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Kathryn Pain

► **To cite this version:**

Kathryn Pain. Examining 'Core-Periphery' Relationships in a Global City-Region: The Case of London and South East England. *Regional Studies*, 2008, 42 (08), pp.1161-1172. 10.1080/00343400701808857 . hal-00514702

HAL Id: hal-00514702

<https://hal.science/hal-00514702>

Submitted on 3 Sep 2010

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Examining 'Core-Periphery' Relationships in a Global City-Region: The Case of London and South East England

Journal:	<i>Regional Studies</i>
Manuscript ID:	CRES-2006-0247.R1
Manuscript Type:	Main Section
JEL codes:	O18 - Regional, Urban, and Rural Analyses < O1 - Economic Development < O - Economic Development, Technological Change, and Growth, O20 - General < O2 - Development Planning and Policy < O - Economic Development, Technological Change, and Growth, R11 - Regional Economic Activity: Growth, Development, and Changes < R1 - General Regional Economics < R - Urban, Rural, and Regional Economics, R58 - Regional Development Policy < R5 - Regional Government Analysis < R - Urban, Rural, and Regional Economics
Keywords:	Mega-City Region, Polycentricity-monocentricity, Core-periphery, Binary, Advanced Producer Services, Functional specialisation

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1
2
3 KATHRYN PAIN
4

5
6 *Department of Geography*
7

8 *Loughborough University*
9

10 *Epinal Way*
11

12 *Loughborough LE11 3TU, UK*
13

14 *K.Pain@lboro.ac.uk*
15
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20 JEL codes: O18; O20; R11; R58
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22 First : October 2006. Accepted : June 2007
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**EXAMINING ‘CORE-PERIPHERY’ RELATIONSHIPS IN A GLOBAL
CITY-REGION: THE CASE OF LONDON
AND SOUTH EAST ENGLAND**

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This paper examines the interdependencies between the London ‘core’ and the South East England ‘Mega-City Region’. London’s description as a monocentric city in the European Spatial Development Perspective, belies functional connectivities that make a wide area to the west of the capital a web of dense inter-urban linkages. How are advanced business services creating a functional geography that differs from binary territorial representations? What are the implications for policy and theorisation? This paper addresses these questions with specific reference to South East England and the ‘core-periphery’ thesis.

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Mega-City Region	Polycentricity-monocentricity	Core-periphery
Advanced Producer Services	Binary	Functional specialisation

Examiner le rapport ‘centre-périphérie’ dans une cité-région mondiale:
étude de cas de Londres et de l’Angleterre du Sud-Est.

Cet article cherche à examiner les interdépendances entre le ‘centre’, à savoir Londres, et la méga-cité-région’ de l’Angleterre du Sud-Est. Dans le European Spatial Development Perspective (perspective sur le développement géographique européen) la description de Londres comme ville mono-centrique dissimule les connectivités fonctionnelles qui font d’une grande zone à l’ouest de la capitale un grand réseau de liens interurbains. Comment les services aux entreprises haut de gamme peuvent-ils créer une géographie fonctionnelle qui se distingue des représentations territoriales binaires? Quelles sont les implications quant à la politique et à la théorisation? Cet article cherche à aborder ces questions-là spécifiquement en ce qui concerne l’Angleterre du Sud-Est et la thèse ‘centre-périphérie’.

Méga-cité-région / Polycentrisme-monocentrisme / Centre-périphérie / Services aux entreprises haut de gamme / Binaire / Spécialisation fonctionnelle

Classement JEL: O18; O20; R11; R58

Untersuchung der 'Kern-Peripherie'-Beziehungen in einer globalen Stadregion: der Fall
von London und Südostengland

KATHRYN PAIN

In diesem Beitrag werden die Interdependenzen zwischen dem 'Kern' London und der 'Megastadtregion' Südostengland untersucht. Aus der europäischen Raumentwicklungsperspektive wird London als monozentrische Stadt beschrieben, wobei aber die funktionalen Verknüpfungen ignoriert werden, die ein großes Gebiet westlich der Hauptstadt in ein Netz enger interurbaner Verknüpfungen verwandeln. Wie schaffen gehobene Wirtschaftsdienstleistungen eine funktionale Geografie, die sich von den binären territorialen Repräsentationen unterscheidet? Welche Auswirkungen hat dies auf Politik und Theoretisierung? Diese Fragen werden in diesem Aufsatz unter besonderer Berücksichtigung von Südostengland und der 'Kern-Peripherie'-These behandelt.

Megastadtregion
Polyzentrität-Monozentrität
Kern-Peripherie
Wirtschaftsdienstleistungen
Binär
Funktionale Spezialisierung

JEL codes: O18; O20; R11; R58

Análisis de las relaciones 'centro-periferia' en una región-ciudad global: el caso de Londres y el sureste de Inglaterra

KATHRYN PAIN

En este artículo examino las interdependencias entre el 'núcleo' de Londres y la 'región mega-ciudad' al sureste de Inglaterra. En la descripción de Londres como ciudad monocéntrica en la Perspectiva de Desarrollo Espacial Europeo se ignoran las conectividades funcionales que convierten una amplia zona hacia el oeste de la capital en una red de densos enlaces interurbanos. ¿Cómo crean los servicios comerciales avanzados una geografía funcional que difiere de las representaciones

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3 **territoriales binarias? ¿Cuáles son las repercusiones en la política y la teorización?**

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5 **En este artículo abordo estas cuestiones con referencia específica al sureste de**

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7 **Inglaterra y la tesis de ‘centro-periferia’.**

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10 Región mega-ciudad
11 Policentralidad-monocentralidad
12 Centro-periferia
13 Servicios avanzados de productores
14 Binario
15 Especialización funcional

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18 JEL codes: O18; O20; R11; R58
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20 21 22 23 24 **INTRODUCTION**

