

The Regional Force

by christian ketels



FOR MANY, REGIONAL COMPETITIVENESS is a boring topic. Important, perhaps, but certainly not as prestigious and visible as national competitiveness. And isn't Michael Porter's seminal work on competitiveness called *The Competitive Advantage of Nations*?

Recent research, not the least by Porter himself, has made it clear that globalisation has made it important that competitiveness policies at the national level find their complement in competitiveness policies at the regional level. Policies at all levels — national, regional and local — need to be aligned with competitiveness.

Globalisation has removed many barriers for trade and investment across countries. It has also brought in policy changes in many countries that have aligned macroeconomic policies and market regulations. The differences that remain are related to dimensions of competitiveness that differ across regions within a country: the quality of workforce skills, infrastructure, public bureaucracy, etc.

For economic policymaking, the implications are quite clear: Further progress on competitiveness requires more effective policies at the regional level, not just a continuation of national reforms. In many countries this will not be an easy task. It is much easier to remove trade barriers, than improving regional competitiveness. Government agencies across regions have to take effective and coordinated action over time and different topic areas.

Regional governments will require better data to make the appropriate choices on what needs to be done to improve competitiveness in their region. Most of the existing assessments, such as the Global Competitiveness Report, focus on the national level. The launch of the Indian regional competitiveness index is important for more effective policy making.

The importance of regions for competitiveness means that India's future competitiveness cannot rely on national policies only. Effective policy across many Indian states will have to be created.

Indian regions are already active in many areas that are critical for competitiveness. But while many positive efforts deserve credit, there are also a number of dangerous tendencies. Indian regions have a tendency to believe that there is one set of policies and one set of industries that they should focus on to support higher prosperity. The biotech and IT initiatives are examples of this approach. The result is too much zero-sum competition, duplication and failure of efforts that are not aligned with local capabilities. Some regions succeeded but many others failed, creating the misperception that globalisation leads to a few winners but many losers.

Effective regional competitiveness policies instead mobilise existing skills and capabilities, and develop them to create regional economies with a unique profile of strengths and industries/clusters. Regions can move from their current clusters into related areas of economic activity with ever increasing sophistication. This approach has a much higher likelihood of success than trying to leap-frog into unrelated areas. If regions compete in such differentiated ways, there is no reason why all of them cannot be winners and achieve higher levels of productivity and prosperity, doing different things.

The current economic crisis shattering India and much of the world economy is largely a matter of weak demand, fuelled by financial market disruptions. The immediate response will, therefore, have to focus on creating demand and unblocking financial markets, both areas in which national governments have to take action.

But while national governments can set up investment programmes to compensate for the demand shortfall, the spending and much of the individual spending decisions will happen in individual regions. And only if these regions have effective competitiveness strategies, is there a chance for spending to contribute to long-term competitiveness. It will increase the likelihood of private consumers gaining trust in the ability of government spending programmes to support growth. Without such trust, there is a significant danger that all government spending will be ineffective, because consumers curtail their own spending in expectation of future tax increases to fund the current public spending. The more competitive its regions, the more likely is a country to be effective in battling the current economic storm.

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