from large, integrated corporations relying on internal-scale economies to supply secure markets towards smaller, fragmented firms favoured re-agglomeration. Specialization increased their focus and flexibility, and agglomeration reduced their costs. The outcome was a dense local network of producers engaged in subcontracting and service relationships and benefiting from a specialized labour pool, typically located in cities. Scott has argued that industries such as clothing in cities like Los Angeles and New York can only survive increasing competition from low-cost producers offshore by upgrading their technological capabilities and becoming more fashion oriented, which requires closer collaboration between firms.

SAXENIAN (1994) also emphasized the importance of local social relationships and the institutional context for business. Industrial performance was greatly enhanced where there was a culture of 'co-operative competition'. In a study of the US electronics industry, Saxenian concluded that Silicon Valley's (California) greater success over Boston's (Massachusetts) Route 128 was its decentralized, network-based system that encouraged informal communication, collaboration and learning between firms. This culture fostered greater innovation and adaptation to changing markets and technologies than the hierarchical, vertically integrated and excessively rigid institutional structure of Route 128.

> Paradoxically, regions offer an important source of competitive advantage even as production and markets become increasingly global. Geographic proximity promotes the repeated interaction and mutual trust needed to sustain collaboration and to speed the continual recombination of technology and skill.
>
> (SAXENIAN, 1994, p. 161)[7]

STORPER (1995, 1997) extended this to include a wider range of interactions between firms (untraded interdependencies). These were essential for mutual learning and adaptation in a context of economic uncertainty and rapid technological change. Storper included underlying conventions or common rules and routines for developing, communicating and interpreting knowledge about all aspects of production. These interactions were distinctive to each locality and gave it a particular competitive advantage that got stronger and became more specialized over time. These intangible assets discouraged business dispersal, despite many industrial inputs becoming more standardized and processes more routine. Consequently, 'the region is a key source of development in capitalism . . . the region has a central theoretical status in the process of capitalist development which must be located in its untraded interdependencies' (STORPER, 1995, pp. 191, 221).

Similar arguments were developed about a range of phenomena variously termed innovative milieu, new industrial spaces, learning regions, regional innovation systems, and the concept with the biggest impact on public policy, *industrial clusters* (COOKE and MORGAN, 1998; PORTER, 1990, 1998). Porter has been the most prominent advocate of the argument that place matters to international competitiveness because firms benefit from their surrounding environment through competitive and collaborative relationships with other firms and associated institutions. '[T]he drivers of prosperity are increasingly sub-national, based in cities and regions. . . . Many of the most important levers for competitiveness arise at the regional level, and reside in clusters that are geographically concentrated' (PORTER, 2001, pp. 141, 156).

At the heart of these arguments is the idea that active cooperation between firms in business networks promotes trust and longer-term decision-making. This enables them to overcome some of the limitations of pure market relationships and to undertake risky ventures without fear of opportunism (GORDON and MCCANN, 2000). Firms are willing to act together for mutual benefit, creating institutions to lobby on their behalf or to provide common support services. Proximity fosters some of the conditions for social interaction and collaboration, or 'social capital'. It can help interpersonal relationships and trust to develop, and promote a sense of belonging and shared interest. It can also help networks to build upon the distinctive cultural traditions and identity of places, and facilitate practical organization around collective action. The result may be strong urban or regional industrial clusters represented by their own business associations.

Although there has been surprisingly little systematic empirical research to substantiate these arguments, they have nevertheless proved highly attractive to recent city and regional policies (e.g. H. M. TREASURY, 2001; DEPARTMENT OF TRADE AND INDUSTRY, 2001; ODPM, 2003). The English Regional Development Agencies and related organizations have devoted considerable effort to identifying clusters and developing initiatives to assist leading-edge, knowledge-based industries, such as biotechnology, telecommunications and new digital media. There have been schemes to create trade associations and encourage business networking; to promote a more entrepreneurial culture among scientists and professionals; to develop specialized business districts and science parks; to enhance workforce skills and qualifications; to improve the provision of venture capital; and to accelerate the flow of knowledge from universities to business.

Policies towards the creative or cultural industries illustrate the enthusiasm with which these ideas have been taken up.

