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**REGIONAL COMPETITIVENESS. ABSTRACT OR SUBTLE CONCEPT?  
LITERATURE REVIEW**

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*Abstract: In an era of globalization, the problem of regional competitiveness becomes a central element, both at the level of academic debates and of the efforts of elaborating regional development policies. The present paper focuses on regional competitiveness from a theoretical perspective, trying to answer some essential questions: the solidity of the concept and the new founding bases. Starting from the main theories in this domain, our endeavor aims to illustrate the main problems that appear in the process of understanding, analyzing and measuring regional competitiveness considering that the existence of a widely accepted conceptual framework is an essential condition for elaborating coherent growth policies.*

**Key words:** *regional competitiveness, comparative advantage, competitive advantage.*

### **1. Introduction**

The concept in itself is complex and is generating many debates, and although many of those who elaborate public policies are, mainly, approaching the subject from the perspective of regional and urban competitiveness, we are still far from a consensus regarding the understanding of the term and the way this could be measured (Kitson et al, 2004). Moreover, also at academic level, mainly among the economists, there is a high level of skepticism regarding the application of the concept at a nation's, region, locality level (Thompson et al 2005).

Besides the classical competition between countries, towns and regions are also competing on the international markets of goods and production factors, on basis of the principle of the absolute advantage and not of the comparative one; This means that there is not an efficient, automatic mechanism, to ensure each territory of a certain role in the international labor division, regardless their relative performance (Camagni, 2002).

The concept of competitiveness attracted a whole suite of supporters. Experts and economists from the whole world put competitiveness at the status of natural law of the modern market economy. To assess one country's competitiveness and to elaborate policies for its increase have become institutional tasks at the level of many countries, as are USA, Great Britain, Belgium, Netherlands and Japan (Kitson et al, 2004). Those which opened the way, at the start of the 1990's, were the United States, through the foundation of the governmental body named The Council for Competitiveness Policy, the role of which resides in the periodical elaboration of reports regarding economy's competitiveness and its' supporting. In the same period, The European Commission founded the European Council for Competitiveness having a similar role, that of making periodical reports regarding economy's competitiveness at the level of the European Union. At this level, the competitiveness issue has received a special significance in relationship to the Lisbon strategy, the major goal of which is the reduction of the competitiveness gap between the EU economy and that of the

United States. Moreover, in the last decade, there appeared very many private organizations which are approaching the assessment of competitiveness and its supporting, as: The World Economic Forum (Switzerland), The Institute for Competitiveness (Spain), The Council for Competitiveness (USA) and the Institute for Strategy and Competitiveness (USA).

## **2. Stage of problem knowledge**

Approaching the competitiveness problem didn't remain just a macro economic endeavor, it also acquired a special meaning at regional, urban and local level. The individual competitiveness performance of regions and cities has become a subject of increasing interest for both governmental and economic environments, by identifying key factors that lie at the basis of competitiveness and by elaborating policies for their support. In Great Britain, for example, improving regional and urban competitiveness has become a central objective of many governmental and central organizations (Department for Trade and Industry, Treasury); in a similar way, the European Commission considers the improvement of the competitiveness of less developed European regions vital for the social cohesion. Furthermore, local and regional authorities follow the elaboration of local indices of competitiveness for comparing their own performances with that of others and for elaborating growth strategies.

Therefore, as the World Economic Forum is elaborating yearly global competitiveness' indices for evaluating different national economies, so that a multitude of regional and urban indices have appeared that are trying to compare areas, following ,however, only certain components of competitiveness (for example: the Institute for Progressive Policies from Washington aggregates different indices of the "new economy" for urban areas and regions – Atkinson and Coduri, 2002; Robert Huggins and Associates elaborate the Global Knowledge's Competitiveness Index witch aims to evaluate the most developed, in terms of knowledge, global economic regions, but also the European Competitiveness Index which evaluates cities and regions.

