Ewelina Szczech-Pietkiewicz

Poland’s Urban Competitiveness in the European Context

The article attempts to evaluate the competitive position of selected Polish cities, as opposed to cities from other European Union member states. In order to do so, the author defines urban competitiveness as a set of factors contributing to both high productivity and standard of living in a given urban area, and based on that, creates a list of possible indicators of urban competitiveness. Using quantitative analysis, the selected cities are compared to determine how competitive potential is used in each city. This evaluation suggests that the competitive position of Polish cities tend to fall behind that of counterparts from other countries in almost all analyzed areas. Therefore, some preliminary recommendations can be made that focus on establishing coherent policies and goals that are adjusted to both resources and trends in economic development. The overall conclusion of the paper is summed up in the statement that Polish cities are rather homogeneous in their performance and do not create any visible competitive advantage—in particular, for foreign investors.

Competitiveness is a thoroughly studied concept in microeconomics; its relation to the economic performance of an enterprise sector is well explained on the grounds of economic and management theory. However, since the 1970s, it has been broadly used in the analysis of both national and regional economies. That is, the concept has migrated into macroeconomics. The attractiveness of the concept of international competitiveness is increasing due to growing capital mobility and the fact that economies are ever more exposed to foreign competition as markets become increasingly open. Besides globalization, the expanding scope of the European Common Market within the European Union is also a significant factor. Nonetheless, the concept of the international competitiveness of a region or city is still not precisely defined.
The first problem in discussing the concept of “urban competitiveness” is the existence of territorial competition. The debate over this subject started with Nobel Prize winner Paul Krugman’s article, “Competitiveness: A Dangerous Obsession,” in which he undertakes a critique of the concept of a country’s competitiveness. Krugman points to a lack of empirical data indicating that countries compete at all and also to a threat related to bringing this concept into political strategy. Krugman argues that international competition between countries may become an attractive instrument in both internal and foreign policies, if it is assumed that countries compete at all.

Another thread of the critique concentrates on the fact that competitiveness in its territorial dimension is usually said to increase living standards, while for Krugman, quality of life is influenced mainly by productivity and other internally created factors rather than by competition in foreign markets. Therefore, Krugman assumes competitiveness should only to be used in the analysis of enterprises, since they are the only entities that “compete” in the sense of a zero-sum game where a win for one is a loss for another. Territorial entities (including cities) act only as locations for the competing companies, and the business climate they create does not influence the economic results of the enterprise sector. Instead, that success is based only on cost effectiveness, innovation, and other internal company characteristics. Therefore, in Krugman’s theory, cities and the environment they create for business are just necessary conditions for the enterprise sector to exist but they do not influence a company’s ability to compete (as this ability is a result of internal enterprise characteristics). And cities simply do not have qualities that enable them to actually compete with each other.

However, analysis of both urban development and enterprise sector performance suggests that cities do compete—and even more important—they influence the economic results of companies. This is either through resources such as infrastructure, market access, and communication possibilities or through policies aimed at stimulating the local economy.

In a discussion of competitiveness in its territorial dimension, Harvard Business School strategist Michael Porter takes a view opposite to Krugman’s. He argues that territories actually compete quite similarly to businesses, but that this competition is of a different nature. For Porter, the major goal of a territory’s competition is not profit maximization, and thus this competition is not a zero-sum game. The result is that cities and regions do not compete to earn the highest possible market share. The sole indicator of competitiveness of an economy (national, regional, or local) is productivity. As Porter puts it: “Productivity allows a nation to support high wages, attractive returns to capital, a strong currency—and with them, a high standard of living.”

Productivity in Porter's understanding relates to capital and labor, in both goods and services, and is the only determinant generating economic competitiveness in international relations.

Porter also introduces the concept of "competitive advantage" (most commonly used in microeconomic analysis) to the analysis of territorial competitiveness; in this context, competitive advantage includes a set of characteristics that a country, city, or region has to offer in order to increase the competitiveness of industries and companies located within its boundaries. It also includes the activities and policies of a city (region) undertaken to increase the economic performance of those enterprises in the international environment.

Both Krugman and Porter, in their research on territorial competitiveness, concentrate mostly on national economies with few references to regions. However, in transferring their works to the European context one has to remember that an American region (a state) can implement instruments of competitiveness policy that resemble European national policies (apart from monetary policy, though even within the euro zone it is also not entirely independent).

This discussion attests to the importance of the subject of economic competitiveness at different territorial levels, even if some researchers dispute its existence. The international competitiveness of companies has been quite thoroughly analyzed by now, as has the competitiveness of national economies (in reports such as the World Competitiveness Yearbook, by the Institute of Management Development in Lausanne or the Global Competitiveness Report, by the World Economic Forum).

