

Enhancing the Competitiveness of Cities

Unpacking and improving the drivers of city competitiveness

UN HABITAT
FOR A BETTER URBAN FUTURE

URBAN ECONOMY BRANCH

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The purpose of this paper is to discuss the factors that underpin city competitiveness. It draws on recent studies pending publication which indicate that many cities in Asia and Latin America could become more regionally integrated and globally competitive through certain actions and reforms. This paper offers broad strategies for enhancing the competitiveness of cities in these regions and an agenda for the international community to support their efforts.

Introduction - cities must adapt to become more competitive

Increasingly, cities are exposed to greater competition and must enhance their economic performance to keep pace. There is greater pressure to enhance factors that drive competitiveness, align economic infrastructure, and facilitate growth of trade and investment in cities and between cities in regional networks. Concerned governments and stakeholders are challenged to secure and manage the resources and investments needed to grow and develop their urban economies. Strategies are needed to address deficiencies and harness the forces of competition to ensure more equitable, efficient and environmentally sustainable urban development.

Strategies to enhance competitiveness seek to create mechanisms through which cities: unlock their potential to attract investment and capital; develop their human capital base, infrastructure and knowledge; and trade and grow their way out of poverty. This paper discusses factors and strategies to enhance city competitiveness and suggests an agenda for the international community to support local governments in evolving their urban systems.

Studies of competitiveness in Asian and Latin American cities

Information presented in this paper originates from studies into the competitiveness of cities in Asia and Latin America which were funded by the Asian Development Bank (ADB) and Corporacion Andina de Fomento: Development Bank of Latin America (CAF). Study methodology was adapted from City Cluster Economic Development (CCED) which involves a holistic assessment process of the structure and competitiveness of urban economies and industry clusters. Priorities for policy and programme development derive from the CCED analysis. The studies also include investigation into economic trade development corridors which will play a significant role in fostering the development of competitive, dynamic and sustainable cities in the future. Although this paper focuses on cities in Asia and Latin America, its findings may be applied more broadly.

City competitiveness is a combination of many factors, or drivers, that impact the performance of urban economies, including: quality of life, government responsiveness, infrastructure, human resources development, dynamics of the local economy and cost of doing business. These key drivers were used to assess city competitiveness. Drivers were compiled using a combination of qualitative and quantitative data. Differences in drivers provide insight as to what cities can do to become more competitive.



KEY POINTS¹

- City competitiveness requires innovation and strong technical capacity
- Regional coordination of production is key to city competitiveness
- The public sector plays a critical role
- Private and public sector coordination is a necessary component

Quality of life

Quality of life is linked to accessibility and affordability of quality housing, schools and education, civil rights, personal and national security, environmental conditions, recreational and urban amenities, and consumer goods and services. Quality of life and livability are increasingly important factors in city competitiveness. Cities with favorable security, health and quality of life conditions better attract international firms seeking to expand operations, and the talent they need. Cities with high quality of life are significant generators of jobs, creativity and learning, and are attractive for investors.

Government responsiveness

Poor urban governance is the most significant factor undermining the competitiveness of cities in many developing economies. Weak governments impact economic and social development, business development, investment and the political economy. Factors affecting competitiveness include: transparency and accountability; the extent of decentralization and devolution of administrative and financial responsibilities; leadership; accessibility of local government services; and inclusive decision-making.

Infrastructure

Strategic infrastructure is needed to support transport, logistics, telecommunications and municipal services that significantly affect city competitiveness. Yet, infrastructure remains one of the least competitive factors in Asian and Latin American cities due to a marked decline in public capital stock over the past three decades. A massive backlog of infrastructure projects exists for many cities in the two regions. Challenges to improving infrastructure primarily result from: poor urban planning and protection of infrastructure corridors; poor land administration and management which make land disputes expensive to settle and create distortions in land markets; and lack of access to capital and adequate return on investment.