Are all this, however, able to clarify and support the understanding of the concept? Despite the efforts to measure, compare and promote regional competitiveness the notion itself leave room for discussions and is far from being deeply understood. In this context, Gardner at al. (2004) formulates a series of questions: What does, more precisely, the competitiveness of regions, cities and localities mean? In what way do cities and region compete? How can regional competitiveness be measured? What is the relation between regional competitiveness and regional economic prosperity? Usually, neither economists nor geography specialists have approached this topic of growth and regional development from the perspective of such questions and, most definitely, not in an explicit way of the competitiveness' specific language. The research undertaken during the last decades that tried to clarify these aspects (for example, Steinle, 1992; Duffy, 1995; Camangi, 2002; Porter, 2000, 2001, 2003) failed to determine a general consensus regarding the nature and evaluation methods of competitiveness.

### 3. Methodology used

The present paper appeals to the method of bibliographical study for the evidence of the main scientific contributions in the field of the regional competitiveness (and of the administrative subdivisions), but also of the problems emerged in the process of elaboration of a common concept framework for its definition, theoretization and measurement.

### 4. Regional competitiveness: abstract or subtle concept?

In a basic acceptance, regional competitiveness (also urban, rural, local) can be defined as the extent at which regions (and other units) compete among them in a certain way: we can speak about the competition for the market shares (national and international), or for the capital attraction and labor force (Kitson et al, 2004). Such notions seem to support the definition of the „position competitiveness” elaborated by Storper (1997):

- „The Ability of an economy (urban) to attract and maintain companies with a stable market share or an increasing one in an activity , with the condition of maintaining or increasing the living standards of those taking part in it. ”

The approach of the regional competitiveness from the perspective of the competition for the market shares come also in the support of the definition elaborated by the European Commission in 1999, but also of that of Rowthorn (1999):

- „[Competitiveness is defined] as the ability to produce goods and services which are passing the test of international markets, ensuring, at the same time, high and sustainable levels of the income, or, more generally, the ability (of the regions) to generate, while they are facing the external competition , high levels of incomes and of the occupancy degree ... ” (European Commission, 1999);
- „The prosperity of one region is determined, first, by the power of its export basis ...all those activities which are bringing incomes in the region for the insurance of goods and services for the exterior world ...The alternative term of „tradable goods” is, also, used for such activities” (Rowthorn, 1999).

In a similar way, within the researches regarding the regional competitiveness, Porter (1998, 2000 and 2001) was stressing the key role of the clusters export oriented as basis of a regional high living standard.

The implications of such argumentations could be the fact that a reduction of the size of the export basis of the region, or a deterioration of the regional trade balance, or both, would signal a decline at the level of the regional competitiveness.

Nevertheless, the focus on the regional market shares as measure of the regional competitiveness puts a series of problems. First, it appeals to a notion initially elaborated for the national economies, without raising the issue of its efficiency in utilization at the level of the administrative subunits (region, town, and locality). Second, it brings with itself all the problems and discussions generated around the national competitiveness, defined in terms of trade and export.

Even in what is regarding the national level there are many contradictory opinions linked to the term of competitiveness. Some authors showed the fact that the approach of competitiveness from the market shares perspective could not be a very happy approach.

These are sustaining, that, while for an individual company the notion could have a high significance, the same thing is not necessarily valid also at the level of a national aggregate economy (a national economy is not going off the market as a noncompetitive individual company).

One of the most fervent challenger of the concept of competitiveness at national level Paul Krugman (1998), an incontestable authority in the field of international economy, who dedicated a great part of his time to the study of the problem of the spatial development. His skeptical comments and provocative at the same time astonished the experts in the field of regional economy referring to the validity of the concept within a more restricted context than the national one (Camagni, 2002). Making reference frequently to the situation in the United States, Krugman was stating that:

- „The concerns regarding competitiveness are, as an empirical issue, almost always completely unfounded ...The obsession regarding competitiveness is not only wrong, but also dangerous ...the thinking in terms of competitiveness leads to wrong economic policies regarding a whole series of issues ” (Krugman, 1996).