The competitiveness of cities, however, is a far less analyzed concept. Functioning in the literature primarily in the form of rankings, it remains without a theoretical basis. Therefore, urban competitiveness is either not defined at all or defined by its indices and results. The specificity of urban competitiveness relates to the fact that urban areas have to compete not only internationally but also within a country, with the importance of the latter growing (mainly in trade) with increased volumes of retail sales, increased value added of goods, and business-related services. Moreover, as has been noted above, competition between cities is unique because they do not try to increase their market share (and also—unlike countries—are not able to use currency exchange mechanisms as a stimulus) and they do not carry out a trade policy (which is most commonly implemented at the national or regional level). Therefore, competition between cities focuses on investment, human capital, tourism, and cultural and sports events. At times, this competition is very direct, for example, when it comes to hosting events or attracting infrastructural investment, and at other times it is more subtle, for example, in the case of increasing citizens' quality of life (which is a leading

factor in attracting a high-quality labor force). Literature on this topic lists three important factors for urban competition:

Investment: the ability to attract foreign capital, both private and public;
Human capital: the ability to attract highly educated, well-qualified workers, entrepreneurs, and representatives of the so-called creative class, which allows cities to increase their innovative potential and therefore their competitiveness; and
Technology: attracting technology builds capacity for innovative growth and knowledge-based development.

Another problem in the discussion of urban (or regional) competitiveness lies in determining whether the strength of a city is created by good economic results achieved by enterprises located within its boundaries or in a competitive territory that is attractive for investment and human capital, that is, a territory in which competitiveness is generated by its unique characteristics. These two dimensions of territorial competitiveness are characterized as:

“Competitiveness of companies localized in a given territorial entity, in an open global economy,
Competitiveness of territorial entities themselves in attracting capital, creating jobs, and bringing profit, in attracting highly qualified human capital, capable of creating innovation and implementing advanced technology and managing corporations.”

Resolving the problem of sources of urban competitiveness is crucial for further research, as it determines what factors may be influencing urban competitiveness, and further—what indices may be chosen for empirical research.

The first approach (in which a city’s competitiveness is derived from the competitiveness of its enterprises) is probably based on the fact that competitive analysis was implemented primarily in microeconomics. This approach is reflected in Krugman’s criticism of territorial competition. The approach leads to problems in measuring urban competitiveness, for example, because cities are subject not only to international but also national trade flows—notions suitable for companies that are not always applicable to cities or countries.

The second approach also embraces the territorial dimension of competitiveness. In this understanding, competitiveness is generated mainly by city management and its policies influencing both the enterprise sector and the public. Elements of this approach can be traced to Porter’s analysis of territorial competitiveness where he includes the influence of external factors on company performance. Other authors also point to the significance of external factors (policymakers, local governments) on urban competitiveness. Ian Gordon and Paul Cheshire state: “territorial

competition may be conceived of as involving attempts by agencies representing particular areas to enhance their locational advantage by manipulating some of the attributes which contribute to their area’s value as a location for various activities.”

In this definition, because agencies are the leading power in the competition between territorial entities, a city’s characteristics (including its competitive advantage) are the result of those powers in action.

The role of “external factors” is also stressed by Peter Karl Kresl, one of the leading researchers in the area of urban studies and author of the annual *Global Urban Competitiveness Report*. He points to six indicators of a competitive city:

- The jobs created should be high skill, high income jobs.
- Production should evolve toward environmentally benign goods and services.
- Production should be concentrated in goods and services with desirable characteristics, such as a high income elasticity of demand.
- The rate of economic growth should be appropriate, so that full employment is achieved without generating the negative aspects of over stressed markets.
- The city should specialize in activities which will enable it to gain control over its future, that is to choose among alternative futures, rather than passively accepting its lot.
- The city should be able to enhance its position in the urban hierarchy.

In other words, for the city which can strategically plan to achieve more than merely its own survival but to enhance its competitiveness this planning is clearly as question of qualitative as well as quantitative factors.7

One of the very few theoretical definitions of urban competitiveness was created by Michael Storper, who defines it as “the ability of an economy to attract and maintain firms with stable or rising market shares in an activity, while maintaining stable or increasing standards of living for those who participate in it.”

This is the definition followed in most European studies and it emphasizes two sides of urban performance: corporate development and the standard of living of a city’s inhabitants. Also in Porter’s works, where competitiveness is said to be equal to productivity, the objective of competition is to increase quality of life. This approach, currently common in the analysis of competitiveness, is also reflected in urban studies, with the instruments of urban policies aimed at the economy and quality of life.