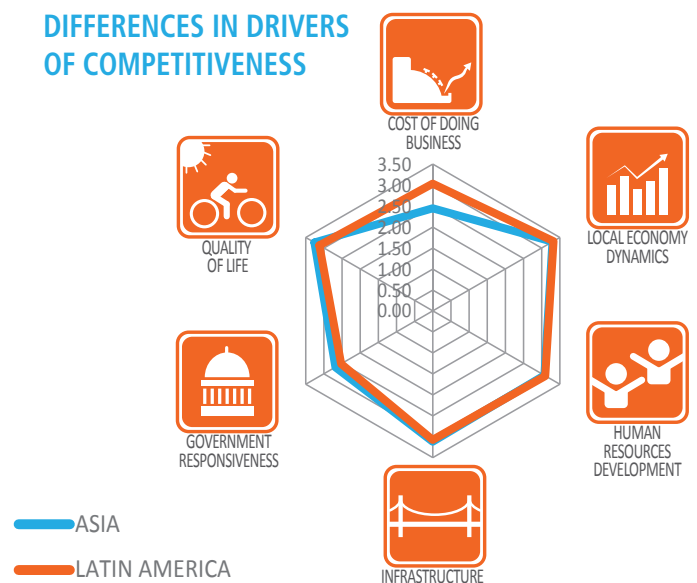
Human resources development

High levels of human capital give cities competitive advantage. Human resource development and management (HRDM) in both regions has been strong, particularly in developing export sectors, because of: emphasis on improved education services; acquisition of technology, information and knowledge; attraction of foreign direct investment; and specialized skills development. Region-specific strengths in HRDM have been key platforms in supporting national economic growth and development. However, skills shortages and out-migration of talent, can impede the development of many cities.

Dynamics of the local economy

The dynamics of local economies are characterized by various social, cultural and business institutions and trends, for instance: organizational networks, diaspora linkages, trusts, corporate leadership, innovation, creativity, risk management, tolerance, xenophobia and opportunism. Asian cities tend to be highly dynamic, in terms of entrepreneurship and seeking trade and investment with other cities in the region and beyond. Cities in Latin America tend to have a preference for local business development and domestic wealth creation.

DIFFERENCES IN DRIVERS OF COMPETITIVENESS



DRIVERS OF COMPETITIVENESS		Developed Asia	Developing Asia	Latin America
Quality of Life	Environment			
	Peace and order			
	Health facilities			
Government Responsiveness	City government regulation			
	Investment promotion			
	Transparency & accountability			
	Urban governance			
Infrastructure	Transportation			
	Utilities			
	Environmental facilities			
Human Resources Development	Workforce skill base			
	Available manpower			
	Skills-enhancement programmes			
Local Economy Dynamics	Business growth & performance			
	Access to finance			
	Business dynamics			
	Business innovation			
	Business tax burden			
Cost of Doing Business	Business regulation procedures		nd	nd
	Informal fees			
	Labour costs			
	Property & rental costs			
	Utilities services			

Source: Case study data, ADB and CAF (2014)²

¹Key points are adapted from: Kamiya, M. 2013. *Asian and Latin America City Competitiveness*, The Dialogue (Washington, Inter-American Dialogue).

²Figure and table was created by the Author for this Edition using design concepts and data from: Roberts, B.H.; Kamiya, M. *The Competitiveness of Asian and Latin American Cities* (Manila, Asian Development Bank, forthcoming).

³Roberts, B.H. 2014. *Managing Systems of Secondary Cities: Policy Responses in International Development*, Brussels, Cities Alliance.

Cost of doing business

Inefficiencies in urban systems linked to infrastructure, logistics systems, skills, knowledge, information and urban governance add substantially to the overall cost of doing business. Poor provision of urban services, failure to produce sufficient skills to keep pace with labour demands, and the extension of time costs in supply chains are stressing urban systems and adding significantly to the costs of doing business in Asian and Latin American cities. Failure to address these issues and improve efficiencies hinders development. To counter inefficiencies, cities are moving towards collaborative business and government models that can reduce externality costs.

Strategies to enhance the competitiveness of cities

The needs of each country and city differ. It is important that cities identify their specific needs in order to enhance the factors that underpin and drive competitiveness of their economies. The following key themes encompass priority areas for enhancing the competitiveness of cities.

Effective urban planning and management are needed to manage population and economic growth, prevent environmental degradation and pollution, reduce congestion, and address problems of infrastructure and urban service provision. Local and national level governments require more integrated approaches to land-use planning and development, and urban management and service delivery. Governments must work together to clarify administrative and financial responsibilities of each level, improve the enforcement of regulations and laws related to development control, and maintain and optimize use of public assets. It is important that cities in developing regions focus on quality of life and sustainable development in order to improve their environmental, social and cultural amenities, and enhance their attractiveness to firms and talent.

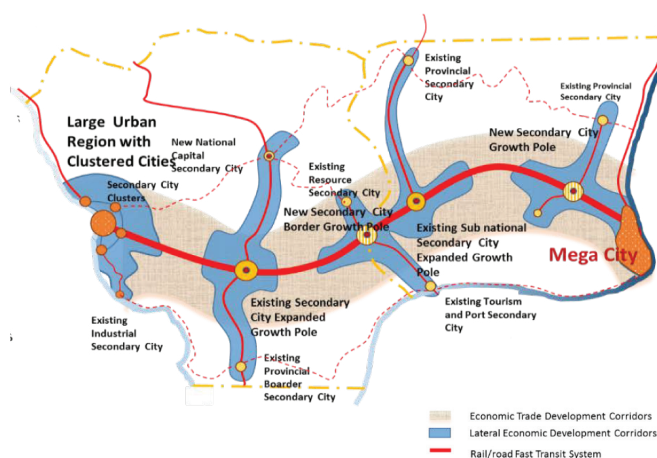
Integrating and improving urban systems are necessary to address increasingly congested and stretched logistics and transport systems, which add significantly to transaction costs, and the costs of running and managing cities. Logistics and transport systems must become more integrated, responsive and resilient to the changing needs of cities, businesses and governments; infrastructure must be adequately provided and improved to keep pace with demand. Enhanced mobility networks improve connectivity and regional linkages.

