

Background report

**Job places in local economy – role of
municipalities in light of the EU
competitiveness**

Author: Mr. Zintis Hermansons

Final Report

8 June 2018

Table of Contents

Introduction	3
1 The EU's competition with the other economical regions – factors and drivers	4
2 Regional competitiveness	10
3 Location and local economic development	13
4 Role of local municipalities in economic development	17
4.1 Financial tools	20
4.2 Property-related tools and infrastructure development	20
5 Conclusions	22

Introduction

Thematic Partnerships representing various governmental levels and stakeholders is the key delivery mechanism within the Urban Agenda for the EU. The partnership “Jobs and Skills in the Local Economy” deals with economic performance and business development at the local level, essential components of sustainable development and social cohesion. Role of a location in business development has been identified as one of the topics for further exploration and action. To facilitate the discussion among the partnership members, the coordinators of the partnership have commissioned a brief background paper on “Job places in local economy – role of municipalities in light of the EU competitiveness”.

The following analysis is a result of an individual service contract which specified that the following aspects need to be covered in consultation with city of Jelgava (coordinator for this theme):

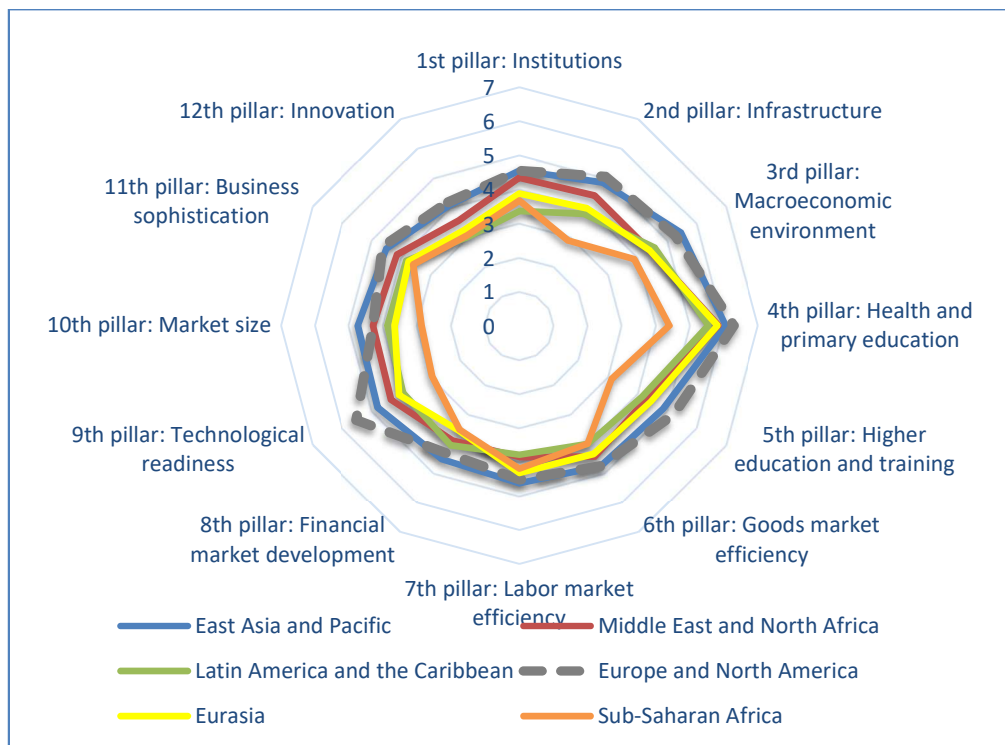
- a. The EU’s competition with other economical regions (North America, Asia, etc.) - what are the key factors for competition?
- b. Main factors for local economic development and its influence on employment.
- c. Role of municipalities – how they can influence local economy and EU competitiveness factors; and what kind of resources municipalities have for this: human resources, financial or physical, as infrastructure/property resources?

The draft of this report was presented during the 5th Jobs & Skills Partnership meeting in Porto on 18 May 2018.

1 The EU's competition with the other economical regions – factors and drivers

The World Economic Forum defines competitiveness as “the set of institutions, policies and factors that determine the level of productivity of a country”¹. Thus, competitiveness can have various dimensions, each of them acting as an enabler of productivity and growth. World Economic Forum is measuring competitiveness since 1979 and has established 12 pillars which influence competitiveness. According to the latest Global Competitiveness report (2017 – 2018)², out of top 10 most competitive countries in the world, six come from Europe. Overall, the Europe, North America and East Asia dominate the competitiveness landscape (see below).

Global competitiveness of the world regions (index values, 2017-2018)



Source: Developed by the author, based on the analysis of the complete database of the Global Competitiveness Reports³

¹ Oliver Cann. 2017. *What exactly is economic competitiveness?* World Economic Forum. <https://www.weforum.org/agenda/2017/09/what-is-economic-competitiveness>

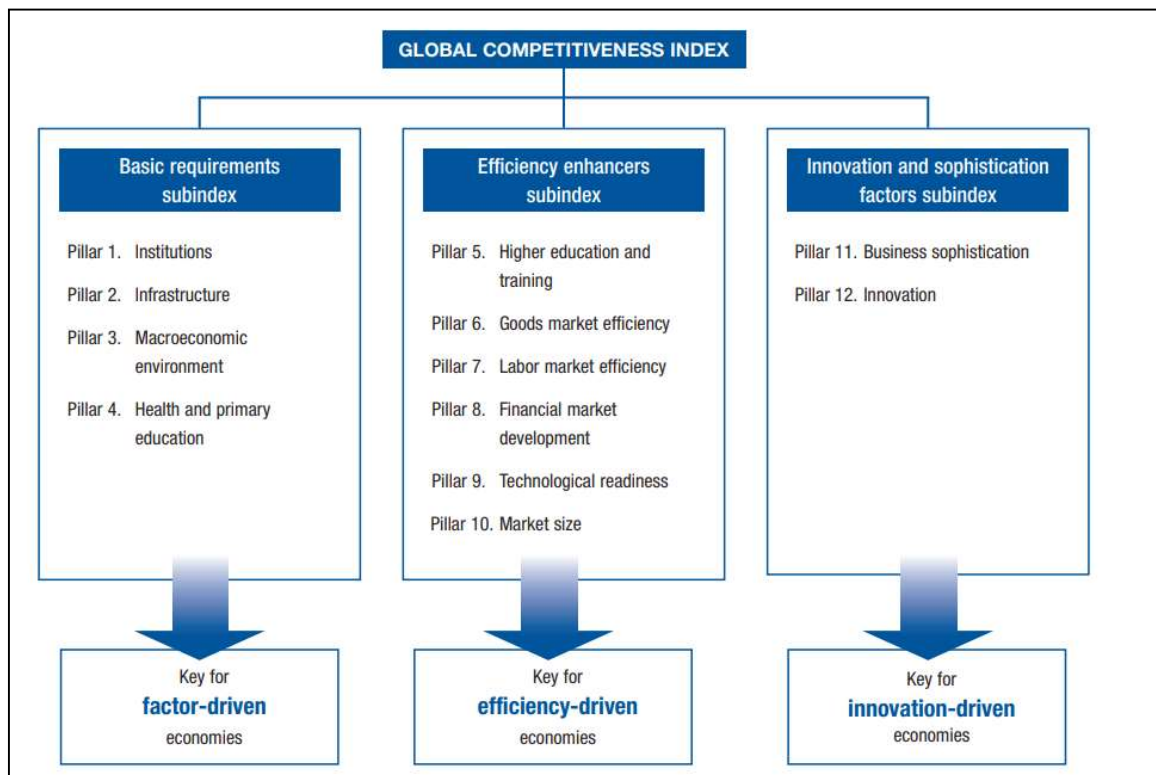
² World Economic Forum. 2017. *The Global Competitiveness Report 2017–2018*. <http://reports.weforum.org/global-competitiveness-index-2017-2018/>