> [T]he cultural industries based on local know-how and skills show how cities can negotiate a new accommodation with the global market, in which cultural producers sell into much larger markets but rely upon a distinctive and defensible local base. ... Cultural industries and entrepreneurs will play a critical role in reviving large cities that have suffered economic decline and dislocation over the past two decades.
>
> (LEADBEATER and OAKLEY, 1999, pp. 14–16)

These industries' success is said to depend above all on the creativity, ingenuity and talent of individuals. Their skills and tacit know-how are fostered by a proximity to related people and enterprises, and to strong local networks. Cultural entrepreneurs share ideas and collaborate on joint projects by forming flexible, multi-skilled teams. Cities are said to be conducive environments because they offer scope for people and ideas to mix and mingle. They are places where knowledge is created, tested, adapted and disseminated (HALL, 1998; LANDRY, 2000). Cities can provide the shared space or 'milieu' within which connections are made and firms can learn, compare and cooperate. They house the institutions and infrastructure to bring together designers, producers, suppliers, educators, investors, distributors and customers in a complex web of relationships that are both competitive and collaborative. This is supposed to create a certain atmosphere, buzz or self-reinforcing dynamism that spurs innovation, attracts mobile capital and mobile people, and generates growth from within. This enhances the distinctiveness, profile and reputation of the city, which adds to its attractiveness and vitality. More detailed empirical research on the creative industries indicates weaknesses in these arguments, including the importance of external business connections, major public institutions, and powerful TNCs that control access to key technology and distribution channels (BASSETT *et al.*, 2002; TUROK, 2003).

CONCLUSION: TOWARDS A BROADER PERSPECTIVE

The recent literature explores different ways in which city-regions can contribute to national economic development. This is a useful counter to their previous portrayal as a burden on the economy. However, there is a danger of overstating the generative effects of localized networks, soft urban assets and spatial concentration as sources of international competitiveness, as indicated below. Certainly, evidence of the significance of these new competitive advantages for cities is rather thin at present (BUCK *et al.*, 2004). In addition, such notions may divert attention from the responsibilities of national and supra-national public institutions for contributing to economic and social development, and inadvertently foster unproductive competition between city and regional authorities. In a quality-based, knowledge-intensive competitive environment, the decentralized policy approach inevitably favours some kinds of cities over others to improve their performance. There is clearly a balance to be struck between locally led economic policies and national spatial development policies, with neither offering a simple panacea.

Recent theories of business networks and knowledge spillovers are open to several criticisms. In stressing the importance of ongoing interactions between firms, they may neglect historical linkages and processes (COE and TOWNSEND, 1998). Decisions about business location, reinvestment and new firm formation may reflect inertia or conditions inherited from pre-existing industrial structures as much as contemporary opportunities for trade and collaboration. Accumulated investment patterns determine the availability of a skilled workforce, appropriate infrastructure and potential entrepreneurs with relevant experience. Firms and industries may grow in particular places because this is where suitable labour, institutions and other factors of production happen to be concentrated, or where major customers or parent companies were once located. London has a dominant position in the creative industries, partly because of long-established key anchors of demand such as the BBC. Regional cities in the UK suffer from the long-standing loss of corporate headquarters and high-level R&D functions to the South East.

The general point is that urban and regional development need to be understood as historical, path-dependent processes in which new industries are laid down on and shaped by inherited conditions (MASSEY, 1984; KRUGMAN, 1996; MARTIN and SUNLEY, 1996). Mechanisms of cumulative causation may reinforce existing industrial centres, unless diseconomies emerge, key markets stagnate and the growth process moves into reverse, leaving a legacy of out-dated infrastructure and institutions that may be difficult to turn around. BAILEY and FRENCH (2004) show that history and basic factors of production such as labour and infrastructure are much more important than localized networks in explaining the performance of financial services in most of Britain's cities. Only in the City of London do firms seem to attach much value to shared intelligence and informational networks (BUCK *et al.*, 2002).

