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COMPETITIVENESS IN METROPOLITAN REGIONS

This note attempts to recall some of the key issues in the competitiveness debate and sets out the main options open to policy makers to enhance competitiveness. It draws on considerations in previous OECD reviews in urban areas, as well as on past studies of competitiveness. It presents in a synthesised form, the principal results derived from recent or on-going studies: the Öresund region (Copenhagen/Malmö), Greater Helsinki and Greater Montreal.

I. Understanding Competitiveness in a Metropolitan Context

From a concept usually related to the performance of individual firms or the output of nations, the term competitiveness is increasingly applied to sub-national units, and in particular to metropolitan areas. In the same way that CEOs strive to improve their market share and national governments are introducing competitiveness strategies, so policymakers in urban areas are also looking for ways to increase or maintain the competitive edge of their cities.

In its most basic formulation (and, some economists have argued, its only valid formulation), the competitiveness of urban regions is defined simply as the aggregate of the competitiveness of firms located in the area, with competitiveness essentially a synonym for productivity. In this perspective, enhancing competitiveness involves helping enterprises to increase their level of output. The competitiveness of the city is here *derived* from the competitiveness of local businesses and competition among cities is *indirect*.

Another way of defining competitiveness is in terms of the ability of a city to attract and retain mobile factors of production, essentially labour and investment. From this perspective, cities compete *directly* with one another. Skilled labour and investment gravitate away from “uncompetitive” cities

towards more competitive ones. Here, the competition among cities is based on providing the greatest quantity or optimal combination of the locational factors (such as green spaces, affordable housing, quality of pre-university education for families, presence of headquarter functions, and so on) that investors and workers benefit from or search.

In spite of the difference in emphasis, from the point of view of politicians or policymakers, the benefits accruing from being a “competitive” city (and those on which the policymakers will be judged) are identical: increased tax revenues from a healthy local economy, low unemployment and increasing levels of employment and poverty reduction. In other words, many of the basic economic targets of governments are assumed to derive, at least in part, from successful policies to maintain or increase competitiveness. It is a concept that policymakers are increasingly expected to place at the centre of their policy programmes.

Competitiveness has also become a common basis for comparing the performance of metropolitan regions. The media, in particular, is responsible for a proliferation of high-profile league tables that quantify the relative performance of different urban areas, based on statistics such as level of inward investment or more subjective composite indicators of liveability or quality of life. Whatever the validity of the criteria used or the level of sophistication of the analysis applied, policy makers are obliged to react to a poor score with measures specifically targeted to enhance competitiveness or at least to better market existing assets.

So, metropolitan regions are striving to be competitive, or at least to out-perform their competitors. If the ultimate objective, to have a dynamic, productive local economy, is relatively clear, the way to achieve the goal is less obvious. Recent policy shifts in OECD countries have had an important influence how policies to improve competitiveness are framed and implemented. The most significant of these are probably the following:

- The concern across OECD with sustainable development means that opportunities for economic growth must be balanced with efforts to manage the environment and reduce socio-economic disparities. This is likely to influence the choice and intensity of economic development policies, leading to concepts such as sustainable growth or “smart growth” that consciously address the trade offs between maximising competitiveness and other social and environmental objectives.
- A shift in regional policymaking has called into question the traditional approach where subsidies were targeted mainly at “disadvantaged” regions. The perception that such policies were not effective and in some cases counter productive has resulted in a move towards policies that give more scope for place-based allocation of resource not simply with the objective of redistribution but to maximise growth across the whole territory. As a result, major metropolitan areas have become targets for regional policy alongside less developed or peripheral regions.
- Finally, devolution or decentralisation of certain functions to regional and local government and an increasing emphasis on more open governance systems has intensified vertical and horizontal dialogues. On the one hand, urban policymakers have greater scope to act in the field of economic policymaking and, on the other, they are under pressure to broaden the debate on local economic management to include non-governmental actors, notably the private sector.

