

The occasion for publishing this Special Edition is the 50th Birthday of Dr Jörg Meyer-Stamer. Throughout his impressive career as researcher, consultant, facilitator and entrepreneur, he has left imprints of innovation, change and development in many places throughout the world. Furthermore, what he has also acquired during his years of productivity is a multitude of friends and colleagues who appreciate his work and highly respect him on a personal level. For this reason, some of his companions have come together in this book, each one of them congratulating Jörg in their own special manner. Thus, you may read this Special Edition as a contribution to the scientific “LED world”, and at the same time understand it as a personal and poly-phonic *Thank You* to Jörg Meyer-Stamer.

This Birthday Book is edited by mesopartner - local economic delivery, a knowledge partnership that specialises in local economic development. It was founded in 2002 by Dr Ulrich Harnes-Liedtke, Dr Jörg Meyer and Christian Schoen. Frank Wältring, Shawn Cunningham and Colin Mitchell have since joined the firm.

For the creation of this book mesopartner owes thanks to many people, among them translator Lynne Bolton, cover designer Martín Gache and mesopartner assistant Ute Dorothea Mayer (all located in Buenos Aires, Argentina).

mesopartner monographs - Special Edition October 2008

Milestones in a process of innovation, change and development

A Birthday anthology

mesopartner (eds.)

**with contributions by colleagues and
friends of Dr. Jörg Meyer-Stamer**

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Buenos Aires/Dortmund 2008

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Introduction to the book for Jörg

By Ulrich Harmes-Liedtke and Frank Wältring

Introduction ...

... or about the golden thread of a change agent

Some business opportunities as well as personal projects become reality; others remain as just good ideas. What is the criterion that makes the difference between realized and unrealized goals? In the end it is very much about the forces and energies that drive individuals in a usually unconscious way. When the idea for this book came up there was never the question of leaving it as an idea. Yes, sometimes we doubted if we would be able to publish the book on time. But, due to the positive feedback from the authors and colleagues, we were quickly convinced that many people felt a real desire to support this publication. At the same time, we saw this book as an opportunity to pay tribute to Jörg, acknowledge his contribution to the field of local economic development (LED), his influence on our individual growth and learning and his realization of the *mesopartner* business idea.

While thinking about possible authors for this publication, we reflected on Jörg's business and academic career over the last 20 years. It would have been interesting to look further back, including also his times at Hamburg University as a student and young researcher. However, it was not that easy to find much information (apart from the fact that he grew up in rural Ammerland and was a member of a well-known choir and, even then, was involved in a youth organization where he got his first contact with the training and dynamics of groups). We are sure; it would have been of great interest and insight to do a podcast with Jörg as a review of his professional experiences. But although Jörg loves podcasts, as many of you know, we are just as sure that he would not have liked

the idea of talking about himself. In addition, it would have undermined our idea of surprising Jörg with this book. Jörg, we now take this opportunity to invite you to record such a podcast! Seriously!

Many questions came up during the preparation of this book and while writing this introduction. Everybody who looks back at his life might find some answers for himself as to why he has taken certain decisions, privately and professionally. It is not always possible to find a golden thread. Sometimes certain decisions are made by accident or due to unconscious forces.

If we had had the possibility to do a podcast with Jörg, some of our questions might have sounded like these: “What was the driving motivation for you to move into development work? Where is the link between your first research on the “impact of office automation systems on white-collar workers” and your current interest in development studies? How did you come to the development of the systemic competitiveness approach as a groundbreaking framework that is changing the perspective of a dominant neoliberal economic development explanation towards a more holistic and systemic analytic framework? Why did you then focus on technology and innovation policies within your PhD? What were the interesting aspects of working as a leader with trainees of the German Development Institute (GDI) over the years? What encouraged you to leave Berlin as the new German political capital and move to the Ruhr Valley (especially Duisburg) in 1999, a location which many would say is much less attractive than Berlin? Was it the driving interest in taking a deeper look into the change processes and challenges the Ruhr Valley faced during the ongoing structural change process of evolving from a steel and coal area towards an uncertain, but somehow confident, future? What were the main lessons you learned during the Duisburg time? What did the latter experience contribute to your decision to move into consultancy business and create your own company **mesopartner**? If you look back today, would you have decided to do anything differently? Looking forward, what would you like to focus on in the next 20 years?

Jörg's career and spheres of interest that he has worked on during the last decades are manifold, his output is amazing. Jörg's inquisitive nature and search for connectivity in a range of diverse subjects all seem to have influenced his opinions and attitudes and provoked the unusual and sometimes controversial questions regarding economic development and structural change processes. This desire to learn and grow has not been confined to his academic and business career, but seems to have influenced him personally in his professional career.

Looking through his publications, we searched for a golden thread that would give an insight into the evolution of his thought and practice. This was easier said than done, as being a driver and influencer of change requires the ability to take different perspectives and to be open-minded about different perceived realities, but, at the same time, not to get lost in one point of view or to settle down and stay in the "comfort zone". Jörg loves the expression "comfort zone". He invariably uses the phrase as an expression for stagnation of change. The comfort zone is not a place Jörg feels comfortable in. In this book many colleagues express their respect for him on account of his ability to encourage new discussions, to force others to reflect on the status quo, and to look deeper into realities that, from a scientific and theoretical perspective, do not provide many more answers. Jörg has this ability to look deeper. He has been a change agent, not only for us in **mesopartner** but also for many of his colleagues and clients. Challenging himself and his colleagues to keep moving and questioning seems to be the initial golden thread and probably fits the description of "perpetual enquiry"

The second thread is his way of being a provocative thinker. Although some people might find difficulties with the continuous challenges with which Jörg confronts his colleagues, and occasionally his customers, for us it is rooted in a highly creative character with an intrinsic motivation to understand better and to contribute with new and innovative ideas, patching and re-configuring old insights into new and further developed innovative formats and products. Not only we at **mesopartner** but associates, contributors to this book and other colleagues likewise have been challenged and usually inspired by his enthusiasm for the work he is do-

ing. Many of those who have had the chance to cycle with him through the Ruhr Valley know what we mean by this enthusiasm. It is not always easy to follow or to agree with him. Actually, it can also sometimes be frustrating when he sends around a finished report while others are still thinking about the content, or when another new discussion paper arrives in our mailboxes asking for comments while we have not yet caught up with or commented on an earlier one. This second golden thread seems to earn the title of “disruptive innovation”.

A third thread we identified is the interest that Jörg has in sharing his knowledge and in networking and exchanging with other experts and, for that matter, with ordinary people who have no other qualification than an enquiring mind. When he started **mesopartner**, he had already paved the way for business success with his experience and practical manual publications on the PACA approach. He nonetheless shared it with the new partners. A trait that, according to the comments in this book he has always demonstrated and is still demonstrating not only with his partners and his expert network but also with more than 10,000 people who have downloaded the LED podcasts (www.ledcast.net). For that, the third golden thread earns a South African title “Ubuntu”, which loosely translated means “I am because we are”.

In the following we have a quick look at the stages of Jörg’s career before we provide a short overview of the different topics Jörg has worked on during the last two decades. They highlight the driving change elements we mentioned above. Finally, this introduction provides a summary of the articles in this anthology and their relation with Jörg’s work.

20 years working on questions on economic development

The main problem with autobiographies is that you never know if the author, who is writing about himself, is telling the truth. In biographies you never know if the author really was able to get a relatively clear picture of the person he describes. Although knowing about the danger of misinterpretation, we try to profile the evolution of contributions to learning Jörg has made during the last two decades. It was exactly 20 years ago, in

October 1988, when the 30-year-old Jörg started to work for the German Development Institute (GDI) in Berlin (now based in Bonn). According to our impression, it is possible to separate the description of his professional career over the last 20 years into 2 stages: the first 10 years in the GDI and Berlin, and the second 10 years in the INEF and during the emergence of **mesopartner** in Duisburg. Roughly speaking, the first 10 years were years of research and policy contributions to the international discussion on private sector development. The second decade moved very much into the analysis of practical experiences, territorial change facilitation and private business consultancy. It is today the combination of both the scientific and practical insights which make Jörg's contributions so valuable and outstanding.

The first decade in Berlin

Let's have a look at the first decade (October 1988 to July 1998). Jörg worked for the GDI, an institute that is still the main German think tank on development studies, providing research and consultancy for German development organizations and the Ministry of Economic Cooperation and Development (BMZ). Jörg's website (www.meyer-stamer.de) provides a good overview of the topics he worked on during these years.

One dominant and pioneering theme of this time was the development of the systemic competitiveness framework. As Dirk Messner also writes in this book, it was one of the path-breaking publications of the Institute during the 1990s and a great deal of further research by the authors, including Jörg, was based on this framework. It was a truly innovative framework for the discussion on economic development promotion because it set out a contrary view to the dominant neoliberal interpretations of the Washington Consensus and Bretton Woods institutions regarding economic development promotion in developing and industrialized countries. Under the direction of Klaus Eßer, a group of young researchers, one of whom was Jörg, analyzed economic development policies in Asia and Latin America and, with the framework of systemic competitiveness, pronounced the need for more complex analysis and a more realistic picture of economic factors for development. Whereas the Washington Con-

sensus of the World Bank and IMF promoted liberalization and deregulation as an answer to the failed import substitution policies in Latin America, the GDI and their authors provided a much more differentiated analysis of the economic reality of developing countries. To refresh memories of the grounding concept we are reprinting the English version of this article, first published in 1996 by the United Nation Commission for Latin America (CEPAL) in Spanish.

Jörg's subsequent studies on economic development policies in Brazil, governance questions in the post-import substitution era, and the challenge of developing industrial sustainable policies in Europe and developing countries were very much linked to the discoveries of market, governance and network failures. In comparison to the simplistic neoliberal framework, it enabled a more differentiated perspective on the real challenges many countries faced at that time. And it underlined the importance of more decentralized locational policies.

Jörg's publications in the first half of the 1990s were very much oriented towards deepening the systemic competitiveness framework with practical examples (in Brazil, Mexico, with studies by students of the GDI in different countries) and linkages with industrial policy recommendations for Europe, Germany and emerging countries. The second topic, very much associated with the former, was more intensively linked to technology, innovation and the challenges of countries and actors during radical policy changes. Jörg finished his PhD on this topic in 1995, based on case studies in Brazil. The example of the software industry in Santa Catarina demonstrated the challenges locations and regions face under the globalization process.

More case studies followed during the 1990s on the framework of systemic competitiveness, leading to more concrete evidence and also greater understanding of this approach. In parallel to policy and case study analysis, Jörg also contributed to discussions in German technical assistance organizations like the GTZ. After the mid 1990s the systemic competitiveness framework became a model for interventions of German private sector development projects.

The second decade:

Duisburg as a Junction for following new paths

Jörg seems to have changed perspectives and jobs according to his birthday. In October 1998, Jörg turned 40; he moved to Duisburg and started his work in the Institute of Development and Peace (INEF). In the “Meso-Project”, Jörg, invited experts from South Korea and Chile (one of them was Claudio Maggi) to analyze structural policies in the German region of North Rhine-Westphalia (NRW). To invite people from developing countries to advise a developed country illustrates the un-orthodox and innovative form of Jörg’s thinking. At the same time it shows that learning is not necessarily unidirectional, but rather that industrialized countries may also learn from the global south.

One of Jörg’s publications which came out of this project was entitled “Meso laboratory NRW” (in 2000). Jörg used the title to demonstrate the high number of institutional and government-related activities in the NRW region and their positive and overlapping aspects. Nonetheless, the title can also be used as a synonym for the experimental orientation of the research Meso-project itself. Additionally, Jörg, Dirk Messner and Frank Wältring, together with experts from the Institute of Development Studies, IDS, worked on another project on new governance questions in clusters and global value chains (GVCs).

Several publications which came out of these projects demonstrated Jörg’s ability to contribute his diverse expertise to different discussions related to clusters, locational policies and governance aspects. This combination of factors, especially the Meso-project and burgeoning consultancy work that evolved during this time, seem to have had a great impact on and been a catalyst for his future career orientation and, in a way, for **mesopartner**.

Then came the Hexagon. The “Hexagon of Local Economic Development” demonstrated Jörg’s ability to convert his own learning about a new topic into a structured framework. It was used mainly in LED training to articulate the different viewpoints on LED and make them under-

standable. It is a product that is based very much on Jörg's experiences in NRW and in different countries. The seeds of the PACA approach were planted during the time when Jörg started his consultancy in Mafra in Brazil.

During the years between 1998 and 2003, Jörg moved more and more towards topics related to cluster, locational and local policies and practice. He stimulated the discussion in an encouraging way in NRW, in German technical assistance (SME and Cluster publications for practitioners and policy makers) and in the field of research through further case studies, local and regional policy recommendations, inclusion of governance aspects and a revision of the systemic competitiveness approach (2005). The latter included the learning experiences Jörg had acquired over the previous years and this enabled the framework to be used as a practical instrument for consultancy and learning at the local and regional level.