All the studies and policies implemented by the European Union embrace

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the approach in which standard of living is the main objective of competitiveness growth. The European Commission's definition of regional competitiveness reflects this approach, stating that it is: "the ability of a region to generate, while being exposed to external competition, relatively high income and employment levels. In other words, for a region to be competitive, it is important to ensure both quality and quantity of jobs." In this definition, the European Commission seems to lean slightly toward the approach where an area's competitiveness is determined by the performance of its businesses. As a consequence, policy in regard to the growth of territorial competitiveness would have to focus on a favorable business environment. However, the aspect of job creation also reflects attention to social issues in the European Union. Emphasizing even more strongly that a region's development is not only measured by the economic results of its enterprise, the commission states that: "while most regions will have both strongly competitive and uncompetitive firms at any one time, there are common features within a region, such as infrastructure, human capital and public institutions, the quality of which affects all firms."

Hence, territory matters for the performance of companies and quality of life of inhabitants; it is not just a location but it can significantly influence businesses and lives through policies and actions, and therefore creates an important external determinant of competitiveness.

The research presented here takes the approach that a competitive city is not simply a location of competitive firms but also it creates favorable conditions for business and a high standard of living, and that productivity is not a sole objective of competitiveness but rather an instrument in increasing quality of life.

**How to Measure Urban Competitiveness**

The assumption that a competitive urban area is not just the sum of competitive enterprises doing business in its location but, rather, a territory capable of generating and maintaining high quality of life for its inhabitants, implies determinants and indicators that can be chosen for further research. These indicators can therefore be divided into two groups—first, factors influencing the economic performance of companies, and second, factors contributing to a high standard of living. In the first group we find indicators such as labor costs, real estate cost, transportation costs, fiscal policy, overall business climate, and quality of the legal environment. The second group of factors (related to standard of living) includes transportation accessibility (both geographic and economic) to and within the area, accessibility of housing, quality of education, existence of research facilities, and cultural and recreational opportunities available in a city. In this respect, it is also important to

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10. Ibid.
note that enterprises affect the quality of lives of inhabitants through employment policies. However, most of the factors in this group are created by city management. Therefore, the typology of the factors leading to urban competitiveness proposes their division into two groups: those related to enterprises (including productivity and employment policy) and those related to city policies aimed at increasing the city’s attractiveness. This typology embraces two approaches of urban competitiveness: competition between companies within a territory and competition between territories.

Kresl introduces another typology of urban competitiveness, dividing the factors into “economic” and “strategic.” The first group includes production factors, infrastructure, location, and economic structures. Strategy-related factors include government efficiency, urban development strategy, cooperation of the public and private sectors, and institutional flexibility. What is important to implementing this typology into research is that economic factors are strictly quantitative and can thus be measured and compared, whereas the strategic factors are more qualitative and their outcomes are generally presented through comparative analysis of program documents or personal contacts. Both approaches will be presented in the following parts of this article.

One of the most complex models of urban competitiveness and its determinants is that elaborated by Ian Begg.11 The model has some significant characteristics that make it most useful for urban studies. Not only is it one of very few models developed particularly for urban areas (and not for regions, which is more common), but also it is not limited to just a list of determinants. It shows interactions between specific indicators that give grounds for dynamic analysis of urban performance. In some aspects, Begg’s model is similar to Porter’s diamond.12 However, Begg relates determinants to levels of employment, productivity, and quality of life. This shows a more “European” approach to competitiveness studies, which always include factors influencing the standard of living, whereas American researchers most commonly identify competitiveness with productivity, which is believed to increase quality of life in an urban area based on market powers. The two major determinants listed in Begg’s model (employment and productivity) are identical to those adopted by the European Commission in 1997,13 although Begg added a necessary dynamic dimension to them, showing the direction of influence.

The dynamic approach presented in Begg’s model can also introduce certain obstacles to further analysis, as some of the competitiveness determinants may be contradictory in different periods and their relations may change over time.

The logic assumed in Figure 1 is consistent with the following research. As much as a city’s main objective is usually to attract successful businesses it is also

12. Porter’s diamond for territorial competitiveness analysis includes resource accessibility, firms’ structure and strategy, supporting and related industries, and demand.
highly probable that a company’s decision makers will choose a location that is suitable for their qualified workers, top managers, and other representatives of the “creative class.” Therefore, whether following Richard Florida’s logic (successful cities are those that offer good quality of life for the creative class) or the European Commission approach (standard of living issues are a reflection of social policy), the conclusion is similar—a competitive city is one in which people are willing to live. This holistic attitude is represented in European urban policy by the statement:

Cities have to move towards a more holistic model of sustainable city development, in which they overcome seemingly conflicting and contradictory objectives. Economic growth has to be reconciled with the sustainable use of natural resources, global competitiveness must be inclusive and favour a local economy, and attractiveness to the global social and economic elite must not exclude less favoured groups.