³ See: http://www3.weforum.org/docs/GCR2017-2018/GCI_Dataset_2007-2017.xlsx

The twelve pillars of competitiveness are based on the following economic reasoning:

- 1) *Institutions, Infrastructure, Macroeconomic environment and Health and primary education (pillars 1 – 4)* – these are classical factors of production and basic preconditions for growth.
- 2) *Higher education and training, Goods market efficiency, Labour market efficiency, Financial market development, Technological readiness, Market size (pillars 5 – 10)* – these are aspects related to efficiency and transition from basic production to economy which incorporates more efficient production processes and increases product quality.
- 3) *Business sophistication and Innovation (pillars 11 and 12)* – these are aspects related to being able to innovate on a constant basis, and essentially preconditions for lasting economic growth.

Components of the Global Competitiveness index



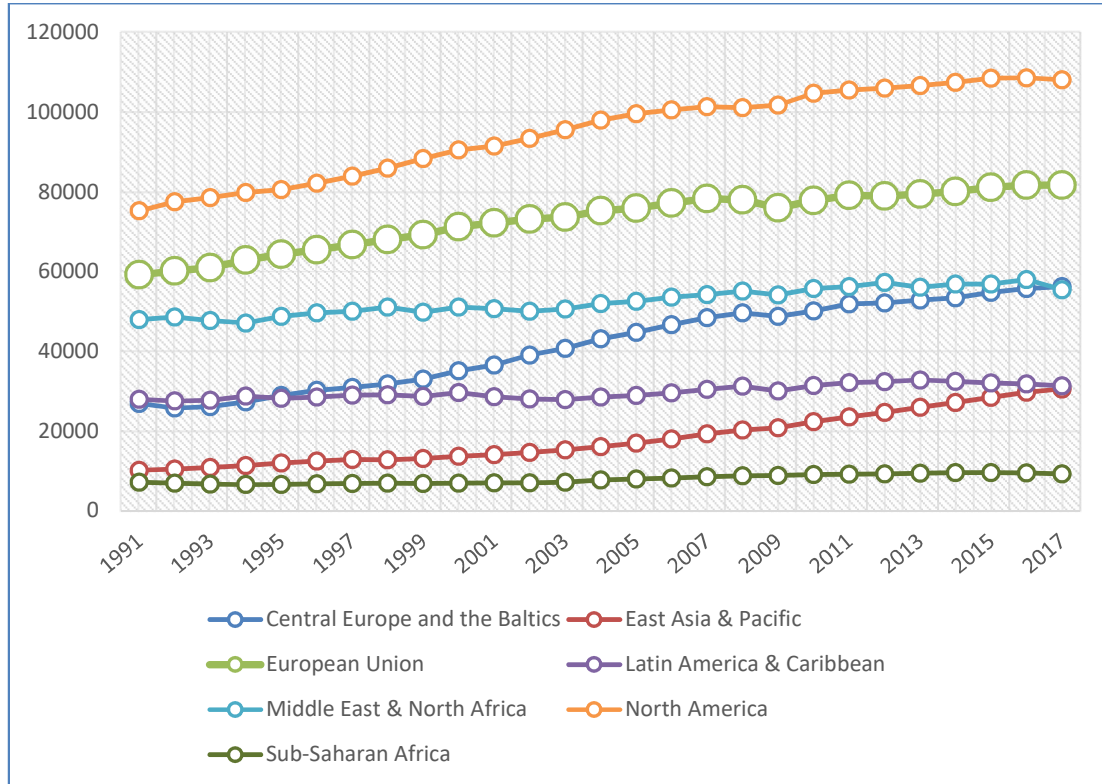
Source: Adopted from the Global Competitiveness Report 2017–2018.⁴

However, European Union is less competitive in comparison to selected developed countries. From the graph above it can be seen that European Union (which is counted together with North America in the Global Competitiveness Report) is losing to the United

⁴ World Economic Forum. 2017. The Global Competitiveness Report 2017–2018. <http://reports.weforum.org/global-competitiveness-index-2017-2018/>

States in almost every pillar, Canada and China is also ahead of the European Union in a number of pillars of competitiveness.

Labour productivity in world regions (GDP per person employed, constant 2011 PPP \$)



Source: Developed by the author, based on the analysis of the World Development Indicators database⁵

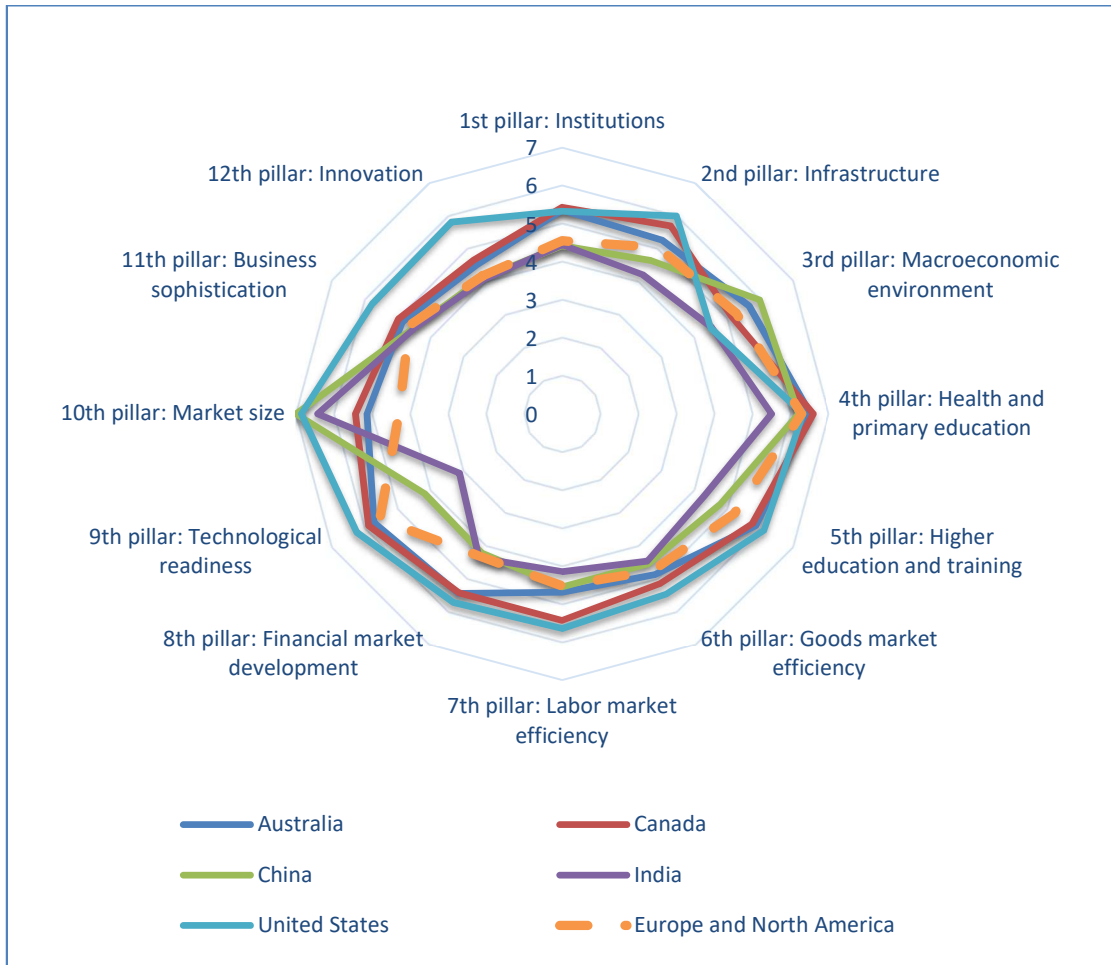
Labour productivity indicator (GDP per person employed) shows that the competitiveness gap between the United States and the European Union has widened in recent years and in terms of competitiveness the European Union is stagnating, for instance compared to East Asia which has massively improved its competitiveness in the recent decade. This has been analysed extensively in the annual European Competitiveness reports⁶, the European Investment Bank has summarized it as “Europe has experienced a two-decade long decline in competitiveness”, “With the advent of the digital revolution in the 1990s, productivity growth in the EU began to slip behind that in the US and other leading trading partners. This trend has undermined the comparative ability of European firms to compete and to provide rewarding jobs and a high standard

