What Can Cities Do to Enhance Competitiveness?
Local Policies and Actions for Innovation

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Policies on municipal actions to promote local competitiveness have typically focused in three areas:

- Providing infrastructure (transportation, telecommunications, water & sanitation, etc.);
- Improving public services (education, health, public security, housing, etc.);
- Reducing the cost of doing business by simplifying regulations (making it easier to open businesses, pay taxes, hire workers, acquire land, and exit from businesses).

Recent theoretical advances and successful cases suggest that, for the local economy to be competitive in a globalized environment, simply reducing the cost of doing business, while critical, is not sufficient. Leading cities are also taking actions aimed at adding value to local businesses, by creating an environment that creates incentives for local firms to innovate and learn from each other, to upgrade the level of competitiveness of the overall local economy. A recent paper1 explores these issues.

The Starting Point: Understand the Local Economy and the Market

Local authorities’ interventions to boost competitiveness should start with a clear understanding of the market and the main drivers of city economic growth. It is critical to bear in mind that it is the local private firms that determine competitiveness, and local government intervention should merely complement the market and take effect only in situations where market failure is present. Such scenarios include government provision of public goods, mitigation of negative externalities such as environmental pollution and traffic congestion, promotion of positive externalities such as knowledge sharing, and addressing coordination failures. It is important, however, to recognize the risks associated with these types of intervention. If they are of the wrong type or scale, or implemented poorly, the possibility of failure is significant.

In practical terms, the “cluster approach” (spearheaded by Michael Porter) provides one pragmatic course of action for local government action plans for competitiveness. The cluster approach offers a practical framework for policy makers to organize public and private actions (social capital) centered on competitive market forces. The essence of the cluster approach is not “cluster building,” or to create competitive clusters that are currently non-existent in a city, but to foster innovation and upgrading among the members of the existing or emerging clusters in the local economy. Neither the cluster approach, nor any one measure, is a panacea for city economic competitiveness. There are no guarantees for success, and the risk of

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government endeavors in economic development is often higher than that of other types of government activities. Forces outside local government control are often more important than policy interventions. It is therefore important to understand the key drivers of local growth, both internal and external, and to maintain a cautious approach towards government interventions.

Facilitating Private Sector Collaborations for Collective Efficiency

A critical premise of the cluster approach is that businesses compete not as isolated units but rather within complex webs of interdependence. The cluster concept involves the following elements: (a) leading firms that export products and services outside the region; (b) a supply network which provides inputs to these leading firms; and (c) the business environment and economic foundations, including such elements as human resources, technology, financial capital, and infrastructure. The strength (or competitiveness) of the location is determined by the presence of this sophisticated, closely integrated network of private, public and semi-public entities. Moreover, a competitive cluster is a network of such magnitude that its members continuously learn, innovate, and improve, resulting in continual upgrading of quality. The sophistication of such a web and its ability for continued renewal and innovation is, in the end, the source of sustained competitiveness for a locality.

Local authorities can help facilitate collaborative actions among private sector players that can lead to “collective efficiency,” or the competitive advantage derived from external economies and the conscious pursuit of joint actions. By strengthening networking and associative behavior of the local private enterprises, government can build relational assets, or “social capital,” of a cluster and provide local collective goods.

The institutional forms of such relational assets, or “Institution for Collaboration,” include trade associations, entrepreneur networks, standard-setting agencies, quality centers, and technology networks. Cluster associations and alliances play a critical role; successful examples often have the following features: government recognition of cluster identity; corporate status; strong business leadership; active recruitment of members; clear mission, goals, and plan; dedicated staff; interactive Web portal; structure for membership fees or plan for revenue generation; real services; and frequent professional and social activities.

The process of cluster organization is important and should be a concurrent process of diagnosis, group process, and leadership actions, which constitutes a system of continual feedback among each of the elements. This indicates an action-oriented process, where the cluster members desire and expect quick results and actionable items, as opposed to waiting for prolonged diagnosis and planning without intermediate results (see Figure 1).

Other important aspects of the cluster process are the roles of cluster leadership and facilitators. Strong leadership, by either a private or public sector leader, is crucial for cluster success. Moreover, an experienced cluster facilitator can be instrumental in determining the quality and effectiveness of the group engagement process. The facilitator should have the capacity to engage different actors, catalyze consensus, and be action-oriented. At the beginning of the cluster process, it is often useful to have professional support and training in facilitation.

Figure 1: The Cluster Working Group Process
Examples of Specific Actions to Enhance Competitiveness

In pursuing competitiveness, each city must search and formulate a unique set of strategies and actions that are suitable for its own situation and differentiated from other cities. There is no single action that is applicable to all cities. In fact, the most important challenge is to propose a unique value proposition and formulate a strategy that differentiates the city from the rest. Nevertheless, certain actions have been used by many cities. These include:

- **Joint marketing and investment and export promotion** - supporting activities that expand the demand for local products and services, and attract external investments (foreign or domestic) (see Box 1).

