

# *The Role of Economic Development Strategies in Raising the Competitiveness of European Cities*

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## **Introduction**

*Cities' competitiveness can be regarded from two points of view:*

- *the spatial scale:* competitiveness operates on different spatial scales – local, regional, inter- and intra-regional. Areas of one city compete amongst them, cities in the same region compete and this can be seen all scales;
- *the nature of competition areas:* every city has one or more specialised functions, which can be more or less obvious (e.g. trade, tourism, business). **This specialised area** is known as **urban function** and is the indirect *cumulative effect of the components of the location factors*. **Location factors are necessary, but not sufficient, conditions for the competitiveness of a city.** They are:
  - *an effective infrastructure system;*
  - *an adequate supply of strategic urban services;*
  - *a good quality living and working environment;*
  - *a proper urban management.*

**One requirement for reaching the development objectives is the existence of a clear vision supported by local and regional economic development strategies.** At this stage, local administration must have a clear idea of the urban functions to be fulfilled and of their supporting factors. After identifying these functions, it needs to develop ways of exploring their potential in a strategic, integrated and efficient approach.

*Local development strategies must ensure the city's competitiveness on the urban market, combining the competitive advantages with the demand for labour and location factors, and must aim for a diverse and dynamic local economy, which mixes large companies with small and medium sized enterprises and foreign investment with local involvement.*

Policy formulation requires a strategic vision and fundamental changes of the institutional arrangements. Local businesses need to form organisational structures that allow local authorities to cooperate with the private sector and non-government organisations, in order to reach their common development goals.

**The process of drafting economic development strategies includes the following stages:**

- Identifying the most important sectors of local economic development with regard to job creation, retail, taxation, links with other local industries, etc.
- Identifying the most important links between local and external economies and reviewing how local sectors respond to the changes in regional, national and international economies.

- Assessing the existing potential for economic development, stability or decline and identifying the factors determining the occurrence and evolution of these tendencies.
- Identifying the possible unpredictable events which may have an impact on employment, retail, private income, public revenue, economic productivity, life and work quality.

Also, the development strategy of a city in a competitive environment needs to clarify certain aspect, such as:

- a) **Main objectives of the urban policy.** Enunciating the local policies has to be done within an incorporate vision and at the same time, meticulous concerning the future development of the city.
- b) **The concept of the city.** For a successful management, the local authority has to decide on the growth strategy of land planning relating with the main objectives. A few options, for example, refer to the city such as a “working town”, “service center” or “logistic center”. Each concept tallies with a specific type of urban marketing and asks for an adequate management.
- c) **Urban products.** The “city product” encloses abstract notions that the consumer associates with particular products suggested by the image of a city. This image influences further on the attractiveness of each urban product, such as: lands for office buildings, industrial spaces, waterside facilities, dwellings, and shops, cultural and recreational endowments, educational conveniences, views and sights. A diverse and of high quality offer for all up above, an equitable division and a justified price are the most important aspects of urban management.
- d) **Urban and regional marketing.** The territorial dynamics of many European urban areas made them engross the surrounding municipalities. Because the elements of an aggregation depend and complete each other, marketing efforts have to be focused towards the urban region.
- e) **SWOT analysis and study of the competition.** The analysis of strong and weak points, as well as of the opportunities and threats helps to set the competitive position of the urban region and of the city. Based on the results of this study it can be settled a strategy for the improvement of the actual status, for example by identifying grouping product/market suitable in pursuing the policy’s objectives.
- f) **Collaboration and social support.** For the urban policy to rent, direct or indirect actors for the quality of the urban environment have to work together in choosing the city concept. One a general level, an efficient urban policy depends upon the enclosure of the municipality in national or international networks and also on a tight connection with the segment of private companies and has to be based on political and social support.
- g) **Organizational structure and business philosophy.** Entrepreneur municipalities need a capable structure and management in order to control resources and activities. It’s not only the internal configuration but also the attitude towards the private segment that have to be revised. Public-private partnerships are examples in this matter. The motivations of the staff, elasticity and adaptability to changes are highly important within the managerial process.
- h) **Communication.** Cities, when it comes to product and services offer, can communicate in various ways with the consumers. Communication is not an objective, but a mean, of whose successful execution depend on the transparency of the strategy or of the strategic plan, on the internal coherence and on partner’s willpower.

## **1. Economic Development Strategies in Western Europe**

The economic development strategies of the West-European cities can be summarised as follows:

- ***internationalisation***: the cities look for external partners;
- ***culture and historical heritage***: in order to improve the city's image;
- ***diversification***: extending the city's economic basis;
- ***high technology***: attracting companies with high value added products;
- ***urban renewal***: both economically and physically;
- ***tourism***: as a sector of economic growth;
- ***SME development***;
- ***prestigious/outstanding projects*** regarding property, culture and business organisation;
- ***local economic development*** supported by real estate development;
- ***financial and fiscal policies***: tax incentives and cheap leasing of land.

