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# Assessing the competitiveness of locations: A journey through the major theoretical insights<sup>1</sup>

*Philippe Gugler*<sup>2</sup>

**Abstract:** The concept of competitiveness has been addressed by economic theorists and policy makers for several hundreds of years, with both groups trying to understand the drivers of economic prosperity and social welfare. This contribution does not aim to address all theoretical thoughts that may contribute to understanding the roots of the competitiveness of locations. The goal is to address the major useful theoretical contributions that permit to identify the main drivers of a territory's competitiveness and therefore to assess the competitiveness of a specific location according to strong criteria. The first section presents the major contributions found in the classical and neo-classical theories. The second section and the third section concentrate on two major schools providing significant thoughts on the competitiveness of locations: the Economic Geography (EG) School and the International Business (IB) School.

**Key words:** location competitiveness, economic geography, international business.

**JEL codes:** F23, O40, F63.

## Introduction

Policy makers at the national as well as at the regional and local levels consider competitiveness as a crucial question even though there are many uncertainties and differences of opinion about the concept and of policies to achieve it (Delgado, Ketels, Porter, & Stern, 2012, p. 2). The World Economic Forum defines competitiveness as “the set of institutions, policies, and factors that determine the level of productivity of a country” (World Economic Forum, 2015, p. 4). A location is competitive if firms operating there can achieve a “high level of productivity” (Porter, 2008, p. 176). Several international rankings regularly classify the global competitiveness of nations (World Economic Forum, 2018a; IMD, 2018) or their competitiveness regarding spe-

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cific factors such as technological readiness (World Economic Forum, 2018b) or the overall environment to do business (World Bank, 2019). Some studies focus on the ranking of the competitiveness of regions defined differently according to statistics and/or administrative classifications: for example, the competitiveness of EU regions has been studied by Annoni, Dijkstra and Gargano (2017). The ranking methods are as various as the number of studies. This may explain why the most serious researchers acknowledge the fact that their results have to be interpreted with caution. In any case, any assessment of the competitiveness of a territory needs to be based on a strong and rigorous theoretical basis. The concept of competitiveness has been addressed by economic theorists and policy makers for several hundreds of years, with both groups trying to understand the drivers of economic prosperity and social welfare (Martin, 2005, p. 2). This contribution does not aim to address all theoretical thoughts that may contribute to understanding the roots of the competitiveness of locations. The goal is to address the major useful theoretical contributions that permit us to identify the main drivers of a territory's competitiveness and therefore to assess the competitiveness of a specific location according to strong criteria. The first section presents the major contributions found in the classical and neo-classical theories. The second section and the third section concentrate on two majors schools providing significant thoughts on the competitiveness of locations: the Economic Geography (EG) School and the International Business (IB) School.

## **1. The founding theories of modern economics approaches on territorial competitiveness**

The major economic theories all directly or indirectly address competitiveness issues. (Martin, 2005). The classical theory, mainly through Adam Smith and David Ricardo, provides important thoughts related to the competitiveness of territories. According to Adam Smith (1993), accumulation of capital and specialization due to the division of labor as well as international trade play a crucial role in the economic development of countries and may explain their differences as far as labor productivity is concerned (Smith, 1993, p. 63, 160, 205; Martin, 2005, p. 2-4). Specialization within industries and across countries creates absolute advantages for countries (Smith, 1993, pp. 257-258; Porter, 1998, p. 7). Gains from trade are not only due to absolute advantages but, as demonstrated by Ricardo (1817), are also due to comparative advantages (Ricardo, 1817/1821, pp. 229-230). Trade is created thanks to differences in comparative advantages resulting from differences in labor productivity and in labor output across nations. According to the neo-classical theory, and in particular to the Heckscher-Ohlin (H-O) model, comparative advantages due

