A framework for assessing territorial competition and the critical role of local policy

(Work in progress)

*Alejandra Berenice Trejo Nieto

**Cristina Isabel Ibarra Armenta

Prepared for the 2011 Regional Studies Association International Conference

17th - 20th April 2011

Newcastle University, Newcastle-upon-Tyne, UK

Abstract

Under a pervasive competitive environment is commonplace that governments at various territorial levels, in addition to other public and private institutions, concern about providing the conditions that make attractive their territories. They want to attract resources of various kinds, production and consumption in order to foster economic growth and development. Such competition involves the actions of multiple actors but it is through by local public administrations and policy makers that other actors will try to establish strategies and take action for the development of competitive attractiveness. This paper is concerned with developing an integrated framework for territorial competition analysis emphasising the fundamental role of government policies as well as the collective character of strategic action on the competition results. Competitive results will depend on the kind of strategies, the efficiency in implementation and their collective character. On the one hand, competition may lead to a 'race to the bottom' or there can be strategic planning within territories. Finally we propose a case study to analyse in a specific context the significance of local governments' financial capacity. The methodology employed examines the literature on various approaches to territorial competition. The key contribution of this review is to put forward a logic structure for addressing territorial competition.

*Lecturer at the Centre of Socioeconomic Research, Universidad Autonoma de Coahuila. CISE, Edificio S, Unidad Campo Redondo. Saltillo, Coahuila. Mexico. 25280. E-mail alejandra.trejo@uadec.edu.mx / aliber23@hotmail.com

**PhD student in Economics, Department of Economics, Adam Smith Building, University of Glasgow. G12 8RT Glasgow, United Kingdom. Email: c.ibarra-armenta.1@student.gla.ac.uk

Introduction

The various economic spaces which operate as the territorial scenario and the articulating point between social and economic relationships constantly have to face challenges and opportunities. In an environment of growing globalization, which goes along with a relative increase of factor mobility, the role of territories as key players is rising. In order to spur local attraction territories often enter in competition with each other. They usually do not negotiate their position in an increasingly competitive global economy. Instead of finding ways of cooperation to promote overall welfare enhancing territories are increasingly pushed into competition with each other seeking for new investment, resources, people, and some other forms of economic, social or political gains. This promotes the spatial polarization because although all territories are likely to search for enhanced productivity, growth and development, some regions are more successful or advance more quickly depending on a series of factors of diverse nature.

A variety of local actors carry out actions directed to increase the attractiveness of their own territories, usually in response to actions of the same character that are undertaken in other regions. It has become commonplace that local governments and other public and private entities concern about providing the conditions that make their countries, regions or cities more attractive for productive activities. Territories compete to attract and retain investment and mobile productive resources as well as to dominate relevant markets. Importantly territorial competition involves a socioeconomic and politics dynamic with a resulting outcome.

This paper is concerned with depicting an integrated framework for analysing territorial competition emphasising the role of local government and strategic action in competition outcomes. The first section includes a brief review about conceptualising territorial competition. Section II suggests a frame for theorising and analysing processes of territorial competition. Section III discusses about the role of local government and local governance in territorially based competition. The final section proposes a case to study empirically the role of local government capacity in competitive results by presenting the context of Mexico. This final section also includes some final remarks.

I. What is territorial competition?

In this section we discuss briefly different conceptual approaches for territorial competition and suggest a working definition of it. Our starting point is this generic definition: territorial competition is a process in which territories compete for the attraction and retention of investment and resources in order to improve the living standards of their population. Here we use the term territory as a synonym of whichever region, city and locality. According to Poot (2000) this can be judge as a rather broad concept because does not specify the kind of actors or actions that take part; yet it has the advantage of coinciding with widespread notions of territorial competitiveness which include the substantial aspiration of sustainable improvements in the standards of living.

Some other definitions are more specific in explaining the mechanisms and motivations under which competition takes place. Cheshire and Gordon (1995) define territorial competition as concrete local actions aimed at increasing regional development, "…locally based efforts to promote the development of a locality in competition with other localities." Budd (1998) states that territorial competition can involve active local economic development measures of various kinds and self conscious strategies to guide local development with regard to the future economic role of a region and by taking into account the regions competitors. Here competition is simply a set of actions with the substantial aspiration of local development. According to Chien and Gordon (2008: 2) territorial competition functionally defined is "any class of activity undertaken by a territorially based agency to advance a set of local economic interests". In Gordon (1999) competition is described also as a number of activities but implemented as a mere promotion strategy of the territory rather than pursuing the creation of real competitive capacities.

