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

Ming Zhang

All city leaders around world often ask: “What can be done to enhance my city’s economic competitiveness?” The recommended policies on municipal actions to promote local competitiveness have typically focused on three areas:

Providing infrastructure, such as transportation, telecommunications, water, and sanitation

Improving public services, including education, health, public security, and housing

Reducing the cost of doing business through simplifying regulations, making it easier to open businesses, pay taxes, hire workers, acquire land, and exit from businesses.

These three broad areas of action are critical, especially in countries where infrastructure and bureaucracy have been identified as among the top constraints to economic competitiveness. However, theoretical advances and successful examples suggest that these three areas of action alone are not sufficient. To be competitive globally, it is not enough to simply offer lower cost, or even superb infrastructure. Knowledge and innovation, which can be significantly enhanced by positive spillover effects among private firms and other players in the local economy, provide opportunities for a broader scope of local interventions. A more proactive role for

local government may be warranted for cities to become and stay competitive in a global environment characterized by ever-increasing competitive pressures. This paper focuses on possible courses of actions in this area.

This paper tries to highlight a range of possible local government actions for policy makers in promoting local economic competitiveness. Going beyond the well-covered areas of infrastructure, services, and business cost, the paper focuses on policies to promote knowledge and innovation in the local economy for competitiveness, drawing on a wide range of international and Brazilian experiences taken from different sources.

The key message of this paper is that for the local economy to be competitive in a globalized environment, simply reducing the cost of doing business—through providing high-quality infrastructure and public services and lowering business transactions costs—while critical, is not sufficient. Leading cities are also taking action to add value to local businesses by creating an environment that incentivizes local firms to innovate and learn from each other, and so upgrade the level of competitiveness of the overall local economy.

1. The Starting Point: Understanding the Market and the Local Economy

Local governments' interventions to boost competitiveness should start with a clear understanding of the market and the main drivers of city economic growth. It is critical for local policy makers to bear in mind that, in most cases, it is the local private firms that determine competitiveness, and local government intervention

should merely complement the market and take effect only 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 also important, however, for local policy makers to recognize the risks associated with an intention to correct market failures. As the planned interventions may be of the wrong type or scale, or implemented poorly with inadequate competence, the possibility of public interventions failing is great.

How do local governments acquire a good understanding of the driving forces of the local economy and the market? Both quantitative and qualitative methods may be used.[i] Quantitatively, local governments may collect and analyze information about local economic conditions to be used in decision making (Cities Alliance 2007). In Brazil, for example, a significant amount of data is available at the municipal level. Figure 1, which plots sector importance against growth with employment data from the Annual Records of Social Information, can be used to detect the critical local economic clusters in a city. Sector importance is measured with a "location quotient," which ranges between 0 and 1. The figure will help a city identify important and emerging clusters.

Qualitative methods are essential to supplement the results of quantitative analyses and provide insight into the local economies not captured by the existing data collection system. These methods essentially entail structured involvement with the private sector (both locally and firms outside the region with local business

linkages) through measures such as consultations, focus group meetings, surveys, and interviews.

In practical terms, the "cluster approach" (spearheaded by Porter [2000]) offers a pragmatic course of action for local government action plans for competitiveness. While there are debates about the concept and theory of the cluster approach (Martin and Sunley 2003), we believe that many of the policy recommendations from the cluster approach, such as the emphasis on private sector networking, regulatory environment, and constant learning, are consistent with recent theoretical and empirical advances. 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 creating competitive clusters that are currently nonexistent in a city,[ii] but fostering innovation and upgrading among the members of the existing or emerging clusters in the local economy.

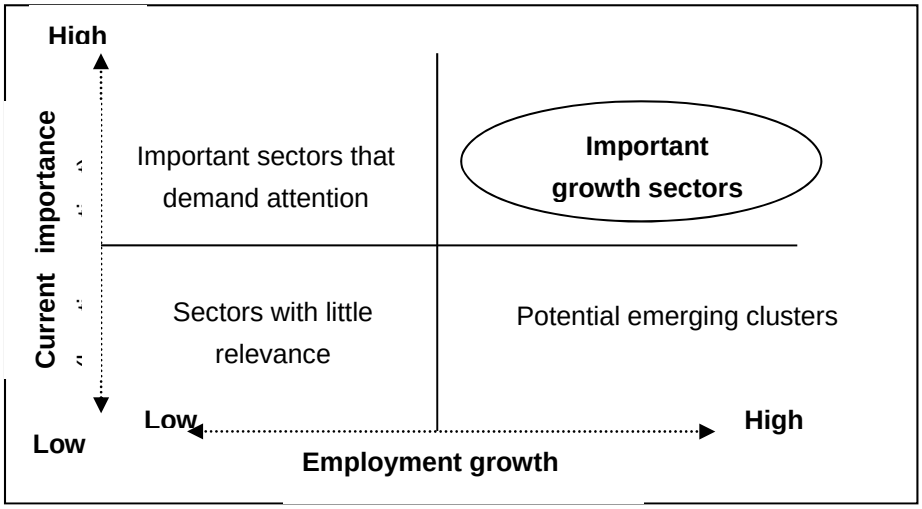

Figure 8.1 Detecting Local Economic Clusters:

Using Location Quotient and Employment Growth

Neither the cluster approach, nor any one measure, is a panacea for city economic competitiveness. There are no guarantees of success, and the risk of government endeavors in economic development is often higher than among 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 toward government interventions.