⁵ See: <https://data.worldbank.org/products/wdi>

⁶ See: http://ec.europa.eu/growth/content/european-competitiveness-report_en

of living”⁷. Analysis of global location trends in terms of foreign direct investment also shows that Europe is losing to other developed nations⁸.

Global competitiveness of selected countries (index values, 2017-2018)



Source: Developed by the author, based on the analysis of the complete database of the Global Competitiveness Reports⁹

In terms of any response to the EU competitiveness challenges, the range of options being mentioned are very wide as there are considerable number of factors which can influence productivity and growth. For instance, investment in the infrastructure is mentioned by the European Investment Bank: “In the EU, years of underinvestment, exacerbated by the crisis, mean that many infrastructure assets are reaching the end of their economic life,

⁷ European Investment Bank. 2016. *Restoring EU Competitiveness* <http://www.eib.org/infocentre/publications/all/restoring-eu-competitiveness.htm>

⁸ IBM Institute for Business Value. 2017. *Global Location Trends. 2017 Annual Report* <https://www-01.ibm.com/common/ssi/cgi-bin/ssialias?htmlfid=GBE03868USEN>

⁹ See: http://www3.weforum.org/docs/GCR2017-2018/GCI_Dataset_2007-2017.xlsx

creating an investment backlog”¹⁰. The need for investment in the research and innovation is pointed out as well: “The European share of large tech start-ups is below what is required to remain competitive with China and the US. Investment in R&D by the EU is below the OECD average and now lags behind major competitors, including China.”¹¹. The list is long and seemingly the European Union could improve in every pillar of the competitiveness.

However, as European Union has achieved high level of economic development and high degree of competitiveness, continuous increase of productivity and growth depend largely on innovation and research. Thus, key drivers of competitiveness in Europe are different from those in other regions of the world, especially in developing countries which need to work more on strengthening the key factors of production. Thus, the real breakthrough can only be achieved if investment is focused on the key drivers.

Key drivers of competitiveness in the European Union

11th pillar: Business sophistication	12th pillar: R&D Innovation
<ul style="list-style-type: none"> • Local supplier quantity 	<ul style="list-style-type: none"> • Capacity for innovation
<ul style="list-style-type: none"> • Local supplier quality 	<ul style="list-style-type: none"> • Quality of scientific research institutions
<ul style="list-style-type: none"> • State of cluster development 	<ul style="list-style-type: none"> • Company spending on R&D
<ul style="list-style-type: none"> • Nature of competitive advantage 	<ul style="list-style-type: none"> • University-industry collaboration in R&D
<ul style="list-style-type: none"> • Value chain breadth 	<ul style="list-style-type: none"> • Government procurement of advanced technology products
<ul style="list-style-type: none"> • Control of international distribution 	<ul style="list-style-type: none"> • Availability of scientists and engineers
<ul style="list-style-type: none"> • Production process sophistication 	<ul style="list-style-type: none"> • PCT patent applications*
<ul style="list-style-type: none"> • Extent of marketing 	<ul style="list-style-type: none"> • Intellectual property protection
<ul style="list-style-type: none"> • Willingness to delegate authority 	
<ul style="list-style-type: none"> • Reliance on professional management½ 	

Source: Adopted from the Global Competitiveness Report 2017–2018

Nevertheless, OECD has pointed out two important aspects in its recent report on productivity, looking at factors which narrow productivity gaps: “The first is the proximity to well-functioning cities and the links between the cities with their surrounding areas.

¹⁰ European Investment Bank. 2016. *Restoring EU Competitiveness* <http://www.eib.org/infocentre/publications/all/restoring-eu-competitiveness.htm>

¹¹ The European Round Table of Industrialists (ERT). 2017. *European Competitiveness and Industry. Benchmarking 2017*. Annual report. <http://ert-industry-benchmarking.eu/>



The second is a strong reliance of the regional economy on tradable sectors¹². This brings space as decisive element in the competitiveness debate, as well as discussion on which specific economic sectors can increase the competitiveness of countries and regions. OECD argues that so called “tradable sectors” which produce goods and services which can be traded internationally make a difference, the most influential being the manufacturing sector.

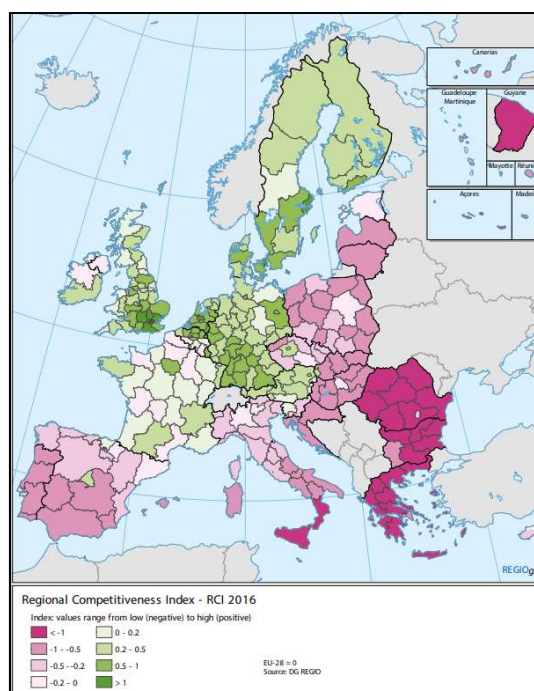
¹² OECD. 2018. *Productivity and Jobs in a Globalised World: (How) Can All Regions Benefit?*, OECD Publishing, Paris
<http://www.oecd.org/fr/echanges/productivity-and-jobs-in-a-globalised-world-9789264293137-en.htm>

2 Regional competitiveness

The fact that cities and their agglomerations can produce more growth (and thus be more productive) than other locations is a well-known fact which has been supported by evidence and research. For instance, OECD has analysed regional economic growth in Europe over the period from 1995 to 2010 and has found that regions, which contain large urban agglomerations, have been growing significantly faster than those that do not.¹³

The fact that space matters has prompted to also look at the competitiveness beyond national boundaries. The European Commission has already released three editions of Regional Competitiveness index. The methodology follows the same 12 pillar structure as established by the World Economic Forum, but with slight differences in selecting the indicators.

