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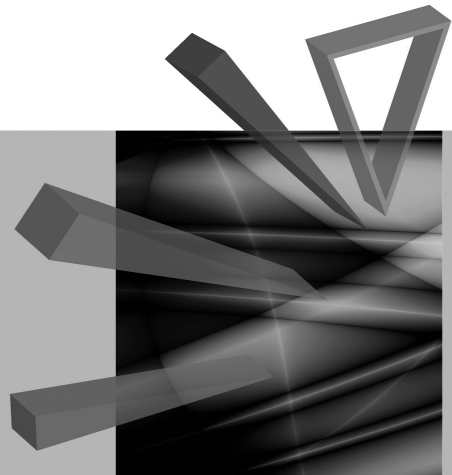
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# **Local Economy in Theory and Practice Planning and Evaluation Aspects**



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## COMPETITIVENESS OF POLISH CITIES IN A EUROPEAN ENVIRONMENT

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**Summary:** The aim of the paper is to analyze the state of urban performance as opposed to the competitiveness of cities in other EU countries. In order to do so, the author defines urban competitiveness as a set of factors contributing to both high productivity and the standard of living in a given urban area, and based on that, creates a list of possible indicators of urban competitiveness. Polish cities are then analyzed using this logic, with quantitative methods when applicable. The overall conclusion of the paper is summed up in the statement that Polish cities are rather homogenous in their performance and do not create any visible competitive advantage – mostly for foreign investors. The competitiveness of Polish urban areas also falls short of the attractiveness of other European cities.

**Keywords:** urban competitiveness, factors of urban performance, Polish cities, urban policy.

### 1. Introduction

The aim of the research presented in the paper is to analyze the competitive position and ability of cities in Poland as opposed to urban areas in other EU countries, as well as to propose policy recommendations in this respect. The motivation for the research came from the observation that the competitiveness of European cities is created by very differentiated factors, unlike the competitiveness of American urban areas which are more homogenous in their territorial capital. The European Union is, on the one hand very urbanized (roughly 70% of the EU population inhabits urban areas and 85% of GDP is produced in cities), yet on the other hand, the competitive advantages and disadvantages are not so evenly distributed over the area. The study of competitive positions of various cities across the world, presented in the “Global Urban Competitiveness Report” [Kresl 2011] came to the conclusion that American cities present a very universal competitive power and absolute advantage in terms of comprehensive competitiveness, whereas urban areas in the EU are more specialized, sometimes even with a very narrow specialization, and separated by countries.

Therefore, the research was driven by the thought of defining the competitive advantage or competitive potential of Polish cities, operating in the European environment. Furthermore, as the Territorial Agenda 2020 (agreed by Ministers

of Spatial Planning and Regional Development of EU Member States) calls for incorporating a territorial and regional dimension into the process of achieving the goals of the Europe 2020 Strategy, this paper is an attempt to measure competitiveness at regional level. However, the approach to urban competitiveness presented in the paper, even though related to the implications of EU policies, is not only limited to the areas pointed out in the Europe 2020 Strategy as priority fields. The indices used to measure the competitiveness of urban areas are based on the research of factors influencing the competitive advantages of cities and go beyond the strictly economic understanding of the concept.

## 2. What is urban competitiveness?

In order to research urban competitiveness, the concept needs to be defined first. Despite the controversies, whether territorial units, such as cities, are actually engaged in competitive activities, P. Krugman questioned the idea, stating that cities only serve as locations for companies and do not influence their performance, which is entirely an effect of price competition or innovation i.e. factors that are territorially independent. M. Porter, on the other hand, argues that cities compete, only the competition is of a different character as compared to enterprises. He uses “competitive advantage” (a concept introduced by Porter) to location analysis, in order to choose a location that is able to increase the competitiveness of companies or sectors located in that particular unit.

Urban competitiveness has two dimensions: first, it is the competitiveness of companies located in a territorial unit; second, it is the competitiveness of those units themselves, their potential to attract capital, high-quality jobs and highly qualified human resources.

Most definitions of territorial units relate to nations or regions; cities are frequently researched and analyzed yet the theoretical base is not as thoroughly elaborated. The phenomena of urban competitiveness is most often described by factors determining it or its indicators. One of the very few definitions of competitiveness of a city is that elaborated by M. Storper [Storper 1997, p. 264]: “Competitiveness will refer to the ability of an economy to hold stable or increasing market shares in an activity while sustaining a stable or increasing standard of living for those who participate in it. It must maintain or increase employment and do so in a qualitatively satisfactory way, which for those who are employed means satisfactory incomes”.

