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THE ROLE OF TERRITORIAL CAPITAL IN URBAN RENEWAL IN A NON-CORE CENTRAL EUROPEAN CITY

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Abstract

The concept of territorial capital, presented by the authors as an alternative to exogenous, FDI-driven economic restructuring strategies, has fertilised regional development policy thinking in multiple ways. Triggering reflections on the bottom-up reconceptualisation of regional policy, it has a particular salience in peripheral or lagging regions due to its potential to reverse deeply-entrenched core-periphery relations. The paper discusses the concept of territorial capital with a view to its policy embeddedness and academic valorisation. The structure of the paper is as follows. The first section presents the theoretical antecedents and conceptual evolution of the notion of territorial capital. This is followed by a brief discussion of the relevance of territorial capital in non-core or peripheral Central European contexts. The concluding section seeks to identify the main obstacles to collaborative and integrated strategy-making relying on the territorial capital approach in the case study city of Pécs, demonstrating its crucial absence from post-2000 top-down regional development programmes.

Keywords: territorial capital, competitiveness, city success, second tier cities, Central Europe, Pécs

INTRODUCTION

Territorial capital, as a useful analytic tool facilitating a nuanced assessment of the determinants of territorial competitiveness and a better understanding of spatially heterogenous local and regional development trajectories, has been been widely adopted and analysed in academic literature. Despite the novelty of the concept, it cannot be regarded as a new regional development paradigm in the ‘Kuhnian sense’, constituting a major disruption with respect to existing knowledges legitimised by epistemic communities. A broad-brush summary of its theoretical antecedents and conceptual evolution demonstrates its embeddedness in local development currents of the ’80s and territorial cohesion policy relevance. Avoiding the pitfalls of monocausalistic narratives of urban decline, the theory of territorial capital has considerable explanatory currency for unveiling the multiple causes of persistent spatial disadvantage, a darker and somewhat more overlooked aspect of the valorisation of territorial diversity or capital. Territorial capital has a particular salience in non-core or peripheral contexts with limited opportunities for FDI-driven economic restructuring. Besides providing a more nuanced view of the determinants of city success, the territorial capital approach contributes to deconstructing narratives of decline and monocausality in regard to left-behind or stigmatized places.

By allowing cities to capitalise on their disadvantages, it can help them break the vicious cycle of self-reinforcing processes of decline feeding from negative perceptions as the authors demonstrate in their case study on Pécs, a South Hungarian post European Capital of Culture city in search of new development paths.

THEORETICAL BACKGROUND

Territorial capital in cohesion policy narratives

Emerging outside a strictly scientific context, the concept of territorial capital, largely coterminous with the endogenous potentials of an area (Nordregio 2009) has fertilised cohesion policy thinking in a multiple ways. Existing conceptualisations of territorial capital highlight its contribution to territorial diversity and the crucial significance of soft, intangible (social, cultural, human, institutional) factors in enhancing regional performance in the EU (ESPON, 2006; Camagni, 2008). The non-academic origins of territorial capital are pointed out by numerous studies discussing its conceptual evolution and gradual embrace by cohesion policy (see, e.g. Fratesi & Perrucca, 2014; Tóth, 2015).

According to the OECD (2001) report on Territorial Economy, a region's capacity to grow is conditioned by its capacity to exploit its tangible and intangible territorial capital assets. The range of local assets listed under the umbrella concept of territorial capital range from traditional (geographical location, size, factor of production and infrastructure endowment, climate, traditions, natural resources) to soft factors (quality of life, agglomeration economies, untraded interdependencies, social capital, industrial atmosphere). Traditional elements of territorial capital are in the focus of Cohesion Policy's original rationale, i.e. compensating regions disadvantaged by 'first nature determinants of growth' (physical geography, natural endowments) for the lack of positive agglomeration effects generated by the single market that benefit their country as a whole but conspicuously bypass them. With the paradigm change of regional policy (see Garcilazo et al. 2015) the emphasis shifts to 'second nature determinants of growth' (constructed factor endowments) and mobilising underutilised potential in lagging regions. A more recent taxonomy of territorial capital classifies the various components according to their relevance for spatial planning and development policy (Faragó, 2019), highlighting the importance of factors modifiable through policy intervention in the short-to-medium term, such as governance structures, management, resource allocation and investment decisions, political, economic, financial and legal institutional frameworks and ownership relations.

Cohesion policy's gradual alignment with general EU policy objectives subsumes territorial capital under the goals of the EU's Lisbon and Gotheburg Agendas (Melbye, 2006). The Bacground document for the EU's Territorial Agenda (EC 2005: 5.) states, for instance that '…many of the components of territorial capital and human resources (economic and non-economic, social, environmental, cultural, and the 'genius loci'), including their integration and connectivity (both cross-border and transnational) to other areas, can lead to productivity gains and generate growth' and assigns a key role to territorial development policy in strengthening territorial capital.

The integration of the concept of territorial capital into Cohesion Policy thinking was a key milestone in the bottom-up reorientation of regional policy (OECD, 2009; OECD, 2011; Barca, 2009, 2012). Place-based policies promoting territorial capital accumulation highlight that each region may contribute to national economic performance, irrespective of their level of development. The objective of targeted interventions is to assist regions to reach their potential endogenously (OECD, 2009), i.e. by exploiting their pre-existing economic structures, entrepreneurial abilities, relational skills rooted in local culture and history. The introduction of the notion of territorial cohesion rooted in the key principles (polycentricity, spatial justice) of French spatial planning (Faludi, 2006; Luukkonen, 2010) serves EU regional policy objectives of countering the multi-speed development of the EU's territory that questions the foundations of the European social model.

Besides their social injustice dimension, spatial disparities are seen as a drag on national productivity growth in incumbent EU member states, conducive to the so-called "productivity paradox" (McCann, 2016). Spatially selective regional growth and low-income convergence that slow down the catching-up of post-accession Central European (CE) countries are attributed, *inter alia*, to the low absorptive capacity of lagging regions and capital-city centric spatial structure.