In this context, strategies to improve regional competitiveness can be considered as emblematic of the major changes taking place in the way policy is formulated and implemented in OECD Member countries. They are in essence the expression of a locally defined economic development strategy and they

involve long-term strategic shifts that are specific to a locality. For example, a region's strategy to enhance competitiveness might involve transition to high-skill, high wage employment; transition to environmentally friendly production and industries, or transition to greater specialisation (or diversification) in high-growth sectors. In addition, they could also include targets in related fields where improvements are considered to be crucial to the long-term development, or competitiveness, of the metropolitan region, for example, the development of an international airport, creation of a research pole or a university, rezoning to preserve green belts, and so on. Furthermore, by their nature, strategies to enhance competitiveness in metropolitan regions pose a challenge to traditional vertical and horizontal relationships, encouraging a rethinking of the respective roles of national, regional and local government and non government actors in policy formulation and implementation

Competition implies winners and losers. Leaving aside the question of incentives, tax breaks and inducements, metropolitan regions taking control of their own economic future and acting to make their cities more attractive, efficient and business-friendly is likely to have a generally positive, galvanising impact. Moreover, spill-over effects may transfer benefits from growth in one urban area to another with whom it is geographically linked or with whom it has close economic ties.

Nevertheless, debate continues as to whether competition for investment and labour is a zero-sum game, and there are concerns that stress on the notion of competitiveness works to the detriment of concepts such as co-operation, solidarity, and so on. Competition among cities, particularly for investment, but also to attract other "assets", ranging from concert halls to sport events, involves, in many cases, incentives. The use of public funds for what amounts to competitive bidding within the same national territory has, however, attracted criticism and raises question about the coherence of individual regional strategies and compatibility with national policy objectives

II. Policies to enhance competitiveness

Even if we take as a starting point the narrow assumption that the competitiveness of urban regions is derived from the performance of local firms, an extremely wide range of factors are likely to contribute. These factors can be grouped in three main categories: 1) exogenous factors, 2) local factors directly related to the firm, and 3) local factors related to the business environment. The latter two categories are, in general, sensitive to policy action at the local level, while the first is beyond the reach of individual metropolitan governments.

1. First, a range of exogenous factors will help to shape the performance of individual firms and thereby of the urban economy as a whole. The performance of the national and world economies, for example, will influence growth in individual cities. The competitive position of local firms will be helped or hindered by structural changes, such as globalisation or the emergence of new technologies, that will make their sectors more or less profitable/dynamic. Short term shocks, such as increases in fuel prices, also have different impacts according to the composition of the local economy.
2. Second, there are factors that stem from the characteristics of the local firms themselves. This would include the historical development of local sectors and links with the region, firm size and structure, level of specialisation (agglomeration effects related to specialisation of industrial production, the accompanying skill specialisation of the labour force and any spillovers such as high innovation capacity), use of advanced technologies the use of networking as a business practice.
3. The third important contributor to competitiveness is the business environment external to the individual firm. This includes a wide range of factors relating principally to the cost of production

and attractiveness of an area for business activity and investment. Notable in this category would be the availability of land and buildings, infrastructure endowments, the characteristics of the labour market (flexibility/allocation, unit costs), educational attainment, and the presence of research institutions

Urban policymakers have, therefore, a wide range of building blocks with which to construct a competitiveness strategy. The challenge for policy makers -- in addition to that of maintaining a stable and predictable economic framework and supervising/regulating markets – is to correctly diagnose the strength and weaknesses of the local economy and effectively combine policy actions in diverse fields to address the deficiencies.

The core of the strategy generally focuses on underexploited potential in the local enterprise system. Key policy interventions could include:

- Encouraging penetration of high growth sectors and export markets by local firms;
- Addressing the specific needs of SMEs, particularly those in dynamic sectors, for example by reducing regulatory burdens that impede development and improving technology transfer and access to R&D;
- Assessing the contribution of inward investment and, in particular, links between investing enterprises and local firms
- Encouraging co-operation rather than competition among local firms where networking offers potential for economies of scale; identification of existing industry clusters; incentives for joint projects and joints R&D initiatives

At the same time, there is considerable debate about the practical impact of policies that target the *modus operandi* of individual businesses and/or that attempt to manage the interactions among them as well as some concern about the distorting effect that policy interventions of this type can have (*e.g.* substitution and deadweight effects). In consequence, the emphasis is increasingly on public policy providing indirect supports, encouraging rather than creating clusters, facilitating but not imposing networks and generally acting as a catalyst and broker rather than manager of the local business system.

