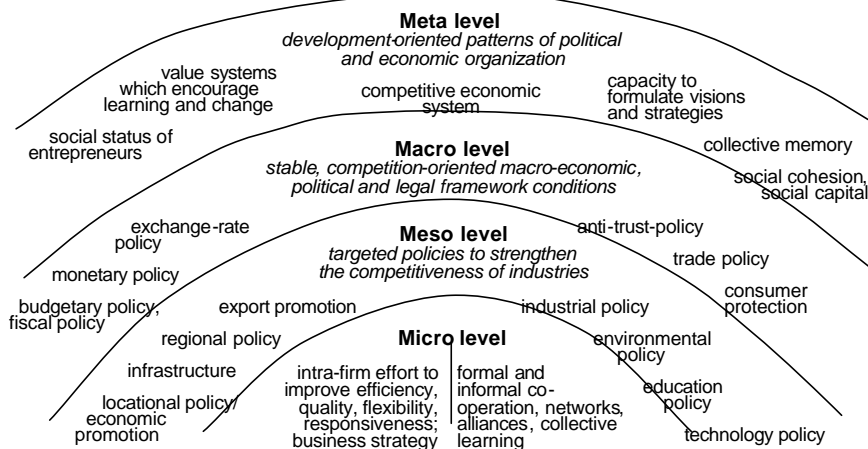


# Systemic Competitiveness: Understanding meso-level interventions

Jörg Meyer-Stamer

## Determinants of systemic competitiveness



## Why „systemic competitiveness“?

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***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

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***economics:***

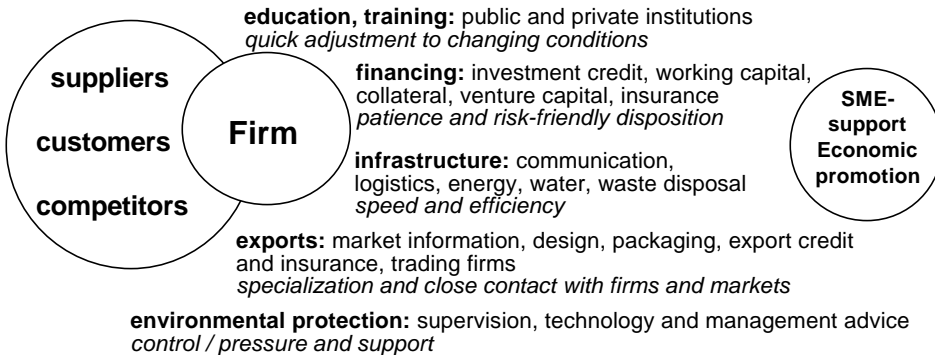
- **innovation economics / evolutionary economics**  
Nelson, Freeman, Dosi, Arthur, Pavitt
- **post-structuralism**  
Fajnzylber, Wade, Amsden
- **institutional economics**  
Williamson, North
- **management-science**  
Porter, Hamel/Prahalad

***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*



## Meso level, meso policy and meso space

- |                    |   |
|--------------------|---|
| <b>Meso level</b>  | <ul style="list-style-type: none"> <li>• Analytical level</li> </ul>  |
| <b>Meso policy</b> | <ul style="list-style-type: none"> <li>• Target action of public and private actors             <ul style="list-style-type: none"> <li>– to strengthen the supporting environment for business</li> <li>– to shape structural change</li> </ul> </li> <li>• Selective interventions (as opposed to macro policy = generic interventions)</li> </ul> |
| <b>Meso space</b>  | <ul style="list-style-type: none"> <li>• Public and private organizations which are tasked with strengthening the competitiveness of businesses</li> </ul>  |

## **Meso level, policy, space: Justification**

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### **Political justification:**

- **assure legitimacy**
  - **often creates perverse effects: interventions not guided by reason but by desperation, 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”?**

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- **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

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- 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

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### Option 1: Decentralization of meso-policy

## Why decentralized meso-policy?

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### 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:

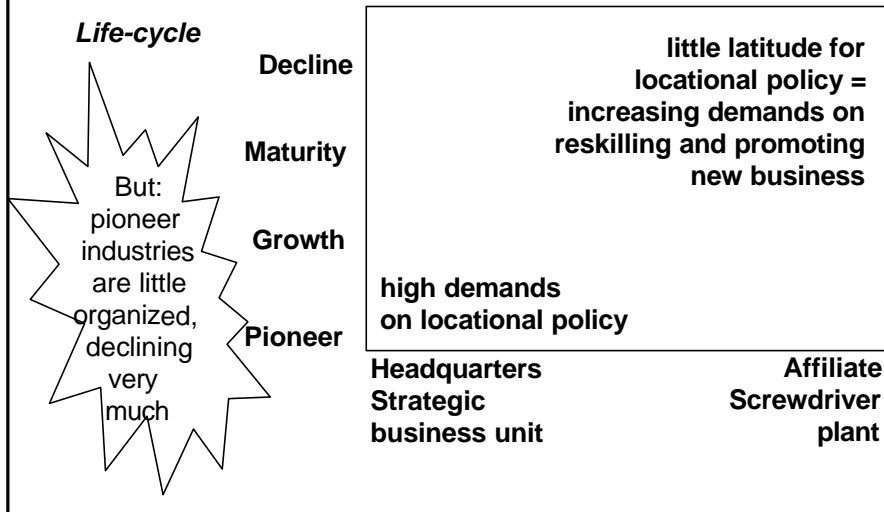
- localized rivalry
- localized competitive advantage / highly specialized supporting industries and institutions
- localized learning -- positive externalities