From a more comprehensive standpoint Vinageras (2006) refers to a process, one of sequential transformations in the local environment that is the outcome of the concerted actions of major economic and institutional agents. These actions are intended to create or consolidate the competitive advantages of a region that is in rivalry with other territories. Cheshire (1999) also defines competition as a collective process by regional actors but in this case, similar to Gordon (1999), regional actors only promote their territory in order to reach economic goals, "...is meant a process through which groups, acting on behalf of a regional or sub national economy (typically a city-region), seeks to promote it as a location for economic activity either implicitly or explicitly in competition with other areas."

Maneval´s (2000) on his part considers that competition can be regarded as a market process by which economic activities and factors of production are allocated among the regions of a nation; specifically, regional competition represents the process by which the Gross National Product (GNP) is distributed among regions. He admits that this allocation depends to some extent on the quality and intensity of governmental programs. This scheme reduces competition to an economic location problem which is solved by market mechanisms. In this case there are particular attributes and characteristics of a territory that work as significant attracting forces.

Budd (1998) adds that...”To speak of territorial competition in this context is to speak of cities competing to have the best locational endowments, which generate external economies of scope and scale for firms and sectors. These are economies of agglomeration of two types: localization and urbanization economies.” Funk (2000) stresses the role of cultural activities as a ‘soft’ factor of locational attractiveness and competitive position of a local economy. Mäding (2006) stresses that as a consequence of globalisation, the structural shifts in the economy towards services and the advancement in information and communication technologies, companies have broader locational options making greater and intensified locational competition a natural result.

The above mentioned conceptualisations are not completely explicit in identifying the relevant actors. At this respect, Poot (2000) himself specifies that as people aspire to a sustainable improvement in their standard of living territories compete through the actions of firms, households and governments. The desire for growth leads to inter jurisdictional competition for resources, finance, people, markets, etc. Johansson (2000) conceives territorial competition as primarily happening through firms but policy supported. Cheshire and Gordon (1998) explain that territorial competition involves fundamentally the formation of policies designed to promote local economic development and also entails the formation of agencies that co-ordinate efforts and actions developed in order to increase the territories competitive position compared to other areas.

With respect to the motivations under which competition at the territorial scale operates Cheshire (1999) points out that territorial competition can be viewed as the rational response to incentives. Overall the objective of competition among territories is thought in terms of attracting new investment -frequently of foreign origin. For Cheshire and Gordon (1998) the main goal not just refer to the attraction of mobile inward investment but often it is more directed to improve the conditions for existing firms that may eventually migrate to more attractive places. Johansson (2000) includes as objectives of competition average wage and income levels, the value of public services and the value of regions amenities. These goals can be attained by maintaining and renewing local specialisation to foster economic growth and reduce unemployment. Vinageras (2006) on his part considers that the essence of competition is to build a supporting territorial system of assets in order to engender the productive structure´s flexibility and adaptive capacity providing certainty to the operation of economic activities. Lever (1999), enumerate among the incentives of competition the attraction for mobile resources (capital, labour), new firm’s creation, growth of output and value added, attraction of public funds and attraction of international events. Broader incentives for competition are economic and social development. For less advanced regions competition might also contribute to need for local identity and self-reliance apart from development (Constantin, 1999).

Regarding the tools subjacent to competition Cheshire and Gordon (1995) point out that they can take many forms: marketing, assistance to local businesses, construction of infrastructure, information provision, networking, and so on. It may also use programs or apply funds which are available as a result of national or regional policy but always employed to attend to local interests.

Therefore concepts of territorial competition go from those considering it as mere set of actions (measures, strategies and efforts) to those seeing it as a process. Some definitions stress the role of policy and the importance of agencies in terms of implementation and coordination. Definitions also vary depending on the goal of competition: attraction of investment and factors of production, retention of local businesses and resources, local development, market shares, production shares, etc.

One point of convergence among definitions is the emphasis on the local nature of competition. For Cheshire and Gordon (1995) and Cheshire and Gordon (1998) it is intrinsically local due to the fact that it serves territorial-specific determined goals. Therefore unlike top-down regional policies it is not at all concerned with issues of inter-regional spatial equity but rather with local economic efficiency. Namely territorial competition has potential benefits in terms of local or national efficiency, but under the risk of increasing spatial disparities. As it originates from local interests consequently it tends to be promoted most actively at the level of city-regions and in the search for economic efficiency. An additional point of coincidence is the understanding that whatever the means or the concrete goals of competition this aims and improving the relative competitive position of a region compared to other regions.

According to Batey and Friederich (2000) the task of arriving at a workable concept of regional competition can be attained once we consider an analytical framework which takes into account three general parameters: the structure of competition (organizational basis), the competitive behaviour and the results. After having surveying the range of definitions on territorial competition presented above we suggest the following workable concept: A process by which territories, by means of diverse public and private actors, establish a variety of strategies and follow different actions in order to promote themselves in national and international markets, attract resources – in the form of public finance, private investment and human resources-, or get political popularity and votes to a higher extent than their competitors, having the ultimate aim of improving their revealed economic competitiveness.

