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**Understanding the
Determinants of Vibrant
Business Development:
The Systemic Competi-
tiveness Perspective**

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1 Introduction

The term “systemic competitiveness” occasionally pops up in the discussion on economic development and industrialisation, though it is rarely explained what exactly it is supposed to mean. It usually refers, somewhat vaguely, to factors which influence individual companies’ efforts to become competitive. This may refer to macro-economic framework conditions, infrastructure, government interventions, or other factors.

In the first half of the 1990s we have tried to formulate a more systematic approach (Esser, Hillebrand, Messner and Meyer-Stamer 1995). We have formulated “Systemic Competitiveness” as an analytical concept, a heuristic framework, which pulls together contributions from various disciplines of economics and social science which, based on our experience, are useful in understanding why industrialisation efforts succeed or fail. We formulated this view at a time when discussions between advocates of government-driven development efforts and the believers in the free market were in full swing. The government-driven approach, usually under the heading of “import-substituting industrialisation”, had obviously failed in many countries, had created highly distorted structures in many others, and in most developing countries government increasingly appeared as a problem, not a solution. Yet the market-driven approach ignored historical experience (and to some extent even twisted recent historical evidence, for instance in the World Bank’s “The Asian Miracle”),¹ and it ignored the fact that most developing countries (as well as most transformation countries) suffer both from weak governments and weak markets. The concept of Systemic Competitiveness was meant to lead beyond such antagonistic and not particularly constructive controversies. On the one hand, it shares the emphasis on the importance of sound macro-economic management which was a major theme of the 1980s and the early 1990s. On the other hand, it shares the criticism which has been levelled against a naive belief in the beneficial effects of the invisible hand of the market. We did not, though, suggest that government intervention is the answer. We rather did something which was quite unusual at that time: We introduced key concepts of the governance discussion in political science into the discussion on industrial competitiveness. We did not just formulate policy conclusions and proposals, only to hope and pray that somewhere some competent government might fall from heaven and start to implement. Instead, we tried to address, in a systematic way, the question where a society’s governance capacity comes from, and

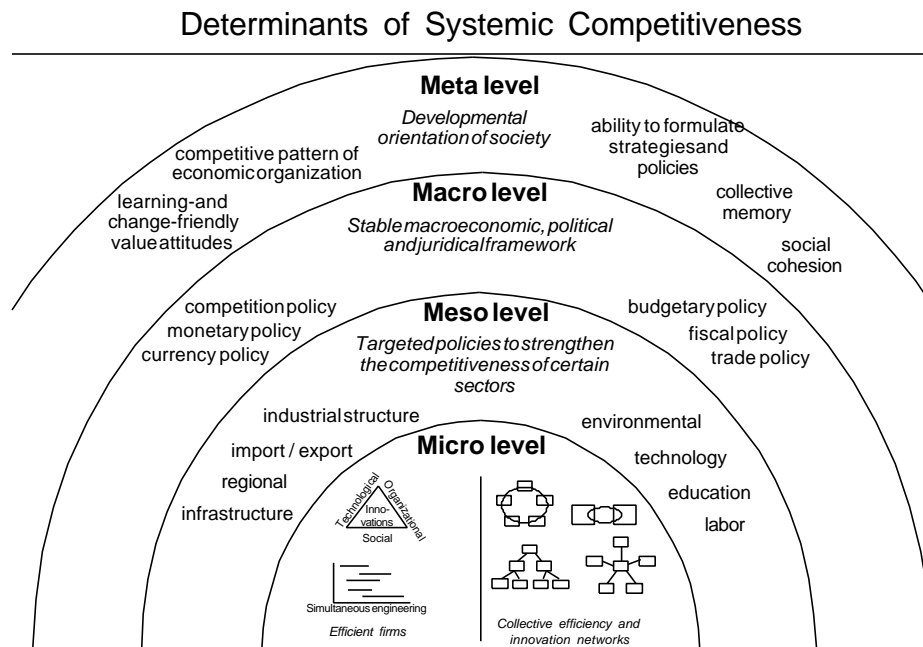
1 World Bank (1993). For profound criticism see Killick (1994) and the April 1994 special issue of *World Development*.

what can realistically be expected from government and other societal actors.

At that time, we saw our effort more as an academic exercise. We did not really expect the concept to become relevant for the day-to-day business of development co-operation. When, to our surprise and joy, just this happened a few years later, we were too busy with other things to be able to dedicate time to make the concept more digestible for practitioners, and to deepen it in terms of conceptual fundamentals and tools for application. This paper is a somewhat belated effort to do just this. It is based on a German language publication (Meyer-Stamer 2001) which addressed some of the conceptual confusion which I had observed in the application of the Systemic Competitiveness concept, yet it is not a translation but an effort to take the discussion one step further.

This paper is organised as follows. Section 2 gives an overview of the evolution, key elements and underlying concepts of Systemic Competitiveness. Section 3 addresses the mesolevel and mesopolicy. Section 4 looks at systemic competitiveness at the local level. Section 5 draws a number of conclusions for the application of the concept in development cooperation.

Figure 1



2 What is Systemic Competitiveness?

The main message of the concept of Systemic Competitiveness is straightforward: Sound macroeconomic conditions and functioning markets are a necessary, but not sufficient condition for successful development. Dynamic development is, first and foremost, based on entrepreneurial dynamism, not on government-run enterprise. Yet successful business development (be in agriculture, industry or services) is not only due to the individual efforts of dynamic entrepreneurs or corporate organisations. It is also, and in particular, due to the ability of a society – through collective action, developmental government or a combination of both – to shape an environment which does not only make the market mechanism work but also assists and promotes the decentralised efforts of businesses. It is crucial but not sufficient to look at microeconomic elements (companies, consumers, markets) and macroeconomic factors (interest and exchange rate, budget and trade policy etc.) when trying to understand why business does much better in one country than in another.

Apart from micro- and macroeconomics, we look at two other aggregates. First, there is the question why actors in a given society do or do not succeed in creating a favourable environment for private business. How do government and non-governmental actors interact, and do they interact at all? Can they agree on an overall vision as to where the economy is headed? Do key actors in the society share basic orientations – on private business, on the relative importance of the market mechanism relative to other coordination mechanisms, on the basic foreign trade orientation (closed or open economy)? We call this level of analysis the Metalevel, as it takes us beyond the scope of macroeconomic factors.

Second, there is the issue of factors which are important for companies' competitiveness but which are not spontaneously generated by markets. We call this analytical level the Mesolevel, as it fits in between the Macrolevel of generic macroeconomic framework conditions and the Microlevel of companies and markets. The mesolevel is the field of specific policies and business promotion instruments, and of private and public institutions involved in business promotion.

Figure 1 summarises the basic structure of the System Competitiveness framework by looking at key elements and policies at each of the four levels. Table 1 looks at factors which, at each level, create incentives for strong development performance. To some extent, it is also possible, and indeed useful, to allocate types of organisations to each analytical level. Table 2 illustrates this point.