The above cited definition mentions two notions that are critical to the understanding of urban competitiveness in the European Union, i.e. the good performance of companies and the high standard of living of the city’s inhabitants. The inclusion of both determinants of competitiveness (employment and productivity) is characteristic for European urban studies (whereas the American approach emphasizes productivity as the major, or even the sole, concept explaining

urban performance). Therefore, the above definition (by Storper) is assumed for the following research.

### 3. Determinants of urban competitiveness

The first stage of the research was the analysis and typology of the competitive advantage of modern cities. The growing importance of intangible assets for the economy in general has its reflection in the economy and management of cities. Therefore, the sources of competitive advantage need to be analyzed in the light of modern or modernized theories, especially in areas omitted by location or new economic geography (NEG) theories. As much as NEG explains the location pattern of manufacturing, it derives the phenomenon of clustering to spatial interactions (like access to market, participation in supply chain) not putting much emphasis on factors related to technological externalities (like positive knowledge spillovers)<sup>1</sup>.

The determinants of urban competitiveness, chosen based on literature studies, were also adjusted to the European context (much of the urban competitiveness debate is carried out in the American sources, therefore this approach had to be modified<sup>2</sup>). In the policy and literature discussion over the concept of urban competitiveness performed in the EU, the standard of living of citizens is always put as a central idea, whereas the vast majority of American scientists and researchers lean more toward the critical importance of productivity<sup>3</sup>. Therefore, the determinants of urban competitiveness chosen for this research also include some phenomena reflecting the quality of life in cities.

The analysis performed at this stage of the research was concluded with defining five groups of competitive advantage of modern urban areas:

1) Cost of economic activity: mainly cost of human resources, especially highly qualified, real estate rent or purchase and energy costs, as traditional (included in location theory) costs, such as natural resources lose ground.

2) Infrastructure: due to the fact that modern cities act as engines of innovation and entrepreneurship, the analyzed infrastructure included mostly transport accessibility and business infrastructure. Another thread in this factor group was transport infrastructure within urban areas.

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<sup>1</sup> For a more thorough analysis of New Economic Geography compare e.g. Krugman [1998]; Venables [2005]; Storper [2011].

<sup>2</sup> Urban studies in the US are more related to sociology or even cultural studies rather than economics.

<sup>3</sup> For M. Porter the ability of a nation to produce high and rising standard of living for citizens depends solely on the productivity with which it employs its resources. As for P. Krugman he puts it this way: "Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker" [Krugman 1990, p. 9].

3) Administration and city management: high-quality administration and local policies aiming at increasing entrepreneurship and innovation within the urban area may be one of the leading factors contributing to the specific choice of location.

4) Conditions for R&D activity: as competitiveness is strongly built on innovation, only cities that create conditions for R&D development may compete successfully. Determinants in this group include: existence of universities and other research facilities, access to university graduates, access to highly qualified labor force, percentage of labor force engaged in innovative production and services.

5) Quality of life: living conditions cannot be taken for granted as they contribute to a city's attractiveness for highly qualified workers. Interdependencies between those two determinants of urban competitiveness (quality of life and talented workforce) is broadly analyzed in literature, mainly in the American context by R. Florida, yet the outcome of these studies may be transferred to all developed economies.

#### 4. Indicators of urban competitiveness

According to the concept of territorial capital, presented in several works by R. Camagni, each region is endowed with some assets (of a natural, human, artificial, organizational, relational or cognitive character) which constitute the competitive potential of the territory. The combination of these assets and their potential should be identified, strengthened and protected, and wisely utilized and later repeatedly analyzed and used as the basis for regional competitive strategies [Camagni 2011, p. 80]. According to Camagni, adding a territorial dimension to a strategy (of any sector or branch but of a regional or local level) brings significant advantages but has to embrace several facts [Camagni 2011, p. 82]:

- “the diversification of the development paths of the single regions;
- the asset represented by regional diversities;
- the possibility for any region to contribute to the general national (and EU) strategy if it is able to: creatively exploit its own territorial capital, enrich it in the right ways setting appropriate priorities to local and regional policies, ‘tap’ and mobilize previously ‘untapped’ assets of territorial capital”.