Territorial cohesion, largely coterminous with the capacity to exploit the potentials of territorial capital in all countries and regions of the EU is about helping places make the most of their territorial capital (Faludi & Peyroni, 2011). It is presented in 2007–13 OPs 'as a strategy to better exploit regional potentials and territorial capital by strengthening the regions' profiles making use of Europe's territorial diversity' (Nordregio, 2009: 92).

As argued by empirical studies positing a strong correlation between territorial capital and territorial cohesion policy outcomes, structural funds are less likely to generate productivity growth in areas poorly endowed in territorial capital. This trend is confirmed by the case of Central and Eastern European regions which tend to invest more in basic infrastructure and less in soft infrastructure (Fratesi & Perucca, 2014). Studies have equally demonstrated a higher efficiency of investments in immaterial assets in regions more richly endowed in territorial capital, while the quality of institutions is reported to have a major influence on policy outcomes (OECD, 2011; Rodríguez-Pose & Garcilazo, 2015).

Place-based policies targeting the stimulation of territorial assets (ESPON, 2018: 3.) highlight the determining role of context in the success of local development strategies. By virtue of their role in reducing persistent inefficiency (below subsistence income) and persistent social exclusion (number of people falling below a certain level of income and well-being) in less developed areas (Barca, 2009: 4.) place-based policies add an important spatial justice dimension to EU spatial policy (Davoudi et al. 2008). Emphasising context, history, institutions and path dependence as explanatory factors conditioning local economic development, spatially sensitive approaches help supersede the myopic focus of mainstream economic theories on bigness and metropolitanisation as the 'one-best-way' for city success. People-based or counter-regional policies informed by new economic geography or new regionalism (e.g. 2003 Sapir Report, 2008 World Bank Report) designed without an explicit consideration of space are impervious to the needs of 'ordinary' cities disadvantaged in terms of the main drivers of postmodern urban change (high-level service functions, R&D, relational capital).

Demonstrating the counter-productivity of area-based interventions focusing on lagging areas (e.g. amenities-or regeneration-based strategies), NEG inspired policies promote an unimpended concentration of capital and people in prosperous city regions in order to maximise national aggregate growth. In contrast, the proponents of place-based policies argue that maximising the contribution of second-and-third tier cities to national productivity growth may produce superior outcomes than a selective focus on already successful core agglomerations (Pugalis & Gray, 2016; Capello & Camagni, 2013; ESPON, 2014). Besides, place-based policies have the potential to mitigate the distortive impacts of aspatial (macroeconomic and sectoral) policies on spatial development leading to a suboptimal utilisation of territorial capital (Faragó, 2019).

Territorial capital is strongly emphasised in the polycentric vision of urban development (see ESPON, 2018) subsumed under the non-territorialized objectives of Europe 2020 (EC 2011, §3), particularly in medium-sized cities designated as potential growth centres of underdeveloped regions. Rejecting arguments in favor of promoting scale, size and density in the largest agglomerations, Camagni et al. (2015) demonstrate the existence of agglomeration externalities in second-tier cities generated by high-quality territorial capital assets, e.g. superior tertiary functions or horizontal cooperation networks with other cities of similar ranking.

The development trajectories of cities functioning as nodes of polycentric urban networks are shaped by the quality and structure of their (complex) territorial capital and interactions of their various components (Rechnitzer, 2016: Faragó, 2019). Post-crisis experiences of European countries highlight the role of second-tier cities in national productivity growth and the negative externalities associated with excessive capital-centricity. The contribution of territories to national economic performance is hugely significant (Faragó, 2019). A county-level analysis of the factors of economic growth in Hungary reveals that the main driver of national productivity growth is not the capital city with the highest concentration of postindustrial drivers of urban development (APS, R&D, highly qualified workers) but a limited number of counties dominated by manufacturing FDI (Lengyel & Varga, 2018; Józsa, 2019). More recent place-based policies promoting regional economic upgrading and related diversification through smart specialisation (Foray et al. 2009, 2017) converge with the territorial capital approach in their emphasis on regional particularisms and self-sustaining endogenous development dynamics underpinned by pre-existing regional economic structures and expertises.

Territorial cohesion policy outcomes are fundamentally shaped by the quality of territorial governance whose central role is to *ensure the development of territorial capital in a non-destructive way* (ESPON, 2006; Medeiros, 2016). Territorial governance, represented in EU policy discourse as a desirable alternative to the monolithic concept of state power, contributes to the increasing autonomy and capacity of mobilisation of sub-national, regional-local arenas in regional programming (Gualini, 2004). Subnational empowerment, i.e. increasing the potential of city or regional power to compete with the existing state structure (Schragger, 2016; Pasquier, 2015), is a fundamental pre-requisite to territorial capital mobilisation conceived as a bottom-up process relying on local expertises and institutional capabilities. The EU's Territorial Agenda defines territorial cohesion as an essentially participative process, 'involving the various actors and stakeholders of territorial development at the political, administrative and technical level', characterised 'by the history, culture and institutional arrangements in each Member State.' (Territorial Agenda, 2007: 1). Subnational diversity and self-organisation are key principles underpinning the notion of the EU as a complex multi-level and polycentric polity.