Batey and Friederich's (2000) review on the aspects and theories of regional competition represents a significant effort to construct a systematic framework for analysis. Here a scheme to study territorial competition based on their approach and complemented by other proposals is discussed in detail in next section.

II. A framework for understanding

According to Batey and Friederich (2000) there are four basic categories or components that must be taken into account when studying a process of territorial competition: a) the type of competition, b) the type of competitors, c) the type of competitive relationships, and d) the results. The first two define the structure of competition; c refers to the process of competition itself whereas d is the evaluation of the outcomes. Johansson (2000) offers an alternative but fairly similar structure of analysis in which the main categories of territorial competition are the competitors, the means of competition and the objectives of competition. In this case the type of competition is not defined per se.

Chien and Gordon (2008) when defining competition in functional terms as "any class of activity undertaken by a territorially based agency to advance a set of local economics interests" (p.2), emphasize that the kind of activity, which agencies and which interests are endogenous variables that require explanation in a model of territorial competition.[1]

Overall the type of competitor (actors, agencies), the type of competitive relationships, the class of activities, the means of competition, the objectives, interests and the results of competition are essential variables in a model of explanation. Regarding the question posed by Chien and Gordon (2008) about the generalizability of models of territorial competition -whether a framework can be applied to a variety of context, the variation of actors, relationships, activities, objectives, interests and results allows for different types of competition.

Following Batey and Friederich (2000) we take three broader categories as the basis of a consistent general framework for understanding and studying territorial competition: the structure, the type of relations and means of competition, and the outcomes. This is also in agreement with Chien and Gordon (2008) who explained that a general theory of territorial competition is concerned with trying to establish three things: the circumstances under which competition occur,

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[1] Chien and Gordon (2008) expand on an additional way to rationalise territorial competition. That is the demand and supply side of a market for the territory or alternatively the structural and agency factors of competition.

the mix of actions to advance specific interests and the likely consequences. A theory under this broader scheme is subject to generalisation capable of extension to radically different contexts, because contextual factors might generate significantly different versions of territorial competition. When considering the kinds of institutional and legal arrangements that vary between contexts this framework has a significant potential for comparative analysis. For instance, the extent of devolution and the nature of responsibilities at various levels of government can vary considerably between countries (Poot, 2000).

Structure of competition

The type of competition is dependent on the conditions/motivations under which competition takes place such as the existence of externality effects, market-oriented motivations, non-money market-oriented motivations, a mix of the former. The evolving and heterogeneous territorial contexts emerging due to continuous competitive pressures from other territorial spaces in order to reach and maintain a status of advantage largely define the type of competition. An additional criterion to discriminate among different types of competition, when this is based on market-oriented motivations, is whether competition is among economic activities, economic units or other economic institutions.

The type of competitors refers to the local actors participating in the process of competition. They are private or public entities bearing an interest in the territory and for that they become relevant stakeholders. It can be one competitor in each region who competes or several actors representing a region. These actors take action and engage in various relationships among them and with their counterparts in other territories. Likely actors are residents, enterprises, institutions in addition to local public administration who supposedly plan and manage the territory on behalf of local stakeholders. According to Johansson (2000) even territories as a system can be considered as competitors. Defining the competitors is important because the objectives and the way in which outcomes are measured depend on the actors in competition. Firms compete directly for markets, public institution for the attraction of private or public investment and financing from federal funds, whereas households can compete in the real estate market. As the competitive vision widens new and more competitors participate, as well as new levels of competition together with new forms and patterns of strategic actions arise.

Alternatively, when a territory is regarded as a system actor it ought to be characterised in terms of its size, geographical features, type of economic units or activities settled in the region, its stage of economic development, and specially the group relations among economic (and political we would add) units located there. This is important because the kind of territory allows for different types of competition, competitors, competitive process and consequently unlike competitive results.

With the aim of describing the structure of competition Batey and Friederich (2000) propose a number of variables which cover a variety of scenarios: size, number and type of competitors; relative power of actors (market and political power negotiation); openness of regional competition or restrictions (legal possibilities of action, locational conditions or technical and jurisdictional access to resources); organisation and transparency of exchanges and negotiations (legal provisions and regulations); preferences of competitor (for goods, services, infrastructures, resources, locations, persons); agglomeration and neighbourhood situation (frontiers, neighboured territories, clusters, private or public partnerships with neighbours); relative dimension of the region (specialisation, sector mix, shares of sectors, shares of population, shares of advanced activities, shares of financial means, shares of recourses); and development phase of competition.