**Research Method and Data Sources**

The aim of the quantitative study was to determine the competitive position of Polish cities as opposed to cities of other European Union (EU) countries. The EU

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was chosen as the context for the comparison because it is the environment closest to the Polish economy, both in terms of trade relations and policymaking. It could be argued that Polish cities or the Polish economy in general should be compared instead with their closest regional competitors, for example, with countries such as the Czech Republic, Ukraine, or the Baltic states, but here the policy context has to be considered. As much as EU member states oppose every attempt to create a common European urban policy (due to concerns about loss of independence), much of urban development planning is influenced at the community level—mostly by interventions of structural funds. This creates common grounds for European cities along with common statistical data.

The statistical issue in relation to urban areas has special merit—there is no uniform definition of a city, whether through the EU or institutions such as the Organization for Economic Cooperation and Development (OECD) or UN-Habitat. This situation poses significant concerns for researchers as it proves extremely difficult to compare urban areas. Cities are usually defined based on their population density or number of inhabitants, rarely their functional characteristics, but such criteria are not homogeneous even among research institutions. Furthermore, the size of urban areas changes over time, which increases the complexity of dynamic comparisons and quantitative research.

Cities represented in the following research data were defined as core cities based on the Eurostat definition (other EU urban units include: larger urban zones, kernels, and subcity districts). Assuming this definition gave grounds for a quantitative analysis, based on the Urban Audit data collected by Eurostat, on national statistics data, and OECD metropolitan areas data. Other more qualitative data include the results of research by consulting sector: Cushman & Wakefield’s survey of a group of 500 decision makers responsible for location choice in European enterprises and a PwC report on the state of Polish cities.

Data are presented for the most recent available period, usually 2007, when the Urban Audit was last conducted and OECD collected its metropolitan area data. The European Cities Monitor includes data for 2010. The lack of data along with delays in data publication are common problems mentioned in European urban studies.

The Polish cities chosen for the research are all “voivodships” (regional centers) selected for their diversity and regional dispersion. Cities of other European countries were selected based on their geographical location throughout the EU and their various economic characteristics (e.g., leading industry) and similar size (except for London and Paris, which are included in the research because of their importance to the European economy).

18. Richard Florida and Irene Tinagli, Europe in the Creative Age (London: Demos, 2004), 36.
RESEARCH RESULTS AND DISCUSSION

In analyzing the quantitative indices of competitiveness of Polish cities, it is important to reflect on the sources and determinants of conditions of urban Poland. Previous research performed by the author shows that Polish cities are quite homogeneous in regard to competitiveness, especially when compared to other European cities. This situation has to be taken into account when applying Begg’s model (presented above). It seems that most drivers of competitiveness are executed at the central level in Poland. That is, cities rely mainly on incentives from higher levels of government when it comes to their development. Therefore, in applying Begg’s model to Polish city analysis, the “top-down” or “macro” policies would be the major determinant. While these include factors like transportation accessibility and taxation, there is still room for maneuver in regard to regional or local level policies. For example, most education is managed by regional governments, and local governments are capable of transforming some of their areas into special economic zones, hence creating favorable conditions for the enterprise sector. Moreover, local governments create incentives for innovation by attracting a chosen group of workers and companies or encouraging contacts between business partners and the sharing of good practices. These actions constitute an important part of the “business environment” of Begg’s model and increase the “capacity for innovation and learning.” While “company characteristics” (the fourth of Begg’s determinants) cannot be influenced by local governments or city management directly, a variety of indirect actions can be taken, such as attracting a chosen type of company or encouraging a chosen business model.

Results of the quantitative analysis show that Polish cities present similar levels of competitive position, but are less competitive than other cities in the European Union. The only Polish city that stands out in this comparison is Warsaw, which, for several reasons, is the most attractive location for foreign investors. Entrepreneurs interviewed by Cushman & Wakefield in the European Cities Monitor point mostly to low labor costs, accessibility of labor, and commercial real estate. Warsaw’s ability to attract foreign investors is also based on its accessibility to transportation and its metropolitan character, which constitutes a major determinant of “creative class” as far as quality of life is concerned. Based on these characteristics, Warsaw may thus be considered the only Polish city to even attempt to compete internationally, although this competition is still more regional than global.

A very synthetic overview of urban development in Poland is presented in the PwC Report on the State of Large Polish cities. Development of cities is presented

based on aggregated index composed of: per capita gross domestic product (GDP) growth, real wage growth, and the unemployment rate. Analysis reveals that cities with the most rapid development in the period 2008–10 are Wrocław and Warsaw, while Lublin and Białystok had the slowest growth pace. EU membership has had a significantly positive effect on Polish cities as the PwC index grew overall by 27 percent as compared to the preaccession period (see Figure 2). The main determinant here was probably the inflow of structural funds that are used broadly in the area of regional development.