2. 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 that 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.

Clusters can be formed "naturally" without much government support (for example the Napa Valley wine cluster). In other cases, the formation of competitive clusters may be facilitated or accelerated through government intervention. The essence of the cluster approach is not to create new clusters, although successful cases of cluster building exist, but to promote and exploit synergies, or to exploit interdependencies to leverage innovation. The cluster concept offers "a powerful

framework for companies to organize, work together, and work with government to meet their needs and promote their interests" (Waits 2000).

A key task is to facilitate collaborative actions among private sector players that can lead to "collective efficiency," or the competitive advantage derived from external economies and the deliberate pursuit of joint actions (Schmitz and Nadvi 1999). For this purpose, it is important for local governments to strengthen networking and associative behavior of the local private enterprises (National Governors Association 2002). The relational assets (or "social capital") of a cluster depend on trust as well as on the frequency and depth of personal exchanges. To build a cluster is essentially to build relational assets and provide local collective goods.

The institutional forms of such relational assets, or "institutions for collaboration" (Porter 2000), 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; an interactive Web portal; structure for membership fees or plan for revenue generation; real services; and frequent professional and social activities (National Governors Association 2002).

Such private networks can engage in a wide variety of activities to strengthen collaboration. Organized cluster networks in Colorado, United States, for example, had the following main tasks (Waits 2000):

Cataloging the key components of the cluster and mapping interrelationships among firms

Articulating an achievable vision of what the cluster can become over the next 10 to 20 years

Identifying opportunities for growing the cluster in the desired direction by expanding existing companies, starting new companies, and attracting outside companies

Identifying opportunities for more synergy within the cluster

Identifying needs for specific economic foundations and proposed strategies.

There is no single formula or model that applies to the organization and activities of groups. The specific activities of clusters need to be conditioned on the nature of the cluster and the current status of group activities. In the case of Colorado, examples of group activities include:

Co-informing: Identify cluster members and impacts, promote a heightened awareness of the industry, and improve communications among firms in the cluster

Co-learning: Run educational and training programs

Co-marketing: Carry out collective activities that promote the cluster's products or services abroad or domestically (for example, trade missions, trade shows, and advertisements)

Co-purchasing: Strengthen buyer-supplier linkages within the cluster or jointly buy equipment that firms could otherwise not afford

Co-producing: Form alliances to make a product together or conduct research and development (R&D) together

Co-building economic foundations: Launch collective activities to build stronger educational, financial, and government institutions that enable firms to compete better.

Different types of clusters demonstrate different types of “collective efficiency needs.” In a review of clusters in Latin America, Altenburg and Meyer-Stamer (1999) classify three types of “common” clusters: survival clusters of micro and small-scale enterprises; more advanced and differentiated mass production clusters; and clusters of transnational corporations. They propose the types of policies useful for each type of cluster, which are summarized in table 8.1.

Table 8.1 Different Policies for Different Cluster Types

Cluster type	Characteristics	Policies
Survival clusters of micro and small-scale enterprises	Most frequent type of cluster, they produce low-quality consumer goods for local markets, mainly in activities where barriers to entry are low. Many clusters are informal, and most need support.	Mixing general SME support and specific cluster policies with emphasis on promoting cooperation among SMEs by: ncouraging the establishment of a local stakeholder dialogue to identify economically viable projects of collective action roviding subsidies for groups of SMEs for joint activities, such as market surveys, feasibility studies, or participation in trade missions and fairs ocusing on brokerage (mediation among firms) to build trust and identify common interests.
More advanced and differentiated mass production clusters	Production is mostly restricted to standardized consumer goods for mass markets, usually with little innovation and a high	Stimulating firms to go beyond incremental adjustment efforts by: hanging the role of business associations so as to organize collective action for self-help and articulate their demand through political actors

	level of vertical integration. They often face “sandwich” situations, that is, competition from both the bottom (cost) and the top (innovation).	rofessionalizing business associations nhancing local environment for private business through close consultation, removing unnecessary regulation, and improved bureaucratic efficiency romoting intensified interfirm cooperation in fields such as environment protection, measurement and testing, education and basic vocational training, technology development, design, and marketing roviding information and advisory services (such as an international trade center) raining .&D and technology development.
Clusters of transnational corporations	Mostly dominated by large branch plants of world-class manufacturers; typically few linkages with domestic SMEs and institutions, therefore	Attracting additional FDI to deepen local production system, by: ˈsing selective promotion abroad and investment by government in dynamic locational advantages, such as a specialized workforce or R&D facilities ncouraging local firms to upgrade their

	low degree of technological spillovers. Often fail to develop dynamic local entrepreneurship in knowledge-intensive areas.	technological capacities to become suppliers for the transnational cluster, for example, subcontracting exchange schemes that matchmake supply and demand, even with specific support for potential suppliers Making conscientious efforts to transfer technology to local firms.

