

# **FROM REGIONAL DEVELOPMENT TO GROWTH OF ECONOMIC CLUSTERS AND NODES: POLICIES AND STRATEGIES**

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## **I. INTRODUCTION**

In this paper, I want to address the shift from issues of development to growth and from regions to clusters and nodes, in other words, the changes in identifying and policymaking concerning economic spaces. To discuss the shift, I will define periods which are not only marked by their economic dynamics but also by differences in defining the regions/territories/nodes which have been the engines of growth. These periods are defined as below:

The era of the Nation States and Keynesian Welfare Regime, the 1930s-1970s, where regions as spaces of economic development; Era of Globalisation, Competitiveness 1980s-2000 characterised by the dominance of globalisation and new spaces of growth; and Post-neoliberal era: 2000-2020, when cities have become the frontier zones in growth processes. I specify the period after 2020 onwards as a new era. For each period I will try to review both the emerging dynamics and change and the spaces of development/growth in that period, besides major problems in understanding and policymaking concerning economic spaces. For the future, I will raise some of the expected issues on briefly discuss what will be the new spaces of growth in the coming years referring to the different trajectories of development.

## **II. THEORIES AND POLICIES ERA OF NATION STATES AND KEYNESIAN WELFARE REGIME: 1930s-1970s**

The 1930 crisis and the following Second World War caused to born of Keynesian welfare state policies that offered a planned developmentalist perspective in which state was the main actor of development. The state acted to ensure persistence of Fordist mode of production and accumulation, to minimize the risks leading to the economic crisis, and to enhance the nation-building process through reducing the regional disparities. In this period, the development of a region essentially depends on investing in infrastructure and manufacturing industry by the state. Emphasis is on capital transfer from outside, exogenous

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investments, which will prevent regional inequalities, emphasising that the local resources of several regions are not adequate to initiate the high momentum of growth.

The strong nation-state is defined as the main actor of regional development, which has to develop policy instruments to minimize regional development disparities. Direct investment in productive activities, infrastructure development and regulative measures to control the outflow of capital, goods, information, and labour were the used policy tools to minimize regional inequalities. Source of regional growth was defined as externally driven (redistributive decision of the state, external decisions of transnational companies) and factors of regional development were outlined as large scale investments, economies of scale, agglomeration economics, externalities and capital accumulation-investment dynamics, vertically integrated economy, and traded interdependencies (Eraydin, 2004). Governments played a major role in the provision of infrastructure, planning, industry promotion and marketing systems and private entrepreneurs are expected to function accordingly. There was a focus on comparative advantage, by promoting cheap land, utility charges and local tax breaks for new businesses relocating or expanding in a region (Stimson, et. al., 2006).

#### **4.2. Regional Development: Regions as economic spaces**

Although regional policies go back to early periods after the emergence of nation-states regional disparities became one of the issues of development. Beginning from the 1930s the Keynesian economics supported the interest in regional differences and provided new tools for defining disparities. Afterwards, in the 1950s and 1960s, the Development Economics formed the main basis of regional analysis, planning and policies. The regional policies that were based on the development ideology of the post-war period were focused on industrialisation efforts of countries via large-scale enterprises. Creation of *Growth Poles* or initiating a polarised development process by government intervention and external resources was the main policy. In the distribution of public resources, the essential point was to minimise the cost of regional policy by selecting the most rational investment areas in different regions.

In this period, many theories were developed about regional development and regional planning with the influence of development economics and geography. In this period reflections of growth dynamics of the regional economy were theorized in growth pole theory (Perroux, 1955; Parr, 1999), and economic base (Tiebout, 1956). Some theorization efforts were focused on the spatial organization to emphasize the location selection problem of the enterprises (Isard, 1960; Alonso, 1964) and location selection of services (Christaller, 1966; Berry, 1964).

The emphasis on regions as the main economic unit and regional policies became less conceivable after the 1970s economic crisis. Firstly, it became more difficult to operate regional policies due to changing economic conditions and relations, since the power of states has widely deteriorated. Secondly, the waves of liberalisation and deregulation affected negatively the development efforts via centralised decision-making systems. And lastly, the dynamics of the globalised economy favoured areas with learning capacities and competitive power. 1970s crisis pointed out that it was impossible to continue regional development policies based on strong government intervention and the external transfer of capital. Since the regional policies defined in the mass production era, which were supported by regulations and institutions of the Keynesian economics, were not able to serve following the change in the economic system.

### **III. THEORIES AND POLICIES ERA OF GLOBALISATION: COMPETITIVENESS 1980s-2000**

The period following the 1970s economic crisis is defined by a new production system, the flexible specialisation necessitating globalisation that enables the free flow of goods, capital and human capital. To make free movement of goods and capital possible deregulation of the national economies was the first step, which meant no barriers and no protectionist attitudes of the nation-states.

