# Metropolitan cooperation as a precondition for international competitiveness

Special difficulties in preparing post-socialist cities for international competition: The case of Budapest<sup>1</sup>

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Competitiveness has been adopted onto the European agenda by the Lisbon Summit in 2000. Today this issue is at the centre of debates again, mainly as a result of the Kok Report (Kok, 2004), highlighting the low achievements so far in reaching the ambitious Lisbon goals.

The application of the concept of competitiveness in the case of cities evoked huge debates (see e.g. Lever-Turok, 1999). Most recently two new issues seem to be added to the debate: the role of the regions around large cities and the role of cooperation, as potential contributors to competitiveness.

Probably the biggest problem of the Kok report is that it fails to recognize the decisive role of the metropolitan cities and their regions in the fulfilment of the Lisbon Agenda. Plenty of empirical evidence suggests that the nation states, the regions and the local governments have different tasks in fostering economic development and that the metropolitan cities and their regions are in a key position regarding competitiveness

Cooperation is one of the key aspects of a new governance approach. To achieve a high level of competitiveness in an urban area, different forms of cooperation are needed: unified goals at the city level, strong cooperation within the functional urban region, basic agreements at the macroregional level.

The aim of the paper is to discuss the relevance of these new thoughts to the case of East-Central Europe and more specifically to the case of Budapest. The new Member States and new Member Cities of the EU are challenged on two levels: they have to secure their position after the transition towards the market system, parallel with the preparation for competition in the single market. To address this double challenge the regional level and the application of cooperative approaches should play an important role.

The preconditions for development in this direction are, however, not at all positive. Historic realities, political factors and shortsighted regulations prevent urban and regional actors from cooperation, even in win-win situations. It is an important question, how could this deadlock be overcome, how could cooperation increase the competitiveness of cities.

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### Introduction

Recent debates in the European Union (see the Kok report on the fulfillment of the Lisbon Agenda) clearly show that the upcoming decade will be dominated by the notion of competitiveness: Europe is compared to the US and this comparison is not advantageous for Europe, especially if only limited to economic factors.

Furthermore cities are often compared to each other. People usually express the failure (or less often the success) of their city in comparison with another city or cities.

Some international comparisons aim to express differences in figures. One of the known statistics is the GDP/capita ranking, while there are many others combining qualitative and survey data into one index. For the latter see for example the World Knowledge Competitiveness Index, based on human capital, knowledge capital, regional economic outputs and knowledge sustainability (OECD, 2003). Rankings of regions for these two indicators usually show very different results (e.g. London is in 22nd place with regards to GDP/capita, whilst only in 50th place in the other index). One similarity between the two measures is the better results of American as opposed to European regions. There are many different types of "rankings" related to location qualities, business climate, etc, prepared by different organizations.

Politicians follow closely the results, especially if their regions and cities are highly ranked. (In a recent publication about innovative cities and regions one region - Hanover - which published the results of such a comparison, happened to be in 2ndplace both, in 1993 and 1998in the location quality survey of over 240 European regions). They might be praised should this happen, but much more often they are criticised if the performance is negative or decreasing. The paper does not discuss in general, what competitiveness might mean for cities, as this is the topic of the theoretical chapters of the volume. It discusses however, new ideas, the role of the regions and of cooperation because these are of key importance for Budapest to increase competitiveness, not only temporarily but also with a longer lasting relevance.

## New theoretical ideas and the European experience

#### Competitiveness of territorial units

There is a long-lasting debate about 'locational competitiveness'. Some economists doubt that the notion of economic competitiveness, which in their view is purely an internal productivity issue, can be applied to territorial units. If at ali, in this narrow view territorial competitiveness might not mean more than the impact or attractiveness of the territory for the location of enterprises.

The OECD definitions of competitiveness range from a narrow economic approach to a more complex one:

"Competitiveness may be defined as the degree to which, under open market conditions, a country can produce goods and services that meet the test of foreign competition while simultaneously maintaining and expanding domestic real income."

