

Cover Story **comment**

# The Matrix Of Competition

by amit kapoor



COMPETITIVENESS AT THE REGIONAL level is as paramount as at global or national levels. The nation has to work as a summated function in satisfying the dictums of success and gauge the anatomical significance of the individual parts in the survival of the aggregated whole. The India State Competitiveness Report (on which the Institute for Competitiveness and *BW* survey is based) throws light on the determinants of competitiveness for the states and policymaking bodies, discerning their flaws and showcasing potential. The ideas and evidence present a perspective on the impact of the business environment on competitiveness and

should allow the governments and firms acquire acumen in state and national performances.

The core fabric of this study embraces the World Economic Forum's Global Competitiveness Index developed by Michael Porter and utilises an innovative framework, the National Diamond, embedded in theory. The novelty of its index for the Indian states, however, restricts the assessment to just the present measure and no comparisons overtime are possible.

To begin the assessment, the first question that needs to be answered is: what is competitiveness? Prosperity forms a desired state of existence which stems directly from the productivity of the economy. The innovative capacity of a state forms the basis for productivity from which growth and success emerge. It can be measured as the value per unit of input generated by the economy. It would encompass the use of its resources to better the standards of living and emulate the state of prosperity as perceived by the people.

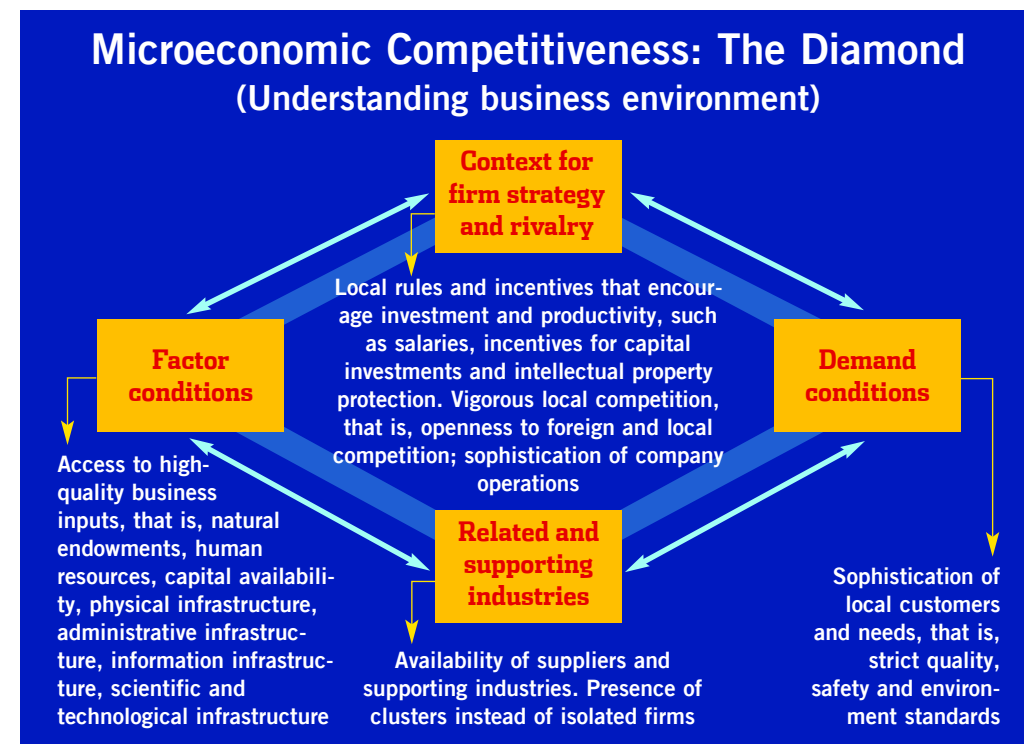
To understand competitiveness further, an introduction to the Diamond model forwarded by Michael Porter becomes important (see 'Microeconomic Competitiveness: The Diamond'). The strength across the diamond dimensions becomes the driving force for competitiveness to build. The first is the demand conditions. The tastes and preferences of the domestic popula-