At the end of the year 2000, Jörg's territorial attention switched from South America, which in his case was preferentially Brazil, to other continents. At that time he started his Email reports in his mother-tongue to inform some of his fellow country people about his travels. At first he called his reports ironically "In the Far East" (German: "Im Fernen Osten") and entertainingly described his travel experiences to Southeast Asia. After that he used the title "Reports from far away" ("Berichte von weit weg") to share his experiences in places all over the world. He loves to describe in these reports the different forms of traffic and transport to explain the differences of development in different countries.¹ The reports show how Jörg always uses his observations as a source of his learning process. Many of the exposed ideas he then takes as a stimulus for more profound academic reflection in papers and books. Anyway, the

¹ In that sense Jörg contributed also to the blog of Dani Rodrik with whom Jörg not only shares a critical view on the Washington Consensus, but who also uses the traffic analogy: "A society is like a web and pulling on one strand doesn't reveal all the interconnections. Too many who give advice seem only to focus on their particular strand." (http://rodrik.typepad.com/dani_rodriks_weblog/2008/01/whats-traffic-i.html).

reports are great, reveal Jörg's terrific sense of humor, and they are worth putting in a proper publication.

10•10•5: The move towards mesopartner

The move towards focusing more and more on consultancy on LED and other topics seems to have been an inevitable path that emerged from the many learning experiences Jörg discovered in his practical work and it was seemingly also influenced to a certain extent by respect for creative practitioners in both businesses and private support institutions. From 2001 onwards, Jörg started to focus mainly on consultancy work before he formally founded **mesopartner** in 2003, some 5 years after starting his work in INEF. Some colleagues saw Jörg's decision as a move away from scientific work, a view not shared by Jörg himself. This it seems was the decision to become a businessman.

Looking back at the discussions Jörg has stimulated since 2003, it becomes obvious that the key words and context of his research work have not changed that much. What has changed is the content and the main target group for whom he is working. What has not changed is Jörg's prolific contribution to the public debate on economic development via publications and documentations of experiences - several book publications and article contributions during the last years. They clearly demonstrate that he has not lost his academic grounding or focus on earlier topics like technology and innovation as well as industrial policies. His capacity to reflect on experiences, putting them into structure, documenting them and making a product out of it, is a capacity that has very much contributed to the emergence of **mesopartner**. Out of the NRW Meso-project Jörg started to design several LED study tours (mainly together with Michael Giese) using innovative structural change projects in the region as learning examples for GTZ staff and experts from other countries. The objective was not to demonstrate possible blueprint examples but to reflect on creative formats to inspire and promote LED at the implementation and policy level.

With the foundation of **mesopartner** in conjunction with Christian Schoen and Ulrich Harmes-Liedtke in 2003, Jörg increased the outreach of his work and further tools were developed jointly. While the first 2 years were very much based on the dissemination of the PACA methodology, mesopartner moved towards a more process-oriented approach with the development of further tools, like Genesis² and Compass³. When having a look at the working papers of mesopartner it becomes obvious that out of 12 only 2 are not written by Jörg. Without underestimating the work of all the other mesopartners (including the ones who joined the team later like Frank Wältring, Shawn Cunningham and Colin Mitchell) Jörg is still the “guru” among them. Although we know that he does not like the expression being applied to himself, we use it here with a positive connotation, in the sense it is used in Wikipedia, to mean “...a person who is regarded as having great knowledge, wisdom and authority in a certain area, and uses it to guide others.”. The capacity to write in a very effective manner, to structure thoughts and put them into a new order, and the way Jörg incorporates new scientific publications and thought from diverse fields into his own writing is impressive. From a practical perspective, it provides a background that takes the “meat” of scientific discussions and uses it to transform expert thought in the field of private sector promotion.

2nd part: Looking back to the future: Contributions of the articles in relation to Jörg’s work

All the authors and birthday wish contributors to this book have worked with Jörg during the last 20 years and during the period we have outlined above. Tilman Altenburg, Andreas Stamm, and Dirk Messner worked together with Jörg in the GDI. Hubert Schmitz, Roberta Rabelotti, Claudio Maggi, Enrique Dussel Peters, Peter Knorringa and Wulf Noll were not only companions but also worked more intensively with Jörg during the

² Developed by Colin Mitchell and shaped by Jörg in the context of a GTZ Program in South Africa.

³ Inspired by the Scottish Enterprise and the work of Grant MacKenzie.

INEF and IDS times and his research activities on clusters and locational policies. The **mesopartner** team (Christian Schoen, Ulrich Harmes-Liedtke, Frank Wältring, Shawn Cunningham, Colin Mitchell) have experienced with Jörg the (learning) growth of the company and the move into new fields of change facilitation consultancy during the last few years. All of these friends and colleagues were interested to contribute to this publication. Also it was nice to get additional contributions from others who contributed with their birthday wishes. It was an enjoyable experience to see and read the articles and wishes that arrived in our mail boxes.

The articles in this book are diverse in their content. Nonetheless, they all tackle topics that are related to new trends in private sector promotion. Most of them open questions for further research and look for innovative perspectives. In this sense, the title of the book “Milestones in a process of innovation, change and development” has a double meaning: many of the authors recount the academic and practice work of the past and present but especially come up with future milestone questions.

Dirk Messner

The book starts with the reprint of one of the first articles on systemic competitiveness (published in the Cepal-Review in 1996), written by Jörg, Dirk Messner, Klaus Eßer Wolfgang Hillebrand. Looking back on the publication, Dirk Messner, one of Jörg’s closest companions for a long time, provides a personal and professional insight into the importance of this framework for his and Jörg’s careers. Together with their GDI colleagues they developed this analytic framework in the early 1990s and it had a great impact for both of them and their relationship. Dirk traces back the both joint and different paths the two experts chose to follow from this “success story”. In a personal way, Dirk Messner highlights the fruitful cooperation between the two different personalities and describes how different characters and personal and professional competences can lead to a synergetic and highly productive relationship that is combined with personal affection and professional respect. It was Dirk’s idea to republish this article to demonstrate it as an important

framework for direction. But he also emphasizes the necessity of updating it to include the changes in the globalized market and the need for a more sustainable approach to competitiveness.

Tilman Altenburg and Andreas Stamm

The systemic competitiveness framework attempted to point out the synergies between social and economic aspects of development. Nonetheless, the economic aspects were dominant and the strategy was very much focused on “picking the winners”. Jörg has always tried to point out the differences as well as synergies between social and economic aspects, as well as between LED, regional development, urban planning. The PACA and Hexagon methodology highlights these synergies. Tilman Altenburg and Andreas Stamm from the GDI continue the list of articles with an overview of new trends in private sector promotion. They argue against the one-sided traditional paradigm in private sector development of “picking the winners”. In the 1990s, it became a dominant trend in developing as well as industrialized countries to focus support activities mainly on more technological and innovation-oriented high-tech sectors. Interventions in these areas seemed to be the most promising strategy to combine two objectives at the same time: first, increasing the competitiveness of countries and second, through the development of these sectors, assuring sustainable employment and poverty alleviation. The authors convincingly demonstrate how this path has particularly led to the exclusion of SMEs in traditional sectors with intensive structural change processes. They point out that a systemic and sustainable approach to competitiveness has to follow a more inclusive strategy due to the trade-offs between competition and social inclusion. A two-pronged strategy is necessary for the development of competitive advantages. With this article, Altenburg and Stamm provide a good overview of the change in private sector development interventions during the last decade and highlight the challenges lying ahead for more systemic and impact-oriented interventions.

Roberta Rabellotti and Carlo Pietrobelli

Jörg has never focused solely on LED but has always seen locational and innovation policy and practice in the light of a larger national innovation system as well as in the light of interdependent relations between local and global businesses in value chains. The authors Carlo Pietrobelli, from the University CREI in Rome, and Roberta Rabellotti, from the University del Piemonte, refer to Jörg's attempt to operationalise concepts like "Global Value Chains" and "Innovation System" for policy and practice. In their article they investigate the complementarities of the two approaches with a focus on the learning mechanisms operating in different chains and the role of innovation systems in fostering the efforts of firms in developing countries to gain interaction within GVCs. Their conclusion is that organizational or relational proximity becomes more important than geographical proximity in supporting the development of tacit knowledge. Thus, multinational firms as well as global value chains, with their dispersed but carefully organized knowledge bases and sites of innovation and their use of "community of practices", may well overcome the absence of geographical proximity. The local and national innovation system itself increases its importance especially when it comes to complex and more intensive learning-oriented transactions between the producers in developing countries and large buyers.

Wulf Noll

Jörg has contributed to discussions not only in developing countries but also on locational and structural policies especially in the German region of North-Rhine Westphalia (NRW). Wulf Noll, as a representative of the structural policy department of the Ministry of Economy in NRW, refers in his article to the fruitful exchanges he has had with Jörg in the past and present. He provides an overview of the development of structural policies and the importance of infrastructure policies and institutional development in NRW in the past as preconditions for more profound network-oriented cluster and private sector promotion policies. It is interesting to read the perspective of a policy maker who finds himself in a dilemma

between individual business and cluster actor interests and policy interests: on the one hand, the Ministry wants to promote competitiveness and competition between enterprises to encourage innovation. On the other hand, entrepreneurs and cluster actors are not really willing to increase competition. They would like to cooperate and improve their position without moving out of their comfort zone. To explain his point of view he criticizes the argument of Michael Porter, who mainly focused his explanation of competitiveness and clusters on the increasing rivalry between agglomerated firms, leaving out the cooperation aspects that are important for the promotion of clusters. At the same time, Noll agrees that cooperation itself is not sufficient to encourage innovation in regions and clusters. According to him, industrial and innovation policy has to react on such a dilemma by emphasizing more strongly the interrelation between business interests and public welfare. Finally, he invites Jörg to contribute to this important discussion in the future.

Frank Wältring and Rasmus Beck

Within the Meso project NRW, Jörg pointed out several weaknesses in cluster policies in the German region. One of these weaknesses is the lack of impact monitoring in cluster initiatives. Frank Wältring from **mesopartner** and Rasmus Beck from the Economic Development Promotion Agency in the German city of Dortmund took up this argument and had a look into the German cluster reality from the perspective of consultants. The main question addressed in the article is how cluster promotion could become a more effective regional or local driver of change and economic success. It tries to figure out whether the current incentive and governance system of cluster promotion in Germany promotes this required change. The authors come to the conclusion that cluster initiatives as well as cluster policies face a certain reluctance to change because the current system has developed its own functional logic. It seems that current answers are quite unsatisfactory in this regard, because they are too theoretically orientated (basic science discourses, like best practice examples with a low external validity and transferability) or they come from a very much action-oriented practice perspective

that does not provide sufficient reflection on specific learning processes of LED in Germany.

Peter Knorringa

The importance of social inclusion emphasized by Altenburg and Stamm for private sector promotion and sustainable competitiveness also requires the need to rethink the importance of further strategies that have become new trends in economic development. Corporate Social Responsibility (CSR) is one aspect that has gained more attention in the last decade. However, it has mainly been considered from a philanthropic perspective. For example, Private-Public-Partnership projects (PPP) have increased their importance in donor interventions. They normally entail a certain CSR motivation component but analysis demonstrates little impact on their outreach. Peter Knorringa, from the Institute of Social Studies in The Hague, argues in his article for the need to develop a more business and systematic strategy for CSR at the local level. According to future scenarios, changing consumer preferences of the new middle-classes in the Global South will increase the demand for responsible products. The hypothesis he discusses is that the extent of localized impacts of CSR will depend on whether LED practitioners and local stakeholders are able to use the leverage offered by CSR interventions. With this article he provides a new perspective that helps to get more grip on the CSR debate from a local and systemic-oriented development perspective.

Claudio E. Maggi

Jörg has always emphasized that LED is a useful instrument but suffers from intrinsic limitations. It will only induce incremental change if further systemic changes follow. At the same time, he has shown in many publications that traditional centralized approaches will never become the solution to overcome the limitations of LED. Nonetheless, centralized approaches are still dominant in many developing countries. The fact that this traditional approach is slowly changing is demonstrated in the article

by Claudio Maggi from Innova Chile (CORFO). Through the comparison of several case studies in Latin America, he shows the increasing importance of LED initiatives. He analyses the main driving forces, factors and instruments for success from these examples. For him, one of the most significant findings of the new generation of these initiatives is that the more consistency there is between central and local-level activities, the more robust the activities will be, with greater potential impact. With this article Maggi emphasizes that central-level administrations must renew their capacities and attributes in order to provide support for a decentralized and successful territorial economic development.

Colin Mitchell

We think that one of the driving interests behind Jörg becoming an entrepreneur himself is his respect for entrepreneurs who are creative enough to react on changing market conditions in an innovative way. It's this driver mentality that we often identify in entrepreneurs and that is often required in development processes. Colin Mitchell from **mesopartner** opens his article with the challenges of the change and learning processes South Africa went through in LED following the end of the Apartheid system, and the challenges entailed especially for businesses in adapting to a new market and governance system. He then describes the change companies in general are confronted with in order to stay innovative and in the market. With his article he provides insights into the understanding of a business, its product or service choices, the perspective its owners should have of the overall market and the position it chooses to stakeout within that market. This also includes behavioural choices on the part of business owners especially with regard to the question of how and what they can do to give themselves a real or perceived competitive advantage.