"An economy is competitive if its population can enjoy high and rising standards of living and high employment on a sustainable basis. ... the level of economic activity should not cause an unsustainable external balance of the economy nor should it compromise the welfare of future generations." (OECD, 2003)

Thus the broader definitions of competitiveness are based on three pillars, which all have their own dynamism: economic competitiveness, social cohesion and environmental quality. GNP/capita does not measure this broader definition; even the Human Development Index (by UNDP) would be a better measure. The market is unable to coordinate between the three dimensions; this must be the task of the political dimension, at the national, regional and local levels. Governance becomes the key tool, especially at lower levels, as the state has lost power with the introduction of Euro-zone; the tools for monetary adjustments have disappeared.

More detailed analyses of the substantive aspects show that competitiveness of territorial units has a number of special requirements. The OECD study (OECD, 2003) lists the following key factors for success in territorial competitiveness:

- Specialisation and sectoral structure (clustering, based on the advantageous locational factors of the region),
- Innovation and knowledge (helping the generation and diffusion of innovation, entrepreneurship, the increased role of educational institutions)
- Accessibility and connectivity (physical and communicational infrastructure to be close and open to international links and relations).

The fulfilment of these requirements requires clear strategy at the level of territorial units, which must be based on cooperation between different actors and policy areas. Local leadership and governance are the key aspects in this regard. The OECD report (OECD, 2003) also emphasizes the importance of benchmarking, monitoring, evaluation.

### New issues and experiences regarding the competitiveness of cities

More recently two new issues seem to have been added to the debate: the role of regions around large cities and the role of cooperation, both as potential contributors to competitiveness.

With the relative decrease of competencies of the nation-state it is the sub-national level, which is of prime importance for competitiveness. Sub-national entities are now in the front line in designing public policies. They are charged with resolving the contradiction between the necessity to perform well in worldwide economic competition, while ensuring social cohesion and environmental sustainability (restricting the capabilities of the actors in the economic competition) in their territories. It is at the sub-national level where all these aspects can directly be influenced through horizontal and vertical policies. These policies might become especially efficient if the administrative area coincides with the economic area (Functional Urban Area, FUA) around the metropolitan city.

International experience shows that cooperation on different levels is a very important factor to enhance the competitiveness of the whole urban region. One of the aspects is cooperation at city level. In the course of the 1980s and 1990s, most of the larger municipalities established some version of inner decentralization in the form of two-tier local governmental structure.

Despite this common tendency, there are huge differences between countries (and sometimes even within the same country between cities), regarding the type of administrative unit that has been created at the sub-municipal level and the way in which the rights and responsibilities are shared between the higher and lower tiers. Tosics and Dukes (2004) give an overview about the different models, ranging from a centralized to decentralized city. Their analysis shows that decentralization to smaller city-parts might only have (some) advantage, if there is good cooperation between these units and the power of the municipal level to determine strategic aspects of development is not constrained.

The other, more discussed, aspect is the cooperation within the broader urban area. There are usually more "layers" around larger cities: the agglomerational belt, the Functional Urban Area, different versions of macro regions. It varies almost from city to city which layers have administrative functions (NUTS 3 or NUTS 2 units).

According to most analysts it is the FUA around large cities which is the most important regarding territorial competitiveness, as this provides for economies of scale and is the level where positive externalities can be achieved and negative externalities addressed most efficiently.

If so, the key question is, how metropolitan cooperation can be established to contribute to. The positive factors of a city in competition? According to contributions at the Amsterdam Metropolitan Regions conference (Read, 2004, Jacquier, 2004, Tordoir, 2004) it is the effective governance on the FUA level, which is the most decisive for success. The mechanisms for that may range from the statutory and comprehensive through the selective to the voluntary. There are examples in Europe of elected metropolitan authorities with comprehensive planning responsibilities, operating and managing powers, but there are also cases for appointed authorities with strategic planning powers only. Regarding the content of regional cooperation, there are also different models existing: concentration of many functions (e.g. Scotland), transferring some functions up to the regional level (Stuttgart), or simple voluntary agreement. Accordingly, the tools and institutions used for metropolitan governance also differ, ranging from tax-base sharing and redistributive grants to decreasing tax-competition, through single purpose or multi-purpose metropolitan agencies, to metropolitan government and amalgamation (Montreal).

