

# THE REGIONAL COMPETITIVENESS DEBATE

MICHAEL KITSON | RON MARTIN | PETER TYLER



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## Executive Summary

This report evaluates the increasing focus on regions as the key domain for the organisation and governance of economic growth and wealth creation. The competitiveness of regions is an issue not just of academic interest and debate, but also of increasing policy deliberation and action. The notion of regional competitiveness, however, is complex and contentious and we are far from a consensus on what we mean by the term and how it can be measured. It seems as though policy has raced ahead of conceptual understanding and empirical analysis.

The issue of 'regional competitiveness' is thus ripe with theoretical, empirical and policy debate. In an era of 'performance indicators and rankings' it is perhaps inevitable that regions and cities should be compared against each other in terms of their economic performance. Such comparisons can serve a useful purpose, in that they indicate, and call for explanations of why, regions and cities differ in economic prosperity. But it is at best potentially misleading and at worst positively dangerous to view regions and cities as competing over market shares, as if they are in some sort of global race in which there are only 'winners' and 'losers'. This is not to deny the importance of competition. In economic life and beyond, competition is one of the fundamental sources of mobilisation and creativity. But there are structural limits to, and negative consequences of, excessive competitions as construed in narrow adversarial market terms. Crucially, it is important to distinguish between 'competition' and 'competitiveness'.

If the notion of regional competitiveness is to have meaning and value, it needs to be considered as a complex and rich concept; and one moreover, that focuses more on the determinants and dynamics of a region's (or city's) long-run prosperity than on more restrictive notions of competing over shares of markets and resources. It is one that must recognise that competitive regions and cities are places where both companies and people want to invest and locate in. We are far from any agreed framework for defining, theorising and empirically analysing regional competitive advantage. But given the current fashion for notions of regional and urban competitiveness in policy circles, the need for such a framework is more urgent. Without such a framework, policies lack coherent conceptual and evidential foundations, and policy outcomes may as a consequence prove variable and disappointing.

## Authors

### Michael Kitson

Michael Kitson is University Lecturer in global macroeconomics at the Judge Business School in the University of Cambridge; Fellow of St Catharine's College, Cambridge; Research Associate of the Centre for Business Research (CBR), Cambridge; Director of the National Competitiveness Network at The Cambridge-MIT Institute (CMI) and Director of CMI's Programme on Regional Innovation. His research interests include, macroeconomics, corporate performance, economic policy, regional economics, technology transfer and the commercialisation of science.

### Ron Martin

Ron Martin is Professor of Economic Geography in the University of Cambridge, and a Professorial Fellow of St Catharine's College, Cambridge. He is a Fellow of The Cambridge-MIT Institute. His research interests cover labour market geography, the geography of money and finance, regional economic development, and the application of evolutionary economics to economic geography. He was recently editor of *Transactions of the Institute of British Geographers*, and an editor on *Regional Studies*; currently he is an editor on the *Journal of Economic Geography*, on the *Cambridge Journal of Economics*, and the newly established *Cambridge Journal of Regions, Economy and Society*. He also co-edits the *Regions and Cities* book series for Routledge. He was awarded the British Academy's 'Thank-Offering to Britain' Senior Research Fellowship for 1997-1998; elected an Academician of the Academy of Social Sciences in 2001; and elected a Fellow of the British Academy in 2005.

### Peter Tyler

Peter Tyler is Professor of Urban and Regional Economics at the Department of Land Economy in the University of Cambridge, and is a Fellow of St Catharine's College, Cambridge. A leading urban and regional economist, he has an extensive track record in academic research and consulting for the private and public sectors in the United Kingdom and in Europe. He has been a project director for over sixty major government research projects and which have resulted in the publication of forty research monographs, twenty-three of which have been of book length. Besides his work in the United Kingdom for HM Government, he has also undertaken research for the European Commission and the Organization for Economic Co-operation and Development on urban, regional and industrial policy. He was co-editor of the *Journal of Regional Studies* and is the Chairman of the East Anglia Branch of the Regional Studies Association. He has also worked extensively in the private sector and was a director of PA Cambridge Economic Consultants and Cambridge Economic Consultants.

