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BASIC DIMENSIONS OF COMPETITIVENESS OF CITIES

Abstract

Cities have been the engines of productivity and growth throughout history, and will be essential to the future growth and competitiveness of nations and regions. This is especially true at a time of massive and rapid urbanization in emerging markets; hence, the focus on the competitiveness of cities. Six global "megatrends" especially relevant to cities are identified: urbanization, demographics and the emerging middle class; rising inequality; sustainability; technological change; industrial clusters and global value chains; and governance. Led by urbanization, they condition the greater operating environment for cities around the world. It is up to cities to take advantage of these megatrends, as well as to mitigate negative forces such as rising inequality, pressure on natural resources and the environment, and a diminution of trust in public authorities. City competitiveness is defined here as the set of factors – policies, institutions, strategies and processes – that determines the level of a city's sustainable productivity. Sustainability encompasses economic, environmental and social issues. Productivity is about the efficient use of available resources that drives economic growth. But productivity has to be sustainable – maintained beyond the short term, and in a way that reconciles economic, environmental and social goals.

A four-part taxonomy of city competitiveness was developed, including institutions, policies and regulation of the business environment,

"hard connectivity", and "soft connectivity". The objectives of this work are to encourage city leaders, policy-makers at local, regional, national and international levels, and academic and other experts to focus on competitiveness at the city level; and, to encourage a rich global dialogue on this issue and shine a light on creative and path-breaking initiatives that address the multiplicity of challenges facing today's cities. The time is opportune for a much stronger focus on the competitiveness of cities. The aim is for the analytical framework and global survey of cities herein to be of use to city leaders and others who wish to contribute to city competitiveness. The cities reviewed are so different, yet many of their successes, failures and challenges have things in common. It is hoped that readers will take this report not as the final word, but as a point of departure to create new strategies and policies relevant to the realities and complexities of cities around the world.

Keywords: *cities, competitiveness, competitiveness, sustainability, productivity*

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1. INTRODUCTION

Europe is one of the most urbanised continents in the world. Today, more than two thirds of the European population lives in urban areas and this share continues to grow. The development of our cities will determine the future economic, social and territorial development of the European Union. Cities play a crucial role as engines of the economy, as places of connectivity, creativity and innovation, and as centres of services for their surrounding areas. Cities are, however, also places where problems such as unemployment, segregation and poverty are concentrated. Cities are, therefore, essential for the successful implementation of Europe 2020.

The administrative boundaries of cities no longer reflect the physical, social, economic, cultural or environmental reality of urban development and new forms of flexible governance are needed.

In terms of aims, objectives and values, there is a shared vision of the European city of tomorrow as: a place of advanced social progress with a high degree of social cohesion, socially-balanced housing as well as social, health and 'education for all' services; a platform for democracy, cultural dialogue and diversity; a place of green, ecological or environmental regeneration; a place of attraction and an engine of economic growth.

Cities play a key role in Europe's territorial development. There is a consensus on the key principles of future European urban and territorial development which should: be based on balanced economic growth and territorial organisation of activities, with a polycentric urban structure; build on strong metropolitan regions and other urban areas that can provide good accessibility to services of general economic interest; be characterised by a compact settlement structure with limited urban sprawl; enjoy a high level of environmental protection and quality in and around cities.

Demographic change gives rise to a series of challenges that differ from one city to another, such as ageing populations, shrinking cities or intense processes of suburbanisation.

Europe is no longer in a situation of continuous economic growth and many cities, especially non-capital cities in Central and Eastern Europe, but also old industrial cities in Western Europe, face the serious threat of economic stagnation or decline.

Our economies in their current form are unable to provide jobs for all – weakening links between economic growth, employment and social progress have pushed a larger share of the population out of the labour market or towards low-skilled and low-wage service sector jobs. Growing income disparities and the poor getting poorer – in some neighbourhoods, local populations suffer from a concentration of inequalities in terms of poor housing, low-quality education, unemployment, and difficulties or inabilities to access certain services (health, transport, ICT).

Social polarisation and segregation are increasing – the recent economic crisis has further amplified the effects of market processes

and the gradual retreat of the welfare state in most European countries. In even the richest of our cities, social and spatial segregation are growing problems. Spatial segregation processes – as an effect of social polarization – make it increasingly difficult for low-income or marginalised groups to find decent housing at affordable prices. An increasing number of 'society dropouts' may lead to a development of closed sub-cultures with fundamentally hostile attitudes to mainstream society in many cities.

Urban sprawl and the spread of low-density settlements is one of the main threats to sustainable territorial development; public services are more costly and difficult to provide, natural resources are overexploited, public transport networks are insufficient and car reliance and congestion in and around cities are heavy.
Urban ecosystems are under pressure – urban sprawl and soilsealing threaten biodiversity and increase the risk of both flooding and water scarcity. (European Union, Regional Policy, 2011.)