Source: Author's summary based on Altenburg and Meyer-Stamer (1999).

Note: SME = small and microenterprise; FDI = foreign direct investment.

The process of cluster organization is of great importance. The essence of a cluster initiative is to stimulate firms to cooperate, share information, and organize themselves for the common good. Building collaborative organizations requires building trust, often among competitors, and therefore it may take a long time and need considerable support. Cluster organization therefore is frequently characterized by an initial phase that requires intensive support. Figure 4 shows a typical cluster process, which can also be adapted to other situations. The important feature is the 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.

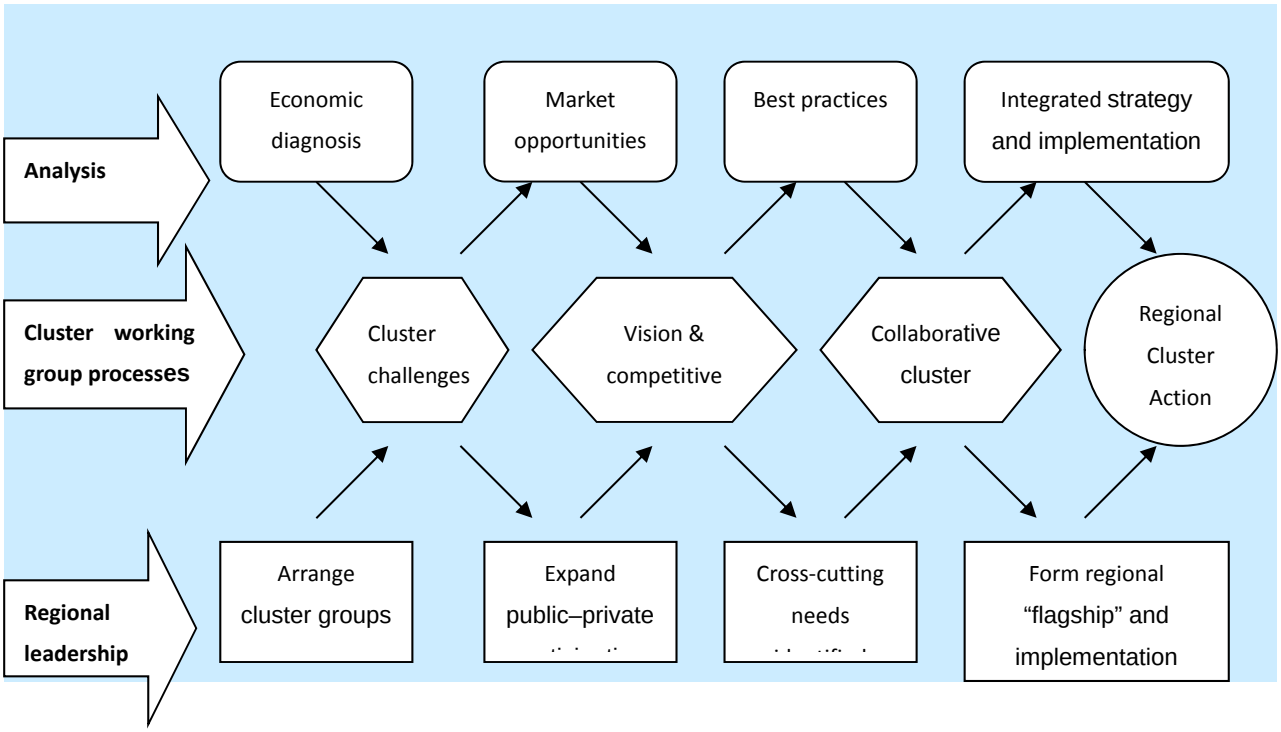

Figure 8.2 The Cluster Working Group Process

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.

3. Examples of Specific Actions to Enhance Competitiveness

In pursuing competitiveness, each city must search for and formulate a unique set of strategies and actions that are suitable to its own situation and differentiated from those of other cities. No single action 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. This section summarizes a few examples of such actions from around the world. The list is by no means exhaustive, and the treatment of each topic in this paper is necessarily very selective. The purpose is to provide examples of possible types of local policies and actions. Local policy makers need to bear in mind the specific characteristics of their own cities when assessing the applicability of specific actions and their potential for adaptation and use.