Christian Schoen

As different authors of this book point out, one of the talents Jörg has is to be able to document experiences and to develop new products. The successful trajectory of **mesopartner** is very much based on this capac-

ity. In the last years mesopartner has developed further products that are not based merely on PACA. Nonetheless, they take up the participatory and learning-oriented elements of PACA. Tools like the LED Café, Genesis, the 4 gap approach as well as other **mesopartner** tools were developed based on the different advantages and experience of the partners in consultancy. Christian Schoen introduces in his article a participatory methodology, the Regional Economic Potential Analysis. He developed this methodology on demand in Vietnam. To demonstrate the difference between the **mesopartner** and other traditional potential analysis approaches, he provides an overview of the existing methodologies to identify potentials of local, regional and national industries and sub-sectors. He then explains the **mesopartner** Regional Economic Potential Analysis in detail, demonstrating the need to introduce a rapid and more participatory-oriented approach especially in countries with limited reliability of statistical trade data. The involvement of large buyers or customers in the understanding of market tendencies as well as the comparison of sector potentials at the local and regional level with national and world market shares are particularly important elements in this methodology. Schoen provides a detailed insight into how to develop and implement such a methodology in a rapid and quality-oriented manner.

Ulrich Harmes-Liedtke

Departing from his consulting practice, in his article **mesopartner** Ulrich Harmes-Liedtke looks at the traditional concept of import-substituting industrialization (ISI) from a different angle. He takes the idea of substituting imports and protecting infant industries to the local level and shows by means of several examples that substituting imports could be aligned with a competitive strategy. The article includes several methodological hints on how competitive import-substitution could be implemented in an LED initiative. He concludes that strengthening the local base of products and services could provide the basis for a competitive advantage which also enables the community to conquer markets beyond the local frontiers. Thus, the promotion of the local economy and

the ability to be successful in exports are not alternative but complementary goals.

Shawn Cunningham

mesopartner has grown, not only in its number of partners, products and learning processes but also in its abilities and willingness to share knowledge within a large network of experts. In his article, Shawn Cunningham provides an insight into the new technologies used by the company to share its collected knowledge and learning experiences. Cunningham started to develop the LEDCast series with Jörg in 2007. More than 50 shows have been recorded since then and have been downloaded more than 10,000 times. This has increased the outreach and contact to practitioners throughout the world. It has provided a means of knowledge dissemination that we had not envisaged.

There are other new forms of technologies that are currently used by **mesopartner** and that were especially introduced by Jörg in our company. Apart from the podcast, Cunningham describes other innovative ways of increasing outreach and recognition. These include the form of publication for **mesopartner** papers, the use of creative presentation skills and new visualization techniques, co-publishing under the Creative Commons licenses, and the distribution of the **mesopartner** newsletter to 5000 colleagues. Recently Jörg discovered the internet print-on-demand services like Lulu (www.lulu.com) where we are now publishing this anthology. The confluence of these technology trends allows **mesopartner** to position itself as the leading concept developer and coach in the field of territorial development.

Enrique Dussel Peters

The closing article refers back to the beginning of this anthology and the trajectory of Jörg's career. After Jörg's shift from academic towards consultancy work, he started to focus very much on issues related to the meso-level of systemic competitiveness. Although he published many

other academic papers, his main occupation was oriented towards developing methodologies and tools for change facilitation in LED processes. Enrique Dussel from the National Autonomous University of Mexico (UNAM) invites Jörg to contribute to discussions that are not so much focused on change facilitation as on aspects that, according to Dussel, must also be considered in the discussion on territorial development. He demonstrates the impact the systemic competitiveness approach has had in many Latin American countries until now. But he also states that nowadays the systemic competitiveness framework and meso-level policies (as well as development interventions) fail to explain and react professionally to the new global and local governance dynamics and realities. The new forms of integration of a territory into changing governance patterns in the world market are of critical relevance. According to him, this does not require just a local or national perspective but a territorial perspective “in space and time”. The latter would integrate and consider also the changing global market circumstances and requires learning processes to generate “territorial endogeneity”. Dussel’s invitation to Jörg is intended to intensify the mutual learning between academia and practice in the development community.

As this anthology has been produced for a special occasion, it also includes birthday cards from numerous colleagues and friends of Jörg. Here you can find comments from his former fellows from GDI, researchers from other development think tanks, one of his professors at Hamburg University, program managers of the GTZ and public institutions in Germany, PACA practitioners and other consultants, trainers and his partners at **mesopartner**. Reading these birthday wishes will give you a deeper insight into the personality behind this extraordinary work in academia and in the field in developing countries. It also shows the worldwide impact of Jörg’s activities and his contributions to the learning processes of a broad variety of experts.

Directly or indirectly, every author of this book does the same thing: ask Jörg for further exchange of experiences on their open questions. With our thanks to all the authors and commentators, we would like to close this introduction. We hope that with the outcome of this book we will en-

courage Jörg to provoke even more fruitful discussions around the topics of innovation, change and development.

Thank you Jörg for being a great colleague and friend! And all the best for the upcoming milestones in life!

Systemic competitiveness: a new challenge for firms and for government

By Klaus Esser, Wolfgang Hillebrand, Dirk Messner and Jörg Meyer-Stamer

This article analyses the concept of systemic competitiveness by examining its determining factors and the way in which they interrelate. The author puts forward the view that industrial competitiveness is the product of the complex and dynamic interaction between four social and economic levels in a national system, namely: the micro level, consisting of enterprises, many of them interlinked in mutual assistance networks, which aim to achieve simultaneously efficiency, quality, flexibility and speed of response; the meso level, corresponding to the State and social actors, which develop specific support policies, promote the establishment of structures and coordinate learning processes at the level of society; the macro level, where pressure is exerted on the enterprises through performance requirements; and finally, the level referred to in this article as the “meta” level, which is made up of solid basic patterns of legal, political and economic organization, an adequate social capacity for organization and integration, and the capacity of the actors to achieve strategic integration. The article concludes that an enterprise’s competitiveness is based on the organizational pattern of the society as a whole. It is the parameters of competitiveness relevance at all levels of the system and their interaction that generate competitive advantages.

Competitiveness is systemic.

⁴ Reprint of the Spanish original article published by CEPAL no 59, August 1996 with permission of Dirk Messner (dirk.messner@die-gdi.de)

1 Introduction

In recent years, attempts have been made at the Organization for Economic Cooperation and Development (OECD) to categorize the different approaches to the notion of competitiveness and to combine them in a single, integrated approach under the heading of “structural competitiveness” (OECD, 1992). The main aspects of this concept are its emphasis on innovation as a key factor in economic development, company structure that goes beyond Taylorist principles and is capable of activating the potential for learning and innovation in all the enterprise’s fields of activity and, finally, cooperation networks aiming at innovation and supported by various institutions and an institutional framework conducive to innovation.

The concept of “systemic competitiveness” (Esser, Hillbrand, Messner and Meyer-Stamer, 1994) is a frame of reference for industrialized as well as developing countries. Two features distinguish this concept from others designed to identify the factors involved in industrial competitiveness. The first is the distinction between four analytical levels (meta, macro, meso and micro). At the meta level, aspects such as a society’s capacity for integration and strategic action are considered and at the meso level, the creation of support structure able to promote, supplement and further the enterprises’ efforts is examined. The second distinguishing feature is the linking of factors relevant to the industrial economy, to the theory of innovation and to industrial sociology with the arguments put forward in the recent debate among political scientists to policy networks.

The concept of systemic competitiveness is based on the recent discussions at the OECD. Observations on this subject begin with a phenomenon observed in many developing countries, namely the absence or inadequacy of an effective entrepreneurial environment that places emphasis on the OECD’s concept of “structural competitiveness”. This phenomenon may prevent structure adjustment from furthering industrial development even where stabilization at the macro level has been success-

ful, as has been observed in member countries of the OECD, as well as in developing countries of various stages of development.

It should be noted however, that an inadequate support structure need not, in itself, preclude competitiveness. When general conditions change fundamentally with the transition from a protected domestic market to an open economy and when enterprises are faced with the choice of either increasing efficiency or leaving the market, some at least will make the necessary efforts to rapidly increase their competitiveness. This happens primarily where it is feasible to take advantage of static advantages of location. However, the absence of an efficient support structure does impair enterprises' ability to achieve lasting competitiveness. Instead of being able to focus on the main productive activity in which they have a competitive edge, they have to develop for themselves products and internal services that other enterprises are able to acquire or use as externalities. As a result, they do not undergo the continuous improvement experienced by enterprises that have achieved lasting efficiency.

The German Development Institute (GDI) employs a concept of competitiveness that goes further than the one developed by the OECD. The later and other similar ones cover economic factors only and neglect almost entirely the political dimension involved in achieving competitiveness. Even though there is increasing acceptance of the view that the creation of an effective support structure through the collective effort of the enterprises and the joint initiative of business associations, the State and other social actors may lead to the comparatively rapid development of competitive advantages, the literature on the subject does not take sufficient account of the management models on which successful processes of late industrialization have been based (Amsden, 1989; Wade, 1990). However, with regard to industrialized countries, it is found that analyses of competitiveness and research into new management models in different areas of policy-making such as industrial structures and technology policy are hardly interlinked at all. While a detailed description is given of the enterprise support structure that should be created, the specific policy proposals concerning the modalities and methods for identifying and dealing with problems, decision-making, implementation and follow-up

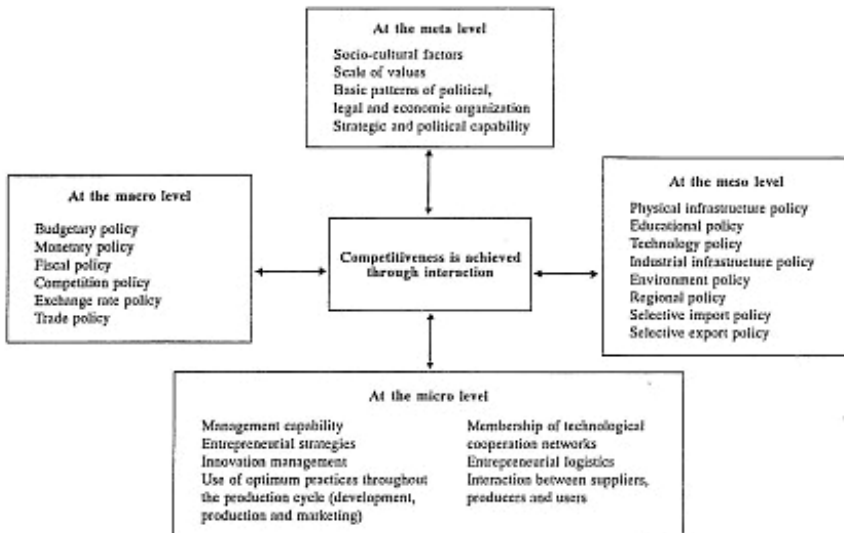
of results continue to be vague and imprecise (EOCD, 1992, p. 84 et seq. and p. 254 et seq.)

2 Competitiveness in the systemic approach: levels of systemic competitiveness

Countries cannot develop an infinite number of policies or elements of competitiveness from a finite set of factors determining systemic competitiveness (figure 1).

The most competitive countries have: i) at the meta level, basic structures of legal, political and economic organization, the social capacity for organization and integration, and the capability of the actors to achieve strategic interaction; ii) a macro framework that requires the enterprises to be more efficient; iii) a structured meso level where the State and the social actors develop specific support policies, promote the establishment of structures and coordinate the learning processes at the level of society; iv) at the micro level, a large number of enterprises, many of them inter-linked in mutual assistance networks, which aim to achieve simultaneously efficiency, quality, flexibility and speed of response.

Figure 1: Factors determining systemic competitiveness



2.1 Meta Level

The State's ability to steer the economy and the existence of organizational models that help to stimulate society's creative capabilities are essential for the achievement of maximum efficiency at the micro, macro and meso levels. Economic modernization and the development of systemic competitiveness cannot yield results unless suitable structures are established in society as a whole. If macroeconomic reforms are undertaken without the concurrent development of the ability to regulate and steer the economy (State reform, coordination of the strategic actors) and without suitable social structures being established, the tendencies making for social disintegration will become even more pronounced. Systemic competitiveness without social integration is a project without a future. The development of systemic competitiveness, therefore, is a social transformation project involving more than mere adjustment of the macroeconomic framework.

In order to achieve the management capability necessary at the meta level, the following are required: consensus on the "market governance and world market" model, agreement on the actual course to be followed in the reforms, and consensus on the need to impose the interests of the future over the well-organized interests of the present.

