Theoretical Foundations of the New Geographic and Territorial Economy

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Abstract

Space in economic analysis has gone from a marginal vision to a general recognition, with the principle that no economic phenomena exist without a specific relationship to territories, regions, and rural areas. The study aims to demonstrate the shift in the economy from land and raw materials and the logistics of means of transport that have emptied certain territories to an immaterial economy that provides territories with a new future. Philipe Aydalot emphasized the foundations of a new approach to the "territorial economy" through the concept of an innovative environment: in a word. This territorial environment promotes collective learning processes among local actors. Using this historical method, we demonstrate that development is no longer conceived as the result of a simple process of spatial diffusion of new technologies but a process of adaptation and creative adoption by local production systems that incorporate them according to their needs and culture.

Keywords: Territory; Space; Local actors; Territorial economy; Proximity; Geographical economy.

JEL classification codes: M1,M2,M3

الجدور النظرية للاقتصاد الجغرافي الجديد و الإقليم

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الملخص:

لقد تحول الفضاء في التحليل الاقتصادي من رؤية هامشية إلى اعتراف عام، مع مبدأ أنه لا توجد ظاهرة اقتصادية دون علاقة محددة بالأقاليم والأقاليم الريفية. وتهدف الدراسة إلى بيان التحول في الاقتصاد من الأرض والمواد الخام ولوجستيات وسائل النقل التي أفرغت مناطق معينة إلى اقتصاد غير مادى يوفر للمناطق مستقبلا جديدا.

وشدد فيليب أيدالوت على أسس مقاربة جديدة لـ "الاقتصاد الإقليمي" من خلال مفهوم البيئة المبتكرة: في كلمة واحدة و هي الإقليم. وتعزز هذه البيئة الإقليمية عمليات التعلم الجماعي بين الجهات الفاعلة المحلية. وباستخدام الأسلوب التاريخي، نبين أن التنمية لم تعد نتيجة لعملية بسيطة من الانتشار المكاني للتكنولوجيات الجديدة، بل هي عملية تكيف وتبني إبداعي من قبل أنظمة الإنتاج المحلية التي تدمجها وفقا لاحتياجاتها وثقافتها.

الكلمات المفتاحية: إقليم؛ فضاء؛ جهات فاعلة محلية؛ اقتصاد إقليمي جواري؛ اقتصاد جغرافي.

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هذا العمل مرخص بموجب <u>رخصة</u> المشاع الإبداعي نسب المصنف – غير تجاري 4.0 دولي.

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Introduction

"After an economy based on land and raw materials, and a logistical economy grounded on means of transport that emptied certain territories of their content, if not their essence, comes an economy of the immaterial, that restores to territories the possibility of a new future. What some call the residential economy is based on the development of culturally significant heritages around an original vocation yet to be elucidated". This is how Roger Nifle defines economic mutation and its overcoming with the territorial economy.

Neoclassical economists were late in acknowledging the spatial dimension of the economy; those who did, under the umbrella of "*spatial economy*," frequently limited themselves to an abstract conception of space (Sylvain Allemand, 2004). Taking space into account in economic analysis has shifted from a marginal vision to a more general recognition, with the principle that no economic phenomena exist without a unique and relevant relationship to territories, cities, regions, and rural spaces (Polese and Shearmur, 2005).

Historically, this can be interpreted by the fact that economic thought had long neglected location, geographical space, and distance, while geography, long oriented towards classification more than explanation, turned little towards economics before the 1950s and did not find spatial economic theory functional for explanation (Coffey, 2000). If we take the example of Adam Smith's research (1776) on "The Nature and Causes of the Wealth of Nations," we notice that he focused more on the spatial aspects of the problem than on strictly geographical factors. As for Johann Heinrich Von Thünen, he placed greater emphasis on his contribution to marginal analysis than on his contribution to location studies.

According to the same author, these studies "developed at the beginning of 20th century on the margins of the general body of economic theory and expanded throughout the century, crossing location issues with those of classical economics," thus representing a crossroads between Geography and Economics.

Significance: Today, Philippe Aydalot is credited with emphasizing the spatial economy and laying the foundations for a new approach, the *«territorial economy*," notably through the concept of the *"innovative environment*."

A new idea emerged in the late 1960s to ensure the economy locally and concretely, in a word, territorially, fostering collective learning processes between local actors.