Table 1: Incentive Structures Stimulating the Emergence of Systemic Competitiveness

	<i>External to a society</i>	<i>Internal to a society</i>
<i>Meta</i>	<ul style="list-style-type: none"> • performance pressure from successful neighbouring countries • changes in development paradigms 	<ul style="list-style-type: none"> • no alternative to orientation towards competition and world market (no soft option) • elite has to assure legitimacy • development-friendly value system • learning- and cooperation-friendly culture • social prestige through entrepreneurial success
<i>Macro</i>	<ul style="list-style-type: none"> • pressure towards structural adjustment • performance pressure emanating from integration into international capital market 	<ul style="list-style-type: none"> • long-term responsibility and accountability • hyperinflation and stagnation / decline experience
<i>Meso</i>	<ul style="list-style-type: none"> • development cooperation 	<ul style="list-style-type: none"> • evaluation of performance of support institutions based on success of private firms • R&D institutions: compatibility between academic and application orientation • decentralization of responsibilities and latitude for creative policy-making • participatory structures and performance pressure in associations
<i>Mikro</i>	<ul style="list-style-type: none"> • Global commodity chains • international standards (eg ISO 9000, 14000, QS 9000) 	<ul style="list-style-type: none"> • competitive pressure • pressure and support from customers • material incentives of outstanding performance

Table 2: Typical Organisations at Different Levels

	<i>Government</i>	<i>Non-Government</i>
Macrolevel	Ministry of Finance Central Bank	Top-level / Peak Associations
Mesolevel	Centers for Research and Development Public education and training institutes SME Promotion Agencies Development Banks	Chambers Associations Foundations NGOs
Microlevel	Public enterprises	Private business

2.1 Why “Systemic” Competitiveness

The concept of Systemic Competitiveness is not related to systems theory (cybernetics). Regarding a given society’s latitude to shape its fate it takes a perspective which is just to opposite of the profound pessimism often articulated by proponents of systems theory (e.g. Niklas Luhmann). Systemic Competitiveness refers to the term “system” as it has been employed by Friedrich List, one of the 19th century classics of development theory (“The National System of Political Economy”), and more recently by analysts of national systems of innovation (Freeman 1987, Freeman 1992, Nelson 1992). System means a pattern of actors, institutions, organisations and policies which are interlinked through complex feedback mechanisms and which, taken together, create a coherent entity – an economic system which in Germany is distinct from the economic system of the United States, let alone Argentina. When we formulated the concept, our thinking was particularly influenced by comparisons between East Asian and Latin American economic systems (Table 3).

One of the main arguments of the concept is this: Differences in economic performance cannot be linked causally to isolated “key factors”, such as successful industrial policy or technology transfer. Such factors are embedded in a given system, and they work well because a number of other factors support them. In order to understand differences in economic performance, it is essential to look at the system, not just some of its components.²

But does it make sense to talk about the “systemic competitiveness of a country”? Paul Krugman (1994) has argued that it is nonsense to suggest that countries compete, at least not in the way companies compete. But then again countries do compete, for instance when it comes to attract large investments. But the more relevant observation is that countries compete in a more abstract way, namely around the most promising way to organise a national economy. The controversies at G7/G8-summits in the 1990s, in particular at those occasions when the United States presented themselves as the most efficient model of capitalism, illustrate this point.

2 I have exemplified this line of thinking in my analysis of the Japanese growth model of the 1970s and 1980s in Meyer-Stamer (1996).

Table 3: Comparing Post-WWII Industrial Development in Latin America and East Asia against the Background of the Concept of Systemic Competitiveness

	Latin America	East Asia
Me-talevel	Import-substituting industrialisation (not as infant-industry protection, but as dissociation from the world market), but no consensus about priority of industrialisation due to strong power position of rural oligarchy; not always clear development orientation; low capacity to learn, adjust and formulate strategies	Export-oriented industrialisation strategy; clear development commitment; early land reforms erode power of rural oligarchies; high capacity to learn, adjust and formulate strategies
Mac-rolevel	Unstable macroeconomic policy due to inherent weaknesses of import substitution policy (dependence on raw materials / agricultural exports with strong export price fluctuations) and chronic balance of payments crises; high inflation (partially due to Keynesian deficit spending, partially due to lax tax policy and inconsistent implementation of taxation)	Relatively stable macroeconomic policy; during a long period solid financing of development process, inter alia through high internal savings ratio; since mid-1990s increasing instability due to tolerance of speculative bubbles
Me-solevel	Temporarily successful industrial policy created production capacities, but rarely competitive industries; due to low competitive pressure low demand for services from meso-institutions (in particular in technology development and extension)	Successful industrial policy; sequencing of the build-up of new industries; highly effective education, training and technology policy and export promotion lead to the emergence of well-performing meso-institutions
Mic-rolevel	Low competitiveness of companies which were highly profitable in closed markets with little need to innovate; unstable macroeconomic environment created short-termist orientation, thus little effort in strategy-formulation	Stable macro-economy and targeted meso-policies stimulate the emergence of companies which compete on the domestic market, despite import protection, and are pushed by government into exporting

2.2 Theoretical Background of the Concept

The Systemic Competitiveness concept is not just an effort to bring different social science and economics sub-disciplines together, even though this would already be a useful exercise, in particular for economic development practitioners who are confronted with an increasingly confusing proliferation of approaches with a limited scope. Table 4 gives an overview of sub-disciplines which were important for the formulation of the concept. But the concept tries to go beyond a simple addition by connecting different approaches

Table 4: Conceptual Background

Economics	Social Science
<p>Innovation economics: Innovation as a cumulative, interactive process; tacit knowledge instead of complete innovation; path dependence; national and regional innovation systems</p> <p>Main authors: Nelson (1995), Freeman (1994), Pavitt (1984), Meyer-Krahmer (1993)</p>	<p>Political science: new concepts of governance, policy networks</p> <p>Main authors: Scharpf (1993), Mayntz (1991), Willke (1988)</p>
<p>Post-structuralism: Role of the state in a market economy</p> <p>Main authors: Lall (1992), Amsden (1989), Fajnzylber (1990)</p>	<p>Economic sociology: Power relations in economic transactions; trust and relational contracting; industrial districts</p> <p>Main authors: Granovetter (1992), Platteau (1994), Schmitz (1995), Becattini (1990)</p>
<p>Institutional economics: property rights, transaction costs</p> <p><i>Main authors:</i> Williamson (1995), North (1995)</p>	<p>Industrial sociology: New production concepts, systemic rationalisation, lean production</p> <p>Main authors: Kern & Schumann (1984), Womack et al. (1990)</p>
<p>Management science: Creation of competitive advantage</p> <p>Main authors: Porter (1990)</p>	<p>Economic geography: Relevance of agglomeration and other spatial aspects</p> <p>Main authors: Storper (1997), Scott (2000)</p>

Let us take a look at some examples how connecting concepts from different backgrounds can provide a better understanding of certain issues:

- Concepts from innovation economics, such as path dependence or the distinction between incremental and radical change and the related emphasis on discontinuous development, are not only useful to understand the evolution of companies and markets. They can also be employed to gain important insights into the evolution of the political-administrative system (Hinterberger and Meyer-Stamer 1997).
- New governance concepts do not only explain the behaviour of actors in the political-administrative system. They are also very useful in analysing co-operative behaviour and collective action in the private sector (Messner and Meyer-Stamer 2000).
- Concepts from industrial sociology are very helpful when it comes to understanding why apparently plausible concepts emerging from management science are not applied, or do not render the expected results, in companies (Meyer-Stamer 1995).

3 What is “Meso”?

As you go through the literature, you will find two different ways in which the term “meso” is used. One use is in a territorial sense: Authors distinguish macro, meso and local level, and they talk about the national, regional and local level (e.g. Bergman and Feser 1999). This is due to the fact that American authors use the terms “regional” and “local” as synonyms (Blakely and Bradshaw 2002, xvi), so that they need a different term for the aggregate which is addressed as “region” in Europe, namely a subnational entity (or possibly a transborder aggregate, such as Euregios) which includes a number of localities. If you work in a place where the distinction between “regional” and “local” is commonplace, it is pointless to use to introduce the term “meso” as a reference to a territorial aggregate, since this only creates confusion.

In the concept of Systemic Competitiveness, meso refers to one of the four analytical levels. The term does not have any territorial connotation. In fact, the opposite is the case since we address the mesolevel from the local to the global level. With respect to the mesolevel, we distinguish between meso-policy and the mesospace (where space is an abstract category, not a territorial entity).

We often observe that those people who adopt the concept of Systemic Competitiveness as a guidepost or tool for their work effectively talk about the mesolevel most of the time, neglecting the other levels and the interaction between them. This is unfortunate, since it eliminates many of the opportunities for relevant insights the adequate use of the concept offers. At the same time, we must admit that our own work has been focussing at the mesolevel, thus encouraging a distorted perception. Moreover, some of the issues were not sufficiently clarified, thus giving rise to various misunderstandings. The purpose of this section is to remedy that.