### **A. Rotterdam (the Netherlands)**

Rotterdam is the world's largest port in terms of transaction volume. Yet, the position of the port and therefore the city's urban economy are threatened during the 70's – 80's decade by intense competition, changing technologies and the decline of the shipbuilding industry. Rotterdam's renewal policy has focused on diversifying and developing the port and related activities. Elements of this policy included planning the city's economic development, contracting a private sector manager for the urban planning, establishing customised marketing areas (distribution, industry, technology), strong political support, public private partnerships, especially for improving the quality of life and recreational facilities within the city and real estate development.

This policy has been strongly supported by central government investment in the port infrastructure and other transport infrastructure, especially bridges and the underground system. This led to the development of the city centre in terms of infrastructure, recreation facilities, new dwellings and office buildings. The port has been upgraded and is still the world's busiest.

Nevertheless, between 1970 and 1985, the city has lost almost 70.000 employees, especially in the naval neighborhoods. The unemployment rate rose from 6% in 1978 to 23% in 1986 and the population dropped from 732.000 inhabitants in 1965 to 573.000 in 1985. After this year, the harbor was expanded and updated. The city became an important place for the services offered to enterprises. The unemployment rate fell to 17% in 1991 and the population began to grow. But the economic prosperity was not equally felt by all social groups. The emigration of rich residents outside the city generated a lot of social problems. In 1993, unqualified or semi qualified workers represented most of the unemployed. Half of them had stopped working for more than one year and 30% of them for more hadn't worked for more than 3 years. Ethnic minorities and immigrants – which represented 23% of the population and 19% of the active inhabitants, were 35% unemployed and 39% of the families inside the city that lived under a minimum level of income.

The groups mostly affected focused in centrally neighborhoods, in old or social dwellings, of a mediocre quality. The rate of delinquency rose quickly, crimes officially recorded rising with more than 25% between 1988 and 1992.

Under these condition, Rotterdam has developed a social policy supported by the central government focused on education the youth and reducing unemployment. The tools employed by this

policy have been training courses and the creation of social jobs (for example in parks security and maintenance).

### ***B. Seville (Spain)***

Seville has suffered a long period of depression due downsizing of businesses and closing down industrial activity, accompanied by the raise of unemployment. In 1992 came the support from the central government in organizing the Seville Universal Exposition, same year when Madrid served as the European Cultural Capital and Barcelona hosted the Olympic Games. Expo '92 was a strong incentive for the large scale development of cultural, recreational and sports facilities. It also facilitated the modernisation of roads, railroads, airport and communication infrastructure in and around Seville. The Exhibition attracted millions of visitors from Spain and abroad and represented a significant boost for Seville's urban economy.

Although this has been a successful strategy in terms of economic growth and changes image for the city, unemployment is still high and the benefits have not been fairly distributed among Seville's citizens.

### ***C. Glasgow (Scotland, UK)***

Glasgow has been a powerful iron city and port. The decline of its industrial basis brought with it a raise in unemployment. The Scottish Development Agency (SDA) was set up in 1975, as a major factor in revitalising Glasgow's economy. With strong support from the state, SDA has encouraged the private sector involvement in industry in the late 70s and early 80s. Glasgow Action, an organisation of the private sector representatives, led by two local government representatives, has been set up in 1985. The new strategy was directed towards developing the service sector and promoting tourism in the city and rural areas from the region.

Glasgow's regeneration has been financially supported by the central government. Yet, while the city was successful in transforming its image and economic basis, the benefits of this change have not been equally shared by its citizens.

### ***D. Sheffield (England, UK)***

Sheffield was another industrial town that went into economic decline and significant downsizing in the industrial sector. In order to limit the raising unemployment and its consequences, the city set up, in 1991, the Employment Department. The outcomes have been disappointing due to the lack of financial resources and patronising attitude of the public sector. The policies were aimed at developing production, companies financial equity and corporate utility. In 1987 the Sheffield Economic Restructuring Committee (SERC) has been set up. This organisation included representatives of the private sector, city council, high education institutions and Sheffield Development Corporation (SDC) – which has been established by the central government. Today SERC acts as an intermediary between the private sector and local administration and between the local and central governments.

### ***E. Rennes (Bretagne)***

Rennes developed quickly as center of innovative services, supported by the university and numerous research and development institutions which had settled there. It managed to establish connections with the nearby cities, as well as with Centre and Pays de Loire regions and this lead to the creation of the Rennes Atlante Tehnopol (2.500 new jobs were created along with it) and to the launching of several scientific research studies funded by the administration in collaboration with

laboratories spread on a wide area. The presence of 40.000 students and 30.000 research workers withdraw high-tech companies specialized in electronics and biotechnologies.

The international airport and the TGV network determined multinational companies to also locate in this region.

## **2. Economic Development Strategies in Central and Eastern Europe**

The cities of Central and Eastern Europe are trying to develop employing policies and strategies aimed at developing business centres, supporting the SMEs, reducing bureaucratic practices, reorganising the economic basis, creating free zones, developing infrastructure and attracting foreign investors.