## Introduction

There is now widespread agreement that we are witnessing the 'resurgence' of regions as key loci in the organisation and governance of economic growth and wealth creation. The competitiveness of regions is an issue not just of academic interest and debate, but also of increasing policy deliberation and action. However, the very notion of regional competitiveness is itself complex and contentious, and even though policy makers everywhere have jumped onto the regional and urban competitiveness bandwagon, we are far from a consensus on what we mean by the term and how it can be measured: as is often the case, policy has raced ahead of conceptual understanding and empirical analysis.

## The Competitiveness Fad

Recent years have seen a surge of academic and policy attention devoted to the notion of 'competitiveness': nations, regions and cities, we are told, have no option but to strive to be competitive in order to survive in the new marketplace being forged by globalisation and the new information technologies. The credo of competitiveness has attracted a veritable host of believers and followers. Economists and experts everywhere have elevated 'competitiveness' to the status of a natural law of the modern capitalist economy. Policy-makers at all levels have been swept up in this competitiveness fever: to assess a country's competitiveness and to devise policies to enhance it have become officially institutionalised tasks in many nations, the United States, the United Kingdom, Belgium, Italy, the Netherlands, and Japan, to name but some. The USA led the way in the early-1990s by setting up a governmental Competitiveness Policy Council to report regularly on and promote the competitiveness of the American economy. In the same year the European Commission established a European Council of Competitiveness, and undertook to produce a regular Competitiveness Report on the performance of the EU economy (the most recent being the eighth, for 2004). In the EU, the issue of competitiveness has taken on particular significance in relation to its Lisbon 'growth strategy', with its highly ambitious aim to close the 'competitiveness gap' with the US and to become the world's most dynamic and competitive knowledge-based economy by 2010. In addition, numerous private organisations and consultancies concerned with measuring and lobbying the cause of competitiveness have emerged over recent years, such as the World Economic Forum (Geneva), the Competitiveness Institute (Barcelona), the Council on Competitiveness (Washington), and the Institute for Strategy and Competitiveness (Harvard).

This concern with competitiveness has quickly spread to the regional, urban and local level. Within governmental circles, interest has grown in the 'regional foundations' of national competitiveness, and with developing new forms of regionally-based policy interventions to help improve the competitiveness of every region and major city, and hence the national economy as a whole. In the UK, for example, the Labour Government has assigned increasing importance to the competitiveness of the country's regions and cities as part of its aim to improve the productive and innovative performance of the national economy (HM Treasury, 2001, 2003, 2004; ODPM, 2003, 2004). Additionally, various fuzzy concepts such as 'city-regions' (ODPM, 2006) and 'science cities' have entered the policy discourse. The European Commission sees the improvement of competitiveness in Europe's lagging regions as vital to the pursuit of 'social cohesion' (European Commission, 2004). At the same time, city and regional authorities are themselves increasingly

obsessed with constructing local competitiveness indices so as to compare the relative standing of their localities with that of others, and with devising policy strategies to move their area up the 'competitiveness league table'. Thus, in the same way that the World Economic Forum produces annual global competitiveness indices that rank national economies, so a plethora of city and regional indices have appeared that rank places on the basis of this or that measure of competitiveness. The Progressive Policy Institute in Washington, for example, compiles various 'new economy' indices for US cities and regions (Atkinson and Coduri, 2002; Atkinson and Wilhelm, 2002). Robert Huggins Associates produces the World Knowledge Competitiveness Index, which seeks to benchmark the globe's leading knowledge economy regions; it also produces a European Competitiveness Index which ranks cities and regions (Robert Huggins Associates, 2004a and 2004b). Yet another of these indices of 'place competitiveness' is Richard Florida's 'creativity index', a proxy for an area's openness to different kinds of people and ideas (Florida, 2002).

This new focus on 'place- or territorial-competitiveness', however, raises a host of questions as to what, precisely, is meant by the competitiveness of regions, cities and localities. In what sense can one talk of regional and urban competitiveness? In what sense do regions and cities compete? How can competitiveness be measured? What are the implications for public policy? Traditionally, neither economists nor economic geographers have tended to frame their discussions of regional growth and development in terms of such questions, or certainly not explicitly in the language of competitiveness. Only recently has this state of affairs begun to change (see for example, Steidle, 1992; Cheshire and Gordon, 1995; Duffy, 1995; Group of Lisbon, 1995; Storper, 1995, 1997; Jensen-Butler et al. 1997; Begg, 1999, 2002; Urban Studies, 1999; Camagni, 2003; Malecki, 2004; Bristow, 2005; Martin, 2006; Martin et al, 2006; Porter, 1998a, 1998b, 2000, 2001, 2003). But, these contributions notwithstanding, we are still far from any general consensus about the nature and measurement of 'place competitiveness'. The concern is that we have an elusive concept, flawed indicators, and over-prescribed policies.