European Regional Competitiveness index (2016)



Source: Methodological report on European Regional Competitiveness index (2016)¹⁴

¹³ Ahrend, R. and A. Schumann. 2014. *Does Regional Economic Growth Depend on Proximity to Urban Centres?*, OECD Regional Development Working Papers, No. 2014/07, OECD Publishing, Paris, https://www.oecd-ilibrary.org/urban-rural-and-regional-development/does-regional-economic-growth-depend-on-proximity-to-urban-centres_5jz0t7fxh7wc-en

¹⁴ Paola Annoni, Lewis Dijkstra and Nadia Gargano. 2017. *The EU Regional Competitiveness Index 2016*. DG REGIO Working Paper No. 02/2017. http://ec.europa.eu/regional_policy/en/information/publications/working-papers/2017/the-eu-regional-competitiveness-index-2016

Two main findings can be pointed from the latest European Regional competitiveness index. Firstly, more competitive regions have higher GDP, which does not come as a surprise as there is strong link between productivity and growth. Secondly, capital regions tend to be the most competitive region in their country.¹⁵ A recent study examining the data behind the competitiveness index concluded that: “the group of more competitive regions expands over time by including regions from Central European countries while within peripheral regions a stable gap between regions where metropolitan areas are located and the others exists”.¹⁶ These findings indicate that there are considerable territorial differences in regional competitiveness. City competitiveness is another subdomain which is being explored extensively through annual “Global urban competitiveness report”¹⁷ and other research, for instance focusing on European cities¹⁸.

What are the factors that influence regional and territorial competitiveness? On the one hand the same factors which influence competitiveness of countries and world regions. On the other hand, specific territorial factors, like spatial governance, for instance, a recent OECD study concluded that: “city productivity increases with city size, but cities with fragmented governance structures tend to have lower levels of productivity. This effect is mitigated by the existence of a metropolitan governance body”¹⁹. A study using total factor productivity or in short TFP (another grand productivity and competitiveness indicator which focuses on economic output that is not accounted for by changes in the volume of inputs of capital and labor) finds that regional differences in Europe’s NUTS 2 regions are related to economic concentration, historical development paths of the regions and trust.²⁰ These findings point out that location is important factor in competitiveness and local development.

On the theoretical level a lot has been written on the conceptualization of regional competitiveness, journal of “Regional Studies” has even dedicated to it an entire issue²¹. A study for DG REGIO on the factors of regional competitiveness has managed to capture an essence of regional competitiveness from theoretical perspective, providing a well-

¹⁵ Paola Annoni, Lewis Dijkstra and Nadia Gargano. 2017. *The EU Regional Competitiveness Index 2016*. DG REGIO Working Paper No. 02/2017. http://ec.europa.eu/regional_policy/en/information/publications/working-papers/2017/the-eu-regional-competitiveness-index-2016

¹⁶ Aria, M., Gaeta, G.L. & Marani, U. 2018. *Similarities and Differences in Competitiveness Among European NUTS2 Regions: An Empirical Analysis Based on 2010–2013 Data*. Social Indicators Research. Online First article <https://link.springer.com/article/10.1007/s11205-018-1909-0>

¹⁷ Pengfei Ni, Marco Kamiya and Ruxi Ding. 2017. *Cities Network Along the Silk Road*.

The Global Urban Competitiveness Report 2017. Springer <https://link.springer.com/book/10.1007/978-981-10-4834-0>

¹⁸ Lucía Sáez, Iñaki Periañez, Iñaki Heras-Saizarbitoria. 2017. *Measuring urban competitiveness: ranking European large urban zones*. Journal of Place Management and Development, Vol. 10 Issue: 5, pp.479-496 <https://www.emeraldinsight.com/doi/pdfplus/10.1108/JPM-D-07-2017-0066>

¹⁹ Ahrend, R., et al. 2017. *What Makes Cities More Productive?: Agglomeration economies and the role of urban governance: Evidence from 5 OECD Countries*. OECD Productivity Working Papers, No. 6, OECD Publishing, Paris https://www.oecd-ilibrary.org/economics/what-makes-cities-more-productive_2ce4b893-en

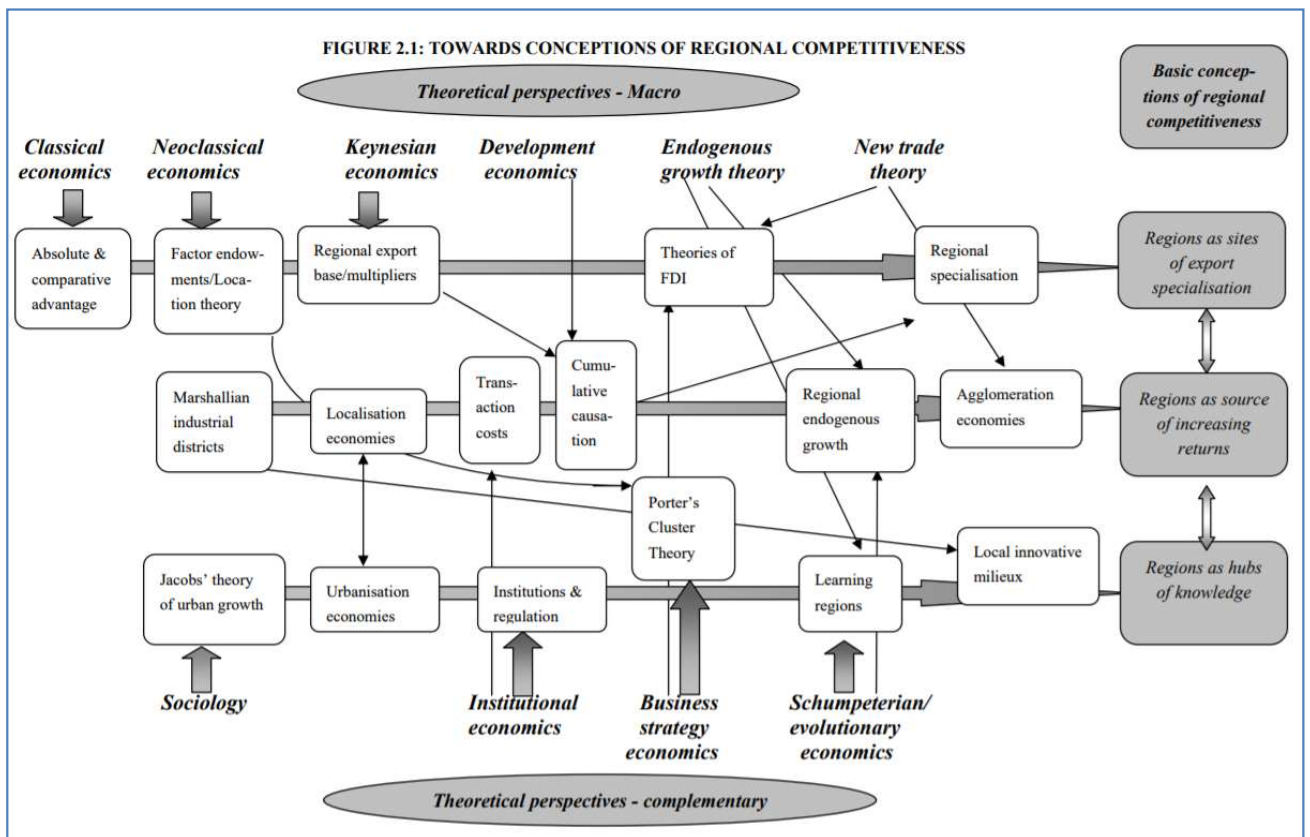
²⁰ Sjoerd Beugelsdijk, Mariko J. Klasing & Petros Milionis. 2018. *Regional economic development in Europe: the role of total factor productivity*, Regional Studies, 52:4, 461-476 <https://rsa.tandfonline.com/doi/abs/10.1080/00343404.2017.1334118#.WvQ-9liFOUJ>

