REGIONAL COMPETITIVENESS: SOME CONCEPTUAL ISSUES AND POLICY IMPLICATIONS

Đula Borozan, Full Professor
J. J. Strossmayer University in Osijek
Faculty of Economics in Osijek

Abstract

As the notion of competitiveness itself arises many doubts regarding its meaning and interpretation, so does the notion of regional competitiveness. The important problem is that the conceptual issues related to the regional competitiveness have been translated to the regional policy level. They have implied many failures that the regional policy – seeking to achieve competitiveness and consequently sustainable economic growth and well-being of its people – has been experienced world-wide. The paper focuses upon what is meant by „regional competitiveness”

Keywords: competitiveness, regional competitiveness, regional policy

1. Introduction

Discussing and writing about competitiveness has become the fashion among scholars, businesses and policy makers. It is a fashion in that extent that competitiveness has become a ‘hegemonic discourse’ (Bristow, 2003) and has been elevated by economists, policy makers and experts „...to the status of a natural law of the modern capitalist economy”. (Kitson et al., 2006, p. 6). However, the concept of competitiveness itself is not straightforward determined, particularly with reference to a region or to an entire economy. Consequently, policies aiming to enhance competitiveness have been frequently failed in achieving their goals.

Popularity of the concept is derived from the fact that the competitiveness is treated as the mean for time-space comparison, i.e. for external validation of an area, and thus as the mean for achieving and sustaining economic growth, contented living standard and well-being of people. Furthermore, it is also treated as the mean for distribution of wealth in a world shaped by globalization, information-communication technologies and the changes in economic and societal transition.
A contention of the concept is particularly evident in terms of the regional competitiveness. The both words of the concept itself are a source of doubt and they require extended explanations. Particularly, the terms „region” and „competitiveness” have various meanings and are often imprecise or unclear. For instance, the notion „region” can mean both supra-national units and sub-national units. So, „region” may refer to a group of countries linked by a geographical relationship that share common characteristics, economic goals, institutions and rules of behavior. However, the notion „region” may refer to a statistical unit or an administrative unit within a country or to units within a country that correspond to its geographic, historical and cultural regional structure. In this paper, the notion „region” refers to a geographical area within a country that shares common socio-economic and cultural elements. The paper focuses on the meaning „regional competitiveness”. Through an analysis of this, it seeks to analyze some of conceptual issues that may be potentially misleading for regional policy consideration and action.

The paper is structured as follows. Section 2 discusses the spatial approach in defining competitiveness. It pays attention to microeconomic, macroeconomic and regional competitiveness. Section 3 addresses the issues related to regional competitiveness more deeply. It considers the regional competitiveness as a microeconomic aggregate, macroeconomic derivate and from the perspective of policy makers. Section 3 provides a broad frame for a practical approach to the definition of regional competitiveness. Section 4 provides conclusions.

2. Spatial approach in defining competitiveness

Competitiveness is defined in dictionaries as the ability of successful competing in some way over time. Such definition focuses on the output of competition; measured by standard quantitative efficiency measures – in a case of locality by its GDP per capita; in the case of a firm by its market share or profit. Considering such definition, competitiveness is bounded on the pure competition. Furthermore, it implies winners and losers, i.e. such order in which localities lagging behind (whether it is a nation, region or a sub-region) can be caged in a long-run circle made from competitive disadvantages.

From this point of view poor areas can not be competitive. However, competitiveness is a multidimensional term that should be considered over time. To consider it only through quantitative measures of efficiency, it would be completely inappropriate. One should take into consideration the potential of some area or an organization to perform better in economic terms than another. Such view assigns to competitiveness a time dimension and a strategic importance. Furthermore, it also stresses the need for addressing soft variables or drivers in order to understand, measure and
enhance the regional performance and development. For instance, if some area or an organization develops its human resources and capacities in an innovative and creative way, it may be seen as a competitive one even though it is relatively poor.

The concept itself is not straightforward determined; there are different and sometimes opposite explanations of the concept. Turok (2004) pointed out the reason why some of its causes and consequences are measurable, but competitiveness itself is not. It has been shown that competitiveness is a difficult, ambiguous and therefore confusing term which raises more questions than it offers answers.

To gain an understanding on the meaning of competitiveness, one should differentiate between micro, meso and macro competitiveness due to fact that competitiveness raises on three level: micro-economic level (microeconomic competitiveness), regional economic level (regional competitiveness)\(^1\) and macro-economic level (macroeconomic or national competitiveness or macro-competitiveness). Figure 1 illustrates different spatial perspectives on competitiveness.