Type of competitive relations and means of competition

One criterion to identify the type of interaction depends on the level at which competitors relate to each other. They are horizontal relationships if participants are in the same level (cities vs. cities, firms vs. firms, governments vs. governments, etc.). Vertical competition happens among actors at different levels (i.e. firms vs. governments, households vs. governments). Alternatively competitive relations can be defined in terms of the domain under which competition takes place. This might be conflicts associated with the dominance of sales and purchases markets, in intergovernmental fiscal relations, for location, for the use of resources, in management of externalities, in governmental co-ordination tasks, for competencies in decision making, and so forth. The type of relations may be also determined by the goals of actors (Batey and Friederich, 2000). All this determines a substantial part of competition referring to relevant indicators such as the degree of rivalry, possibilities for cooperation, incentives for goal achievement, discrimination, strategies of conflict resolution, parameters of action (public marketing and promotion, sales of property, infrastructure improvements, fiscal policy, political actions, tax rates, subsidies, etc.), strategic behaviour of competitors (e.g. beggar-my-neighbour policies).

Results of competition

They are a variety of economic, social and political indicators that are brought about by competition. Batey and Friederich (2000) suggest indicators related to generic groups in order to assess: technical and technological progress (knowledge and human capital formation, establishment of high tech firms, formation of clusters, research and development activities); productivity or efficiency by looking at the relation among inputs and outputs (profits and budget surpluses); costs reductions and size of costs (labour, strike costs, investment costs, tax burden, communication costs, promotion costs and political losses); fluctuations in competition such as welfare change, migration, change in centrality, functional reforms or change in competitive positions; goals of economic policies like product and employment; policy makers goal achievement (income, production, global profits, tax revenues, employment created, firms attracted); state or municipal performance (increasing social welfare, growing population as a tax base, budget situation, votes, laws, competencies quantity and quality of services and infrastructure); quality of the territory reflected in residential value, value of leisure, quality of location, quality of environment, political institutions reliability; or individual economic aims (profits, income, infrastructures and services). Johansson (2000) mentions the outcomes from competition in relation to specific actors: firms pursue survival, growth, profits, etc.; local governments expect reelection, increasing social welfare, growing population as a tax base or reduced unemployment; together firms and government look for output and export expansion; whereas regions as systems seek their own survival. We add to this that residents also expect benefits such as better services and infrastructures, employment, quality of life, security, and so on. Mänding (2006) mentions as objectives of competition the attraction of firms, population (local purchasing power increases, greater demand for land and homes, rising rents and property prices), competition for tourists, sports and cultural events. Population attraction is an important aspect because gains in migration create a positive image and becomes a locational factor boosting more immigration. Other indicators of results can be shares in national product (Maneval, 2000) efficiency indicators (Reggiani, Nijkamp, y Sabella, 2000) or competition summary indicators such as that proposed by Sobrino (2003).

III. Policies and strategic governance for territorial competition

Local and regional governments have experienced a significant increase in their degree of responsibility in the development of their territories. To the extent to which governments are more conscious about the existing territorial competitive environment they will try to take action, get involved and formulate more policies for the development of competitive capabilities. This has derived greatly from the tendency to decentralisation where regional strategies and policies focus on regional/local efforts to foster socio-economic development considering strengths and weaknesses of each territory (Constantin, 1999). Particularly those mayors, state governors and municipal presidents who are directly elected by local people have to develop structures to manage their increase responsibility for the fulfilment of their functions. Efforts on their part has been required to create better conditions to attract and retain residential actors, resources, financing, investment, and all the potential demand for a territory. Furthermore competition as strategy can play an important role in their aim of improving performance and image (Mäding, 2006).

The political element of competition at the government level is evident since territorial authorities are often chosen by democratic election. Elections generate pressures to succeed for parties and for individuals. Mäding call this “competition for attributable success”. It operates between parties and within parties in the form of rivalry for offices and careers. It is an internal competition that sets in motion other competitive mechanisms towards the outside.

Also through globalisation municipal and regional governments have been forced to respond to a series of challenges in contrast to the interventionist/managerial approach of governments at the urban and regional levels prior to the 1980’s. They have applied increasing proportions of resources and competences in order to strive for local economic development. In such context territories exploit in different degrees decentralised powers and resources in order to reach and advantageous position in the world economy (Chien, 2008). Territorial competition is concerned with local efficiency and effectiveness through a bottom-up process as contrasted with national regional policies that favour spatial equity and political cohesion through top-down management (Chien and Gordon, 2008; Chien, 2008). However Chien (2008) calls attention to the “the emergence of local entrepreneurial governances” resulting from the “territorial restructuring” of local responses to the challenges and crises presented by the changing global environment rather than local government action alone. That is, the action of a variety of local actors, the government having an essential part to play, is what sets in motion competitive behaviour.