A strategy aiming at an overall solution to the problems presupposes a clear institutional separation between the State, private enterprise and intermediary organizations. Only a separation of this kind will make possible autonomous organization, independent learning processes and the development of a well-developed capacity to anticipate and respond. Once this institutional separation has been achieved, the possibility opens up for an autonomous and efficient state to emerge and, at the same time, for groups of private and public social actors to show a readiness to cooperate and establish links with each other. These are the general functional requirements for the establishment of creative reforms in the area of policy management; their specific features, however, will vary from one country to another according to factors such as the political and institutional structure that has developed in each of them.

The most important factor for coordination at and between the four systemic levels is the willingness of the most significant groups of social actors to engage in dialogue, this being a factor that helps consolidate efforts and channel society's creative potential along agreed lines. Dialogue is essential for strengthening national innovative and competitive advantages and setting in motion the social processes of learning and communication. Similarly, it helps create the necessary readiness and skills for implementing a medium- to long-term strategy aimed at competition-oriented technological and industrial development.

Achieving competitiveness demands a well-developed capacity for organization, interaction and management on the part of the national groups of actors, whose ultimate aim should be to achieve systemic management embracing the whole of society.

2.2 Macro level: stabilization of the macro-economic framework

The existence of efficient factor, goods and capital markets is essential for the effective allocation of resources. This is a requirement wherever the concept of management is multidimensional and supported by competition, cooperation and social dialogue directed towards channelling national potential and developing the necessary capability for successful operation in the world market. The experiences of the 1970s and 1980s have shown that an unstable macroeconomic framework is highly detrimental to the efficiency of these markets and has a negative effect on economic growth.

Macroeconomic stabilization should be based primarily on the reform of fiscal, budgetary, monetary and exchange-rate policy. However, the transition from an unstable macroeconomic framework is difficult for the following reasons:

Attempts to combat inflation through restrictive budgetary, tax and monetary policy not only contribute to limiting consumption in many cases but also act as a brake on investment, thereby reducing still further the national economy's capacity for growth and improved distribution.

Hence, the latent tension between the objectives of stability, growth and distribution;

Stabilization measures at the macroeconomic level are usually effective if accompanied by structural reforms carried out in parallel over a long period, such as the reform of the State-run economic sector, the development of an efficient financial sector and the reform of foreign trade policy;

While the costs of the adjustment are felt immediately the benefits are not, with the result that production, investment and employment usually decrease in the initial phase;

Social groups are not all affected in the same way by measures to stabilize the macroeconomic framework and the accompanying structural reforms. In fact, the process has winners and losers and therefore gives rise to bitter disputes at the level of domestic policy (Haggard and Kaufmann, 1992).

Consequently, stabilization of the macroeconomic framework not only requires a conceptual basis that is coherent in technocratic terms but also calls for considerable political effort. Success will be guaranteed only if the Government is determined to implement difficult and controversial reforms, if it manages to rally national reforming forces in support of the cause of restoring the domestic and foreign economic balances, and if it also manages to win international support.

2.3 Meso level: the active formation on structures

In a recent analyses, the World Bank attributed the successful economic growth and high level of international competitiveness of the countries of East and South-East Asia to sound macroeconomic management and an active export-promotion policy, combined with a moderate tariff policy (World Bank, 1993). According to this analysis, macroeconomic policies aiming at stability particularly encouraged savings, making for significant public and private investment. In addition, the extensive opening up

of the economies to foreign technology, accompanied by a system of export incentives, contributed significantly to the development of a dynamic private sector.

However, it would be overstating the case and hence misleading to attribute the successful growth and high level of international competitiveness of these countries entirely to their adherence to fundamental macroeconomic principles and a relatively liberal foreign trade policy. This is because, unlike economies with small populations (Singapore and Hong Kong), medium-sized economies such as Taiwan and the Republic of Korea heavily protected their domestic market from foreign competition until the end of the 1980s or even later, combining tariff barriers with other, mainly quasi-tariff, barriers and only admitting imports that were complementary and not particularly competitive.

Not only was this policy essential to prevent major foreign trade imbalances in these economies, but the fierce protectionism coupled with a selective trade policy allowed industry to benefit from an undisturbed learning process for 30 years. Furthermore, the first generation of newly industrialized economies, with the exception of Hong Kong, have consistently promoted the development of internationally competitive industries by creating dynamic comparative advantages, the protection of infant industries being only one of several strands of a complex macro and meso approach. This explains the heavy criticism of the World Bank for asserting that selected interventions in the Republic of Korea and other economies have had no significant influence worth mentioning on either industrial structure or the productivity of industrial enterprises. When the battle for competitiveness in world markets begins to intensify, that is precisely the time when Governments would be well advised to combine stabilizing macro policies with the active formation of structures.

2.4 Micro level

Today, enterprises are facing an increasing number of requirements as a result of various distinct trends (Best, 1990; OECD, 1992), which include.

- i. The Globalization of competition in an increasing number of product markets;
- ii. The increasing number of competitions, as a result of successful late industrialization (especially in East Asia), the success of structural adjustment and an orientation towards exports (for example, in the United States);
- iii. The differentiation of demand;
- iv. The shortening of production cycles;
- v. The introduction of radical innovations such as new techniques (microelectronics, biotechnology and genetic engineering), new materials and new organizational concepts;
- vi. Big advances in technology systems which make it necessary to redraw the boundaries separating different disciplines, for example those between information technology and telecommunications (telematics) or between mechanical engineering and optoelectronics (optomechatronics).

In order to meet the new challenges successfully, significant readjustments have to be made to the enterprises themselves and to their support structures. For this purpose, incremental changes such as those planned in the 1980s with intensive automation and the creation of data-processing systems (under the motto “automating Taylorism”) are not sufficient. The Simultaneous acquisition of efficiency, flexibility, quality and speed of response calls rather for profound changes at three different levels:

- i. Organization of production: the objective is to shorten production time by, for example, replacing the traditional assembly lines and transfer systems with manufacture and assembly cells and islands in order to respond rapidly to the client’s wishes and decrease warehouse stocks, thereby reducing working capital costs;
- ii. Organization of product development: in many cases, the strict separation of development, production and marketing increased the costs involved in product design; in other cases, the products

were not to the client's taste. The parallel organization of the different stages of development, and the reintegration of product development, production and marketing (concurrent engineering) helps to reduce significantly the time involved in development, to manufacture products more efficiently and to market them with greater ease;

- iii. Organization of supply arrangements: enterprises reduce the scope of their production activities in order to concentrate on the speciality that guarantees their competitiveness. They reorganize supply by introducing, in particular, just-in-time production systems and reorganizing their subcontracting pyramid, reducing the number of direct suppliers and raising some of them to the status of suppliers of subsystems integrated in the product development process.

The creative combination of organizational as well as social and technical innovations is the task to be undertaken at the three levels. Reorganization tends to be the starting point that creates the conditions necessary for efficient use of the new computerized equipment. Social innovations (reduction of the operational level) are a prerequisite for the success of the new concepts of organization.

The increasing requirements imposed on enterprises are accompanied by ever-increasing demands on their support structure. Enterprises which are operating in the world market do not compete in a decentralized and even isolated manner, but as industrial clusters, i.e., as groups of enterprises organized in cooperation networks. The dynamics of their development depends, to a large extent, on the effectiveness of each industrial location in terms of close and ongoing links with universities, educational establishments, scientific and technical research centres, outreach institutes, technological information and financial bodies, export information agencies, and private sectoral organizations, to name but a few.

3 Development of structures at the meso level: the importance of selective policies

The enterprise support context – i.e., institutions and political structures at the meso level – has been acquiring greater significance in the 1990s as a result of technological and organizational change and the move away from the traditional Fordist production model. The cumulative effects of learning and innovation go together with the formation of enterprise-to-enterprise cooperation network at the meso level and with both informal and formal cooperative links between enterprises and the groups of institutions connected with clusters of firms. The establishment of these institutional groupings is the key to any active location policy. Technological capacity as a basis for competitiveness is, in turn, based on stores of knowledge and accumulated learning processes which are difficult to transfer and often not codified, processes which become apparent in the interaction between enterprises and institutions. Thus, specific patterns and competitive advantages that are not easy to imitate are emerging for each country and region.

Political actors who, when framing national policy at the meso level, fail to develop a strategic perspective to direct the activity of the State and enterprises and rely first and foremost on spontaneous reactions and processes of trial and error underestimate three factors:

- i. The importance of timely and selective development of the physical and, more particularly, the non-physical structure for the international competitiveness of enterprises;
- ii. The length of time necessary for the development of human capital and technological infrastructure, i.e., the key factors in international competitiveness;
- iii. The negative effect on aggressive business strategies of technological insecurity (Dosi, 1988) and risk situations which a single enterprise alone is unable to assess in their entirety or to turn to its advantage.

4 The State, enterprises and intermediary institutions at the meso level: the traditional dichotomies break down

As enterprises develop ever more sophisticated products, the demands on the local, regional and national environment increase accordingly. The idea that the State, viewed as society's main guiding force, is alone capable of steering technological and economic processes, and the dogma that the State must be subordinated to market forces are both wide off the mark. The successful cases in the world economy indicate that there is a broad margin of action for the implementation of policies that strengthen the competitiveness of industrial locations, and this margin of action lies between two extremes: dirigiste State intervention and the laissez-faire approach limited to establishing the general conditions necessary for economic operation. New forms of organization and management are being defined at the social and political levels, in the same way as in industrial production.

Demand conditions conducive to competitiveness are often the result of initial measures such as deregulation, privatization of State enterprises and external financial support. It is also essential to build a physical infrastructure for exports (for example, transport and telecommunications systems). What is more difficult is to reform and develop, educational, research and technology establishments in order to further competitiveness as well as to implement policies supporting industrial location that are aimed at structuring the meso level. It is not only a matter of deciding which tools should be used (figure 2) but also of ascertaining how to select and combine them and determining which decision-making processes could serve as a basis for the development and implementation of location policies geared to the complex nature of industrial production. It follows that the structuring of the meso level is primarily a problem of organization and management⁵. What is required is the creation of an ef-

⁵ This aspect of meso policy, which is linked to the theory of economic management, is not mentioned at all in publications on the meso economy such as Peters (1981). In that study the author clearly moves away from the orthodox macroeconomists; he points out the importance of structural policies for the structural reform of the econ.

efficient institutional structure (hardware) and the promotion, in particular, of a capacity for close interaction between private and public operators, within a cluster (software) (figure 3).

Figure 2: Industrial location policy in Germany: technology policy tools

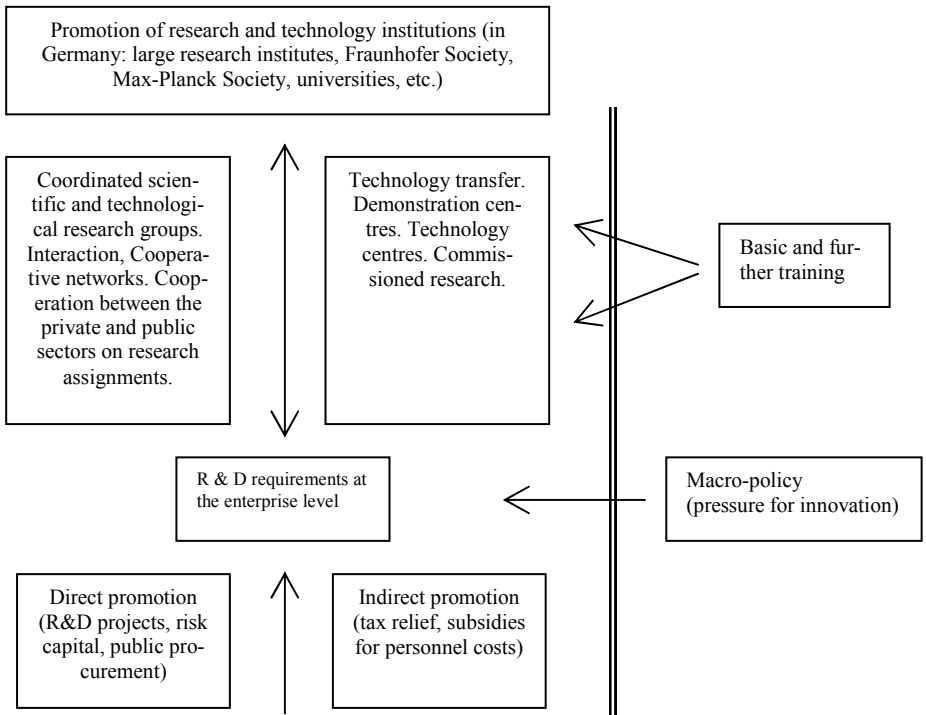
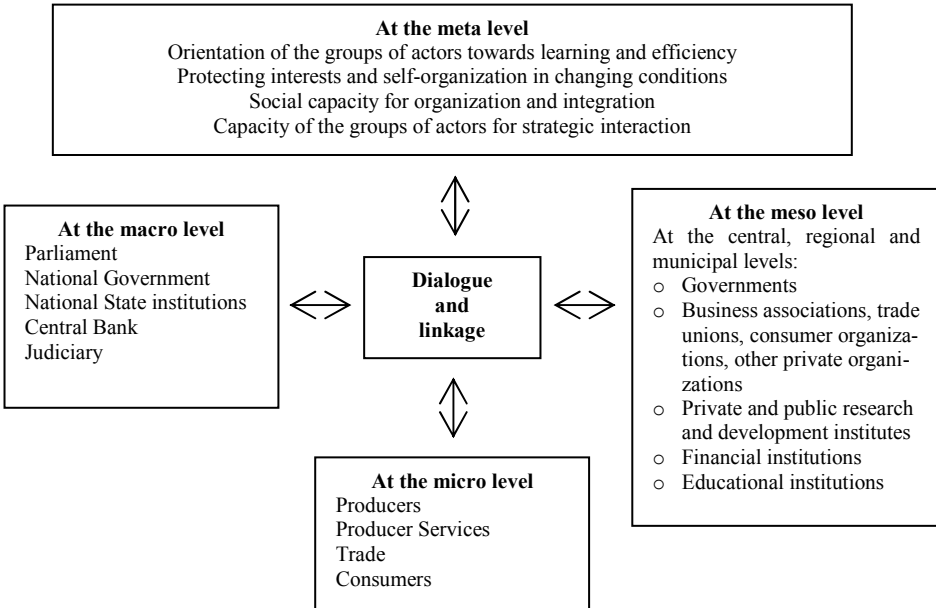