The main 3 points in opposition with the notion of national competitiveness, expressed by Krugman are:

- 1.it is cheating and incorrect the analogy between a nation and a company; for example, while a company which has no success reaches, finally, to bankruptcy (stop of activity), such a „limit threshold” is not happening in the case of a nation;
- 2.while the companies are competing for the market share and the success of one will always be in the detriment of the other, the success of a nation creates more, than to destroy, opportunities for others;
- 3.if competitiveness has any significance, then it is another simple way of saying productivity; the increase of the living standard of a nation is determined, essentially, by the rate of productivity increase.

In a traditional way, in economy, the notion of comparative advantage was more often used than that of competitive advantage or competitiveness. The concept of comparative advantage suggests that countries (nations), through specialization, can benefit from the trade, even though they do not own absolute advantage. The theory of the comparative advantage supports the idea according to which trade reflects the differences among nations as regards the endowment with factors (land, labor, natural resources and capital). Nations are gaining a comparative advantage based on factors in the industries which are utilizing intensively the factors being in abundance under their possession.

One of the best known authors in the field of the problem of the „comparative advantage”, Michael Porter, suggests, also, that the best measure of competitiveness is productivity:

- „Competitiveness remains a concept which is not completely understood, despite the large recognition of its importance. In order to understand competitiveness, the starting point must be the source of one nation’s prosperity. The living standard of a nation is determined by the productivity of its economy, which is measured through the value of goods and services produced per the unit of national human, natural and capital resources. Productivity depends both on the goods and services’ value of one

nation, measured through the prices which could be obtained on the free markets, and on the efficiency of their production. The real competitiveness is then measured through productivity” (Porter and Ketels, 2003).

The question is if this type of argument is applied equally to regions and towns. Cellini and Soci (2002) support the same idea to which the regional competitiveness has no macroeconomic character (national) and neither microeconomic (company): regions do not represent a simple aggregation of companies and neither these are representing a version at a reduced scale of a nation. A similar argument is brought by Carmagni (2002). He suggests that regions, really, are competing, but rather on basis of an absolute advantage than the comparative. A region can be regarded as having absolute competitive advantages when it owns superior assets from technological, social point of view (of infrastructure, institutions) which are external to individual companies, but of which they are benefitting, such that no set of prices of the alternative factors would not induce a geographical redistribution of the economic activity. These assets are tending to confer, in general, to the companies in a region, a higher productivity level than it normally would have. In 1999, The European Commission was considering that:

- „The idea of regional competitiveness should capture the notion that, despite the fact that there are both super competitive companies and noncompetitive companies at the level of each region, there are certain common features in each region which are affecting the competitiveness of all the companies which are developing their activity.”

This does not suggest the fact that the export performance of a region is not significant, but on the contrary: the export sector’s comparative advantage of one region remains essential for the general development and the prosperity of it. The competition among regions can exclude a region from an industry in which this could have been able to establish a comparative advantage, or from an industry in which the comparative advantage could have been maintained. The idea resulting is that the regional competitive advantage has a dual nature, both absolute and comparative and that productivity is important not only for the influencing of the comparative advantage of the export sector of one region, but also for the whole range of industries and services.

Nevertheless, the concept of comparative advantage has its own limitations, being one of static nature, based on an endowment with inherited factors and, in many forms, it presupposes the coming back to scales and technologies equivalent among nations. Although the concept is generating a certain attraction and, certainly, has played an important role in the determination of the trade patterns in many industries, in the last decades there emerged a stronger and stronger feeling that the comparative advantage based on production factors is not enough to explain the trade patterns. Thus, a new paradigm has appeared on the front, that of the competitive advantage, meant to capture the idea to which nations can develop and improve their competitive position. This is orienting upon the decisive characteristics of a nation, which permit its companies to create and support competitive advantages in certain fields.

Among the highest supporters of this paradigm are Porter și Krugman. Porter considers that the only significant concept to describe competitiveness is productivity. The main goal of

a nation is to ensure a high living standard for its' citizens; the ability to make this thing depends not on the ‚amorphous’ notion of competitiveness, but on the productivity of one nation resources’ utilization. Krugman arguments speaking about competitiveness is another way of saying productivity.

This orientation towards productivity is an obvious approach, mainly at the level of industrialized countries, where there are many governmental bodies, but also private ones which deal with this issue. Moreover, in the last years, the concerns about productivity have become strongly oriented to the national level.