Method and objective: Through a historical method, we demonstrate that a region's development is no longer conceived as the result of a simple process of spatial diffusion of new technologies but as a process of adaptation and creative adoption by local production systems that incorporate them according to their needs and culture (Allemand, 2004).

Problem statement: The question raised is: How does territorial economics contribute, emphasizing the relationship between territory, economy, and geography?

Methodology:

To answer this question, the article is divided into the following sections:

- The theoretical foundations of territorial economics;
- The relationship between territory and contemporary economic approaches
- The conceptual foundations of territory.



Theoretical foundations of territorial economics

Territorial economics draws its theoretical and methodological roots in institutionalist economics and economic geography. Despite originating from distinct traditions, one economic and the other geographical, both schools share a common emphasis on the articulation of the specific and the general, the individual and the collective, the local and the global.

The discovery of territory in the 1980s marked a revolution in economic science. Industrial districts, the "Third Italy," and localized production systems (LPS) became ubiquitous figures in Western economic literature. This phenomenon is concerned not only with regional economics but also with international economics, development economics, and, finally, macroeconomics with the notion of competitiveness (Samson, 2004). According to this author, upstream theoretical reflections seek to conceptualize the territorial externalities that benefit the companies that cluster there, the specific territorial assets, and the effect of proximity on economic performance.

From a conceptual point of view, we can speak of renewal over the past ten years, with the emergence of "endogenous regional development," which originates from the "industrial district" hypothesis formulated by Marshall and adopted by Italian economists (Benko and Lipietz, 1992), cited by (Pecqueur and al, 2003). This hypothesis aims to reintegrate the spatial issue into that of production by demonstrating how the construction by players of implicit norms and convergences around shared know-how and skills can impact the economic performance of a site (Pecqueur and al, 2003).

Famous networks play a solid territorial basis, and geographical proximity is always necessary to facilitate the development of innovations. However, nowadays, companies are more inclined to seek out "rich territories" with a wealth of diversified skills, intense relations between players, and sufficient endogenous dynamics to attract exogenous actors (Morvan, 2001), cited by (Pecqueur and al, 2003), attractiveness is a global phenomenon that relies on the exploitation of several joint advantages.

Therefore, according to Merkusen (2000), there is a spatial dualism between geographical spaces, merely supporting economic activity economic activity, and territorial spaces, producing strategies for anchoring companies. These spaces, described as magnets in a moving space, are the complex product of many forces: company strategies, industrial structures, profit cycles, state priorities, and local and national policies. However, we cannot reason alone at the level of local institutions but rather in their relationship with the outside world since territorial anchoring is inseparable from globalization (Pecqueur and al, 2003).

From Weberian Localization to Regional Science

"Localization studies the distribution of economic activities in geographic area. Initially a mere extension of traditional microeconomics, it now focuses on agglomeration phenomena and the resulting externalities, and the globalization of economic relations" (Scott and Storper, 2006).

According to these two authors, over the past two decades, location theory has been implemented in several economic development issues, involving the emergence of specialized industrial districts, the relocation of economic activities from metropolitan spaces to outlying regions, and the growing globalization of production systems. Therefore, this theory has also



addressed issues such as the rise and decline of regional economies and the effect of new technologies on the geography of production. It was initially introduced as a simple extension of conventional microeconomics. As outlined in 1909 by one of its principal founders, the German economist A. Weber.

Its primary aim is to determine where an individual firm should be located to minimize its transport costs relative to the locations of its leading suppliers and markets. However, it is worth noting that, previously, a branch of analysis had been developed by J. Von Thünen in the early 19th century to take account of spatial variations in the rent and use of agricultural land. A variant was suggested in the thirties by W. Christaller and A. Lösch, who developed the theory of central places to explain the size and use of agricultural land. Lösch developed the theory of central places to explain market towns' size and spatial distribution.

After the Second World War, these theories were significantly expanded by researchers in the field of regional science. These researchers, or regionalists, continued to invoke neo-classical microeconomic initiatives as the driving force behind location choices. Accordingly, a significant effort was undertaken in the seventies and eighties to reformulate location theory to bring it closer to the historical context and structural conditions of capitalist production systems.

Today's global economy consists not only of states and firms but also of economic regions, groups of people, and productive activities. Its contours often need to be better defined, and its spatial layout is significant for economic performance.

