

INVESTING IN REGIONAL COMPETITIVENESS - SELECTED ISSUES

Introduction. Globalization confronts regions with new opportunities and threats, thus competition between regions has become one of the major questions of economics. Regional success depends on combining many factors, mainly knowledge, skills and creativity, modern infrastructure and others. This article presents the selected issues of investment in developing the competitiveness of regions. Given that investment takes on different forms, appropriate to the specific components creating competitiveness, considerations were focused on investing in the infrastructure of the region.

Regional competitiveness – theoretical considerations. Presenting the issue of investing in a regional context, it should be noted that there is no generally accepted definition of regional competitiveness. Regional competitiveness differs from the competitiveness in macro and micro levels, which have their own specifics. This is emphasized by many researchers, for example Annoni and Dijkstra [2013, p.3] write „Between the micro and the macro levels stands the concept of regional competitiveness”. The specificity of regional competitiveness is also extensively considered by Gardiner, Martin and Tyler [2006, p.57].

The above mentioned authors analyze different approaches within the subject’s literature, among others by following authors: Cellini, Socci [2002], claim: ”Cellinii and Socci argue the notion of regional competitiveness – or to use our terminology, regional competitive advantage - is neither a macro-economic (national) nor microeconomic (firm-based) one. Regions are neither simple aggregations of firms, nor are they scaled-down versions of nations”.

Among the many definitions of regional competitiveness, which were formulated in the last few years, quoted below, for example two:

- “We can define systemic competitiveness of a territory as the ability of a locality or region to generate high and rising incomes and improve the livelihoods of the people living there” [Meyer-Stamer, 2008, p.7].
- “Regional competitiveness can be defined as the ability to offer an attractive and sustainable environment for firms and residents to live and work” [Annoni, Dijkstra, 2013, p.4].

The literature on analysis of regional competitiveness is abundant. Scientific achievements in this regard are examining inter alia in a survey elaborated by Berger [2010], which presents results of dozens of analysis of regional competitiveness, where number of regional competitiveness indices, ranged from a few to about 250.

Given the purpose (and volume) of this article, attention is focused on the release of crucial components of development of regional competitive advantage, ie. on the necessary resources of various kinds of capital, which level and quality are

determined mainly by investing. Within those types of capital are included [Kitson, Martin, Tyler, 2004, p. 995]:

- human capital – investing in health and education (quality of skills) of the labour force;
- social (institutional) capital – investing in social networks and institutional forms;
- cultural capital – investing in range and quality of cultural facilities and assets;
- knowledge/creative capital – investing in presence of an innovative and creative class;
- infrastructural capital – investing in the scale and quality of public infrastructure;
- productive capital – investing in an efficient productive base to the regional economy.

In today's global economy, the mentioned capitals in each region are unique and provide the basis for competitive advantage. Each capital alone is not enough, the capitals remain in mutual relations (for example knowledge translates human capital into jobs and wealth). Regional competitiveness depends on combining the listed above components. The above mentioned kinds of capital differ in many regards, while all of them have a positive impact on regional productivity, employment and standard of living. Increase in the capitals is mainly achieved by investing in them, but it has to be noticed that it differs between different kinds of capital not only in the area of investment but also in planning the investment, methods of financing it, methodology of analysing of financial and economical effectiveness etc. It is also important that individual investments should be analysed within a regional strategic framework.

In the following, discussion is limited to infrastructural capital in the context of its impact on regional competitiveness. It should be noted, however, that while infrastructure (hard infrastructure) is only one of the component influencing regional competitiveness, it usually requires the largest amount of public investments.

Investing in infrastructure in the context of regional competitiveness. The positive impact of infrastructure on regional competitiveness is unquestionably, although its precise evidence is not easy, mainly due to the methodological and analytical problems with the assessment of the benefit and cost of infrastructure [Kiel et al., 2014]. The evidence on how infrastructure drives regional competitiveness confirm many studies. For example Bronzini and Piselli [2009, pp.187- 189] estimated the long-run relationship between total factor productivity, R&D, human capital and public infrastructure between 1980 and 2001 across Italian regions. The authors proved that these capitals contributed to higher firm performance. The impact of public investment on regional economic growth examine also Rodríguez-Pose, Psycharis and Tselios [2012, pp.543-568]. They confirm the existence of this positive long-run impact and moreover they show that growth effects of public investment vary between different types of investment. The impact is the highest for education (human capital) and infrastructural investments.

Modern investing in infrastructure for regional competitiveness is a very complex task, so the investment decision is the most critical decision made by every region. The regions can make investment decisions in different ways (using different tools) in different countries. The following outlines - for example - the procedure (general approach) proposed to regional planners, analysts and economic development practitioners in the USA [The Crossing,..., 2009, p.104 and next].