**Figure 1:** *Different spatial perspective on competitiveness*

Microeconomic competitiveness is positioned in the center of national and regional competitiveness. Usually, it is defined as the ability of a firm to compete successfully in a market (*i.e.* to produce the goods and services that are demanded on

---

\(^1\) Cellini and Soci (2002) divided the competitiveness at the meso level into industrial districts (“clusters”) and regions.
market in an efficient and effective way), to grow and to be profitable in a long run. It should be noted that the stressing the long-run profitability illuminates the need for a responsible and moral behavior of firms to community and for matching the firms’ goals, measured in quantitative terms, to the community interest. The better economic performance of the firm is, the more competitive it is, the better business results it will have, and the larger market share it will occupy. In other words, microeconomic competitiveness is defined relatively clearly (Bristow, 2005). It is expressed in terms of output-related performance indicators and of sustainability. An important role in achieving competitiveness has ‘entrepreneurialism’ which can be defined as the firm’s capacity to innovate in the production process, to access new and distinctive markets in different and unconventional ways, and to produce new or redesigned goods and services with perceived customer benefit (Porter, 1990).

Contrary to definition of microeconomic competitiveness for which there is a widespread agreement among scholars, the very notion of national or macroeconomic competitiveness raises numerous doubts among scholars. It appears that it is a vague concept which meaning is significantly contest-dependent. Not only that national competitiveness has no key attributes, but there is no consensus about the opinion whether this concept has a meaning at all, *i.e.* whether the nations really compete.

Although some scholars (e.g. Krugman, 1994) put the usefulness of the concept into question, and deny the ability of nations to compete among themselves, several international studies such as the World Competitiveness Yearbook, the Global Competitiveness Report and Global Entrepreneurship Monitor suppose this and confirm that the government can shape the favorable environment in which firms operate, and consequently contribute to nation-competitiveness.

It is quite interesting that in literature on national competitiveness Krugman (i.e. his works in the mid 1990s) is the only one who is frequently pointed as the main opponent of the usefulness of the concept itself. None of the authors after Krugman have attracted so many popularity as he did as the opponent. This does not mean that all doubts on national competitiveness have been clarified several years ago; it means more that the notion itself – as a highly contested one - has been rooted in all areas of human creation.

There are plenty of definitions trying to explain its meaning (see for review Garelli, 2003, Annex II). The following two are mostly found in literature: “Competitiveness of nations looks how nations create and maintain
an environment which sustains the competitiveness of its enterprises” by the International Institute for Management Development (Garelli, 2003, p. 701). According to the Organization for Economic Cooperation and Development competitiveness is “the degree to which a nation can, under free trade and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long-term”\(^2\). These definitions put emphasis on the role of economic policy in shaping the business environment. However, Krugman (1994) pointed out that macro-competitiveness can even be dangerous obsession which can lead to bad economic policy. If competitiveness has any meaning, than it has, according to Krugman, only because it is simply another way of saying productivity. He stressed two important critics of this notion:

1. It is misleading to make an analogy between a nation and a firm; for example, while an unsuccessful firm has to be closed, there is no equivalent “bottom-line” for a nation.

2. While trade between firms may be considered in perspective of winners and losers, trade between nations may be considered in terms of new opportunities for growth and development for both of them.

Similar to Krugman, Porter (2003) noted that the key for understanding the competitiveness is the source of national prosperity, i.e. productivity of an economy, measured by the value of its goods and services produced per unit of the nation’s human, capital and national resources. Productivity is for Porter the real measurement for competitiveness; it has its root in microeconomic competitiveness, and it is a way to achieve the main goal – to produce a high and rising standard of living for its citizens.

For Porter the competitiveness of the nations – put in the form of the theory named diamond theory - are complex outcome of the forces described as factor conditions, context and rivalry conditions, demand conditions, and supporting industries – cluster conditions. Porter’s diamond theory provides a holistic and very flexible concept which helps all stakeholders in a country to consider competitiveness in its complexity and to communicate constructively about improving the environment for raising competitiveness. This theory - successfully branded - stresses the importance of macroeconomic issues. However, the sound macroeconomic environment is only a precondition; the improvement and sustainability of the country’s competitiveness

\(^2\) Competitiveness Helping Business to Win, 1994, Cm 2563, p. 9
is rooted in its microeconomic conditions, as Porter stated, and abilities of the local firms to gain superior productivity in some industries.