to differences in factor endowment explain the ability of countries to trade (Cho & Moon, 2013, p. 11). The role of government in industrial activities—impacted by the marginal efficiency of capital—is highlighted by the Keynesian theories (Keynes, red. 1964, p. 378). Economic policy plays an important role in the divergence or convergence of territories. Whereas Smith warned about negative government interference, such as restricting competition and international trade (export subsidies, imports restrictions, monopoly rights, etc.), on economic prosperity, Keynes argued that the government should be cautious as far as international trade is concerned and should play an active role in managing economic structures and activities to foster economic prosperity (Keynes, 1964, pp. 333-371). Debates that oppose the role of governments to foster the prosperity of their jurisdictions show that economic policy is a tricky matter that may impact firms' creation of wealth (Romer, 2000; Howitt, 2009). According to the endogenous growth theory, human capital and technological progress play important roles in economic growth and productivity, and therefore, differences in levels of technology and human skills explain differences in productivity and growth across territories (Jones, 2000; Lucas, 1988; Romer, 1986, 1990). Whereas trade between countries is explained by differences in factors of production and technological endowments in traditional trade theory, the new trade theory identified factors that may explain trade between similarly endowed territories (Cho and Moon, 2013, pp. 17-18). Patterns of trade, in particular of intraindustry trade, are explained by differences in economies of scale (increasing returns), product differentiation, imperfect competition, agglomeration economies, skilled labor, infrastructure, the size of markets, etc. (Martin, 2005, pp. 2-9). All these pioneering theories provide initial insights that territories are different and that these differences explain the discrepancies in their levels of prosperity and standards of living. The red line of these theories has a common denominator: productivity. These theories emphasized different factors impacting the level and the growth of productivity in a given area and therefore the degree of their competitiveness. However, these theories are not sufficient to more precisely identify the drivers and enablers of location competitiveness and to explain, in particular, the factors that drive the creation of economic activities, the expansion of economic activities, the creation of new firms and the attraction of foreign firms. Prosperity is due to economic activities created by firms. Therefore, we need more theoretical insights to scrutinize the competitive advantages of territories or, in other words, their ability to offer the best conditions that enable economic agents to achieve higher rates of productivity in open markets. Two major theories provide, to a large extent, the needed insights: the economic geography theory and the international business theory.

## **2. The economic geography approaches to territorial competitiveness**

One of the major goals of economic geography is to explain why some economic activities are developed in a specific location and why agglomeration of the same industrial activities or interrelated industrial activities appear in a specific location. The “spatial allocation of economic activity” reflects competitive advantages of specific locations related to specific needs of particular economic activities (Clark, Feldman, & Gertler, 2000, p. 11). The pioneering work of Alfred Marshall on industrial districts constitutes the roots of theories on economic geography development (Marshall, 1920). Industrial districts create externalities among agglomerated economic agents and therefore allow for economies of scales (Huggins & Thompson, 2017, p. 93).

Marshall developed the concept of external economies (Marshall, 1920, p. 172; Stigler, 1951, p. 186) and identified crucial effects and characteristics of industrial districts that influence the location of industries, such as the concentration of skilled workers (Marshall, 1920, pp. 168-171). He also highlighted externalities for a specific industry created by other industries with similar characteristics (Marshall, 1920, p. 172). As noted by Krugman, “Most of the literature in this area follows Marshall in identifying three reasons for localization. First, the concentration of several firms in a single location offers a pooled market for workers with industry-specific skills, ensuring both a lower probability of unemployment and a lower probability of labor shortage. Second, localized industries can support the production of non-tradable specialized inputs. Third, informational spillovers can give clustered firms a better production function than isolated producers” (Krugman, 1991, pp. 484-485). The ability of regions to benefit from comparative advantages by attracting agglomerations of specific industrial activities reflects the regional divergences among territories, as studied by Krugman (Krugman, 1991). As mentioned by Nielsen, Asmussen and Goerzen positive externalities can emerge from horizontal agglomeration as well as from vertical agglomeration (2018, pp. 195-196). Krugman’s model put into evidence the role of the size of a market as a factor inducing industrial activity agglomeration (Krugman, 1991, p. 496). Another related key component highlighted by Krugman is the role of increasing returns achieved by agglomeration effects (Krugman, 1991, p. 487). Krugman and Venables also put into evidence the role of transport costs as a nonlinear effect on agglomeration forces (Krugman and Venables, 1995, pp. 860-861). As already mentioned by Stigler, “reduction of transportation costs are a major way of increasing the extent of the market” (Stigler, 1951, p. 192).