Research on these models suggests that the broader the region is defined around the core city, the less cooperation can be achieved, limited only to "win-win" elements in the case of large regions. Analyses of the relation between the FUA and the administrative (NUTS) region of the same cities suggest that in the best cases these coincide, thus it might be disadvantageous to split the FUA into more administrative regions.

Another question discussed in the literature is the size of the cooperating area. Especially in the case of smaller cities, cooperation above the FUA level is needed to achieve a sizeable area for international competition. The case of Leipzig, Dresden and Halle shows that these cities can only become competitive at the European level through mutual cooperation in the form of the "Saxonia triangle". Even in the case of larger cities the aspiration for "development trajectories" (Weihe-Lindenborg, 2000), like in the case of Copenhagen-Malmö-Gothenburg- Oslo, might be advantageous for cities to increase their international competitiveness.

Finally, if discussing the issue of competitiveness from a European perspective, the most often used argument is the over-centralization of Europe. There are different models suggested to create a more polycentric structure, based on the idea of territorial cooperation of areas outside the most central "Pentagon". The well-known "Blue Banana" is now challenged by endless variations of potential development corridors of European importance.

From international experience some interesting conclusions can be drawn regarding the role of cooperation in city competition:

- Cooperation on a' given level (with similar cities) might increase the chances of the city to become competitive on the higher levels (example: the cooperation between Malmö and Copenhagen has resulted in the Öresund region of European importance which neither of the cities could have achieved alone)
- Cooperation on a given level might also increase the chances of the city to establish cooperation on the lower level (with the creation of the Centrope region Vienna started cooperation with Bratislava, as a result of which Lower Austria, the region around Vienna became much more cooperative than before)
- The same cities can be in competition with each other whilst in cooperation on a higher level (for example Vienna, Prague and Budapest are competing with each other in many aspects. However, their close cooperation e.g. in tourism could increase the worldwide competitiveness of the Central European area).

# Case study: the issues of competition and cooperation in central Europe (the case of Budapest)

### The transition towards a free-market democracy

Budapest is one of the most liberalized, decentralized cities within the new EU Member States, where the transition towards the market system was fairly quick (Tosics, 2005). Due to the fast privatization of economy, the favourable geopolitical position and the stability of the political system, Budapest has gained substantial foreign direct investment. As a result, market services, and their related infrastructure were developed relatively fast, and city development became dominated by private investment. This led, besides the dynamism of development, to serious problems, with the brown-field zone (avoided by investors, favouring green-field sites), with the decrease of green areas and an increase of inequalities between the different stratas of society and among the different areas of the city.

The population of Hungary has been decreasing since 1980, resulting in a population loss of 5.5% in the course of the last two and half decades (between 1980 and 2003). The decline of the population is much faster in Budapest, amounting to 17.2% decrease in the same period (showing the large migration loss, added to the natural decline). As usual in suburbanizing metropolitan regions, the population of the agglomeration is increasing: Pest County, the administrative unit around Budapest, covering the entire agglomeration zone (which represents two-third of the population of the county), is the only medium-level unit in the country, the population of which has grown by 15.5%.

The decline of Budapest is due to two reasons: natural decline and migration loss. Natural decline began as early as the beginning of the 1970s, related to the ageing of the population. Since 1993 the migration balance has also become negative for Budapest. The main direction of out-migration is from the agglomeration around the city (in 1995, for example, nearly 28,000 people moved out from Budapest into Pest County and only 15,000 replaced them from the county). There are over 30 settlements around Budapest which show signs of dynamic development. This close and intensive agglomeration is not only the target area for families moving out of the city but is also the main location for new logistical, trading and service investments.

It can be assumed that Budapest will continue to decline in the next few years, due to yearly migration losses of 15,000-20,000 residents, in addition to the natural decline. The change of population affects the urban area very differently: whilst the inner city has lost some 30% of population, the outer districts could stabilize and the surrounding settlements increase dynamically.