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29 The overarching hypothesis of the ‘POLYNET’ research has been that contemporary
30 processes of globalisation are giving rise to a new urban phenomenon in North West
31 Europe - the global ‘Mega-City Region’ (MCR) (INTERREG IIIB North-West Europe,
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33 ‘POLYNET: Sustainable Management of European Polycentric Mega-City Regions’,
34 HALL and PAIN, 2006). This is an increasingly *functionally interconnected* space that is
35 distinct from ‘mega-city’ regions in Pacific Asia whose urban networks support
36 manufacturing activity. Like Scott’s (2001a) ‘global city-region’, the North West Europe
37 MCR is located around cities of global status and has multi-scale linkages associated with
38 its post-industrial economic functions. But, in POLYNET, this phenomenon is
39 specifically defined by high-value, *knowledge-based functions* in ‘Advanced Producer
40 Services’ (APS), that have a key role inter-linking Castells’ informational ‘space of
41 flows’ with the global city ‘space of places’ (CASTELLS, 2000). The study addressed a
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3 key issue for European policy - whether this emergent urban space is becoming more
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5 *polycentric* and, if so, more sustainable?
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10 While two of the eight regions included in the study - The Randstad, Netherlands and the
11
12 RhineRuhr, Germany - are self-evidently *morphologically* polycentric, London and Paris
13
14 are regarded as *monocentric* cities in European spatial strategy that provides the
15
16 framework for Member State policy (*European Spatial Development Perspective: ESDP*,
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18 EUROPEAN COMMISSION, 1999; *Spatial Vision for the North Western Metropolitan*
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20 *Area*, NWMA SPATIAL VISION GROUP, 2000). But the findings for South East
21
22 England challenge this perspective and cast doubt on the relevance of polycentricity as a
23
24 policy tool in regional planning, hence there is a particular need to re-examine the South
25
26 East England case and its implications for spatial theorisation and policy.
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34 The transnational research results are reported in full in Hall and Pain (2006). They
35
36 reveal that morphological polycentricity, which describes the size and distribution of
37
38 towns and cities across a region, has no direct bearing on *functional* polycentricity
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40 associated with knowledge-intensive business services, regarded as crucial for European
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42 economic growth in the Lisbon Strategy (EUROPEAN COUNCIL, 2000). Furthermore,
43
44 while the concept of the 'Polycentric Urban Region' (PUR) has been associated with
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46 environmentally sustainable and balanced regional development in spatial planning
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48 policy (DIELEMAN and FALUDI, 1998; KLOOSTERMAN and MUSTERD, 2001), the
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50 POLYNET results show that regional polycentrism generates cross-cutting travel by car
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52 that actually compromises environmental priorities. Nor is balanced functional
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3 development found in any of the regions studied regardless of their urban morphology.
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5 All eight regions have an uneven distribution of knowledge-based economic activities
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7 and a large concentration of *global* firms and functions in just one 'First City'. Ironically,
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9 although South East England appears relatively monocentric in terms of the size and
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11 distribution of its towns and cities, it proves the most functionally polycentric region in
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13 the study.
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20 Taking up the call of Pain and Hall in the introduction to this special issue, the purpose of
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22 this paper is to explore the interactions and flows which construct the critical spatial
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24 relationships in MCR processes by focusing specifically on the detailed qualitative
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26 evidence from South East England interviews. The central question to be addressed is
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28 whether present European spatial guidance provides a relevant basis for MCR policy and,
29
30 if not, what new theoretical insights are needed? The opening two sections of the paper
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32 problematise these two key focii - policy and theorisation. In the first section, the main
33
34 precepts of European spatial policy and the theoretical premises that underpin these are
35
36 outlined. A mismatch between the major changes defining MCR spatial relations in
37
38 globalisation and the use of binary spatial constructions in policy - specifically, the 'core-
39
40 periphery' metaphor and the concept of polycentrism – is identified. In the second
41
42 section, the development of the core-periphery thesis, and its potential limitations, in
43
44 Krugman's highly influential (1991a, b) 'New Economic Geography' model are outlined
45
46 briefly. In the third section, the detailed qualitative evidence from interviews with
47
48 business actors in South East England is then turned to in order to shed light on the way
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50 in which MCR processes work in practice. The final concluding section considers the
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3 overarching implications for policy and theorisation.
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8 **THE EUROPEAN SPATIAL POLICY FRAMEWORK:**

9 **THE PERVASIVE INFLUENCE OF BINARY SPATIAL CONSTRUCTIONS**

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15 The central ESDP concept, polycentricity, has been applied at three European policy
16 scales – *intra-urban*, *intra-regional* and *inter-regional* (EUROPEAN COMMISSION,
17 1999) – it is the latter two that are the main focus of the POLYNET study and this paper.
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24 At an *intra-regional scale*, urban polycentricity has been seen as a form of ‘decentralised
25 concentration’ in which activities are clustered across a number of towns and cities of
26 similar size as opposed to being concentrated in just one centre, as exemplified by the
27 POLYNET Randstad and RhineRuhr regions. As already discussed, this urban
28 development form is seen as contributing to balanced and sustainable regional
29 development. At a Europe-wide *inter-regional scale*, polycentrism is seen as promoting a
30 more balanced and sustainable pattern of development between a European ‘core’ of
31 dynamic economic development – referred to as the ‘Pentagon’ and bounded by the cities
32 of London, Paris, Hamburg, Munich and Milan – and an under-developed ‘periphery’,
33 recently extended as a consequence of European Union (EU) enlargement. ‘Global cities’
34 London and Paris within the Pentagon, are regarded as urban ‘cores’ while the term
35 ‘periphery’ is used to refer both to declining primary sector urban economies and under-
36 developed rural agricultural areas. Polycentrism is thus seen in the ESDP, as a
37 prescription for uneven economic development at a scale of inter-regional *and* inter-city
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core-periphery spatial relations.

But, while the vision for the Lisbon Strategy which set out in March 2000 to make Europe the most competitive economy in the world by the year 2010 (EUROPEAN COUNCIL, 2000), drew on Castells' (1996) conceptualisation of an informational economy that is increasingly dominated by the *space of flows*, the POLYNET results on MCR development, summarised earlier, suggest that the ESDP has remained rooted in a traditional territorial understanding of spatial relations synonymous with Castells' *space of places*. (see HALBERT *et al.*, 2006, p. 207). Four incongruences can be seen to follow from this.