## Competitiveness: An Elusive Concept

A not uncommon theme in the recent debate is that regional (and urban) competitiveness has to do with the success with which regions and cities compete with one another over shares of (national and especially international) export markets. This notion would seem to underpin Michael Storper's definition of 'place competitiveness' as:

**The ability of an (urban) economy to attract and maintain firms with stable or rising market shares in an activity while maintaining or increasing standards of living for those who participate in it (Storper, 1997)**

The European Commission's interpretation of the term is similar:

**[Competitiveness is defined as] the ability to produce goods and services which meet the test of international markets, while at the same time maintaining high and sustainable levels of income or, more generally, the ability of (regions) to generate, while being exposed to external competition, relatively high income and employment levels... (European Commission, 1999, p. 4).**

Given that regional economies are almost certain to be more open (to trade) than the national economies of which they are a part, this focus on export performance seems reasonable enough. After all, the 'export base' of a region or city has long been viewed as key to regional and urban prosperity (Kaldor, 1970), as recently re-emphasised by Rowthorn (1999):

**The prosperity of a region is determined primarily by the strength of its export base ... all those activities which bring income into the region by providing a good or service to the outside world... The alternative term 'tradables' is also used to denote such activities (pp. 22-3).**

The implication of this line of argument would seem to be that a reduction in the size of a region's export base, or a deterioration in the region's trade balance, or both, would indicate a decline in regional competitiveness. This approach is similar to that found in many definitions of national competitiveness, as for example in Tyson's (1992) *Who's Bashing Whom*, where (US) national competitiveness is defined as "our ability to produce goods and services that meet the test of international competition while our citizen's enjoy a standard of living that is both rising and sustainable" (p. 10).

Yet this focus on regional export shares as a measure of regional competitiveness is problematic. First, it uses a concept of competitiveness defined originally for national economies

without questioning whether this is the most useful or meaningful concept for use at the sub-national (urban and regional) scale. Second, as a consequence it carries over all the problems and debates that surround the notion of national competitiveness as defined in trade and export terms.

For even at the national level, there is considerable disagreement over the idea of competitiveness (see Cellini and Soci, 2002). As Krugman (1996a, 1996b) and others (such as Group of Lisbon, 1995) have pointed out, there may be less to the export market share view of competitiveness than meets the eye. Thus Krugman, making frequent reference to the USA, has argued that:

**Concerns about competitiveness are, as an empirical matter, almost always completely unfounded... The obsession with competitiveness is not only wrong but dangerous... thinking in terms of competitiveness leads to bad economic policies on a range of issues (Krugman, 1996a, p.5).**

He has two main criticisms of the notion of national competitiveness. First, he argues that much of the discussion about national competitiveness treats nations as if they are firms, and that while an uncompetitive firm (that progressively loses market share) will ultimately go out of business, there is no equivalent 'bottom line' for a nation. Second, whereas firms can be seen to compete for market share, and one firm's success will often be at the expense of another, the success of one country creates rather than destroys opportunities for others, and trade between nations is well known not to be a 'zero-sum' game. In other words, it is misleading and incorrect to make an analogy between a nation and a firm, and that while the idea of competitiveness may have relevance for an individual firm, it is much less meaningful when talking of the national economy.

Traditionally in economics, the notion of comparative advantage (with roots going back to Ricardo and reformulated in modern guise by Heckscher and Ohlin) has been used rather than that of competitive advantage or competitiveness. The concept of comparative advantage holds that countries, through specialisation, can benefit from trade even if they do not have an absolute advantage, so that trade can be a positive sum game. It acts as an antidote to some of the paranoia about globalisation, the development of the newly industrialising countries, and the rise in outsourcing. Under comparative advantage theory, trade reflects national differences in factor endowments (land, labour, natural resources and capital). Nations gain factor-based comparative advantage in industries that make intensive use of the factors they possess in abundance. But the concept of

comparative advantage has limitations. It is static concept based on inherited factor endowments and, in most forms, it assumes diminishing returns to scale and equivalent technologies across nations. Nevertheless, comparative advantage based on factors of production has intuitive appeal and has certainly played a role in determining trade patterns in many industries. It is also a view that has informed much government policy toward competitiveness, because Governments believe they can alter factor advantage through various forms of intervention, especially by altering factor costs (through reductions in interest rates, efforts to hold down wages, currency devaluation, subsidies, export credits, and so on).