The PwC report is based on an analysis of various resources of cities and their typology, including human capital and social activity, culture and image, quality of life, infrastructure, institutions, investment, and finance. Based on the aggregated value of these resources, it was observed that Lublin, Białystok, and Tri-city (Gdynia,
Gdańsk, Sopot) are the most rapidly growing areas, while Wrocław, Warsaw, Bydgoszcz, and Łódź registered the slowest growth. This conclusion may be questionable, however, because the same authors pointed to Białystok and Lublin as the weakest performers in urban Poland, and to Warsaw and Wrocław as the most developed cities (based on the PwC aggregated index). One explanation could, of course, be a base effect: because Eastern Poland’s cities start from a lower level of development, their growth rate should be expected to be higher. Yet, the aggregated index used by PwC to present the overall development of Polish cities does include dynamic effects by using the GDP growth rate. Therefore, it is worth examining why cities at the top of the ranking note such weak results when it comes to the assessment of resources. The only economically reasonable explanation is the delayed effect of the resources (called “capital” in the original report) on the overall performance of the cities.

In the most condensed form, the quantitative analysis results of Polish cities’ competitive position are presented in Figure 3, which shows their rather weak competitive position. The zero-percent level in the graphs represents the European Union’s average, so the distance of Polish cities from the European context can be observed. It must be kept in mind that cities compete mostly for capital and labor and both factors have to be innovative to meet the test of modern economy. Therefore, conditions for mobile capital and “creative class” localization have to be established within a city, to allow successful competition for those resources.

The change in the working-age population in Polish cities over a five-year period is lower than average not only for the EU-27 but also compared to other European cities. This indicates that, in general, Polish cities are not seen as an attractive location for human capital, regardless of quality. One of the reasons for population outflow may be the process of European integration itself, which encourages population withdrawal from Poland, especially of young people; another explanation is the process of suburbanization, which is common in countries at this stage of urban development. A positive factor in the development of Polish cities is still the large availability of human resources they have, one of the few indicators on which Polish cities rank well, however, demographic changes may contribute to weakening of this advantage.

Employment in the information technologies sector and the number of patent applications reflect the very weak position of Polish cities in terms of innovative capacities. The availability of human resources (a large number and a low employment rate) is not coupled with its high quality—one of the core factors in building an innovative economy. Polish cities rank below other European cities in both patent applications and employment in innovative industries, and this poses a threat of specialization in low-value-added production and services.

The entrepreneurial drive (represented by the percentage of new enterprises in the total number of enterprises) in Polish cities is quite high. In all analyzed urban areas it is close to the EU-27 average and very few other EU cities rank significantly better. This confirms the general observation of an active enterprise sector in Poland, especially small and medium enterprises (which constitute about 98 percent
of companies in Poland). Yet problems remain in regard to the specialization of these enterprises and their qualitative characteristics.

**Competitive Strategies Employed in Polish Cities**

The analysis of urban and regional development strategies indicates that policymakers use the term “urban competitiveness” quite often, mainly in the context of a general goal of development programs or proposed reforms. Much less attention is focused on understanding this notion and explaining the essence of the term. Competitiveness at the regional or local level is therefore most often used as an indicator of economic growth not as one aspect of it.

The following examples offer a general overview of possible strategies of urban development. Transferring these practices to other regions should be done with caution. There is no one-size-fits-all strategy: cities constitute a very complex environment and it is simply impossible to mirror the same conditions everywhere. While the strategies should include the determinants mentioned by Begg, no single effective instrument exists because different cities offer different conditions, both economic and social. Furthermore, depending on the administrative structure of a country and region, different instruments or strategies are more effective when implemented from a different level (local, regional, central).
Favorable Conditions for Doing Business as a Driver of Urban Competitiveness

One of the leading strategies in improving the performance of urban areas is to attract investors by creating a positive business climate. A competitive city is one that is chosen by companies that compete successfully in their markets. Instruments for local (urban) policy toward entrepreneurs include tax incentives, technical infrastructure development, the creation of platforms for sharing practices, and the general attitude of institutions toward the private sector.

Practical research on the determinants of business localization is performed annually by Cushman & Wakefield and published in the *European Cities Monitor*. The study is based on a survey of 500 decision makers in companies throughout Europe. The results for 2009 and 2010 in regard to factors of location decisions are presented in Table 1.

In light of the findings of the *European Cities Monitor*, urban governments should invest in development of transportation and communication accessibility, which are crucial factors for investors. Moreover, access to employees who have certain qualifications might be a critical determinant for them. All of these issues can be addressed by local governments in their policies, even in centralized systems such as that in Poland.