Most of the above mentioned thoughts and models try to explain why some firms operating in specific industries agglomerate in the same geographic area. The underlying drivers of this phenomenon include local comparative advan-

tages such as the presence of resources, highly skilled people, suppliers, market size, etc. The drivers of these comparative advantages have been studied by Michael Porter. As mentioned above, Porter considers that territorial competitiveness reflects the productivity achieved by the firms operating there. According to Porter, "In this broader and more dynamic view of competition, location affects competitive advantage through its influence on productivity and especially on productivity growth. Productivity is the value created per day of work and unit of capital and physical resource employed. Factor inputs themselves are abundant and readily accessed via globalization. Prosperity depends on the productivity with which factors are used and upgraded in a particular location" (Porter, 1998, p. 9). Porter analyzed the competitiveness of a territory by considering two levels (Ketels, 2006, pp. 118-119). The first level is the macroeconomic, social and legal contexts that establish the potential that allows the creation of productivity. Productivity is created at the second level by reflecting the microeconomic context that comprises two pillars: the sophistication of firms (their own competitive advantages) and the quality of the business environment. The first context impacts the efficiency of the microeconomic context. Porter's work regarding the first context dedicates an important place to quality of life issues that positively impact microeconomic efficiency as far as labor availability and efficiency is concerned (Porter, 2015). According to Porter, "Ultimately, nations succeed in particular industries because their home environment is the most forward-looking, dynamic and challenging" (Porter, 2008, p. 171). The business environment can be envisioned as a diamond comprising four interrelated components: the factor conditions, the level and conditions of competition, the presence of "related and supporting industries", and the demand conditions. Porter presents a robust interactive model of the main microeconomics drivers of territorial competitiveness understood as a location where the average productivity of specific industries reaches high levels and grows over time.

The first facet of the diamond comprises the factors (inputs) necessary for firms to operate. Porter distinguishes inherited factors, such as the natural resources that are endowed in a specific territory, from created factors (Porter, 2008, pp. 188-190). This differentiation of factors is already found in the theories mentioned above. Indeed, the endogenous theories introduced the role of created factors (labor skill, technology) in comparison with the factors leading to the absolute and comparative advantages of Smith, Ricardo and Heckscher-Ohlin. The created factors include a need for a multiplicity of private firms as well as public institutions. Apart from natural resources, the main factors playing important roles in the ability to be productive are the availability of skilled people, of capital and of efficient infrastructure (communication, transport, energy infrastructures) (Porter, 2008, pp. 188-190). The second facet of the diamond highlights the degree of competition occurring in a territory. The main assumption is that competition drives innovation and efficiency (Porter,

2008, p. 197). National regulations regarding Intellectual property rights, antitrust, anti-corruption, openness to international trade and to FDI all shape the competition levels that impact a firm's activities. The third facet of the diamond refers to the presence of "related and supporting industries" within the territory (Porter, 2008, pp. 192-194). Each firm needs to rely on efficient suppliers, efficient distributors, efficient services suppliers, business associations, high schools providing skilled employees, and R&D institutions as well as on the multiple agents that play roles in the value chain of the firms. The so-called "Institutions for collaboration" are important elements supporting the efficiency of firms located in a specific region (Porter & Emmons, 2003; Lepori & Gugler, 2016).

Michael Porter highlights the role of clusters that provide a geographic concentration of multiple firms and activities that play important externalities for the other components of the cluster. According to Porter, "a cluster is a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities" (Porter, 2008, p. 215). Several studies have confirmed the positive role of clusters for the economics performance of firms in terms of expansion of existing companies, creation of new firms, arrivals of foreign firms, innovation rates, labor skills, etc. (Porter, 2008, pp. 225-229; Resbeut & Gugler, 2016). Porter's view is in line with Marshall, who argued about the importance of industrial districts for the prosperity of a region (Porter, 2003; Canina, Enz, & Harrison, 2005; Diez-Val, 2011; Wennberg & Lindqvist, 2010; Claver-Cortés, Marco-Lajara, Seva-Larrosa, & Ruiz-Fernández, 2019). The role of clusters will be dealt with below. Finally, the fourth facet of the diamond reflects the influence of local demand (Porter, 2008, pp. 190-192). The size of demand is one dimension illustrating the size of the market that has already been taken into consideration by major theories on the prosperity of territories (Smith, 1993, Krugman, 1991, p. 496; Stigler, 1951, p. 185). The qualitative dimension of local demand conditions constitutes an important factor leading firms to innovate and to develop the best products and services that will serve a sophisticated demand. In that respect, demand is not only influenced by the private sector but also by the public sector. Government institutions are important purchasers through public procurements as well as significant influencers through the adoption of sophisticated products and services' standards. Porter's contribution is "micro-economic based," that is, that wealth is created by firms, and a competitive territory is a location where the value creation is the highest possible. Governments do play a role in particular in upgrading the diamond's facets and through cluster initiatives (Ketels, 2008). Indeed, the government may contribute significantly to offering efficient supporting- and related-institutions (schools, high schools, R&D institutes, economic and investment promotion bodies, etc.), to making sure that firms benefit from the availability of efficient factors such as infrastructure and highly skilled labor, to fostering competition through laws