Figure 3: Determinants of systemic competitiveness: strategic capacity of the groups of actors



The new industrial location strategies differ fundamentally from the traditional State approach to industry, industrial planning and investment management. They also differ from the neo-corporative approaches of the 1970s involving only the leaders of business associations and trade unions. Today, the two approaches have no further use because at the level of location policy and the development of meso policies, the potential for action, the knowledge necessary to develop long-term policies and the capacity for implementation are shared among several State, private and intermediary operators: enterprises, associations, the scientific sector, State institutions, private intermediary institutions and trade unions (Mayntz, 1993). During the period of Fordism and highly standardized industrial patterns, it was still possible to successfully establish large, vertically integrated enterprises based on the centralized State

planning of industry (as in the former Soviet Union, India and even Brazil). Today, however, centralist and unidimensional regulation patterns are doomed to failure when the objective is to develop and support the creation of complex enterprise networks and groupings of specialized institutions.

Patterns of social organization, the rapid flow of information, open channels of information, and interlinked structures and communications are becoming competitive factors in themselves. “Soft” management media (Krumbein, 1991, p. 49), such as information flows, the integration of interests and the establishment of procedures are acquiring increasing significance as a result of changed structural conditions.

The means have two functions: on the one hand, State meso policy is dependent on the resources offered by the technical know-how of enterprises, the scientific sector and other strategic actors; on the other hand, the new management means are consistent with the interactive nature of innovation and the systemic nature of competitiveness. Thus, meso policies gradually take on the nature of a process. The formation of structures at the meso level (in contrast to macroeconomic policies) is not only promoted by public policy, since the enterprises, intermediary institutions and associations (individually or together) can and should contribute to shaping industrial location policy (for example, by offering training opportunities, developing information systems or speeding up information flow).

These new management methods have gained ground in countries such as Japan since the 1970s, when classical industrial policies prevailed, with tariffs and quasi-tariff barriers, the promotion of imports through tax incentives, subsidies for scientific and technological research and the creation of compulsory cartels (Hilpert, 1993; Vestal, 1993). The plans and forward-looking strategies set forth by the Japanese Ministry of International Trade and Industry (MITI) are the result of a lengthy and thorough process of dialogue with representatives of the private sector and members of scientific research circles. These plans, which are regularly drawn up for a period of three to ten years, have nothing in common with

the directives of a centralized economy since their implementation is not obligatory for either enterprises or public bodies. The views of the future outlined by the main social actors give a general idea of the direction that macroeconomic development should take: a direction which is desired and felt by many to be correct. These plans also set short- and medium-term objectives for different sectors, by means of an overall analysis of bottlenecks, strengths and possible radical changes. They also provide guidance to help banks to decide on the granting of credit, to aid enterprises in decisions on long-term investment, to help the private sector to decide on the allocation of resources to research, and to enable intermediary institutions (educational and research establishments) to readjust and correct their management aims. Such a policy reduces insecurity and stimulates innovation and investment in scientific and technological research, enabling enterprises to pursue long-term strategies aimed at growth and the acquisition of market shares.

Another example of the increasing importance of “soft” management media and effective communication channels between relevant social groups, institutions and organizations is to be found in the “regional conferences” which have become institutionalized in some federal states of Germany, particularly in critical areas where extensive reconversion work has been or is being carried out, such as Nordrhein-Westfalen (Jürgens and Krumbein, 1991; Voelzkow, 1994). Here, many of the social actors involved try to reach agreement on future development opportunities in the region, seeking to identify obstacles to the modernization process and to predict the environmental and social costs to this process in order to develop guidelines for decision-making at the political and enterprise levels. In the regions involved, complex cooperation networks including business organizations, trade unions, associations, local government, technological institutes and universities are emerging. These networks are situated between the State and the market. They develop visions or, in more pragmatic terms, scenarios for regional development. They prepare major strategic decisions and open the way for non-governmental policy management of the programmes for economic restructuring as well as the participatory development of industrial location structures, both regional and national.

5 Courses of action in situations of radical change and of consolidation

The search for promising economic areas with a high potential capacity for generating value added and the development of an anticipatory structural policy are ambitious undertakings. In general, this type of precisely focused approach is likely to be successful only in consolidated economies with experience of coordinating the action of enterprises with that of government and the scientific sector.

Focused approaches and selective meso policies go hand in hand with the development of a complex monitoring system. It is precisely during the different stages of economic restructuring that strategic focusing by the public institutions (ministries of the economy, teams of advisors) is a key factor. Business associations and groups will primarily defend their own interests and press for their respective industries to be defined as strategic focal points. During stages of radical change, actors who are following a strategic course of action must cooperate in public bodies with independent experts and advisers in order to be able to identify industrial focal points with development potential. In the stage of economic consolidation, the main task is to establish a more extensive monitoring system based on a board range of agencies and institutions. For their part, economic research institutes, university research centres, sectoral technology and advisory institutions, business associations, research centres in the private sector, trade unions and consultancy firms help to continually improve the information on the dynamics of the productive sector. They all interact through the publication of papers, scientific debate, conferences and joint research.

The technical know-how built up in the institutions and the formal and informal interaction which they permit (cooperative network) enable all the social actors to undergo an ongoing learning process regarding the economy and industrial location, while showing up more clearly the strengths and weaknesses of the national economy and the challenges facing it, and enhancing the ability of enterprises and private and public institutions to adjust their courses. The first this that many developing

countries have to do is to set up institutions providing a context for the acquisition of technical know-how linked to the productive sector. In the industrially advanced countries, however, the accumulation of such knowledge is, to a large extent, an autonomous process since the aforementioned operators communicate with each other through the exchange of reports, seminars, joint research projects, advisory councils, and a wide range of other means. Apart from the existence of this autonomous horizontal dimension, it is the research-promotion institutions that usually set the corresponding priorities.

It is clear that what is lacking in order to translate this technical know-how into economic policy is an actions-oriented strategy. Here also, State institutions dealing with economic policy and industrial location must undertake the important tasks of gathering and processing the existing technical know-how, exploiting channels of development, and cooperating with strategic actors with a view to developing visions for the medium-term so as to obtain, on this basis, the best possible blueprint for industrial location. The formation of new patterns of social organization and of “procedures for intervention and regulation that are more compatible with autonomy” (Scharpf, 1992) at the meso level facilitates at the same time the management and shaping of market processes, reducing the shortcoming of purely commercial regulation and of State planning.

6 The national, regional and local dimensions of the meso level

In addition to a general framework conducive to innovation (basic education, tax incentives for scientific and technological research), the implementation of specific and selective meso policies is required for the creation of competitive advantages. Unlike “horizontal promotion”, which is so widespread, selectivity at the meso policy level is aimed at “strengthening the strong” with a view to the rapid construction of dynamic industrial focal points and efficient localized industrial structures that will radiate an effect outwards onto the less developed areas around them.

The selective approach has three main aims:

- i. The focusing of meso policies on industrial clusters with development potential;
- ii. The development of an efficient support structure for these clusters, i.e., a framework conducive to innovation, a set of instruments designed to advance the best performers (i.e., the “winners”) and encourage them to employ the best international practices as quickly as possible, and the formation of structures which help the enterprises with development potential to catch up with the best;
- iii. The strengthening of the developing regions where dynamic enterprise groups or clusters are emerging.

The policies which make up the meso level have a national and regional or local dimension⁶. At the national level, meso policies are aimed at developing the physical infrastructure (transport, ports, rail and road networks, telecommunications, energy, water supply systems, waste disposal systems, etc.) and non-physical infrastructure (education systems, etc.) appropriate to the clusters. Also of significance are the selective policies and activities in the area of foreign trade (trade policy and strategies for market penetration) as well as the active protection of interests at the international level (for example, those of the developing countries in the face of the protectionism of the industrialized countries).

As this systematic improvement of the national meso level takes place, policies specifically designed to support the clusters assume importance at both the regional and the local levels. Given the increasing importance of spatial structural factors for the competitiveness of enterprises, it is necessary to implement decentralized policies and to re-examine the powers of national, regional and local political bodies. It is essential, in this context, to extend the powers and funding of the regional and local

⁶ Within the context of the European Union and, to a certain extent, within that of the Common Market of the South (MERCOSUR), there is a multilateral dimension to technology policy which is not discussed in detail in this paper.

administrations and support the formation of other structures at the local and regional levels (development of structures from the bottom up).

Decentralization should not be seen as a schematic delegation of responsibilities to subsidiary decision-making levels and, still less, as dissociation between regions and the State. As is the case in modern enterprises – where the increased autonomy enjoyed by the most profitable units does not imply the elimination of managerial levels but rather increased ability to control and the acquisition of new tasks for central management (the organization of cooperative networks and the development of strategic visions for the enterprise as a whole instead of centralized management of all its divisions) – efficient decentralization of the public sector will bring about complementary changes at the central level. The State will continue to be important in bringing together dynamic groupings within a national development strategy, in ensuring productive feedback between local and regional groupings and in implementing an active foreign trade policy (development of structures from the top down).

Structuring the meso level in order to create capacities is an ongoing task for the public and private sectors. Meso policy should be viewed as a cross-sectoral undertaking directed towards the continual improvement of economic location. Furthermore, a well-structured meso level not only serves as a means of increasing and maintaining the international competitiveness of the economy but also forms the basis for the effective implementation of accompanying social and environmental policies⁷.

7 Cooperation network structures and their operation

The structures based on cooperation networks and autonomous horizontal coordination are situated at the meso level. This is where hierarchical

⁷ See Esser, Hillebrand, Messner and Meyer-Stamer (1994), p. 82 *et seq.* In future development research it would be essential to link theories on competitiveness with the new approaches focused on equity. One of the questions raised refers to the dynamics of the modern sectors, oriented towards the world market, and to the contributions to development made by the informal sectors in relatively weak economies.

management interacts with management based on these networks – “self-coordination in the shadow of hierarchy” (Scharpf, 1993, p. 145). The mechanisms based on cooperation networks predominate at the meso level because management resources are spread widely throughout this entire policy area (the ability to identify problems, knowledge of the causal links which affect management, and the capacity or implementation). The meso level is distinguished by the phenomenon of “shared sovereignties” (Meyer, 1994()), which affects public institutions, enterprises and intermediary organizations alike shaping an economic location through a set of technological, innovative, educational, industrial and regional policy measures therefore depends on the social actors of the micro and meso levels being closely interlinked. The meso level is where government actors operate (from the local up to the national level), together with public and private intermediary institutions (educational, advisory and technological bodies, and also chambers of commerce and other associations). Their interaction gives rise to cumulative processes which boost the capacity of all the parties involved, including that of the meso level as a whole⁸.

Against this background, three points are relevant: first, the specific relationship between the meso and meta levels; second, the scope of meso policies, and third, their importance for the development of international competitiveness.