Therefore, in the second stage of the research, for each of the groups a set of corresponding indicators was chosen, mostly those included in the Urban Audit database. Based on the data delivered by the Urban Audit, other Eurostat databases, as well as the private sector analysis of the cities market, such as the Cushman & Wakefield's European Cities Monitor, European cities were compared. The indicators chosen to measure each group of the competitive advantage (formulated in the first stage of the research) included:

- 1) real estate value-for-money, labor costs;
- 2) commercial real estate accessibility, market accessibility, multi-modal transport accessibility;



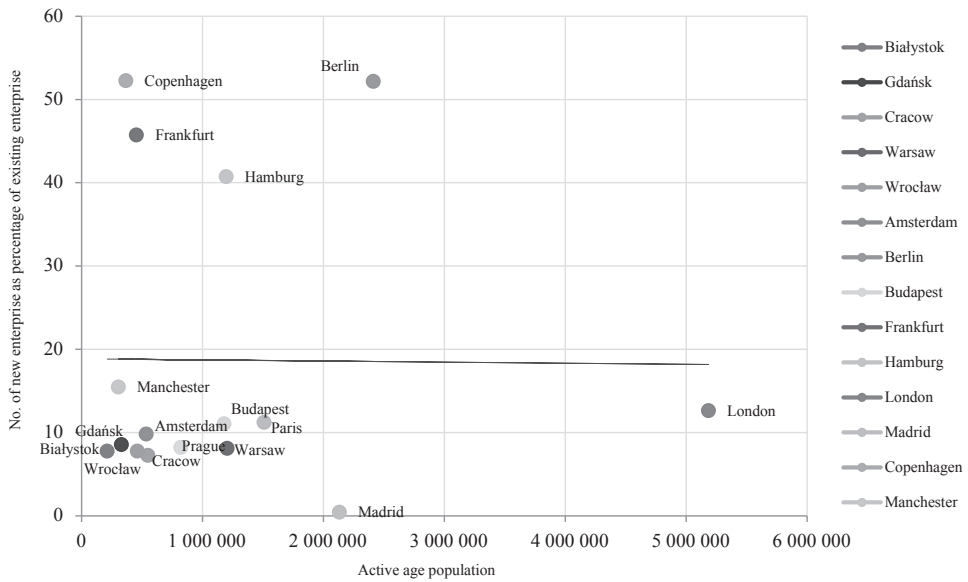
- 3) business environment, non-wage cost of labor, number of new enterprises as percentage of all enterprises;
- 4) percentage of inhabitants working in ICT, percentage of population with ISCED 5 – 6 level education;
- 5) average time of commuting to work, recreational areas accessible for inhabitants, number of public transport stops per 1 km of network, percentage of population living in own house/apartment, prices of houses/apartments.

## 5. Main findings

The cities were analyzed based on two-dimensional comparisons using linear regressions, in order to find relationships between the chosen factors and the position of Polish and other European cities in this matrix, which further gave grounds to establish potential (both actually turned into a competitive advantage or wasted) and areas of territorial capital for Polish cities. Based on literature study and practical observation, pairs of factors (and corresponding indices) were chosen and the position of the studied cities in relation to these indices established. The chosen pairs of indices and their relations are shown in the following figures (1 to 4). As one can observe, Polish cities are mainly located in the left-lower quarter of graphs, reflecting their low achievements in the studied subjects, as compared to other European cities. Factors such as human capital or entrepreneurship are poorly utilized (even though they exist in large quantities), mostly due to inadequate policies or the lack of strategies of competitiveness on the local, cities level. Another issue is related to quality of resources – it seems the supply and demand size of markets (mostly, the labor market) do not match as far as quality characteristics are concerned. The only characteristic of the Polish labor supply that is highlighted by foreign entrepreneurs is its cost, whereas moving toward more technology intensive and less labor intensive areas of production (which is the desired direction for the Polish economy) also requires the ability to attract investors with the high quality of the labor force.

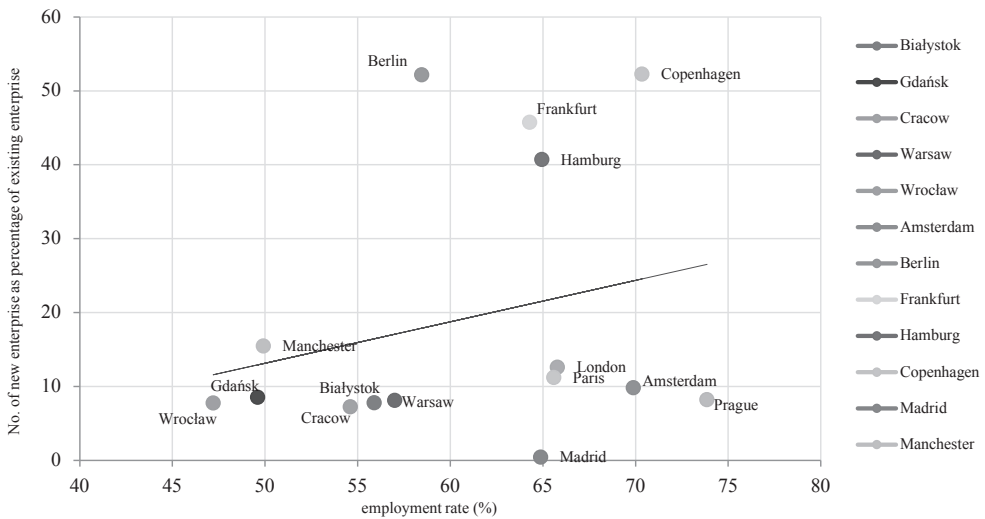
A summary of the quantitative study performed in this research, presenting most of the compared indicators, is presented in Figure 4.