3.1 What is mesopoly?

The defining criterion for a mesopoly is its selectivity. Fiscal policy, monetary policy, exchange rate policy and trade policy are generic policies. They affect all economic actors in the same way, and they are thus elements of the macrolevel. Mesopolices, by contrast, are selective. They specifically target limited groups of economic actors. Typical examples are technology policy (aiming selectively at innovative companies or sectors) and regional policy (selectively promoting lagging regions and the economic actors that happen to be based there). A nasty definition would go like this: Macropolicies create equal conditions for all economic actors, mesopolices distort

those conditions. However, the justification for mesopolicies goes the other way around: Markets often fail, and mesopolicies try to remedy market failure. Technology policy is a typical example: In a pure market economy, companies will underinvest in R&D, because the investor can appropriate only a part of the investment in R&D. SME promotion is another example, since SMEs suffer from structural disadvantages due to economies of scale and indivisibilities.

It is not always possible to define clearly whether a given policy is part of the macro- or the mesolevel. For instance, trade policy often involves both macro- and mesopolicy. There are the generic elements of trade policy, which are an element of the macrolevel. But there are also trade promotion activities or selective trade barriers, which are a part of the mesolevel. Likewise, anti-trust policy spreads across both levels; those activities of anti-trust policy are a part of the mesolevel which are driven by industrial policy considerations. Environmental policy also involves both macro- and mesopolicy; selective treatment, for instance delayed application of new policy tools in vulnerable sectors, establishes a mesolevel environmental policy.

We have addressed mesopolicy in the context of an effort to understand the determinants of industrial competitiveness. We had to learn that mesopolicy is not a coherent, let alone a consistent, set of policies and actors. Moreover, some mesopolicies which are very relevant in stimulating competitiveness, such as environmental policy and consumer protection, are formulated with totally different objectives in mind.

Public mesopolicy includes elements of mandatory tasks and voluntary activities of government. This distinction is important to understand governance options. If a mesopolicy is part of mandatory tasks, i.e. areas where laws determine that government must act, government can threaten economic actors with unilateral decision making, which most likely would lead to suboptimal results in terms of legislation and regulation. This threat is important to persuade economic actors, such as business associations, to engage in results-oriented, constructive negotiations; political scientists call this “negotiations in the shadow of hierarchy” (Scharpf 1993). Policy fields where this applies typically include anti-trust policy and educational and training policy. The situation is quite different in the case of voluntary activities, such as SME promotion, where government has little in terms of possible threats and thus must operate with incentives.

Mesopolicy is by no means exclusively a governmental activity. There is a variety of non-governmental actors which actively pursue mesopolicies:

- business associations which launch initiatives to strengthen the competitiveness of their member companies;
- individual companies, such as developers and utilities, which launch locational marketing campaigns (with the clear objective to attract new customers, but with huge external effects);
- foundations and NGOs which strengthen the support structure for companies, for instance through microfinance initiatives.

3.2 What is the mesospace?

A pragmatic definition of the mesospace would go like this: The mesospace consists of those organisations which are created by government, by individual actors or by collective actors to strengthen the competitiveness of companies. The mesospace is mostly the result of the implementation of mesopolicy (as opposed to being the result of spontaneous, uncoordinated market processes). Again, mesopolicy includes not only governmental but also private and collective efforts.

Finding a precise definition of the mesospace is not as straightforward as in the case of mesopolicy. Allocating given organisations is often quite difficult. Take the example of financial institutions. A normal commercial bank is part of the microlevel, since it is basically just another company which operates in competitive markets. Central banks obviously are an element of the macrolevel. But what about government-sponsored microfinance organisations or the German Sparkassen, i.e. government-guaranteed local banks? On the one hand, they are commercial operations, thus part of the microlevel. On the other hand, they are an instrument of mesopolicy, i.e. part of the mesospace.

Such definitional problems result from the fact that the mesospace is a dynamic entity:

- Some mesolevel organisations are permanent inhabitants of the mesospace because they will never be organised as business operations. This applies to organisations which supply public goods, provide services with very strong external effects or operate as natural monopolies (whereby the last point is increasingly questionable, since due to technical progress many monopolies ceased to be natural).
- Many other mesolevel organisations are only temporarily part of the mesospace. As an economy evolves, the services they provide are taken over by companies, or mesolevel organisations evolve into microlevel

for-profit companies. A typical example are testing and quality assurance service providers.

A marked feature of the mesospace is the fact that it provides services, not tangible products. This fact becomes obvious if we look at a list of typical mesospace activities (Table 5), which is organised according to Michael Porter's (1990) concept of the evolution of factor conditions.

Table 5: Typical mesospace activities

	<i>Technology</i>	<i>Education and training</i>	<i>Finance</i>	<i>Infrastructure</i>	<i>Foreign trade</i>	<i>Chamber and associations</i>
<i>Basic functions</i>	Measurement, standards, norms, quality assurance	Secondary and higher education in basic disciplines	Credit Investment capital	Roads Water Electricity Telephony	Basic foreign trade transactions	Elementary services Ad-hoc-lobby
<i>Advanced functions</i>	Technology transfer agencies	Secondary and higher education in specialised disciplines	Development banks Microfinance institutions Collateral banks	Reliable, efficient, high quality infrastructure	Export financing Export credit insurance	Specialised services Business networking
<i>Specialised functions</i>	Specialised R&D institutions	Highly specialised, high quality training courses	Specialised, innovative finance institutions Venture capital	Specialised, innovative infrastructure	Advice and support for market research, design, packaging etc.	Comprehensive services Active role in locational policy

3.3 The mesospace at different levels of aggregation

The confusion between the two different definitions of the term “meso” is more than just a pity. It wastes an opportunity for a relevant analytical distinction, since mesopolitics and in particular the mesospace have to some extent specific incarnations at the different levels of territorial aggregation. This point is illustrated in Table 6 and in Table 7.

What is the connection between mesopolitics and the mesospace? The mesospace is the tangible result of mesopolitics. But mesopolitics does not only address the mesospace. Its main objective is to strengthen structures – companies and networks of companies – at the microlevel. The creation of a competent mesospace is not a goal, but a means to achieve the goal of strengthening the competitiveness of companies. In fact, it is conceivable to have mesopolitics without a single meso institution. Think of a country which limits its mesopolitics to the promotion of innovation, using fiscal incentives as the only instrument.

Table 6: Mesopolicy at different levels of geographical aggregation – some examples

	<i>Supranational</i>	<i>National</i>	<i>Regional</i>	<i>Local</i>
<i>Mesopolicy: Technology and innovation</i>	EU technology policy R&D cooperation in Mercosur	Federal technology policy (e.g. institutional support for Fraunhofer Society, industrial innovation programmes)	Technology policy by states (e.g. NRW: Technologieprogramm Wirtschaft)	Technology incubators

Table 7: Mesospace at different levels of geographical aggregation

	<i>Supranational</i>	<i>National</i>	<i>Regional</i>	<i>Lokal</i>
<i>Mesoinstitutions: MSTQ</i>	International Standards Organisation (ISO)	Deutsches Institut für Normung (DIN) Physikalisch-Technische Bundesanstalt (PTB)	Landeseichamt	Laboratory for tests

Occasionally, mesopolicy may even address the macrolevel. In recent years the streamlining of rules and regulations has evolved as one of the major instruments of competitiveness-oriented mesopolicy – which is addressing the macrolevel to the extent that rules and regulations are generic.

3.4 The evolution of mesopolicy

In the course of the 1980s and 1990s there has been a fundamental change in mesopolicy. When we first formulated the concept of Systemic Competitiveness, industrial policy was still a hotly debated issue – not only in many developing countries but also in the EU. Today, mentioning the term causes little more than a yawn. Two factors have caused this fundamental change: the changing role (or perception of the role) of the state, and globalisation.

- Ten years ago a discussion around the issue of “picking the winners”, i.e. selective government interventions to promote promising sectors or even individual companies, would have generated a hot debate. Today, hardly anybody would suggest that government has much of a capacity when it comes to picking anything. Both in developed and in developing countries, the ability of government to guide and steer industrial development is strongly questioned; the contrast between Japan’s strategic industrial policy in the 1960s and 1970s and the governments inability to pull the country out of a decade-long stagnation is but one experience which helps in explaining this scepticism. At a conceptual level, research by the OECD (with respect to industrialised countries) and by the World Bank

(looking at developing countries) questioned an active role of the state since the 1980s, and did in fact go as far as questioning the validity of almost any mesopolicy, i.e. any type of selective government intervention to pursue developmental goals.