Theoretical elucidation of the concept of territorial capital

In academic literature, the concept of territorial capital emerged in the field of territorial economy (Lacquement & Chevalier, 2016). Camagni defines territorial capital as a system of local, tangible and intangible, endogenous and exogenous assets, of public and private nature, that constitute the development potential of an area and whose presence enhances the efficiency of local production activities and place attractiveness (Camagni, 2008; Camagni & Capello, 2013). The success of cities and regions is determined by their capacity to fully exploit these assets. Camagni's seminal contribution to the comprehensive taxonomy of territorial capital factors (Camagni, 2008) has been widely adopted by studies examining the valorisation of territorial capital in multiple contexts, generally adopting the definitions proposed by the former (Fratesi & Perrucca, 2016, 2020), and more rarely subjecting those to a critical scrutiny (Grünhut & Bodor, 2014). Faragó (2019) in his novel post-structuralist approach to Camagni's territorial capital taxonomy, instead of prioritising given capital types over others, highlights the fluidity of local/territorial assemblages shaped by dynamically evolving interrelations (coupling and decoupling) of various components of territorial capital. In his view, the success of territorial capital mobilisation is conditioned not so much by the quality of individual subcomponents of territorial capital but their *local* interrelations, the efficiency of their network type functioning.

Camagni's 3x3 matrix (Fig. 1.) contains a unique representation of traditional and innovative forms of territorial capital valorisation, focusing on the properties and interrelations of the various subcomponents. The matrix classifies local endogenous assets according to their degree of materiality (tangible/intangible/mixed goods) and rivalry (public/private/club/impure public goods). Elements of the traditional square (pure public and private goods, social and human capital), constitute the subject of old regional policy interventions, while the „innovative cross" representing an intermediate class of club goods highlights the importance of relationality and innovative forms of governance (proprietory networks, collective goods, relational capital, agglomeration economies, innovation networks, connectivity). While not denying the relevance of functional approaches to territorial capital, sociocultural factors are prioritised as the main drivers of local competitiveness. For instance, the potential of hard assets (labor, capital, infrastructure) to generate growth is greatly enhanced by the presence of trust, cooperation or a sense of belonging, qualified as non-quantifiable, non-exclusive and non-appropriable intangible factors. Human and social capital, as 'generative components' of territorial capital are crucial to shaping the self-regulation and regeneration capacities of a given territory (Cejudo & Navarro, 2020). The role of the latter as drivers of local competitiveness, combined with *connectivity, receptivity and relationality*, significantly outweighs traditional forms of capital, place quality or accessibility (Camagni, 2008).

Figure 1 The theoretical taxanomy of the components of territorial capital

Rivalry	Tangible goods (hard)	Mixed goods (hard+soft)	Intangible goods (soft)
High rivalry (private goods)	Private fixed capital stock Pecuniary externalities (hard) Toll goods (excludab.) *c*	Relational private services operating on: – external linkages for firms – transfer of R&D results University spin-offs *i*	Human capital: – entrepreneurship – creativity – private know-how Pecuniary externalities (soft) *f*
(club goods) (impure public goods)	Proprietary networks Collective goods: – landscape – cultural heritage (private "ensembles") *b*	Co-operation networks: – strategic alliances in R&D and knowledge – p/p partnerships in services and schemes Governance on land and cultural resources *h*	Relational capital: – co-operation capability – collective action capability – collective competencies *e*
(public goods) **Low rivalry**	Resources: – natural – cultural (punctual) Social overhead capital: – infrastructure *a*	Agencies for R&D transcoding Receptivity enhancing tools Connectivity Agglomeration and district economies *g*	Social capital: – institutions – behavioural models, values – trust, reputation – associationism *d*

Materiality

Source: Camagni, 2008.

Relational capital (Camagni, 1999) as a specific type of club good is identified with the term 'innovative milieu' in the matrix. As the bridging component of social capital, it is an indicator of cooperation propensity with local and external partners and the collective competencies of actors. The introduction of the concept of innovative milieu by Italian scholarship on territorial innovation models (Aydalot, 1986; Camagni, 1991; Camagni & Capello, 2002) has long since highlighted the spatial embeddedness of collective learning processes and the role of spatial and social proximity in generating relational capital. Relationality is at the centre of Camagni's definition of territory interpreted as a system of localized externalities, a system of socio-economic relations and a system of local governance (Camagni, 2006; Capello, 2007). The local milieu is described as an uncertainty reducing device for firms, providing high quality human capital, access to information and various operators enabling firms to assess, transcode information and forms of coordination and cooperation (Camagni, 1999, 2013). The innovative performance of local production systems is sustained by a continuous interaction between the milieu and the innovation networks engendered during the process of the identification/mobilisation of resources acting as inputs to innovation (Crevoisier, 2000). Territory is interpreted as a unique repository of potentials and resources convertible into economically valorisable assets (knowledge, competences, skills) through a process of specification (Lacquement & Chevalier, 2016; Pecqueur, 2005).

The role of mixed assets combining tangible and intangible goods (cooperation networks, R&D transfer institutions, public agencies, etc.) is to contribute to the transformation of locally existing assets into capital. Local governance structures, coordinating the collective production of resources are viewed as factors of place attractiveness in themselves (Servillo et al. 2012). The success of bottom-up and collaborative strategies of territorial capital valorization is conditioned by local stakeholders' propensity to coalesce around common development projects and to formulate common value-based judgments on what they consider worthy, appropriate and valuable resources conducive to local development (Faragó, 2019). Informal (network-type) and formal institutions – reflecting a particular and context-sensitive view of local development – play a quintessential role in the generation and mobilisation of relational capital. With its sophisticated governance structures, the city as the supreme resource among all resources (Lefebvre, 1968) or the milieu innovateur par excellence (Camagni, 1991) structures economic agents' relations along principles of competition and emulation rather than reciprocity (as in smaller, more organised milieus). Cities as diverse and heterodox knowledge-creating milieus are capable of continuous renewal and self-reinvention by virtue of their superior relational capital relative to other settlement types.