An important limiting factor for urban strategies in CEE is the support and policies of the central government. There are a number of lessons to be learned from the previous experience of the central and eastern European cities:

- ✓ *The type of administrative organisation chosen by many CEE countries is not the best solution for managing a city.* The decentralisation and democratisation of local government will improve as public participation in urban policy formulation raises, transparency increases and the provision of public services becomes more efficient.
- ✓ *The fiscal pressure on local administration has two negative consequences:* public sector restructuring leads to increased insecurity among public servants; and inadequate pay for the civil servants is the most important de-motivator in the public service.
- ✓ *The civil servants skills and knowledge related to certain economic concept, especially market mechanisms, are weak,* in most cases.
- ✓ *The information available for municipal administrations is limited and sometimes not objective.*

### **A. Kaliningrad (Russian Federation)**

Kaliningrad is a 20,000 sq km Russian exclave between Lithuania and Belarus. The population of this region, formerly a large military complex, is 1 million. The economic restructuring process facing Kaliningrad was aimed at refocusing its economic and industrial basis. Considering the specific features of the city – the largest iceless port in Russia and the military industrial complex – Kaliningrad succeeded in becoming a free zone in 1995.

In order to prevent tax competition between regions, Russia has allowed for the existence of only three free economic zones. This entails the following advantages: (1) five year tax free income for companies with 30% foreign investment; (2) maximum tax rate of 16% for the next five years; (3) full repatriation of income; (4) customs duty free; (5) flexible rules for labour contracts; (6) one permit needed to register a business. The mix of existing industry and port facilities with fiscal and administrative advantages attracted foreign investment in the local economy.

### **B. Oroszlany (Hungary)**

The economic basis of the 25,000 inhabitants city relies on mining and energy provision. In the last few years, coal mining has been gradually replaced by natural gas import from Germany and Russia. As a result, investment in mining and energy production facilities has dramatically reduced.

In Hungary, mining is still one of the best remunerated sectors and retirement age is 52. That is why Oroszlany continues to be a rich city with a large number of pensioners. In order to overcome the economic and social problems foreseen for next years, the mayor proposed to promote

the unused green areas. For facilitating this strategy, the city hired private consultants for developing detailed building plans for two industrial parks (sized 25 ha and 40 ha). This strategy is aimed at creating new jobs and attracting new industries in the city.

### ***C. Szczecin (Poland)***

Szczecin, situated in the North-West of Poland close to the German border, has approximately 425,000 inhabitants. After the changes which occurred in this area, there has been a raise in unemployment. This created a need for developing a private services sector to facilitate the transition to a market oriented city economy. One of the most interesting and promising initiatives of the Szczecin Centre for Economic Initiative (SCEI), supported by the municipality, was the development of business centres in a historical building.

SCEI has been involved in building two business centre, for which it provided the financial resources, the human resources needed for running and managing it and technical assistance on management, marketing and legal issues. The centre currently provides the facilities for several private companies, based on one and a half year contracts. The lease rate and service fees are well below market rates and by February 1995, 57 successful companies had already grown out of this incubator. One of the companies specialized in ceramics has opened five subsidiaries throughout the country.

The outcomes of this project could be seen quite soon in terms of job creation, increased revenues for the city, development of the less favoured areas, protection of the urban values and strengthened SME sector.

### **Conclusions**

There are several **issues** urban managers from CEE countries should consider, in order to successfully develop the cities:

- ***improving relationships between the public and private sectors*** – by setting up an economic/commercial department within public institutions to facilitate the link between the two sectors;
- ***training and developing the human resources*** – for example by attracting into the civil service private sector specialists, thus making public administration more “entrepreneurial”;
- ***maintaining the stability*** in order to allow for the development of strong networks;
- ***developing new business centres***. Local administration could support training and/or coaching of managers or initiate SME development programmes (PHARE);
- ***improving the urban economic environment*** through an effective management of the urban assets (buildings, land, etc.)

A very important issue is designing a program of urban management. The elements of this agenda should be focused on the operational parts, those of maintenance or development of urban activities, in order to obtain efficiency and social equity:

#### **1. The Finances of the municipalities:**

- 1.1. Instruments regarding the source of local income
- 1.2. Means of growing the local budgets
- 1.3. Financial resource management of the local administration
- 1.4. Financial tools between the Government and Local Administration

#### **2. Land Management:**

- 2.1. Defining the movement of the market of urban land
- 2.2. Informational systems concerning urban lands
- 2.3. Title deeds, registering them, land registers
- 2.4. Procedures of enhancing the offer of urban lands
- 2.5. Regulations regarding the use of the domains
- 2.6. Institutions and laws concerning the land market, recording of the domains, land transfers and urban developments.

**3. Urban infrastructure:**

- 3.1. Standards, procedures, materials and equipments needed for the proper municipal equipping, usage and maintenance
- 3.2. Land office of the networks
- 3.3. Harmonization of the urban infrastructure works with the cycle of the budgets by using the method of integrated investments of multiple areas of activity
- 3.4. Institutional and legislative systems used as tools of urban equipping management

**4. Environment Protection:**

- 4.1. Prices - means of control in resource and services allotment
- 4.2. Legal and institutional framework – means of adjustment for the execution of managerial strategies
- 4.3. Coordination of the environmental issues with the urban problems
- 4.4. Improvement strategies for the waste collecting activities, water quality, diminishing traffic pollution

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