First, a distinction needs to be drawn in spatial policy between urban morphology and function to address Lisbon objectives for *economically sustainable development*. Second, tensions between regional polycentricity (both morphological and functional) and *environmental sustainability* - a key Gothenburg Agenda priority (SDS: *Sustainable Development Strategy*, EUROPEAN COMMISSION, 2001) must be recognised. Third, the failure of policy promoting regional polycentricity to address problems of *social inequity* - a feature of uneven development - must be addressed (PAIN, 2006, p.197, p. 203; HALBERT *et al.*, 2006, p. 211). Lastly, a basic misfit between the *relational* nature of MCR processes and the *scale-dependence* of the polycentricity concept requires urgent attention.

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3 It is contended here that it is the use of *binary spatial constructions* to inform the ESDP
4 that lies at the heart of these policy disjunctions. The territorial dualism implicit in the
5 core-periphery metaphor is reflected in the concept of polycentricism and its opposite
6 *mono-centrism*. This theorisation relates to Castells' space of places. It fails to reflect the
7 multi-scale interdependencies between economic, environmental and social processes
8 associated with MCR emergence. Furthermore, it implies oppositional territorial relations
9 which, as will be argued later in this paper, constitute an inappropriate basis for effective
10 cross-border co-operation. Nevertheless, the development of core-periphery theory in
11 Krugman's New Economic Geography model (KRUGMAN, 1991a, b, 1998a, b;
12 VENABLES, 1996; FUJITA *et al.*, 1999) continues to be highly influential in European
13 spatial thinking.
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32 Krugman himself admits 'how difficult it is to go from suggestive small models to
33 empirically based models that can be used to evaluate specific policies' (KRUGMAN,
34 1998a, p. 27). Yet his work has informed major research and investment programmes
35 (DG Regio 'INTERREG', 'ESPON': European Spatial Observatory Network), for
36 example, Sixth Framework 'TRANSFORUM' modelling for future European transport
37 policy (SESSA, 2006) and ODPM commissioned research developing an analytical
38 framework to measure UK economic linkages (COMBES *et al.*, 2006). Given the specific
39 focus of this paper on the interrelationship between policy and theorisation, Krugman's
40 model and its potential limitations are next outlined briefly.
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55 **THE CORE-PERIPHERY MODEL – AN ADEQUATE BASIS FOR POLICY?**

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6 The limitations of Krugman's model have been widely debated both from economics and
7
8 geography oriented perspectives (for example, Baldwin *et al.*, 2003; Martin, 1999; 2003).
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10 Its distinction between 'core' and 'periphery' (KRUGMAN, 1991a) replicates Von
11
12 Thunen's (1826) use of the terms - a core representing cities and the periphery
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14 representing agricultural areas of decline (HALL, 1996). But whereas core-periphery
15
16 theory has subsequently loosely informed the field of development studies - for example,
17
18 distinctions between 'North-South', and 'developed-underdeveloped' world regions -
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20 Krugman has argued for a return to formal modelling to explain spatial processes as the
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22 outcome of rational economic behaviour under conditions of imperfect competition in
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24 contemporary economic geography (KRUGMAN, 1998a, p. 7).
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32 Krugman has drawn on neo-classical theory – for example Myrdal (1957) and Friedmann
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34 (1966) on the widening or narrowing core-periphery gaps in urban systems and Marshall
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36 (1949) and Pred (1966, 1977) on the reasons for industrial clustering – in attempting to
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38 model 'new economy' interactions between concentration and dispersion that reflect the
39
40 locational decisions of present-day economic actors. He sees economies of scale, falling
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42 transport costs and 'footloose' production, as generating 'centripetal' clustering forces
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44 that reduce instability and risk for both firms and labour, particularly important for
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46 financial services (KRUGMAN, 1998b). Contradicting theories of the 'death of distance',
47
48 associated with advances in information and communication technology (ICT) (for
49
50 example CAIRNCROSS, 1997), his model seeks to explain why, instead of contributing
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52 to centrifugal forces and dispersion to distant low-wage locations, new economy activity
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3 increases concentration and regional divergence. In spite of expressing caution about the
4 use of modelling as a basis for policy, Krugman suggests that regional 'boosterism' may
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6 use of modelling as a basis for policy, Krugman suggests that regional 'boosterism' may
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8 help to trigger self-sustaining growth in under-developed areas (and, in consequence,
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10 decline in areas of existing agglomeration), contributing to more balanced regional
11
12 economic development.
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17 But, while the model may appear to *describe* some features of agglomeration identified in
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19 POLYNET MCR First Cities, its *explanatory power* is likely to be strictly limited. Unlike
20
21 Marshall's concept of 'industrial districts' which acknowledges the importance of 'local
22
23 industrial atmosphere', 'shared knowledge', 'common business practices' and 'social and
24
25 institutional' environment in clustering (MARTIN, 2003, p. 9), Krugman's model is
26
27 highly abstract. It has a restricted focus on *measurable* locational factors and does not
28
29 take into account the relationships and knowledge flows between people (externalities)
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31 that have proved challenging to measure in POLYNET quantitative analysis. Furthermore
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33 the model is purported to be generally applicable at different scales but, as seen from the
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35 POLYNET findings on polycentricity, MCR processes differ amongst regions, reflecting
36
37 national differences, specificities and local histories.
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46 In contrast, alternative recent economic geography approaches emphasise relational,
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48 social and contextual reasons for agglomeration (for example PRYKE, 1991; AMIN and
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50 THRIFT, 1992, 1994; THRIFT and LEYSHON, 1994; PRYKE and LEE, 1995;
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52 MARKUSEN, 1996; SCOTT, 1998; ALLEN, 2000). These include the requirement for
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54 tacit transfer of knowledge that cannot be codified or measured and for diverse 'untraded
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3 interdependencies' (STORPER, 1995). Institutional, cultural and so-called 'evolutionary'
4 perspectives (BOSCHMA and FRENKEN, 2005) variously acknowledge the influence of
5
6 historical 'path dependency' as a cause of 'lock-in' (*Ibid.*, 2005, p. 8; PORTEOUS,
7
8 1999), the 'stickyness' of places in 'slippery space' (MARKUSEN, 1996) and the
9
10 importance of more *fluid* and *scale-dependent* relational network flows (MARTIN, 2003
11
12 p. 21). A key conclusion from the (2005) NWMA 'Spatial Vision' review is that 'the
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14 economic and quality of life performance of regions is not fully explained by the core-
15
16 periphery model' (DUHR and NADIN, 2005, p. 3).
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24 The purpose of the POLYNET interview study was to supplement 'hard' data from
25
26 quantitative studies with qualitative evidence on just such interactions and relationships
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28 that proved impossible to measure. Thus the South East England interviews are examined
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30 here more fully than has been possible in previous publications in order to shed light on
31
32 the ways in which MCRs work *in practice*.
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39 INVESTIGATING A MULTI-DIMENSIONAL SPACE