Central European contexts and limitations of territorial capital

As noted by Camagni (2008) the role of space as a source of local competitive advantages has been amply demonstrated by new industrial geography (innovative milieu, neo-Marshallian districts, technopolises, neo-institutionalism, post-Fordist flexible territorial production systems, etc.). Territorial models of innovation attribute the stickiness of advanced economic activities to the presence of soft locational factors (creative capital, entrepreneurial culture, tacit knowledge, R&D resources) driving heterogenous regional economic performance. The co-evolution between the firm and its territory instead of searching for cost-minimising alternatives is conditioned by the presence of rare and valuable assets concentrated in highly productive local milieus. The spatial anchoring of atmosphere-type, synergy-inducing soft factors may counteract the hypermobility of global production factors (Camagni & Capello, 2015).

For FDI-incongruent localities, abandoning the mobility assumption of standard economic theories has important policy implications. Instead of pursuing costly FDI-attraction strategies (location subsidies, grants, enterprise zones, etc.), investments are encouraged in the development of the business environment, focusing on institutional and relational components of territorial capital. Since territorial capital as other physical capital assets is subject to accumulation and depreciation processes through its repeated use in different production cycles (Camagni, 2008), its conservation and renewal determines the sustained economic health of places. The benefits of capital enhancement strategies, however, due to decreasing returns to scale, are less obvious in prosperous places that are richly endowed in territorial capital as pointed out by Camagni (2013). According to the quantitative analysis of Camagni & Capello (2013), regional growth in European regions is driven by transport infrastructure and creativity in the case of non ST-driven Eastern regions, while Western regions closer to the technological frontier are more sensitive to an increase of entrepreneurship and receptivity. In an analysis of Hungarian subregions, Jóna (2015) finds that the cultural economy is a key determinant of territorial capital formation.

The territorial capital approach converges with endogenous growth theories in its conceptualisation of cities and regions as quasi-individuals responsible for shaping their economic fortunes and its focus on supply-side factors (Hadjimichalis & Hudson, 2014). In a neoliberal discursive framing, territories competing with each other for production factors and goods are ranked according to their position within the international division of labor. Lagging regions with a shortage of disctinctive competitive advantages and a poor capacity to mobilise their economic growth potential are facing irreversible decline, and ultimately, desertification. This can easily be demonstrated by the exclusion of peripheral CE regions from international markets whose sole competitive advantages are cheap and unskilled labor and basic infrastructure (Camagni, 2006; Lux, 2014).

Emphasising underemployed local potentials and place-specific impediments to growth, municipal strategies targeting the enhancement of territorial capital are believed to obviate the failures of one-best-way regional development policies. Space-blind subsidy-based interventions dominating old regional policy created a culture of dependency and new regional development traps instead of the anticipated effects of bringing jobs and investment to peripheries (Rodríguez-Pose & Garcilazo, 2015). Exemplifying failed attempts to induce state-led industrial decentralisation, the policy of growth poles based on the propulsive effects of lead industries has attracted criticism for neglecting contextual (cultural, social, human, historical) factors and its inability to reverse polarisation. Not seeking to propose universal recipes for growth, place-based approaches encouraging the mobilisation of local stakeholders, local knowledges, (strong, adaptable) institutions to ensure the valorisation of indigeneous (natural and/or socially constructed and endogenous (internal) assets are expected to produce more favorable spatial development outcomes in the long term. Despite their constrained autonomy, local municipalities are encouraged to capitalise on their assets and make corresponding long-term policy choices tailored to their needs and preferences. Cities and regions are represented not merely as passive subjects of top-down interventions but artisans of their own destinies, enabled, through a wise utilisation of their territorial capital, to pursue their socio-economic goals more efficiently. Thus, disadvantaged non-core cities (abandoned in their efforts to achieve economic restructuring in unsupportive national contexts) should be able to lift themselves out of decline endogenously, fostering a sense of self-determination in local communities. Such policy optimism concerning the role of local capabilities while undermining the role of exogenous factors (e.g. general characteristics of the national economy, the given settlement's position in the national settlement network, etc.) in driving place inequalities of territorial capital valorisation is common to endogenous development theories (Hadjimichalis & Hudson, 2014).

Notwithstanding its contribution to the rich body of endogenous development literature and high discursive currency in EU policy-making, problems of quantification and low institutional awareness led to a poor visibility of territorial capital in territorial development strategies and programmatic documents (Tóth, 2015; Amodio et al. 2019). Its translation into national policy has been marginal, with a few notable exceptions in decentralized and polycentric contexts (e.g. Poland). The experience of advanced economies gives more credit to place-based narratives of territorial capital valorisation in the presence of decentralized institutional frameworks and devolved public finances (Pike et al. 2015). At less advanced stages of development, exogenous elements appear to outweigh the role of endogenous factors in regional growth (Capello–Fratesi, 2013). Numerous obstacles stand in the way of translating the theory of territorial capital into local development strategies in the CE context (see Lacquement & Chevalier, 2016). Primarily, path dependent factors stemming from belated urbanisation have played an incontestable role in the general absence of the key ingredients of successful endogenous urban development paths, such as local self-determination, city power, anti-interventionism, new governance styles, relationality and co-operation. Economic and political peripherality (Rácz, 2019) explain the poor capacity of municipalities in CE to design self-tailored development strategies and leverage external capital for their investment projects. This points to significant disparities of territorial capital mobilisation among resource-dependent municipalities in former command and control economies and their Western counterparts operating under free market conditions. The weakness of civic traditions, social capital, governance and institutional structures impedes the emergence of horizontal development coalitions fundamental to local stakeholder mobilisation and collaborative strategy making (Lux, 2014; Füzér, 2017).

The demand for spatial policies addressing the „rebalancing challenge" is particularly evident in monocentric and centralized countries such as Hungary where the capital city region produces 47% of the national GDP (for the sake of comparison, the relevant figures are 23.7% in the UK, and 30% in France, respectively). In CE capital cities and their regions acted as (sometimes the only) hubs of economic growth (Hajdú et al. 2017). This makes particularly salient the abandoning of public policy bias toward economically prosperous core areas and the implementation of place-based policies assisting all regions to reach their potential, given the spatial and sectoral selectivity of FDI inflows and the exacerbation of regional inequalities it entails. Up to the 1970s, the objectives of *diversionary regional policies* aiming to promote the development of second-tier cities through top-down industrial decentralisation showed a certain degree of convergence on both sides of the Iron Curtain (Hajdú, 2005). In fact, Faragó (2019) refers to voluntary socialist industrialisation in Hungary as a 'proto industrial growth pole strategy', due to the similarity of objectives (strenghtening secondary poles through planned industrial decentralisation) and results (regional rebalancing).