²¹ Regional Studies, 38:9. 2004, See: <https://www.tandfonline.com/toc/cres20/38/9?nav=toCList>

structured overview²². Three basic conceptions of regional competitiveness are presented:

- *Regions as sites of export specialisation*; this notion is closely related to factor endowment and export-base economics.
- *Regions as source of increasing returns*, this notion belongs to the heart of economic geography and also the ‘new economic geography’
- *Regions as hubs of knowledge*, this notion extends the above concept to ‘softer’ factors, including sociological and institutional elements, and has also been labelled ‘new industrial geography’.

Conceptualization of regional competitiveness



Source: adopted from Cambridge Econometrics, ECORYS-NEI and Ronald L. Martin²²

The conceptual framework of regional competitiveness presents a wide variety of options on how to analyse the importance of a location. For the reasons of simplicity, it is useful to look at two management concepts which essentially capture the whole story: “comparative advantage” and “competitive advantage”.

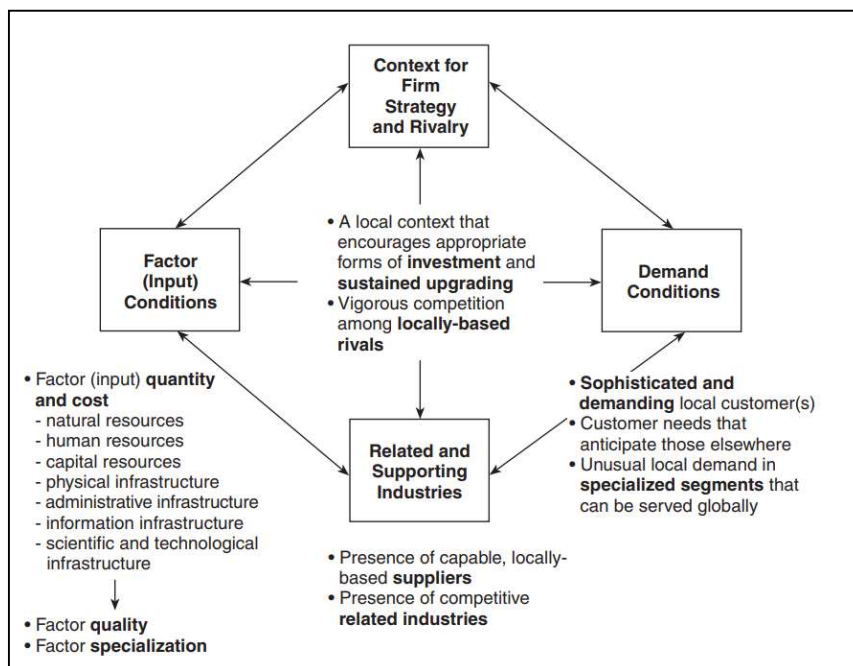
²² Cambridge Econometrics, ECORYS-NEI and Ronald L. Martin. 2003. *A Study on the Factors of Regional Competitiveness*. A draft final report for DG REGIO http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/3cr/competitiveness.pdf

3 Location and local economic development

In the context of competition, location has been perceived in two broad ways. On the one hand location and its natural endowments (like natural resources) can provide a “comparative advantage” for entrepreneurs. As Michael Porter has pointed out: “location choices and location effects are based on an input cost minimization framework in which the principal attributes of location were the cost of land, labor, capital, energy, and the like”²³. In this framework choice of location is seen as means of achieving comparative advantage in terms of minimizing production costs, consistent with the ideas of the very well-known economist David Ricardo.

Another way of looking at location is through a “competitive advantage”. This concept was developed by Michael Porter and through his landmark publications in 1990s has gained widespread recognition. Through his “diamond model” he argued that competitiveness of firms depends on the quality of business environment and it is more important *how* companies compete rather than calculating simple input factor costs of a location.²⁴

Sources of locational competitive advantage for firms (Diamond model)



²³ Michael E. Porter. 1994. *The Role of Location in Competition*, International Journal of the Economics of Business, vol.1 No.1, <https://www.tandfonline.com/doi/pdf/10.1080/758540496?needAccess=true>

²⁴ Michael E. Porter. 2000. *Location, Competition, and Economic Development: Local Clusters in a Global Economy*. Economic Development Quarterly. Vol 14, Issue 1, pp. 15 – 34, <http://journals.sagepub.com/doi/abs/10.1177/089124240001400105>

Source: Adopted by the author from Michael E. Porter²⁴

In this model location is seen beyond a place of providing factors for production, it is also a place which roots the companies in an ecosystem of supporting industries, local demand and local and regional government policies. In other words, location helps to produce similar products, but in a unique way, thus creating competitive advantage. Production clusters and economic concentration is one mayor outcome of this theory.