The central horizontal line presents the EU average of all indicators, whereas points on the vertical lines represent a deviation from the average for each studied city. Quantitative analysis shows that in most of the determinants, Polish cities fall short of other EU member states urban areas. The strengths of Polish cities include: demographics – accessibility to labor force and relatively large share of a productive age, low labor costs, good educational attainment, improving transport infrastructure, existence of good base of business support services in chosen urban areas. Weaknesses refer to: lack of a base for innovation (no innovation policy on an urban level) and concentration on low value added production and services.



**Figure 1.** Entrepreneurship vs. human resources in Poland

Source: [Szczech-Pietkiewicz 2012].



**Figure 2.** Entrepreneurship in Polish cities as opposed to employment rate

Source: [Szczech-Pietkiewicz 2012].

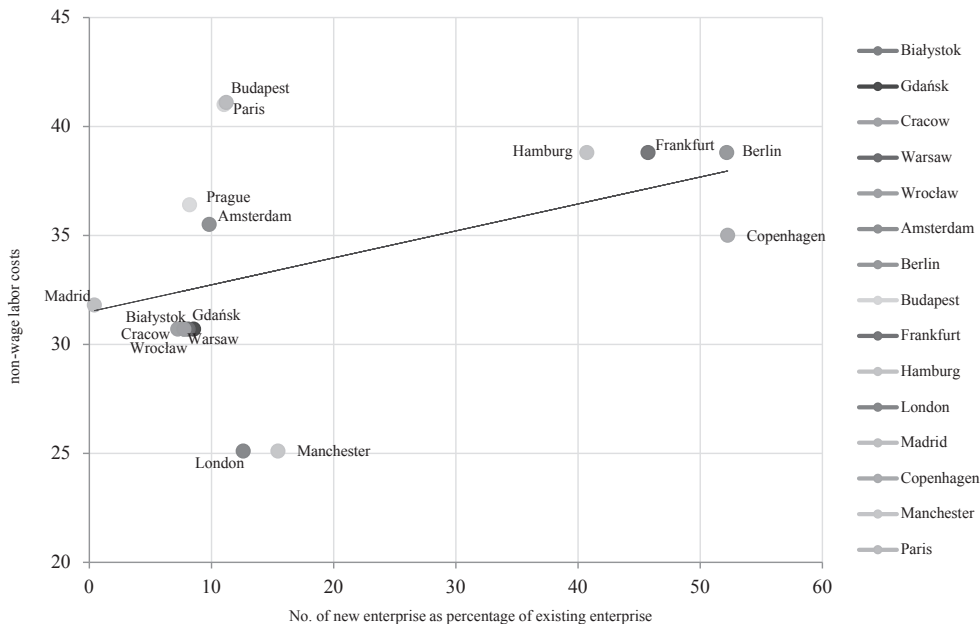


Figure 3. Entrepreneurship in Polish cities as opposed to labor costs.

Source: [Szczech-Pietkiewicz 2012].