The post-1970 era marked by the dissolution of the Fordist Compromise and the demise of the Keynesian Welfare State brought the ascendancy of endogenous growth theories, cultural and regional autonomy movements and alternative forms of capital in the West, while the centralising command-and-control economies left no room for maneouvre for municipalities to experiment with locally-owned endogenous development strategies.

The post-1990 implementation of local governmental autonomy and formal (non-substantive) decentralization left a fragmented and underresourced system of municipalities increasingly dependent on central financing. The 2011 Local Government Act interpreted by commentators as a quasi-loss of autonomy and deresponsibilisation of local governments (Pálné et al. 2016) heralded a new era of centralization that prompted a return to the vertical hierarchical approach to the exercise of state power. The distortive effects of political favoritism and the centralised allocation of investments, aggravated by the residual role of regional policy continue to shape city success or decline in more fundamental ways than spatially heterogenous and status-dependent municipal capacities of territorial capital mobilization (Simó et al. 2018). The notion of city or regional power is devoid of substance in peripheral development contexts with a lack of meaningful alternatives to state power (Pálné 2019), which raises the question of the universal applicability of neoliberal-minded urban development discourses and recipes.

RESULTS AND DISCUSSION – TERRITORIAL CAPITAL VALORISATION IN THE CASE STUDY CITY OF PÉCS

Obstacles to territorial capital valorisation

The over 2000-year old city of Pécs situated in South-western Hungary is one of the five regional centres that form the core of the Hungarian settlement network (Rechnitzer et al. 2014, Berkes 2016). Pécs is the regional capital of South Transdanubia, a region historically dominated by agriculture, whose highly fragmented settlement network, low population density, underdeveloped transport infrastructure, remoteness from manufacturing core areas, weak endogenous industrial base and disadvantaged position in terms of postindustrial drivers of urbanisation place it among the least urbanised and industrialised regions of Hungary (Rácz et al. 2020). Mirroring national trends, the region belongs to the group of moderate innovators and regional GDP per capita barely exceeds one-third of the EU average (Nick et al. 2019).

Pécs as the fifth largest city in Hungary (KSH 2020) with its population of 141,843 (the urban agglomeration has 177,753 inhabitants and 41 settlements) is not a large city according to European standards but rather an advanced mid-sized with regional economic functions, performing a historical role of a cultural, ecclesiastic and administrative centre to its wider hinterland area. The city's integration in the national and international division of labor is hindered by its multidimensional peripherality partially explained by first nature determinants of growth. Its regional organising role remained limited explained partially by the embryonic stage of region-building efforts. As pointed out by Hajdú (2006), top-down imposed regional institutions (RDAs) were too weak to become the drivers of regional integration in South Transdanubia, and uncoordinated, sporadic developments hindered the realisation of regional-scale developments.

The post-industrial transition of the urban economy was marked by the erosion of the traditional manufacturing base and successive waves of capital flight (e.g. Elcoteq in 2011), triggering a loss of 'regional particularisms' (e.g. coal, uranium mining) on which to base its competitive advantages. Under socialist industrialisation, exogenously driven 'low road strategies' to local development based on the exploitation of generic assets (cheap labor and natural resources) provided favorable conditions for the development of labor intensive sectors such as coal mining, electricity and gas production. Urban economic upgrading to a 'high road strategy' appears to be a daunting task in the absence of strong multi-level governance and durable competitive advantages. The latter are conditioned by the availability of a 'place surplus' increasingly sought by firms, i.e. those unique, rare and non-transferable assets (relational capital, R&D, high skill labor, engineering schools, local industrial traditions and know-how) that may decourage delocalisation strategies. Major disruptions in the industrial base triggered by exogenous factors – top-down public policy decisions and extra-regional corporate strategies of multinational enterprises (MNEs) –, a shortage of engineering competences and qualified labor force induced by the massive outmigration of the young age population – common to peripheral regions lacking postmodern drivers of urbanisation – are expected to erode the prospects of a high skills and high value added path (Faragó, 2012; Lux, 2020). This, in turn, exposes the local economy to a permanent risk of capital flight and increases its reliance on a small number of strategic sectors (health, culture, environment).

Negative external perceptions of Pécs as a "city-in-decline", an "industrial periphery" or a "shrinking city" have been fed by high level of municipal indebtedness, a lack of business opportunities and the unfavorable demographic composition of the South Transdanubia region. This is well reflected by the declining rate of industrial employment of Baranya

County peaking at 53.3% in the 1970s and dropping to 20% by 2018. The unemployment rate in Baranya (9.4%) is steadily rising and exceeds the national average of 3.5% (EC, 2020).