In a globalised economic system, the key issue is competitiveness, since it is the only way the firms can survive and expand, and regions and cities can be able to grow. Since the 1980s, the search for competitiveness has become the object of urban and regional policies, in parallel with the academic studies and debates in this field. The interest in competitiveness originates from the observations of the different performances of cities and regions. As Boschma (2004) has indicated, some regions/cities have grown faster than other cities and they have increased their relative share in the national or world economy at the expense of others. Competitiveness is expected to contribute to the economic performance and welfare of regions and cities, first by enhancing the attractiveness of these places for international capital; secondly, by enabling local agents to export their products and services all over the world and participate in global value chains; and, thirdly, by gaining global functions that will allow them to benefit from the spillover effects of globally circulating knowledge, information and technology. Therefore, competitiveness is a way of discussing the relative economic performance of territories and their achievements in generating income, employment and new enterprises (Turok, 2004). The literature offers a very wide list of assets of competitiveness that are grouped under several headings: human capital

(Porter, 1990; Huggins, 2003); the quality of technical infrastructure and the standard of living (Storper, 1997; Begg, 1999; Turok, 2004); and local institutional and social assets, including effective governance (Kresl, 1995).

**Table 1: Major changes following the 1970s economic crisis**

Major changes	New concepts and issues
The changes in the production system	Economic restructuring
	From mass to flexible production
	Global and local subcontracting networks
	Technological change for competitiveness
Competitiveness	The importance of knowledge generation
	Tacit knowledge
	Learning
	Innovation
	Creativity
Human capital	Creative class
	From skilled labour to highly qualified expertise
	Networks of academic excellence
Global functions	Financial services
	Producer services

Moreover, the literature underlined the role of networks and defined them as vital to make an economy more competitive. The first type of networks is related to the production organisation (Schmitz and Musyck, 1994; Rabelotti, 1997; Glasmeier, 1991). These networks define the role and competitive advantage of firms in the value chains. Second type networks are usually defined learning networks (Amin and Cohendet, 1999; Keeble et al., 1998), which enable knowledge sharing (Asheim, 1996) and to gain access to external economies of scale. It is also true that many networks have a strong local dimension despite the emergence of global networks (van der Berg et al., 2001) and establishments that maintain R&D cooperation with partners outside their region nearly always have cooperation partners within the region. However, besides these material and knowledge networks, another kind of networks received considerable attention the past decade, namely social networks (Malmberg, 1996; Grabher, 1993).

Other important issues in the globalised economic system are knowledge and learning. Several authors (Audretsch and Feldman, 1996; Amin and Cohendet,

1999) indicated that the basis of economic vitality and competitive advantage have changed from cost-sensitive growth to knowledge and innovation-oriented development. Knowledge became the most strategic resource and learning the most important process (Lundvall, 1998).

### **3.1. Debates on implications of new economic conditions on space: New economic spaces, spaces of growth**

The policy measures were almost clear in the traditional regional development theories, but it became difficult to transcend from theory to policy beginning from the 1980s onwards. The main policy that was followed by many of the national governments was to support the regions, which have the potential for production for international markets. However, this support was mostly in the form of stimulating the local potential with limited resource commitment and spending due to recognised financial limitations of governments as well as declining institutional capacities in the changing world conditions.

The first attempt to conceptualise the change in the dynamics of growth is new growth theory. The revision of the neoclassical growth theory (Eraydin, 2003), and introducing the New Growth Theory modified the assumption of diminishing returns to capital and introduced monopolistic competition as the underlying market form (Langlois, 2001). This change helped to endogenize technological progress and defined the turning point in the interest in knowledge, innovation and technological progress. The New Growth Theory attracted a wide interest since it was consistent with the fact of increasing divergence among the growth rates of countries, instead of convergence as formulated in the neoclassical growth theory. Its main argument is summarised by Romer (1994:3), which claims "growth is an endogenous outcome of an economic system, not the results of forces impinged from outside". This way of approach to growth and the interest of local by scholars dealing with geography and space induced several theoretical debates that can be grouped under *territorial development models*.

#### ***Spaces of production: Industrial clusters, industrial districts***

Industrial clusters approach, which had a long history since the work of Alfred Marshall (1920) received increasing interest in the late 1970s and 1980s. This interest is reflected itself both formal models of industrial concentration described by Krugman (1991a, 1991b) and also on the new industrial geography literature, which comprised many descriptive studies. Most of them originated from the observation of the experience of Italian industrial districts a long time after the original formulation of Marshall. Industrial districts literature defines a new trajectory of industrial development based on flexible production

organisation (Pyke and Senberger 1991), which relies on subcontracting relations among vertically disintegrated firms specialised in different stages of production. This type of production organisation enables them to produce diversified products in small quantities (Piore and Sabel 1984).

The theoretical debates on industrial districts/clusters emphasise certain issues. Firstly, they are defined as the places, where cluster externalities provide advantages not only for firms but to all members of in that cluster. In other words, they are the places where “the spatially bounded externalities that result in higher economic rates across regions and also higher levels of innovation” (van Oort, 2004). Secondly, they are the places where knowledge spillovers and innovation take place. While human capital and knowledge spillovers became the core of the new growth theory, the industrial geographers paid more attention to the spatial diffusion of knowledge and innovation. Socially constructed inter-firm relationships (Camagni 1991, Storper 1995, Belussi 1996, Malmberg 1996), *institutional thickness* (Amin and Thrift 1994, Tödling 1994), collaboration and cooperation by strong collective networks (Harrison 1992) and common cultural and social background (Beccatini 1989, 1990) are defined factors that facilitate knowledge spillovers and knowledge transfers. The third reason for interest in clusters is due to their export performance. They are the places for international exports.