From this belated discovery, spatial economics was born, illustrating the spatial extension of economic analysis, or regional economics, which, according to the Anglo-Saxons, goes beyond the microeconomic perspective to include macroeconomic and implemented aspects (Samson, Contemporary economics in ten lessons, 2003).

The notion of "Regional Science" emerged in 1954, when the American economist W. Isard founded the Regional Science Association. It introduces the intersection of regional, urban, and spatial economics on the one hand and economic and urban geography on the other, followed by various disciplines: urban planning, sociology, political science, anthropology, and engineering.

Samson (2003) highlights two recent innovations that have revolutionized economics, involving regional economics, over the last twenty years: two alternative production paradigms to the firm as a vertical spatial organization: localized production and the metropolis as a cityregion. According to this author, these two phenomena challenge all the routines of regional policies and constitute the ingredients of the new global geography of the economy that is appearing before our eyes today.

From regional science to the territorial economics of cities and regions

Location theory has always examined the benefits of urbanization-induced cost reduction, particularly concerning shared infrastructure, business proximity, and information networks in local labor markets. Location theorists have also demonstrated that, beyond a certain threshold, urban growth loses its benefits and leads to increasing dysfunctions. Therefore, location theory has addressed the crucial issue of the spatial concentration of economic activities, where agglomeration is seen as much more than just a concentration of activities. It also incorporates



complex functional relationships and the tendency to form economically specialized districts (Scott and Storper, 2006).

Territorial economics emphasizes the processes of geographic concentration, known as agglomeration, which is essential to understanding the urbanization and economic specialization of cities, regions, and nations. It aims to represent the geography of production concerning regional or territorial complexes of interconnected manufacturing, services, and employment activities. This approach puts intense pressure on producers to converge geographically towards their center of gravity; in turn, each agglomeration will become a site of critical external economies.

These authors explain that the issue lies in business networks and the territorial systems they generate, leading to a series of new questions about the role of territory in economic development since agglomerations - cities and industrial regions - have evolutionary trajectories deeply rooted in their specific geographical forms. On the one hand, research has demonstrated that certain forms of technological transformation depend on proximity between producers, allowing them to exchange vast quantities of specialized information, something that would not be possible if they were separated by long distances. On the other hand, industrial regions often constitute vast reservoirs of informal yet specialized technological expertise and know-how.

Therefore, agglomeration emerges as a contemporary trend in economic development alongside the globalization of economic relations. Indeed, while improving transport and communications creates new possibilities for extending economic systems across geographical space, contemporary capitalism continually creates new imperatives for proximity. Hence, it is essential to understand that local and global tension are two sides of the same coin of economic forces.

Subsequently, the emphasis on the territory extends to several fields of investigation. Furthermore, the agglomeration of economic activities is generally accompanied by the appearance of institutions, conventions, and specific local political structures, which often profoundly form local development trajectories (Scott and Storper, 2006).

Therefore, we conclude that location theory has shifted beyond a narrow economic field of application and established itself as **the study of economies in their territorial and social dimensions**. It opens up new perspectives on the global economy, viewed as a mosaic of regions increasingly connected by flows of goods, labor, and knowledge, but in which each retains a distinct and specialized economic identity (Scott and Storper, 2006).

From space to territory

The notion of geographical space was presented late in economic analysis. After the seminal work of the mercantilists in the 18th century, classical and neo-classical economics ignored it. In the 20th century, particularly in Northern Europe, the first essential authors made space an economic variable, for which the notions of **spatial competition and territorial competitiveness were important**. They developed their theories of the three main approaches to space: distance-space, place-space, and lived space (Samson, Territory and economic system. In Territory and Economic Systems, 2004).

According to this author, economists and geographers are engaging in dialogue and drawing closer together nowadays, with space as their primary reference point. Space is conceived as a



set of places, the relationships between these places, and the spatial influence of each place. Spatial economics considers economic spaces based on the division of labor, whereby each firm or sector has buy-sell relationships with others. In contrast, geographic area illustrates a set of real places, whether or not they are interconnected.

Spatial economics and regional economics merged these two approaches, bringing the space of geographers into the still dimensionless space of economists. This led to the development of actual spatial concepts of economic space, from the most abstract to the most concrete.