Certainly there can be derived measures of the regional productivity, either on basis of microeconomic data , from the firms’ level or of the aggregated indicators at the regional level, these ensuring valuable information linked to the living standard of one region, both in time, and also comparatively to others. But, although the regional productivity is a useful indicator for what could be defined as ‚revealed regional competitiveness’, there is a series of empirical issues in its measuring accurately, as well as concept problems regarding the interpretation of the term itself of regional competitiveness. All the problems emerged at the level of interpretation and measurement of the productivity at the national or sectoral level are translated also to the regional level (Kitson et al., 2004).

In this context, the natural question would be: should we turn towards the labor productivity or towards total productivity (multi-factor)? Both methods are presenting, though, certain problems at application level. In the case of labor productivity we speak about the indicators of result utilized and the measurement of the results services from the governmental level. The application of the method of total productivity is more difficult, as it requires data that is rarely available at the level of the administrative subdivisions and the assessment of the regional production functions is heavy. Moreover, productivity in itself represents only one aspect of the regional competitiveness or of the comparative advantage. Another important element is the regional occupancy rate. The ability to support a high occupancy rate among the working age population is as important as having a high productivity/employee. Although the two, are usually going together, the orientation to only one is cheating.

Exceeding these aspects, useful as would be the analyses of the regional productivity, they are offering us little information linked to the understanding, sources or the processes of the regional competitive advantage (Budd et al., 2004, Turok, 2004). Some authors (Cellini and Soci, 2002) consider the regional level be the most complex and difficult for competitiveness definition. At the same time, they admit that it means more than the potential ability to export or the surplus in the trade balance, and that it expands much outside the goods production in order to include a wide range of material and immaterial inputs, from dwellings and infrastructure to communications and social networks.

In the economic literature and in that of economic geography the accent falls more and more on the distinct role of regions and towns as sources of the external key economies. This represents in fact a more ample recognition of the role of geography as source of some increasing benefits and the rediscovery of the original triad of Alfred Marshall referring to the external economies of the industrial localization: the qualified labor force, the auxiliary industries and the vulgarization of knowledge – kept together by what he called ‚industrial

atmosphere". Marshall scheme is at the basis of the „cluster" concept of Porter, in conformity with the regional competitive advantage results from the existence and the dynamics of the activities geographically localized or of cluster type between which there is an intense competition and a local rivalry, favorable conditions for the production factors, exigent local customers and the presence of some efficient local suppliers and of the auxiliary industries. The more localized are these industrial clusters, the more intense are the interactions between these components and implicitly, the region's productivity. According to Porter, some key aspects of the formation and success of clusters, and as a consequence, of the regional competitive advantage, are the level of social inclusion, the existence of the social support networks, of the social capital and of the institutional structures. The formation and the evolution of such delicate externalities are considered as essential for the dynamics of the regional and urban competitiveness. In fact there is an increasing trend to explain the regional development and growth utilizing such, delicate' externalities, the accent being put mainly on the local knowledge, education and creativity (Pinch et al., 2003).

Although there are many divergent opinions during the discussions of this subject, one thing is clear: the definition and explanation of the regional competitive advantage must exceed the concerns regarding the ‚physical' productivity in order to be able to consider other dimensions also, more delicate, of the socio-economy, urban or regional.

