

How to Assess the Attractiveness of Business Location According to the Mainstream Concepts of Comparative Advantages

Authors : Philippe Gugler

Abstract : Goal of the study: The concept of competitiveness has been addressed by economic theorists and policymakers for several hundreds of years, with both groups trying to understand the drivers of economic prosperity and social welfare. The goal of this contribution is to address the major useful theoretical contributions that permit to identify the main drivers of a territory's competitiveness. We first present the major contributions found in the classical and neo-classical theories. Then, we concentrate on two major schools providing significant thoughts on the competitiveness of locations: the Economic Geography (EG) School and the International Business (IB) School. Methodology: The study is based on a literature review of the classical and neo-classical theories, on the economic geography theories and on the international business theories. This literature review establishes links between these theoretical mainstreams. This work is based on the academic framework establishing a meaningful literature review aimed to respond to our research question and to develop further research in this field. Results: The classical and neo-classical 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. 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. The economic geography studies scrutinized in this study from Marshall to Porter, 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. According to international business theory, the comparative advantages of a location serves 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.

Keywords : competitiveness, economic geography, international business, attractiveness of businesses

Conference Title : ICETIRED 2020 : International Conference on Entrepreneurship, Technology, Innovation and Regional Economic Development

Conference Location : New York, United States

Conference Dates : June 04-05, 2020