Measures to address weaknesses in the wider business environment involves both policies that act directly on factors of production (traditional public investment actions, regulatory and legislative functions, and so on) and those that enhance competitiveness in a more indirect sense by contributing to the attractiveness of the metropolitan area and the quality of life of its citizens. Among the former would be:

- Providing skills training that encourages adaptation of human resources to the changing characteristics of the local economy (addressing skills shortages, lags);
- Reducing legal and physical obstacles to the optimal allocation of labour and ensuring that benefits systems provide appropriate incentives
- Addressing imbalances and dysfunctions in the tax and regulatory systems that could inhibit business development or reduce investment
- Upgrading transport infrastructure

- Assessing the quality of regulations, evenness of supervision, administrative distance from regulator (i.e., ability of local governments to introduce or adapt regulation for local circumstances)
- Improving planning processes, in particular to speed up decision making and ensure consistency and continuity thereby encouraging long term investment.

The more indirect “liveability” measures would include:

- increasing the number of urban green spaces;
- addressing issues of pollution and environmental quality;
- tackling problems of social cohesion, crime, security;
- building and marketing a region’s cultural attractions, and so on.

Although the choice and combination of actions is very much place specific, competitiveness policies clearly go far beyond the normal competencies of sub-national governments. Many of the actions noted above relate to changes in regulatory or legislative frameworks that are national or supranational in scale. Others involve development or improvement of infrastructures that are national as well as local assets or that must link in or be coordinated with networks that are national in character. Other policies involve coordination with government agencies outside the metropolitan area concerned (national transport authorities and neighbouring regional governments with respect to infrastructure development, neighbouring regional governments with respect to environmental protection across a catchment area).

Thus the key elements of a competitiveness strategy require concertation and resolution involving national, regional and local stakeholders. As such, reflection at metropolitan level on competitiveness implies significant reflection at national level regarding systems of governance: how goals are set and by whom, the coherence between locally identified objectives and those set for the nation as a whole, the mechanisms by which competing interests are brought into policy processes and the incentives for participation by different groups.

III. Three case-studies

A. The Öresund Region (Denmark/Sweden)

Cross border regions vary greatly and exhibit competitive strengths and weaknesses to different degrees: some, like Öresund¹, are extremely well placed geographically and technologically, while others are relatively more isolated or less developed. The cross border nature of these regions is their context, the origin of certain competitive weaknesses and a number of potential strengths. This diversity notwithstanding, cross-border urban regions typically suffer from handicaps that make the challenge of increasing competitiveness greater than in a single-country urban region. For example, cross-border regions generally suffer from fragmentation -- of markets, of the labour force and of institutions. The border, even if completely or relatively open, usually constitutes a significant rupture of the natural or optimal delimitation of the city’s economic space. This, in theory at least, decreases the competitiveness of

¹ The Öresund region contains well over two million inhabitants, more than other regional metropolitan regions such as Stockholm and Helsinki. The region represents a significant part of the national populations of Sweden and Denmark (Scania represents 13% of the Swedish population and the Danish part around 45% of the population of Denmark). Öresund is the eighth wealthiest region in Europe.

the region as a whole and of its constituent parts. Similar assumptions can be made about the sub-optimal diffusion of technology, co-operation among enterprises, social capital development, allocation of fiscal resources and infrastructure networks.

At the same time, given that the economic space is artificially distorted by an administrative boundary, the benefits from integration are potentially greater in cross border regions than they are elsewhere. It is generally considered that exchanges between the two Öresund cross-border urban zones represent only 10 to 25 % of what they would be if the two urban zones were situated in the same country. This is probably a common situation among cross-border regions, and one that leaves significant scope for improvement.