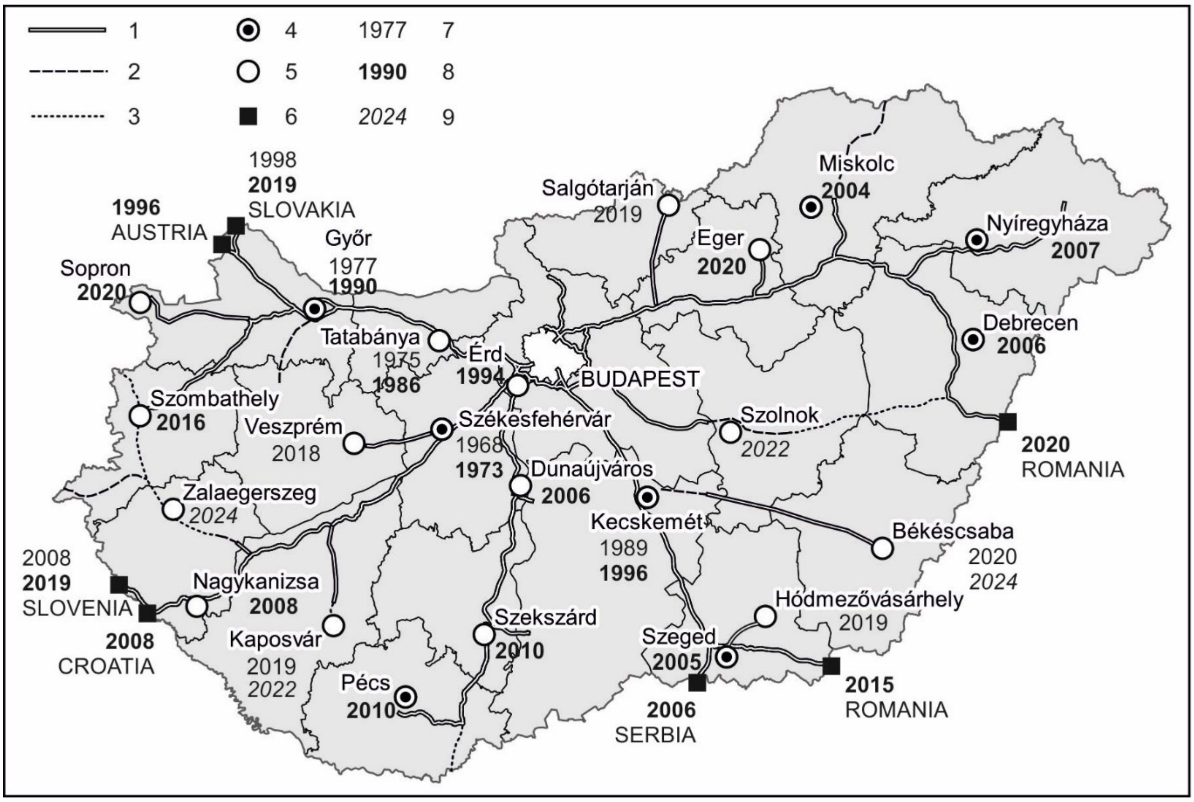
The Chamber of Commerce and Industry of Pécs and Baranya – as a key local economic development stakeholder and an outstandingly active institution in national comparison – plays an important albeit contested role in the reproduction of social and relational capital (Lux, 2020). Despite their weaker territorial embeddedness and influence on economic development processes relative to their Western counterparts, Hungarian chambers provide important (pecuniary and non-pecuniary) support to local businesses operating under their jurisdiction. In addition, they act as catalysts of the development of local business networks and the emergence of territorial or sectoral clusters connecting local small and medium sized enterprises and large firms or ISEs looking for regional subcontractors (Póla 2020). The emergence of clusters, however, is hindered by the low level of trust characterizing Hungarian society and the business sector. In Baranya County, local business operating outside the relatively advanced machine and construction industrial clusters are characterized by weak horizontal co-operative linkages.

Employment figures highlight the crucial dependence of the local economy on the public sector: the Municipality of Pécs in itself employs 2250 people. The three major municipally-owned service provider companies (urban management, waterworks, district heating) employ an additional 1000 persons. The University of Pécs is the main employer in Baranya county with a total of 6700 employees. A number of state deconcentrated organs (tax authority, state treasury, etc.) provide administrative, legal and business employment opportunities for people with intermediate and higher educational qualifications. The unsustainable financial operation of the local council renders public sector-driven employment creation illusory in the near future.

Exogenous-driven local development paths in the City of Pécs

Under the joint influence of the cognitive turn of the economy and the rise of EU project-based urban development strategies in the post-2000 era (see Füzér, 2017), soft and intangible factors (quality of life, business environment, social capital, human capital) came to dominate the city's efforts to achieve economic restructuring and overcome peripherality. The insufficiency of hard infrastructural investments – e.g. motorway connection (Fig. 2.) and industrial estates (South Industrial Park, Pécs Industrial Park, Pannova) – to incentivize FDI was demonstrated by the city's poor connection to the international economic circuit.

Figure 2 Motorway connections of the Hungarian cities



Legend: 1 – Motorway/expressway completed; 2 – Motorway under construction; 3 – Planned motorway (2020–2024); 4 – City with over 100,000 inhabitants; 5 – Mid-sized city (county seat or county-right city with less than 100,000 inhabitants); 6 – Border crossing point with motorway access; *Date of motorway completion* 7 – Partial (e.g. semi-motorway, 2x2 lane expressway); 8 – Regular; 9 – Planned. Update: December 16, 2020.
Source: Authors' own construction.

Pécs was the last in the line of Hungarian large cities to be connected to the national motorway network in 2010 (Fig. 2.). To compound the situation, the inauguration of the M6–M60 motorway coincided with the conclusion of the era of massive inward FDI flows into the country and a privileging of profit repatriation and capacity extension in existing production sites by MNEs. Pécs was not among the beneficiaries of these emerging tendencies. Instead of triggering the inward settlement of MNEs, motorway connection resulted in an intensification of backwash effects exerted by the capital.