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43 In contrast to ESDP theorisation, the complementary POLYNET quantitative and
44
45 qualitative studies of MCR 'connectivities' have drawn on a network conceptualisation of
46
47 inter-city relations in contemporary globalisation. Specifically, Sassen and Castells'
48
49 conceptualisations of the 'global city' as a location for advanced business service
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51 concentration (SASSEN, 2000, 2001), yet 'not a place, but a process ... by which centres
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53 of production and consumption of advanced services ... are connected in a global city
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3 network' (CASTELLS, 2000, p. 386). For Castells, in the new 'informational society',
4
5 the space of flows increasingly defines the space of places (CASTELLS, 2000, p. 386).
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10 Two studies preceding the POLYNET research, provided evidence of complex
11 interdependencies between European global cities London and Frankfurt
12 (BEAVERSTOCK *et al.*, 2001) and also between central London APS clustering and a
13 wide area of South East England (TAYLOR *et al.*, 2003; PAIN, 2006), supporting Hall's
14 earlier thesis of an expanding 'Greater South East' of advanced services, skills and
15 international links (HALL, 1989, p. 3, *passim.*) and Scott's more recent theorisation of
16 the global city-region as 'a nexus of global-urban relations' (SCOTT, 2001a, p. xiv). The
17 POLYNET interviews were therefore designed to interrogate the flows and interactions
18 taking place at multiple scales leading to MCR emergence. It was important to examine
19 the extent to which potential inter-urban functional linkages, mapped in quantitative
20 study (Taylor *et al.*, 2006 and in this issue), were substantiated, or not, by actual
21 organisational working practises. The inside knowledge and experience of senior
22 business actors who 'work the networks' was therefore vitally important.
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43 148 in-depth face-to-face interviews (120 APS firms and 28 business, economic
44 development and professional institutions) of 45 minutes to 1.5 hours in duration was
45 analysed for South East England, including 39 taped interviews from the preceding
46 central London study. The sample of firms from eight APS sectors was drawn from an
47 extensive data-base of APS office locations and functions, compiled using web-based
48 data, business directories and information supplied by industry and policy experts,
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3 focusing specifically on knowledge-intensive, business to business services in network
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5 organisations that are regional, national, European or global in scope. The eight sectors
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7 were broadly defined to include a wide variety of differentiated and multi-disciplinary
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9 knowledge-intensive services using the EUROSTAT 'NACE' classification of economic
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11 activities. Interviews across the MCR included: banking/finance (30 firms), insurance
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13 (nine firms), accountancy (19 firms), law (13 firms), management consulting/IT (12
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15 firms), advertising (nine firms), logistics (six firms) and design/property services (22
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17 firms).
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25 81 firms were interviewed in urban centres outside London: Reading (nine), Cambridge
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27 (19), Southampton (12), Crawley-Gatwick (seven), Bournemouth-Poole (nine), St Albans
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29 (five), Swindon (10), Milton Keynes (10). Sampling was designed to reflect as closely as
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31 possible, the representation of sectors and network scopes in each location. An initial
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33 letter and project information leaflet was sent to more than 300 named individuals in
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35 firms on the database, followed by a phone call and/or e-mail. All interviews were tape
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37 recorded, transcribed and coded and the transcripts entered into an 'Access' database for
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39 detailed analysis. The results illustrate the dynamic nature and complexity of South East
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41 England MCR spatial relations, and the limitations of mathematical modelling as a basis
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43 for regional policy.
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51 **MEGA-CITY REGION PROCESSES: GLOBALLY**
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53 **CONSTITUTED THROUGH NETWORKS**
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3 The findings reveal the intense interrelationships and flows between London and the
4 other POLYNET First Cities and the unique role they share in the global city network.
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8 The main points briefly discussed here illustrate the importance of London's European
9 and global network connections for MCR relations.
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15 Of key importance is the finding that the eight MCRs are integrally connected by intense
16 virtual and physical flows between their First City 'global' APS agglomerations - firms,
17 functions, transnational skilled labour, specialisms and business practices. But London
18 has a singular role among these cities and is identified, by UK and foreign firms alike, as
19 the European location for the most specialised international skills and business
20 knowledge and the main source of innovation and key contacts. This gives it a knowledge
21 production or 'kitchen' function for high complexity, high-value *global wholesale*
22 activities, defined as advanced business services provided *between* service providers.
23
24 Non-standardised, non-commoditised wholesale activities rely on very close proximity
25 for face-to-face contact (associated with concentration and centrality (see also TAYLOR
26 *et al.*, 2003, PAIN, 2005). The key driver behind London's special role is repeatedly said
27 to be global markets competition,
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46 Global competition is the driver, you are in a more stimulating environment. You
47 get a lot of stimuli here in the sense that you are meeting people, you are talking
48 to people, you are constantly trying to be competitive, you are constantly trying to
49 have the edge on other people, so you have to be in that kind of environment. (FS
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6 The attractiveness of central London as an APS business cluster, and its specific
7
8 clustering geography, has already been documented in detail in TAYLOR *et al.*, 2003.
9
10 Having a London address, language, time zones and regulatory environment, are all
11
12 important but London's tradition of 'openness' to flows of transnational skilled labour
13
14 and foreign firms, is seen by senior business actors as critical to specialised production
15
16 functions in international business networks. A banking interviewee comments,
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22 The process has been for wholesale traders, increasingly right across Europe, to
23
24 come to London and deal from London on a remote basis. That has been the
25
26 process for trading. (B 1)
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32 Close proximity is essential to allow mutual servicing interrelationships between firms to
33
34 take place and this is a major contributor to knowledge exchange and innovation. The
35
36 complexity of these service-supplier relationships in APS wholesale markets, makes it
37
38 hard to distinguish between tacit and formal knowledge exchanges. In addition, working
39
40 in multidisciplinary client teams, informal exchanges between global specialists in
41
42 different firms, consolidation and organisational restructuring and 'labour churn', all
43
44 contribute to intensive knowledge transfer or 'spillovers' not prioritised in Krugman's
45
46 model. And 'soft', less tangible aspects of global city life and work are crucial in
47
48 attracting young talent and senior APS executives to London. A financial services view is
49
50 typical:
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3 London is becoming a much more cosmopolitan city ... some of the Sunday
4 papers [are] recently putting London as the best city in the Western world for
5
6 everything ... good cultural mix, the whole environment, good work prospects as
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8 well as the cultural educational side. (FS 1)
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15 The locational drivers for APS firms and labour are distinctive, illustrating the dangers of
16 generalised economic modelling: the need for concentration and close proximity of
17 global skills and specialisms for knowledge transfer and production to compete in global
18 markets; complex supply-demand relationships between firms that are only made
19 possible by agglomeration; and the importance of London's global constitution.
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29 In addition, functional specialisation between London and other European cities
30 illustrates important differences between their agglomeration characteristics – size,
31 sectors, intensity and quality of flows - and also the complementarities between them.
32
33 Global wholesale functions require agglomeration in just *one* global city location
34 (London) for the European region so that scarce transnational skills and specialisms can
35 be densely clustered in one place. But other high-value, knowledge-based global
36 functions require dispersal across a European 'network of cities' as illustrated again in
37 banking:
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50 For salespeople in the wholesale business, some of them ... found actually
51 [dealing from London] was not ideal. It was best for them to have a local
52 presence and local knowledge. (B 1)
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6 But the important role played by functional specialisation in constructing inter-regional
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8 complementarities between cities, cannot be appreciated by means of quantitative
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10 investigation alone, illustrating the limitations of a 'one size fits all' model. Importantly,
11
12 functional specialisation is also identified in relations between London and the wider
13
14 South East of England, adding another layer of explanatory complexity which is difficult
15
16 to measure quantitatively or to represent by means of mathematical modelling.
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22 *Mega-city region networks and location*