The different schools of geography utilize the term "territory" for most of them; it is employed in a much more precise sense than "space," a general term designating a geographical expanse. "Territory" is then a fragment of space appropriated by a society (a group of individuals) and perceived by this group as such (integrated into its mental structures). This fragment of space has an economic function and a political structure (network). It is sprinkled with places of memory and symbolic places. Accordingly, it has a cultural dimension and identity. In addition to its material components, therefore, it corresponds to a level of mental representation, hence the idea that the economic act alone is not constitutive of a territory, and thus an industrial district is only a "productive space, "not a "territory" (Samson, Contemporary economics in ten lessons, 2003).

"Territory" is more precise than "space," although "lived space" is very close to "territory." For economists, territory is where history and geography meet in economics. It is a place of economic potential (resources, skills, relationships) and externalities, underpinned by a shared history establishing proximity between players (Samson, Territory and economic system. In Territory and Economic Systems, 2004). He indicated that, as with geographers, the territory includes a subjective dimension of this collective identity. Still, for economists, there is collective projection through action in the future concerning the territorial development project.

For geographers, **this cohesion** is provided by the politico-institutional dimension of the territory. This dimension is not absent in the case of economists. Still, it is much more the role of actors that constitutes the "closing" element of the territory than the formal action of institutions. Economic space will be the spatial extension of our understanding of the market because it is a meeting place for supply and demand, resources, and production.

The conceptual foundations of territory

The new productive paradigm leads to replacing the concept of space, viewed as a source of costs and passive support for productive factors of development, especially technical factors, with the concept of territory, the bearer of the external impacts introduced by interactions between local players sharing a common culture. This includes the discovery of new factors of production historically embedded in local society and, therefore, neither transposable nor transferable elsewhere (Samson, Territory and economic system. In Territory and Economic Systems, 2004).

According to the same author, from a theoretical point of view, we can determine at least four conceptual foundations of territory: externalities, agglomeration economies, resources or heritage, and proximity.



Externalities

The recent evolution of economic geography, which revisits the question of "who (or what) locates where" (a question already raised by development economists in the 1950s) following the foundations of location theories, indicates that the impacts of agglomeration and the location of activities are not solely the result of distance from the market, but must consider externalities, situations of increasing returns and the conditions of spatial competition (Pecqeur, 2000). Indeed, territory is the bearer of specific, non-transferable spatial *externalities* that give it a particular competitive edge (Samson, Territory and economic system. In Territory and Economic Systems, 2004).

In general, externalities are discussed when the decisions or actions of one agent on the market impact the decisions or results of the actions of other agents without any voluntary transaction (Samson, Territory and economic system. In Territory and Economic Systems, 2004).

There are two types of externalities:

- Pecuniary externalities (involving expenditure);
- Technological externalities (all others).

And two types of externalities, depending on their effects:

- Negative externalities (e.g., pollution);
- Positive externalities (e.g., landscape).

The former are based on direct interdependencies outside markets and impact consumers and firms (Samson, Territory and economic system. In Territory and Economic Systems, 2004).

Examples of positive pecuniary externalities involve the simultaneous presence of customers, suppliers, and labor (for firms) and sellers and employers (for consumers).

Positive technological externalities encompass positive emulation and an "industrial atmosphere." A final example of negative technological externalities is congestion (noise, traffic).

The economic space carries externalities due to its transactional nature. Indeed, the economic space is a place of exchange, interaction, discussion, negotiation, understanding, and endless interpersonal learning, and it is not simply a place for producers to buy and sell (Samson, Territory and economic system. In Territory and Economic Systems, 2004).

The concept of externalities has been employed by endogenous and a-spatial growth theories. Regional development economics has placed externalities at the heart of the development process for fifty years. However, according to M. Desjardins, AC. Guio and L. Marechal (1999), a return to Marshall's definition of externality (1890) suffices to demonstrate how decisive the consideration of space can be in evaluating these externalities in operational terms (Samson, Territory and economic system. In Territory and Economic Systems, 2004).

According to these authors, **on the one hand**, the notion of Marshallian externality resonates with different factors emphasized in endogenous growth models. The externalities these models implement originate from spillovers in terms of human capital, know-how, productivity gains of physical capital, innovations, research and development, learning by doing, etc., which result from the individual decisions of economic actors. **On the other hand**, the "*territorial*" nature



of the externality indicates that space is not a neutral component in endogenous growth models, as the externalities (or public goods) on which these models are based emerge in a given territory, involving the proximity of actors and the availability of certain localized growth factors.

