Systemic Competitiveness: Understanding meso-level interventions
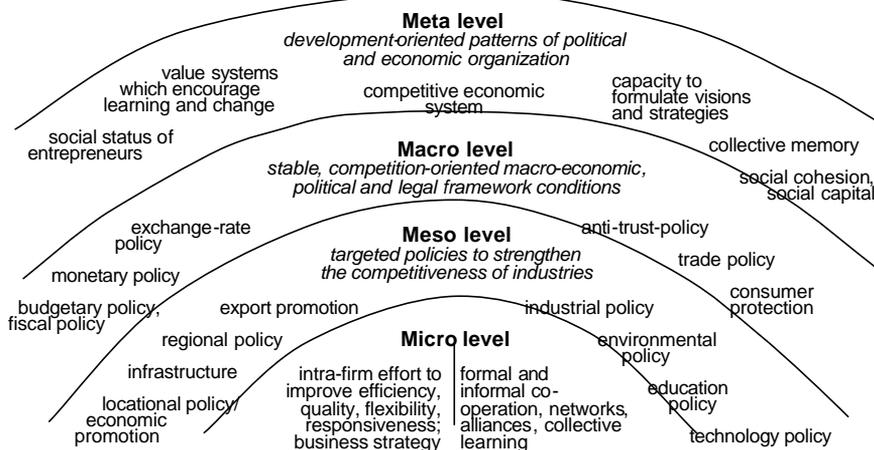
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Determinants of systemic competitiveness

Meta level
development-oriented patterns of political and economic organization

value systems which encourage learning and change

competitive economic system

capacity to formulate visions and strategies

social status of entrepreneurs

collective memory

Macro level
stable, competition-oriented macro-economic, political and legal framework conditions

social cohesion, social capital

exchange-rate policy

anti-trust-policy

trade policy

monetary policy

Meso level
targeted policies to strengthen the competitiveness of industries

consumer protection

budgetary policy, fiscal policy

export promotion

industrial policy

regional policy

Micro level

environmental policy

infrastructure

intra-firm effort to improve efficiency, quality, flexibility, responsiveness; business strategy

formal and informal co-operation, networks, alliances, collective learning

education policy

locational policy/ economic promotion

technology policy

Why „systemic competitiveness"?

background:
- **Latin America vs East Asia**
- **predominance of neoliberal discourse in the early 1990s**
- **normative vacuum after the demise of import substitution / structuralism**
- **policy advice vs disciplinary boundaries / academic specialization**

main messages:
dynamic industrial (agricultural, service) development is determined by factors
- **which are located at different levels**
- **which are interacting in a dynamic process**
- **a sound macro-economic framework is a necessary, but by no means sufficient condition for dynamic development**

Conceptual background

economics:
- **innovation economics / evolutionary economics**
  Nelson, Freeman, Dosi, Arthur, Pavitt
- **post-structuralism**
  Fajnzylber, Wade, Amsden
- **institutional economics**
  Williamson, North
- **management-science**
  Porter, Hamel/Prahalad

social science:
- **policy-networks**
  Scharpf, Mayntz
- **industrial sociology**
  Kern, Schumann, Humphrey
- **economic sociology**
  Granovetter
- **economic geography**
  Storper, Scott

Meso space: Institutions and orientations

technology: contract research, information and technology transfer, consultancy, MSTQ -- business associations, universities and polytechnics
specialization, selectivity, networking

education, training: public and private institutions
quick adjustment to changing conditions

suppliers

customers   **Firm**

competitors

financing: investment credit, working capital, collateral, venture capital, insurance
patience and risk-friendly disposition

SME-support Economic promotion

infrastructure: communication, logistics, energy, water, waste disposal
speed and efficiency

exports: market information, design, packaging, export credit and insurance, trading firms
specialization and close contact with firms and markets

environmental protection: supervision, technology and management advice
control / pressure and support

Meso level, meso policy and meso space

Meso level
- **Analytical level**

Meso policy
- **Target action of public and private actors**
  – **to strengthen the supporting environment for business**
  – **to shape structural change**
- **Selective interventions (as opposed to macro policy = generic interventions)**

Meso space
- **Public and private organizations which are tasked with strengthening the competitiveness of businesses**

Meso level, policy, space: Justification

Political justification:

- **assure legitimacy**
  - **often creates perverse effects: interventions not guided by reason but by desparation, symbolic intervention, little performance pressure**

Economic justification:

- **market failure**
  - **important distinction: temporary vs permanent meso policy**
- **transaction cost**
  - **important aspect: government-created generic and meso transaction cost**

Why address "Systemic Competitiveness"?