Despite the opinion of some scholars that economic policy should not be based on national competitiveness, achieving and sustaining national competitiveness has officially become the top priority. World evidences indicate nations may not, unlike firms, go out of business. But they can and do become locked into long-run, and cumulative, competitive disadvantage (out-migration, low employment rates, low productivity, low incomes, and low innovation) as Gardiner et al. (2004) stressed. Issues regarding competitiveness are at the heart of the strategy launched by the European Council in Lisbon in March 2000 and its re-launched version in 2005. They required that „the Union must mobilize all appropriate national and Community resources – including cohesion policy” and stress that greater ownership of the Lisbon objectives is only possible through involving regional and local actors and social partners (Commission 2005). Furthermore, in 2005, the Commission’s Directorate General for Regional Policy published Community Guidelines suggesting how cohesion policy would be more closely aligned with the Lisbon Agenda for growth and development.

Many indicators and composite indicators of national competitiveness have been developed and many international projects aimed to measure and compare national competitiveness have been launched. The following projects are especially popular:

- IMD’s World Competitiveness Yearbook
- The World Economic Forum’s Global Competitiveness Report
- OECD’s New Economic Report
- UK Government’s Productivity and Competitiveness Indicators.

The results of these studies confirm that the government can shape the favorable environment in which enterprises operate, and consequently contribute to nation-competitiveness.

Between micro and macro competitiveness there is a regional competitiveness. It is the notion that has opened the most doubtful questions for several years ago. Some of them are also connected to the identification and measurement of regional competitiveness as well as to the regional policy. Even tough these issues do not have only an academic meaning, but also policy importance, especially for devising

---

3 According to the Lisbon strategy reaching the objective of becoming more competitive and dynamic in the knowledge based economy, capable for sustainable growth, more and better jobs, and greater social cohesion till 2010 will ultimately depend on achieved competitiveness, especially compared with the competitiveness of the USA economy.
the regional policy, scholars are far from consensus on what is meant by the term. Many papers are written about the meaning of regional competitiveness (for review, see Kitson et al., 2004; Bristow, 2005); however, the common denominator of these papers is that the regional competitiveness is both elusive and contested concept.

Nevertheless, vagueness of the concept has not mitigated its popularity. For example, the European Commission (2004) perceives the policy for improving the competitiveness of the European lagging regions vital to the achievement of economic and social cohesion. This is because fostering and strengthening the regional competitiveness in the EU gives stimuli to economic growth not only of these regions and nations, but also to the growth of the EU as a whole.

Analogous to national competitiveness, many indicators of regional competitiveness have been developed and international project have been launched. The following ones are well-known:

- World Knowledge Competitiveness Index, European Competitiveness Index and UK Regional Competitiveness Index by the Robert Huggins Associates
- UK DTI Regional Competitiveness Index
- various „New Economy” indices for US cities and regions compiled by The Progressive Policy Institute in Washington
- Creativity index created by R. Florida.

3. Towards deeper understanding of regional competitiveness

Regional competitiveness has been often considered as the aggregate of micro-competitiveness or a derivative of national competitiveness. However, many scholars stress the shortness of such perspectives on regional competitiveness. According to Cellini and Soci (2002) it is neither about firm-based nor about national concept, but about the concept that is the most complex one.

Regional competitiveness as a microeconomic aggregate

A strong influence in defining regional competitiveness as a microeconomic aggregate, i.e. as a microeconomic, productivity and output-related concept has had Porter. Since regional competitiveness is premised on the firm performance, and since a firm competitiveness is simply a proxy for productivity, that is, according to Porter (2002), regional competitiveness (or competitiveness of any location) equivalent to productivity.

In this way, Porter put the focus on the importance that policy makers have in creating the sound market conditions. Particularly, the productivity of a region
(or any locality) is set by the productivity of its firms they have been based on two interrelated sets of variables (Porter, 2003). The first set concerns both the value of goods and services and their competitive advantages (the efficiency with which they are produced by firms). Furthermore, Porter (2003) contended that productivity is also determined by the quality of the business environment which critical elements are: demand conditions, factor (input) conditions, the context for firm strategy and rivalry, and related and supporting industries. He concluded that the competitiveness of a region is determined by the presence and dynamics of geographically clustered activities within which there is an intense local rival rivalry and competition, favorable factor input competitions, demanding local customers, and the presence of capable locally-based suppliers and supply activities. The region will be productive if the business environment is sound, if the interactions between the competitive diamond components are intense, and if clusters are in a place, whereby a forceful social embeddedness is required for cluster formation (Porter, 1998, 2001).