Agglomeration economies

Geographers have long indicated that economic space is the product of an interplay between forces of agglomeration and forces of dispersion. However, the content and intensity of these forces vary from place to place and from time to time, explaining why the economic situation changes according to the form of economic and social organization in a given area.

A common feature found in nearly developed societies is the existence of economic and social agglomerations. Cities are characterized by both high population densities and a great diversity of activities and social classes. According to the European Commission, as early as 1996, more than half of the population of the European Union was concentrated on 4% of its territory, where more than two-thirds of its wealth was produced (European Commission, 1996, p. 24). Economic analysis demonstrates that these agglomeration forces continue to develop despite the significant decrease in transport costs since the beginning of the Industrial Revolution.

"Agglomeration economies" are widely used but ill-defined and encompass a variable set of notions. Thus, agglomeration economies are said to occur when the benefits derived by a firm from being located close to other firms increase with the number of firms located in the same place. According to the same author, agglomeration economies have two historical sources: Marshall's external economies and Weber's theory of location, later developed by Walter Isard (1956) (Samson, Territory and economic system. In Territory and Economic Systems, 2004).

Proximity

Research on industrial districts, innovative environments, and networks demonstrates the significant role and benefits of concentration and connectivity between actors. Moreover, it integrates the following into its analysis of territorial growth processes: organizations, institutions, and the dynamism of actors. It is through this overview of economic literature that a criterion appeared, leading to the idea that the guiding principles of plans should be to foster and seek proximity relationships among actors and economic activities, enhance connectivity, and energize actors, organizations, and institutions (Dejardin, Guio, Maréchal, 1999), cited by (Samson, Contemporary economics in ten lessons, 2003).

This proximity of actors and activities plays a significant role in the growth dynamic, as it favors the appearance of positive externalities and facilitates the interaction of actors and the spread of knowledge. Therefore, institutions and the territory's spatial organization can impact the growth pace and contribute to its maintenance.

An SPL, a cluster, or other localized productive organization means "*proximity*" between actors is established within a territory. This proximity encompasses geographical proximity (distance and communication routes), economic or organizational proximity (relationships), and institutional proximity (norms, references, behaviors).

Thus, the proximity economy is the beginning of a generalization of the external impacts produced by the territory on relations between companies and other players. It refers to the



intersection of regional science and heterodox institutional economics (Samson, Territory and economic system. In Territory and Economic Systems, 2004).

According to Rallet (2002), quoted by the same author, the former is a geographical notion, while the latter is not geographical but relational, and it is essential to distinguish between geographical and organized proximity.

- Geographical proximity

This introduces the simple geographical distance between two points that rely on transportation infrastructures (Samson, Territory and economic system. In Territory and Economic Systems, 2004) According to Ragot and Soldo, it demonstrates the notion of economic space in Perroux's sense and incorporates what is sometimes called functional distance.

However, geographical proximity cannot be decreased to a simple metric distance but rather apprehended as a genuine social construct. According to these authors, geographical proximity is linked to means of transport and people's judgment of the nature of geographical distance. It can facilitate communication and the pooling of resources held by actors with various logics who are participating in resolving a common problem.

-Organizational proximity

This is an organization's ability to allow its members to interact. Indeed, the organization facilitates interactions within it and makes them more accessible than with units situated outside the organization.

On the one hand, belonging to an organization results in interactions between its members. This is what we refer to as the membership logic of organized proximity: two members of an organization are close to each other because they interact, and rules or routines of behavior facilitate their interactions.

On the other hand, members of an organization are assumed to share the same system of representations and the same knowledge—in other words, a social bond of an implicit nature. This is the similarity logic of organized proximity: two individuals are considered close because they "resemble" each other, facilitating their ability to interact.

Samson states that organized proximity expresses a coordination function resulting from a social link manifested by interactions through the network. Concerning the territory, the question is instead to know which organizational proximity is readily induced by the locals. He indicates that Grossetti provides an interesting answer: "Economic relations are embedded in social networks" that already exist.