Over the past twenty years or so, however, there has been a growing sentiment that comparative advantage based on factors of production is not sufficient to explain patterns of trade. A new paradigm of competitive advantage has risen to the fore. This is meant to capture the view that nations can develop and improve their competitive position. It focuses on the decisive characteristics of a nation that allow its firms to create and sustain competitive advantage in particular fields. As Michael Porter, one of the prime exponents of this notion, and indeed the doyen of the whole competitiveness debate, puts it:

**I believe that many policy makers, like many corporate executives, view the sources of true competitiveness within the wrong framework. If you believe that competitiveness comes from having cheap capital, and low cost labour, and low currency prices and if you think that competitiveness is driven by static efficiency, then you behave in a certain way to help industry. However, my research teaches that competitiveness is a function of dynamic progressiveness, innovation, and an ability to change and improve. Using this framework, things that look useful under the old model prove counterproductive. (Porter, p. 40, PA Consulting Group, 1992).**

For Porter, the only meaningful concept of competitiveness is productivity. The principal goal of a nation is to produce a high and rising standard of living for its citizens. The ability to do so depends, according to Porter, not on the fuzzy and amorphous notion of 'competitiveness' but on the productivity with which a nation's resources are employed. A rising standard of living depends on the capacity of a nation's firms to achieve high levels of productivity and to increase productivity over time. Sustained productivity growth requires that an economy continually upgrades itself. Thus for Porter

**Competitiveness remains a concept that is not well understood, despite widespread acceptance of its importance. To understand competitiveness, the starting point must be the sources of a nation's prosperity. A nation's standard of living is determined by the productivity of its economy, which is measured by the value of its goods**

**and services produced per unit of the nation's human, capital and natural resources. Productivity depends both on the value of a nation's products and services, measured by the prices they can command in open markets, and the efficiency with which they can be produced. True competitiveness, then, is measured by productivity. Productivity allows a nation to support high wages, a strong currency and attractive returns to capital, and with them a high standard of living (Porter and Ketels, 2003, emphasis added).**

Similarly, Krugman too argues that if competitiveness has any meaning, then it is simply another way of saying productivity:

**Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker (Krugman, 1992, pp. 7-8).**

The focus on productivity is apparent throughout the industrialised world: for example, for the USA see The Council on Competitiveness (2001); for the UK see Brown (2001), DTI (1998, 2003b) and HM Treasury (2000); and for Europe see European Commission (2003) and O'Mahony and Van Ark (2003). Furthermore, the preoccupation with productivity is now firmly focused on the region: for the USA see Porter (2001); for the UK see DTI (2003a, 2004) and HM Treasury (2001, 2003, 2006); and for Europe see Sapir et al (2004). Indeed, but one aspect of Porter's productivity approach to competitiveness is of particular interest: namely his argument that "competitive advantage is created and sustained through a highly localised process" (Porter, 1990, p. 19; see also Porter 1998). In fact, in recent years his focus has shifted away from the competitive advantage of nations, to the competitive advantage of regions.

## The Competitive Advantage of Regions?

It is certainly possible to derive measures of regional productivity either from firm-based micro-data or from aggregate regional output figures, and such measures provide valuable information on a region's standard of living, both through time and relative to other regions. But although regional productivity is certainly a useful indicator of what might be termed 'revealed regional competitiveness' (see Gardiner, Martin and Tyler, 2004), there are empirical problems in measuring it accurately (see Kitson, 2004) as well as conceptual issues as to how to interpret what is actually meant by regional productivity. All of the problems associated with measuring and interpreting national or sectoral productivity carry over the regional case. Thus should we focus on labour productivity (possibly adjusted to take into account the number of hours worked), or on total (or multi-factor) productivity (TFP)? Additional problems include the output indicator used, which at the regional level also raises the issue of residence-based versus workplace-based measures. Then there is the difficulty of measuring the output of services and the government sector. The estimation and interpretation of regional TFP are even more problematic: TFP requires data that are rarely available at the subnational scale, and the estimation of regional production functions that are themselves contentious. In addition, productivity on its own is only one aspect of revealed regional competitiveness, or competitive advantage - what also matters is the regional employment rate. The ability to sustain a high rate of employment amongst the working-age population is as important as having a high output per worker. Although the two usually go together, a focus just on the latter can be misleading. Examples abound of regions in which firms and industries have sought to raise labour productivity through the extensive shakeout of workers and closure of plants, that is by reducing employment. But it would obviously be perverse to view such regions as having improved their long-run competitive advantage if the cost of increased labour productivity is persistent high unemployment.