7.1 The relationship between the meso and meta levels

As mentioned earlier, different patterns of organization and management are superimposed on top of each other at the meso level, so that the task of developing this dimension depends on the organizational and strategic

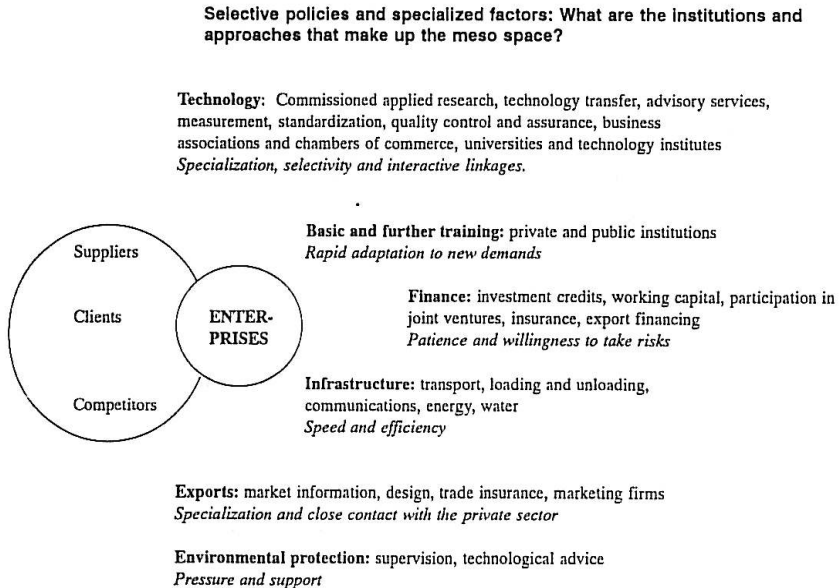
⁸ This formation of the meso space at the national level may have its counterpart in location policies at the multilateral level (those of the European Union, for example). At this level however, it is customary to take strategic decisions (discussions about the sectors with potential) or to implement joint research projects, whereas the institutional formation of the meso space is carried out in an increasingly decentralized manner in each of the economic regions.

capability of many different social actors. Thus, the capacity of the organizational patterns situated at the meso level and based on cooperation networks is closely linked to the deep-rooted structures of each society involved and, hence, to the meta level. It is at the latter level where attempts should be made to identify the factors determining whether or not the collective actors will be able to address themselves to finding solutions to the problems.

Any attempt to implement a management strategy based on cooperation networks will be doomed to failure if the actors involved have a tendency to operate lobbies, if they have no previous experience of dealing with conflicts or working out consensual solutions (in which case structures based on cooperation networks can easily result in “endless disagreement”), or if the absence of the securities inherent in a State governed by the rule of law hinder the creation of “general Trust” among the actors: an important prerequisite for management based on cooperation networks (Messner, 1995).

Figure 4: Selective policies and specialized factors: What are the institutions and approaches that make up the meso space?

FIGURES 4



When conditions are favourable at the meta level, the tasks to be undertaken at the meso level are as follows: to strengthen the capacity of the actors involved as far as possible (enterprises, business clusters, employers' and employees' associations and other interested groups, and intermediary institutions); to encourage coordinated action among them with a view to generating synergistic effects and uniting widely dispersed management resources without undermining the relative autonomy of the actors; and to achieve a balance between individual and collective interests.

What is also needed is a system for balancing powers which prevents the environmental, social and economic costs of the meso-level cooperation networks from being unloaded onto society. The formulation of this level places great demands on societies, and is a difficult task for developing countries or countries in transition. This is why the structuring of the meso level is such a test of the organizational and managerial capacity existing in a given society.

7.2 The scope of policies and private activities at the meso level

In contrast to the situation at the macroeconomic level, where scope is limited in some areas by the globalization of the economy (for example, through loss of sovereignty concerning interest rates), the meso level offers greater room for manoeuvre and is increasingly important. If we allow that the effectiveness of this level depends on the coordinated action of the social actors, and that the local, regional and national dimensions do not lose their relevance,⁹ since there tend to be national competitive advantages (Porter), and if the creation of competitive advantages is linked to industrial locations, then it would seem to be the case that while the demands on the meso policies are great, there is sufficient leeway for their development. Although it is possible to take advantage of external potential (such as foreign know-how and participation in international

⁹ As indicated in studies by Porter, OECD, advocates of the theory of *industrial districts* and other works.

technological networks), the meso level remains limited to a single geographical area, since it is an interlinked organizational and institutional system that cannot be exported or imported. The patterns of organization and management based on cooperation networks which predominate at the meso level particularly encourage the clustering of enterprises.

7.3 The importance of the meso level in the creation of systemic competitiveness

The situation described above gives a clear indication of the importance of the meso level in the creation of national competitive advantages. Whereas macro level policies are becoming increasingly similar worldwide, the localized industrial clusters differ significantly from one country to another. The design of these localized structures is determined mainly by the set of institutions existing at the meso level (figure 4). This is where institutional and organizational competitive advantages are generated, as are the specific patterns of organization and management and the national profiles which sustain the competitive advantages and are difficult for competitors to imitate.

This approach contrasts sharply with the arguments of authors such as Knieper (1993) who maintains that an increasing number of uniform localized groupings “without their own distinctive features” are emerging in the world economy and that, when taking decisions, investors pay greater heed to the wage levels and tax rates prevailing in the host country. Most probably, it is precisely global competition that leads to the development of highly diverse and specific national patterns of competition within the world economy.

8 Demands on countries and regions

Not only does the ability of countries to respond to the needs of the different social groups and to the demands of technological change, the world economy and the sustainability of the development process vary greatly, but it also changes according to the different stages that each

country goes through. The world economic situation therefore undergoes relatively frequent readjustments. The neccessary processes that take place in countries whose ability to adapt is declining are mirrored by technological progress and successful late industrialization in other countries. Moreover, the capacity to anticipate and react to new demands at the technological and organizational level and in the world economy varies significantly.

Highly competitive and innovative countries, in particular, are developing regional groupings for trade and integration, resulting in the formation of interlinked systems in which industries cooperate closely on the basis of division of labour. Open regionalism enables new technologies to be tested in a large regional market before efforts are made to win shares of the world market. Furthermore, it also allows for a flexible response to the changes taking place in the world economy – such as the disproportionate progress of other countries in the competitive battle – while softening the impact of the adjustment on the national economy. Regionalism may lead to the establishment of regional blocs or the stimulation of world trade.

It remains to be seen how far the traditional industrialized and the newly industrialized countries will involve the other countries in a dynamic world economy and how far the latter will be capable of setting in train dynamic learning processes to permit rapid adjustment to the demands of the corresponding technological and organizational paradigm and to strengthen national enterprises and the national competitive advantage. Undoubtedly, national potential should be strengthened through cooperation and regional integration. It is only within the framework of integration projects that disadvantages of scale at the market level can be offset in the enterprise and in scientific and technological research activities. Only integration around countries with a firm economic and political basis will create a market dimension that arouses strong and sustained interest in economic growth among national and foreign enterprises.

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Figure: Four Levels of Systemic Competitiveness

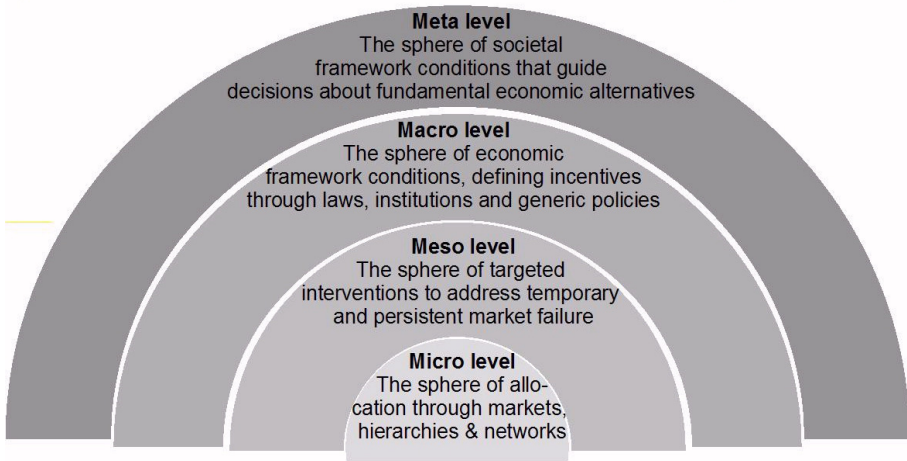
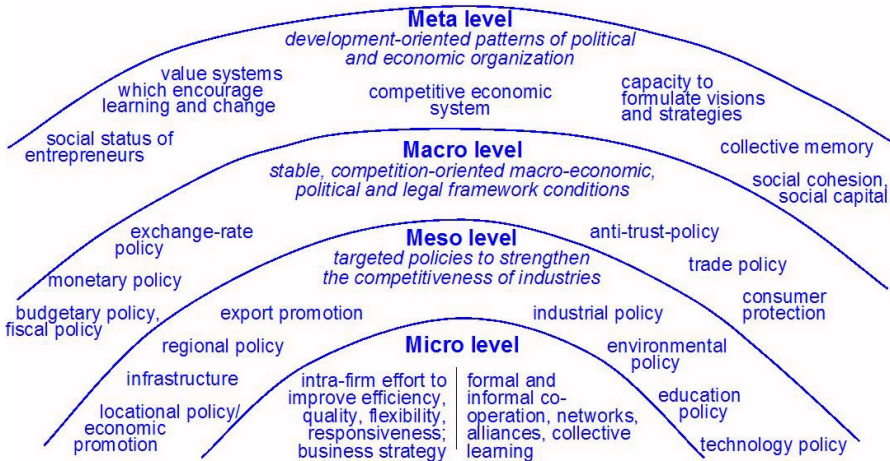


Figure: Determinants of Systemic Competitiveness



Some thoughts on the occasion of Jörg's 50th birthday - Local world knowledge and probing questions

Dirk Messner

“Systemic Competitiveness” ... Now, that was a success story, one that brought and kept Jörg and me together, along with Klaus Esser and Wolfgang Hillebrand, two other colleagues involved in the endeavor. The 1996 CEPAL Review article reprinted for this volume is certainly one of the most-cited essays ever published by DIE authors (DIE: German Development Institute). And all the articles we published on this complex issue met with considerable attention, especially in Latin America. This concept is closely associated with a highly creative phase in both our lives. We at that time produced a small mountain of literature, often without even really knowing what idea or what passage stemmed from whom: indeed, it would be difficult to imagine a more succinct illustration of the idea of synergy and creative teamwork. For me it was a great experience! The concept is also associated with a network of colleagues and friends that came about in the 1990s and still exists to this very day: Enrique Dussel from Mexico, Claudio Maggi from Chile, Francesco San Martin from Peru, John Humphrey and Hubert Schmitz from the UK.

In our Systemic Competitiveness team Jörg was responsible for the area of innovation, the structuring of complex problems and issues, for speed and visualization - and he was nothing short of a master of all these fields. We both loved working out diagrams, each with four levels, three dimensions, bundles of influencing variables - we had learned from the cognitive sciences that “pictures,” as they say, are worth a thousand words - not as surrogates for texts, but by virtue of their ability to generate attention, organize complexity, and stamp themselves on the reader's

memory. And I was happy indeed when I succeeded, in the mid-1990s, in convincing Jörg to join me at the Institute for Development and Peace (INEF) in Duisburg, for discussions with Jörg are always informative, often provocative, invariably stimulating. Then, though, we went our separate professional ways, and Jörg took the “meso-dimension” of our concept along with him to the “meso-partners” - a strong piece of evidence, if ever there was one, indicating that there are indeed direct bridges leading from science to practice and back again!

Casting a glance today back at we did together in those days, I can still find a good number of things that have endured. Competitiveness and dynamic development are in fact “systemic.” Talking about economic processes without real institutions, concrete actors, and political settings simply puts us on the wrong track. Our attempts to combine otherwise unlinked approaches (such as innovation theories, macroeconomic concepts, steering and governance concepts from the social sciences) were, and still are, the right responses to the misguided hyperspecialization trends of which a certain academic routine has proven fond and which inevitably lead to a point at which we understand “less and less of the whole but [understand it] in greater and great detail” (Wolfgang Streeck) - in other words, the point where we lose sight of the general idea. The conclusion Jörg drew was to translate the policy relevance of our work into actual practice and to develop a set of interesting tools designed to help keep the big picture in mind at the local level and to come up with judicious decisions even in the face of towering complexity. He has, in the past decade, traveled the world, getting to know it from very different local perspectives. His successes are admirable, and it is here that Jörg is able to bring his strong point to bear, namely his ability to grasp, faster than most others in our business, complex contexts and to reduce their complexity, without simplifying them.

Many contexts have of course changed since we started working together in the early 1990s. I am presently interested in three contexts and dynamics that we had, at that time, not yet approached, were unable - or unwilling - to see.