Joint marketing and investment, and export promotion

Local governments can take the lead and undertake activities to expand the demand for local products and services, and attract external investments (foreign or domestic). Examples of actions that would bring general benefits to local businesses include market research, city branding, organization of characteristic local events, and active export and investment promotion.

Market research includes activities to identify potential markets for products and services from the city; analyze demand characteristics and standards for specific products manufactured in the city; acquire a better understanding of distributors and buyers; and identify key product intermediaries (Guasch 2007).

City branding aims to associate the city with a specific image or product or approach. Branding not only affects the success of marketing efforts, but also influences the overall strategy of the cluster, because it sends a signal about the vision of the cluster's products. The example of Chianti Classico in Siena, Italy, is notable for the collective efforts by the cluster members to carefully nurture the brand image.

Organization of events to strengthen the local economy and increase awareness of local products and brands is another effective measure. The Olympic Games, for example, have played a critical role in the development of the local economies of Atlanta, Georgia; Barcelona, Spain; and Turin, Italy. Smaller cities can offer other types of events that correspond to unique local characteristics.

Export or investment promotion can generate substantial returns, as shown by a review of export agencies (World Bank 2006). Some of the key factors for success include a high level of private sector participation (for example, as directors of the board for export promotion agencies) and an emphasis on market research.

Value chain integration

A value chain is the sequence of activities required to make a product or provide a service. One important feature of today's global economy is the presence of global value chains, where the R&D, design, and manufacturing of different components, as well as marketing, are undertaken in a highly integrated fashion but from different locations (cities in different countries) and by different firms. For developing economies, one way to quickly catch up in productivity is to enter such a value chain, often starting with a less lucrative segment and then moving on to higher-value-added segments. Value chain analysis helps the policy maker identify bottlenecks in the productive chain and determine which bottlenecks deserve priority government attention, which can most likely be resolved by the private sector, and which require public–private partnership (Schmitz 2005). Examples of the value chain–based approach include the following:

Attracting additional investments as part of the value chain to achieve locational synergies. The city government, in its investment promotion efforts, can target businesses that are closely linked to existing firms in the city, with either upstream (suppliers) or downstream (intermediate of final buyers) linkages.

Strengthening weak linkages in the value chain by helping local firms enter the existing value chain. This can be done by raising quality and consistency levels of local firms to supply leading firms in the value chain. Gaining the capacity to supply leading firms is a crucial milestone for local suppliers, because the requirements on cost, quality, and speed are often challenging; this accomplishment can raise local production standards to a much higher and perhaps internationally competitive level. The local government can aid the process by mobilizing collective actions of local small firms, facilitating the acquisition of technologies and skills, and encouraging the establishment of mutually beneficial relationships between leading firms and local suppliers.

Identifying opportunities for added value in the chain, as certain activities enhance the value of the chain and are more lucrative than others. In the case of São Luís, Brazil, for example, where there a few isolated large industrial companies, opportunities exist for developing industries (such as metallurgy) using currently exported commodities (minerals and agricultural products) as main inputs, and for coordinated government actions in terms of assembling land, acquiring licenses, reducing bureaucracy, and promoting investment.

Entrepreneurship development and support to SMEs

SMEs play an important role in local economic development. They often account for the majority of jobs in a city; they are frequently a source of innovation that brings new opportunities to the local economy; and they help nurture local entrepreneurship, which is a critical, though often hard to quantify, element in local economic competitiveness. However, SMEs regularly face numerous problems, such as lack of access to finance and modern equipment, lack of information about production methods and processes, and weaknesses in standardization and quality control, all of which hamper strong cooperative production chains. There is significant scope for public policies and actions to tackle market failures in terms of limited finance, weak business development services and training, paucity of industrial real estate, information problems faced by start-up enterprises, and noncompetitive market structures dominated by one firm or only a few. The challenge for local governments is to reach SMEs through a cost-effective enterprise development strategy. The following are a few possible actions that local governments can take to support SMEs (OECD 2003):

Ensure that microenterprises are given proper attention in the system of enterprise support. For instance, the cluster enhancement process can give priority to SMEs because they can benefit more than larger firms from joint actions and government support.

Establish small business development centers to support SMEs through management training, counseling/consulting, and research services. For example, studies suggest

that microenterprises at times fail to grow because of problems associated with employee management and recruitment; training in such skills can help.

Reduce bureaucracy. This is especially important for SMEs, as they do not have the resources and experience to overcome the red tape associated with opening a business, hiring employees, and acquiring space.

Facilitate SME access to financing. Local governments may do this through promotion and assistance efforts. They may also bring together local financiers and major SME clusters to facilitate financiers' understanding of the particular businesses; provide seed capital for critical areas ("angel investment," which is widely used around the world); and develop the city's own SME financing program (in partnership with financial institutions).

Encourage small firms to use the Internet by taking government online (e-government) and by promoting information and technology awareness.

Ensure the availability of business locations offering affordable and flexible rents, for example, through incubators, or other specialized business accommodation services.