Identifying the regional performance and competitiveness with productivity, i.e. with the competitiveness of firms in the region opens several issues. Perrons (2004) illuminated that this line of thinking and doing leads to positioning growth in a region in the centre of interest rather than the development of a region. The underlying assumption suitable for identification is that the firms set in the region and the region itself has the same interests and goals. However, while firms ultimately want to achieve and steadily increase their productivity and profitability, regional competitiveness assumes, inter alia, healthier life, developing mutual confidence, responsibility and cooperation among all actors in region through minimization of corruption, increase in responsible entrepreneurial culture and enhancement of the role of knowledge, new and better jobs, etc.

In addition, this approach neglects the outside factors (such as national or global forces) on which the region can not have an influence (or at least in short run), social relations and networks with other regions (within a nation or cross-national), the impacts of national or global economy that in some extent shape regions and determine their development. Furthermore, there is no clear evidence that the competitive advantage of firms will be ultimately translated into increasing regional productivity and thus that productivity will lead to a region’s prosperity (for discussion see Huggins, 2003; Bristow, 2005).

Regional competitiveness as a macroeconomic derivate

Definition of regional competitiveness as a macroeconomic derivate has its source in the opinion that microeconomic productivity is a necessary but not sufficient condition for regional competitiveness. In particular, satisfying level of productivity
does not ensure ultimately sustained regional prosperity. A sustained regional prosperity measured by income per capita, employment rate and favorable and healthy environment is a key for assessment of achieved regional competitiveness.

Macro-perspective in defining regional competitiveness was stressed by Stoper (1997). He (1997, p. 264) defines regional competitiveness as: ‘the capability of a region to attract and keep firms with stable or increasing market shares in an activity, while maintaining stable or increasing standards of living for those who participate in it’. That means that a region will be ‘competitive’ if it succeeds to create such conditions that enable sustained creation of value added, improvement of standard of living and well-being of its citizens.

Regional competitiveness is not a pure derivative of national competitiveness primarily due to differences being obvious between macro-economy and regional economy. Important differences arise from the fact that competitiveness at the national level is much higher and heterogeneous than it is at the regional level. Furthermore, national government has greater power, more available macroeconomic adjustment mechanisms and instruments for influencing private, public and non-profit sector as well as the behavior of the whole economy than it has a regional government. Therefore, the concept of macro-economic competitiveness can not be completely applied to the regional level.

Regional competitiveness from the perspective of policy makers

Regional competitiveness – measured by the set of regional output-related performance indicators – is the key element of policy makers to improve standard of living, well-being of people and to achieve a socio-economic and territorial cohesion. Therefore, they try to improve it through a consistent and responsible regional policy. Recently, the focus is given to decentralization and a bottom-up approach by policy makers. Within this approach policy makers try to develop their own policy adapted to the real challenges and issues in their areas; naturally, taking into consideration current macroeconomic policy, programs and constraints. They have to be responsible, open to dialogue and partnership relations with other sectors and provide value for money.

Policy-makers have preferred the macroeconomic definition of competitiveness which place the emphasis on output and regional prosperity-related performance indicators. For example, the European Commission stressed the ability of a region to achieve high income and employment level. Policy authorities world-wide also give an important role in building the regional competitiveness to the quality of the region’s microeconomic business environment, business density and clustering, and/or knowledge intensity and innovation. For example, The European Commission
created Regional Policy Programmes 2007-2013 aimed to support experimental actions in the area of innovation.  

In a nutshell, the regional policy authorities should foster the development of efficient and effective institutions, cooperation among public institutions, private sector, non-profit sector and academia as well as the development of knowledge-based and high value-added economic activities and innovation. To put it in another way, they should strengthen the capability of regions to identify, network and activate their potentials aimed to achieve prosperity and social objectives, such as reduction of inequality and poverty, high-quality primary health protection, and education for everyone.

4. Regional competitiveness and successful regions

According to the simplest definition, regional competitiveness may be defined as the ability of some region to compete with one another in some way, both within and between nations, to grow and prosper in economic terms. From stylized fact that some regions are more developed than another, measured in terms of economic growth or living standard, many scholars come to the conclusion – regional competitiveness matters. A brief overview of the literature (theoretical and empirical) on regional competitiveness can be found in Garden and Martin (2005). Worldwide evidences indicate region compete with one another; sometimes in a indirect and sometimes in a direct way. The difference in competing style depends on the achieved economic specialization (Boschma, 2004).

According to the European Council, regions compete with one another, among others, over shares of (national or international) export markets. This can be confirmed by the statement of the European Commission (1999, p.4): “[Competitiveness is defined as] the ability to produce goods and services which meet the test of international markets, while at the same time maintaining high and sustainable levels of income or, more generally, the ability of (regions) to generate, while being exposed to external competition, relatively high income and employment levels...”

