
Preface

Economics as an academic discipline, and economists who try to predict the near future and provide policy advice, are having a hard time and suffering dwindling esteem for quite some time. The reasons are manifold. First, they failed to foresee the scope and depth of the deep global financial crises of 2008. The vantage point of neoliberal economists was that free markets would take care after problems. No, they do not. Heavy public intervention saved the day. Is the market there to guide or to serve your decisions? Second, unprecedented austerity measures imposed on Greece from 2010 were supposed to reduce the country's debt/gross domestic product (GDP) ratio. The opposite has happened: this ratio magnified by a third. Third, the media and other pressure exerted on the British voters was to the effect that if they voted in favour of leaving the European Union (Brexit), 'the Sun will not shine the following day; that the bridges would fall down'. The Brits voted in favour of Brexit on 23 June 2016 and the initial base predictions were wrong.¹ Fourth, economic sanctions imposed on Russia in 2014 were supposed to put the country on its 'economic knees'. Contrary to this, Russia transformed and turned from a significant global importer of food to a significant world exporter of food. The country earns more from exports of food than from exports of all military-related goods.²

Some of the reasons for such erroneous observations and short- and medium-term predictions were based in part on equilibrium and linear visions of economic developments. Some would argue that the principal mistake was linked to the excessive faith in free markets and a reluctance to accept government intervention, especially in areas where market failures were obvious and damaging. A new approach in economics is necessary.

This volume provides a new framework for the discussion of an old economic problem: where to locate a firm (or economic activity) in space? The new spatial programme is an evolutionary approach to economics and economic geography. The traditional neoclassical equilibrium theory is an elegant and quite convincing academic exercise. Its conclusions are straightforward and offer simple and clear insights regarding the location of firms in space. Its general economic policy recommendation is: always remove all market imperfections. In spite of its complex design, the new evolutionary approach to spatial economics is much closer to reality.

This book gives a theoretical and analytical framework on evolutionary economic geography and may provoke research curiosity. It attempts to contribute to a multidisciplinary exchange of views among economists, geographers and businessmen within a new evolutionary approach. It also ambitiously includes various contributions to the spatial topics that were scattered widely across: microeconomics, planning, development,

¹ G. Jackson, 'Number of EU workers rises as jobless rate reaches 11-year low', *Financial Times*, 17 November 2016; A. Mikhailova, 'Project Fear's Brexit predictions were wrong by £100 billion, new report says', *Telegraph*, 22 April 2018.

² A. Medetsky, M. Campbell and Y. Fedorinova, 'Putin is growing organic power one T-34 tank-tomato at a time', *Bloomberg*, 7 June 2016; H. Foy, 'Sanctions spur growth in Russian agriculture', *Financial Times*, 4 September 2017.

economic geography, regional science, urban economics, location theory, industrial organisation, international trade and integration, foreign direct investment, transport economics, business economics, innovation studies, public finance, price theory, imperfect competition, economics of scale, labour economics, environment and resource economics. The common research denominator in all these fields was the spatial dimension, which was seen as an opportunity, a medium for interactions, as well as a limitation.

The principal workhorses of the neoclassical theory of comparative advantage are perfect competition, homogeneous output and constant economies of scale. Natural endowment of factors and the available technology exogenously determine the spatial location of production in this model of the economy. During the 1980s new trade theory added imperfect competition and economies of scale to the analytical toolbox. This rejuvenated both trade and spatial economics. Inter-industry specialisation leads towards clustering (agglomeration), while intra-industry specialisation creates the situation in which a variety of firms each produce unique products. The new analytical tools also helped in offering new explanations of why firms agglomerate and form clusters; and where.

Spatial economics is the academic discipline that studies cumulative effects of forward and backward linkages that influence the agglomeration and spread of economic activities in space. Spatial distribution of economic activity is the outcome of complex interaction (input–output, value chains) among the endowment of resources, intermediate goods, costs of transport, economies of scale, market size, as well as the diversity of tastes and consumption. The principal proposition is based on the fall in the cost of transport: decreased costs may lead to the core–periphery problem in the location of economic (manufacturing) activity.

Evolutionary economic geography deals with an open, adaptive and complex system of economic landscape, especially how it changes over time. As its name suggests, evolutionary economic geography is a work in progress. Stability is death in evolution. Continuous change is at its heart. Basic evolutionary features are: variety, selection, adaptation, transformation and self-organisation. A unified theory is not on offer; rather, considerations contain a blend of a variety of standpoints. Those are ambiguous analytical legs to stand on, but they offer perspectives that open the mind for thinking outside the box and searching for innovative solutions. Reasons for dissatisfaction are many and various. Therefore, few academic disciplines have been as criticised from within and from outside as economics has been. Even though the ever-increasing demand for sophisticated quantitative analysis is making results harder to explain and comprehend, and policy advice more difficult to derive, the introduction of new analytical tools assisted spatial economics in finding its proper place in economics and becoming a hot research topic.