1. The concept “systemic competitiveness” was focused on scopes for local and national action needed for success in the context of the world market. It deliberately disregarded the transnational structures in the context of which systemic competitiveness comes about. A few years ago, Jörg and I, together with Hubert Schmitz and John Humphrey, worked on a VW program designed to better understand the synergism between global value chains and local and national economic development (Schmitz 2004). In addition, we would today have to analyze more exactly how local and national innovation systems - a subject on which we were working at that time - interact with trans- and international innovation systems and what implications this has for effective locational policies.
2. For us, in the mid-1990s, the environment was more a peripheral issue. “Sustainable development” was something we left to our DIE environmental team, at that time a very small one. From my intensive work on the truly “systemic effects” of climate change in connection with my activities for the German Advisory Council on Global Change (WBGU), I learned that it is absolutely essential for economic development to take account of natural-spatial conditions, the dynamics of the Earth system, and the limits and tipping points of ecosystems. If we are to set the stage for it to be durable and not, even in the longer term, lead to any irreparable damage to our global ecosystems, it is essential that we no longer reduce “competitiveness” only to the function of increasing material welfare. Today and for the coming decades, our main concern will be the transition from the fossil based to a low-carbon economy. While “systemic competitiveness,” innovation systems, and governance capacities continue to play an important role, they need to be conceived with a view to the greenhouse gas balance of economic activity and the tipping points of ecosystems. Two recent book publications from two of the Grand Gurus of the international consulting landscape, Peter Senge (2008) and Thomas Friedman (2008), seem quite interesting to me in this respect. Both have only just recently integrated the environmental dimen-

sion of economic dynamic into their thinking - and done so in a refreshing and readable way.

3. Coming as it did in the wake of the East-West conflict, what Charles Kupchan stated in 2003, namely that “globalization is Westernization,” appeared to make good sense even for those observers who regarded Fukuyama’s “End of History” as nonsense. Now we are witnessing the dawn of a new era marked by the rise of the “Asian drivers of global change” (Kaplinsky/Messner 2008). We see a number of tectonic global power shifts taking shape in politics and the economy. If we add to this the financial market crash we are just in the midst of, we cannot help but find that many questions bearing on future economic strategies in both OECD and non-OECD countries are taking on a wholly new complexion. While the Anglo-Saxon type of market economy has contributed in enormous ways to advancing globalization, it paradoxically turns out, in its present form, to be unsuitable for globalization. And while China’s development model has, in a number of different respects, proven unbelievably successful, the Chinese economy is in the midst of a radical transformation process, and there are as yet no signs of consolidation. Indeed, China itself is the scene of intensive and controversial discussions on the mix of market, state, and society that has the best prospects of proving to be the right one over the medium to long term, and there, too, the search is on for ways to increase welfare without undermining, both in China and throughout the world, the foundations of the Earth system by the end of the present century. After the Wall Street disaster of October 2008, finally, Continental European capitalism can claim to better embody principles and goal systems that may well prove to be more sustainable than the Anglo-Saxon competition: An institutionally-embedded market economy, a relevant state sector, social balance, and environmentally-compatible economic activity continue to be reliant on regulation and social participation, precisely in the age of globalization. But there is no reason to try to fool ourselves, either: there is no way back to the cozy, nationally-constituted “social market economy.”

What we see ourselves faced with at the end of the first decade of the 21st century is a looming conceptual vacuum. Bad times for ideologues and simplifiers, good times for creative minds, inquisitive people, and people able to view states that may seem confusing from a multiplicity of different perspectives.

All this said, I really must sit down again with Jörg and listen to his often entirely different view of things, lend an ear to his probing questions - and marvel at the world knowledge he has amassed and set down in a good number of masterly essays on his visits to the four corners of the Earth. And on this occasion we really must draw up a few diagrams and graphics and put names on the three, four truly key causal nexuses. After all, this is a good time to develop some plausible and well-structured interpretations of what needs to be done to tackle the challenges of the coming decades. This, by the way, is something that we (Jörg and I) have learned from our friend Hubert Schmitz: To develop convincing possible interpretations for complex situations is the core task of the scholar who thinks “entrepreneurially, in terms of change” - not simply piling up petty facts and data ... and, he often adds, to offer good and plausible “stories” that serve to explain, to provide orientation, and to point to sustainable paths forward. Jörg being good at both - working out analytical interpretations and telling precise “stories” - we certainly need not be concerned about the second half of his life, either.

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The revival of Local Economic Development in Latin America: New Prism for an old Challenge?

Claudio Maggi

1 Introduction

During the present decade, in several Latin American countries both public policies and support of international development cooperation seem to have renewed their interest in local development through diverse programs, initiatives and projects which have in common the emergence of territory as an essential component that makes it possible to take advantage of proximity between stakeholders, local networks and local supply chains, among other driving factors.

Latin American countries, including many that have shown throughout their history a rather weak tradition of economic development policies anchored on local institutional frames, have gradually switched during the last years towards promising models like the creation of local development agencies (Ecuador, Chile, Colombia, Mexico), or the promotion of both local clusters and value chain development programs (Argentina, Brazil, Chile, Mexico, Panama, Peru, Uruguay) following a wide variety of approaches and referential experiences from Europe, USA, and even East Asia.¹⁰

¹⁰ Specifically institutions like CORFO (Chile) and SEBRAE (Brazil), have implemented some SME promotion programs in fields like technology transfer and supplier chain development referring, among other successful international experiences, to similar initiatives in countries like Japan and Malaysia.

Despite their rather diverse specific background conditions, it is clear that there is a growing demand in all these countries for supporting territorial-based productive development initiatives. Such demand is a direct consequence of an “increasing awareness of the necessity to formulate and implement economic development strategies at the local level, (since) the 1990s have seen the demise of traditional approaches to industrial, structural and regional policies”, as Jörg Meyer-Stamer remarked in his introduction to the Participatory Appraisal of Competitive Advantage -PACA methodology. (Meyer-Stamer, 2005).

This article will focus on the two main causes that in my opinion can explain such a trend, one that was completely unexpected in the Region just a few years ago, as well as its direct implications for both policy makers and LED initiative practitioners. First, the emergence of a fertile field of economic development policies and initiatives which aim to synergize the competitiveness-enhancing imperative with specific territorial factors and local meso-economic conditions; and second, the increasing evidence of the poor impact of policies implemented under the traditional centralized national-level approach at local levels.

2 Competitiveness and Territory: debate and evidence

One of the most widespread definitions of Competitiveness was given by the US Council on Competitiveness in 1985, which defined it as “the capacity of a country to gain and keep advantageous positions in international markets improving at the same time the quality of life for its citizens”. During the 1990s, from Porter’s “Competitive Advantage of Nations” to Krugman’s critical view on the matter -since he supports the viewpoint that in essence the concept should be focused on companies rather than countries or any other territory-, an intense debate took place over how appropriate it might be to extend such a concept of competitiveness to sub-national territorial levels, namely regions, provinces or even cities (Harmes-Liedtke, 2007).

Current evidence shows that global competition has pushed countries, regions and cities to compete with each other by vying to attract the loca-

tion decisions of foreign companies, as well as skills and talents and, in more general terms, promote a better business climate, in order to enhance their “competitive” performances. In addition, in most countries in the region there has been a widespread implementation of decentralization reforms over the last two decades, with local and regional stakeholders increasingly becoming central players in both economic and social development agendas. Today, on average, sub-national governments in Latin America are responsible for nearly 20% of total public expenditure and, in many countries, over 50% of total public investments (MIF-IADB, 2007).

In line with this evolution, many policy makers as well as government agencies in Latin America have been quick to realize the necessity of refreshing most of the traditional toolkits for industrial and sectoral policy, from their 1980s macro-based recipes mostly influenced by the Washington Consensus to new ones much more suited to diverse local meso- and micro-economic conditions. Thus, any alternative approach should tend to emphasize the fact that a sound macro-economic frame is merely a necessary condition, but not one that is sufficient to enhance the capacity of countries achieving “virtuous growth paths” with high employment generation rates, and increasing business sophistication and successful development of less developed or restructuring regions.

An important feature of these emerging approaches is that they often combine two simultaneous perspectives: the more traditional top-down one and a variety of bottom-up inputs, mostly from local administrations, often with strong complementary roles played by both public and private stakeholders. This has implied, on the one hand, greater complexity in terms of governance when designing and assigning roles associated with policy and program implementation and control. It also leads to a broadened selection of instruments and incentives that can be combined in a custom fit for the programs according to the conditions in the territory where they will be employed. In addition, these simultaneous top-down and bottom-up inputs in territorial terms (also known as the up-bottom-up approach) has allowed incentives to respond to drivers and enabling factors in a manner that is finely-tuned to specific local conditions.

A general overview of the locally bounded initiatives implemented with significant impact in the region during recent years has revealed several drivers linked to these initiatives' strategic targets, as well as several enabling factors that condition strategies by eventually becoming hindrances or "bottlenecks" in their development. Both types of factors can be expressed either explicitly or tacitly at the launch of the initiatives, but in either case they have most likely contributed to bringing about the institutional agreements and policies needed for their existence, while at the same time inspiring their operative design and application.

This preliminary review of recent selected LED experiences has included the following:

Argentina (AR): Proyecto Rafaela Competitiva, headed by the Municipality of Rafaela, with the support of the Santa Fé Provincial Government and IADB-MIF (2nd. Phase, since 2005);

Brazil (BR): APL Program¹¹, sponsored by SEBRAE and State Governments, since 2002;

Chile (CH): Innova BioBio, sponsored by CORFO and BioBio Regional Government since 2001; Regional Development Agencies (ARDP) hosted by CORFO and Regional Governments since 2006; Todo Chile Program, promoted by CORFO, since 2000;

Colombia (CO): Cluster Promotion Program, sponsored by IADB-MIF and executed by U. Los Andes, since 2004; Regional Development Agencies, promoted by Central and Regional Governments, since 2005;

Ecuador (EC): Regional Agencies, with support of IADB-MIF (Acudir, Corpoambato, Proimbabura, since 2001);

Mexico (MX): Regional Foundations (Jalisco, Sonora, since 2002);

¹¹ APL: "Arranjos Produtivos Locais", Local Productive Agreements promoted by SEBRAE and Brazilian State Governments.

Panama (PA): Compite Panamá Program, with the support of IADB, since 2002;

Peru (PE): Cluster Promotion Program, sponsored by IADB-MIF, since 2005;

Uruguay (UY): PACPYMES, SME Clusters Promotion Program, sponsored by the European Union, since 2004;

The following drivers linked to strategic targets for each initiative have been identified based on the sample listed above:

- *Imperative for increasing competitiveness (linked to economic broadening and market integration processes):* APLs (BR); Compite Panamá Program (PA); IADB Credits for Provincial Governments of Mendoza and Río Negro (AR).
- *Retrofitting following a crisis:* Innova BíoBío (CH).
- *Local job protection and creation:* Rafaela Competitiva (AR), Acudir Local Agencies, CorpoAmbato and ProImbabura (EC)
- *Local SME promotion:* APLs (BR); MIF local conglomerate promotion programs (PE, CO).
- *Innovation and entrepreneurial promotion:* Innova Bío Bío (CH), Jalisco and Sonora Foundations (MX)
- *Business networking and cluster development:* MIF and UE cluster promotion programs (CO, PE, UY); Rafaela Competitiva (AR); APLs (BR);
- *Investment Promotion:* CORFO-TodoChile Program (CH).

For enabling factors, the following examples can be mentioned:

- *human capital;*
- *financial capital;*
- *social capital (level of trust and harmony between stakeholders);*
- *physical infrastructure (roads, ports, airports, logistical support);*
- *transportation and telecommunications;*
- *connectivity (Internet availability and use);*

- *availability of critical resources (water, energy);*
- *universities and support institutions.*

Although the mix of drivers and enabling factors at the beginning of the different initiatives reviewed are important to understanding the motivations and purposes, they do not explain on their own the set of causal relations with the relevant instruments and incentives adopted for each initiative. The implementing institutions and governance structure for each program play key roles in determining the application and operational performance of these instruments and incentives. As such, implementing institutions can be characterized based on several formulas for public-private collaboration and governance, as well as whether or not the different services and activities considered are supply-driven (for example, in capacity-building or programmed service platforms) or demand-driven by businesses, local entities, or users in general. A preliminary taxonomy based on these distinctions leads to at least four relatively well-defined types of institutions:

- 1) Matching grant co-financing platforms run by public or semi-public agencies: Innova BioBio (CH); PACPYMES (UY); Compite Panamá (PA);
- 2) Public-private secretariats implementing territorial promotion agendas and carrying out innovation or “club goods”-type projects: APLs (BR); ARDP (CH); Rafaela Competitiva (AR); Jalisco and Sonora Foundations (MX).
- 3) Local business service provider platforms DEL Agencies (EC); Rafaela Competitiva (AR).
- 4) Private implementing agencies for cluster promotion and financing programs (CO and PE).

Based on the review of this set of initiatives, this new generation of programs includes a broad selection of instruments that can be mixed with varying emphasis and weight. The following instruments should be mentioned:

- Territorial promotion
- Business development services

- Strengthening of leading and potential productive chains
- Access to public procurement systems
- Access to local credit for SMEs
- Increased business networking
- Promotion of innovation and greater collaboration with universities, R&D centers, and technology transfer with local productive systems
- Professional training and capacity-building
- Productive investment promotion
- Local public-private investment in club goods to avoid local bottlenecks
- Modification of legal frameworks and simplification of paperwork to undertake business activities
- Incubation and seed capital for dynamic entrepreneurial ventures
- Inter-agency promotion collaboration
- Complementary to social investment funds

The diversity of services and instruments clearly reflects these programs' potential versatility. On the other hand, they also prove to be specific and therefore must be adapted to other local contexts prior to replication. Additionally, they are highly dependent on certain determinant social capital factors, such as quality leadership and public-private links. In fact, a crosscutting analysis of the factors linked to the relative success (or weaknesses) reveals a remarkable consistency regarding the following factors:

- Legitimacy of local leadership with competitiveness vision.
- Acceptance of a shared vision for the future by main stakeholders.
- Ongoing market test during program design and implementation.
- Robust, clear instruments and incentives affordable for the user.
- Periodic territorial-level public accountability in the area where the initiative is being carried out.

