

# **Global Challenges to European Regions**

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# Globalization: Perceptions

- O'Brien (1992) – the 'end of geography'
- Cairncross (1997) – the 'death of distance'
- Thomas Friedman (2005) – the 'World is Flat'
- The world is becoming a global 'village'
- In reality the world is becoming more 'spiky'

# The Recent Phase of Globalization

- ***Technological Changes*** – transportation improvements (RO-RO), JIT, satellite systems, ICTs
- ***Institutional Changes*** – EU, NAFTA, CER, ASEAN, MERCOSUR, APEC, BITs, DTTs and the BRIICS countries
- ***Organizational Changes*** – out-sourcing, off-shoring, global expansion of multinationals

# The Recent Phase of Globalization

- ***Globalization*** and ***Localization*** are both increasing in tandem
- Slow ***international convergence*** (except Africa)
- Increasing intra-national ***inter-regional divergence***
- Changing architecture of global trade
- Super-regions (EU-NAFTA-SEA) increased share of world trade

# The Role and Value of Knowledge: Agglomeration Economies

- Importance of agglomeration appears to have increased globally since early 1990s
- More than half the world now live in cities
- In advanced economies cities are increasingly associated with knowledge activities
- Premium for Face-To-Face Contact

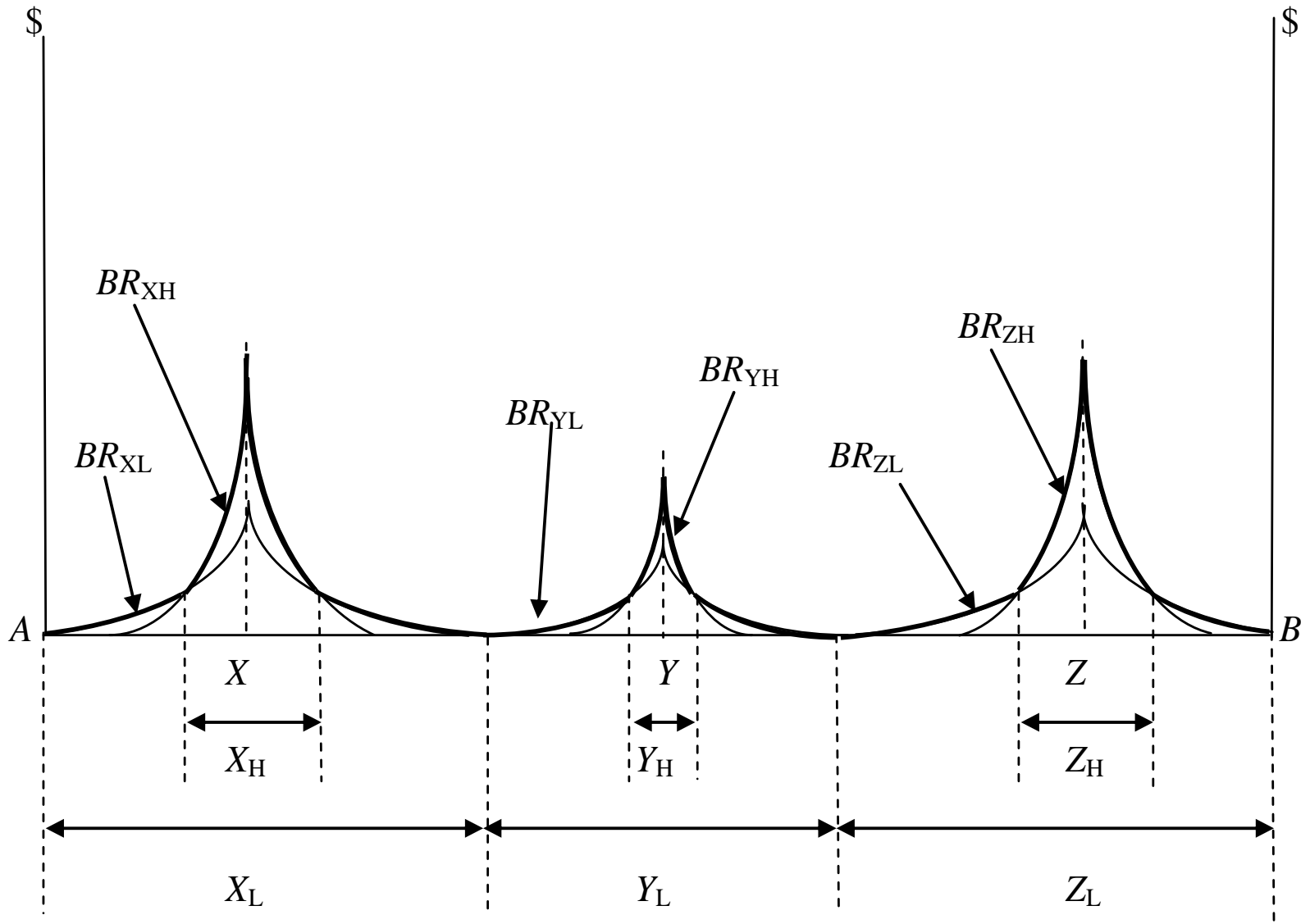
# The Role and Value of Knowledge: Agglomeration Economies