- **Value chain integration** - An important feature of today’s global economy is the presence of global value chains, where the R&D, design, manufacturing of different components, and marketing are undertaken in a highly integrated fashion but from different locations (cities in different countries) and by different firms. One way to quickly catch up in productivity is to enter into such a value chain, often starting with a less lucrative segment of the chain and then moving on to higher value-added ones. Value chain analysis helps the policymaker to identify the bottlenecks in the productive chain and to determine which bottlenecks deserve priority attention of government, which can be expected to be resolved by the private sector and which require public-private partnership.

- **Entrepreneurship development and support to SMEs** - significant scope exists for public policies and actions, to address market failures that limit supply of finance, business development services and training, industrial real estate, information problems faced by start-up enterprises, and non-competitive market structures dominated by one or a small number of firms.

- **Support research and development** - by expanding well-focused, applicable R&D expenditure, motivating university-industry linkage, supporting targeted business incubators, and attracting talents.

- **Skills upgrading** - Two of the highest priorities of almost any cluster’s plan should be the availability of experienced and skilled labor, and the customized and specialized education and training that produce, upgrade, and deepen skills and knowledge.

- **Economic zones** - offers a combination of benefits: by facilitating the land assembly process for industrial development; providing specialized infrastructure; facilitating inter-firm learning, exchanges and collaboration through physical co-locating of firms; and creating a “cluster” identity.

**Box 1 - An example of joint marketing and investment and export promotion.**

The Ceará Footwear Technology Trade Fair (FETECC) is Brazil’s second largest footwear technology trade fair and its impact is felt beyond commercial promotion. Although it was devised mainly as a marketing tool to promote cluster sales, FETECC has served as a learning opportunity for local firms, as it brings into the region new technologies, inputs and machinery, which most local producers would otherwise not have a chance to become familiar with. As a specialized trade fair, FETECC brings together suppliers, buyers, local producers and support agencies. As one large footwear entrepreneur in the region expressed: “FETECC is one of the best opportunities to do business during the year, and is an essential tool for sales promotion, marketing and networking initiatives. The event allows participants to be in close contact with clients and to reach visibility on the local and national scene.” FETECC numbers are remarkable. During its first year (1998), a total of 54 firms participated in the event, which resulted in sales of approximately US$6 million. Ten years later, nearly 120 firms took part in the event (FETECC 2007), including some operating in footwear business in other states of Brazil, selected countries of Latin America, and China. In that year, reported sales reached US$77 million and the number of visitors reached 12,000.

Source: Monica Amorim. Cariri Footwear Cluster Case Study.

- **Specialized infrastructure or service** - High quality infrastructure, such as transport, power, water and telecommunications, are in themselves important for the local economy. In addition, depending on the unique local competitive advantage, it may be important to enhance certain types of specialized infrastructure which may play an instrumental role for the particular clusters or strategies that a city pursues.

- **Community economic development** - In advancing the competitiveness agenda, municipal officials also need to look for solutions to address livelihood and job needs of their low-income communities. In Brazil, many of these communities are also informal settlements. While national, state, and municipal governments have been actively engaging in slum-upgrading activities to improve services in these neighborhoods, economic development support efforts have thus far been limited. Some of the models used for community economic development in distressed areas in US and Europe, often based on nurturing and leveraging local entrepreneurship
Building Institutions and Capacity for Local Competitiveness

The task of promoting city competitiveness poses severe institutional challenges to local authorities, in a number of areas:

• The need to coordinate the efforts of the different departments within a municipal authority, as often government services are dispersed across different departments, making it difficult for businesses to access.

• The need to involve and ensure strong commitment of a large number of stakeholders, particularly the private sector.

• The need to introduce business know-how and sometimes even to take some informed business risks, which would require a different set of competencies and skills than the usual bureaucracies;

• The need, often times, to coordinate the efforts in a metropolitan region that includes a number of municipalities, as well as the state and national government.

A number of different models for building institutions and capacity have been utilized across countries, ranging in nature from public to semi-public to private. The specific approach each authority takes will depend on the local situation and should be adapted accordingly. Whatever the institutional structure developed, however, there is also the issue of staff competency, as the requirements for economic development are different from the usual public sector skills. Recognizing this, local authorities proceed with caution in recruiting staff for Local Economic Development agencies, seeking people with business experience and expertise in dealing with the private sector. Partnership with the private sector becomes important, in terms of bringing expertise and discipline.

Moreover, the type and level of engagement by the local authorities in competitiveness enhancement measures need to be matched by local capacity. Some types of interventions entail greater risks, including business and market risks, than others. It is therefore important to ensure sufficient capacity to analyze, assess, and prepare for the risks involved in the interventions.

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