and international agreements and to monitoring innovation through sophisticated public demand and the adoption of high standards.

As far as clusters are concerned, Porter considers only those based on the existing specialization of activities occurring in a region (Porter, 2008, p. 263). Clusters created from scratch without any agglomeration and specialization of activities are out of Porter's purview. The concept of clusters is therefore closely linked to specialization and agglomeration already identified by Smith, Ricardo and Marshall, among others, as drivers of a territorial comparative advantage. The main methods used to identify industrial specialization in a territory are the Gini index as well as the location quotient (LQ) (Strotebeck, 2010, p. 3). The Gini index measures inequalities among values. The LQ measures the proportion of employment in industry X in a specific territory divided by the proportion of employment in industry X in the whole country. An LQ higher than one indicates a degree of specialization of the scrutinized industry. However, it is important then to identify whether the employment registered in a specific industry is concentrated in a very limited number of enterprises or if it is spread among a larger number of firms (Strotebeck, 2010, p. 5; Resbeut & Gugler, 2016, p. 190). In the case where most of the employment would be generated by two or three firms, we may not conclude a cluster is present compared to the situation where employment would be spread among many firms and institutions in the same geographical area. This important distinction has already been taken into account by Marshall (Marshall, 1920, p. 277). Porter's individual work, as well as research undertaken with his colleagues, shows that the competitiveness of a region is not only impacted by the presence of individual clusters but also strongly impacted by the presence of colocated clusters and colocated industries (Delgado, Porter, & Stern, 2014a; Delgado, Bryden, & Zyontz, 2014b; Delgado, Porter, & Stern, 2015; Resbeut, Gugler, & Charoen, 2019). They demonstrated empirically the existence of these interactions among industries that had already been predicted in economic theory, such as by Stigler, who noted: "the auxiliary and complementary industries that must operate in intimate cooperation can seldom do so efficiently at a distance" (Stigler, 1951, p. 192). There are significant externalities among different industries and clusters in case they do have some complementarities. Recent studies have demonstrated that the presence of a strong cluster or a strong industry in a region may have a positive impact on the performance of other clusters and industries located in the same region (Resbeut et al., 2019; Claver-Cortés et al., 2019). A recent study published by Claver-Cortés and others (2019) provides a comprehensive view regarding empirical evidence on the impacts of clusters found in the literature (Exhibit 1).

The list of factors indicated in Exhibit 1 offers the main criteria to assess and compare the competitiveness of territories based on the "competitiveness output" that should reflect a high level of prosperity and efficiency. The "competitiveness input" side is reflected by the above mentioned contribution of

**Exhibit 1. District effects: Main empirical results showing a positive influence of a district on firms' performances according to studies published in scientific journals and carried out in Spain and Italy between 1994-2017**

- Labor productivity
- Capital productivity
- Profitability
- Added value per worker
- Return on investment
- Technical efficiency
- Productive efficiency
- Exports/sales (intensity, speed)
- Innovation intensity (patents per employees)

Source: Extracted from (Claver-Cortés et al., 2019, pp. 216-219).