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

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

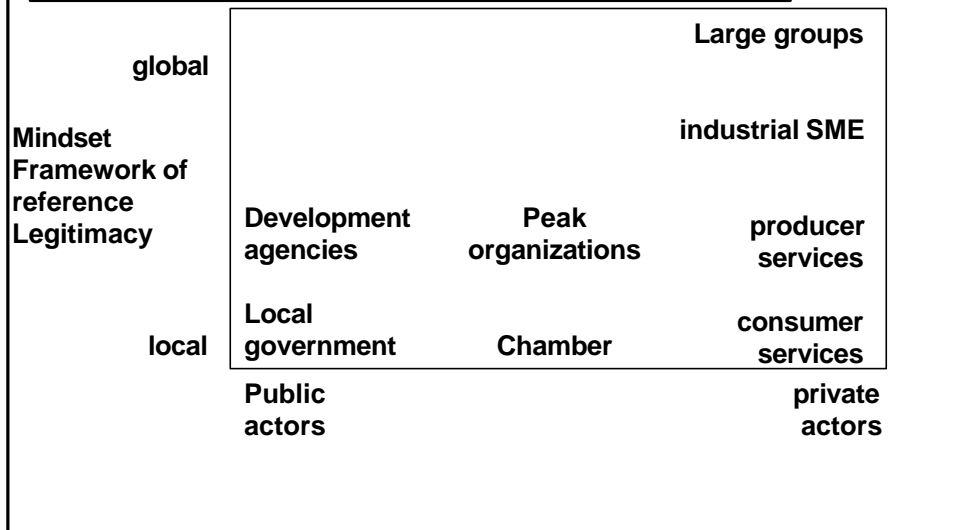
## Latitude for local initiatives: Industry life-cycle and business unit status



## Tension between local action and global value chain

- 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)



## The location paradox (2)

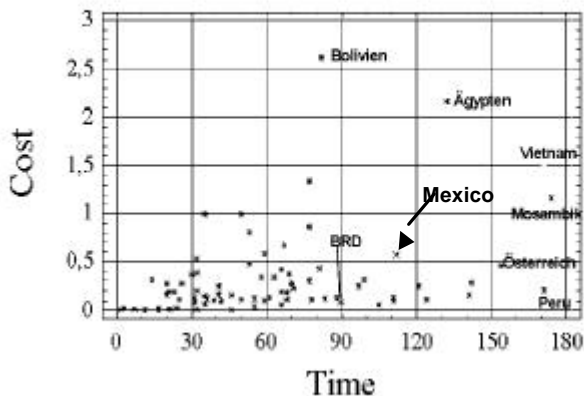
- Large corporations are interested in high-quality locations
- Large corporations have a three-digit-number of locations
- Trade-off for large corporation:
  - active participation in local economic development: high transaction cost, large uncertainty, potentially large external effects, potentially 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
<ul style="list-style-type: none"> <li>* Streamlining of regulations</li> <li>* Business-friendly mindset of public administration</li> <li>* One-stop-agencies</li> <li>* Real estate development</li> <li>* Real estate information systems</li> <li>* Location marketing</li> </ul>	<ul style="list-style-type: none"> <li>* Organizing processes of analysis and reflection among local stakeholders with external know-how = improved basis for individual strategy formulation</li> <li>* No joint problem definition and collective action for problem-solving</li> </ul>	<ul style="list-style-type: none"> <li>* Definition of focal areas for development promotion</li> <li>* Joint problem definition among stakeholders</li> <li>* Distribution of responsibilities</li> <li>* Selective, targeted action</li> </ul>

## Streamlining of regulations: Relevant in Mexico?

Cost and Time to Start a Business in 75 Countries



## Conceptualizing government action: Transaction costs

		<i>Reduce transaction costs</i>	<i>Increase transaction costs</i>
<p><i>Transaction costs are the costs of conducting business transactions:</i></p> <ul style="list-style-type: none"> <li>• gathering information (on suppliers, employees, customers etc.)</li> <li>• negotiating contracts</li> <li>• monitoring compliance</li> <li>• enforcing contracts</li> </ul>	<p><i>General government activities</i></p>	<ul style="list-style-type: none"> <li>• Effective and efficient legal system</li> <li>• Good and efficient infrastructure</li> <li>• Efficient, high-quality health and education system</li> </ul>	<ul style="list-style-type: none"> <li>• Regulations</li> <li>• Permit requirements</li> <li>• Environmental protection</li> <li>• Red tape</li> <li>• Incompetence and inefficiency</li> <li>• Corruption</li> </ul>
	<p><i>Business support activities</i></p>	<ul style="list-style-type: none"> <li>• Networking initiatives</li> <li>• Management training</li> <li>• Entrepreneurship training</li> <li>• Technology extension</li> <li>• Preferential credit</li> </ul>	<ul style="list-style-type: none"> <li>• Cost of application</li> <li>• Long decision period on application</li> <li>• Lack of transparency on decision criteria</li> </ul>

## 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

## PACA: A mini-workshop format for transaction cost analysis

### 1) Brainstorming (group of businesspeople):

	Reduce transaction cost	Create transaction cost
General government activities	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
Public business support activities	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	<input type="text"/> <input type="text"/> <input type="text"/>

### 2) Pareto across the board

## 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**

**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

## An example: access to ISO certification

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- 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 certifiers
  - 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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