- In the late 1980s, the British computer manufacturer ICL was excluded from EU technology programmes after it had been taken over by Japan's Fujitsu. Industrial policy into the 1980s tried to build "national champions" in "strategic industries". A politician who suggested something like this today would immediately face questions regarding his mental health. The globalisation process has created a pattern of transnational corporate holdings which defeat the idea of creating national champions.

So what do we see today? Are we experiencing the phasing-out of mesopolicy? In fact, the opposite is the case. Globalisation is creating a strong pressure both on national and local economies to increase their "efficiency", i.e. to remove unnecessary obstacles to business activities, and to increase their locational quality. As there is a structural imbalance between corporations, which are offering jobs, and locations, which desperately need jobs, medium and large companies can easily play one location against the others. In most parts of the world this leads to a proliferation of incentives; the only exception is the EU which has created limitations on subsidies and implemented a monitoring system to enforce this. Yet there is little dispute that incentives play a marginal role in corporations' decision-making on locations. Such decisions are basically informed by a profound analysis of locational factors, and corporations seek those locations which offer an attractive combination of locational qualities. With increasing locational competition the focus of mesopolicy is shifting from the national to the local and regional level. This shift is accompanied by two further main trends: a tendency towards linking business promotion, SME promotion, technology policy and other incarnations of company promotion to employment promotion activities, and a focus at market-adjusting rather than market-distorting mesopolicy.

3.5 Mesopolicy at the local and regional level

Not only has the focus of mesopolicy shifted from the national to the local and regional level. The characteristics of mesopolicy at the local and regional level have shifted as well.

- Traditional regional policy did not address regions as functional entities. It did not focus at economic regions, in the sense of territories with a specific economic profile created by marked input-output-relations, strong

feedback mechanisms and a specific milieu. It rather addressed administrative regions which were defined by below-average rates of employment, entrepreneurship or other characteristics. The definition of the term “region” in traditional regional policy has very little relation to current concepts of “competitive regions”, “innovative regions” or “learning regions”.

- Traditional local mesopoly, or local economic development, involved mostly local government activities around the development of industrial estates and the infrastructure, as well as investment promotion. Today, locational policy has a much wider scope; the main instruments are summarised in Table 8.

Table 8: Core instruments of locational policy

<p><i>Instruments targeting tangible locational factors</i></p> <ul style="list-style-type: none"> • Real estate development • Infrastructure development • Predictable energy and environmental costs • Skills development programmes • Fiscal incentives and subsidies <p><i>Instrument targeting intangible locational factors that are relevant for individuals</i></p> <ul style="list-style-type: none"> • Improving the quality of housing and neighbourhoods • Securing good environmental quality • Assuring a high quality of schools and other education institutions • Providing a good social infrastructure • Assuring a good leisure infrastructure (sports, cultural events) <p><i>Institutional structure of local development</i></p> <ul style="list-style-type: none"> • Merging economic development and employment promotion agencies • Organise economic development as a non-profit company • Involve private actors in economic development (chambers and associations, utilities) • public-private partnership 	<p><i>Instruments for intangible locational factors that are relevant for companies</i></p> <ul style="list-style-type: none"> • Creating a business-friendly climate - indicators: <ul style="list-style-type: none"> – Swift response to applications – Swift registration of business start-ups – Bundling of administrative responsibilities – Effective support for businesses in transactions with regulatory bodies – Economic competency and hospitality of key actors (e.g. mayor) – Constructive style of communication between local politicians and government administrators, and companies and their associations • Stimulating business networking • Promoting innovative financial instruments • Providing competent research and development institutions, technology incubators • Stimulating an innovative milieu • Encouraging an active role of business associations and chambers • Promoting a positive image
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At the same time, it must be noted that equalling localised development efforts with mesopolicy is not adequate. In fact, it defeats the main thrust of the systemic competitiveness approach. Systemic competitiveness at the local level is not just a matter of formulating nice mesopolicies. I will address this issue in the Chapter 4.

3.6 Linking business and employment promotion

Apart from the shift from national-level to regional and local policy initiatives, the 1990s have seen another shift in the practice of mesopolicy. There have been efforts to combine business promotion (SME support, promotion of innovation etc.) with employment promotion. For instance, Scotland abandoned the traditional practice of having separate ministries for economy and for labour and created a Ministry for Enterprise and Lifelong Learning.

Table 9: Policy fields and policy approaches in business and employment promotion

	Economic development Business promotion	Employment promotion Poverty alleviation
Economic policy	SMME promotion Entrepreneurship promotion Investment promotion	Basic and ongoing skills development Labour market information systems
Social policy	Support for subsistence-oriented micro- and small enterprise	Unemployment benefits Employment programmes

Likewise, the different delivery agencies were merged into one organisation, Scottish Enterprise. Similar steps have been taken by some German local municipalities.

So far, these experiences seem to be limited to some OECD countries. In developing countries, the separation between business promotion and employment promotion, which are highly complementary fields of mesopolicy, tends to persist. In order to understand the repercussions this has, let us look at the two policy fields involved here. Table 9 organises the policy fields and the policy approaches.

In the field of business promotion, we ought to distinguish between two activities:

- In the “economic policy” quadrant we find those policy approaches which are driven by competitiveness considerations.
- In the “social policy” quadrant we find those policy approaches which address survival businesses, where the objective is not to maximise competitiveness but rather to assure the survival of micro and small businesses which create some income for persons without other economic opportunities.

In the field of employment promotion, it is again useful to distinguish between two activities:

- In the “economic policy” quadrant we find policy approaches which address the formal labour market and competitive businesses.
- In the “social policy” quadrant we find policy approaches which address those persons who have little chance of formal employment.

It is common to find that delivery organisations in this area are organised along the columns:

- Business promotion agencies are supposed to deal both with competitive SMME and with survivalists.
- Employment promotion agencies are supposed to provide both training for highly skilled activities and for persons without any chance of integration into the labour market.

This creates all sorts of confusion, tensions and conflicts within these organisations. They are lost in endless and fruitless discussions of the competitiveness vs. subsistence and the picking the winners vs. supporting the losers varieties – as if those were alternative options given the current reality in the country.

The alternative approach, which is pursued in places like Scotland, organises the activities along the horizontal lines, i.e.

- looks for synergies between business promotion and skills development, and organises the execution of local economic development initiatives accordingly,
- connects the support for subsistence producers and employment-generation programmes, but makes sure that this is not mistaken for business development.

3.7 From market-distorting to market-adjusting mesopolicy

In the course of the 1990s, the Donor Committee on Small Business Development (1998) formulated a scathing critique of conventional approaches to business promotion. It also formulated a new approach to business promotion, called the BDS approach, where BDS stands for business development services. In my perspective, with the BDS approach the pendulum swings a bit too far in the direction of market fundamentalism. I have formulated a critique of the BDS approach, which starts with an ironic rephrasing of the critique of the old approach:³

“There has been a time when technical assistance was called aid. Foreign agencies were drilling wells and building health stations and fertiliser plants in developing countries. It also happened that they started to think about the driving forces in the local economies of developing countries, or rather their absence or weakness. In the really early days this did not really appear as a problem as the developmental state promised to take care of everything. But when it became increasingly obvious that this kind of state rarely managed to take care of anything, the foreigners started to look with interest and hope at the private sector.

Now, the problem was that there often was little private sector there, and developmentally-minded governments were rather embarrassed about what was there. It is not particularly encouraging to observe a small businessman cutting metal sheets with hammer and chisel, especially if you’re a president of an African country and you’re dreaming of a national car industry. But nevertheless, there was no way around supporting the private sector.