The main challenge to regional investment planners is identifying and selecting investment with sound prospects for stimulating a regions competitiveness, that is investments that contribute to realizing the region's competitive advantages. The substantial prerequisite to make the investment decision is the regional strategy. Broadly speaking, it should create the framework to reach optimal investment decisions. The strategy should identify the strategic opportunities that define the investment alternatives. Regional leaders make rational investment decisions during the special regional investment process. This process to guide investment strategy includes three critical phases [The Crossing, p.104-119].

The first phase is called "the investment discovery phase". The overall objective of this phase is understanding in what broad categories of investment the region currently invests. According to the mentioned report this phase also "involves identifying opportunities for the region to combine its assets in new and different ways. Regional asset mapping is often a first step in designing a regional investment strategy" [The crossing, p.104]. It is emphasized that regional mapping help to explore in creative ways the new connections among assets, which (the connections) ultimately transform the economic landscape of the region.

The second phase is called "the investment strategy decision phase". In this phase the region's strategy is used to plan to build (selecting based on transparent criteria, according to strategic investment priorities) an investment portfolio in tune with the region's overall competitive strengths. Typically, in this phase a portfolio of investments include safe, commonsense initiatives and investments that are riskier but offer higher potential returns. Developing a list of potential investment should be directly linked to the region's development strategy. As stated in the report, the above-mentioned safe and commonsense investment "might be to create a common database of firms within the region, so that economic developer professionals can share information about how these firms might be able to collaborate with one another to establish stronger inherent clusters [The crossing, p.105].

The third phase of regional investment process is the evaluation phase. The main activities in this stage are "constantly monitoring the region's investments and evaluating how to update the investment portfolio as conditions change" [The crossing, p. 105]. This evaluation is, however, a difficult task, mainly for methodological and analytical reasons. The problems arise over the measurement and computation of many components of investment benefits and costs, although public benefits often are intuitively obvious. These investments (which differ in many respects) generate public returns which are different from the market (financial) returns. Methodological difficulties related to the valuation of investments (mainly their effects) make the investment comparisons with each other very difficult.

The preferred techniques used to estimating the cost and benefits of considered investments are the *cost–benefit analysis (CBA)* and “*economic impact analysis*” (*EIA*). The advantage of these methods is, that it is easy to understand, but it also have many shortcomings that limit its application in practice, that's why regional planners often use a simpler tools (with narrowly defined investment benefits) to evaluate development investments.

The outlined process for identifying and selecting investment that are to stimulate the region's prosperity can be carried out in different ways in different countries. It is important, however, to identify key categories (fields) of strategic investment, which correspond to the crucial components for competitive regions in today's global economy.

As the main investment categories are mentioned above investment in human capital (brainpower), social capital (innovation and entrepreneurship networks), cultural capital, knowledge/creative capital, productive capital and infrastructure.

The specific roles of the infrastructure lies in the fact that it plays (to some extent) fundamental roles in determining the scale and quality of the other components of the region's competitiveness. Investing in strategic (in terms of regional competitiveness) facilities creates a basis for the development of all types of components of regional competitiveness. The topic is widely present among others Audretsch and Lehmann [2016 p.117]. With regard to human capital, the authors write: „Another way in which infrastructure can contributed to economic performance involves a very different type of input of factor of production – human capital and talent”. These authors also emphasize, among others, the importance of investing in infrastructure, increasing social capital, namely: „Human interactions doesn't just happen in a vacuum. Rather, people need to meet and interface a viable infrastructure,..., which form the basis of social capital”.

In conclusion, it is worth pointing out these infrastructure investments, which are becoming increasingly important from the point of view of the development component of regional competitiveness. These are in particular investment in:

- *quality, connected places* – the aim of investing is to create conditions to retain and attract to the region smart people smart people and high-growth companies. These people and firms today are mobile and they will choose to locate in regions that value connected, safe, convenient and healthy places to live and work,
- the facilities for the development of artistic and cultural activities that create *cultural industries*, mainly in large cities and metropolitan areas; cultural and artistic creativity, which generates *cultural industries*; at the same time it is substantial to invest in mega-events, mainly cultural and sports, as well as investing in forums, conferences, exhibitions and so on.
- *regional branding* – it contributes to increased regional competitiveness by investing in the development of distinctive image or reputation of the region.

Concluding remarks. This paper has sought to present some chosen issues of regional competitiveness. It is shown the general view on the complex concept “regional competitiveness” – it indicated that there is no single definition describing the competitive region. The main attention was paid to the role of investment in the

developing of region's competitiveness. It is shown complex issue of investing in components that forming the region's competitiveness, particularly investment in infrastructure.

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