The transition period can be characterized with the policies of privatization and decentralization. While the first changed totally the functioning of the economy, and - among others - the housing market, the second created a new set-up in public administration. The Local Government Act of 1990 gave substantial independence to the local governments, including the districts of Budapest. This has led to a fragmented system within Budapest, as the Act delegated all local functions, neighbourhood public services to the district level, while the Municipality became the owner of the public utilities and assumed the tasks related to the whole or a large part of the capital (see the detailed description in Bird, Ebel & Wallich, 1995, p. 122).

The municipality and the districts also became independent in economic sense as they acquired their own assets and the right to establish their budgets independently.

This fragmented two-tier administrative structure of the municipality and the districts functioned with great difficulty ever since. Around Budapest an even more fragmented system developed, as the earlier very powerful middle tier, the county self-government, was substantially weakened in 1990. Pest county has practically no power to influence any of the decisions made by the settlements. As a result the settlements around Budapest became very strong, having the right to decide by themselves about conditions for industrial, service or residential development, including decisions concerning the zoning of land.

To summarise, in the post-socialist administrative structure, city-wide coordination (above the district level) became very difficult, while coordination between Budapest and the neighbouring settlements became practically impossible.

The structure of the Budapest urban area can be interpreted as a series of concentric circles or sequential rings:

 Budapest within her current administrative border (including the outer districts, earlier independent settlements attached to the city in 1950, which could be called "the inner agglomeration zone"), covering an area of 1.7 million residents;

- the suburban area around Budapest with very intensive connections to the city: a zone with over 700,000 residents living in 78 suburban settlements (defined since the mid-1990s as the "agglomeration zone"); thus the Budapest agglomeration covers an area of 2.4 million residents;
- a much larger area of economic influence, marked by the city-ring around Budapest, consisting of medium-sized cities (all situated outside Pest county), covering an area with over 4 million people, i.e. 40% of the country's population.

There is no universally accepted definition for the Functional Urban Area existing around Budapest. However it is clear that this might be somewhere between the agglomerational zone and the area of economic influence.

This functional classification differs substantially from the administrative one. Budapest and Pest County, as elected local governments, together constitute the Central Hungarian Region (having some 2.9 million population), which is one of the 7 statistical-development NUTS 2 regions of Hungary.

#### **Emerging conflicts and debates about future development**

The post-socialist transition resulted in a well-established system of local governments, whose independence became the cornerstone of the new democracy. However, the elimination of the power of the middle tier (counties) and the weak definition of the new regions resulted in strong competition between the municipality and the settlements of the surrounding area. Similarly, the relatively weak position of the municipality over the districts resulted in strong competition between these local governments. The legal background, responsible for all these unfortunate developments, is quite robust and can be changed only with a qualified majority voting in the Parliament.

The conflicts between the municipality and the districts are partly centred around the allocation of the financial means for development. Some resources are clearly directed towards the municipality, some to the districts. The bulk of the money however, must be allocated between the two levels in the course of negotiations, which create sharp conflicts each year. Another issue of debate is the allocation of regulatory power. In the two-tier local government system, the details of the decision-making system on zoning regulation and planning permission procedures are constantly debated. The districts are also in competition with each other, fighting for advantageous changes in the regulations and for developers willing to invest in their district, with little or no regard for the interest of other districts or the city as a whole.

The conflicts between the city and the settlements of the surrounding area can be described as the "normal" conflicts of suburbanization in a largely unregulated system. Ali players want those investments, which bring the most revenues for their settlement, while they want to avoid paying the price and do not want to take externalities into account. A typical outcome of this situation is the large suburban residential development with no public services (families should take the kids into Budapest to kindergarten, to school) and no regard for externalities (such as the increasing car traffic through other settlements and in Budapest).

Under such circumstances all local governments opt for short-term gains, even if it is clear that the outcome might be sub-optimal in the long run and/or from the perspective of the larger area. Developers can easily gain from this situation, rejecting the fulfilment of any special conditions of local government, in the hope that the other local government will pose fewer conditions.

#### The need for cooperation to enhance the competitiveness of the region

Budapest is a city experiencing decline, losing the most active part of her population. There is no doubt that in the international context, the dynamically developing Budapest economy area (regardless of whether one considers the 2.4 million, the 2.9 million or the 4 million areas) with plenty of development options and a stable population would have a much better starting position, and greater potential in the enlarged Europe than the city itself.