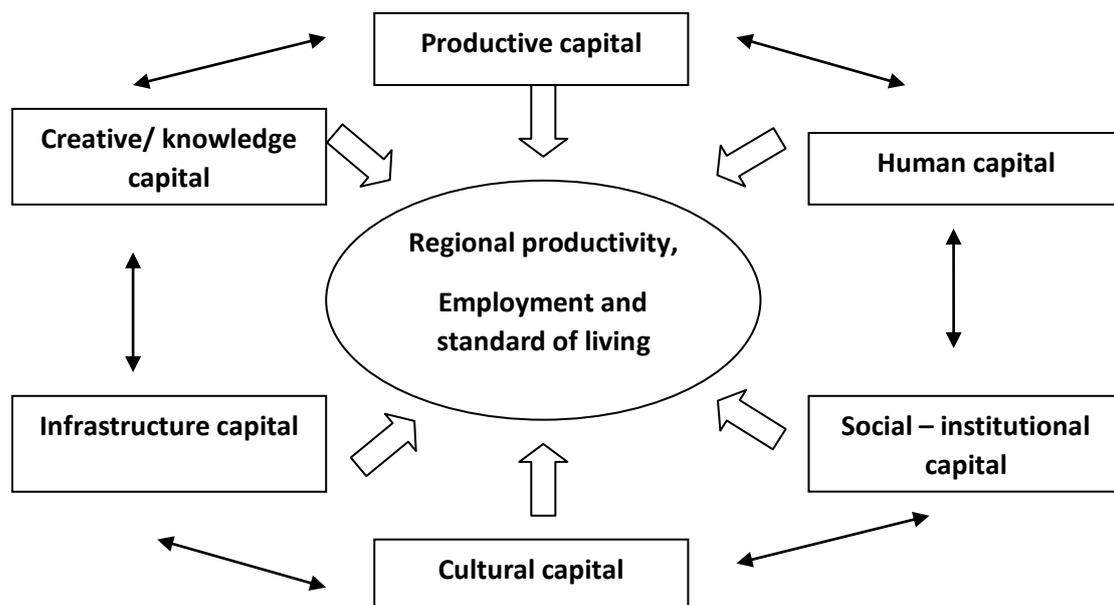


Figure 1. The bases of the regional competitive advantage

The quality and knowledge of the labor force (the human capital), the expansion, the profound character and the orientation of the social networks and of the institutional forms (social, institutional capital), the diversity and the quality of resources and cultural goods (cultural capital), the presence of an innovative and creative community (creative capital, of knowledge) and the expanding and quality of the public infrastructure (infrastructure capital) are as well important and they support and stress, under the form of regional externalities, a productive basis, efficient for the regional economy (Kitson et al., 2004). For example, the

ability of regions to attract qualified, creative, innovative labor force, to ensure quality cultural facilities, to develop social and institutional networks, represents ‚key’ regional externalities of which the local business environment benefits, and at the same time, essential elements of the regional competitive advantage.

But we should not consider that these externalities are acting on the same scale or that they could be supported and developed in an equal manner at all the levels of a regional economic space. On the contrary, here is raised one of the most important questions: which is the adequate spatial scale for the measurement and analysis of the regional competitiveness? Are these different externalities operating at the level of the different geographical scales? How do they operate along the space? Although, surprisingly, there are no comprehensive answers to these questions, these are of a crucial importance for the ensuring of the efficiency of the policies’ intervention regarding the increase of the regional competitiveness.

## 5. Conclusions

The issue of regional competitiveness is the subject of some fervent debates, theoretical, empirical and political. In an era of performance indicators and classifications, it is probably inevitable that the regions, towns and localities will be compared among them in terms of the efficiency and economic performance. Such an approach can represent a useful goal, as regards the need to explain the reasons for the differences which emerge between these administrative units and subunits. But the adapting of some of the theories, as is that of Krugman (who is contesting the notion of national competitiveness), can represent a dangerous approach, from the perspective of considering the regions, towns and localities as simple actors in a world competition where there are only „winners” and „losers”.

This thing must not be regarded as a way for not acknowledging the competition’s importance. In the economic environment and not only, competition represents one of the essential factors of mobilization and creativity, but there are certain structural limitations as well as negative consequences of the excess of competition. Important is to make the distinction between competition and competitiveness.

If we should give a certain sense or value to the regional competitiveness, this represents a concept, much more complex and richer, which is orienting itself more upon the determinants and the dynamics of prosperity on long term of the regions, towns, localities and less upon competition for resources and market shares. Although we are still far from having a conceptual framework largely accepted for the definition, theoretization and measurement of the regional competitiveness, the need of such an instrument is more and more stringent. In the lack of this, the policies elaborated are lacking of the coherent and demonstrative concept foundations, and their results could not be those expected (Kitson et al., 2004).

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