Enhancing regional linkages and regional cooperation can help address widening disparities between cities and help develop city networks. National and sub-national policies must support: integrated physical, logistical and economic development; investment in secondary cities; and improved sub-regional transport and communication systems between cities. Regional cooperation between cities is needed to identify opportunities for trade and collaboration in order to create new jobs, businesses and economies of scale that tap into national and international markets. Cooperation is also needed to address regional infrastructure deficiencies and promote knowledge and information sharing. Promoting the development of economic trade corridors is an important way to increase connectivity and trade between cities and integrate secondary cities into regional supply chains.

SOUTHERN ECONOMIC CORRIDOR IN THE GREATER MEKONG SUB-REGION

The Southern Economic Corridor (SEC) is the largest and most developed of the Greater Mekong Sub-Region's four sub-corridors. Its competitiveness is attributed to rapid growth of Bangkok, Thailand and Ho Chi Minh City, Viet Nam. Between these two anchor cities exist numerous emerging urban centres that would benefit from corridor development. Although the emerging urban centres are business-friendly, uneven conditions across the SEC have impeded development in certain areas. For example, certain areas have poor infrastructure and facilities, and low-capacity skill base. Integration of less developed areas, and implementation of policies to address key social, health, and environmental issues are essential to improve competitiveness of the corridor.

ECONOMIC TRADE CORRIDOR CONCEPT



Source: Roberts (2014)²

KEY STRATEGIES FOR CORRIDOR DEVELOPMENT

- Enable integrated governance and planning
- Integrate transport, information and logistics systems
- Develop urban centres and industry clusters
- Manage peri-urban corridor development
- Promote secondary city employment, education and investment
- Foster affordable and sustainable housing
- Grow city revenue bases for development and service delivery
- Enhance environmental quality

Adopting collaborative approaches to urban governance helps to reduce transaction costs in business and government; increase levels of trust; and open up opportunities for resource sharing, innovation and value adding to cities' production and distribution systems. Depending on a city's circumstances, different approaches to enhancing collaboration in urban governance will be needed. Rationalizing and increasing the efficiency of taxation, targeting tax incentives, reducing bureaucracy, and partnering to build research and innovation centres and industrial parks are important ways to promote collaboration. These approaches can be used to encourage knowledge sharing and innovation, promote job creation, lower the cost of doing business, and enhance attractiveness to and confidence of investors.

Aligning education and skills to urban economic bases and development goals will help cities to meet current and future labour demands. Mapping a city's economic base and demand for skills, enables targeted educational investments that optimize existing enabling business environments and clusters. For cities that wish to focus on cluster development, education should be aligned to the needs of new and rising niche industries. Industry specialization and a highly educated workforce transform cities into more functional, competitive and innovative centres.

Towards a network of more competitive cities

Bridging gaps to competitiveness: Correcting weaknesses and fixing problems is a crucial first step in addressing current deficiencies that limit the competitiveness of cities. The following are areas in which the international community could engage to integrate urban sector projects and programmes:

- Support local governments to enhance local revenues in order to maintain and expand existing services
- Improve supporting systems to better manage assets and infrastructure, thereby reducing damage and improving efficiency
- Improve urban planning systems by: reforming planning laws and regulations, supporting city development strategies, and integrating planning for metropolitan development

Building competitiveness: Building future competitiveness involves helping cities to turn opportunities into specialized business activities, jobs, knowledge, technologies and wealth. The following are areas in which the international community could engage to integrate urban sector projects and programmes.

- Enable smarter cities through green technologies, better logistics systems, and e-governance.
- Develop systems for enhanced mobility, including ICT-enabled transport infrastructure, and integrated multi-modal transport.
- Promote high value cluster development by developing innovation/incubation hubs and centres, and integrating training programmes.
- Encouraging good urban form by strengthening urban development authorities, promoting integrated mixed-use development, and fostering regeneration of declining industrial and inner-city housing areas.

Enhancing linkages: Aligning logistics, trade, economic and administrative systems to improve the free flow of people, goods and services between cities is essential in fostering development of economic corridors and competitive regions. The international community can collaborate with cities to support city to city trade and investment development opportunities.