- **A stable macro-economic framework is a necessary but not sufficient condition for competitiveness and growth**
- **Companies' performance (micro-level) also depends on the availability of specialized factors and supporting institutions (meso-level)**
- **It is essential to understand a society's capacity to create a favorable environment for economic development (meta-level)**

Evolution of meta- and meso-level: the experience of the 1970s and 1980s

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- **Unilateral government action became less effective**
  - **since resources (know-how, money, delivery) got more dispersed**
- **Fragmentation between dispersed governmental and non-governmental stakeholders compromised the capacity to formulate effective meso-policy (first-order coordination problem)**
- **Policy-networks emerged as the solution to this problem**

What is a policy-network?

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- **A set of public and private actors**
  - **related to a given sector or problem**
  - **sharing resources to address problem**
    - **finance, know-how, delivery**
- **Effective policy networks depend on**
  - **shared problem definition**
  - **legitimacy of actors**
  - **implicit or explicit rules of decision-making**
  - **rules for the distribution of costs and benefits**

The crisis of policy-networks

- **Policy-networks operate effectively at the sectoral level**
- **New challenges: cross-cutting issues**
  - **articulating SME promotion with employment promotion, entrepreneurship development etc.**
  - **sustainable development**
- **Isolation of and fragmentation between policy-networks (second order coordination problem)**
- **Possible solutions:**
  - **decentralization**
  - **more selective, targeted or generic meso-policy**

Option 1:
Decentalization of meso-policy

Why decentralized meso-policy?

Empirical observations:

- fizzling-out of traditional, centralized industrial / technology / SME policy
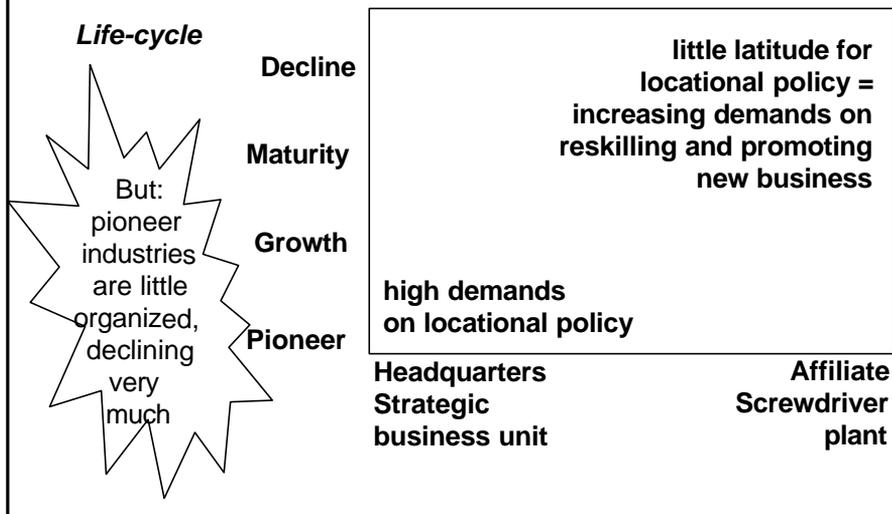- increasing problem-pressure felt at the local and regional level (unemployment, income generation)

Conceptual observations:

- localized rivalry
- localized competitive advantage / highly specialized supporting industries and institutions
- localized learning -- positive externalities

Limits to decentralized meso-policy: The paradoxies and dilemmas of locational policy