This definition puts the export performance and activities that expand the export basis in the center of interest because they drive regional competitiveness and the frames of prosperity of some region.

4 In 2006, the European Commission Directorate General for Regional Policy published the guide that synthesis the principal lessons of the regional innovation strategies and actions which have been implemented by many regions of Europe. http://ec.europa.eu/regional_policy/funds/2007/innovation/guide_innovation_en.pdf
However, the measurement of regional competitiveness by using the export performance is one-dimensional addressing of it. Kitson et al. (2004) illuminated that in the basis of such measurement the idea on translating the concept of national competitiveness on regional one can be found, without of questioning whether it is the most useful and meaningful concept for use at the sub-national scale. Furthermore, they pointed out that the use of this concept in determining the national competitiveness in terms of trade and export is also questionable and thus should be denied.

Kitson at el. (2004) argued that regional competitiveness focuses more on the drivers and dynamics of a region’s (or city’s) long run prosperity than on more restrictive notion of competing over shares of markets and resources. Camagni (2002) pointed out that regions do compete over attracting firms (capital) and workers (labor) as well as over market, but on the base of absolute competitive advantages rather than comparative advantages. If a region has superior technological, social, infrastructural and institutional assets that benefits firm within it, the region will have absolute competitive advantages. Therefore, regional policy may be very important in creating the advantages. Florida (2002) stated particularly valuable assets that contribute to attracting of creative people: the presence of other creative people, cultural amenities, access to technology and technology advances, and the tolerance of the community to diversity and difference. The most of these factors are region-specific, and a wise regional policy can be very important for and powerful in transforming a region lagging behind into the successful region, or in keeping a successful region into the line.

Considering the definitions of regional competitiveness, two types of definitions may be found in literature on regional competitiveness. The first type of definitions explains and describes competitiveness in terms of outcome. The second definitions address the factors being responsible for achieving and enhancing regional competitiveness. Combining both in the same context regional competitiveness can be defined as the sustained ability of a region to compete with other regions, to ensure sustained economic growth and development, including the ability to attract and keep productive capital and creative talent as well as to be innovative in a broad sense of the word. Regional competitiveness is not referred to the exploitation of resources, but it supposes the identification of growth potentials and constrains of an area, as well as the strengthening of its unique combination of resources (innovativeness and creativity, knowledge, technology, historical and cultural background, tolerance, social networks, trust, responsibility, and so on) in order to create sound conditions to live and to work. In other words, it refers to innovative and entrepreneurial conversion of these resources into intellectual capital, value added, economic growth and development.
5. Conclusion

Despite the fact that competitiveness is not straightforward determined, it has become one of the most popular concept among scholars, business and policy authorities since the last fifteen years. This is especially true considering its meaning, interpretation, measurement and policy implications. Competitiveness is usually defined as the ability of successful competing in some way over time. Thus, it embodies the long-standing human will to be successful in comparison to other and itself over time.

Consequently, the interest for competitiveness has been expended considering its spatial expression to national, regional and micro-competitiveness. Each of these spatial expressions is briefly considered in this paper whereby the regional competitiveness attracted the most of attention. This paper analyzed some of conceptual issues regarding regional competitiveness that may be potentially misleading for regional policy consideration and action.

Regional competitiveness has been often seen in literature as a microeconomic aggregate or a macroeconomic derivate. However, the both perspectives do not provide a complete picture of regional competitiveness. If regional policy is based on the findings of these perspectives, it may experience a failure seeking to improve regional competitiveness and thus contribute to sustainable regional growth and prosperity. This is due to fact that each region has some unique specificities being not derived either from micro or macro-economy.

If regional policy makers understand these specificities, if they have knowledge and will to communicate and cooperate with the positive and future-oriented agents, if they are commit in their job and ready to overcome the identified weaknesses and threats being endogenous and exogenous generated, they will succeed in creating the region as the competitive place where all citizens and firms want to live and invest in.

Note:
This paper is written in the framework of the scientific project financed by the Croatian Ministry of Science, Education and Sport: „Enhancing Regional Competitiveness to Facilitate Economic Prosperity“ (Project code: 010-0101195-0866)
References


European Commission, Lisbon European Council – Presidency Conclusions, 23 and 24, Lisbon, 2000


Krugman, P.: Competitiveness – a dangerous obsession, Foreign Affairs 73, 1994, pp. 28-44