Enhancing competitiveness is a complex policy challenge made more complex by the cross-border nature of the region. The review identifies a number of areas where policy attention is needed in order to overcome market fragmentation and ensure that the benefits from closer integration are fully exploited. The recommendations include

- i) Greater integration of the two labour markets including improved dissemination of job seeker information, more exchanges among the public sectors in the two countries and reduction of legislative obstacles to recruitment;
- ii) Adjustment of the fiscal systems of the two countries to ensure equal treatment for firms and workers on both sides of the bridge;
- iii) Physical access and spatial planning measures to improve the flow of goods and labour across the bridge and minimise the physical barriers between the two countries;
- iv) Promotion of cross-border networking among firms and greater integration of innovation and R&D systems.

The priority policy areas identified are not unique to Öresund, although the cross-border nature of the region gives them a particular twist. They comprise a series of measures designed to guide the evolution of a more unified economic space where factors of competitive advantage are fully exploited and resources are optimally employed. Implementation of the recommendations, however, highlights some of the key issues of multi-level governance that policymakers in Member countries are confronting.

In the first three areas, co-ordination across levels of government is key. For example, moves to harmonise labour market policies in the two parts of the region would necessitate either changes in national legislation or special derogations for inhabitants of the region. Similarly, agreement on a common tax regime to equalise treatment of persons and firms on the two sides of the strait would require a bilateral tax agreement the two countries concerned and would possibly have implications for EU-level agreements. The question of toll policy and relative supports for different types of transport using the bridge is again an issue that involves the national governments of the two countries and their respective approaches to transport policy and its links with other issues such as sustainable development.

The fourth group of recommendations bring in the issue of horizontal co-ordination between government and non-government actors, notably the private sector and research institutions. The proposals relate, among other things, to policies to support entrepreneurship and business development in key sectors, to improve the diffusion of technology and innovation, and policies to encourage networking and joint projects. The review discusses the range of initiatives underway to build institutional mechanisms to support business networking and to improve the flow of technology and innovation between the two constituent regions. It is apparent that the Öresund region consciously stresses developing the institutional mechanisms for delivery of public and private goods to the business community across the region. For

example, institutions designed to encourage the expansion of existing clusters emphasise closer co-operation among policymakers, researchers, local business leaders, business associations, unions and other relevant actors.

Finally, across all four categories of recommendations, co-operation among the political units that make up the metropolitan region is crucial, but represents a challenge by no means unique to Öresund or to cross-border regions. Öresund contains, on the Swedish side, one county with over 30 municipalities, and on the Danish side, five political units with over fifty sub-units. A similar situation exists in most metropolitan regions, where the economic delimitation of the economic space includes an aggregation of city and suburbs, of larger and smaller municipal governments, all of which are involved in contributing to a strategy to build competitiveness to one degree or another. While the notion of governance without government comes out strongly from the review, many metropolitan regions are developing governance systems that unify the formally or informally their constituent local authorities.

In Öresund, as in most OECD countries, responsibility for policy domains such as education and training, business regulation, land use policy, transport infrastructure, and environmental standards, as well as the associated budgetary resources, is divided among different government levels and a range of other government bodies or quasi-governmental agencies. As such, implementation of a comprehensive package of measures is a co-ordination challenge. As in all areas of public governance, building systems of co-operation across levels of government and between governmental and non-governmental actors involves developing trust and creating incentives for all actors to participate actively to the achievement of common goals. In a cross-border region, this is particularly difficult. Yet, it is a problem faced in all metropolitan areas where the economic space spreads across administrative boundaries. The need to attain competitiveness goals that are so central to forward-looking economic policymaking is a key driver of change and motivation to innovate and experiment, not only in Öresund but also across the OECD.