2. SIX GLOBAL MEGATRENDS

Six global "megatrends" especially relevant to cities are identified: urbanization, demographics and the emerging middle class; rising inequality; sustainability; technological change; industrial clusters and global value chains; and governance.

2.1. Urbanization

The global rise of cities has been unprecedented. In 1800, 2% of the world's population lived in cities. Now it's 50%. Every week, some 1.5 million people join the urban population, through a combination of migration and childbirth. Inevitably, this rapid expansion is putting cities' infrastructure, environment and social fabric under pressure. Cities occupy 0.5% of the world's surface, but consume 75% of its resources. Rapid urbanisation brings major implications for businesses as they refocus their offerings, marketing and distribution towards an increasingly urban customer base with distinct needs and consumption habits. And they must be alert to new opportunities arising from lifestyles shaped by rising population density and readier access to resources.

For city leaders, the implications are also significant as they work to ensure that cities grow in a sustainable way. Leaders face tough choices trying to keep their cities liveable. Options being examined include floating cities – especially relevant for low-lying regions threatened by rising sea levels – and revitalising 'ghost' cities or failing economies through crowdfunding. A further approach is to build a new city around the latest technologies: the 'smart city'. However, for these manufactured cities, the financial, environmental and social costs can outweigh the benefits from technology. So another approach has emerged: harnessing citizens' own 'smartness' by deploying the technology directly to them in order to keep cities growing and liveable. Examples range from developing an energy self-sufficient street in Austin, Texas, to pioneering groups of small production units in Barcelona. Rapid urbanisation brings challenges and wider opportunities. One key opportunity is that it can provide part of the solution to another of the megatrends – demographic shifts – as the challenge of the 'greying planet' grows. In the future, the majority of the world's ageing population will probably live in cities. And as people remain healthier for longer, their continuing contribution to social and economic value – for example, by working beyond traditional retirement ages, helped by advancing technology – may produce a 'longevity dividend' rather than a burden.

As all these initiatives and opportunities demonstrate, technology is changing the reason why cities exist. Their main attraction used to be jobs. Now people come seeking a better quality of life – at any age. (Powell, I, 2014).

2.2. Emerging middle class

The middle classes in Europe are struggling to improve their living standards. As this dossier shows, the European middle classes are moving apart and cannot be helped by seeing them as a homogenous group. Some are still moving upwards, but many are not moving at all or are even falling downwards as they struggle to find jobs, get mortgages, and benefit from the welfare state. A divided middle has varying political and economic interests. Therefore, the policy debate on the middle should sharpen its focus and scope beyond the labour market and skills approach. It also must look at policies that allow the

European middle to benefit from the rising middle class in emerging economies and from automation, rather than seeing them as a threat.

The middle class was once the backbone of economic growth and political stability. Now in Europe, however, those in the middle are increasingly struggling to improve their living standards. For decades, it was considered normal for each new generation to improve their living and working standards significantly. As a result, the middle increased significantly in size and income after the Second World War. But the economic turndown in Europe since 2008 made it clear that generations of young Europeans can no longer rely on this certainty. Some commentators are referring to a 'lost generation' in many European countries. (Quak, E, 2015).

2.3. Cities governance

Markets are globalizing, and societies are being transformed as a result. Technological advances can spur concentration of economic activity, but they also impel decentralization of choices and decision-making. The internet, mobile communications and social media have empowered vast numbers of individuals across the globe to work, play, think and pray as they see fit. At the same time, a handful of large companies sit at the apex of new technology markets.

In stark contrast to these dynamic economic, social and technological forces, the world of politics and governance seems much more static. However, global governance remains weak, as does supranational regional governance, with the possible exception of the EU. Below nation states are subnational governments, at provincial and municipal levels, which vary enormously across countries and regions.

Decentralizing forces – economic, social and technological – play in favour of subnational governance. The availability of much more information, and rising expectations on transparency, accountability and good governance, are making people more distrustful of national governments and national political elites. Intergovernmental organizations and supranational regional institutions – not least the EU – seem remote and bureaucratic. This creates a window of opportunity for provincial and city governments to reactivate themselves.

Decentralized political systems may be best positioned to take advantage of the situation. In sum, very strong reasons exist to radically decentralize authority and decision-making down to the cities. (World Economic Forum: 2015).