### ***Spaces of technological advancement: Learning regions, innovative milieu***

The assets of clusters are not adequate to sustain their viability in the global economic system. That is why in the 1980s and early 1990s the evolution of industrial clusters became a new area of interest extending the context of discussions beyond the localisation process. Gordon (1996) claims that the viability of an industrial cluster is a product of their ability to articulate a coherent industrial presence within a global milieu that can be achieved via knowledge and learning. It should be noted that globalisation can also act as a process of ubiquitination of many previously localised capabilities, production factors and the embedded tacit knowledge (Maskell and Malmberg, 1999). In that respect, learning is the key issue since it is the source of innovativeness and long-range growth.

The theoretical debates focused on innovation and networking, such as learning regions (Florida, 1995) and innovative milieu models (Camagni, 1991; Lawson, 1997) are not very different from industrial districts/clusters literature except their emphasis on learning and innovation. The theories and models on learning process tried to define the characteristics of this process. One of the views on *learning* process claims that each step on the *path* is related to the previous step. It means that in the process of learning firms use resources that were developed

earlier in the path and combine them to create new ones. Learning region model, assure that firms' behaviour concerning innovation and their innovation performance is affected by the environment in which they operate (de Propris, 2002). According to an innovative milieu model, geographical proximity and informal relationships between firms facilitate information and knowledge exchange. Collective learning may be a cause of enhanced innovative behaviour by firms and defined as an uncertainty reducing mechanism in a rapidly changing technology context (Keeble, 2000; Longhi, 1999).

### ***Spaces global finance and other producer services: Global cities and city regions***

Other than these industrial spaces of growth, the literature emphasised global cities as the nodes of the new economic system and later global city-regions as the nodes of concentration of global activities. As the process of capitalist territorial development accelerated and intensified on a global scale, literature started to become increasingly interested in urban dynamics and spatial transformation, with global cities and city-regions being introduced as a privileged scale of economic transformation (Sassen, 1991; Scott, 2001a and b). This literature placed emphasis on the role of global cities and city-regions in the process of "adaptation to globalisation", and defined them as the spatial outcomes of the re-scaling or reordering of the international and national urban hierarchies (Brenner, 2003).

## **3.2. Major Drawbacks of the Existing Theories and Policies**

### ***Focus on endogenous capacities***

As discussed above endogenous development and local and regional initiatives for economic development received a strong appeal following the 1970s crisis. While small enterprises became the core of attention, endogenous development based on small and medium enterprises was defined as an alternative to state-led regional economic policy. Concurrently, local development was accepted as a means of integration to the world markets. Although this kind of emphasis on *local* brought a new understanding, it was not enough to explain what happened in the last two decades in many parts of the world. The models of territorial development that defined spatial agglomerations in different forms named as, innovative milieux (Camagni, 1991), industrial districts (Belussi, 1999), new industrial spaces (Scott and Storper, 1987), regional systems of innovation (Cooke, Uranga and Etxebarria, 1997) or learning regions (Florida, 1995; Morgan, 1997), did not have very clear policy recommendations. The acceptance of the contingent nature of development created the difficulty to shift from theory to policy. The interest in local, however, prompted the new policy regime that is defined as governance, which denoted a heterarchical mode of self-organisation and different modes of coordination of interdependent activities (Jessop, 2013). In

practice, national governments that faced economic difficulties found it easy to define strategies for regions related to the potential and capabilities of regions, since they were searching for reducing financial commitments and spending.

### ***The dominance of the success stories***

While the literature was full of success stories, in many countries that tried to follow neo-liberal economic policies and to integrate the globalised economic system regional disparities were increasing. It became evident that in the absence of adequate local initiatives for collaborative action disadvantaged regions had only limited development opportunities. This situation caused increasing interest in regional policies in the literature. Several studies emphasised the importance of national government policies in the provision of learning infrastructure (Jin and Stough, 1998), innovation activities (Asheim and Isaksen, 1997; 2002) and the construction of scientific and technological infrastructure (Gordon, 1996:124). This new interest enforced a third way alternative to the state market dichotomy, the new regionalism, which is believed to cushion the impacts of globalisation by equipping people and regions with skills, networks and institutional thickness needed to compete in the global marketplace. However, the new regionalism, which is the combination of institutional turn-network paradigms with neo-Schumpeterian endogenous growth theory, had difficulty to answer the disparity problem and the loss of redistributive policies, since it was hard to claim that building local capacities are sufficient for establishing a privileged position for less developed regions (Amin, 1999).