- The life-cycle paradox
- The dilemma of locational policy and integration into global value chains
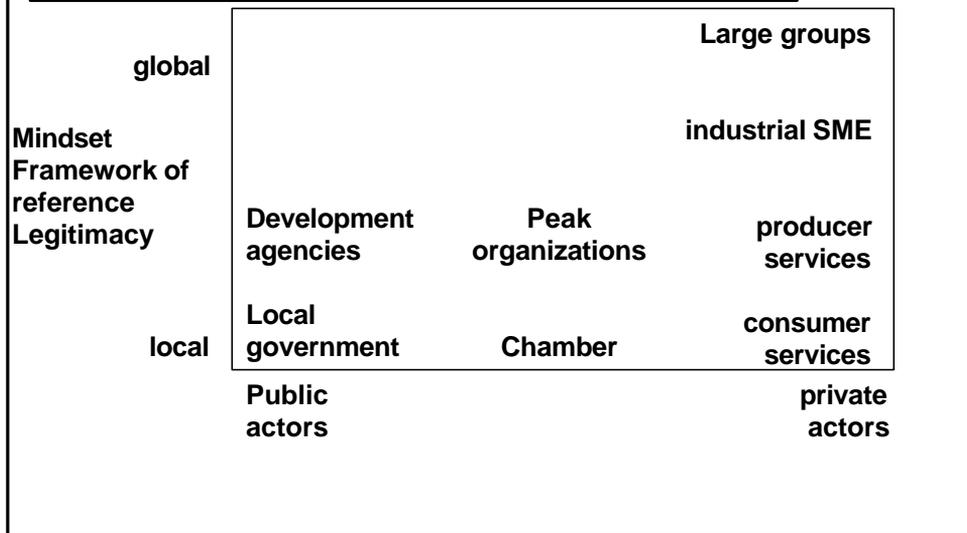- The location paradox

Latitude for local initiatives: Industry life-cycle and business unit status

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Life-cycle

Decline

Maturity

Growth

Pioneer

But: pioneer industries are little organized, declining very much

little latitude for locational policy = increasing demands on reskilling and promoting new business

high demands on locational policy

**Headquarters
Strategic
business unit**

**Affiliate
Screwdriver
plant**

Tension between local action and global value chain

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- **Two constellations:**
  - **Local producers are not yet on the radar screen of spotters**
    - **local SME promotion to enter radar screen**
  - **Local producers have been integrated into global value chains**
    - **local upgrading activities are dominated by the lead firm in the chain**
    - **rapid growth creates disincentives for local collective action**
    - **local government gets marginalized**

The location paradox (1)

			Large groups
global			**industrial SME**
Mindset Framework of reference Legitimacy	**Development agencies**	**Peak organizations**	**producer services**
local	**Local government**	**Chamber**	**consumer services**
	Public actors		**private actors**

The location paradox (2)

- **Large corporations are interested in high-quality locations**
- **Large corporations have a three-digit-number of locations**
- **Trade-off for large corporation:**
  - **active participation in local economic development: high transaction cost, large uncertainty, potentially large external effects, potentially low visibility**
  - **Sponsoring: low transaction cost, high visibility**
  - ✎ **preference for sponsoring, against LED**
  - ✎ **availability for LED under the condition of**
    - **strong power position**
    - **low external effects**

Options for decentralized meso-policy (LED, locational policy)

Generic locational policy	Reflexive locational policy	Strategic locational policy
* Streamlining of regulations * Business-friendly mindset of public administration * One-stop-agencies * Real estate development * Real estate information systems * Location marketing	* Organizing processes of analysis and reflection among local stakeholders with external know-how = improved basis for individual strategy formulation * No joint problem definition and collective action for problem-solving	* Definition of focal areas for development promotion * Joint problem definition among stakeholders * Distribution of responsibilities * Selective, targeted action

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Streamlining of regulations: Relevant in Mexico?