Beyond these issues, useful though regional productivity analyses might be - and even these are not that common - they tell us little about the meaning, sources or processes of regional competitive advantage (see Budd, 2004; Turok, 2004). If Porter is correct that competitive advantage is a highly localised process, then this requires further elaboration for it suggests that there is something distinctive and formative about regional and local economic development: that the regional economy is more than just the sum (or aggregate) of its parts.

As Cellini and Soci (2002) argue, the notion of regional competitiveness - or to use our terminology, regional competitive advantage - is neither a macro-economic (national) nor micro-economic (firm-based) one. Regions are neither simple aggregations of firms, nor are they scaled-down versions of

nations. These authors go on to suggest that competitiveness takes on a different meaning according to the scale or level at which the term is being used. Thus they distinguish between the macro level (the competitiveness of a country), the micro level (the competitiveness of the individual firm) and the meso-level (the competitiveness of local economic systems), where the latter is further divided into industrial districts (or what Porter would call 'clusters') and regions. They suggest that the regional level is possibly the most difficult and complex one at which to define competitiveness. They acknowledge that it means much more than the potential ability to export or the surplus in trade balance, and that it reaches far beyond the production of goods to include a wide range of material and immaterial inputs and their mobility, from housing and infrastructure to communications to social networks. Beyond this, however, they fail to provide much insight.

Camagni (2003) offers a much more useful discussion. He takes the view that regions do indeed compete, over attracting firms (capital) and workers (labour), as well as over markets, but on the basis of absolute advantage rather than comparative advantage. According to Camagni, a region may be thought of as having absolute competitive advantages when it possesses superior technological, social, infrastructural or institutional assets that are external to but which benefit individual firms such that no set of alternative factor prices would induce a geographical redistribution of economic activity. These assets tend to give the region's firms, overall, a higher productivity than would otherwise be the case. A similar view has been expressed by the European Commission (1999):

**[The idea of regional competitiveness] should capture the notion that, despite the fact that there are strongly competitive and uncompetitive firms in every region, there are common features within a region which affect the competitiveness of all firms located there (p. 5)**

The question is: what are these 'common features' and what makes them specifically regional in nature? One way of thinking about these questions is in terms of 'regional externalities', or resources that reside outside of individual local firms but which are drawn on - directly or indirectly - by those firms and which influence their efficiency, innovativeness, flexibility and dynamism: in short, their productivity and competitive advantage.

There is now a considerable literature, within both economic geography and economics, that emphasises the distinctive role of regions and cities as sources of key external economies. This interest is in fact part of a more general recognition of the role of geography as a source of increasing returns, and the rediscovery and extension of Alfred Marshall's original triad of external

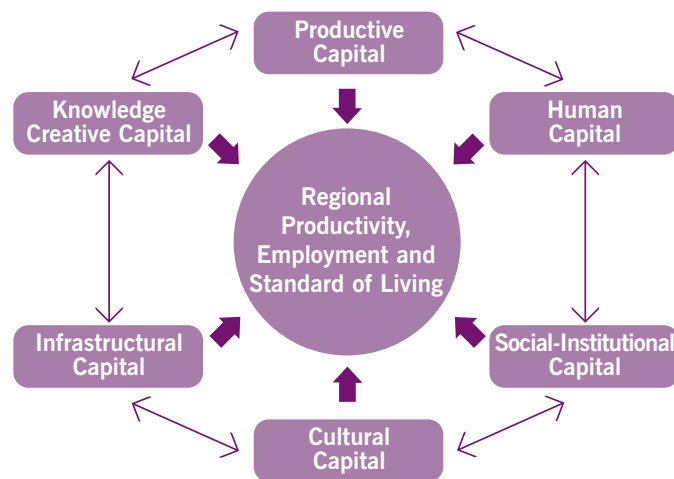
economies of industrial localisation – skilled labour, supporting and ancillary industries, and knowledge spillovers, all held together by what he called ‘something in the air’ or ‘industrial atmosphere’. Marshall’s schema forms the basis of Porter’s ‘cluster concept’, in which regional competitive advantage derives from the presence and dynamics of geographically localised or clustered activities within which there is intense local rivalry and competition, favourable factor input conditions, demanding local customers, and the presence of capable locally-based suppliers and supporting industries. The more localised are these industrial/business clusters, he argues, the more intense the interactions between these four components of the ‘competitive diamond’ and the more productive the region.