The gradual distancing from exogenous regional development approaches and the rising prominence of qualitative, soft factors of territorial capital was increasingly evident in the *Pécs quality of life pole program* (2005–2007). The program was implemented under the aegis of a national cluster initiative promoting the competitiveness and functional diversification of domestic regional centers by encouraging the clustering of innovative and knowledge-creating sectors outside the capital (Rechnitzer, 2019). To this end, support from the 100 bn HUF (1 EUR approx. 350 HUF) public budget was provided for large-scale scientific capacity building investments in selected development poles (Pécs, Debrecen, Veszprém, Győr, Miskolc, Székesfehérvár, Szeged). The aim of the *Pécs pole concept* – a loosely connected set of health, cultural and environmental cluster building initiatives – remarkable for its services and amenities-based approach was to reposition Pécs as a creative city appealing to its visitors and residents alike on the basis of quality of life factors. Despite its weak economic impact, it provided a major impetus for the city to identify new development priorities, attract new target populations searching for metropolitan alternatives and promote a better valorisation of its rich environmental (proximity of curative waters, viticulture, Mecsek mountain) and cultural capital (e.g. the EU-sponsored UNESCO World Heritage Site, its nationally renown museum network).

The challenge was to alter perceptions of the city as a persistent loser of post-1970 deindustrialisation processes (Lux, 2020) against the backdrop of the state's retreat from its role in maintaining territorial cohesion through planned industrial decentralization (leaving behind the remnants of a low-tech and low efficiency branch plant economy). The 1989 regime change transformed the regional economic role of the city from a capital-intensive manufacturing center into a knowledge-intensive tertiary/commercial hub valorising high value added congnitive functions, as reflected by the low rate of industrial firms within the local business sector (10%). This rate reflects the general situation of the regional economy, with the number of industrial firms (3256) hardly attaining one-tenth of the total number of registered firms (32146) in South Transdanubia in 2018 (KSH, 2019).

The role of culture as the main catalyst of postindustrial urban change gained official recognition with the Pécs *European Capital of Culture* (ECOC) 2010. With culture gaining increasing prominence in the city's self-identification, manufacturing was relegated to the position of a de-emphasised or "hidden" sector (Lux 2020). In the vein of mega-events of similar magnitude and scale, the Pécs ECOC was perceived as an important step to cultural decentralisation seeking to reduce the city's multi-dimensional peripherality (relative to Budapest and Western Europe) and to shift the focus of urban development from FDI-attraction policies to creativity-led approaches. The aim was to reinforce the reputation of Pécs as an inclusive, vibrant and multicultural city (Fig. 3), emphasising its unique mediator role between the Balkans and Western Europe, e.g. with Southern Cultural Zone programme (Rácz, 2017).

Figure 3 Pécs is a multicultural city

Legend: *Clockwise from the top left* 1 – Pécs Cathedral (Roman Catholic Diocese of Pécs established in 1009); 2 – Downtown Candlemas Church of the Blessed Virgin Mary on the main square (Mosque of Pasha Qasim in the 16–17th century; Northernmost surviving mosque in Europe); 3 – Yakovalı Hasan Paşa Mosque (working mosque on Fridays); 4 – Croatian Theatre in Pécs (the only Croatian language theatre outside Croatia); 5 – Lenau House (headquarter of Lenau Association, the cultural centre of ethnic Germans – Danube Swabians); 6 – Synagogue (Pécs has the third largest Jewish community in Hungary).

Source: pecsma.hu; wikimedia.org

A total amount of 34.6 bn HUF invested between 2008 and 2011 in the standard components of ECOC-projects (flagship projects, iconic architectural elements, designing new spaces of cultural production and consumption, a cultural district, etc.) contributed to a significant upgrading of cultural infrastructure, the reappropriation of neglected or degraded urban spaces through artistic activities and large-scale physical redevelopments. Despite its predominant focus on urban and regional development, the project also aimed to deliver on local policy agendas related to cultural tourism and social inclusion aligned to the 2008 Integrated Urban Development Strategy and Anti-Segregation Plan (Füzér, 2017). With the benefit of hindsight, centralised management and implementation, the excessive dependence on external financing, the low level of social capital and trust and the non-participation of the private sector (Pálné Kovács, 2013) that characterized the Pécs ECOC event appear to be at odds with EU principles of subsidiarity and partnership, and the place-based turn of regional policy encouraging local self-determination and bottom-up mobilisation. Throughout the programme's realisation, the role of the local government was reduced from intermediator and facilitator, i.e. connecting local stakeholders to the process of territorial capital mobilisation to implementing higher order decisions.

In terms of capital attraction and job creation, the ambitious but largely externally driven (EU-funded, centrally controlled) amenity-based approach to urban development achieved modest results. Its insufficiency in counteracting place specific disadvantages arising from a shortage of high skill labour and low level educational attainment of the working age population in the region is confirmed by recent statistical data: in 2018, South Transdanubia was listed among the 26 most underdeveloped regions of the EU where the share of the working-age population with a tertiary level of educational attainment was below 20% (Eurostat 2019). County-level statistics depict an equally bleak picture: monthly gross average wages in Baranya are appr. 35% lower than the national average and 10% lower than in the majority of Hungarian regions. In terms of per capita income and professional tax revenues, Pécs is outperformed by Hungarian cities of similar ranking (*Urban Development Concept 2014–2030*).

The traditional structure of the higher educational system and the resulting undersupply of technological research capacities impede any serious economic upgrading. The limited potential of strategies based on quality of life factors to trigger growth in the lagging South Transdanubia region are reflected in its current technological level and international profile: South Transdanubia ranks last among Hungarian regions in terms of the number of FDI-based firms (758) and R&D expenditure (17.5 bn HUF) (KSH 2019). Regional trends are mirrored by the low presence of FDI in the predominantly domestically-owned local business sector in the City of Pécs (250 out of 9000 firms operate with a foreign capital share and only one foreign company (HAUNI) with over 1,000 employees). British American Tobacco Company is one of the few locally embedded foreign MNEs that have developed a mutually beneficial cooperation with the City of Pécs since the 1992 acquisition and privatisation of the then 90-year-old Pécs Tobacco Company as their first filiale in the Central European region. BAT headquartered in the capital (with the Budaörs site accomodating its most valuable sales, marketing, IT and HR functions) has already invested 40 bn HUF in its Pécs filiale, highlighting its significant reindustrialisation potential.