From an administrative point of view Budapest has the advantage that the Central Hungarian Region (CHR) also covers the surrounding Pest county, whereas in the cases of Vienna, Prague and Bratislava the capital cities are cut off from their agglomeration areas. The NUTS 2 level, although quite weak at the moment in Hungary, will soon get a key role in planning, as this will become from 2007 the allocation level of some of the EU Structural Funds. In order to prepare a good Regional Operational Programme (ROP) good cooperation is needed between the various actors within the region.

Good cooperation and the use of governance methods were, however, not the practices of Hungarian local governments in the last one and half decades. This situation will hardly change from the top, as in the short term there is no chance of a change in the legal environment (the modification of the Local Government Act would need 2/3 majority in Parliament). In other words, there is no hope for a new regulation, giving more power for the municipal level over the districts and for the regional level over the individual settlements. Consequently, changes towards more cooperation and governance should and must come "from below".

Most recently there have been some signs that the key players have recognized that the potential of the Budapest economic area can hardly be realised with continuing inner conflicts.

- In the first half of 2005 a political decision was taken to keep the CHR together (as it is now), which means that Budapest will not be cut off from the agglomeration and the Functional Urban Area because of short-sighted financial calculations. In June 2005 Budapest municipality endorsed the medium-term Strategic Development Programme for 2005-2013 with an emphasis on cooperation with the districts and the surrounding area.
- Parallel to that the Parliament endorsed the law on territorial development in the Budapest agglomeration, which will put an end to the unlimited urban sprawl in the area.
- There is a hope that under such circumstances and due to the challenge of EU programming the districts and the surrounding settlements will also recognize the longer-term advantages of a more coordinated way of development.

The next task is the creation of a new strategy for the CHR for the post-200? period, on which the ROP should be based. Such a strategy must clearly take into account international experience (OECD, 2003) that suggests that competition requires clustering (based on the advantageous locational factors of the region), innovation and knowledge, accessibility and connectivity, strategy, linkages and governance.

Budapest, as an active member of the Eurocities network, is learning from European good practices. Local policy is slowly changing from budget-oriented, finance-led policy towards more open governance. Besides a more cooperative approach towards the region in order to strengthen international competitiveness, Budapest must also be more open towards cooperation on a larger scale, in the macro-region and in a potential cross-border region, as well.

Cooperation is of course a lose concept in itself, and has little meaning without specifying the content of cooperation at the different levels. For the time being, after so many years (decades) without real cooperation, and unfavourable legal regulations, aims cannot be too ambitious. The first thing to do is to agree with other players at the regional (CHR) level on medium-term development aims, concentrating on the joint interests, i.e. win-win situations, instead of starting with the more difficult direct conflicts. Besides, Budapest should be open and at least allow chances for the European-wide territorial cooperation models to be implemented, such as the east-central European regional cooperation (Vienna-Budapest-Katowice-Prague), the Milan-Trieste-Ljubljana-Budapest-Kiev development corridor idea, or the Budapest- Bucharest development corridor model. "Even the Red Octopus model of van der Meer (cited in Lever, 1999) should be taken into account".

For Budapest, the efforts of Vienna to organize territorial cooperation are of special importance. Currently Vienna has substantial advantages within the Centrope area, and cooperation with Budapest, which was earlier substantial, has been neglected. However, for regional cooperation a common history is important. Thus Budapest could have more potential to be included into the Vienna-Bratislava cooperation, than with some other players of Centrope.

Budapest alone can develop only its own area as a metropolis. If cooperation becomes more extensive and the cooperating area includes, besides the CHR the surrounding ring of Hungarian medium sized cities (with the potential extension towards the eros5-border area of Slovakia), some chances develop to become competitive against Centrope. However, in order to develop a real Metropolitan Region of European importance cooperation with Vienna and Bratislava seems to be unavoidable.

EU membership clearly creates new chances for Budapest. The excellent geo-political position of the city as a centre for transfers between west and southeast Europe with growing EU support, will lead to increasing international competition, especially with Vienna. However, both cities should be aware that competition in some aspects does not exclude the opportunity for cooperation in other aspects, which could jointly enhance their position in the globalizing world.