B. The Greater Helsinki Region (Finland)

In recent years, some OECD metropolitan areas have experienced a rebirth sparked by the high-tech innovation spillovers from universities and R&D facilities. An example of such a region, Helsinki² and its surrounding region emerged from the 1990s as an internationally competitive economy that had seemingly grafted the requisites of the 'New Economy' onto the bedrock principles of the Nordic Welfare State. Although the robustness of this model is still uncertain, the accomplishment is notable in providing a concrete example of globalisation dynamics that have been compatible with a significant scope for government. Along several dimensions, development of the Greater Helsinki Region (GHR)³ is best described as transitional, compelling a reassessment of policies able to pursue competitiveness and equity as multiple objectives.

The specialisation of the Finnish ICT cluster has contributed to significant agglomeration economies and territorial capital, while enabling the key locations to become more competitive and thereby attracting more firms. However, this specialisation has introduced considerable vulnerability. First, activities have concentrated in certain areas, and second, the region's development is dependent on a single sector rather than several sectors. Concerning the former, concentration is not necessarily detrimental to other areas, but has been perceived to worsen territorial disparities. In terms of the latter, development is more fragile when it is centred on one sector. The precariousness is furthered by the dominant position of a single firm, which in Helsinki's case is Nokia. While Nokia and the Finnish ICT cluster have been well

² Helsinki with its 550 000 inhabitants is commonly perceived as an intermediate urban centre in European or international comparison.

³ The GHR represents 1.5 million inhabitants and could be a response to the question of size within the so-called competition between urban regions.

positioned to benefit from continued growth in mobile communications, it is prudent to consider the potential downside risks of this strategy (*i.e.* sensitivity to global economic slowdowns).

Instead of the instruments of classic industrial policies such as massive subsidies, costly national projects, efforts to create techno-cities, and protectionist employment policies, the review articulates the following recommendations that build on a new territorial policy paradigm.

- i) The challenge is to cultivate similar agglomerations of wealth (similar to that found in GHR) elsewhere, as well.
- ii) The objective is not to attract investment to regions in difficulty by granting subsidies, tax breaks or benefits in kind to enterprises. The challenge is to make every effort to ensure that all regions are able to maximise their development opportunities (endogenous development).
- iii) The new paradigm does not imply the sudden rupture of all forms of assistance and compensation. The challenge is not to artificially maintain the same level of infrastructures in all regions, but to ensure a favourable environment for enterprise development.
- iv) The infrastructures in question are intangible as well as tangible (*e.g.*, dissemination of knowledge and greater market flexibility and operational efficiencies). These play a primordial role in promoting the comparative advantages of a region as regards to endogenous development.
- v) Finally, governance involves ensuring that territorial policy formulated at a national level is compatible with the development policies pursued in regions and cities. Therefore, a fair distribution of responsibilities and financial resources has to be organised among the central, regional and local levels of intervention.

The strategic challenge for the Finnish ICT cluster that should be reinforced by all levels of government is to evolve a lower-risk/high-return strategy by developing ICT activities beyond the current cluster scope (*e.g.*, use of learning and positive externalities in forestry and biotechnology, learning transfers in online banking and new media). However, instead of remaining peripheral, these objectives could be integrated into explicit and bottom-up territorial policies of related diversification focusing on developing competencies in the research, design and development phases of the product life cycle across a range of product areas. Such an approach, however, requires greater focus on private and international risk capital, profitable commercialisation, and – most importantly – profitable new business formation. These requirements, in turn, are necessary to create new and renew old strategic advantages in the Finnish ICT cluster, just as they make it necessary to better facilitate the transition of the macro-economy from top-down centralisation to bottom-up decentralisation.