The credibility of reindustrialisation narratives is undermined by the city's long-standing failure to attract large employers and the erosion of industrial know-how and skills triggered by the dismantling of its former competitive industrial base. Notwithstanding, the high discursive currency of FDI-based reindustrialisation is confirmed by the *Urban Development Concept 2014–30* stressing FDI among its prime objectives and the regional industrial strategy (RIS) encouraging knowledge-intensive reindustrialisation centered on environmental, health, culture, creative and mechanic industrial sectors. Recent studies have pointed to the connection between city failure and the absence of an entrepreneurial-minded elite with an initiator role in growth coalitions paramount in western practices (Lux, 2017; Rácz et al. 2020).

While strategic urban development documents contain no explicit reference to territorial capital, the Urban Development Concept of Pécs assigns a key role to local indigenous and endogenous capacities in economic renewal and new path creation capable of reversing decade-long negative (spatial, demographic, economic) processes. It also points out that in the long term, a weak capacity to mobilise endogenous resources may lead to a significant amount of untapped natural and physical capital assets and underemployed economic resources in the region. The frequent occurrence of the term "cultural capital" (67) as a special and highly valorised component of territorial capital in the document is a clear indicator of the new priorities overshadowing reindustrialisation efforts.

The current directions of urban development fixed in the *Modern Cities Program (2015–2022)* indicate a sustained devalorisation of reindustrialisation driven strategies. Pécs as one among the 23 county-right cities has become a major beneficiary of the large-scale pluriannual urban development program aligned to the objectives of the EU's Lisbon and EU2020 Strategies and the Development Concept 2030 – National Development and Spatial Development Concept adopted by the Hungarian Parliament in 2014 (Faragó, 2014, 2019). The potential of the 3,400-bn-HUF program to trigger a major renewal of territorial capital in second and third-tier cities outside the capital such as Pécs is still questionable. With no apparent indication of the territorial capital approach in the program's preamble or spatial development objectives addressing the rebalancing challenge, regional particularisms and place-specific drivers of urban competitiveness are highly prioritized in the future vision outlined for Hungarian cities (Rechnitzer et al. 2019). Lacking a collaborative and participatory approach in its design and horizontal, within-settlement coordination (as the main prerequisite to integrated, holistic and place-based approaches) its qualification as a spatial development program is problematic (Faragó, 2019; Fekete, 2019). The bilateral, (case-by-case) negotiations conducted between the 23 settlement mayors and the Head of State between 2015 and 2017 indicate a highly centralised pattern of implementation without extensive stakeholder participation. The programme of Pécs, dominated by capacity building and R&D&I projects of the university illustrates the overwhelming reliance of the local economy on the city's anchor institution (Gál & Ptáček, 2019). However, as argued by Lux

(2019), spectacular university-driven developments cannot substitute the role of innovation-driven reindustrialisation in industrial peripheries such as the lagging South Transdanubian region.

The University of Pécs, with its 20,000 students (of which 4,500 are foreign students), 10 faculties, 1,700 researchers and educators and appr. 6,700 employees is the main employer and R&D stakeholder in the region. Its role in building relational capital relies on its historical linkages with the Municipality of Pécs. As of 2020, the Medical Faculty's prestigious Szentágothai Research Center benefits from the presence of two national laboratories established within the framework of a large-scale national initiative targeting the commercialization of scientific results. The collective expenditure of the university and its student population is estimated to attain one-fifth of the locally produced GDP (Rácz et al. 2020). The large and steadily increasing number of foreign students studying on its premises – predominantly engaged in fee-paying health and medicine training programmes – generate important housing and consumption demand. For the most part, however, foreign students do not become integrated into local society or choose Pécs as their permanent residence.

CONCLUSION

Territorial capital, as a useful analytic tool facilitating a nuanced assessment of the determinants of territorial competitiveness and a better understanding of spatially heterogenous local and regional development trajectories, has been been widely adopted and analysed in academic literature. The first part of the paper analysed the emergence of territorial capital in cohesion policy narratives and undertook the theoretical elucidation of the concept of territorial capital. This was followed by an examination of Central European contexts of territorial capital. Territorial capital has a particular salience in non-core or peripheral contexts with limited opportunities for FDI-driven economic restructuring. Besides providing a more nuanced view of the determinants of city success, the territorial capital approach contributes to deconstructing narratives of decline and monocausality in regard to left-behind or stigmatized places. By allowing cities to capitalise on their disadvantages, it may break the vicious cycle of self-reinforcing processes of decline feeding from negative perceptions. This is demonstrated by the authors in their case study on Pécs, a post European Capital of Culture city in search of new development paths.

The case study of Pécs (regional centre of South Transdanubia) provides a summary of the most influential nodal points and factors shaping its development path. The study is followed by a reflection on the current obstacles of territorial capital valorisation. The main points of the case study are as follows. Pécs, a city with a two-millennia-long history has historically inherited and mutually enforcing central (ecclesiastical, cultural, commercial, administrative) functions cementing its role as a regional centre. Culture, broadly speaking, has always been a major driving force behind its development, engendering a plethora of ground-breaking ideas and innovations. The role of industry has become a major structuring (shaping, developing, crisis generating, and lately vanishing) force over the past one-and-a-half decades. Post-1990 change, the city has managed to survive the collapse of mining and heavy industry thanks to spontaneous tertiarization and the dominant role of the public sector. Two factors act as barriers to the regeneration of the city. Firstly, the multi-layered external environment (global processes, general forces structuring space, state-led development policy). Secondly, the specific internal context manifest in long-standing dependency relations, the responsibility of the local elite and the weakness of the institutional environment. A university-focused survival strategy may complement the fragmented (in Hungarian comparison) reindustrialisation efforts. This reveals the contours of a slow and endogenous development and transformation process integrating a mix of tangible and non-material components of territorial capital, one that the city has already embarked on.

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