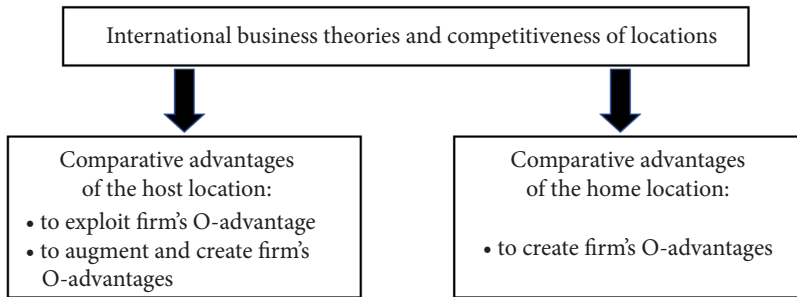
Michael Porter that highlights the role of microeconomic contexts to foster the achievement of the “competitiveness output.”

The economic geography studies mentioned above aim to explain the drivers of the concentration of specific industries and activities in specific locations. These activity agglomerations may be due to the creation of new enterprises, the expansion of existing firms and the attraction of firms located elsewhere. Regarding this last possibility, the international business (IB) theories focus on the comparative advantages of locations as far as multinational enterprises (MNEs) strategies are concerned.

### **3. The international business (IB) approaches on territorial competitiveness**

Location is an important issue developed in IB theories. Two main approaches can be identified (Exhibit 2). First, a major part of the IB literature focuses on the competitiveness of a host location to attract multinational enterprises (MNEs) that desire to exploit their competitive advantages and/or to augment them and/or to create new competitive advantages (Dunning, 1988, 1998, 2009; Dunning & Lundan, 2008). Second, the literature also covers the role of the home location contribution to creating and upgrading the competitive advantages of MNEs (Rugman and Verbeke, 2004).

The competitiveness of a location generates economic activities developed by local economic agents as well as by foreign firms deciding to invest in the most productive places. MNEs operate their activities abroad according to the attractiveness of foreign business locations (Dunning & Gugler, 2008; Gugler, 2018). The contributions of IB scholars dedicated to the location choice of MNEs support and complement the theoretical thoughts presented above and economic geography theories (Beugelsdijk, McCann, & Mudambi, 2010,



**Exhibit 2. Two main IB theoretical approaches on the competitiveness of locations**

Source: Own elaboration.

p. 485; Hanson, 2000, pp. 477-478). Important IB contributions presented in the 1960s (Dunning & Lundan, 2008, p. 82). Raymond Vernon developed the theory of the relationship between the comparative advantages of the recipient and of the home country as drivers of trade and foreign direct investment (FDI) (Vernon, 1966). Hymer analyzed the “spatial dimension” of FDI in his studies focusing on the concentration of MNEs in specific territories, such as cities (Hymer, 1972, pp. 122-125; see also Iammarino & McCann, 2013, p. 39). These pioneering works on the role of location and MNEs’ choices of location have been scrutinized by other scholars, in particular by Dunning (Dunning, 1988). According to the “Ownership-Location-Internalization” (OLI) paradigm presented by Dunning in the late 1970s (Dunning, 1988), location-specific advantages (L-advantages) of a potential recipient territory is one of three conditions explaining why firms decide to internalize “value-added activities across national borders”: “The L-advantages reflect the ‘assets’—offered by the recipient country—explaining why a specific firm has decided to invest in this specific host location” (Dunning, 1998, p. 45; see also Gugler, 2018, p. 442). While Vernon and Hymer’s approaches were mostly macroeconomic oriented, Dunning’s work focused mainly, as have major economic geography scholars such as Porter, on the fostering economic activities of a location’s microeconomic assets (Vernon, 1966; Hymer, 1972; Iammarino & McCann, 2013, p. 62). Dunning specifically addresses the crucial role of localization in a paper published in 1998 (Dunning, 1998) and re-edited in 2009 (Dunning, 2009). The major focus is “Why do firms locate their activities in one country rather than another?” (Dunning & Lundan, 2008, p. 80). This question considers the competitiveness of a potential location attracting FDI: “The spatial distribution of L-bound resources, capabilities and institutions is assumed to be uneven and, hence, will confer a competitive advantage on the countries possessing them over those that do not” (Dunning & Lundan, 2008, p. 100). As noted by Gugler and others, “The theory of ‘internalization’ (Buckley & Casson, 1976; Rugman, 1981; Rugman, 2010, p. 4) together with the resource-