Thus the competitive success of regions and cities cannot be achieved without the active action of local governments. By and large, local government and regional development policy are regarded to play a central role in regional competition. Most studies of regional competition actually address the leading role of government and try to evaluate the outcomes of competition in terms of policy goals and achievements, and emphasise the role of policy formulation and implementation. Cheshire and Gordon (1998) for instance point out that territorial competition involves fundamentally the formation of public policies. However a broader perspective in which the rest of relevant local actors combined with local governments it is indispensable. Another consideration is that not all competitive actions on the part of governments take the form of formal policies; they can be more specific actions and short term actions to achieve the goal of a strategy. Constantin (1999) for instance considers that one must take into account short term specific objectives together with long term goals expressing the time continuity of strategic choices. However we still may assume that all actions (policies or not) are strategic in nature. Therefore a supplementary optional term for describing the set of actors and competitive actions – short and long term- would be that of strategic governance for territorial competition.

Camagni (2005) proposes new local governance approaches in which strategic plans are a key element for cities' long run sustained competitiveness. Such plans involve the actions of multiple actors but they are articulated by policy makers. Competition policies may then take the form of a 'Plan of the city' more than a 'Plan for the city' where a diversity of social actors take part and the city is visualized as a social network of collective actors. If the strategies of a 'Plan of the city' fail, then physical capital, other factors of production and population emigrate. Therefore local governments can establish policies to improve the relative competitive position of regions; results will depend on the kind of policies but above all on the efficiency in policy implementation. Kresl (1992) points out that in the case of cities these must formulate an integral and strategic plan in which the local specific characteristics and needs are addressed. Further, cities in order to prosper must compete under the basis of coordinated (internal) cooperation.

A system of actors, motivations and means of competition

In territorial competition is essential the participation of agents whose actions actually produce change at the local level. Those are proactive agents whose interests are highly involved in the local economy and politics. Overall there are networks of public and private groups. In fact, local governments can be characterised as formal or informal public and private coalitions that work together to formulate and implement policies and strategies. These are the local governances involving a variety of internal actors: governmental officials, various arms of government, political parties, private firms, unions, labour organisations, non-governmental organisations, religious institutions, the media, universities, cultural and sport associations, self-employed professionals among others. Together these self-interested actors can collectively influences the decision-making processes of planning while advance their personal political or material interests (Chien, 2008).

As already mentioned territories have a multiplicity of objectives when in competition. Specifically territories can be bidding for mobile investments, competing for labour (and residents), market shares, for media attention, periodic sporting events, fairs, exhibitions or for funds from international organisations and central governments. Largely the direct motivation is the creation of new and better spaces of production and consumption as well as the searching out of more and new funding for local development (Chien, 2008). Chien and Gordon (2008) stress that in many cases competition has focused very heavily on inward investment rather than promotion of competitive advantage for existing (local) firms. What is important to note here us that local governments have objectives and make decisions about collective issues (Johansson, 2000), coming from individual interests which are difficult to merge.

Territorial intervention and action is mainly applied to plans and programmes at municipal, state or provincial level, not discarding that intervention from the national sphere affecting localised competitiveness. A range of techniques and instruments exist for intervention in a territory, although they might not be available in all the cases.

The instruments for government action are subsidies to firms, local planning, administration of local externalities, inter and intra regional transportation, formation of clusters and the transfer of knowledge (Potter, 2009); taxation, organisation of public services, stimuli for immigration (Johansson, 2000). The use and combination of instruments will depend on the specific objectives or strategies. Chien (2008) distinguishes two types of strategies. Growth enhancing strategies seek innovations to reduce inefficiency and improve goods and services that they provide; they use initiatives such as labour training, help to firms start ups, provision of business advice, provision of internal and external networking, knowledge development, and construction of infrastructure. The provision of hard and soft infrastructures is a method of creating and promoting new spaces of production. Other strategies adopt a growth depleting position by giving all manner of incentives to corporations such as tax abatements, reduced prices for services and infrastructure, reduced environmental and regulatory standards. Poot (2000) adds to the latter type of instruments credits, financial incentives, and free or subsidized information and consultancy. Chien and Gordon (2008) in addition talk about a proliferation of marketing initiatives that represent symbolic policies rather than real commitment of resources. Poot (2000) stresses that this incentive-based territorial competition is likely to be particularly fierce in contexts where local authorities have a considerable discretionary power and that incentives can involve large amounts of public money.