### ***Most of the policies were “replica” of the others***

Although it is widely accepted that context matters for the potential development and change of the system and the potential evolutionary pathways depend on the inherited structures and existing dynamics including the adaptation or even radical transformation of the system, the theoretical arguments and policies did not consider the distinctive characteristics of the regional systems (Wolfe, 2011). For Lovering (1998: 384) the new policies and paradigms were “a loose bundle of ideas, an accretion of notions gathered together because they seem to resonate and point to broadly similar policy implications somewhere on the horizon”. It has, therefore, the theoretical weakness that allows for the ready construction of ideal types and the subsequent simplistic serial copying of policy across diverse local and regional contexts (Breschi and Lenzi, 2015).

### ***Increasing disparities***

Except for the very successful development in certain areas, in this period regional disparities increased. The essential question of the relevance of existing regional policies in the neoliberal era (Peck, 2012), as contemporary literature,

emphasises, increasing regional inequality is a common problem in many countries and there is a growing scepticism on the success of policies introduced since the 1980s onwards (Hadjimichalis and Hudson, 2014).

#### **IV. THEORIES AND POLICIES IN THE POST-NEOLIBERAL ERA 2000-2020**

It is possible to observe a shift in the neo-liberal agenda following the early years of deregulation and readjustment of the Keynesian welfare institutions, which favoured the notion of competitiveness that is to be reached within the market mechanism, towards creating new forms of institutions and regulating that which has already been modified. Peck and Tickell (2002), discussing the changing nature of neo-liberalism, defined two different forms of neo-liberal practice in two consecutive periods as “a shift from the pattern of deregulation and dismantlement so dominant during the 1980s, which might be characterised as ‘roll-back neoliberalism’ to an emergent phase of active state-building and regulatory reform – an ascendant moment of ‘roll-out neoliberalism’.

**Table 2: Major changes between 2000-2020**

Major changes	New concepts and issues
Volatilities in the global markets	Financial crisis
	Vulnerabilities of national, regional and urban economies
	Resilient economic development
The digitalisation of the economic activities	Digitalisation of manufacturing
	Digital economy
	Remote control systems
	Virtualised connections
Enhancement of innovation for sustained competitiveness	Innovation
	Economic programs to support innovation
	Specialisation
New technologies	Smart cities
	Smart technologies
The third circuit of capital: Real estate economics	Innovation
	Economic programs to support innovation
	Specialisation
Unexpected economic, environmental and ecological disturbances	Sustainable business practices
	The impact of climate change
	Circular economy

The literature that tries to explain these inconsistencies by indicating the need to define neoliberalism more than “increasing reliance on market mechanism”. According to McGuirk (2005), neoliberalism is not a unified coherent project, but rather a series of complex and overlapping strategies that produce a hybrid form of governance. Peck, Theodore, and Brenner (2009) discuss the ‘contextual embeddedness and path-dependency of neoliberal restructuring projects’ and emphasise the inherited institutions, traditions, political and economic regimes as well as past regulatory struggles besides the global economic imperatives and the neoliberalisation the economy and society. Moreover, there is increasing concern on the changing nature of neoliberal policies. Peck and Tickell (2002) claim that neoliberal policies have changed substantially since the beginning of 1990s, due to emerging problems in socio-economic structures. A careful examination of the recent debates, especially the ones on the changing nature of neoliberalist agenda reveals the importance of understanding how it responds to both global challenges and the local dynamics. Moreover, how local and central state institutions redefine their roles in spatial policies and planning tells us the way the neoliberal understanding responds to the contingencies in different settings. The literature defines the new understanding and the policies shaped within the neoliberal context as the major determinants of the urban change and focuses on the spatial manifestations of the interests of the global capital.

### ***Dealing with increasing volatilities***

The last two decades are marked by increasing economic volatilities. In the last decades, cities and regions experienced several changes under the dominance of neoliberal agenda, which eroded their resilience (Hudson 2009). Changes in production structures and labour processes under the pressures of globalisation, the rise of new technologies, and the increasing role knowledge and learning processes brought substantial changes in the built environment, lifestyles and patterns of consumption, and affected cities and regions directly and indirectly, while deregulation in different fields eroded their self-regulatory capacities (Albrechts, 2010). Increasing incorporation into the new global economy brought vulnerabilities amplified by the structural problems of cities and made them wide open to external pressures, which made resilience as a core concept.

Translations of regional resilience concepts into practical policy proposals have been limited, though existing literature on policies for resilient regions defines several issues and policies adopted. Firstly, some studies define state policies as being of paramount importance in the adaptive capacity of a region (Briguglio, 2009), with the nation-state playing a key role in the transfer of different types of resources, especially those of a fiscal nature. Swanstrom *et al.* (2009) claim that

even the most resilient metropolitan areas cannot adequately address the crisis on their own, as state policies can expand (or contract) the potential for local resilience. Secondly, the role of economic planning and restructuring programmes are defined as important in building resilient regions. Cowell (2013) provided the examples of Buffalo (New York) and Cleveland (Ohio), where economic development planning has been introduced to adapt to the evolving challenges of deindustrialization, and both regions have made the expected moves towards the stage where resilience is high. Bailey and Berkeley (2014) and Carlsson *et al.* (2014) emphasise the policy instruments of restructuring programmes. Thirdly, governance and institutional capacity as factors of resilience have received attention. In a study of six metropolitan areas in the United States, Swanstrom *et al.* (2009) found that the most resilient metropolitan areas had a history of collaboration between the public, private and non-profit sectors. According to Hill *et al.* (2008), resilient regions are those with the institutional capacity to make rapid transitions and are particularly important in economic downturns due to their ability to mitigate the negative effects (Davies, 2011). In this respect, institutional coordination and political leadership are defined as essential in mitigating and responding to new challenges.