-based view provides a rich background to understand the strategies that MNEs use to benefit from the strategic interactions between O- and L-advantages” (Gugler, Keller, & Tinguely, 2015, pp. 325-326). Among the assets explaining the potential comparative advantages of a location, Dunning and Lundan have identified the impact of formal and informal institutions (Dunning & Lundan, 2008, pp. 138-139). Meyer and others consider that institutions as well as resource endowments are major factors of the local context (Meyer, Mudambi, & Narula, 2011, p. 237). Another important determinant of MNEs’ location is “the geographical distance between home and host countries”, a theory developed by the Uppsala School in a model studying “the role of psychic distance on the internationalization process of firms” (Johanson & Vahlne, 1977; Vanoli, 2017). The major IB contributors scrutinize the L-advantages of locations and join the economic geographic scholars in their efforts to identify a location’s inherited and created assets “shaping the geography of the firms” (Audretsch, 2000, p. 333; Storper, 2000, p. 147; Gugler, 2018, p. 443).

The comparative advantages of locations according to MNEs’ strategies may be scrutinized in relation to the four main MNEs’ motivations to invest abroad: market-seeking investments, resources-seeking investments, efficient-seeking investments and strategic asset-seeking investments (Dunning, 1998, p. 50; Dunning 2009, p. 8). These motivations do not exclude each other, but in many cases, one of them tends to be the major goal pursued by an MNE in its decision to invest in a specific recipient territory (Exhibit 3). Theories of market-seeking motivations attribute a significant importance to the local market as well as to adjacent markets that can be reached from an ideal location offering advantages in terms of geographical distance and transportation costs, for example. Resources-seeking investments are particularly attracted to inherited natural resources as well as to created resources such as highly skilled employees, technological capabilities, efficient infrastructures, etc. Efficiency-seeking investments look for specific related and supported firms such as efficient suppliers and distributors, institutions and associations as well as a strategic location to reduce the costs of distance. Strategic-asset seeking investments are aimed at augmenting an investor’s competitiveness by accessing local innovative capabilities and by upgrading its innovation developments (Dunning, 2009, p. 9). The MNEs will opt for a specific location where they will be able to access the recipient country’s tangible and intangible assets and develop new assets (Gugler, 2018, p. 443). The presence of education and research institutions and specialized partners plays an important role for these kinds of investments. Human capital and technological capabilities also drive the attractiveness of a territory (Storper, 2000, p. 147; Audretsch, 2000, p. 336).

As noted by Iammarino and McCann, “Such mostly intangible L advantages are highly localized and concentrated within specific locations, and contribute to enhancing firm-specific O advantages, which in turn strengthen those of the home and host location at the same time” (Iammarino & McCann, 2013, p. 63;

<b>MNEs motivations</b>	<b>Host country assets</b>
<b>Market seeking investment</b>	<ul style="list-style-type: none"> <li>• Local market</li> <li>• Access to adjacent markets</li> <li>• Distance to adjacent markets</li> <li>• Transportation costs</li> </ul>
<b>Resource seeking investment</b>	<ul style="list-style-type: none"> <li>• Access to natural resources</li> <li>• Access to specific skilled people</li> <li>• Access to technological capabilities</li> <li>• Access to specific infrastructures</li> </ul>
<b>Efficiency seeking investment</b>	<ul style="list-style-type: none"> <li>• Access to specific supporting and related industries (e.g. suppliers, distributors, education and R&amp;D institutions)</li> <li>• Strategic location to reduce costs of distance</li> </ul>
<b>Strategic asset seeking investment</b>	<ul style="list-style-type: none"> <li>• Access to innovative capabilities</li> <li>• Access to clusters externalities</li> <li>• Access to sophisticated private and public partners</li> </ul>

### **Exhibit 3. MNEs motivations and host country assets**

Source: Own elaboration.

see also Dicken, 2000, p. 280; Dunning & Lundan, 2008, pp. 72-74; Rugman & Verbeke, 1992, p. 762). As already mentioned above, clusters play an important role by offering adequate externalities due to the geographical concentration of business partners offering the needed human capital and technological level. Clusters do not limit their attractive influence on strategic-asset seeking investment but extend their benefits to the other kind of above mentioned investment motivations. As underlined by geographic economists from Marshall to Porter, Dunning mentions “(...) the ease at which MNEs can transfer intangible assets across national boundaries is being constrained by the fact that the location of the creation and use of these assets is becoming increasingly influenced by the presence of immobile clusters of complementary value-added activities” (Dunning 2009, p. 7-10; see also Cantwell, 2009, p. 37). Clusters may provide assets that are “non-transferable across geographic space” which are location-bound assets (Audretsch, 2000, p. 333; Rugman & Verbeke, 2009).