Support to research and development

R&D has become particularly important as economic competition becomes increasingly global. Often the only way for a firm to sustain a competitive position is to innovate continually and consistently, and R&D is a critical source of innovation. The following are some of the actions that local governments can undertake to spur R&D:

Expand R&D expenditure with a focus on applicable research. Local governments should focus their limited resources on R&D specializing in highly localized, technology-related industries and scientific competencies, rather than implementing broad-based science and technology strategies. One successful example of focused R&D for specific clusters are the Technology Centers of Spain and Peru as public–private partnerships for technology and innovation.

Tap university resources in the city and motivate universities to be involved in applicable research closely linked with competitive local industrial clusters. In this case, municipal governments can play the critical role of catalyst, as demonstrated in Finland by the partnership between the City of Helsinki, the University of Helsinki, and local businesses. In cases in which innovation and technology themselves are to become a trademark for the city (for example, the Strategic Plan of Turin, Italy), the city should invest significantly to expand the capacity of the key universities.

Support innovation through well-targeted and well-managed business incubators. Business incubation provides start-up and growing companies with expertise, networks, and tools to make their ventures successful. Incubators typically provide a managed work space with shared facilities; advisory, training, and financial services; a small management team with core competencies; and select on average 20–25 start-up companies to enter the incubator (Scaramuzzi 2002).

Attracting talent and experts who have trained in leading research centers abroad (or in other regions of Brazil) and who have acquired experience as well as contacts in some of the principal clusters outside the region is the most expeditious approach

(Yusuf 2003, pp. 254–67). The use of hometown linkages and social networks, in combination with offering special incentives and business opportunities, may be useful in attracting such talent.

Skills upgrading

Of all the factors that motivate and build clusters, none is more universally important than human resources. 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 (National Governors Association 2002).

Understand and anticipate local skill needs. Local governments can start by identifying the particular local skill shortages in light of the locality's unique economic composition and current status of its labor pool. In fact, local governments can use the clusters to identify these skill shortages. Cities in many OECD countries have established local or regional "observatories" to analyze and project demand, supply, and hence gaps in local skills. Examples include the Marchmont observatory in the United Kingdom, the German Baden-Württemberg agreement, and the Observatoires régionaux de l'emploi et de la formation (OREF) in France. In the United States, Workforce Investment Boards in states and at lower levels often undertake the main tasks of: (a) mapping workforce training schemes, such as group apprentice schemes, adult retraining, and new training initiatives to facilitate matching supply of and demand for skills training; (b) offering business support services that increase employment; and (c) providing shared facilities for training activities,

general literacy and community education, and other activities for young adults. At least 50 percent of the boards' members come from the private sector.

Tailor the design of training programs to local cluster needs. To enhance local economic competitiveness, it is important that those with the particular skills needed for critical local clusters be highly trained. This is another useful source of local competitiveness. It is therefore often necessary to offer tailored courses as opposed to "off-the-shelf" college courses. Partnership between public training institutions and the key private sector firms, in terms of curriculum design and execution, hosting of training sessions (for example, at workplace or in community centers), and placement, can bring fruitful results.

Promote employer provision of, and participation in, labor training. Local officials can try and persuade employers that investing in the training of their workforce will benefit their business, and expand the scope and level of employer-provided training. Local governments can also encourage the major clusters to include collective provision of training as a major cluster-competitiveness measure. Finally, close involvement of employers, even in public-sponsored training, will help ensure the effectiveness of labor training.

Adapt the delivery of training to the target group. U.S. workforce intermediaries, such as the Jane Addams Resource Corporation (box 7) and the Regional Wisconsin Training Partnership, prefer to recruit as course instructors "fellow tradespeople" (as opposed to instructors with high academic credentials) who possess the ability to convey technical skills and empathize with their fellow workers. Similarly in Canada,

“job shadowing”—when a tutor goes to the field to assess how trainees are applying the learning to their job—has positive effects.

Economic zones

Economic zones (or their variants, such as industrial districts and technology parks) have been widely used as a measure for local economic development. There are cases of very successful economic zones, but also many failures that have led to the waste of valuable financial and physical resources.

In theory, the economic zone approach offers a combination of benefits: it facilitates the land-assembly process for industrial development, which would be difficult for individual firms to accomplish by acting alone; provides specialized infrastructure needed by a group of firms (roads, telecommunications, power and water, and others); facilitates interfirm learning, exchanges, and collaboration through physical colocation of firms; and creates a cluster identity, facilitating marketing and investment promotion.