According to Porter, a key aspect of cluster formation and success – and hence of regional competitive advantage – is the degree of social embeddedness, the existence of facilitative social networks, social capital and institutional structures (Porter, 1998, 2001). The formation and evolution of such ‘soft’ externalities is seen as crucial for the dynamic competitiveness of regions and cities. In economic geography Michael Storper’s not dissimilar notion of ‘untraded interdependencies’ – such as flows of tacit knowledge, technological spillovers, networks of trust and cooperation, and local systems of norms and conventions – is also regarded as central to understanding the economic performance and competitive advantage of a region (Storper, 1995; see also Polenske, 2004).

There is in fact an increasing tendency to explain regional growth and development in terms of such ‘soft’ externalities; in particular, considerable emphasis is now given to local knowledge, learning and creativity (Pinch et al, 2003; Morgan, 2004). The argument is that in a globalised economy, the key resources for regional and urban competitiveness depend on localised processes of knowledge creation, in which people and firms learn about new technology, learn to trust each other, and share and exchange information (Malecki, 2004). Indeed, an assumed link between localisation and tacit or informal, un-codified knowledge is now almost accepted axiomatically (Pinch et al, 2003). While problems abound in all of these discussions (see, for example, Martin and Sunley, 2003, on the cluster concept), one point is clear: that the definition and explanation of regional competitive advantage need to reach well beyond concern with ‘hard’ productivity, to consider several other – and softer – dimensions of the regional or urban socio-economy (see Figure 1). The quality and skills of the labour force (human capital), the extent, depth and orientation of social networks and institutional forms (social/institutional capital), the range and quality of cultural facilities and assets (cultural capital), the presence of an innovative and creative class (knowledge/creative capital), and the scale and quality of public infrastructure (infrastructural capital) are all just as important as, and serve to support and underpin, in the form of regional externalities, an efficient productive base to the regional economy (productive capital). For example, the ability of regions to attract skilled, creative and innovative people; to provide high quality cultural facilities; and

to encourage the development of social networks and institutional arrangements that share a common commitment to regional prosperity, are all key regional ‘externalities’ or ‘assets’ that benefit local firms and businesses, and hence are major aspects of regional competitive advantage.

Figure 1: Bases of Regional Competitive Advantage

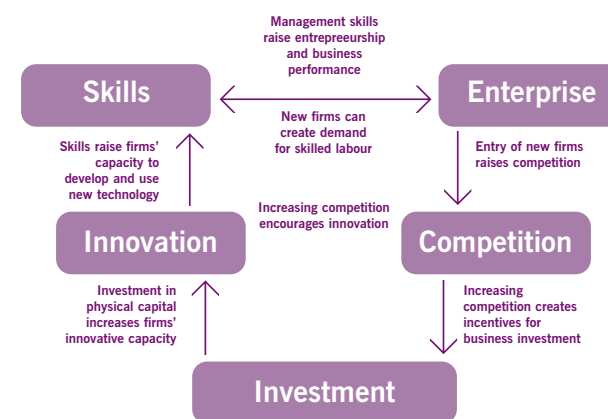


This is not to assume, however, that such externalities all operate at the same spatial scales, or that they can be nurtured or developed equally across all parts of a regional economic space. On the contrary, one of the most pressing research questions concerns the appropriate spatial scale at which to measure and analyse regional competitiveness. Do different externalities operate over different geographical scales? How do they interact across space? We actually know surprisingly little about such issues. Yet they are of critical importance, given the need to ensure that policy interventions to improve regional competitiveness are meaningful and effective.