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27 Comparisons between the eight MCRs strongly suggest that proximity to London's
28
29 global super-connectivity makes the South East England MCR distinct from others in the
30
31 study. The co-presence of international service firms and labour in London generates a
32
33 great volume and intensity of high quality interactions that is 'spun out' to service Multi-
34
35 National Companies (MNCs) outside it. Interview evidence (extracted from PAIN, 2005
36
37 and POTTS and PAIN, 2005) on the business links between London and the eight APS
38
39 centres beyond it, sheds light on the implications of MCR emergence for South East
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41 England 'core-periphery' relationships.
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48 Interviews in the eight MCR 'secondary' centres demonstrate the crucial importance of
49
50 APS network links to London. The sector with the strongest apparent network
51
52 connections is accountancy but very many linkages are far from obvious. For example a
53
54 logistics industry expert explains that in this sector advanced service activity is embedded
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3 within network ‘overlays right through the South East’, including retail networks, that
4 would be impossible to discover or quantify (Lon/I/J). Of the firms interviewed outside
5
6 London, 72% have network links with London through having an office presence in both
7
8 locations (POTTS and PAIN, 2005, p. 6): Reading (67%), Cambridge (95%),
9
10 Southampton (83%), Crawley-Gatwick (57%), Bournemouth-Poole (67%), St Albans
11
12 (60%), Swindon (80%), Milton Keynes (30%) (percentages for individual urban centres
13
14 are not statistically significant as sample size varies).
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22 Overall 62% of firms across the eight centres are part of international (European or
23
24 global) networks; this applies to over two-thirds of firms in accountancy,
25
26 banking/finance, logistics and management consultancy (*ibid.*, p. 6). The organisation of
27
28 regional services through non-hierarchical matrix management structures facilitates co-
29
30 operative working practices, information sharing and knowledge transfer (Lon/MC/1A).
31
32 Regional service strategies strike a balance between offering a local ‘full-service office’
33
34 in MCR ‘natural markets’ and locating ‘skill sets’ in a few select offices where specialists
35
36 can interact in proximity to the most frequent market users. Interaction between offices
37
38 ensures that knowledge and skills are made available wherever they are needed,
39
40 contributing to MCR functional linkages between South East England’s APS centres.
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49 All sectors are highly concentrated in London, with the exception of logistics which is
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51 organised on a different geographical basis from other sectors. Significantly, the eight
52
53 APS centres outside London similarly show no notable sectoral specialisation. Financial
54
55 services are well represented in Bournemouth and logistics in Milton Keynes, Reading
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3 and Crawley are seen as important emerging service clusters for accountancy and law,
4
5 Cambridge has a large representation of design and information technology (IT) firms.
6
7
8 But a wide variety of other sectors is also represented in these centres and this has
9
10 advantages for business and knowledge transfer. Interestingly, this finding is in contrast
11
12 to the results for more morphologically polycentric MCRs, such as The Randstad and the
13
14 RhineRuhr, which have a stronger sectoral specialisation between centres.
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20 All firms interviewed, focus on specific sub-regional service markets where there is a
21
22 significant presence of business clients, particularly MNCs. For example, Reading and
23
24 the 'Thames Valley Corridor' (including Slough to the east and Basingstoke to the south-
25
26 west) are noted as important due to their high representation of US and European
27
28 headquartered (HQd) firms. There is a strong representation of APS firms, with offices
29
30 also in London, across all sectors in this area (Lon/I/L). A business expert refers to the
31
32 need for firms 'to have some connection [to] the triangle between Oxford, Guildford and
33
34 Cambridge but to latch into this depends on the nature of the business.' (Lon/I/L)
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41 The 'branch offices' of global and international scope accountancy firms are particularly
42
43 focused on servicing international firms outside London 'with a local presence' (Lon/I/I).
44
45 An accountancy expert explains how 'the Big Four will make their networks happen
46
47 where there is the right business for them' (Lon/I/I). As discussed, logistics is the only
48
49 sector without major management functions in London except for services provided by
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51 management consultancies, nevertheless most of the mainstream international logistics
52
53 firms retain offices in central London for 'the major functions, dinners, whatever' but
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3 work takes place elsewhere (Lon/I/J). In banking/financial services, major ‘back offices’
4
5 of international scope firms outside London undertake largely routine support functions.
6
7
8 For example, a major global firm ‘initially set up as a regional technology hub and, since
9
10 then, has developed into essentially one of a number of global hubs ... processing and or
11
12 providing technology ... processing for derivatives’ (B/F 2). But although non-retail
13
14 activities in banking/finance and insurance are traditionally highly clustered in central
15
16 London, there are signs that even this is changing. There are indications that some high-
17
18 complexity business functions are now being undertaken in centres outside London
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22 (Lon/I/L):
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27 The accepted wisdom is that you have got banking, insurance and finance in the
28
29 city. And ... out here in the South East and the East of England ...all of that is the
30
31 sort of back offices. And I am not convinced about that any more. (Lon/I/L)
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36 *Networks and interaction*