3. FOUR-PART TAXONOMY OF CITY COMPETITIVENESS

The taxonomy's four parts are: (1) institutions, (2) policies and regulation, (3) hard connectivity and (4) soft connectivity. (World Economic Forum: 2015)

3.1. Institution

This is the governance or decision-making framework for competitiveness; it concerns how important decisions are made and vital reforms created. When studying the economic histories of cities and nations, it becomes clear that policy priorities – or what to reform – may be the easiest part of the challenge. While many of these priorities are well known, it is more difficult to understand why some cities manage to implement initiatives that set their economic lives on a new trajectory, while others struggle to do so. Ascribing this difference to "leadership" is easier because leadership is always important – yet, it is often difficult to emulate.

While leadership is part of the equation, understanding how institutions emerge, how social capital is built and how cooperation is encouraged provides a much more nuanced challenge for those wishing to understand how to drive change.

The following factors of how to reform are highlighted:
- The political and legal systems of city government,
- Relations with national and state/provincial levels of government,
- Relations with organized interests, especially business,
- Public-private collaboration,
- Individuals and leadership,
- The role of ideas (vision) and the city brand,

- The timing of major reforms, including taking advantage of crises and critical turning points.

3.2. Policies and regulation

The framework of public policies and regulation shaping competitiveness indicates what to reform – critical policy reforms already done, and those needed for "unfinished business". The main factors of what to reform are:
- Macroeconomic policies related to the city's fiscal policies (revenue and expenditure)
- Business-environment policies and regulations related to markets for goods, services, capital and labour, many of which are well captured in the World Bank's Doing Business Index.
- Foreign economic policies that position a city in the global economy through international trade, finance, foreign direct investment (FDI), foreign workers and tourism, all as part of clusters of economic activity linked to global value chains.

3.3. Hard connectivity

Infrastructure has been an important factor in city competitiveness, from ancient times through the Middle Ages, to modernity and the present. Today, the discourse is in broader terms of "connectivity". But connectivity has two types of components: hard and soft. Hard connectivity is the core physical infrastructure connecting people to energy, water and other services.

The main elements highlighted in this report are:
- Transportation (air, road and rail),
- Communications,
- Energy,
- Logistics systems (especially those that feed into regional production clusters and global value chains).

Hard connectivity seems to have been especially important during the industrial age. Examples abound of cities that capitalized on their rivers, canals, lakes, maritime ports, railroads, roads and airports.

3.4. Soft connectivity

Soft connectivity is the social capital that makes investments in hard infrastructure and new technology (e.g. broadband access) more productive, and is now considered as important as hard connectivity. In fact, the two are mutually reinforcing – it is not just about technological innovation, but innovation in the broad sense. And, it concerns an atmosphere of tolerance, free expression and cosmopolitanism. Today, they are highly conducive to the generation and dissemination of ideas, and to entrepreneurship, innovation and economic growth, just as they were in cities at the heart of the pre-modern European and Asian "miracles".

The following soft-connectivity elements are highlighted:
- Technological innovation and diffusion (in government and business, and through public-private linkages),
- Education and training systems,
- Innovative ecosystems involving small and medium-sized enterprises (SMEs),
- Entrepreneurial culture,
- Hubs for intellectual property, including data storage,
- Liveability, or quality-of-life factors, to attract and retain talent,
- Relationships that promote trust and affinity, leading to commercial and financial interactions,
- An open society.

The taxonomy's four parts are, of course, highly interactive. Technology and other soft-connectivity factors, for example, feed into the other three components. And, the setting of decision-making in cities shapes the quality of policies and regulatory implementation, both of which bear directly on hard and soft connectivity.

4. CONCLUSION

To summarize: strong institutions – including clean and efficient government and public services, the rule of law, impartial

enforcement of property rights and contracts – are a major part of city competitiveness. Preferably, a strong focus on institution-building needs to be made at the outset, although in some circumstances cities can enjoy catch-up growth for some time, even with weak institutions. Eventually, robust institutions matter much more to safeguarding and sustaining progress, usually at middle income levels of development. Many of the case studies display the advantages of decentralizing decision-making powers to the municipal level. Decentralization has its advantages, but lack of coordination has its disadvantages.

In summary, decentralizing power to municipal authorities is generally positive, but that often still leaves coordination problems among municipal, provincial (state) and national authorities. Coordination within a city-region is especially important.

Public authorities have to play a leading role in establishing a city's core physical infrastructure – its "hard connectivity". That is at the heart of urban planning. But there is a divide in urban planning: at one extreme is the planner's tendency to "over plan"; at the other extreme are those favoring totally decentralized market solutions – organic growth that can result in an under planned mess. Cities need a mix of planning and organic growth.

As the city's social capital, soft connectivity refers to the knowledge, connections and relationships that enable people to be productive and cities to prosper. Even more broadly, it concerns the haracteristics of an "open society": tolerance, freedom of expression and cosmopolitanism. This is the "seedbed" for ideas, entrepreneurship, innovation and growth.

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