However, establishing economic zones is also risky. Investors may not come, resulting in wasteful investment. Locators that do use them may be attracted by the generous fiscal incentives offered for locating in the zone and may have relocated from other cities or even another part of the same city; such firms may not survive or thrive over time, particularly when the incentives end. The expected clustering of design firms (for example, high-tech firms) may not occur when other locations are more attractive and competitive. In the early 1990s, some U.S. states invested heavily in cluster-specific technology centers. Chattanooga, Tennessee, tried, unsuccessfully,

to develop an environmental technology cluster by creating the space, marketing it, and heavily recruiting firms to join. At the same time, the nearby Oak Ridge-Knoxville area did develop that type of cluster because the technology and expertise were already embedded in the nuclear industry (National Governors Association 2002). In Brazil, the extensive use of financial incentives for economic zones has resulted in waste of both financial and land resources, in some cases with very little to show in real economic development impacts.

There are enough cases of unsuccessful attempts with the economic zone approach to make one cautious. Particular attention should be paid to the market and demand side, and the following questions should be asked: Does the proposed economic zone address the particular needs of the emerging business potential in the city and region? Are there interested tenants with solid commitments? Will the proposed zone attract talent to the desired area? Is the zone built on expanding the existing amenities offered by the city? R&D facilities and capacities can be as important as, or even more important than, the physical infrastructure provided in the zone. The successful Hsinchu Science Park in Taiwan (China), for example, only prospered as a center for technology (specializing in semiconductors) with the significant R&D efforts devoted by the government-sponsored Industrial Technology Research Institute (Chen 2008). In China, where economic zones have proliferated, it was found that while financial incentives played a critical role in attracting firms to these zones, the cluster process became important after the firms located and determined the sustainability of the zones' growth (Zheng et al. 2008).

Finally, professional, business-minded management of industrial parks and districts is critical for the zone approach's success. The introduction of the private sector through investments, cofinancing, or seats on the boards of economic zones can play a significant role in providing market expertise and discipline.

Specialized infrastructure or services

High-quality infrastructure, such as transport, power, water, and telecommunications, is in itself important for the local economy. In addition, depending on the unique local competitive advantage, enhancing certain types of specialized infrastructure or facilities may be important, and this may play an instrumental role in the particular clusters or strategies that a city pursues. Two particular examples, tourism and logistics infrastructure, are outlined below.

Tourism-associated infrastructure. Many communities give special priority to tourism, because developing local tourism often brings benefits beyond the sector itself. Tourism can strengthen local identity with an emphasis on "uniqueness"; provide a strong imperative to improve the local environment with stricter environmental measures, such as for sanitation and garbage collection; and achieve higher visibility for the city. Clearly, the improvements associated with tourism can also be enjoyed by local residents. Depending on the type of tourism, communities often need to develop special infrastructure, such as museums, art galleries, exhibition and convention centers; special transportation facilities; urban landscape improvements, including public parks; and sports facilities. For many communities, preservation and restoration of cultural and natural heritage is a critical task, as these

assets present a unique characteristic of a city that no other location can replace. Finally, soft infrastructure, such as local history, culture, and events, is also an integral element of tourism infrastructure.

Logistics infrastructure. This has become increasingly important with the rapid growth of trade. Technology advances have drastically increased the efficiency of logistics handling. Also, many companies are implementing lean initiatives and just-in-time processes, which means that raw-material supplies and warehousing facilities must be easily accessible, preferably nearby. Combined with the need for timely access to market, logistics has become a vital part of any firm's location or relocation decision. This would require cities to pay special attention to freight transportation needs, ease of intermodal connection, and the availability and quality of warehousing and distribution facilities.

4. Pulling It Together—Strategic Plan for Competitiveness

A strategic plan is always important for a city, but globalization and global competition have brought new urgency:

Technology, globalization, and the increasingly footloose behavior of industries and of multinational corporations have made it imperative for cities to anticipate continuums of change. In those circumstances, it is becoming hazardous to assume that market forces will smoothly orchestrate structural changes across the competing urban centers and, on balance, engineer positive-sum outcomes. The more plausible inference is that the economic integration and fluidity of movement introduced by globalization have made it more urgent for metropolitan centers to be closely tracking

industrial changes, scrutinizing the actions of the competitors, and planning their own moves well in advance. Postindustrial cities now need their strategies (Yusuf and Nabeshima 2006, p. 15–16).

The process of strategic planning is to identify the unique, hidden (intangible) capacities of a place, to achieve a broad-based agreement on the unique value proposition and direction for a city, and to arrive at an actionable road map for achieving a common vision. A clear and credible strategic plan (not to be confused with the traditional master plan or *plano diretor*) articulated by policy makers can send signals about government policy priorities and desired outcomes to the private sector, and therefore affect business investment and location decisions. At times, such interdependency leads to increasing returns as the strategic vision becomes a self-fulfilling prophecy: a credible plan leading to more private investments, which in turn make the plan look more realistic. By articulating a clear and broad vision, and sending clear signals, local policy makers might be able to influence such expectations.