This is where BSE comes into play. BSE in this case stands for Business Surprise & Entertainment. The typical sequence went like this. A given country did not really get anywhere, except maybe deeper into the pits. So the donors looked into the causes and detected little economic dynamism. So they tried to understand this and detected that the private sector was not dynamic. That is, the big firms were lame and the small ones were struggling to survive. The big guys were part of the problem, not the solution, and also they were rich, so supporting them was not acceptable for the donors. So SME support became a high priority. So it was decided to conduct a needs assessment. Now, it is a scientifically proven fact that 11 out of 10 SME-related needs assessments lead to the conclusion that SME suffer from too little managerial capacity, too little skills of the employees, too little technology, and too little capital. It’s 11 out of 10 because some needs as-

3 With minor alterations taken from Brainstorm, #

assessments in the end are not conducted, because there are no consultants available right now and since the result is always the same anyway. So it is decided that there is a need for support institutions in the fields of management, skills development, technology extension, and provision of capital. Now we come to the S, because when they are launched there is a big surprise among SME owners. They do not really know what to make out of this, since it might for instance be an undercover operation of the internal revenue service. Also, they are far too busy doing business, so that they have no time to deal with bureaucrats who pretend to offer support. Moreover, they think that government should spend its time and money doing more sensible things, such as cutting down all the obstacles it has erected for private business activities. So in the end there is little demand, and the bureaucrats in the supporting institution are happy because they can leave office early to go earn some money. But this is temporary happiness, since there are foreign experts, and more foreign experts evaluating the foreign experts, and they want to see some result. Now we're coming to the E, because it used to happen sometimes that such support institutions then came up with fringe benefits, such as free lunches, i.e. management or technology or financing seminars for free in nice resorts with excellent food.

But real life being what it is, this nice setting could not continue forever. Burning millions in poor countries was no longer acceptable. So the search for something beyond BSE began. This takes us to the Mad Meso Disease. Meso is another term for supporting institutions, and Mad Meso is the idea that supporting institutions have to be slaughtered, except if they make money. We always thought that Meso by definition is not profit-oriented, and not even cost-recovery oriented. If it were profit-oriented, it were Micro, not Meso. The idea to not throw good money after bad one is always convincing. And also, maybe things work in poor countries even though they never work in rich countries.

Features of the Mad Meso Disease

To be fair, one must admit that what is going on here is not really simple madness. (And it certainly is not fair to accuse the colleagues at the Committee of Donor Agencies for Small Business Development of madness.) It may appear as madness, but might also be a proposition which must be extreme and exaggerated so that in the end, after lots of resistance and negotiation, it leads to some incremental changes towards the right direction. But then again, it might also be that the mad meso disease is the outcome of the confusion of proxies and goals. The ability of a supporting institution to sell some of its services is a proxy for real and true demand and demand-orientation. It is a useful proxy in order to overcome another common con-

fusion, namely that between needs and demand. There are always all sorts of needs, but only some of them are being translated into demand. And talking about businesspersons and their needs and demands, it is important to understand that the demands they articulate, and the propensity to pay for supply which meets this demand, are a statement about the hierarchy and priority of the different needs. Microeconomics call this utility functions and preference orders. It is something economics students learn in the first two weeks of the first term, and it is sad to notice that this simple concept took so long to make it into development assistance.

At the same time, there is an important lesson the proponents of the new BDS approach apparently have failed to learn. Depending on where you live, you probably have heard of Tamagochi, Diddel, or Beanie Babies. It might appear that, using a demand-driven view, nobody in his sane mind would imagine products such as these. Nevertheless, they have been roaring successes in various parts of the world. In fact, surprising customers with new products and thus creating demand is a key aspect of entrepreneurship. Actually, it is almost identical with product innovation. It might be useful for those involved in the BDS discussion to have a closer look at how firms manage product innovation.

But let us come back to the proxy thing. So the ability of a supporting institution to convince its target group that they hand over some money for the service they receive is a proxy for the demand- and customer-orientatedness of the institution. There is nothing wrong with this, quite the contrary. In fact, addressing the target group as customers, rather than clientele or beneficiaries, is a big step in the right direction. Also, organizing a business support institution in a business-like way rather than as a public administration organization is an important step in the right direction.

But there is something deeply wrong with donor interventions which try to create supporting institutions which aim at full-cost recovery or profitability. This is what the Donor Committee is suggesting.⁴ It is a capitulation vis-à-vis the weakness of the public sector in developing countries, it is creating distortions and perverse incentives, and in the end it may lead to perpetuated underdevelopment of the private sector.

Before we look at each of these issues, let us recapitulate some of the typical features of private sector development, especially small business development, in developing countries.

4 See the Donor Committee Guidelines at <http://www.ilo.org/public/english/employment/ent/sed/bds/donor/guides/index.htm>.

- The competence of small business owners is usually limited. They are struggling for survival in an often hostile environment. They have severe time constraints, they don't spend much time scanning support offers, many of them never learned to learn, and most of them see problems predominantly external to the firm. In one word, they do not demand the services of business support institutions.
- Business associations are usually weak, and in particular there is little representation of small businesses. They are often used by policy entrepreneurs for their personal political ambitions. Lobby is ad-hoc, and services are often non-existent. The concept of inter-firm learning via business association working groups is unknown.
- There is a lack of communication and articulation between the public and the private sector, and the predominant mindset is one of mutual mistrust.

It is easy to see why the BSE syndrome could flourish in such a setting. It is much more difficult to see how the BDS approach is supposed to break through the vicious circles involved in this setting.

Capitulating vis-à-vis the weakness of the public sector in developing countries

The BDS approach ascribes only a very limited role to government, namely as one of several (albeit not the preferential) providers of support for BDS firms (as opposed to Meso institutions). Now, there is little doubt that in most developing countries government has not played a convincing role in stimulating a vibrant private sector in the past. At the same time, there can be no doubt that not a single case of successful latecomer development is known without government taking an active role, including in terms of direct promotion of the private sector, i.e. doing much more than creating favorable macroeconomic conditions.

The BDS discussion falls back into the simplistic macro-micro-world of the structural adjustment discussion we had more than ten years ago. It should by now be understood that we need more than stable macroeconomic conditions to stimulate dynamic business development, such as a vibrant, efficient, competent mesolevel of institutions and associations. This relates to demands such as the one that government should reinvent itself. A government which is hardly or not at all active in business promotion knows little about the private sector, and it is thus likely that it will not even create macroeconomic conditions which favor the domestic private sector. Thus, rather

than going back to a minimalist BDS approach, trying to circumnavigate an incompetent public sector, it is essential to link business promotion with state reform.

Creating distortions and perverse incentives

The key idea of the BDS approach is that promotion agencies, including foreign donors, should cease working directly with firms and instead create stimulate business development service firms. Now, it is not easy to understand why a firm is not a firm. Moreover, there is no clearly discernible inherent mechanism which would prevent this kind of approach from creating competition to private service providers which are already there. BDS may easily come into a position where it is subsidising new entrants into the business service market, thus creating distortions and maybe even crowding-out established providers. It would not be for the first time that foreign donor-supported initiatives went for the soft option, thus crowding out endogenous initiatives.

Perpetuated underdevelopment of the private sector

In the end, the Mad Meso Disease comes down to slaughtering the mesolevel, leading developing countries back to a simple world of macro and micro. To put it differently, in the categories of Michael Porter, the new BDS approach addresses the supporting industries. It does little about factor conditions, except for the provision of those factors which do not involve externalities, i.e. where there is full appropriability. In the case of those factors where there is no full appropriability, such as large parts of skills development or technology development, there will be a severe underprovision, especially since government is no longer supposed to solve this problem.

In the maybe not so far future, maybe some conspiracy theorists will come up and state that this whole idea was just another chapter in the vile story of keeping poor countries poor. And donors which adhere to the BDS approach will find it quite difficult to defend themselves against this accusation.

Alternatives

What are alternatives to BSE and the BDS approach in the way it is currently being presented? In my view, there are at least two obvious elements of an approach which goes beyond BSE and Mad Meso Disease.

First, there is no reason why meso institutions should not learn fund-raising, preferably from the beginning. There are always funds available somewhere. In developing countries, an important reason for this are donor interventions. Apart from that, in both industrialised and developing countries there is the political economy of meso policy. As politicians come under pressure to do something about specific problems, such as unemployment, government launches regional policy, structural policy, technology policy, employment policy, and so on. In a democratic country there is no way of avoiding this. The choice we have is to leave meso policy to political opportunism or to try to support those political actors who want to see an effective meso policy.