International business scholars have also taken into consideration the role of governments as far as their policies aim to upgrade the business environment both at the macro and micro levels (Dunning & Lundan, 2008a, pp. 104-105).

This reflects Porter's views advocating that governments should upgrade the quality of the business environment (actions that target the four facets of the diamond) and should launch cluster initiatives to promote the efficiency of industrial districts. The adoption of the appropriate laws governing FDI, as well as of adequate international agreements facilitating FDI, have an impact on the attractiveness of a host location (Dunning & Lundan, 2008, p. 325; Rugman & Verbeke, 2009, p. 165). This adoption reflects the "increasing role of location-bound institutions in light of more recent multinational enterprises' localization behaviors" (Dunning & Lundan, 2008, p. 326). The quality of the investment promotion policies as well as the extent of FDI incentives play a role in the race for FDI (Oxelheim, 1993; Tavares-Lehman, Toledano, Johnson, & Sachs, 2016). As stated by Gray and Dunning, efficient government policies impacting the quality of the business environment and the attractiveness of the location need to be elaborated in a dynamic way to ensure that their adoption on time will address real needs in the future (time  $t+1$ ) (Gray & Dunning, 1999, pp. 422-424).

According to international business theory, the comparative advantages of a location serve firms not only by exploiting their ownership advantages (mostly as far as market seeking, resource seeking and efficiency seeking investments are concerned) but also by augmenting and/or creating new ownership advantages (strategic asset seeking investments). The impact of a location on the competitiveness of firms is considered from both sides: the MNE's home country and the MNE's host country. In addition to the impact of the host country's location advantages on MNEs' performances, Dunning considers that the home-based assets impact the owner-specific (O-specific) advantages of firms too (Dunning, 1988, p. 34).

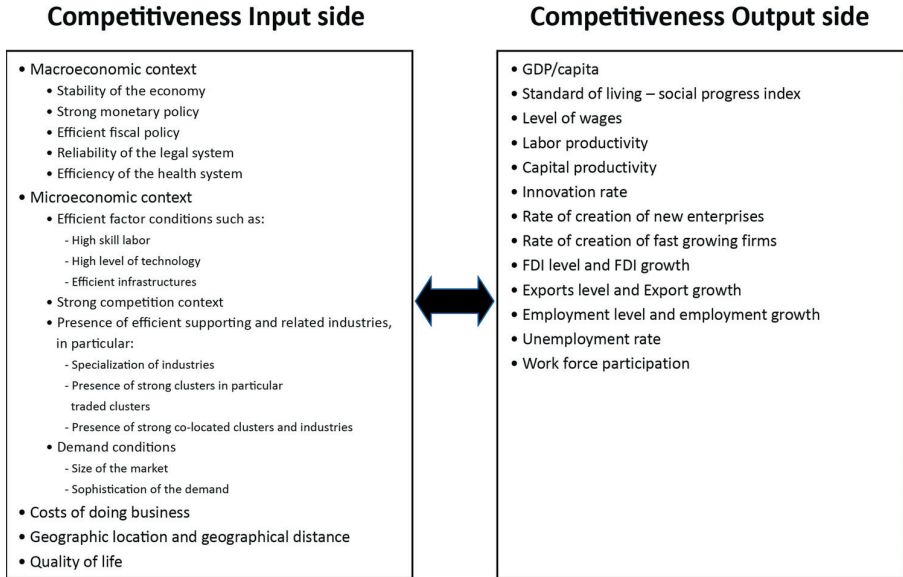
In that respect, Dunning and Porter provide a similar view on the definition of the competitiveness of location being the host or home territory of a firm: offering the best business conditions allows firms to increase their profitability and their competitiveness. Their approach provides criteria to assess the "competitiveness input" side of the equation. Apart from the "industry based view" developed by Porter, the "institution-based view" (Dunning & Lundan, 2008, p. 129; Peng, Wang, & Jiang, 2008, pp. 930-931) and the "resource-based view" (Barney, 1991; Dunning & Lundan, 2008, p. 120) both address the impact of the home country on the ability of firms to invest abroad (Gugler, 2017, pp. 195-196).