The main insight of this book is about how one new economic or business system replaces another, and where. Economists need to step out of their ‘old analytical box’ of clean and lean abstract theoretical, mathematical and aspatial models that bring the analysed system into equilibrium. They need to go to the actual world and the real operation of the economic system. The neoclassical equilibrium models were based on assumptions that rendered analysis totally unrealistic, and useless to some professions. For example, a geographer would argue that societies and real geographical space are so complex that they cannot be put into the mathematical formulae which are substitutes for experimentation in economics. Their background logic and ‘language’ asks for

structures to be fixed. 'Pure' economic models refer to geography only to the extent that it supports economic analysis of the 'market clearing logic' and equilibrium based on very specific and numerous (unrealistic) assumptions that ease mathematical modelling. This dangerously damages the practical relevance of conclusions. Economists need to expand their research agenda out of the usual issues that refer to entry, exit and total factor productivity. Certain economists have already broadened the analysis to include issues such as institutions, history, firm heterogeneity in the use of factors, multiple equilibria, evolution, technological and time-space trajectories, spatial location theory, endemic disequilibrium and various market imperfections. Economists need to provide convincing arguments that their findings, based on a number of restrictive assumptions, can offer useful explanations of developments in the real world, and offer worthwhile advice to policymakers. Geographers need to exit their 'old analytical box' in which they were interested in economics only to the extent that it was assisting them to understand and explain the spatial organisation of societies. They need to be more convincing in explaining to economists how small differences among firms or regions are relevant in explanations of different agglomeration outcomes that affect the economic landscape. Instead of ignoring or bypassing one another, economists and geographers need to try to talk about topics of mutual interest, potential agreement and obvious difference. They may also explore the relevance of complexity theory for the solution of common problems.

Regarding problems in real life, underdeveloped countries and regions worry that high value-added economic activity would locate and concentrate in the core developed regions. Currently, prosperous countries and regions worry that at least a certain part of economic activity (manufacturing from Europe and services from the United Kingdom and the United States) would move to other regions where wages are lower. All countries and regions worry that a big part of manufacturing production would locate in China. The Chinese have two worries. First is their lack of primary resources, hence they locate their investment in places where they find the missing economic links; and second, protectionist tendencies in the developed world, hence they invest in both in the United States and in Europe in order to avoid restrictions. Thus, all regions are anxious because of the 'assault' on what used to be their established geography of production. This attack on the existing local spatial order does not come only from other locations, but also from evolution in technology and innovation, variation in competition, fickle tastes and ageing populations (changes in demography) in certain areas.

The presentation in this volume has a certain European slant as this is the geographical area most familiar to the author. The volume is organised as follows. Part I introduces the subject. Part II, the core part of the book, covers the theory behind evolutionary economic geography. It presents the basic concepts, as well as relations between economics and geography, biology, evolution and physics. It surveys theories of locations of firms without consideration of their ownership. Special attention is devoted to complex systems. Spatial units such as clusters, cities and regions are also presented in turn. This part also contains the impact of history, expectations and war on the location of firms. Part III covers the supply chain economy, its origin, structure and likely future. Part IV is devoted to the effect of market structure (competition) on the spatial location of production. It tackles issues such as basic concepts, innovation, specialisation, returns to scale, standards, rules of origin and non-tariff barriers. The omnipresent globalisation as a great economic and political story of our times is covered in Part V. Ownership, that

is, foreign possession and control of firms and structures, is treated in Part VI. This part examines international firms and explores the theoretical and practical reasons for foreign direct investment and location of trans-border business activities: what motivates firms to locate and stay abroad? Part VII on regional policy considers objectives, justification and instruments. It also shows the impact of international economic integration on the location of firms and industries. Part VIII concludes the book.

I hope and believe that disequilibrium spatial economics and evolutionary economic geography will prove useful to scholars, students, researchers, civil servants, business executives and others in widening their knowledge and mindfulness of the process and interrelation between evolutionary theory and the spatial location of firms and industries in the economy of today and tomorrow. However, if it also attracts the curiosity and attention of those studying economic development, international business and policy-makers, then this is to be welcomed. The Bibliography at the end of the book may serve as a departure point to a curious student or researcher into the demanding, expanding, surprising and academically rewarding world of evolutionary economic geography.