The Economist has put it very simply: “Competitive advantage is a function of either providing comparable buyer value more efficiently than competitors (low cost), or performing activities at comparable cost but in unique ways that create more buyer value than competitors and, hence, command a premium price (differentiation). You win either by being cheaper or by being different (which means being perceived by the customer as better or more relevant). There are no other ways.”²⁵

This simple framework of conceptualizing location as either source of “comparative advantage” or enabler of “competitive advantage” is rather a short recap of a broader theoretical debate on local economic development (LED) which encompasses various theoretical ideas and concepts on putting location in the center of economic analysis²⁶. LED does not have one common definition as many scholars look at it from various perspectives, the definition from the World Bank, however, captures the essence of the concept: “The purpose of local economic development (LED) is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation.”²⁷. In addition to that, perhaps three distinctive features of LED can be mentioned²⁸:

- Implicit or explicit emphasis on the engagement and participation of stakeholders from all sectors
- Local leadership and ownership
- The mobilization and sustainable exploitation of local resources

On an international level LED has gained a wide attention through the World Forum of Local Economic Development²⁹. OECD LEED³⁰ has decades-long experience in providing

²⁵The Economist. 2018. <https://www.economist.com/node/11869910>

²⁶ Tello, M. 2011. *From national to local economic development: theoretical issues*, CEPAL Review, vol. 2010/102, https://www.oecd-ilibrary.org/economic-and-social-development/from-national-to-local-economic-development-theoretical-issues_bf5d1be2-en

²⁷ Swinburn, Gwen; Goga, Soraya; Murphy, Fergus. 2006. *Local economic development: a primer developing and implementing local economic development strategies and action plans*. Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/763491468313739403/pdf/337690REVISED0ENGLISH0led1primer.pdf>

²⁸ Gordon L. Clark, Maryann P. Feldman, Meric S. Gertler, and Dariusz Wójcik (editors). 2018. *The New Oxford Handbook of Economic Geography*, Oxford University Press. <https://global.oup.com/academic/product/the-new-oxford-handbook-of-economic-geography-9780198755609?cc=lu&lang=en&>

²⁹ See: <http://ledworldforum.org/home-page/>

³⁰ See: <http://www.oecd.org/employment/leed/>

support to national and regional governments on LED, with Spatial Productivity Lab³¹ providing advise on productivity at local scale. The EU financed initiative “Mayors for Economic Growth”³² is yet another example of supporting economic development at the local level:

“Natural and geographical factors are not the main determinants of growth and development in modern economies: organization, know-how, leadership, education and innovation in a broad sense are the key factors that drive growth and development. Local economic development is about getting these conditions right locally, and clever and efficient municipalities can achieve this.”³³

There is no single answer on the “right” approach to local economic development and competitiveness as local conditions and natural endowments are different. But it is important to note that thinking on components of local development is evolving, for instance the exploration of the physical location and its advantages has to be accompanied with a larger conceptual thinking on the other competitiveness factors associated with the “location”.

Components of Local economic development

Component	Old concept	New concept
Locality	Physical location (near natural resources, transportation, markets) enhances economic options	A quality environment and strong community capacity multiply advantages for economic growth
Business and economic base	Export base industries and firms create jobs and stimulate increased local business	Clusters of competitive industries linked in a regional network of all types of firms create new growth and income
Employment resources	More firm create more jobs, even if many are minimum wage	Comprehensive skill development and technological innovation lead to quality jobs and higher wages
Community resources	Single-purpose organizations can enhance economic opportunities in the community	Collaborative partnership of many community groups are needed to establish a broad foundation for competitive industries

Source: Adopted from Leigh, Nancy G., and Edward J. Blakely³⁴

³¹ See: <http://www.oecd.org/cfe/leed/spl.htm>

³² See: <http://www.m4eg.eu/en/>

³³ Mayors for Economic Growth Secretariat. 2017. *Introduction to Mayors For Economic Growth (M4EG). General Principles and Approaches*, <http://www.m4eg.eu/media/1074/m4eg-concept-eng.pdf>

³⁴ Leigh, Nancy G., and Edward J. Blakely. 2017. *Planning Local Economic Development: Theory and Practice*. Sixth edition. SAGE Publications. <https://uk.sagepub.com/en-gb/eur/planning-local-economic-development/book244769#contents>

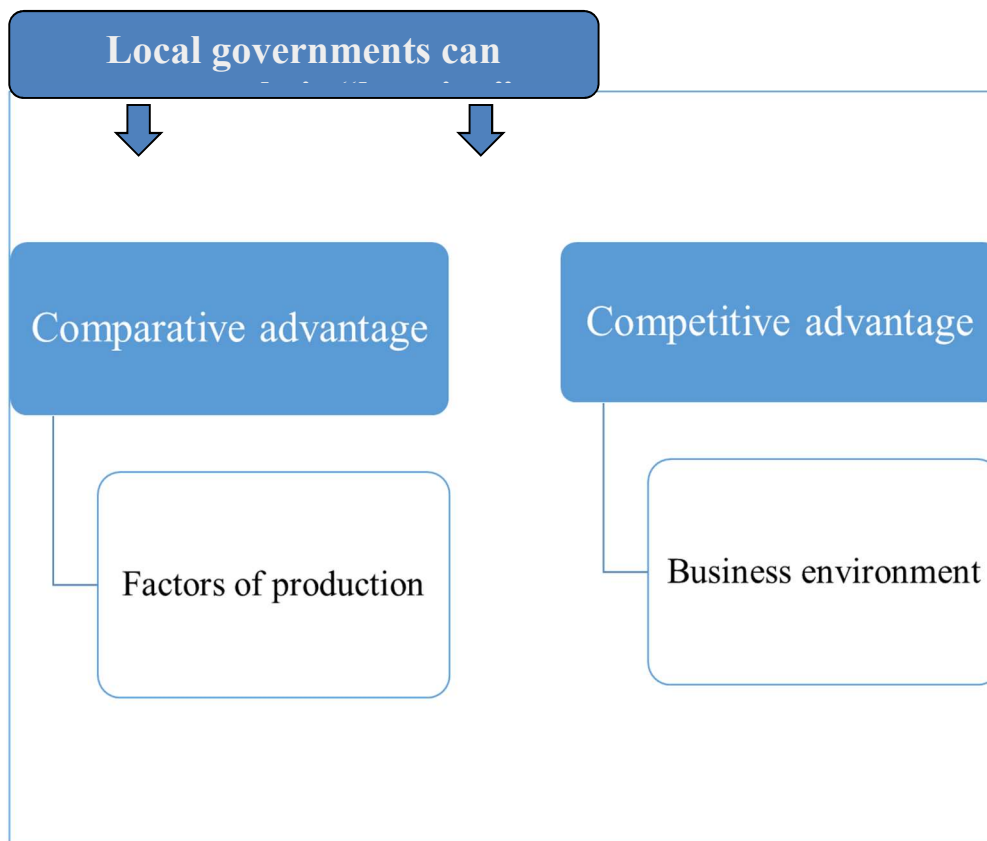
What could be the potential response from the local governments to address the competitiveness? The LED concept emphasizes that local governments play a critical role in fostering economic development. A recent research on Ireland, the UK, Belgium, New Zealand and the United States points out that: “there is strong rationale for broadly based systems of local government, with a wide range of functions and fiscal autonomy, to be the drivers of growth in their local areas”³⁵.

³⁵ Laura Shannon. 2018. *Local Economic Development. An overview of the economic development role of local authorities in selected jurisdictions*. Local Government Research Series. No.13. Institute of Public Administration.
https://www.ipa.ie/_fileupload/ResearchPapers/LocalEconomicDev_2018.pdf

4 Role of local municipalities in economic development

To make a link with the theoretical concepts elaborated in previous sections the author proposes to look at the role of municipalities through a simplified framework, where local governments can concentrate on two broad streams of work in order to promote their location as a “business location” (see the figure below). Firstly, advertising and exploiting the basic factors of production, like natural resources, infrastructure, labour, etc. This stream of work would emphasize the location as a source of “comparative advantage” for firms, in comparison to other locations. Here there is a need for a work on factors of production (quantity and quality) and creating preconditions for them to be cheaper. Secondly, through a support system which creates friendly and well-functioning business environment. This stream of work would emphasize the location as a source of “competitive advantage” for firms. In this case local governments can invest in business support system, cluster development and partnerships.