To achieve such influence, local strategies must be more than just an aggregation of considerations and policy principles compiled in a document. The plan should identify the critical relationships among the many agents that are likely to shape the future economic, social, political, and environmental quality of the territory, and will need to secure answers to the following questions: How will the city be distinctive? What is the city's economic role in its region or neighborhood? In which clusters can the city build an advantage? What aspects of the business environment become crucial

for the city to excel in relative to other locations? To attract investment, cities need to offer a unique mix of strengths in terms of business environment conditions and cluster positions; the mere absence of weaknesses is not enough.

But to develop a strategic plan is no easy task, especially in the context of a globalized market economy where technology and innovation advance rapidly. What often complicates the matter are the local and national political systems that make it hard to build consensus among different parties, or to have a long-term perspective. A number of guidelines for the strategic planning process are available. The World Bank's Local Economic Development Primer (Swinburn, Goga, and Murphy 2006), for example, outlines a five-step process: (i) organization of effort, (ii) local economy assessment, (iii) strategy making, (iv) strategy implementation, and (v) strategy review. The Cities Alliance, a global coalition of cities and their development partners, outlines a slightly different process: initiating the process, establishing the initial parameters and the scope of the city development strategies, making an initial assessment, formulating a vision, identifying strengths-weaknesses-opportunities-threats, setting strategic thrusts, building awareness, and starting implementation (Cities Alliance 2006).

Each city has to adapt the strategic planning process to its own particular circumstances, depending on factors such as urgency, scale of problems, and political context. The example of Turin's successful 2000 Strategic Plan (box 8), which has played an instrumental role in the physical, structural, and social transformation of the city in the last eight years, demonstrates some of the critical ingredients of a good

planning process: strategic intention, balance between expert inputs and broad-based stakeholder participation, integration of physical plan and infrastructure renewal with economic restructuring, and careful consideration of plan implementation.

For cities where cluster organizations are active, it is also important to create a venue to bring the cluster leaders together regularly to identify the “transversal” or cross-cutting issues in order to focus local government priorities. These common cluster issues can be the key areas where the local government can maximize its impact on the local economy as a whole. The venue would also be important for bringing in other actors in the local economy, such as organizations representing the poor, so that any trade-offs in resource allocation can be openly discussed and addressed, and potential synergies among the different clusters and between the different sectors of the economy can be explored.

5. Building Institutions and Capacity for Local Competitiveness

The task of promoting city competitiveness through the measures highlighted in this chapter poses severe institutional challenges to local governments, especially the ability to:

Coordinate the efforts of the different departments within a municipal authority, because often government services to clusters are dispersed across different departments, making it difficult for businesses to access the services

Involve and ensure strong commitment of a large number of stakeholders, particularly in the private sector, in the process of developing and implementing a common strategy

Introduce business know-how, and sometimes even take informed business risks, which would require a different set of competencies and skills than the usual bureaucracies

Coordinate—often—the efforts in a metropolitan region that includes several municipalities, as well as involve the state and national governments.

Various different models for building institutions and capacity have been used across countries, both public and private, and include the following:

Local economic development agencies. A widely used concept in Europe and adapted in many other places, these are nonprofit associations with their own legal personality, usually having a governance structure that involves a wide range of public and private entities. They have an executive board that runs the agency and that is elected by a general assembly and are staffed by specially trained personnel. The agencies typically provide financial and technical assistance to SMEs, prepare plans for territorial economic development, offer special training programs, and conduct marketing and information campaigns.[iii]

- *Public limited companies with government subsidy*. Sevilla Global (Spain), for example, is a specialized municipal public limited company with a mandate by the Seville city council to implement a local public strategy to promote the urban economy and business development. It has five working areas: (i) business information and inward investment, (ii) business incubation, (iii) industrial land revitalization, (iv) innovation, and (v) business support to local clusters. The company mainly implements “projects” (such as technical assistance, sponsorship

and other collaborative agreements, and consensus building) as determined by the city council, under arrangements of public–private partnership adapted individually to the project concerned. In 2006, Sevilla Global met 20 percent of its total budget from proceeds of its operations and services, while the rest was provided by the city council.[iv]

- *Publicly owned commercial companies.* Greater London Enterprise Ltd., for example, is a commercial company owned by all 33 of London's boroughs, and has no public subsidy. Directed at small and medium enterprises, the company's businesses include business accommodation; facilitating financing and cash-flow management; start-up and early-stage business support; and consulting services offering information, funding, and strategic advice. Over 10 years, the company acquired and improved over 2 million square feet of business space accommodating over 950 tenants; it manages a £7 million loan fund that has provided finance to over 400 start-up and early-stage businesses; it operates London's leading Business Angels Network, with over 200 registered private business angel investors; and it now supports approximately 6,500 small companies each year. In 2006–7, the company had a profit of £9.3 million and a 21.8 percent return on assets, with net assets of £51.9 million. Because it has no subsidy, its success depends on the ability of management to ensure that the commercial aspects of the organization remain in good shape and that the work of the company remains relevant to the public policy agenda as perceived by its members.[v]

Regional development agencies. Under the Regional Development Agencies Act of 1998, the United Kingdom created 10 such agencies to give greater emphasis to regional development and to transform England's regions through sustained economic development. Government sponsored, each agency has the statutory purpose of furthering the economic development and the regeneration of its region; promoting business efficiency, investment, and competitiveness; promoting employment; enhancing the development and application of skills relevant to employment; and contributing to sustainable development where it is relevant to the region to do so. A similar approach was adopted in 2007 by the Chilean government, with the creation of 13 regional productive development agencies.