National governments still have a substantial role in controlling cooperation and competition between cities. Budapest, even if opting for cooperation to establish a better position in international competition, will have difficulties if the national government remains reluctant to support the city.

## Policies and regulations needed for a more competitive Europe

Both the theoretical considerations and the shortly summarized case of Budapest pointed out the importance of cooperation in larger urban areas. The openness of the local level towards cooperation on the metropolitan level is however not enough, as to create a metropolitan competitiveness strategy goes beyond the normal tasks and competencies of the involved subnational governments (OECD, 2003).

On the one hand it is the national level, which could and should contribute to regional competitiveness, ensuring the necessary framework for the good performance of sub-national entities and delegating substantial powers to the regional (metropolitan) level.

On the other hand the European Union could and should also actively contribute to competitiveness on a sub-national level. In this regard the overview of EU effects on competitiveness shows a somewhat contradictory picture.

- The cohesion policy of the EU offers incentives to cooperate, especially for regions lagging behind in development. The system of programming for the Structural Funds makes cooperation at the regional level necessary, which also helps the development of much needed cooperative institutional structures.
- There are, however, also negative factors. The Structural Funds regulation creates incentives for functional urban areas when approaching in the GDP/capita measure the upper limit of eligibility to split into more administrative regions, in order to maximize EU funding (this is a contradiction between subsidy allocation and economic rationality). Additionally, many of the EU directives, especially regulations aiming at environmental quality protection are too inflexible, leading to sub-optimal, even counter-productive results (e.g. the air quality directive makes it difficult to apply multifunctional land use Tordoir, 2004).

If the EU wants to increase competitiveness, and wants to delegate some role in this to the regions and metropolitan areas, there is a need to alter the existing EU policies. In order to increase competitiveness of sub-national units, more flexibility should be given to the regions and metropolitan areas to meet the EU criteria. At EU level, the introduction of transferable rights and obligations could help significantly in creating a more flexible framework.

Another idea regarding EU policies is the wish to create a real territorial decentralization policy. The much criticized bulk of the "Pentagon" area (London-Amsterdam-Munich-Milan- Paris) could and should be counterbalanced with active EU urban and territorial policy towards polycentricity. This could mean the development of an EU support system to create incentives for cooperation at the macro level in areas which are considered to be sub-poles of European development (e.g. development trajectories, geographically well-positioned large metropolitan areas).

### Conclusion

On the basis of the cases analyzed from the EU-15 countries in this paper, it is safe to say that metropolitan cities and their regions are in a key position regarding competitiveness. There are different ways to improve the running of the functional urban areas, but the outcome is usually much more what the core city could have achieved alone.

For metropolitan cities, cooperation is very important also beyond the metropolitan urban area. To achieve a high level of competitiveness in an urban area, different forms of cooperation are needed: unified goals at city level, strong cooperation within the functional urban region, basic agreements at the much broader macro-regional level.

These ideas are by now more or less well known in the EU-15 countries. The case is much different in the new Member States, where - partly because of the continuation of earlier, non-cooperative attitudes, obstructive legal regulations or economic incentive systems- cooperation is not usual, neither at regional level, nor at the levels below or above this.

In the enlarged European Union, the new Member States have recently become at the forefront of economic development. It would be advantageous for the whole of the EU if the large cities and urban regions in good geo-political locations in the new member states were playing a similar leading role in the near future.

There are by now the first observable signs that in some of the cities of the post-socialist countries, the continuous large problems with traffic, and other aspects of sustainable urban development evoke some cooperation efforts. The preconditions for development in this direction are, however, not at all positive. Historic and political factors, bureaucratic regulations and shortsighted financial calculations usually prevent urban and regional actors from deeper cooperation, even in win-win situations.

It is in the interest of the whole of the EU that competitiveness on the level of functional urban areas increases also in the cities of the new Member States. These cities, however, need further development to adjust to the lessons learnt and to adapt to methods used by others.

Evidence shows that cooperation could increase (to a certain extent) the competitiveness of cities. Cooperation between the cities and metropolitan regions of the "old" and "new" Europe could be one example to help support this statement.

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