- Cities have higher productivity
- Cities generate more knowledge outcomes (patents, innovations, copyrights, licenses)
- Cities have higher human capital – both stocks and inflows
- Cities and ‘creativity’
- Cities and Entrepreneurship

# Geography and Knowledge

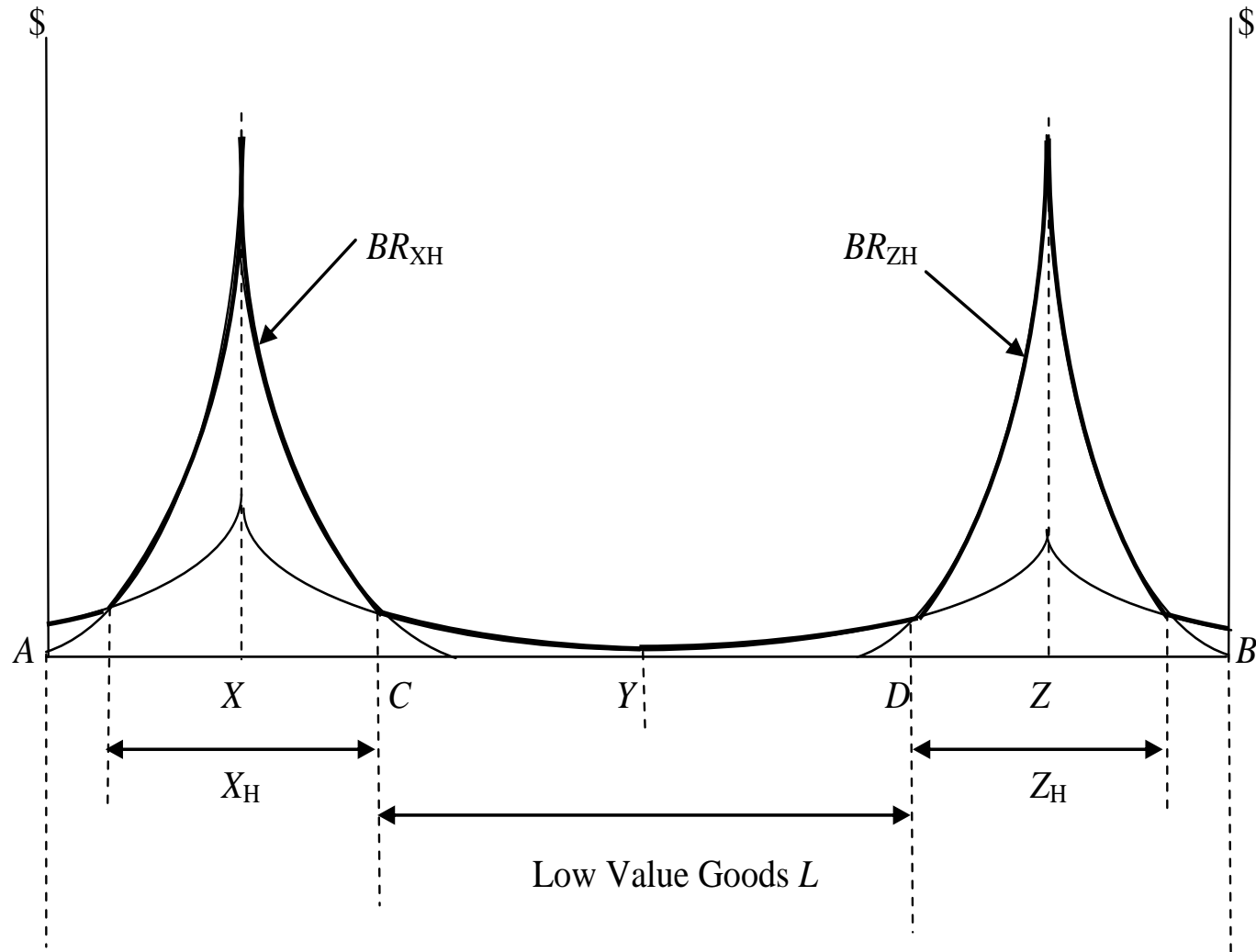
Spatial transactions costs for routine, standardized and non-knowledge intensive activities have *fallen*