### ***Enhancement of innovation***

In Europe 2020 Report (European Commission, 2010a), the policies to be followed by European Europe (Barca Report to Commissioner for Regional Policies) is defined as smart, sustainable and inclusive growth. The Regional Policy Report 2014-20 initiated by Danuta Hubner defined the priorities in regional development, which are explained in *Regional Policy Contributing to Smart Growth in Europe* (European Commission, 2010b). This report, which is the first report that defined new fields of specialization where innovation processes to be supported, was based on smart specialization strategy that was introduced in EU document 'Knowledge for Growth' (Foray, 2009; Foray *et al.*, 2009). The policies defined in these documents were focused on generating scientific knowledge and smart innovativeness that have to be developed with endogenous resources (embeddedness) and connections that enable the transfer of technology and knowledge from the outside world (connectedness). The main aim of smart specialisation strategy is to define new areas of specialisation with the help of knowledge accumulated in the existing industries (relatedness) (Boschma, 2017). The policy measures, in this respect, are the support for knowledge and human capital and to integrate industrial and technological structures and skills by taking account different patterns of specialisation in research and technology (McCann and Ortega-Argilés, 2011).

### ***An easy road to growth: Real estate led development***

While there is a sustained interest in innovation, in practice real estate defined the new agenda of growth. After a period of heightened entrepreneurialism, since the 1990s the dualistic nature of property rights regimes became more obvious. On the one hand, urban land and property markets have depended upon the transfer of land rents for productive purposes (new forms of capitalist development, commercial property development, etc), while on the other hand governance relations have endorsed reproductive purposes (for households), which have different socio-economic logics (Jager, 2003).

Several studies reflect upon the interaction between the social and entrepreneurial forms of governance via land and property markets, as well as the fragmentation of the modes of governance in which the role of property market actors in politics of urban development is criticised for creating local elitist coalitions (Webster, 2002; Puijt, 2003; Edwards, 2002; Dalledetsima, 2006). Webster (2002), later on, claimed that the property market reproduces more visible "clubs" in this respect as the playing field of specific actors, compared to the social forms of governance that constantly establish a new set of relations and dynamics in cities.

These institutional relations and the dynamic interactions between the property market and urban government actors (public and private) defined new roles in the property markets for the 'city builders' (Fainstein, 1994) through negotiations, written-unwritten or official-unofficial deals, agreements and strategies. The new forms of governance increase fragmentation and exclude several possible actors in society, which, rather than leading to local activism, results in increased aggression and violence due to the conflicts around the use of land. However, in this period the characteristics of the struggle changed from the residential concerns of shelter and an equal share of services towards more commercial oriented concerns, which lead to struggles over urban land and property for commercial development of large-scale projects.

#### **4.1. New spaces of growth**

Two theoretical debates are relevant to explain to enhance innovation-oriented development of regions.

##### ***Regional Innovation systems***

Regional innovation strategies that have been formulated as a new policy framework to support the needs of regions in innovative activities (Cooke, 1998a; Cooke et al., 1998; de la Mothe and Paquet, 1998; Braczyk et al., 1998; de la Mothe and Paquet, 1998a; Asheim, 1997; Asheim and Isaksen, 2002; Leigh, 1995; Mc

Kibbin, 2000). A regional innovation system is defined as “collaborative relations between the actors that translates knowledge into regional income growth” (Landabaso, Oughton and Morgan, 1999). If the actors of the system are specified the definition becomes as “a system in which firms and other organisations [such as research institutes, universities, innovation support agencies, chambers of commerce, banks, government departments] are systematically engaged in interactive learning through an institutional milieu characterised by embeddedness” (Cooke et al., 1998:1581) The argument indicates that the different kinds of R&D institutions complement and compete with one another in support of learning processes and innovative activities (Gregersen and Johnson, 1997). At the regional scale, Cooke, Uranga and Etxebarria (1997) define an innovative industrial cluster as the area likely to have firms with access to others in similar or complementary sectors as customers, suppliers and partners. They also have access to such knowledge infrastructure as universities, research institutes, research organisations and technology transfer agencies.