## Policies Issues

If there is no generally accepted definition or theory of regional competitiveness, this has not stopped policy-makers from devising policies designed to boost the competitiveness of this or that region or city. Just as productivity has been used as the dominant indicator of ‘revealed competitiveness’, so it has tended to be a prime target for policy intervention. The UK illustrates this tendency well. Over the past few years, the UK Treasury, the Department of Trade and Industry, and the Office of the Deputy Prime Minister, have all sought to identify the underlying determinants – or ‘drivers’ to use the fashionable policy parlance – of the productive performance of the country’s regions, cities and local authority areas. Five such drivers have been singled out in relation to policies at the regional level: skills, enterprise, innovation, competition and investment (HM Treasury, 2001; 2004; see Figure 2). In the case of urban competitiveness, the list of drivers is somewhat different: innovation, human capital, economic diversity and specialisation, connectivity, strategic decision making, and quality of life factors (ODPM, 2003, 2004). Why the drivers underpinning urban competitiveness should differ from those underpinning regional competitiveness is not explained, when some of those listed for cities would seem just as relevant to regions.

Figure 2: The drivers of regional productivity used in UK regional competitiveness policy



Source *Devolving decision-making: meeting the regional economic challenge: increasing regional and local flexibility*, HM Treasury, ODPM, DTI, March 2004.

The broad rationale for government intervention in relation to these drivers is to overcome the market and institutional failures that restrain their contribution to the growth of regional productivity. Thus, according to HM Treasury (2004):

there are important implications for the design and delivery of regional policy in two respects. First, it is essential that a comprehensive package of policy instruments be in place to strengthen each of the five drivers throughout the UK. Failure to do so would undermine efforts to strengthen individual drivers and overall economic performance. A region’s economic underperformance could be perpetuated if, for example, policy makers failed to recognise the importance of a strong local skills base to the attraction and growth of new businesses. Secondly, it is vital that there is a coordinated approach to the design and implementation of policies designed to raise regions’ productivity and growth... There will be beneficial synergies from a coordinated effort to strengthen all of the drivers that may be holding back a particular region’s growth (p.14).

One problem with this approach is that there appears to be no underlying coherent theoretical justification for the particular choice of ‘drivers’. At best different theories seem to be implicit in different drivers. The difficulty here, of course is that several different candidates are available as theoretical underpinnings for conceptualising and devising policy interventions to promote regional competitive advantage, and all have their limitations. Standard regional export-base theory offers far too narrow a view of the nature and determinants of regional competitive advantage. Likewise, standard regional growth theory, with its dependence on the idea of a regional production function subject to constant returns to scale, is of very limited usefulness. Much more promising are those approaches that emphasise the importance of increasing returns, since these at least allow for consideration of what we termed ‘regional externalities’ above. But even here there is a wide choice: from regional versions of endogenous growth models (see Martin and Sunley, 1998), through the spatial agglomeration models of the so-called ‘new economic geography’ (Fujita, Krugman and Venables, 1999; Fujita and Thisse, 2002; Baldwin et al, 2003), cumulative causation models (Setterfield, 1997), evolutionary theories (Boschma, 2004), to cluster theory (Porter, 1998a, 1998b, 2001). In the UK, there has certainly been more than a whiff of endogenous growth theory behind Treasury thinking in this area, while within the Department of Trade and Industry, Porter’s cluster theory has been highly influential – both in focusing on regional productivity as the key indicator of regional performance, and in advocating the promotion of clusters as an integral component of regional strategies.

Another problem is that policies – both in the UK and elsewhere – tend to be overwhelmingly supply-side in approach, and little attention is given to the demand side. It is as if a sort of Say’s Law

of regional competitive advantage is being invoked: if all the 'drivers' are in place, then demand for the region's products and services should follow. As Porter's work has emphasised, local (and external demand) for a region's products is not simply an end result but is itself an important 'driver' of a region's competitive advantage. A low level of local demand tends to dampen local innovativeness and entrepreneurialism, encourages the exodus of skilled and educated workers in search of better employment prospects elsewhere, hinders the development of high quality cultural and infrastructural capital, and generally weakens the competitive dynamics of the area. Tackling the supply side is certainly necessary to foster growth and development, but may not of itself be sufficient. Action may also be needed to help stimulate local demand. In this context, favourable macro-economic conditions and policies are also important.

A third limitation is the 'universalism' of many policies aimed at boosting regional or urban competitiveness, whereby it is assumed that the same 'drivers' are equally important everywhere, and hence the same basic policy model is applicable, the idea being that in principle, the process of regional economic growth is governed by a series of universal economic rules (see the evaluation of growth theory by Kenny and Williams, 2001); thus if you pull the right levers the 'drivers' will respond in similar ways with a similar outcomes. But both history and geography will have a major impact on the relevance of particular drivers and their impact. Thus investing in 'innovation' (assuming such an investment could be adequately defined) may have beneficial effects on one region but little impact on another. In the absence of a robust theoretical framework which takes account of spatial specificity it is hard to gauge how policy initiatives targeted on any one specific driver contribute to final outcomes, how the policy drivers work together, what relative weight should be applied to each, and the time it takes for change to occur.