More detailed research, done in Poland by Wojciech Jałowiecki and Bohdan Dziemianowski, shows that nearly 90 percent of companies in Poland expect fiscal or financial incentives from the urban government. A far smaller proportion

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<th>Table 1. Factors in location-decision of European investors in 2009 and 2010.</th>
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<td><strong>Percentage of answers in 2010</strong></td>
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<tr>
<td>Easy access to market, customers, and clients</td>
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<td>Easy access to market, customers and clients</td>
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<tr>
<td>Easy access to qualified staff</td>
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<tr>
<td>Quality of telecommunication</td>
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<td>Transport connection with other cities and internationally</td>
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<td>Value for money of commercial real estate</td>
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<td>Labor costs</td>
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<td>Availability of office space</td>
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<td>Climate for entrepreneurship created by governments (tax and financial incentives)</td>
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<td>Language spoken</td>
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<td>Ease of travelling within the city</td>
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<td>Quality of life for employees</td>
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<td>Freedom from pollution</td>
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of respondents pointed to technical infrastructure as the most pressing issue for their businesses. The study also reveals an interesting difference between Polish and foreign investors: 38.8 percent of foreign firms expected local authorities to come up with a strategic plan for the urban area, whereas only 18.8 percent of Polish entrepreneurs expressed this need. On the other hand, as much as 67.6 percent of Polish and only 26.8 percent of foreign companies saw local government institutions as intermediaries between business partners. This shows a significantly different approach between the two groups of investors: Polish entrepreneurs were more interested in assistance for operational matters, such as finding partners, whereas foreigners saw local authorities as long-term strategy makers.

A Polish city that seems to build its strategy around attracting investors is Warsaw. The Polish capital is endowed with various factors that are most valued by companies: a large market, transport accessibility, good transport connections within the city and with the rest of the country, and at the same time low labor costs. Moreover, as a capital city, Warsaw offers the possibility of close links with the central authorities and officials experienced in dealing with foreign investors. Therefore, Warsaw is most commonly chosen by foreign investors as their location in Poland.

However, quantitative data (presented in Figure 4) do not demonstrate the hypothesis that Warsaw is particularly successful in attracting investors. Other European cities with a similar number of working-age inhabitants, such as Budapest or Hamburg, are ranked higher when it comes to the number of start-ups.

A potential risk in urban development strategy based on creating favorable conditions for investors comes from the fact that it is concentrated around large corporations. In Polish conditions, this may pose a threat, insofar as small and medium-sized enterprises create nearly 50 percent of Polish GDP and supply about 70 percent of jobs. Therefore, a strategy based on attracting investors should reflect this fact and create incentives for small or even micro companies, not just investment from large transnational corporations.

Labor Supply as a Driving Force of Competitive Strategy

Entrepreneurs point to the availability of human resources as a driving force for location decisions that is often as significant as market access and favorable business conditions. With a significant workforce supply and low employment rates (signaling high numbers of idle labor force), Polish cities seem to be capable of competing with other European urban areas or even competing globally.

The relation between the labor force and territorial competitiveness is well established in theory, mainly by the concept of “agglomeration economies.” Labor supply is one of the three leading factors motivating location decisions, and moreover, cities are treated as the most suitable places for developing human resources (both formal, in schools and courses, and informal, via networks of personal experience exchange).

In analyzing strategies for increasing urban competitiveness, two risks should be mentioned. First, low labor costs and a high availability of human resources
Figure 4. Working-age population vs. number of newly launched companies in selected European cities. Source: Author's calculations based on data from Urban Audit (Eurostat).
(low employment rates) might tend to attract specific types of investors: those who solely seek low costs and therefore might change their location once a cheaper labor supply is found; and companies interested in low-value-added, labor-intensive production. Both characteristics of potential investors are undesirable in terms of long-term development strategy, which should tend toward attracting innovative, technologically advanced production. Another bias of this strategy is related to its social effect. Promoting a city based on its low labor costs can be a strong factor in maintaining a low standard of living (low labor costs equal low remuneration and low standards in the workplace).

An example of a Polish city that is associated with accessibility to a low-cost labor force is Łódź. Situated at two major international routes (two highways: north–south and east–west intersecting nearby), it is a convenient location for investors. It also offers numerous higher educational institutions and their graduates.

Interestingly, investors point to the existence of long-term strategic planning in the city of Łódź and the fact that it has been elaborated in cooperation with business representatives. This factor of location decision making is not mentioned for any other Polish cities and may constitute Łódź’s competitive advantage. Significant incentive for entrepreneurs is created by special economic zones (providing lower taxes and nonwage labor costs).

With all the benefits of this location, Łódź has become an interesting point on foreign investors’ maps, which is chosen primarily for operational centers of companies of the finance, insurance, and real estate (FIRE) industries. Apart from easy access to a qualified labor force that has a proper knowledge of foreign languages and easy availability of cheap commercial real estate, Łódź also offers rapid connections to Warsaw, which, in turn, is most commonly chosen for a company’s headquarters (the train connection takes about ninety minutes and this will soon decrease to about sixty-five minutes; another obvious benefit is a direct highway connecting the two cities).