Second, there is no reason why there should be no competition at the mesolevel. It seems to be a widely held belief that meso institutions should be consolidated, perhaps even into unified SME support institutions. This is nonsense. I know a number of cases of competition between mesolevel institutions, in particular the Porter variant of fierce localised rivalry, and it usually has led to highly competent, agile, and customer-oriented institutions. Moreover, exits among meso institutions are OK. It is in this sense that business is a strong metaphor for mesolevel institutions.”

Market failure, market adjustment, and the distinction between temporary and permanent mesopoly

Today, I would argue that there is a third option, namely market-adjusting mesopoly. This is an approach which has been pioneered in some parts of the U.S. and in Scotland. In the case of Scotland, the legislation which rules the activities of the public economic promotion agencies (by far the most important one being Scottish Enterprise) establishes identification and remedy of market failure as the guiding principle of mesopoly. Any intervention must be justified in terms of an underlying market failure, and the intervention is supposed to target the market failure, not its symptoms. Linked to this is the rule that no intervention is supposed to last longer than three years, and that Scottish Enterprise has to formulate its exit strategy right at the beginning of any new programme (McKenzie, Meyer-Stamer & Noll 2002).

At the same time, it is notable that even Scottish Enterprise has not been established with a pre-defined life-span. In other words, even if its specific programmes have a predefined fixed life span, the basic understanding is that there is a persistent need for mesopoly. In fact, I would argue that it makes sense to take this reasoning one step further by distinguishing between permanent and temporary mesopoly initiatives:

- Permanent mesopolicy initiatives address persistent market failure. A typical example is underinvestment in R&D; companies invest less in R&D than would be optimal from a common good point of view because they cannot appropriate all the returns on their investment. For this reason, government not only provides financial support for basic research, which has no straightforward economic returns, but also for businesses' R&D activities.
- Temporary mesopolicy initiatives remedy a market failure for good. A typical example would be the introduction of a new standard which is crucial for international competitiveness, such as ISO 9000 in the 1990s. In particular in small countries, there tended to be a vicious circle: Initially, only few companies needed certification. The demand was too limited to raise the interest of commercial certification providers. Local companies continued uncertified and faced the loss of their export business. A temporary mesopolicy initiative would have remedied this market failure, for instance by emitting a limited number of vouchers which would have signalled demand to certification providers.

This type of market adjustment takes us beyond the simple market fundamentalism of the new BDS orthodoxy. It is an approach which has profound consequences

- for the planning of mesopolicy initiatives: There must be a sound analysis of existing markets and a specific explanation of a given market failure; the Donor Committee quite rightly points out that past development policy initiatives tended to ignore functioning markets for business development services.
- for the delivery of mesopolicy initiatives: If an organisation is specifically created to deliver a new initiative (be it a new department in an existing organisation or a completely new organisation), it is likely that this will turn out as a permanent initiative. New government organisations for mesopolicy delivery should only be created as a last resort, not as the first best option.
- for monitoring and evaluation: M+E of mesopolicy interventions must verify whether functioning markets are emerging and thus a given initiative should be phased-out or adjusted. If functioning markets fail to emerge, this may mean two things. Perhaps the initiative deals with a field where permanent mesopolicy is necessary. But it is also possible that the initiative provides a service which meets with little demand, and is thus not really relevant.

Taking all these considerations together, we see that it is very unlikely that we will observe the demise of mesopolicy in the foreseeable future. Mesopolicy has changed profoundly in the 1980s and 1990s, and will continue to do so in this decade. But exclusive reliance on market forces underestimates the creativity of human societies. There will always be (national or local) societies which are competent enough to shape economic development, and their successes will create a challenge for other places to come up with adequate mesopolicy.

4 Systemic Competitiveness at the local level

When we first formulated the concept of Systemic Competitiveness ten years ago, we addressed national economies. A few years later we realised that the concept is also useful in analysing subnational aggregates, i.e. regional and local economies; the case study on industrial clusters in Santa Catarina, Brazil, was the first study which implemented this approach (Meyer-Stamer et al. 1996).

4.1 From the supranational to the local level

The Systemic Competitiveness concept emphasises the importance of factors determining the evolution of economic systems which are not systematically addressed by conventional macro- and microeconomic approaches. Distinguishing between four analytical levels, the micro-, meso-, macro- and metalevel and investigating the inter-relationships between them does not only make sense at the level of national economies. It is also useful in understanding the evolution of local and regional economies, and it is even helpful to address supranational factors. Table 10 illustrates how to do this.

In fact, Table 10 addresses factors at different analytical levels and levels of aggregation from the perspective of local development initiatives. Let us have a look at the different fields to understand how factors at other levels influence, shape or limit local-level efforts.

- **Metalevel:** (1) Competition between different models of capitalism is more than an academic issue. For instance, in the aftermath of the Asian crisis of 1997, there was a very manifest conflict around this topic: Was it preferable for a given country to emulate the Anglo-Saxon model of capitalism, or rather the East Asian model of guided capitalism, or perhaps the European model of socially moderated capitalism, or a different model altogether? (2) The basic political and economic pattern of a soci-

Table 10: Some key factors determining Systemic Competitiveness at different levels of aggregation

	<i>Supranational</i>	<i>National</i>	<i>Regional</i>	<i>Local</i>
<i>Meta-level</i>	Competition between different types of market economies (1)	National development model, national innovation systems (2)	Regional identity Strategic capacity of regional actors (3)	Local actors' capacity to co-operate, trust, innovative milieu (4)
<i>Macro-level</i>	International financial markets (5)	Macroeconomic framework conditions (e.g. tax system, financial system) (6)	Solid budgetary policy Investment capability of government (7)	Solid budgetary policy Investment capability of government Quality of life (8)
<i>Meso-level</i>	EU industrial policy EU technology policy Montreal protocol (9)	Promoting new technology, export promotion, specialised financing agencies Sectoral environmental policy (10)	Regional economic development, technology demonstration centres, R+D institutes, training institutions, regional environmental policy (11)	Local economic development and employment promotion, training institutions, incubators, Chambers (12)
<i>Micro-level</i>	Transnational corporations Global commodity chains (13)	Medium-sized and large corporations Dispersed networks (14)	SME Regional clusters (15)	Local cluster, local subcontracting (16)

ety shapes the development options of the different locations and regions in that country, without determining them entirely. (3) This is particularly evident in countries where provinces have a certain level of autonomy, and display very different abilities to come up with development-oriented governance patterns. (4) But even at the local level it is not rare to find that neighbouring cities display marked differences in terms of the ability to define a shared development objective.

- **Macrolevel:** (5) and (6) A hint at the economic turbulence of the 1990s suffices to explain why supranational and national macroeconomic framework conditions shape the opportunities for development at the local and regional level. But why should there be a (7) regional and (8) local macrolevel? Provinces and municipalities have no say in monetary or

foreign-trade policy. However, their budgetary policy has a major impact on development options. If they run major deficits or are effectively bankrupt, this obviously limits the options in terms of active development promotion.

- Mesolevel: (9) For European citizens, it is obvious that there is a supra-national mesolevel, as there is European technology policy, regional policy, employment policy, agricultural policy, and so forth. But there are also – albeit timid – incarnations of mesolevel policies in Mercosul and ASEAN. At the global level, the Montréal Protocol is an example for a meso-policy. (10 – 12) Within a given economy, it is difficult to determine whether a given meso-policy ought to be executed at the national, regional or local level. For instance, technology policy is conducted at all three levels. National level is promoting the development of new generic technologies, provincial government is supporting their introduction into businesses, and local government runs technology incubators to assist start-up companies that try to commercialise this new technology.
- Microlevel: Local companies, in particular in the manufacturing sector, are rarely purely locally oriented. (13) Some of them are integrated into global value chains, i.e. they produce for identifiable foreign buyers, not for an anonymous global market. Other local companies are affiliates of transnational corporations. In both cases, this implies restrictions on the latitude of local action. (14 – 16) Similarly, companies that are integrated into national or regional supplier networks have a specific perspective at local-level development initiatives, for instance cluster promotion initiatives. If companies feel that the relationship to global buyers or the integration into national value chains is the main driver of their competitiveness, they may respond unenthusiastically to local-level initiatives.