A regional innovation system aims to combine traditional, context-linked, regional knowledge with codified, worldwide available knowledge to stimulate regional endogenous potential. In this process, the *innovating firm* is defined as the foci of the innovation process, which is surrounded by different actors who are linked to each other within innovation activities, including their support industries (Asheim and Isaksen, 2002). In regional innovation systems, *institutions* are very important, since they determine the rate and the direction of innovative activities (Lundvall, 1998). In innovation systems, regional governments have several roles such as a catalyst, a facilitator or a broker in the articulation of innovative activities. Articulation means linking regional actors and matching these actors according to their innovation needs, initiating collaborative activities among different actors and designing policies to integrate all actors in a regional innovation system (Landabaso, Oughton and Morgan, 1999). Lastly, *networks* constitute the major component of an innovation system, since the main character of this type of territorial systems is their efficiency to create, diffuse and exploit knowledge. Networks enable the transfer of knowledge among the different parts of the system. There are flows of intellectual resources between institutions, which are linked with formal and informal networks and firms are the important parts of these networks whose activities initiate, support and diffuse new technologies and innovations (de la Mothe and Paquet, 1998).

### **Smart specialisation**

*Smart specialisation* has been highlighted by the European Commission as a central pillar of the *Europe 2020 Strategy*. The Europe 2020 Strategy is intended to

act as an umbrella organizing framework under which all EU policies will operate over the coming decade. The smart specialisation argument emerged originally out of the literature examining the transatlantic productivity gap. The concept was first sketched out by Dominique Foray and Bart van Ark and subsequently developed along with their co-authors Paul David, Bronwyn Hall and by other members of the “Knowledge for Growth” expert group.

In particular, the concept has been defined as a central element in the development of a reformed European Cohesion Policy, which is based on the principles of ‘smart growth’, ‘green growth’ and ‘inclusive growth’. How a smart specialisation strategy is envisaged to operate as a central theme in a post-2013 reformed EU Cohesion Policy is explained in *Regional Policy Contributing to Smart Growth in Europe* [COM(2010)553]. Here, the argument is that regions will be required to identify the sectors, the technological domains, or the major arenas of likely competitive advantage, and then to focus their regional policies to promote innovation in these fields. In particular, the argument is crucial for the regions which are not on a major science-technology frontier. From a regional policy perspective, the smart specialisation approach offers some potential advantages for both understanding the evolutionary nature of regional economies, and also for the design of appropriate policy-making. However, the application of the smart specialisation concept to a regional rather than a national case is not simply a matter of re-drawing the cartographical boundaries. Regions are far more open than nations and this brings to the fore externality and interdependency issues.

### ***Metropolitan Cities***

There exist two opposing standpoints on the role and the interest of the state on urban areas. Globalisation literature concentrates on devolution processes and defines cities and metropolitan areas as autonomous units (Scott, 2001). The devolution of the nation-state and its decreasing role, however, does not mean that the nation-state has lost all of its functions. On the contrary, in recent years many nation-states have declared their interest to enhance the competitiveness of their cities and metropolitan areas and have put forward supporting measures to enhance their innovative policies. In this context, several metropolitan areas are defined as “golden eggs” – a source of competitiveness of the national economy by the national government (McGuirk, 2007).

The literature of 1990s and 2000s indicates the sustained interest of different central government institutions in major metropolitan regions (Thornley and Newman, 1996; Gordon et al, 2004; McGuirk, 2005; Salet, 2006). Firstly, central governments accept metropolitan areas as the core of national economic

development and try to be a part of the economic restructuring and revitalisation through different organisations. Secondly, central governments try to retain control over certain activities initiated by the local authorities in major cities (Gordon et al., 2004).

However, over a quarter of world metropolises witnessed population decline in the 1990s, and despite urbanization trends, these population losses are expected to continue (Oswalt and Rieniets, 2006). Oswalt and Rieniets (2007) indicated that in the last 35 years, 370 cities with a population of 100,000 or more have lost at least 10 per cent of their population, particularly in Europe; and Turok and Mykhnenko (2007: 168-169) found that at the end of the 1990s there were more shrinking than growing cities in Europe. According to the Urban Audit (EU, 2007), out of 220 small- and medium-sized cities in Europe, 57 per cent lost population during the 1996–2001 period, and the European Commission estimates that by 2020 population decline will have been experienced all over Europe, and that immigration will be unable to compensate for the losses after that year. The situation is much the same in developing countries, with UN-HABITAT reporting that out of 1,408 developing country cities, 143 have experienced population losses in the 1990–2000 period. It has been argued that while globalization encouraged the growth of competitive and innovative metropolitan areas, global cities (Sassen, 1991) and city-regions (Brenner, 2000; Scott, 2001a,b) while it had negative consequences on cities that were not able to adapt to the new conditions imposed by globalization.

#### **4.2. Major drawbacks**

***Existing theories do not deal with the problems of regions under volatile economic conditions.*** There are no rigorous explanations behind the responses of regions to recessionary shocks, which is the main characteristic of the contemporary era, and the limited concern of existing policies to deal with the recession (Eraydin, 2016).