Further implementation of Łódź’s competitive strategy must, however, move its specialization to higher-value-added sectors that are more technologically advanced and less labor-intensive in order to maintain its competitiveness.

Innovation-based Competitiveness

Innovation as a key driver of territorial competitiveness is well recognized in the economic literature. It is always indicated as one of the main determinants of development: for example, for urban areas in Begg’s model or for national economies in Porter’s theory. In a more practical approach, the OECD has shown that innovative production is a key component of urban competitiveness, and cities are

naturally predestined to be locations for industries such as information and communication technologies (ICT), biotechnology, finance, and research.\textsuperscript{24}

Cities appear to be ideal areas for establishing innovative clusters: they attract qualified staff (for lifestyle reasons), they are home to large numbers of research institutions, and they create beneficial conditions for sharing information and experience (both formally and informally). Therefore, the strategy of increasing competitiveness with innovation as a central concept is attractive to many cities, as they attempt to copy the success of Silicon Valley or other technology clusters and attract high-value-added production and service. Yet experience shows that other elements are prerequisites for the innovation-based success of some areas over others. The OECD points to the existence of network connections between actors as a necessary condition, and the fact that “quasi-technopolies” lack them, concentrating their actions on technical infrastructure and assistance. Another precondition is a legal and institutional environment that is suited to the specific needs of innovative businesses.

Kraków is an example of a Polish city that tries to tie its strategy to innovation. Having a strong base of technological universities, a growing population and labor force (including those with higher education), Kraków possesses some prerequisites for this strategy. Moreover, alongside its special economic zones is a Technology Park, meant to promote Kraków as a suitable location for technologically advanced businesses. Despite the necessary resources and policies, Kraków still fails to reap high returns from this strategy—the proportion of the labor force engaged in ICT production is as low as 0.82 percent, not significantly different from other Polish cities.

Some explanations for the failure of this strategy may include, first, that Kraków is associated mainly with cultural offerings. While this image creates an advantage in the tourist industry, the availability of a wealth of world class cultural heritage may hinder the city’s image as an innovation location. Another reason is the city’s close proximity to Katowice, a city with comparable costs of living but higher salaries and a more developed enterprise sector. Graduates of Kraków’s universities thus tend to choose relocation to Katowice. This example may confirm the hypothesis that cluster creation has to be built based not only on a specific area’s resources and potential but also on its geographical situation.

Quality of Life as a Driving Force of Urban Competitiveness

A high standard of living is at the center of the concept of urban competitiveness, being the ultimate goal of all development initiatives. The importance of “soft” factors of competition is increasing over time and current theories of competitiveness point to qualitative characteristics of a location rather than “hard” factors such as size of the working-age population, energy resources, and access to transport

infrastructure. The influence of a city’s quality of life on its economic performance has been very thoroughly analyzed by Richard Florida. In his works, urban lifestyle (simplified to “tolerance”) is among three fundamental determinants of urban competitiveness (the other two T’s are “talent” and “technology”). Florida argues that representatives of the “creative class” (the highly educated labor force) will be willing to migrate to an urban area only if it provides them with infrastructure for an urban lifestyle and high quality of life (including educational opportunities, recreation and cultural opportunities, etc.).

The survey of European cities by Cushman & Wakefield underscores this hypothesis—21 percent of respondents pointed to quality of life as one of three major factors in deciding where to locate. In a similar survey carried out in the 1990s, only 10 percent of decision makers included standard of living as a determining factor in where to locate their businesses.

To determine whether a high quality of life is a decisive factor in urban development in Poland, we turn to the example of Białystok. Białystok ranks very high on standard of living in both the PwC report and European Commission research. The “Perception Survey on Quality of Life in European Cities” depicts Białystok as a city in which inhabitants are pleased with low costs of living, good quality of the natural environment, increasing transportation accessibility, and growing cultural offerings (an Opera House recently opened). Yet, Białystok is not associated with prosperous businesses; the same survey shows significant concerns of citizens over employment and job creation. Białystok is also rarely chosen by investors as an attractive location.

This example confirms that apart from quality of life, a city must offer other incentives. In Florida’s methodology, “tolerance” is not enough to create a competitive urban area, the other “T’s” have to be present as well. The creative class (talent) will not migrate to a city if it has no work prospects (technology) for them. Therefore, a high standard of living may act as an additional (or even necessary) element of competitive strategy while being complementary to others such as the business environment or innovation.

**Strengths and Weaknesses of Polish Cities**

**Economic Point of View**

Overall, the strengths of Polish cities, both quantitative and qualitative, include:

- Geographic location in Central Europe—this factor is quite often taken into consideration by foreign investors when choosing a location. Paired with a rather large (in European terms) size of the internal market and proximity to

other large markets (Germany, Ukraine, and Russia), it may be a critical factor in decision making.