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41 The interviews shed light on the volume of *intra-firm* connectivities – interactions and
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43 knowledge transfer - taking place between the offices of firms with multiple MCR
44
45 locations - the connectivities measured in APS quantitative analysis and mapped
46
47 schematically (TAYLOR *et al.*, 2006, Figure 3.2, p. 61 and in this issue). Of the firms
48
49 interviewed in the eight centres outside London, 58% have another office within the
50
51 MCR apart from a London office (POTTS and PAIN, 2005, p. 8). Four types of network
52
53 interaction between offices, and thus between MCR service centres, are identified (*Ibid.*,
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2005):

For Peer Review Only

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- 1) *Inter-office Support* - Internal support links between offices include IT, administration, sales, marketing, human resources, finance, accounts, shared head office, board meetings and frequent visits by senior managers and directors to different offices. Tabulation of links across the study showed that all sectors, network scopes and locations have high levels of inter-office support (*Ibid.*, 2005, pp. 8-10). Only 11 out of 81 firms interviewed outside London do not give or receive internal network support. Of those involved in inter-office support, 49 firms refer to an office located in London.
- 2) *Specialisms* - 46 firms interviewed noted specialist skills within their network (crucial in high-value, non-standardised business services) that are drawn upon by their own office and others (*Ibid.*, 2005, p. 9). The availability of transferable functional specialisms reflects the concentration of services across the MCR. For example, insolvency law is located in towns with many accountancy firms while transfer pricing in accountancy is located in areas with strong inward investment (Law 3). Specialisms are said to be ‘seamlessly’ spread across regional office networks.
- 3) *Joint Working* - Joint working between two or more offices in the same network is very common. Skills are combined by physical movement of staff between offices to work together on specific projects. For example, the healthcare arm of a major insurance firm works with the general insurance arm of the same firm to manage bodily injury claims. At least two thirds of firms in secondary centres are involved in joint working and more than 80% in Bournemouth, Reading, Crawley and Southampton. On a sectoral basis, 80-90% of accountancy, advertising and design firms are involved in joint working and 40% in insurance.
- 4) *Meetings* - Formal meetings between partners and managers of all levels of seniority, are a key form of intra-firm connectivity. Efforts are made to rotate meetings and involve all staff in order to build a sense of ‘team’. London is the usual venue for international meetings in European and global scope networks.

BOX 1

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Inter-urban functional linkages

Given the scale of London's APS agglomeration at all network scopes, the number of firms interviewed showing evidence of regional *inter-firm office connectivity*, suggests a surprising amount of functional linkage between the eight APS centres as well as with London. According to industry experts, in spite of London's size and depth of infrastructure, APS business outside London is intensely competitive and this generates important cross-cutting linkages between centres across the MCR. New offices are opening in response to specific market opportunities but the growth of MCR clusters is governed by business intuition as to where *multi-sector* APS representation is increasing. As in the case of London, relationships *between* service suppliers are vitally important and are not represented in the quantitative analysis. One firm wants a presence in Reading because

Over the last ten years I think that ... banks and accountants ... are regionalising and saying well where shall we have our HQ and Reading has been winning quite a lot of those discussions. (Law 3)

Another firm agrees Reading has 'got stronger' because the Big Four accountants are in Reading, and the surveyors likewise, tend to be here. The banks tend to have their regional headquarters in Reading. So, Reading is very much a ... professional services centre ... that's definitely strengthened over the last 16 years. (Law 19)