It can be argued that there is a lack of attention to the increase of recessionary shocks and limited concerns regarding the responses of regions to shocks, in other words, the lack of a resilience policy in practice. That said, as Swanstrom *et al.* (2009) emphasise, even the most prominent areas cannot adequately address the crisis on their own, which necessitates state policies. Some state policies are specific to labour markets (Duval *et al.*, 2007), the financial system (Brugiglio, 2009; Christopherson *et al.*, 2010) or the enhancement of institutional capacity (Hill *et al.*, 2008; Davies, 2011; Wolfe, 2011), but they fall far short of discussing the general performance of regions. There are some new additions to the body of literature that indicate the importance of economic planning (Cowell, 2013) and

restructuring programmes (Carlsson *et al.*, 2014) in the resilience of regions, although most of them focus on the recovery of regions rather than on building capacity to respond successfully to recessionary cycles. There are several references to the contributions of spatial planning to the resilience of regions. Foster (2007) pointed to the importance of the ability of political authorities to put in place effective planning and implementation strategies, and while Albers and Deppisch (2013) claimed that spatial planning has already contributed to urban and regional resilience, based on their studies of Stockholm and Rostock.

***The literature seems weak on the theoretical foundations of institutional and multi-level governance frameworks***

While creating important changes in the economy, according to contemporary literature globalisation also enforces the changes in the institutional structures. Salet, Thorley and Kreukels (2003) define the institutional transformation to all European cities after the 1980s, a reduction in the government's proactive role in the society and the diversification of decision-making throughout a wide range of organisations and the restructuring of intergovernmental relationships. In other words, what happened is the change in the institutional structure of different spaces concerning the shift from welfare state to "a more varied and complex pattern". Rescaling is defined as an implicit and/or explicit process-related primarily to the territorial re-organisation of statehood, in terms of the policies carried out by the State at the different scalar levels (Kazepov, 2005).

The territorial reorganisation can be the outcome of both implicit and explicit type of rescaling. Implicit rescaling is the territorial re-organisation of social policies that might change the balance between specific measures regulated at different territorial levels, whereas explicit rescaling occurs through explicit reforms shifting regulatory authority and fiscal capacity to institutions at different territorial levels. In other words, it is possible to discuss the redefinition of the different scalar levels of provision of services and resources besides the authority of the different institutions, especially public ones. The negotiations among the different actors of decision-making become a natural part of this process leading to the need for the legitimisation of the new rules and regulations.

**V. CONCLUSIVE REMARKS: 2000+ FUTURE TRENDS**

**5.1. What are the expected changes that will define the future of the world economy and the economic spaces?**

Although it is not easy to define the future due to fluctuations and expected changes in economic, political and environmental issues. That said, there is almost a consensus on certain issues (see Table 3).

**Table 3: Major changes expected after year 2020**

Major changes	New concepts and issues
Automation	Further automation in manufacturing
	Low labour investment
Artificial intelligence	Robots displacing jobs
Digitalisation/virtual networks	The new face of retail
	Loss of office spaces
Public services	Basic universal services with no cost
	Healthcare service receiving more attention
Labour	Unemployment and labour demography
Protectionism	Industrial patriotism
	Silent rise of nationalism
Governance	Agile governance
	Trust as a value

The first issues are connected to new technologies.

**Automation** in production activities is one of the issues shared by several scholars. As one of the studies underlined robots predicted to displace 50% of jobs by 2035. The share of manufacturing employment which has already declined in advanced countries will be growing smaller also in the developing part of the world. That will have important repercussions not only in productions systems but also socio-economic issues. Creating employment will be one of the critical problems and have implications on labour markets? The skills necessary to find jobs may be quite different in the near future.

**Artificial intelligence** is getting increasing attention. Some scholars underline the importance of productivity. They claim that the use of artificial intelligence will increase the productivity of the firms that can use this technology and will gain a competitive advantage.

Another widely accepted issue is the increasing **digitalisation** of various economic activities. It is possible to say that everything becomes smart as everything becomes connected. We're on the road to the internet of things where everything is connected, not only to the internet but also to one another. The digitalisation and boom in internet usage can bring radical changes in the way public services are provided. Actually, the world experienced such a change

in education and different types of government services and even health services during COVID 19 period.

What also expected is the change in how public services are delivered due to the decreasing cost of digital platforms. Basic universal services can be delivered at no cost, which is very important for enhancing free opportunities for different social groups. Moral capitalism will favour redistribution over inequality. Education and healthcare services can use the new technologies and this may be important for increasing access of the urban poor to different services. Actually, in the last decade, we have observed that many government services are digitalised and this may be widespread in all fields. That is also what happens in the retail sector. China recently claimed that 37 per cent of its retail sector was digital compared to 11 per cent of the United States.

The second trend is increasing global commerce and global flows of financial and human capital. Transnational corporations now wield as much, if not more, power than nation-states. As of mid-2019, the total market capitalization of the five "FAANG"s (Facebook, Apple, Amazon, Netflix, and Google) hovered near \$3.2 trillion. At the time that was more than the total world economy of all but four countries: the United States, China, Japan, and Germany (Bray, 2020). When trans-national corporations are this large, it is not clear whether nation-states or corporations have more geopolitical power.

Besides the above-mentioned issues, several scholars are defining the change in institutions, policies and politics.