- Relatively small size of cities—Europe has no mega-cities (perhaps with the exception of London and Paris), and Poland follows this pattern of development. Compact size creates a high quality of life in urban areas, and this is among the factors taken into consideration especially by the “creative class.” At the same time, Polish cities offer other services that increase living standards as cultural or recreational areas and accessible public transportation.

- Policentric spatial structure—most cities in Poland have up to 1 million inhabitants, which improves manageability of the area. This fact not only influences the quality of life in the city but also affects the business environment. Second-tier cities are currently indicated as the most favorable business locations both by the commercial sector and researchers.27

- Labor costs—the low cost of labor in Poland is perceived as one of the most attractive incentives for investors. While it can be used as short-term strength, in the long term it poses a threat of specialization in labor-intensive production. It may also be attractive to investors for whom labor cost is the sole argument in choosing a location and can also generate capital outflow when other locations offer better labor-cost conditions.

- Competitive costs of living—attractive cost of housing, schooling, and transportation can be factors in the mobility decisions of employees.

- Quality of the labor force—educational attainment of the working-age population in Poland has for some years been above the long-term goals of the European Union (both in the Lisbon strategy and the EU-2020 strategy). Therefore, stressing this characteristic of the labor force in Polish cities might be a way out of the labor-intensive low-value-added specialization.

Weaknesses of Polish cities include:

- Infrastructure—both investors and city inhabitants point to weakness of infrastructure as an obstacle in the development process. For inhabitants, transportation and educational facilities are major concerns, while businesses also indicate business support and the legal institutional infrastructure. However, the latest Doing Business report finds Poland a “global top improver,” with reforms undertaken in 2012 increasing the ease of firm registration, enforcing contracts, and resolving insolvency, as well as improving the fiscal environment.28 Yet, while Poland jumped up by nineteen positions, it is still seventy-fourth in the

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rankings. Based on the World Bank assessment, the areas of improvement in future reforms should include: taxation, business start-up procedures, and dealing with construction permits.

- Concentration on low-value-added sectors—based on the large quantity of labor force and low labor costs, investors tend to concentrate on labor-intensive production, which in the long term may negatively affect the economic structure of Polish cities. Therefore, quality of the labor force and company characteristics should be of special concern when choosing a long-term strategic vision of city development.

- Lack of strategy toward urban growth—Poland as no centralized urban policy (although one has been elaborated for several years now by various departments). Therefore, city managements are not encouraged to follow a specific pattern of urban development; moreover, they are not even encouraged to build a long-term vision for their cities. The growth of urban areas is based on bottom-up actions, which can create threats such as specialization in labor-intensive sectors. Poland has no central, overarching vision of urban development.

- Inconsistency in strategy implementation—despite the lack of such an obligation, several cities have attempted to create and implement a development strategy. Yet, observation shows that such strategies are easily neglected or altered based on seasonal changes in the economy and society. Poznań is an example of a city that over the past few years has advertised itself as a city of know-how, creativity, and students, as well as a city of trade and exhibitions. Attracting innovators, creators, students, and large-event organizers is probably not possible at the same time. Moreover, it does not communicate a clear vision of development and strategic thinking and can further distort the city’s image.

Conclusions and Policy Recommendations

This study gives rise to the following conclusions:

1. The competitiveness of Polish cities is homogeneous—none of the analyzed Polish urban areas has a major competitive advantage over other cities, except perhaps Warsaw.
2. On a competitive basis, Polish cities fall behind other European cities. Their resources do not allow them to compete successfully for capital and high-quality human resources.
3. The most visible attractor for investors in Polish cities is related to human resources—both its characteristics (quality) and costs are competitive as compared to other European cities, yet this advantage alone does not create a solid base for long-term competitive ability.
4. Advantages related to low-cost human resources pose a threat of specialization in low-value-added production, which does not create the sustainable competitive advantages that are related primarily to innovation (competitive advantages of other European cities are mainly technology driven).
5. Competitive strategies of Polish cities include sources of competitiveness such as innovation (Kraków), human resources (Warsaw), and cultural opportunities (Wroclaw).
6. 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 the production process, modifying the sectoral structure toward high-value-added sectors, and adapting new technologies and other innovations in order to increase productivity. Low labor costs create the potential for further growth of competitiveness, yet without other elements of the strategy, alone they do not constitute strong competitive ability.

7. In order to increase their competitive position, Polish cities need to embed their strategies more in identified resources and strengths of their local economies, and also in sustainable implementation of those strategies. Moreover, competitive strategies of Polish cities should aim to create conditions for developing competitive advantage sources such as highly qualified labor, research and development facilities and their closer cooperation with business partners and good quality of life, in order to connect their economy to more technologically advanced production and services.