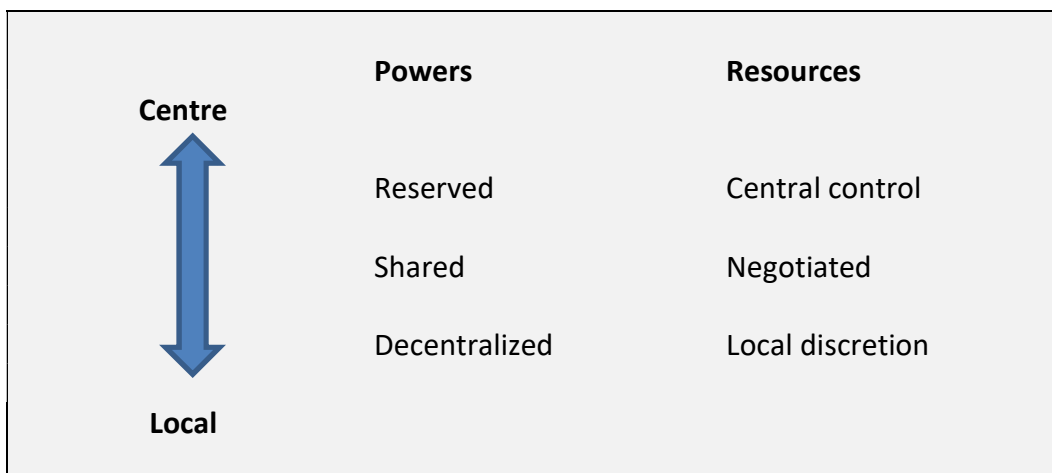
Role of local municipalities – supporting economic development and competitiveness



Source: Developed by the author

The ability of local governments to act depends on the overall governance structure and the level of decentralization. There are different models of administration and reforms underway³⁶, but as far as powers and resources are concerned which are vital for local economic development, it boils down to a very simple hierarchy (see the figure below).

Decentralisation of powers and resources between the central and local levels.



Source: Developed by the author, based on Andy Pike, David Marlow, Anja McCarthy, Peter O’Brien and John Tomaney³⁷

LED approach obviously requires some sort of decentralization of powers and resources. In practical terms, a lot of guidance materials have been produced on how a decentralized local economic development could work from the perspective of local institutional setup and support mechanisms. Some providing a more general overview³⁸ and other focusing on specific tools, for instance role of local development agencies³⁹.

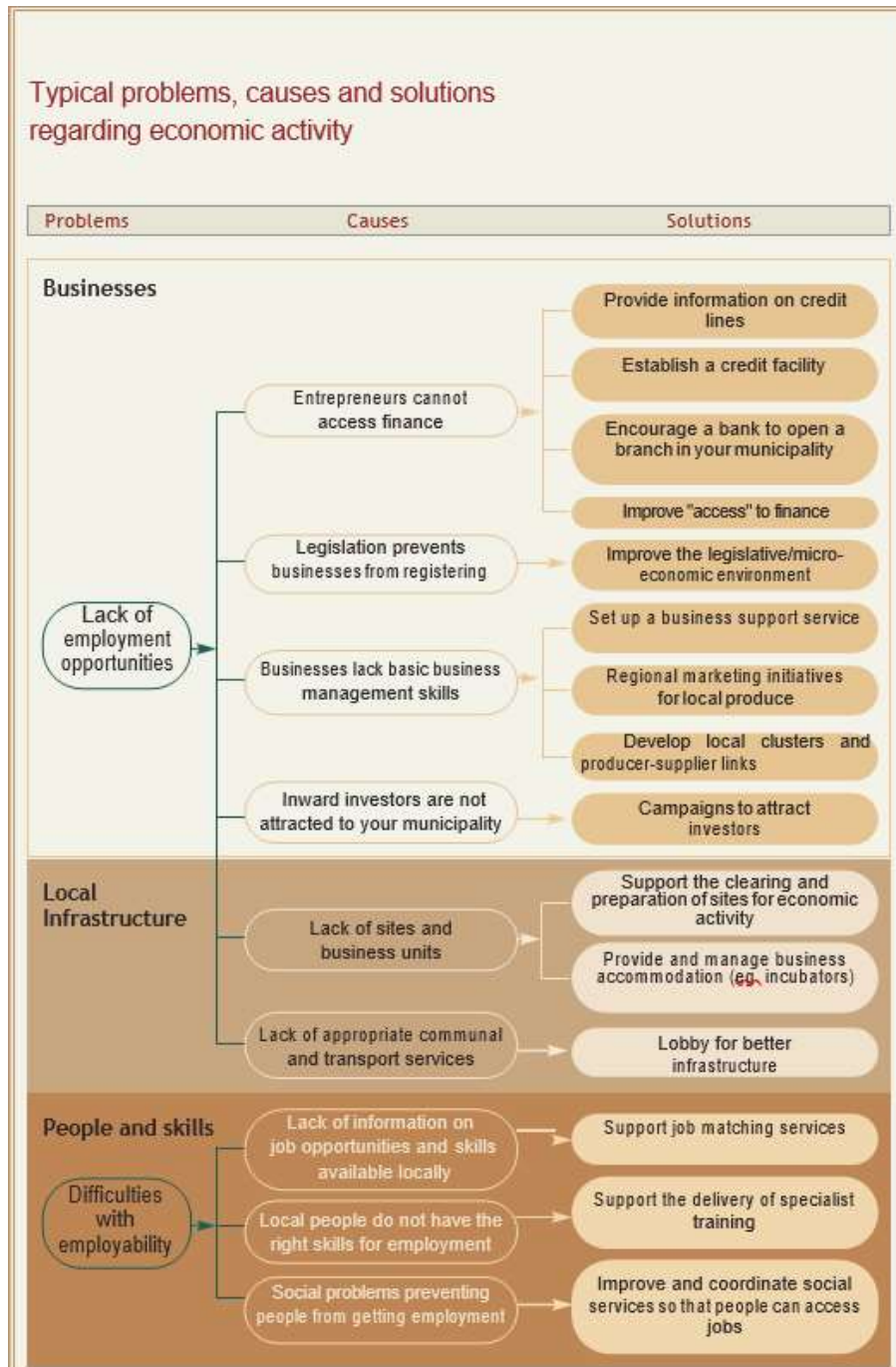
³⁶ OECD. 2017. *Multi-level Governance Reforms: Overview of OECD Country Experiences*. OECD Publishing, Paris. <http://www.oecd.org/regional/regional-policy/multi-level-governance-reforms-9789264272866-en.htm>

³⁷ Andy Pike, David Marlow, Anja McCarthy, Peter O’Brien and John Tomaney. 2015. *Local institutions and local economic development: the Local Enterprise Partnerships in England, 2010–*. Cambridge Journal of Regions, Economy and Society, Volume 8, Issue 2, Pages 185–204, <https://academic.oup.com/cjres/article/8/2/185/332649>

³⁸ UCLG. 2016. *The Role of Local Governments and Territorial Economic Development*. UCLG Policy Paper, <http://gsef-net.org/node/24748>

³⁹ Clark, G., J. Huxley and D. Mountford. 2010. *Organising Local Economic Development: The Role of Development Agencies and Companies*, OECD Publishing, Paris <http://www.oecd.org/publications/organising-local-economic-development-9789264083530-en.htm>

Possible actions of a local municipality to promote local economic development



Source: Adopted from the ESI guide on LED⁴⁰

The lengthy menu of possible local initiatives could be classified into five broad categories⁴¹:

- financial tools
- property-related tools
- marketing
- infrastructure development
- providing technical and information assistance.