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6 The Crawley-Gatwick area is perceived by several major firms to be a 'hot spot' in the
7
8 area around London. A 'Big Four' accountancy firm notes how its Brighton office was
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10 merged into its Crawley office to create a new office at Gatwick:
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15 One of the key issues for us is where do we get our work from - where are the
16
17 regional corporate banking centres, where are the lawyers? ... Many of them
18
19 are in Crawley-Gatwick. PWC have recently opened there and presumably
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21 they did a review and formed the same view. (Acc. 34)
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27 As explained, within London, proximity to clients is one of several reasons for the
28
29 clustering of wholesale functions and is no longer considered the most important
30
31 reason – for global firms, availability of skilled labour is now regarded as more
32
33 important (commonly dictating office location in relation to specific central transport
34
35 hubs) and contradicting Krugman's emphasis on demand factors. And a notable
36
37 functional specialisation between offices in central London and the MCR secondary
38
39 centres is apparent. Service networks and their business clients mutually benefit from
40
41 proximity to London and the presence of the world class skills and specialisms
42
43 available there. Depth of specialist skills in London is superior to that outside it but
44
45 leverage of these skills *through networks* gives London a *complementary* relationship
46
47 with other MCR urban centres. In addition, another key trend noted by an industry
48
49 expert is the potential for skills outside London to attract back to the MCR, client
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51 contact functions that were once off-shored to cheaper, more distant locations and this
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3 benefits businesses in London, 'a lot of the more flexible, more responsive kind of
4 work is being brought back' (Lon/I/B).
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10 The high level of MCR interaction discovered from the interviews illustrates the
11 complexity of interrelationships between footloose knowledge-based activities,
12 transport costs, and IT development that underlie interdependencies between space
13 and the economy. Crucially, APS business *outside* London is as much driven by the
14 importance of relationships between people and firms and the need for close physical
15 proximity, as it is *within* it and this is illustrated by the interview evidence on modes
16 of communication.
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29 *Knowledge production and transfer*