Potter (2009) considers two kinds of actions. Direct policies are those aimed at increasing human capital, innovation and entrepreneurship in order to foster cluster formation and knowledge transfer. In contrast, subsidies, planning, externalities, and transport development do not contribute directly to competitive capacity. In addition, direct policies can focus on specific economic activities leading to increased specialisation and competitiveness. Kresl (1992) says that in the context of an increasing globalised system an integral plan of competition should attend market niches, have as a goal the specialisation, promote information and intensive knowledge activities, innovation; consequently policies of territorial competition are essential to address these aspects. With this respect only world cities/regions are able to compete to attract various types of activities whereas most cities and regions must compete through specialisation (Kresl, 1992; Begg, 1999; Lever, 1999; Johansson, 2000; Camagni, 2002). Specialised territories might be able to become strategic nodes within the national or international production system. Nevertheless regional diversity is a legitimate strategy to reduce vulnerability to external shocks such as those brought about by globalisation (Poot, 2000).

A strategic action on territorial competition is not easy however, in view of the heterogeneity of interest involved, often conflicting, on the part of other local actors and even external agents. Competition strategies are the result of the interaction and action of diverse local actors and even external actors which requires some kind of coordination (Kresl, 1992; Otaggar, et al, 2010). There is also a multiplicity of intervention alternatives and objectives, often reflecting conflicting interests between local actors. To allow for the context in the implementation of strategies governance also has to consider the kind of territory they are promoting; central, intermediate and peripheral territories need different platforms for competition.

Local actions and responses are therefore very complex. As said by Chien (2008) they emerge when governments are embedded in competition but there is an 'agency' aspect when local actors initiate collective actions in the pursuit of their political and economic interest. In other words, competition is initiated by pro-growth coalitions whose interests are highly involved with local development. Decision-making is often dominated by a small interlocking group of elites (key businesspersons and members of established and socially prominent companies and families). In this sense there are local governances that reinforce or create a pattern of power structures favouring privileged groups.

Chien (2008) underlines that in the literature it is often assumed that municipal, state or provincial governance is naturally able to pursue competition strategies and actions. Local governance action is taken for granted but the circumstances under which it takes place is not always addressed although this determines competition evolution in different contexts. With regard to this Chien and Gordon (2008) says that the existence of a range of self-interested parties with strong stakes in territorial economic success is not sufficient for the emergence of active local support of competitive activity. If there is a 'collective action problem'[2] participation will depend on whether actors expect any significant effect on outcomes as a result of their involvement; if they link participation to some substantial private benefit rather than just a share of collective benefit. Collective action potential is larger when there are only few major stakeholders with closely aligned interests, strong trust reproduced by routine interaction of well established networks. Furthermore there ought to be the consideration of counter-collective action of groupings pursuing very radically different interests (Chien and Gordon, 2008).

On the other hand, Mädling (2006) calls attention to the competition in the politico-administrative sphere which adds complexity to the phenomenon. There is actually horizontal competition between territorial authorities on a given level (municipalities, states, provinces or countries). But there is also a particular type of vertical competition between the tiers of administration (i.e. central, state and local) for power, money and optimum distribution of responsibilities. Thus territorial planning by means of government action may respond not only to local interests and necessities but to interests from other territorial levels. At this respect Constantin (1999) and Poot (2000) consider that national, state, local and even supranational level regional policy must be complements rather than competitors as a response to subsidiary principle to take decisions and actions on the most appropriate spatial level.

There is also competition between political parties for power in a territory, between individuals as political actors for office, careers, and success, between groups or individuals due to sectorally organised interests and even between organisations representing the interest of economic activities, producers or consumers.

Outcomes from competition action

Mäding (2006) sees competition as a potentially useful tool for local government and governance. As well as improving the competitiveness of the nation and regions/cities it can be a discovery

[2] That exists when individual actors do not find worth to expend resources to pursue their territorial interests on the collective basis.

procedure because participation can generate learning processes and induce intra and extra territorial cooperative structures. However actual effects of competition and effectiveness of policies and strategies have to be assessed. To evaluate the importance of local governance and policies one must allow for the context, the purposes and objectives under which policies are developed. Claims are there that sub-national competition may be wasteful and exacerbate differences. In accordance with Chien and Gordon (2008) all competitive activity has uneven spatial, sectoral and individual effects. Thus competition is likely to be redistributive within and across territories. Krugman en 1996 argues that in practice the majority of competitive actions represent disguised efforts to pursue specific vested interests at the costs of others (cited by Chien and Gordon, 2008).

Evaluation is also complex and depends on the social sectors, and spatial level we look at. Chien and Gordon (2008) distinguish from a social perspective between three categories of territorially competitive action depending on the results for the region: purely wasteful, involving expenditure without any gains; zero-sum balance of costs and gains accruing for different groups; and those producing positive net additions to growth and welfare. From the spatial perspective subnational competition results can be evaluated following the same reasoning having strategies that are pure waste for the country, diversionary strategies with zero-sum national results, and positive-sum outcomes nationally.