Yet a further problem is that alluded to earlier: namely, that there has been little research into what the appropriate spatial scale of intervention should be. Some processes of regional competitive advantage may be highly localised, while others may operate at a broader regional scale, and some may be national or global. In most instances, however, policies are pursued on the basis of predefined administrative or political areas that may have little meaning as economically functioning units, and from which policy effects may 'leak out' into other regions. At the same time, by following similar strategies (based on similar 'drivers') different regions may end up competing one with another over a particular form of growth and development that has a very specific and geographically restricted form, as in the case, for example, of certain high technology activities. Thus most regions crave a biotechnology cluster as a key element to boost their region's competitive performance. Yet not only do few regions have any potential competitive advantage in this activity, arguably

it is a sector that thrives most when concentrated in a limited number of large clusters. In other words, not every region can have a major biotechnology industry cluster, and for each to attempt to nurture such a cluster of its own may simply result in the failure to develop a strong national biotechnology sector at all. The same argument may well apply to other 'new economy' type activities, such as ICT, creative media, nanotechnology and the like. In short, there is no 'one-size fits all' regional competitiveness policy (on this see also Lovering, 1999).

To compound this problem, and again related to the question of what the appropriate scale of intervention should be, there is the issue of whether and how far policy should focus on particular localities within the region rather than others. Is the best strategy one which focuses policy interventions and resources in just one or two growth zones (such as the major urban agglomerations, or selected localised clusters)? If so to what extent will any improvements in competitive performance spread out into other parts of the regional economy more generally? In other words, the focus on regional competitiveness should not ignore or neglect issues of intra-regional inequality. As the European Commission has recognised, social cohesion (the reduction of spatial socio-economic inequalities) should be an integral component of any policy aimed at improving regional competitiveness: indeed, social cohesion should rank equally with productivity and employment in any notion of regional competitive advantage.

## A Concluding Comment

The issue of 'regional competitiveness' is thus ripe with theoretical, empirical and policy debate. In an era of 'performance indicators and rankings' it is perhaps inevitable that regions and cities should be compared against each other in terms of their economic performance. Such comparisons can serve a useful purpose, in that they indicate, and call for explanations of why, regions and cities differ in economic prosperity. But, to adapt Krugman's criticism of the idea of national competitiveness, it is at best potentially misleading and at worst positively dangerous to view regions and cities as competing over market shares, as if they are in some sort of global race in which there are only 'winners' and 'losers'. This is not to deny the importance of competition. In economic life and beyond, competition is one of the fundamental sources of mobilisation and creativity. But there are structural limits to and negative consequences of excessive competition as construed in narrow adversarial market terms (Group of Lisbon, 1995). Crucially, it is important to distinguish between 'competition' and 'competitiveness'.

If the notion of regional competitiveness has meaning and value, it is as a much more complex and richer concept; and one moreover, that focuses more on the determinants and dynamics of a region's (or city's) long-run prosperity than on more restrictive notions of competing over share of markets and resources. It is one that recognises that ultimately competitive regions and cities are places where both companies and people want to invest and locate in. We are far from any agreed framework for defining, theorising and empirically analysing regional competitive advantage. But given the current fashion for notions of regional and urban competitiveness in policy circles, the need for such a framework is all the more urgent. Without such a framework, policies lack coherent conceptual and evidential foundations, and policy outcomes may as a consequence prove variable and disappointing.

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Programme on  
**Regional Innovation**

**in the UK:**

The Cambridge-MIT Institute  
University of Cambridge  
10 Miller's Yard  
Mill Lane  
Cambridge CB2 1RQ  
UK

**Tel:** +44 (0)1223 327207  
**Fax:** +44 (0)1223 765891

**in the USA:**

The Cambridge-MIT Institute  
MIT  
Room 8-403  
77 Massachusetts Avenue  
Cambridge  
MA 02139-4307  
USA

**Tel:** +1 617 253 7732  
**Fax:** +1 617 258 8539

[www.regionalinnovation.org.uk](http://www.regionalinnovation.org.uk)  
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