Cost and Time to Start a Business in 75 Countries
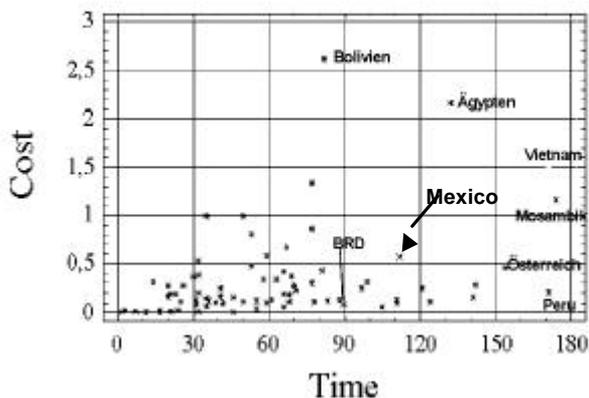
Conceptualizing government action: Transaction costs

		Reduce transaction costs	Increase transaction costs
Transaction costs are the costs of conducting business transactions: • *gathering information (on suppliers, employees, customers etc.)* • *negotiating contracts* • *monitoring compliance* • *enforcing contracts*	*General government activities*	• Effective and efficient legal system • Good and efficient infrastructure • Efficient, high-quality health and education system	• Regulations • Permit requirements • Environmental protection • Red tape • Incompetence and inefficiency • Corruption
	Business support activities	• Networking initiatives • Management training • Entrepreneurship training • Technology extension • Preferential credit	• Cost of application • Long decision period on application • Lack of transparency on decision criteria

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Pragmatic local meso-policy: The PACA approach

What is PACA?

- **A methodology to prepare an action-oriented diagnostic of the local economy**
  - **to initiative a local economic development initiative**
  - **to assess and refocus ongoing local economic development activities**
  - **based on a quick scan (rapid appraisal -- no more than two weeks)**
- **A methodology to motivate local stakeholders to take an active role in an LED initiative**

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PACA: A mini-workshop format for transaction cost analysis

1) Brainstorming (group of businesspeople):

	Reduce transaction cost	Create transaction cost
General government activities	☐ ☐ ☐ ☐	☐ ☐ ☐ ☐
Public business support activities	☐ ☐ ☐ ☐	☐ ☐ ☐

2) Pareto across the board

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Pragmatic local meso-policy: Cluster promotion

- **The recent European experience**
  - **cluster promotion is *not* primarily about collective efficiency, competitiveness through collaboration etc.**
  - **cluster development is primarily about overcoming the fragmentation of public and parastatal business promotion agencies and programs**
    - **aligning various agencies' activities**
    - **making business promotion less confusing for businesses**

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Option 2:
More selective, targeted or generic meso-policy

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How can meso-policy be more selective, targeted and generic (and all that at the same time)?

- **Establish *addressing market failure* as the guiding principle of meso-policy**

Market failure is
- **the lack of response on the supply- or demand-side due to**
  - **lack of information / high cost of information**
  - **barriers to entry (economies of scale, indivisibilities, anti-competitive behaviour)**
  - **lack of technical infrastructure**

How establish *addressing market failure* as the guiding principle of meso-policy?

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- **Make the analysis of market failure a mandatory element of the preparation of any meso-level initiative**
- **Try to identify the most relevant market failures**
- **Try to understand the root causes of very relevant market failures**
- **Design and scope meso interventions in such a way that they address the cause of the market failure, not the symptom**

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An example: access to ISO certification

- **Market failure at the outset: few companies need ISO certification (e.g. 9000, 14 000), certification firms don't enter market due to lack of scale**
- **Option 1: market-eliminating intervention --**
  - **public agency is tasked with providing ISO certification -- and has no interest in private providers entering the market**
  - **result: monopoly = high cost of certification, bad service**
- **Option 2: market creating intervention --**
  - **e.g. subsidizing the entry of certifyers**
  - **e.g. emitting vouchers**

Temporary vs permanent meso-policy

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- **Some meso-level interventions are permanent**
  - **because in some segments the market rarely works, e.g. due to strong externalities (training, R+D)**
- **Other meso-level interventions are permanent because they are clumsily designed**
- **Most meso-level interventions ought to be fixed-term**
  - **directly address the market failure**
  - **design an exit strategy at the outset**
  - **if necessary, empower business sector to take over initiative**

Conclusion: Challenges for meso-policy

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- **Develop a realistic perspective at the latitude for government action**
- **Develop a realistic perspective at the latitude for action of local stakeholders**
- **Relieving government and stakeholders of non-priority tasks, create functioning markets (BDS)**
- **Prepare the public sector to take over a new role: facilitator and moderator rather than interventor and regulator**
- **Empower the private sector to take care of its problems = organizational development in business associations**

Thank you for your attention!

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