tion and the quality and safety standards set by the local authority play a significant role in determining the scope and reach of a firm. The second is the factor conditions — the inputs and infrastructural requirements (natural endowments and developed factors) must match the availability in the local surroundings. The third factor would be context for firm strategy and rivalry. The market becomes the local battlefield for domestic and, if permitted, foreign firms to compete for profits and sustainability. The local rules (tax) and incentives make or mar the conditions for a good business to prosper. And finally are the related and supporting industries which are fundamental for the operations of a business. The presence of clusters rather than isolated firms ensures smoothness in functioning. All these factors are present at the national and regional levels making it imperative for the policymakers to ensure improvements from the bottom up.

Competitiveness is not the prerogative of the central governments alone. If there are anti-trust laws at the national level, the tax policies are present at the regional level (the context of competition and rivalry). Similarly, the capital market conditions may decide the direction of the investment flow internationally, but the local education system determines the return on these investments giving factor conditions a local view as well. If there are environmental laws at the national level, there are consumer protection laws at the regional level. The supporting industries too have a completely regional connotation with the local conditions determining the kind of industries present.

A concluding word on competitiveness — productivity stems from making the best of the available resources, and competing in the most economically intelligent manner. It is not the competitor but the competition which determines the level of productivity for the industry. The productivity of the state would be benefited by the investments, exports, and technological and innovation imports. Thus, regions should compete to attract industries and create an optimal business environment for the benefits of the competitiveness and productivity to advance regional prosperity.

Maharashtra is leading in overall competitiveness, closely followed by Goa, Tamil Nadu, Delhi and Gujarat (see 'India's Most Competitive States' on page 34). Jammu and Kashmir languishes at the bottom of the heap, though it is ranked last on only one parameter — pointing to mutual internecine linkages of negative factors at play. The south Indian states are at a cusp where the next wave of enhanced competitiveness is in the offing, the detailed profile of Tamil Nadu



(see page 45) — ranked No. 3 — illustrates this.

Of the three new states, chhattisgarh and Jharkhand are yet to find their legs. Madhya Pradesh, to pick another case, is third on human capacity, yet overall it is a mid-ranked state (12th). In the same vein, West Bengal, a strong player of yore, is an average 13th ranked state though its demographics fetch it a third position. All Northeast powers lag the pool, again inviting criticism of policies prevailing, central as well state ones. This is despite Arunachal Pradesh ranked high (No. 3) on business incentives and Mizoram, ranked No. 2 on innovation capacity. Maharashtra has no significant ranking in the constituent parameters yet tops the chart on competitiveness, and Goa emerges the second best with the same dichotomy. This accentuates a valuable lesson for policymakers: the need to enable overall synergies and boost ranking on all parameters simultaneously.

The report captures the essence of productivity by studying the indicators at each of the levels of the Diamond framework. The levels of measurement range across financial and logistical infrastructure under the factor conditions, business incentives and diversity of firms and competition intensity under the context for rivalry, supplier sophistication under related industries and basic demographics and income distribution patterns under the demand conditions. The focus is to study the availability of the high-quality, efficient and specialised factors,

customer quality and purchasing power, the effectiveness with which the factor and demand situation can be matched and the clusters for support in terms of human resource and skills.

This report has a two-fold perspective. It provides policymakers with a better view of the shortcomings of states. It is imperative to view a large economy as a series of smaller economies and concentrate over a range of industries in each of the states. Regional economic specialisation drives the productivity growth. The decision makers need to centre their efforts at the more pressing issues at the micro and macro-economic level. The second prerogative of the report is to aid the firms in gauging the states as potential investment avenues and provide an encompassing perspective on the expected returns.

The rankings are at variance from the commonly held impressions, primarily because the subjective bias as used by other studies has no role here; all data employed is hard data with no surveys. An objective lesson from the report is that empowering people with prosperity is the key, not size inherited due to linguistic or cultural partitioning of the country into states.

The hard data is translated into cold reality in the interest of the nation and the hope that it would be the driving force for a better, more competitive economy.

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The findings of the study on competitiveness provide useful pointers for decision makers