Cheshire and Gordon (1998) exemplify and synthesised these approaches to regional competition strategies evaluation depending on overall outcomes in attracting investment and new firm creation:

- There are pure waste strategies since they have no impact either in diverting activity to the city/region in question or in generating new activity even though they imply costs. They are not effective in terms of attracting mobile investment, still less in terms of improving the competitive success of local businesses.

- Other strategies may have a positive impact in economic welfare terms, viewed from the perspective of the city/region, but be zero sum from a wider perspective according to the extent to which a given policy is diversionary, that is it influences the location of a particular activity rather than the overall productivity of resources.

-There may also be policies, however, which increase economic welfare, both locally and from a wider perspective.

Another example refers to potential migration that leads to investment competition. This competition may lead to macroeconomic overinvestment where more residential areas are developed than necessary; there are positive gains for residents and immigrants in a region but are the strategy is pure waste nationally (Mäding, 2006).This means that national and regional contexts have to be integrated in the complex of competition evaluation.

A similar scheme for assessment of policies and strategic competitive actions is described by Johansson (2000). On the one hand, he discriminates between policies which actually have an impact and those which have a weak or non-identifiable influence on economic growth. On the other hand, there exist policies which are likely to bring about system wide positive effects (positive-sum) and those which a positive result in one region is balanced or outweighed by negative impacts in other regions(constant or negative sum). This does not include however the possibility of negative results for all regions.

As already mentioned there is a tendency to have as objective the attraction of inward mobile investment and to promote competition through incentives. The valuation of incentive-based territorial competition is then relevant whereas the results heavily depend on the response of firms to incentives and the spatial variation in such incentives. Not less important is the extent to which incentives can be welfare enhancing and in that sense to have extensive local support, not to mention the employment generation capacity of the investment (Poot, 2000). When evaluating results for the territory alone Cheshire and Gordon (1998) find that policies helping established firms to face contraction and expand are more effective and the impact stronger than those policies aim at attract new firms or immigrating firms. Eventually the former policies are also effective for the purpose of firm attraction. These authors find that footloose foreign investment, typically by transnational companies, is adept at capturing the benefits of incentives and subsidies from governments. There may be implicit firm’s strategies to get territories to engage in competition to extract the largest incentive. In such a case it is unlikely that either the regions or the country achieve any real positive gain.

This argument is supported by Rodriguez-Pose and Arbix (2001) when analysing the bidding wars in the Brazilian automobile sector. They find that in Brazil, tax breaks have an importance similar to proximity to markets in determining location of assembly plants. As Foreign Direct Investment is seen as the panacea for economic development, states have engaged in a form of territorial competition that has been pure waste as the costs have surpassed the expected benefits in terms of employment and spillovers. This is explained on various grounds: 1) more advanced technology and organisational structures within the industry boost productivity, which increases production but tends to reduce direct employment; 2) there are no technological spillovers as investment is only in assembly plants; 3) low impact on indirect job creation because the link between car makers and outside suppliers works against the emergence of first tier local suppliers and existing national suppliers, which in most cases are uncompetitive.

With respect to incentive-based competition when this has no constraints a race to the bottom is particularly likely which might not even be considered a strategic action but just mimicry of each other initiatives. The symbolic policies pursued in the absence of collective action are also particularly pure-waste (Chien and Gordon, 2008). These authors also explain that the distinction between categories of results can be arbitrary and that always there are gains for some agents, even if just government officials or firms, although the costs of such benefits exceed global benefits.

IV. A case study proposal and final comments: territorial competition among states in México

From the literature we review in the firsts parts of this paper we observe that one of the objectives of competition between territories (in particular when those are of sub national character) is the maximisation of funds received from central governments. However governments need resources in addition to specific capacities as the initial basis for the formulation of competition strategies of diverse nature. Meaning that getting more financial resources -the seeking of funding for local development- is also an instrument of public competitive action (Chien, 2008).

In this section we propose a case in which to study empirically some of these aspects of competition and the role of local governments. We do not address Mexico for the case or regions searching out funding for local public action instead we propose to relate empirically actual public revenue, as a proxy for financial capacity of local governments to carry out collective strategies, to results of territorial competition. Although public local revenue is related to the political competition among local governments for financial resources coming from the central level; namely, the idea of getting more funds from central governments as a legitimate objective of territorial competition. The analysis has to be with the use of local public resources as an instrument of local government action in competition.