Spatial transactions costs for non-routine, non-standardized and knowledge-intensive activities have *risen*



**Fig. 1** A Three City One-Dimensional Economic Geography





**Fig. 2** Globalization, Localization and Economic Geography

# Globalization: Multinationals and FDI

- Entrepreneurship, innovation, human capital
- In which types of countries, cities and regions?
- Global flows of knowledge and ideas
- Face to face and human capital mobility
- Critical role of multinational enterprises

# Globalization: Multinationals and FDI

- Multinational firms are able to coordinate global activities
- Over half of China's exports are internal trade within foreign-owned multinational firms
- Two-thirds of India's ICTs exports are controlled by foreign-owned multinationals
- Income of East Asia is less than GDP

# Globalization: Multinationals and FDI

- Multinationals account for 10% of global GDP
- Multinational affiliate outputs are 2.25 times the size of global exports
- MNEs account for 12.5% of gross FCF
- ***Multinationalism*** is much more important than international trade

# Globalization: Multinationals and FDI

- 78,000 multinational companies with 780,000 overseas affiliates
- Growth of 1000-2000 MNEs per annum.
- Growth of 10,000-20,000 MNE affiliates pa
- Growth of 20 million foreign employees since 2002
- MNE affiliate employment is 73 million (3% global workforce)

# Globalization: Multinationals and FDI

- Critical Importance of the largest MNEs
- 700 largest R&D MNEs account for 46% of global R&D and 69% of private sector R&D
- 500 multinationals account for 90% of (\$1.4bn pa) foreign direct investment FDI and 50% of global trade
- 100 MNEs account for 10% foreign assets of MNEs, 17% foreign sales, 13% of total foreign employment

# Regions and Globalization

- Multinational firms locate control, R&D and decision-making functions in global knowledge centres – particular types of cities – ***global*** city-regions
- Globalization and Knowledge Competition  
- national and regional growth and trade depend crucially on the location decisions of multinational firms with regard to their knowledge assets

# Regions and Globalization

- The links between globalization, knowledge and regions can be considered on two levels
- Global ***city-regions*** at both the sub-national and trans-national levels
- Changing role of ***sub-national*** regions
- Changing role ***global cities*** in '***super-regions***'



# Global City-Regions

- The rise of *global cities* in super-regions
- Global cities as *knowledge hubs* in global networks of transportation and communication
- Global cities dominate human capital
- Increased interregional and international migration: 25-40 year old 'knowledge' workers are most migratory

# **‘Super-Regions’ and Globalization**

- ***Global regionalization***
- Geographic proximity is becoming ever more important for multinational investment
- The geographical patterns of DTTs and BITs are becoming more spatially concentrated
- MNE investment patterns – ‘regional’ multinationals
- Same-regional sales of top 500 MNEs is over 70% (EU-NAFTA-S+EA)

# Globalization: Countries, Cities and Multinationals

- Critical role of MNEs as facilitators and drivers of connectivity
- Bel and Fageda JEG 2008 – intercontinental flights and location of HQs
- Within EU the size of the **country** and the size of the **city** are not statistically significant for the location of knowledge and communication assets

# Conclusions: EU Cohesion Policy

- Global competition and the logic of global regionalism implies the need within EU to promote the transfer of goods, people and knowledge
- Network structure of EU city-regions
- Critical role of a transport infrastructure
- Flexible land use policies to facilitate urban expansion and adjustment

# Conclusions: EU Cohesion Policy

- Connectivity *within* EU between Europe's city-regions is critical for growth, competition and efficient economic adjustment
- Connectivity *between* EU city-regions and rest of the world is critical for global competition

# Conclusions: EU Cohesion Policy

- EU: essential ***coordination*** role for Cohesion Policy as a direct response to global challenges
- The **Barca Review** argues the case for a ***place-based policy***
- The development of a policy logic and framework designed to remove 'bottlenecks' and promote economic and structural adjustment across EU regions

# Conclusions: EU Cohesion Policy

- **Barca Review** recommendations:
- Need to promote policy coordination, policy innovation, policy evaluation and policy learning
- Need for institutional change and development
- Need for long-term post 2013 view of global challenges to EU regions