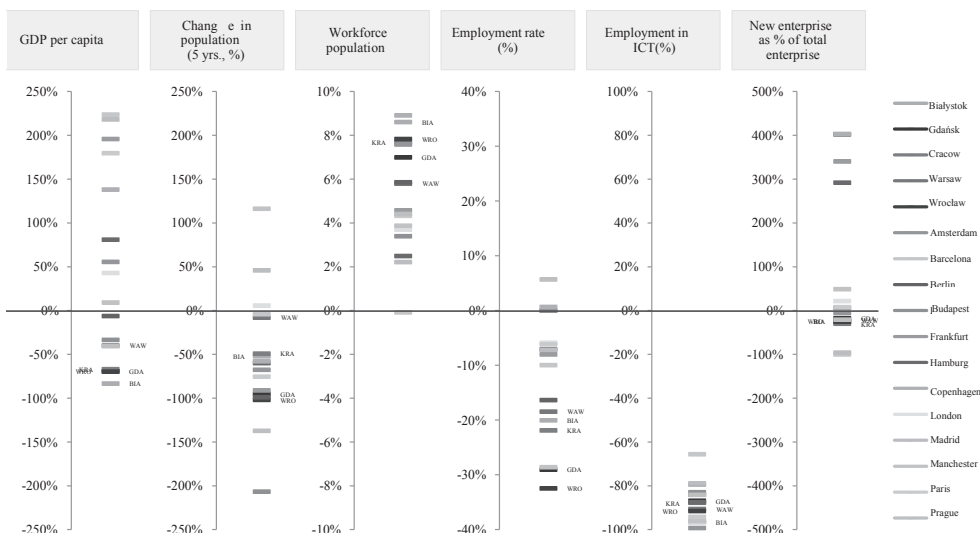


Figure 4. Main indicators of urban competitiveness in Polish and other European cities

Source: own calculation.

## 6. Conclusions and recommendations

The comparative study has given the grounds for the following conclusions:

1) Competitiveness of Polish cities is rather homogenous and overall falls behind the competitiveness of urban areas located in Western and Northern Europe.

2) Strength of Polish cities lies mainly in the quality of the human resources, in connection with the lower cost of human capital.

3) Low cost of human capital is a comparative advantage in labor intensive industries, whereas Polish cities need a competitive advantage in order to compete in technology driven industries with their counterparts. As much as this comparative advantage may be to some extent used in building a growing competitive ability, other sustainable factors enhanced by a proper policy mix, are necessary.

4) Competitive strategies of Polish cities include sources of competitiveness such as innovation (Cracow), human resources (Warsaw) and culture (Wroclaw).

5) Strategies of Polish cities have a limited effectiveness and, with the exception of the cost of human capital as a competitive advantage, are not perceived as having a competitive edge over the urban areas of other EU Member States. This observation, also delivered by the enterprise sector, was proved in the presented research, as no correlation between the number of new enterprises and other tested proxies (drivers of competitive strategies of Polish cities) was proved.

6) Competitive position of Polish cities could be strengthened threefold:

a) first, by greater connection between the chosen strategy and existing resources (in both their quality and quantity dimension);

b) second, by greater consistency in implementation;

c) and finally, by creating an institutional environment enabling the full use of competitive advantage sources, such as highly qualified labor resources at relatively low cost, access to R&D facilities, good quality of life in urban areas.

7) The current strategy, based mainly on low labor costs, must be complemented with other elements of a long-term industrial competition strategy, including moving to more advanced phases of production process, modification of sectoral structure toward high value-added sectors, or adapting new technologies and other innovation in order to increase productivity. Low labor costs create only the potential for further growth of competitiveness, yet, without other elements of the strategy, they do not constitute a high competitive ability and move a city to the pool of areas of externalization of lower phases of the production process.

8) Polish cities should try to use all the possibilities created under the proposed Cohesion Policy 2014–2020 and the Europe 2020 strategy, to unlock the full potential of territorial capital, with leverage such as: integration of funds for a single program, modern financial market instruments, close correlation with EU2020 goals, and the promotion of an integrated approach. Two provisions of the proposed Cohesion Policy concern urban areas most: the integration of funds for a single program and the focus on territorial cohesion. The promotion of an integrated approach very much

reflects the needs of cities, while reinforcing the territorial dimension of cohesion proves the relevance of regional development in the next few years of EU programming and sends a strong signal of the degree of significance that cities have gained once more in EU policies.

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## KONKURENCYJNOŚĆ POLSKICH MIAST W OTOCZENIU EUROPEJSKIM

**Streszczenie:** Celem niniejszego artykułu jest analiza konkurencyjności polskich miast, szczególnie w europejskim otoczeniu. Autorka definiuje konkurencyjność obszaru miejskiego jako zestaw czynników, które tworzą odpowiednie warunki w mieście dla wysokiej produktywności przedsiębiorstw i wysokiego standardu życia mieszkańców. Zgodnie z tym podejściem, wyróżnionych zostało wiele czynników, a w ślad za nimi – wskaźniki pozwalające na analizę ilościową konkurencyjności polskich miast. Najogólniej wyniki badania

podsumować można stwierdzeniem, że polskie miasta są raczej jednorodne, jeśli chodzi o poziom konkurencyjności, nie wytworzyły też żadnych widocznych przewag konkurencyjnych. Ponadto ich konkurencyjność jest na niższym poziomie niż konkurencyjność miast z innych krajów Unii Europejskiej.

**Słowa kluczowe:** konkurencyjność obszarów miejskich, czynniki konkurencyjności miasta, polityka miejska, polskie miasta.