The relationship between the home country's comparative advantages and the firm's competitive advantages has been widely studied by Rugman according to his concepts of country-specific advantages (CSAs) and firm-specific advantages (FSAs). The CSAs "are exogenous location factors in a country that represent economic and institutional environments (including geographic location, factor endowments, government policies, national culture, institutional framework, and industrial clusters)" (Rugman & Nguyen, 2014, p. 53). The FSAs are based on the unique assets and capabilities of a company (Rugman, 2008, p. 12): "It may be built on product or process technology, marketing or

distribution skills, or managerial know-how” (Rugman, 2008, p. 12). Put into relation with Dunning’s OLI paradigm, Rugman and Oh consider that “O and I may usefully be combined as aspects” of FSAs (Rugman & Oh, 2013, p. 463; Rugman, 2010, pp. 5-6). According to Rugman, CSAs can be considered either at the country level or at the regional level (Rugman and Oh, 2013, p. 465), leading some authors to distinguish between country-specific advantages (CSAs) and region-specific advantages (RSAs) (Gammelgaard & McDonald, 2018, pp. 305-306). According to the Rugman’s approach, “a firm’s competitiveness and strategy in international markets depend on its home CSAs and on its FSAs, the roles of which may vary depending upon their respective strengths or weaknesses as drivers of competitiveness.” (Gugler, 2018, p. 445). Rugman sets a matrix comprising four situations according to the strengths and/or the weaknesses of the home CSAs and of the FSAs (Rugman, 2008, p. 13; Rugman & Li, 2007, p. 335; Gugler, 2018, p. 445). As stated by Rugman and Verbeke, we may distinguish the “location-bound FSAs” and the “non-location-bound FSAs” (Rugman, 1981; Rugman & Verbeke, 1992; Gugler, 2018, p. 445). The “location-bound FSAs” depend upon the comparative advantages of the host and home countries (Rugman & Verbeke, 2001, 2009). Regarding the location-bound FSAs, the firms’ competitive forces, based on a location’s assets, may be impacted by the presence of clusters (Gugler & Brunner, 2007). As noted by Gugler and others (2015, p. 328), “firms can take advantage of clusters as CSAs in their home country (home-CSA-cluster) and in their host locations (host-CSAs-cluster) and develop FSAs at the headquarter lever (FSA-headquarter) and at the affiliate level (FSA-affiliate).” Rugman and Verbeke also recognize that clusters may strengthen the comparative advantages of a specific location: “localized networks of related and supporting activities act as an agglomeration magnet on FDI” (Rugman & Verbeke, 2009, pp. 162-163).

## **Conclusion**

This journey through the main theoretical insights from “Adam Smith” to “Michael Porter”, “John Dunning”, “Alan Rugman” and the main scholars in the fields of economic geography and international business offers a framework based on strong criteria to review the competitiveness of locations. However, it is reasonably not possible to develop a “one size fits all” approach on the competitiveness of locations since there are important peculiarities when assessing the competitiveness of a country, a region or a city. Furthermore, the angles scrutinized may be different (Exhibit 4): Some studies consider the competitiveness of locations from the “input side,” thus identifying the locations’ features that enable firms to be productive and to succeed while facing local and international competition.



**Exhibit 4. Competitiveness**  
Source: Own elaboration.

Other approaches are mostly based on the “output side,” thus focusing on labor productivity, capital productivity, employment, innovation rate, and the rate of creation of new enterprises, etc. Unfortunately, some assessments and rankings dedicated to the competitiveness of countries or of regions do not make a clear distinction between these two important but different arguments. The misuse and the mix of data regarding the cause and the effects of competitiveness may end in misleading results. Furthermore, as far as the comparison of different locations is concerned, important challenges limit the accuracy and veracity of the comparison results. Indeed, some important drivers of the prosperity of a location, such as the presence of co-located industries and co-located clusters, are difficult to grasp within an accurate “one size fits all” indicator. Therefore, analysts still need more appropriate comparison methods and measures to assess and to rank the competitiveness of locations—even though existing theory lays the foundation to do it.

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