The theories of local networks also risk overstating the degree of vertical disintegration that has occurred within industry and portraying it as a one-way process. Mergers, acquisitions and other forms of consolidation of ownership and control have become increasingly important in many branches of the economy, often in response to intensified competition and the rising costs of technological innovation. The most visible signs are the creation of powerful TNCs; 65 000 of them have around 850 000 foreign affiliates, which employ 54 million people and account for one-tenth of the world's Gross Domestic Product and one-third of exports (UNCTAD, 2002). They benefit from substantial *internal* economies of scale, scope and complexity to fund the development of new products and processes, build strong brands and sell them into global markets. The networks that promote knowledge sharing and innovation are likely to be much stronger between different geographical sites *within* TNCs than between smaller firms within particular localities (AMIN and THRIFT, 2002). Collaboration for small firms is usually voluntary and they often have serious reservations about sharing information with potential competitors who may obtain their intellectual property, gain valuable information about their customers or poach their best staff (TUROK, 2003). The most dynamic firms within local 'clusters' may also accept acquisition by TNCs at a certain stage of growth in order to improve access to external capital, managerial skills, technologies and distribution channels. This weakens local linkages, but strengthens the firms' competitiveness.

It is also important not to assume that vertical disintegration leads to re-agglomeration, or that consolidation means dispersal. The idea that smaller, specialized and flexible firms are more dependent on external economies, knowledge spillovers and face-to-face relationships with other firms and institutions is plausible. However, it may overstate the importance of spatial proximity and 'closure' of the economic system, especially in the context of rising mobility, falling transport costs and developments in information and communication technology (ICT). It may also neglect a wide range of crucial external ties that firms have or need to develop with customers, suppliers and technical collaborators elsewhere in the country and indeed abroad if they are to be successful, as research by SIMMIE *et al.* (2002) on innovative firms has shown. In addition, the consolidation of firms into larger corporations may have various geographical consequences. It may lead to dispersal of different functions according to their specific locational requirements (e.g. headquarters, R&D or routine services), or to the concentration of activities in one place to integrate separate operations and remove duplication, as BAILEY and FRENCH (2004) show in relation to banks and call centres. It should also be borne in mind that changes in corporate ownership per se may have no significant spatial implications.

The main point is that city-regions need to be understood as part of wider economic systems, networks and resource flows, rather than as self-contained units. This means that the strength of external business connections and the efficiency of external communications and transport links are important, as well as national and international policies and the changing structure of external markets. In addition, city-regions appear to obtain a competitive advantage from the size and diversity of concentrated economic activity, which improves access to markets, suppliers, collaborators and a large labour pool. Localized business networks may be most important for certain kinds of innovative and emerging functions. These advantages cannot be taken for granted since cities – especially older ones – also tend to have higher costs, more congestion and inferior access to the motorway network compared with surrounding areas and some smaller towns. Consequently, an efficient transport system and an effective supply of development land and property are important to avoid cities being disadvantaged.[8]

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NOTES

1. In a report for the UK Government, Porter and Ketels (2003) argue that this has been the predominant approach over the last two decades and that the UK now needs a new approach focused on improving innovation and skills.
2. Other governments recognize the value of manufacturing because of its interdependence with product innovation and technological development, as well as its disproportionate contribution to the balance of trade and its importance in maintaining a diversified economy. Moreover, service industries are not necessarily immune from relocation overseas, as recent experience with functions such as call centres and data processing has shown.
3. Elsewhere in Europe, there remains a stronger commitment to established regional policies, using instruments such as infrastructure, financial assistance and R&D spending to prioritize development in lagging regions. UK spending on regional grants is less than one-quarter of the European Union average (Wren, 2003).
4. The UK Government recently criticized European Union regional policy for its centralized controls and inflexibility (H. M. Treasury, 2003a).
5. The calculation might be much simpler in the case of formal competitions for special public resources or to host one-off events, since the organizational bidding costs may be marginal and the direct rewards much more substantial.
6. In recognition of this, the UK Government recently proposed a scheme to reward local authorities for encouraging business in their area by allowing them to retain some of the revenues that arise from growing the business tax base. It is currently consulting on the scale of the incentive to offer and how to ensure that the distributional impact is fair (H. M. Treasury, 2003b).
7. For a contrary interpretation of Silicon Valley's success, emphasizing federal defence contracts, large corporations and external ties, see Gray *et al*. (1998) and Markusen (1999).
8. Interestingly, physical infrastructure emerges from the most recent Global Competitiveness Report as the UK's most important economic weakness in relation to other advanced economies, reflecting the low rate of public investment over the last two decades (Porter and Ketels, 2003).

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