Looking at local economic development from this angle helps to identify possible fields of action, but also structural limitations of local initiatives (see Meyer-Stamer 2003 for a detailed account).

4.2 Local economic development and systemic competitiveness

But what does it mean, from a practical perspective, if you want to base a local economic development (LED) initiative on the systemic competitiveness concept? It means that you have to consider the systemic perspective both in your *assessment* of the local economy and in the design of LED *interventions*. This will take you to an LED practice which is different from the orthodox approach.

The orthodox approach to LED often looks as follows. A local or regional government decides to start economic development activities. It contracts a consultancy firm or researches to conduct an assessment of the local or regional economy. The consultants analyse the micro- and mesolevel of the local economy, using tools such as a SWOT analysis or Michael Porter's diamond. The results of this assessment are then contrasted with the supposed best practice in business and economic promotion. The final result of this effort is a desirable specialisation profile of the economy and a long list of practical activities to move towards this profile.

Applying the systemic competitiveness framework will lead to a different diagnosis and a different action plan. The diagnosis will not only touch on macro- and metalevel factors, it will in fact emphasise them. Practically, this means the following:

- The local macrolevel refers to the financial capacity of local government and the local regulatory framework. If local government suffers from serious budgetary constraints, its ability to come up with a serious development effort is very limited. Therefore, there is no use in suggesting fancy best practice activities, unless they cost next to nothing. If the local regulatory framework is not business-friendly (both in terms of locally formulated regulations and in the local mode of implementation of regulations which come from higher government levels), local government's development effort is not credible. Before getting involved in any kind of mesopolicy, government must bring its own house in order, i.e. remove the unnecessary obstacles it puts in the way of business.
- The local metalevel refers, first and foremost, to the local stakeholders – their ability to communicate, to agree on a definition of the main problems, to formulate practical development activities and to implement them effectively. If the diagnostic finds serious deficits in this respect, there is, again, no point in coming up with a long list of best practice-based proposals.

The analysis of local macro- and metalevel factors defines the parameters for meso- and microlevel activities. If it shows that stakeholders are very competent, capable of conflict resolution and comfortable with strategic approaches, it is appropriate to formulate a demanding and ambitious local mesopolicy. If the analysis reaches a less encouraging conclusion, mesopolicy must not only take this into account, i.e. avoid overambitious proposals, but should also address those weaknesses and formulate appropriate proposals, for instance straightforward activities with quick and visible results which help stakeholders overcome distrust and fragmentation.

5 Systemic Competitiveness and development cooperation

5.1 Typical misunderstandings

When it comes to operationalise the Systemic Competitiveness concept for practical activities, two aspects are often particularly difficult to grasp: First, what exactly are the different levels of the systemic competitiveness concept supposed to mean, and second, what is the systemic approach anyway?

1) What is particularly tricky is the distinction between meso- and macro-level. One reason is the confusion between analytical levels and administrative levels. It is not rare to find documents where macro is supposed to mean national, and meso to mean provincial / regional. Another reason is the uncertainty as to how to classify national-level sectoral policy. Let us take the example of a fishery development project, where the project managers addressed national-level fisheries development policy as a macrolevel issue and specific interventions which directly target fisheries communities are mesolevel. However, in all our work on the concept we have emphasised that the key difference between macro- and mesolevel policies is about specificity and selectivity:

- Macrolevel policies are generic – they apply to all economic subjects in the same way.
- Mesolevel policies are specific – they target specific sectors (such as branches of industry, or industry at large, or in this case the fisheries sector) or specific issues (such as innovation).

Quite naturally, mesolevel policies are somewhat abstract when they are formulated at the national level, whereas they appear much more concrete and specific at the local level. Nevertheless, even at the national level they have the distinctive feature of being selective. In other words, a project like this one is mostly concerned with mesolevel activities – some of them at the national level, some at a regional / local level.

Why is the distinction between generic and specific/selective policies the key criterion in distinguishing between macro- and mesolevel? This has to do with the overall structure of mainstream development strategy thinking as it has evolved since the 1980s. The main argument of the criticism levelled against traditional development concepts had to do with specificity and selectivity: In the view of influential economists, specific and selective sectoral and issue-related policies (such as industrial policy and regional policy) had created market distortions which actually blocked rather than pro-

moted economic development. The main conclusion drawn for the structural adjustment concept was the emphasis on moving from specific, selective policies to generic policies. The main message was: Forget about things such as industrial policy. Streamline regulations and liberate markets instead. More recently, this way of thinking has been reformulated by the Donor Committee on Small Business Promotion, which is criticising selective interventions and suggesting a strict focus on the facilitation of markets for business development services instead. In other words, the new development orthodoxy which emerged with the so-called Washington Consensus was highly critical of mesolevel policies and interventions. In our view, however, this criticism failed to recognise the crucial role mesolevel policies have played in all successful latecomer development processes, from Germany and the USA to the East Asian NICs. This is why we emphasise that it is crucial to have both adequate macrolevel policies, creating a level playground and an overall distortion-free, development-friendly setting, and mesolevel policies to address all the market failures which are imminent in latecomer development. And it is the reason why we distinguish between macro- and microlevel the way we do.

2) So systemic competitiveness is about the fact that development depends on a lot of interrelated factors which can analytically be allocated to four different levels. But what does this mean in practical terms, in terms of concrete development cooperation activities? To start with, it challenges the orthodox approach of defining a certain element as the key factor. This kind of approach is the key of the conventional ZOPP/PCM methodology. There are two problems with this approach.

- First, it often is an ex-post justification of some decision which has been taken in advance – due to suggestions by the local partner, political opportunity, practical opportunity, or similar motives. This is how strange key challenges used to come about ("A key bottleneck for the competitiveness of Argentinian industry is the lack of skilled welders" – to justify a project which did exist in the mid-1990s).
- Second, it follows a type of diagnostic which is based on techniques such as problem trees. This kind of approach certainly was adequate with traditional project approaches, when it came to creating or strengthening organisations such as technical schools. It is, however, not adequate when it comes to more ambitious approaches, such as regional development initiatives. Here, it is essential to understand how different factors interact – usually in terms of creating obstacles to dynamic development. The systemic perspective is not only about looking at interaction, feedback-loops and vicious or virtuous circles. It also provides a relatively wide framework of issues which one should look at when try-

ing to understand a local reality. In order to strengthen a regional economy, it will often be perfectly sensible to promote SMEs and entrepreneurship. However, only in rare cases the low competitiveness of SMEs and low entrepreneurial dynamism are the key deficits, let alone the causes of economic stagnation.

What we see, over and again, when we analyse national, regional or local economies from the systemic competitiveness angle is that the key bottlenecks are located at the metalevel. It is usually factors such as development-unfriendly framework conditions, inadequate conceptual / normative concepts being employed by key actors or the pattern of key actors itself (e.g. collective conservatism or fundamental, often ideologically motivated disagreements) which are the causes of economic stagnation or decline. Moreover, the systemic perspective helps to understand how these metalevel factors interact with factors at the other three levels, creating a stable blockade constellation. Under such conditions, an intervention which is merely addressing the meso-/microlevel interface is unlikely to have a major impact.

In fact, development assistance more often than not is, most of all, about the metalevel – it is about trying to introduce new ways of seeing reality, of defining problems, and of formulating ways to remedy those problems. The problem is that it is difficult to address metalevel problems head-on, as this would imply replacing elites, or brainwashing them. What successful development projects usually do is two things: Stimulate learning processes among stakeholders, and strengthen those stakeholders who are more open and change-minded. This contribution is not always occurring in a reflected way, and it is not always based a clear analytical understanding of obstacles to learning and change. The systemic competitiveness concepts offers an analytical perspective at these factors.