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34 Virtual Flows: The interviews reveal a huge rise in the use of virtual communications in
35 the eight secondary centres as well as in London. E-mail in particular has transformed the
36 way firms do business, making distance in some ways far less relevant. Virtual
37 communications including intranet, video and tele-conferencing, allow office networks to
38 extend geographically, and some functions to disperse, in conjunction with processes of
39 concentration. But while high in volume, in common with other e-communications, e-
40 mail is mainly used for internal communications within office networks and is reported
41 not to influence agglomeration in London at all. Telephone is an ongoing highly
42 important mode but, even outside London, virtual communications are not replacing the
43 need for frequent face-to-face contact with colleagues, clients and other economic actors.
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3 While this finding supports Krugman's thesis that declining transport costs associated
4 with ICTs in fact have a centripetal impact, the reasons behind this are far more complex
5
6 than his model suggests and proved impossible to quantify in the POLYNET study.
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12 Face-to-Face Contact: Close proximity for unscheduled and scheduled interactions is
13 stressed as essential by interviewees outside London as much as within it and is a key
14 agglomeration factor but the need for face-to-face contact and travel is also growing, as
15
16 illustrated by an advertising firm who,
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24 still find the bulk of what we do is dependent on creative and visual and face to
25
26 face briefing ... Our industry is very much a people-based creative industry
27
28 and that's where e-mail, texting, any kind of non face-to-face communication
29
30 is bad because being creative is all about people's emotions. ... It's about how
31
32 much the client likes it and very much the business is won and lost on
33
34 chemistry between individuals. (Adv. 11)
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41 While no data on actual transport costs was available, the rising use of virtual
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43 communications clearly does not reduce the need for travel.
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48 Modes Intersect: The continuing need for face-to-face meetings not only maintains
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50 centripetal forces due to the need for close physical proximity but results in very high
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52 out-of-office mobility particularly amongst client-facing and senior levels of staff. A
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54 senior logistics manager reports that he only spends 'a day a week in the office' (Log.
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3 30). And mobility and technology are developing in tandem and thus increasingly, virtual
4 and physical communication flows are taking place at one and the same time – a clear
5 indication of the need to test economic models such as Krugman’s regularly against fresh
6 empirical evidence. Within the MCR, as one law firm puts it, ‘there is a greater use of
7 technology because of our regional spread to enable us to function more effectively’
8 (Law 9).
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20 Functional polycentricity at *intra-regional* and *inter-regional* (‘core’ to ‘core’) scales is
21 emerging in South East England in spite of intensive use of ICTs and the high cost of
22 travel. Movement between urban centres across the MCR of necessity (time and
23 practicality) is frequently by car. Dense cross-cutting commuting patterns mapped to the
24 west of London using 2001 census data (HALL *et al.*, 2006, Figure 2.10a, p. 38) are
25 shown to be overlaid by high frequency business travel. The interview evidence on
26 transport difficulties is substantial but a key issue is the need for improved orbital
27 infrastructures and public transport services outside, as well as east-west within, London.
28 A conundrum for policy is that cross-cutting travel, which is an essential feature of APS
29 regional development, conflicts with environmental policy priorities that aim to restrict
30 physical movement, especially by car.
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48 *The significance of ‘place’?*
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53 Evidently neither the central London APS cluster, nor the wide area around it, can be
54 properly understood without an appreciation of the MCR as a dynamic functional space
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3 in the European and global service economy. There is a significant difference between
4 the skills, functions and value of APS activity associated with the London hub and that of
5 the eight MCR regional centres. The latter are oriented towards sub-regional APS clusters
6 and markets thus the inter-urban linkages and flows identified between them have a lower
7 volume and intensity relative to London but the leverage of skills and knowledge *through*
8 London is a spur to knowledge-based development outside it. Importantly, these flows
9 are not competing with London. They reflect regional economic growth, not a movement
10 of knowledge-based functions from 'core' to 'periphery'. In fact, back-office functions
11 that have dispersed to distant off-shore locations to reduce cost, also recentralize back to
12 London and the South East as they become more complex, skilled and/or client facing.
13 Centralising, decentralising and re-centralising functions are dependent on specific
14 business sector and market orientation. Yet overall, the importance of central London
15 clustering is not diminished but is said to be increasing - the 'periphery' is not gaining at
16 the expense of the 'core'. There is no evidence of an attraction to the fringe (centrifugal
17 forces) for global wholesale functions, but there is substantial evidence of dynamic flows
18 of activity within multi-scale networks which is reflected in the demand for highly
19 flexible, and intensively electronically serviced, office buildings in central London *and*
20 development pressures in the wider MCR.
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48 Central London office locations are remarkably consistent. Non-standardised, high-
49 complexity APS activity continues to require the concentration of many global actors in
50 densely clustered central business locations. Firms pay the high cost of locating in the
51 heart of 'the City', or 'Square Mile', because the *transnational* skills, knowledge and
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3 markets their business is dependent on, are found there. Global firms especially, prioritise
4 the *relationships* that occur only in special urban milieux. The all-important nuances that
5 underpin these are not reflected in Krugman's explanation of new economy
6 agglomeration and are far more diverse than is implied by his references to risk aversion.
7
8 Furthermore, the relationship between the London 'core' and regional 'periphery' is
9 shown to thrive on functional *complementarity*. Some regional HQd firms bemoan the
10 difficulty of retaining 'young talent' since the most stimulating environments and jobs are
11 located in London. But working practices in larger networks require inter-office
12 cooperation and thus contribute to functional development across a wide MCR area. As
13 firms join wider international office networks, either formally or through looser
14 relationships, the MCR outside London benefits. This phenomenon is more evident in
15 (morphologically monocentric) South East England than in any other MCR in the study,
16 illustrating the potential for expansion of the globally networked knowledge economy
17 around a highly globally connected First City.
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39 **CONCLUSIONS: IMPLICATIONS FOR POLYCENTRICITY**
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41 **AND PLANNING IN GLOBALISATION**
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46 Finally what are the implications of the interview results? Does European spatial
47 guidance provides a relevant basis for MCR policy and, if not, what new theoretical
48 insights are needed?
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3 The evidence strongly indicates that London's conceptualisation as a monocentric core in
4 European spatial strategy is an inappropriate basis for MCR policy. London's strong
5 global connectivity, which requires transnational agglomeration, proves vital for the
6 development of MCR functional polycentricity. Relationships and informational flows
7 within and between firms using this space to conduct business at different network scales,
8 indicates that the polycentric functional structure of MCR linkages is stronger and more
9 complex than shown by quantitative analysis. The results endorse the need, first
10 identified by Scott (2001a), to re-conceptualise global city-region development processes
11 as *multi-scale relational networks*.
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27 The findings thus contradict the binary constructions implied by the core-periphery thesis
28 and ESDP concept of polycentrism. MCR boundaries prove impossible to delineate
29 because markets, service networks and their interactions, are shown to overlap and shift
30 in an active local-global nexus. Furthermore, firms rely on *complementary network*, as
31 opposed to *oppositional territorial, relationships* to conduct business across cities,
32 contradicting perspectives suggesting competitive relations between cities (for example
33 PORTER 1998, 2001; CAMAGNI, 2001). *Within* firms, skills, specialisms and
34 information are shared between city-based offices; knowledge is transferred *between*
35 firms through the complex relationships that are a distinctive feature of APS wholesale
36 services. But these MCR processes are dynamic and not easily quantified, limiting the
37 possibilities for mathematical modelling as used in the New Economic Geography.
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3 A more sophisticated theoretical basis upon which to inform policy is clearly needed.
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5 Binary thinking that reflects pre-globalisation geographies of places fails to engage with
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7 opportunities for multi-scale cooperation to exploit functional complementarities
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9 generated by firms. Regional 'boosterism' and 're-balancing' that has been a feature of
10
11 EU cooperation projects supported by Structural and Cohesion funds, and apparently by
12
13 Krugman (1996), reflect space of places territorial constructions. The UK Government
14
15 'Sustainable Communities' strategy (ODPM, 2003a, b) and regional policy have
16
17 rigorously attempted to follow EU guidance on polycentricity. The thinking behind 'The
18
19 Northern Way' exemplifies an attempt to address problems of North-South uneven
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21 development by boosting agglomeration at a major city-region scale (ODPM, 2004;
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23 ROBSON, 2005) but the territorial locus for policy cooperation has been within the North
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25 of England.
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34 Horizontal and vertical policy boundaries were found to constitute significant barriers to
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36 effective MCR governance across North West Europe. In contradiction to OHMAE'S
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38 (1990) prediction, national context and regulation remain important in shaping MCR
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40 emergence by either opening up, or closing down, opportunities for information flows
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42 and interactions. And the ability to respond to MCR emergence effectively will be
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44 essential for three reasons.
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50 First, uneven functional development between the east and west of South East England,
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52 confirms the ongoing challenge of promoting more balanced *sustainable* economic
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54 development even in the most functionally polycentric MCR studied. This has
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3 implications for Government plans for major development in the Thames Gateway and
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5 Ashford Growth Areas and to the east of London which are largely disconnected from
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7 global APS networks (ODPM, 2003a; MAYOR OF LONDON, 2004; PAIN, 2006; PAIN
8
9 *et al.*, 2006). But these plans must also be balanced against urgent priorities to support
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11 existing areas of concentration that prove crucial to sustain wider knowledge-based
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13 growth at different spatial scales, in particular through major investment in
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15 environmentally sustainable travel.
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22 Second, important questions remain about how MCR emergence may affect what have
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24 traditionally been theorised as ‘dominant core-periphery relationships’ and path-
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26 dependent tendencies at national, European and global scales (SCOTT, 2001a, b). There
27
28 is a vital need to extend quantitative and qualitative analysis to shed light on potential
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30 functional complementarities that could be exploited through inter-city policy networking
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32 across these scales.
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39 Finally, while APS have a crucial role in the new economy, they are mainly associated
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41 with high-skill, high-value employment. Other prisms are needed to gain insights into
42
43 how APS interrelate with the wider economy and society and thus how greater social
44
45 equity might be promoted across territorial space – the EU territorial cohesion agenda.
46
47 MCR emergence in South East England indicates that further theoretically and
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49 empirically focused interdisciplinary research is essential to inform joined up policy
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51 approaches on these issues, replacing current oppositional territorial perspectives on
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53 spatial planning in globalisation.
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