It is worth considering some of them in more detail.

4.1 Financial tools

Depending on the level of fiscal autonomy, local governments can use reduced tax rates in order to attract more business, for instance in relation to property tax. However, it is a very conventional measure, which can be supplemented with a more diversified approach, for instance loan guarantees, municipal bonds and public private partnerships which allow for cost sharing.⁴²

Local governments also have access to European funding which could be used for investments in infrastructure and polycentric development which in turn promote local economic development as well. A recent policy brief from ESPON has looked into more details of the use of financial tools by local authorities⁴³. Perhaps it is also worth mentioning that European Investment Bank together with the DG REGIO has established a new advisory platform URBIS to help cities to attract investments. URBIS will consist of the following three modules, implemented in parallel⁴⁴:

- Increased awareness raising of existing instruments, programmes, services;
- Tailor-made technical and financial advice to cities;
- Exploring innovative financing approaches for city investments

4.2 Property-related tools and infrastructure development

Local government owned property can be one of the key resources to promote local economy, however, the ability to use the property depends on national legislation and the level of decentralization. In order to support firms, local authorities may rent out their

⁴⁰ See: https://www.esiweb.org/pdf/bridges/bosnia/QIF_QuickstartVol2.pdf

⁴¹ Sona Capkova (editor). 2005. *Local Government and Economic Development*. Open Society Institute, http://www.euroreg.uw.edu.pl/dane/web_euroreg_publications_files/515/herbst_dziemianowicz_2005_territorial_self_government.pdf

⁴² Clark, G. and D. Mountford (eds.). 2007. *Investment Strategies and Financial Tools for Local Development*, OECD Publishing Paris, https://www.oecd-ilibrary.org/urban-rural-and-regional-development/investment-strategies-and-financial-tools-for-local-development_9789264039865-en

⁴³ ESPON EGTC. 2018. *Governance, planning and financial tools in support of polycentric development*. Policy Brief, <https://www.espon.eu/polycentric>

⁴⁴ See: <http://eah.eib.org/about/initiative-urbis.htm>

property and set rents at lower than market rates or devise payments packages that lower costs.

A popular approach is to develop industrial parks, create business incubators or create special economic zones (SEZ) in order to attract firms and provide them with an infrastructure or conditions which facilitate business expansion and further development. Thus, new land acquisition could also be a tactic to support this approach.

However, brownfield development and revitalization of degraded territories can be alternative to acquisition of new properties. Land regeneration can increase the opportunities for business development and it can be a long-term solution for land management which can bring economic benefits. Success stories across Europe have been well documented, as well as the role local municipalities have played in the process⁴⁵. It can also be seen as an analogy with training unemployed people – new skills can bring them back to the labour market, similarly a piece of land undergone regeneration can be a valuable source of production factors.

⁴⁵ Paya Perez A. & Pelaez Sanchez S. 2017. *European achievements in soil remediation and brownfield redevelopment*, Joint Research Center, <https://ec.europa.eu/jrc/en/publication/european-achievements-soil-remediation-and-brownfield-redevelopment>

5 Conclusions

The European Union is losing in competitiveness to the US and other economically advanced regions and that inevitably poses a risk for capital and labor migration. Labour productivity indicator (GDP per person employed) shows that the competitiveness gap between the United States and the European Union has widened in recent years and in terms of competitiveness the European Union is stagnating, for instance compared to East Asia which has massively improved its competitiveness in the recent decade.

The fact that cities and their agglomerations can produce more growth (and thus be more productive) than other locations is a well-known fact which has been supported by evidence and research. In the context of competition, location has been perceived in two broad ways. On the one hand location and its natural endowments (like natural resources) can provide a “comparative advantage” for entrepreneurs. As Michael Porter has pointed out: “location choices and location effects are based on an input cost minimization framework in which the principal attributes of location were the cost of land, labor, capital, energy, and the like”⁴⁶. In this framework choice of location is seen as means of achieving comparative advantage in terms of minimizing production costs, consistent with the ideas of the very well-known economist David Ricardo.

There is no single answer on the “right” approach to local economic development and competitiveness as local conditions and natural endowments are different. But it is important to note that thinking on components of local development is evolving, for instance the exploration of the physical location and its advantages has to be accompanied with a larger conceptual thinking on the other competitiveness factors associated with the “location”.

To make a link with the theoretical concepts, it is important to look at the role of municipalities through a simplified framework, where local governments can concentrate on two broad streams of work in order to promote their location as a “business location. Firstly, advertising and exploiting the basic factors of production, like natural resources, infrastructure, labour, etc. This stream of work would emphasize the location as a source of “comparative advantage” for firms, in comparison to other locations. Here there is a need for a work on factors of production (quantity and quality) and creating preconditions for them to be cheaper. Secondly, through a support system which creates friendly and well-functioning business environment. This stream of work would emphasize the location as a source of “competitive advantage” for firms. In this case local governments can invest in business support system, cluster development and partnerships

There is an obvious challenge for Europe to regain a status of being a competitive “business location”. In late 2017 the European Fund for Strategic Investments initiative

⁴⁶ Michael E. Porter. 1994. *The Role of Location in Competition*, International Journal of the Economics of Business, vol.1 No.1, <https://www.tandfonline.com/doi/pdf/10.1080/758540496?needAccess=true>

was extended and European Investment Bank is planning to make available EUR 500 billion to the real economy by 2020.⁴⁷ This comes as a clear answer for boosting the European competitiveness in the post-crisis period. Likewise, on 2 May 2018 the European Commission published the Multiannual Financial Framework for 2021-2027⁴⁸ which emphasizes that the transformed EU budget serve as a response to many of the challenges Europe is facing, including growth and competitiveness.

Nevertheless, territories will and can play a crucial role in overcoming competitiveness challenge, as they provide physical factors of production and, as argued in this paper, a playground for companies to achieve competitive advantage. Thus, territories and especially cities can overcome the competitiveness challenge by:

- Being hubs of innovation, skills, technologies and industry clusters. *Integrated investment in business environment is a key for success.*
- Increasing the role of local governments in mobilization and sustainable exploitation of local resources (like property), and combining it with support for job creation.

⁴⁷ European Investment Bank. 2018. *The European Fund for Strategic Investments: From crisis response to lasting impact*, <http://www.eib.org/infocentre/publications/all/investment-plan-for-europe.htm>

⁴⁸ See: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2018%3A321%3AFIN>