Competitiveness councils. The concept behind these councils is to have a body of leadership comprising public and private sector stakeholders in cities to guide the process of competitiveness strategy development and implementation. Councils are often formally headed by a local political leader (depending on the governance model in place) and a top business executive, and may include key representatives of the regional "triple helix" (public, private, and research sectors). They may also have a key role in developing an overarching economic regional strategy. Some councils guide working groups that focus on specific clusters and cross-cutting issues. In these working groups, specialists from companies, government agencies, universities, and other institutions identify specific actions and define responsibilities to execute them. The public sector's role in these councils should be carefully assessed, as experience

suggests that the private sector should have a key operational role if genuine partnership is to develop.

Reorganization and reorientation of government services. Without creating new agencies, local governments can reorganize or reorient existing agencies to better cater to the service needs of local businesses. In Arizona, United States, for example, state and regional organizations added cluster representatives to their boards and held special summits with clusters; government incentives, programs, and services were structured around clusters; and the state's department of commerce reorganized its services to fit the needs of clusters (Waits 2000).

The exact institutional form that each authority takes will depend on the local situation and should be adapted. Whatever the form though, there is also the issue of staff competency, because the requirements for economic development are different from the usual public sector skills. Recognizing this, local governments are usually cautious in recruiting staff for local economic development agencies, and seek people with business experience and expertise in dealing with the private sector. Partnership with the private sector is important in terms of bringing in expertise and discipline.

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

proactive policy approaches recommended for local governments in this chapter stress better governance and more competent management capacities at the local level.

6. Conclusions

Local policies for city competitiveness

To become and stay competitive, cities need to strive to reduce the cost of doing business by improving services, infrastructure, and reducing bureaucracies. But for a middle-income country like Brazil, which needs to be economically competitive in a globalized environment, this is not sufficient. Cities also need to strive to add value to local businesses. A crucial part of the strategy should be to create and sustain an environment that stimulates local firms to innovate and learn from each other, to nurture and facilitate the creation of synergies generated by the presence of interconnected economic clusters in the city, and to provide incentives for all local players to continuously upgrade the level of competitiveness—to become better and the best.

With regard to the areas of policy interventions by municipal and state governments for enhancing local economic competitiveness, this report has focused on the cluster approach to competitiveness. As an expanded version of the widely used approach of *arranjos produtivos locais,* the cluster approach in essence is to facilitate private sector collaborations for collective efficiency: organizing and facilitating private and public institutions to arrive at a common cluster vision; identifying opportunities for growth and collaboration; promoting joint actions such as co-information, co-learning, co-marketing, and co-purchasing; and jointly building

economic foundations such as R&D capacities, infrastructure, skills upgrading, and public–private sector support institutions.

While this paper has provided many examples of actions that may be undertaken, it emphasizes the critical importance for cities to pursue a unique strategy based on their comparative and competitive advantages, rather than blindly applying different actions. Finally, the more active approaches discussed here will require the presence of stronger governance and management capacity at local government level. Local governments should be fully aware of the market and governance risks involved in their actions, and should match the level of policy actions with the competence of local institutions and staff capacities.

A Note on relevance for China

Compared to other countries, Chinese cities perhaps are among the most aggressive in pursuing city competitiveness policies. Many of the policies recommended in this paper have already been widely pursued. Such initiatives at the local level, often fiercely promoted or orchestrated by the local government, are perhaps one of the main sources of the overall economic competitiveness of China's economy, and they offer useful experiences and examples for other countries in the developing world.

However, one has to keep in mind the historical, social and cultural differences among the countries and cities in applying competitiveness policies. In fact, Chinese cities tended to do much more than what is recommended in this paper, sometimes involving, for example, huge investments to establish new industrial clusters that do

not exist in the city. In other cases, local governments have supported local industries through much more direct involvement (for example, direct government credit or direct government equity investments, or large government subsidies to local industries). There has been no systematic evaluation of such efforts. Anecdotal evidence has shown there are both cases of success and many failures.

We believe that the principle and the key messages of the paper hold in the Chinese context: that local government interventions should keep a keen eye on the conditions of the market; that interventions should be designed mainly to address where the market does not work and where collective actions and coordination require external support; and that local governments should carefully evaluate the risks of their involvement in local economy, and match the risks involved with the human and institutional capacity at the local level.

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