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Evolutionary Economic Geography. Location of Production in the European Union

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The book tries to answer the problem of locating production of a company in the geographic space analyzing what determines productivity differences between regions using the theory of evolutionary economic geography. Evolutionary economics studies "the origin, change, direction and speed in the spatial distribution and organization of as well as production and consumption in a certain period of time."

The studied problem is relevant in order to know not only what will be the future location of jobs, their quality and quantity but also where will take place the maximization of profits, the collection of taxes, the public spending, etc.

The work is addressed, as the author mentions, to a wide audience of economists: scholars, policy makers and businessmen, who face extreme challenges in the context of liberalization of various economic imbalances, the uncertainty and the latest technological advances resulting in changes in the demand. The book is also sufficiently approachable for a less specialized audience and due to its case studies it is easy to go through it and to remember the essences and the mechanisms of the processes that it describes. Nevertheless, the structure of the chapters and subchapters is not as clear.

The whole logical course of the book is supported by examples of strategic decisions taken by several leading transnational companies, of economic policies of several countries of the world and of historical events. All of them can provide conclusions about the location chosen for investments: what type of regions were chosen, which influenced the decision, when is location in a more concentrated or isolated area preferred and what results were produced for both the investor and the general welfare of the area. The argumentation uses a multidisciplinary framework, making parallels between economics and geography, physics, history, biology and art.

Miroslav Jovanovic, the author of the book, is an economist at the Transport Division of the United Nations Economic Commission for Europe based in Geneva. His academic interests have resulted in numerous articles and books in the fields of international economic integration, geography and evolutionary economics, European Union spatial location of firms and the economy, industrial policy and trade and foreign direct investments. The experience gained during the three years working at the Library of Transnational Corporations belonging to the UN, along with John H. Dunning in the early 1990s, drew the main lines in his academic career. He is professor of economics at the European Center for Peace and Development of the United Nations University in Belgrade and he teaches European Union Economic Policy at the University of Geneva.

The book's preface comprises a balanced criticism made by Ron Boschema, regional economics professor and manager of the Urban and Regional Research Center in Utrecht, who finds the undeniable utility of the examples offered by the author, but observes that not all of them describe what economic geography evolutionary means, and conclusions are not reflected in the provision of practical policy solutions.

The book is structured into six chapters: Introduction, Theory, Regional policy, Market structure and location of production, International companies and Conclusions. In the introduction is stated the first question that the book seeks to answer: why do some regions grow faster than others. Responses are provided through the evolutionary theory of economic geography, an area recently emerged and still very far from being fully explored. Moreover, the author, Miroslav Jovanovic, is one of the few scholars in the field.

The issue of the company's location in space arises only in case of imperfect markets, like any real market is. If there were no economies of scale and no transportation costs, the location decision would be clear. A neoclassical model, however, concerns the overall balance, while an evolutionary model implies an evolving process due to imbalance and uncertainty. To answer the problem of location in terms of evolutionary theory, multidisciplinary approach is needed, which makes the challenge accessible to just a few specialists.

The second chapter outlines the historical development, sketches the theory and provides a definition of the concept of evolutionary economic geography. It also stresses the differences between this theory and previous economic theories that have offered explanations regarding the location of firms. It argues the idea that this new theory provides more realistic and more general valid explanation in the field comparing to the neoclassical equilibrium theory.

The branch of evolutionary economic geography arose along with the recognition by the specialists of the importance of cooperation between geographers and economists, in the early 1990s. They previously considered that their fields of expertise are completely different and do not influence each other. The cooperation initiative belonged to economists manifested in the first publications were in the newly defined branch: The Oxford Handbook of Economic Geography (2000) by Clark, Gertler and Feldman and launch of the Journal of Economic Geography in 2001. It is considered that the theory has its origins in the model of David Ricardo's comparative advantage. Formation of regional clusters of firms is a phenomenon that began to be studied in the 1990s. They are determined by the possibility of obtaining economies of scale, imperfect competition and competition for limited resources, business connections (proximity to suppliers and customers, availability of intermediate goods), the multiple equilibrium (centripetal and centrifugal forces) and expectations.

In the choice of the location for investments, there are taken into consideration several determinants that are separated by the author into five categories according to the types of stakeholders that take part to the process. Firstly there are the costs attributed to specific locations by the suppliers or by the location itself (regarding the availability, interchangeability, quality and prices of inputs, market access costs, transport costs, availability of financial resources and project costs). Secondly, the demand side can influence the location decision through the size and growth potential of the market and the type of preferences of the consumers. The third type of factors consists in the organization and technology, meaning the production linkages between inputs and outputs, the competition, the technology and its life cycle and the local resources of research and development. In the last two categories, there are the political and social factors, which can influence the location decision through taxes, subventions, public acquisitions, exchange rates, standardization, unions, on one side, and education, bureaucracy, the skills of the workers, income distribution, general quality of life and retirement conditions, on the other side.

Under the neoclassical theory, on an imperfect market, a company seeks either to minimize the costs, or to maximize the profits. In fact, more often, companies follow a mixed strategy, situation that is studied by the evolutionary theory.

In this second chapter, we find how the evolutionary theory has evolved marking the links created throughout the years, between economics and other sciences. The author succeeded to make a rigorous description of the similarities and differences between neoclassicism and evolutionary theory. There is a significant amount of realism and applicability in the evolutionary theory that distinguishes it from neoclassicism. The more idealistic doctrine sustains the purpose of eliminating the market imperfections, which proved to be, in successive cases, not only impossible but also undesirable, because it is often an appealing opportunity to take advantage of these flaws.

The third chapter comprises a comprehensive criticism of the regional policy adopted in the past years by the European Union. Including measures that mainly influence the supply, the regional policy had hardly had positive results. Explaining the instruments through which and the reason why the state, in the virtue of this policy, implies in regional problems, the author lets the reader wonder how the productive potential can be influenced and what determines the success of such policies. The decision regarding the costs of regional adjustment, the time interval on which the policy is applied and the length of its effects are crucial for regional development. The experience of the European Union has proved that a coordination of all the state policies and the authorities is a key aspect in all the policies' achievements. An example, which contradicts the theory that says that only central regions might be successful, is the case of Ireland and Finland in Europe or Australia and Japan in the rest of the world.

In the fourth chapter the author describes the determinants of the location decision of investors and the mechanism of the process. These are considered to belong to the market structure and they are classified in as follows: competition, innovation, the size of the local market, the inter-industry trade, mergers and acquisitions, standardization and non-tariff barriers.

The fifth chapter introduces several other reasons for choosing a location for investments: cultural differences, positive and negative externalities brought by the market, the absorption capacities of new technologies, the labor productivity of the local workers, the cost of capital transfer, the relation that can be observed between the existing foreign and local companies, entry and exit barriers, the social responsibility of the companies, state intervention on the market, national and international laws, all of these keeping in mind the organization of the company. Synthesizing, a company should compare the local advantages for investments, the competitive advantage of the competitors and its own.

The book received criticism for the lack of solutions it provides, although the author has settled as a main goal just to clarify and explain the main trends in the area of evolutionary economic geography.

In the end, the author himself concludes that the book could not provide the answer to the question: what determines the competitiveness of a region.

The most important and the longest chapter is the one about the theory of evolutionary economic geography, containing many ideas already deepened by other authors. However, the book is a consistent effort to synthesize ideas, concepts and case studies from a wide variety of scientific fields in order to describe the picture of evolutionary economic geography.

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