Mexico exemplifies a particular case of a federal system. The Mexican federation includes 31 states plus a Federal District (which contains the capital of the country), and over 2,400 local governments. There is an intergovernmental transfer arrangement that was first established in

1980 with the creation of the National System of Fiscal Coordination. This established two contracts between states and the federal government (Courchene and Díaz-Cayeros, 2000):

1) The adhesion agreement in which states voluntarily joined the system and give up several taxing powers (income tax, the value-added tax and special taxes on production and selected taxes).
2) The administrative collaboration agreement that provided the guidelines for state surveillance and monitoring of federal compliance.

Thus under this programme states restrained their own taxing authority in return of unconditional transfers.

Until 1997 the most important element in the transfer system was the unconditional revenue sharing (the so- called participations or Item 28) originally consisting on three funds: a general fund, a complementary fund and the fund for supporting municipalities. The overall amount of resources to states and municipalities represented a percentage of the assignable or shared taxes (income and value-added taxes in addition to ordinary fees from oil. Nowadays the most important funds are the general fund (allocated on an equalisation basis and using a formula), the fund for supporting municipalities and specific federal taxes (vehicle use tax and the new vehicles tax) that are fully transferred to the states on a case-by-case basis. These funds are complemented by other special taxes and other revenue sharing (Courchene and Díaz-Cayeros, 2000; Moreno, 2003).

In 1998 there was an important reform in the transfer programme and a new item was created in the federal budget. The Item 33 are conditional funds transferred to states and municipalities to finance expenditure programmes that were decentralised to states -education and health, or to municipalities -basic local infrastructure- (Moreno, 2003). There are several specific funds the largest amount corresponding to basic education; most of all allocated under the equalisation criterion excepting the Municipal social infrastructure transfer and the State social infrastructure transfer which are compensatory funds.

Courchene and Díaz-Cayeros (2000) find that overall richer states in Mexico receive larger per capita revenue sharing than poorer states whereas poorer states tend to obtain larger conditional transfers. They argue that the allocation formula for basic education transfers discriminates against states that use their own revenues to finance this aspect.

A different important part of federal grants is federal public investment which is aim at specific projects considered important by federal government and as such is subject to high degree of discretion. On the other hand, state and local public revenue is supplemented by own-source revenues. These two funds are however not part of the transfer system (Courchene and Díaz-Cayeros, 2000).

Accordingly sub national governments are heavily dependent on federal aid and less reliant on local tax to get more own resources.[3] Therefore regions, states and municipalities/cities have all attempted to accrue the largest amount of resources bargaining and seeking to generate, by other informal mechanism, the maximum of federal aid, mainly through conditional transfers in those items that are allocated on a compensatory principle.

Even though the federal system seem to be encouraging the implementation of local autonomy principles, the reality still show an important gap between this principle and practice. There have been increased intergovernmental conflicts on a variety of bases including areas of shared responsibility; e.g. even though municipalities have legal "full-fledged status" states continue to enforce their participation in some local affairs. Moreover the structure operates such that programs and financing intended for the municipalities are channelled through the states, specifically conditional grants from the federal government and unconditional revenue sharing. In addition there are feasible conflicts between governments across territories –state and municipal- for maximising their revenue.

Usually competition in Mexico seems to have developed on the basis of a logic in which they have mainly concentrated on attraction of mobile investment for which territories need financing. Like in many cases in the country there is a principle of equalisation in the state and local government revenue sharing system. Mäding (2006) argues that there is no incentive for a territory to become a location for production if the burdens have to be borne locally but the revenue is spread evenly through compensatory allocations. However they still compete for attracting investment if they expect a significant impact on jobs "even if per capita revenue were to be completely balanced between communities, there would be incentives to attract additional firms, competition for corporate investment to give local residents greater opportunities on the local labour market" (p. 3). Regions may still also compete having other motivations such as the attraction of residents because of the impact of population figures on the budget through the

[3] It is worth mentioning that there is some evidence that the transfer policy has affected the fiscal performance and depletes the tax effort of local governments (See Moreno, 2003 and Sour, 2004).

equalisation system, even though it might also be possible that attracting residents is of no benefit for the regional or local budget.

We propose to analyse the significance of public local revenue -transfers and own revenue- on the performance of Mexican states while controlling for the impact of federal public investment on states in order to contribute to the empirical literature on territorial competition on specific institutional context. We will consider a variety of indicators that reflect competitive results such as growth, regional shares on national GDP, net migration, and other indicators.

However further research will be needed to evaluate local strategic governance action and local government policy in terms of other objectives of competition rather than just in terms of footloose investment attraction or job creation as well as comparative studies between different contextual sceneries. Furthermore analysis of the whole process of competition by means of a framework of the kind described above is called for in order to expand our knowledge on the factors that make a difference between more or less successful territories in a competitive setting.

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