Various studies claim that there are signs indicating that increasing economic and industrial patriotism and silent rise of nationalism, which is supported by protectionism against free trade. The hyper-globalisation that experienced in the last decade triggers protectionist reactions. Economic patriotism arises also as a reaction to growing economic interdependence and many countries are suffering from the deficit due trade.

Clift and Woll (2012) argues that 2008 "crisis may have revealed that in a world characterized by an overlapping network of economic governance regimes, politicians face the 'paradox of neo-liberal democracy' (an idea developed by Colin Crouch), namely their political mandate is to pursue the political-economic interests of their citizenry under conditions of complex economic, legal and regulatory interdependence where large parts of economic governance are no longer exclusively within their control." In the coming years, both citizens and governments will become more protectionist in their consumption habits or will have to redefine their supply chain. How to deal with this paradox seems very important to define the future and future spaces.

How can these principles be formulated concerning global economic relations? Different perspectives are providing different answers to this question, such as “greater intra-regional closure of the economy and greater self-reliance,” as Hudson (2009:17) has suggested; or “relying on endogenous capacities,” as claimed by Simmie and Martin (2010: 45-58). However, how far it is possible to “create more self-contained regional economies while securing the successful transition to ecologically sustainable and socially just forms of the regional organisation, economy and society” (Hudson 2009:17) is still an important question.

On the other hand, the experience of the COVID 19 period underlined the importance of some issues: inclusive growth, agile governance and faith in institutions.

### ***Inclusive growth***

Recent figures showed both permanent and temporary job losses. Job losses resulted from social distancing and stay-at-home, although there appeared growth in some sectors, such as logistics. While some regular jobs can recover after COVID 19, forecasts indicate that unemployment may increase, since many companies try to shift spending from wage earners to abundantly available freelance workers. Both increasing unemployed and the ones who lost enough income opportunities necessitates the governments to adopt inclusive growth policies.

### ***Agile governance***

The demands of governments are diversifying, deepening, and quickening. Traditional policy development lags innovation, and the incongruence between corporate and citizen expectations and the agility in public institutions is rising. Traditional governance structures and policy-making models need to evolve from cumbersome and slow, to agile and responsive.

### ***Faith in institutions***

Faith in institutions, government and communities are essential during a crisis. Trust in, and between institutions is critical at both an economic and societal level. The credibility of information sources will become strategic, as will transparency and deep knowledge, elements.

### ***A new value system***

Besides advocating equity, empowerment and environmentally sensitive economic development, there is need to encourage new ethics that are based

upon the responsibility of everyone to protect him/herself, with the right to protest those who do not comply with the basic ethical standards (Hudson 2009:19), which is a crucial factor in the way urban land and urban services, including ecosystem services, are used or provided. Moreover, building a value system is very important if antagonism and hegemony of power on urban systems is to be reduced. If there is no value system defining the expectations for the future, then every agreement will silence some and not others, and every decision will favour some over others (Hillier 2002; McGuirk 2001; Tewdwr-Jones and Allmendinger 1998; Purcell 2009). Without value systems, consensus or agreement stabilises power (Mouffe 2000:104), which may have very negative consequences in the long term for different resources and the way urban areas are used.

### **What is about economic spaces?**

There are several debates trying to foresee the future, such as:

#### ***Mega-regions/cities (Bray, 2020)***

“One structural possibility is hyper-regionalism, defined by what technological, commercial, and protective flow of humans, animals, and plants arises. This could be embodied by mega-cities becoming dominate geopolitical actors, dramatically redesigned in the future to provide essential services. This situation may be defined less by national identity and more by what they provide those individuals who live within the municipal areas.

Mega-cities of the future, empowered by technology to provide for those within the immediate vicinity and capable of responding at faster speeds than nations, would forge their trade agreements, public health arrangements, and climate change accords with other cities globally, via direct diplomatic relations-or a devolution away from large nation-states to smaller regional powers defined by identity.

#### ***Transnational companies***

Transnational groups, organized either by ideology or corporate identity, replace the concept of nation-states defined by geography. Technological solutions may arise tied to a person’s passport, or services may arise tied to a person’s place of employment, commercial laboratory testing service, or some other global mechanism similar to how anyone can become an e-resident of a country without residing in or being a citizen of that country. The nation-state may be replaced with something that is more network-centric in nature.

Above discussions is all guesswork. What is clear that is we are at a turning point and we have two options.

The first one is: Back to issues of regional development, struggling against the inequalities, providing free basic services with the help of digital technologies. In this case regions as the main unit to bring a more equal and sustainable world.

The second one is: Technological advancement bringing polarisation, negative conditions for labour, increasing disparities, unemployment. This scenario means the increasing dominance of certain nodes giving less chance to the remaining ones.

Which way to build our future is though not certain depends on us. As Arnold Toynbee stated after analyzing the dynamics of development of all the major civilizations throughout history, "A civilization will begin to disintegrate when it loses its capacity to respond creatively to major challenges. Particularly in a democratic society, when civilization fails to employ its inventive capacity and begins to disintegrate, then it is the people themselves who bear ultimate responsibility."

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