5.2 Systemic Competitiveness as a practical tool: Benchmarking

A practical way to apply systemic competitiveness both in the preparatory phase of new programmes or projects and in their execution is qualitative benchmarking. Qualitative benchmarking is a method which has successfully been applied for company benchmarking. Quantitative benchmarking approaches, which are being applied both for companies and for regions, are often difficult to apply since many data are not available or not consistent. Moreover, they often do little more than indicate problems which are obvious anyway. Qualitative benchmarking looks at key factors which determine successful development – be it of a company or a region – and then applies a scoring model which is based on group discussions with key stakeholders.

The company-related approach has been described by Collins, Córdón and Julien (1996); its applicability in a developing country setting has been demonstrated in Brazil (http://www.iel.cni.org.br/html/made_in_brazil.htm). In this section, you find a first attempt to apply this type of approach for territorial benchmarking.

The purpose of the benchmarking questionnaire

This questionnaire is supposed to help PACA practitioners in getting a better understanding of the systemic competitiveness of the place they are investigating. More specifically, it provides them with a list of features which define the difference between poor and high-performance localities. A high-performance locality would score high on most, if not all features.

How to use the benchmarking questionnaire

This questionnaire is for application with a group of local stakeholders. Optionally, you may consider to introduce a dynamic perspective, i.e. to look at the current situation and the situation five or ten years ago.

Whereas defining scores for meta- and macro-level features ought to be straightforward, it may be difficult to agree on scores for meso- and micro-level factors, as there may be large differences in performance between meso-institutions and between companies. If the group cannot agree on a score, it should process as follows. For meso-level institutions, it should define a score for each institutions and then calculate the average. For companies, it should apply the Pareto.

Meta-Level

Points:	1	2	3	4	5
Government	Local government agencies are not interested in economic development		Local government agencies show some interest in economic development, but it is not their top priority		For local government agencies, economic development is a top priority
Entrepreneurship	Businesspeople enjoy little respect and social prestige		Businesspeople are respected, but other professions are more prestigious		Businesspeople are highly respected, and becoming a businessperson is preferred option
Organizations	There are no or weak business organizations. They have a small membership base.		Business organizations are mostly dominated by local leading businessmen which pursue their own agenda		Business organizations have a broad membership base and are internally organized in a democratic, transparent way. They are representative of the private sector
Policy networks	There are no effective means and channels of communication and negotiation between local government and the private sector		There are some means and channels of communication and negotiation between local government and the private sector, but they are on an ad-hoc basis		Local government is consulting the business sector on key policy decisions, and there is an ongoing practice of problem-solving-oriented negotiations between both sides
Vision, development strategy	There is no shared vision regarding the development goal and strategy of the locality		There are competing views regarding the development goal and strategy of the locality		Key stakeholders agree on a development goal and strategy of the locality

Macro-Level

Points:	1	2	3	4	5
Finance	Local government is financially broke and has no means of fulfilling tasks which are elementary for economic development (infrastructure, education, health)		Local government is suffering from budget restrictions, but it fulfills its elementary tasks		Local government is financially strong and can make funds available for economic development projects
Red tape	There is a dense web of laws, regulations and permits which make doing business really difficult, and local government is doing little to simplify things		There are numerous laws, regulations and permits but local government is trying to reduce them		Government is streamlining laws, regulations and permits, and it is committed not to let them stand in the way of business
Business mindedness	Local government officials have no idea what running a business involves, and they do not care		Local government understand that running a business is not easy, but still they interact with companies in a bureaucratic manner		Local government is dealing with companies in a business-like manner
Corruption	Most interaction with government involves a bribe		Businesses do not have to bribe government officials, but it makes processes much swifter		Very few government officials would accept a bribe, and few businesses try to bribe an official

Meso-Level

Points:	1	2	3	4	5
Policy	There are few defined economic and business promotion activities		Government and other institutions have defined economic and business promotion policies, but they are fragmented and ideosyncratic		Government and other organizations systematically and coordinatedly adjust and develop their economic and business promotion policies
Evaluation	Governmental economic development and business promotion organizations are not evaluated		Governmental economic development and business promotion organizations are only occasionally evaluated		Governmental economic development and business promotion organizations are regularly evaluated
SME promotion	Institutions do not respond to the needs of companies		Only some institutions respond to some extent to the needs of companies		Most institutions respond with their offers to the demand of companies
Chamber	The Business Chamber is little more than a club of some local business leaders		The Business Chamber has a few professionals and is organizing activities such as legal advice and seminars		The Business Chamber is highly professionalized and offers a broad spectrum of services
Business Associations	There are no operational sectoral business associations		The capacity of sectoral business associations is limited, e.g. to ad-hoc lobbying activities		Sectoral business associations play a crucial role in organizing exchange between companies and supporting their upgrading effort

Meso-Level (continued)

Points:	1	2	3	4	5
Secondary training	Local institutions do not respond to the needs of companies and the labor market		Only some institutions respond to some extent to the needs of companies and the labor market		Most institutions respond with their offers to the demand of companies and the labor market
Higher education	Local institutions do not respond to the needs of companies and the labor market		Only some institutions respond to some extent to the needs of companies and the labor market		Most institutions respond with their offers to the demand of companies and the labor market
Technology institutions (if existent)	Institutions do not respond to the needs of companies		Only some institutions respond to some extent to the needs of companies		Most institutions respond with their offers to the demand of companies
Development finance institutions	Institutions do not respond to the needs of companies and the labor market		Only some institutions respond to some extent to the needs of companies and the labor market		Most institutions respond with their offers to the demand of companies and the labor market
Co-ordination	There is little communication and no co-ordination among meso-level institutions		There is some amount of communication and co-ordination among some of the meso-level institutions		Communication and co-ordination among meso-level institutions is a well-established practice

Micro-Level

Points:	1	2	3	4	5
ISO 9000	There are no or only a handful of certified companies in the locality		In the main industries, only a minority of companies is certified		In the main industries, the majority of companies is certified or preparing for certification
Benchmarking	Hardly any company is involved in any systematic benchmarking effort		In the main industries, only a minority of companies is pursuing a systematic benchmarking effort		In the main industries, the majority of companies is pursuing a systematic benchmarking effort
Specialization	In the main industries, most companies are producing the same or very similar products		In the main industries, there is some degree of specialization between companies, both in terms of final products and in terms of production steps along the value chain		In the main industries, there is a high degree of specialization between companies, both in terms of final products and in terms of production steps along the value chain
Informal collaboration	In the main industries, there is little or not informal collaboration between companies		In the main industries, there is some degree of informal collaboration between companies, e.g. mutual support after a key machine broke down		In the main industries, there is a high degree of informal collaboration, e.g. constant exchange about new trends in technology and markets
Formal collaboration	In the main industries, there is little or not formal collaboration between companies		In the main industries, there is some degree of formal collaboration between companies, e.g. joint visits to foreign fairs		In the main industries, there is a high degree of formal collaboration, e.g. joint purchasing / sales, export consortia, technology alliances

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mesopartner is a consultancy partnership which specialises in local and regional economic development. It was founded in December 2002 and registered in April 2003 by Dr Ulrich Harmes-Liedtke, Dr Jörg Meyer-Stamer and Christian Schoen.

Currently, the main product of mesopartner is PACA. This is a methodology to kick-start or refocus local economic development initiatives which has been developed by Jörg Meyer-Stamer. It has been successfully applied in a number of developing and transformation countries. The main objectives of mesopartner are

- to further develop PACA, in particular in terms of specific formats for implementation and follow-up, which will feed into PM-LED (Participatory Management of Local Economic Development),
- to train PACA practitioners in various countries,
- to develop more specific PACA instruments, for instance for cluster analysis, value chain analysis and analysis of government-created obstacles to business.

Our next most important ambition is to further develop RALIS (Rapid Appraisal of Local Innovation Systems). As technology and innovation continue to be major preoccupations of local actors who want to create a localised advantage in a globalised world, we expect that there is a lot of potential demand for a tool like RALIS which addresses the most important obstacle for the leveraging of local innovation systems: fragmentation between local companies, agencies and organisations.

You find more information at our website, www.mesopartner.com