Therefore, the territory is the combination of two proximities. The notion of neighborhood clearly expresses that agglomeration or geographical proximity is never totally foreign to a particular social bond. Indeed, the territory is a social foundation supporting economic relations and facilitating communication and cooperation, the relational potential generated by pure geographical proximity, and the permissive condition of institutional, social, and cultural proximities originating from history (Samson, Contemporary economics in ten lessons, 2003).

It is a social construct, the result of interactions between actors. According to Ragot and Soldo, its dynamics rely on the degree of articulation and coherence between geographical and organized proximity.



Resources and heritage

The territory is both a geographical space endowed with "resources" (raw materials, productive assets, skills, relationships) and a lived space over time characterized by societal cohesion (Samson, Territory and economic system. In Territory and Economic Systems, 2004). Colletis and Pecqueur (1994) have combined territorial externalities with specific territorialized resources and assets, which represent a potential for producing goods or services, ensuring strong competitiveness (price and non-price) for companies situated in the territory.

These assets are specific in the sense of Williamson, i.e., they are non-relocatable, so their creation and maintenance are significant to guarantee the region's long-term competitiveness (Samson, Territory and economic system. In Territory and Economic Systems, 2004). Marshall explains that the "industrial district" exists through the mobilization of resources or assets described as "specific" to differentiate them from the other factors incorporated into production: people's skills, know-how, and trade secrets... This notion of specific assets was later reformulated as "local resources": community, institutions, networks, skills, and non-codified knowledge.

Thus, these assets mobilize original resources in a way that is specific to each territory and not inert or passive, like natural resources, social capital, or even knowledge: **these resources are inseparable from the commitment of actors to a project and a territorial development strategy** (Samson, 2004).

The "territorial approach" allows to describe a potential for the production and exploitation of specific resources that can be qualified in three ways:

- Localized, or better still, anchored in a territory, i.e., strongly determined with it and locally exploitable;
- Both intrinsic to a territory, i.e., given *ex-ante* (natural resources, topography, climate) and built on this territory as the result of a shared history and heritage;
- Finally, they are interdependent and complementary, i.e., highlighting their interactive combination rather than their simple juxtaposition.

Samson concludes that Positive Territorial Externalities, Agglomeration Economics, Territorial Resources or Assets, and Geographical or Institutional Proximity constitute the theoretical foundations for the appearance of a territory and its economic competitiveness, all converging on a central idea: the emergence of a territory relies on the mobilization of local resources, articulated with the outside world, to endogenously produce economic performance expressed in increasing returns, quality or innovation.

Conclusion

Since the 1990s, with the revival of economic geography, known as the new economic geography, the notion of territory has experienced a resurgence in economic analyses. Today, globalization creates increasingly solid cause-and-effect links between economic actors based on the interconnectedness of markets. It also produces singular dynamics of resource creation. These strategies seek to adapt actors to the new conditions of international competition but also open up, at the same time, insufficiently exploited possibilities for creating activity (Pecqueur and Benko, 2001).



The classic model of the economy in territorial projects was that of exploitation and production. This model linked to the land, either through the exploitation of land or through the use of local resources by production units, highlighted material dominance, making attachment to the territory and the transportation of goods and products two decisive factors. The economy no longer had territorial attachments; its anchor points were more about opportunity than necessity.

However, in today's economic competition, these factors have worked against many regions, particularly rural ones: those in mountainous areas or those relatively far from urban concentrations and major transport routes. Then comes this alternative: *the "economy of territories,"* an economic model whose main characteristic is to consider the territory as a resource through its natural and cultural heritage and to value this heritage about the common good of a territorial community that gives it meaning. It is, therefore, about qualifying the territorial heritage to define a purpose for the territory, which allows for differentiation and specificity.

This new dimension aims to identify and explain how activities are organized, not in an abstract, general way, but in situation. Indeed, socio-economic issues cannot be understood independently of space and time, nor abstractly, without reference to concrete, located, and dated situations. All economic activity is part of local, national, and international networks.

Thus, territorial geo-economics, representing the intersection of geographers' reflections on actors and economists' on the construction of resources, questions the dynamics of territorial development and territorialization of resources around a triptych of territories/actors/resources. Consequently, numerous methodological, theoretical, and epistemological questions emerge based on vague and mobile concepts: territory, actors, and resources.

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