C. The case of the Montreal Metropolitan Region (Canada)

Metropolitan regions often enjoy robust comparative advantages linked with polarization effects. In OECD countries, the majority of the national population are concentrated in one or a few metropolitan regions and produce the bulk of the national economy, which is clearly the case of the Montreal Metropolitan region.⁴ On the one hand, the region has a wide-range of economic strengths. With world-

⁴ With a Gross Regional Product of CAD 82 billion in 2002, it accounts for some 50% of the economy of Quebec. With 1.7 million jobs, it has significant strengths in a range of dynamic, high-value-added industries, including, aerospace, information and communication technologies, biotechnology and bio-

class Universities and research networks, strong employment concentrations in a diversified range of dynamic knowledge-intensive industries, and highly competitive costs of production and quality of life, the region is well-positioned for competitive success in the new knowledge-based economy. On the other hand, despite these strengths, the region has failed to fully realize its economic potential. The key problems of the region's economic competitiveness are linked with the institutional isolation of economic development actors, leading to duplication of efforts and fragmentation of vision, and the lack of regional integration, with sub-regional initiatives that may compete with regional agendas, and supra-regional (provincial and federal) initiatives that are not well integrated with metropolitan or sub-regional initiatives. In essence, the key problem in Montréal, as identified by a range of local actors, is the lack of a strategic vision.

In thinking about strategies to integrate the region and develop more strategic policies, it is useful to concentrate on both vertical and horizontal dimensions of the regional economic structure⁵:

- i) In addressing the vertical dimensions of regional economic development, economic strategies are increasingly focused on cluster-based initiatives. It is important to recognize that clusters are not simply firms that co-locate. A cluster is characterized by a significant level of interaction between firms. Firms can co-locate for a series of external factors, rooted in labour markets and specialized services. While co-location of similar firms may be reflective of competitive advantages of regional factors of production, a lack of significant interaction will limit the ability of co-located firms to understand, adapt to, and take advantage of changing economic circumstances. It is the interactive element of clusters that promotes innovation and economic learning.
- ii) There is a wide-range of what could be considered factors of production that are critical for economic competitiveness in the Montreal region, addressing the horizontal dimension of competitiveness. Focusing on some of these factors as part of developing an economic strategy for the region is extremely valuable for at least two reasons. First, there is clearly significant room for improvement, helping to increase coordination among actors in the region, improving the efficiency of service delivery and avoiding duplication of efforts. Second, building on these horizontal regional factors can play an important role in contributing to integration in the region, helping to break down the continuing tensions between the former cities within the new mega-cities of Montréal and Longueuil, and helping to integrate the entire Metropolitan region. By building regional collaboration around improving these region-wide factors of production, it is likely to significantly improve regional innovations networks that can facilitate economic competitiveness in a range of different industries.
- iii) Following these considerations, priority initiatives should be chosen and structured in such a way that they increase interaction on both a cluster level, and in a dimension of factors of

pharmaceuticals. With four prominent research Universities, 30 community colleges, 40 professional and technical establishments, and the highest number of students per capita among the ten largest North American metropolises, Greater Montréal has tremendous educational resources.

⁵ (i) Vertical dimensions essentially refers to economic sectors in the region—the specific industries and value-chains that constitute the industrial structure of the region. (ii) Horizontal dimensions refer to those factors of production that cut across multiple sectors and provide a basis for sustained regional competitiveness. (iii) In both dimensions of the Greater Montréal economy, there are some significant strengths, but also clearly room for significant improvement, thus paving the way for a strategy to consolidate competitive advantages in the region and to better tap unused potentials.

production. In that context, the three following recommendations should help to reinforce the city competitiveness.

- The first one would be designed to simultaneously promote culture industries, and to build collaboration around the branding or regional identity of Montréal. The key goal would be to build on current initiatives focused on promoting culture industries, while helping to integrate together a region-wide perspective on culture and bringing together the various regional marketing initiatives.
- Another valuable initiative could be developed at the intersection of information and communication technology industries in the region (vertical dimension), and the range of educational institutions that constitute the human capital creation network in the region (horizontal dimension). On the level of cluster development, here the focus should be on building a greater understanding of the specialities within ICT industries that are particularly strong in the Montréal region.
- A third potential initiative could be developed at the intersection of the biotechnology/life-sciences cluster, and financial services in the region. From a cluster perspective, the focus of such an initiative would be not so much on the research & development end of the industry, but instead on the commercialization of research and the development of production facilities.