- Consistent baseline, progress monitoring, and periodic assessment approaches.
- Leading support institutions that are viewed as accessible, competent, and impartial.

In addition, other key requirements to ensure the sound performance and legitimacy of these programs include two conditions: (i) capacity-building in promotion and expert technical support; and (ii) regional-level venues for strategic agreements to improve coverage and depth of innovation and technological development policies and programs. This implies creating robust human and instrumental capital and strengthening decision-making skills among public-private boards governing the different LED initiatives.

At the same time, these experiences reveal that central-level administrations must renew their capacities and attributes in order to provide support for a decentralized territorial network, including tasks such as benchmarking, knowledge management, standard creation and measurement, and monitoring. These administrations should also continue to manage national-level project decision-making. These measures diminish the risk of capture on specific territorial levels, which is the main argument for bestowing greater regional power over innovation and competitiveness policies.

3 Evolution of the Central-level Role and False Dilemmas in the Light of New Pro-LED Practices

Meyer-Stamer (2005) identifies several causes explaining the decline of traditional approaches to designing industrial programs and policies, and the subsequent fall in the 1990s. Meyer-Stamer highlights the fact that the problems identified were oftentimes: “

- formulated (but quite often actually not implemented) by central government,
- formulated and implemented in a top-down manner, without consultation and involvement of the target group,

- based on an external evaluation of potentials and problems, rather than a process of local awareness building and learning,
- often based on huge development projects, like large dams, and huge investments, like petrochemical, steel or other basic industries,
- creating perverse incentives due to the availability of government subsidies for regions with low performance.

This approach is no longer being pursued for a variety of reasons. One of the most important ones is the inability and unwillingness of central governments to conduct such activities – inability due to lack of funds, unwillingness due to the predominance of the neoliberal doctrine which, in the simplistic / fundamentalist variety, is opposed to active development-oriented policies. Another important reason is the observation that, in leading industrialized countries, development policies are quite successfully formulated and implemented at the local and regional level, something that is perceived as a model in latecomer countries.”

One of the most significant findings of the new generation of LED programs –without idealizing them– is that the more consistency there is between central and local-level activities, the more robust the activities will be, with greater potential impact. This has to do with the central level’s undoubtedly superior capacity to define national standards, benchmarking, and prevent capture by local stakeholders. These actions can be complemented on the local scale, which has strengths such as proximity to users, legitimacy to carry out highly participatory processes, and accountability to the community.

The following table presents an example of how to distinguish between complementary attributes in both levels, which could likely be encouraged in some of the initiatives considered in the sample.

Area	National Level	Local Level
Areas of Intervention	Macro policies; labor, business and financial system regulatory framework; competitiveness and employment microeconomic policy	Meso- and micro-economic collaboration and targeting (retrofitting, clusters, urban/rural entrepreneurship, procedures, microenterprise establishment and development)
Governance	Top-down, with varying levels of de-concentration and public-private links	Bottom-up, with local public and private leadership, shared territorial development vision, and high-level public-private dialogue
Predominant approach	Sectoral, size-based focus on business segments	Territorial, focus on existing and promising clusters and value chains
Support Instruments	Franchises, tax incentives, matching grants	Synergetic coordination of national instruments; provision of local conditions favoring economic activity
Accountability	National level (legislative power, states), social and tax profit assessment	Local level (Council), decentralized analyses of local performance, local community
Networking and knowledge	Greater capacity for global networking and transferring codified knowledge to local levels (especially in medium and small Latin American countries)	Potential ability for specialized antennas and links with expert networks. Possibility of learning codified and tacit knowledge, positively impacting technological absorption capacity
Relative strengths	Definition of standards; Prevention of instrument "capture"; Benchmarking, dissemination, and best practices transfer on a local scale	Ability to lead participatory processes; client proximity and service; territorial promotion

4 Final Considerations

Although LED initiatives in Latin America are still considered to be rather rare or experimental, since 2000 a handful of experiences run on a sub-national territorial level have had an impact and legitimacy even greater than prior regional development and business policies that were created, passed, and implemented at the central level.

By reviewing some of these initiatives, a great variety of instruments and public-private governance models can be observed. This diversity is unsurprising given the search for proposals that are more consistent with each local context in terms of its baseline, which considers drivers, enabling factors, and social capital stock.

The review of these experiences reaffirms that the effectiveness of LED models lies in achieving synergy, rather than maintaining a zero-sum situation, between the central and local level. Likewise, a set of “false dilemmas” appearing in discussions from the late 1990s can be identified that focus on renewing conventional approaches to industrial policy and competitiveness. Some of these include:

Local development versus global insertion: Recent LED-initiative approaches are not aimed at supporting models that are autarchic or protected from local socio-productive relationships; on the contrary, they strongly emphasize the development of competitive skills in the territory in order to improve insertion in the local economy aligned with what has been dubbed “glocalization.”

Demand-driven approach versus strategic options: Tension that often-times appears to be detrimental can actually be advantageous, as it increasingly supports capacity-building and competitive strategic options, without compromising a healthy focus on business demand and market trends.

Horizontal business networks versus provider chains: These are recognized as complementary elements, perfectly compatible in complex structures and cluster dynamics.

Tacit versus codified knowledge, and local technology absorption capacity: This point also reveals potential synergy, which at the same time supports beneficial relationships between the central-level institutions' strengths and local-level entities' distinctive abilities.

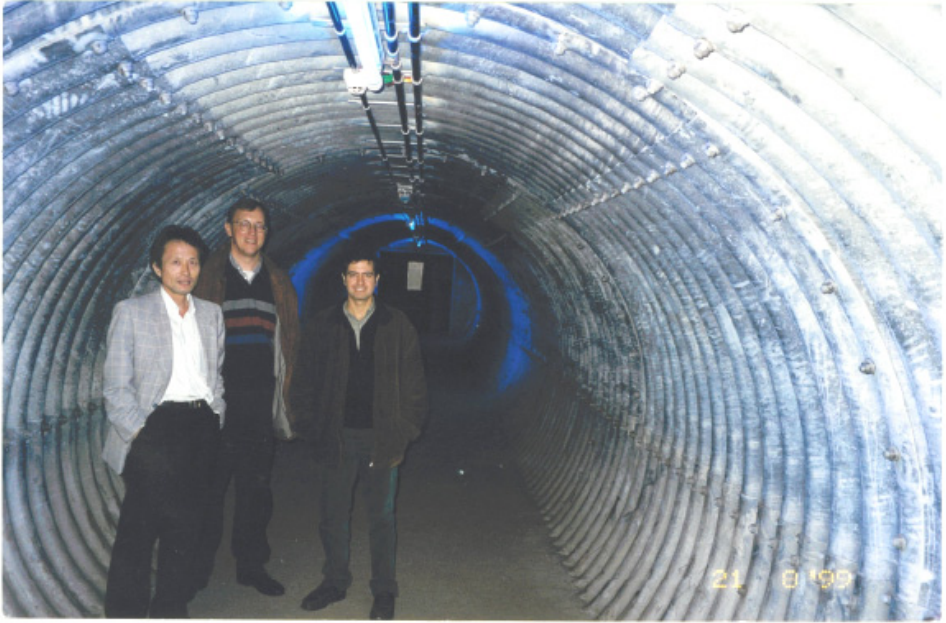
Centralized instrument management versus decentralization: As instrument management is decentralized, these instruments can become more suitable for the universal user. A robust decentralization process, however, should not disregard the central level, which can carry out key support activities to ensure the network is operating smoothly, thereby avoiding fall-backs to centralism due to perceived lack of control and bias among institutions. Unfortunately most central-level bureaucracies tend to regard this process merely as a loss of power rather than an opportunity to develop new skills in order to contribute to a better governance in richer and more complex institutional systems.

Innovation and productivity gains versus job creation: When considering innovation promotion as a driver in an LED program, local opposition can be frequent, given the potential job losses triggered by productivity gains as the result of innovation or technological changes. This tension can be particularly strong in territories undergoing productive retrofitting or mature productive complexes. However, both the local and central levels must maintain their efforts through these programs, since they aim to have a positive medium-term impact on productive employment and reverse certain job losses if upgrading and technological innovation opportunities are not introduced in a timely manner.

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Identifying Regional Economic Potentials

Christian Schoen

1 Introduction

In 2006, mesopartner was commissioned by the European Union–Vietnam Private Sector Support Programme (EU-VPSSP) to develop a methodology for Regional Economic Potential Analysis and the supervision of its first application in the three provinces Hai Phong, Da Nang and Can Tho. The aim was to identify sectors to be addressed by the project for deeper analysis and sectoral focus for intervention. The methodology was developed in cooperation with the Vietnamese consulting company MCG, which was in charge of putting this methodology into practice. The newly developed methodology was expected to be rapid and – as far as possible – participatory.

In the early phase of the tool development, Jörg Meyer-Stamer gave very crucial hints on key methodological strains on which the methodology could be based: global comparative trade analysis and the learning from global buyers approach. The profound knowledge of both approaches originated from his involvement in development work in Brazil in the nineties as well as his close cooperation with the Institute of Development Studies in Sussex over more than a decade.

The approach of the study has drawn interest from other agencies, and the methodology has been replicated by MCG (in a modified form) in Tra Vinh province in Vietnam. mesopartner has also replicated the approach in Indonesia. The objective and the methodology appear to be of high relevance, and there is demand for a practical and universally appli-

cable methodology. In this light, and as described in this article, the first applications of the Regional Economic Potential Analysis have shown that the method could and should be improved. The call for further development of the tool is the underlying motivation for writing this article.

Certainly, other approaches to identify economic potentials of local, regional and national industries and sub-sectors have been developed. Section 2 addresses the question of why there is demand and interest for identifying economic potentials. In section 3, this article briefly describes some of the traditional approaches as well as the general methodological framework they are embedded in. Sections 4 and 5 outline more recent methodologies, including the Regional Economic Potential Analysis in detail. For all approaches, the paper attempts to assess strengths and weaknesses, especially when it comes to rapid and participatory applicability. Based on these reflections, in section 6 the author develops proposals to improve mesopartner's method for Regional Economic Potential Analysis.

2 Why Identifying Economic Potentials?

Economic policy decision-makers at the national, regional and local level are usually interested in economic growth and development. The economic performance and competitiveness of manufacturing and service industries at the domestic and international level are the key prerequisite for growth and development. When designing meso-policies at the various administrative levels politicians and their advisors from the consulting business or - in developing countries – often from international donor organisations are particularly concerned with the current and future competitiveness of economic sub-sectors. The increasing globalization of production patterns, trade, investment, innovation and technology transfer places competition and competitiveness in a new context. Increasingly, it is not only firms and industrial sectors that are competing for market shares in world markets, but also regions and whole nations hosting those enterprises and industries.

As a consequence, more and particularly more sophisticated tools and methodologies are needed to give evidence on the current and future competitiveness of sub-sectors and industries. At the regional and local level tools to identify economic potentials can help to:

- assist regional government / donor programs in identifying the main economic potentials of a region / locality
- assess future competitive advantages with regard to private sector and SME development
- support local producers in remaining or becoming more competitive
- develop a local or regional economic development strategy
- formulate suitable meso-policy measures
- benchmark past and current performance and international competitiveness of individual sectors

The choice of instruments to assess and forecast industrial performance and competitiveness depends on the purpose of the endeavor as well as on time and budget constraints. Typical polarities of the nature of economic potential studies are:

- Quantitative versus qualitative
- Rapid versus lengthy
- Participatory versus desk-top
- Bottom-up versus top-down

Certainly, also a combination of some of the apparent polarities is possible, e.g. quantitative and qualitative or participatory and desk-top research-based. Efforts to identify economic potentials at the regional level, possibly supported by donor programmes, typically are limited in time and financial resources. In this context, it is expected that the method is rapid (thus cost-effective), combining quantitative and qualitative sources (thus generating more significant results) and participatory

(thus involving local expert opinions and - at the same time - creating ownership of the results).

The next section describes a variety of approaches available that are determined by the specific characteristics described above or by a combination of these characteristics.

3 Description of a General Methodological Framework

3.1 General Overview of Approaches for Assessing Competitiveness of Existing Industries

In 2001, the Economic and Social Commission for Western Asia, a unit of the United Nations, commissioned a study on compiling approaches applied to assess the competitiveness and performance of industrial sectors (ESCWA, 2001). The result is a methodological framework that focuses on two approaches: the Competitiveness Approach and the Cluster Approach (see Figure 1 below).

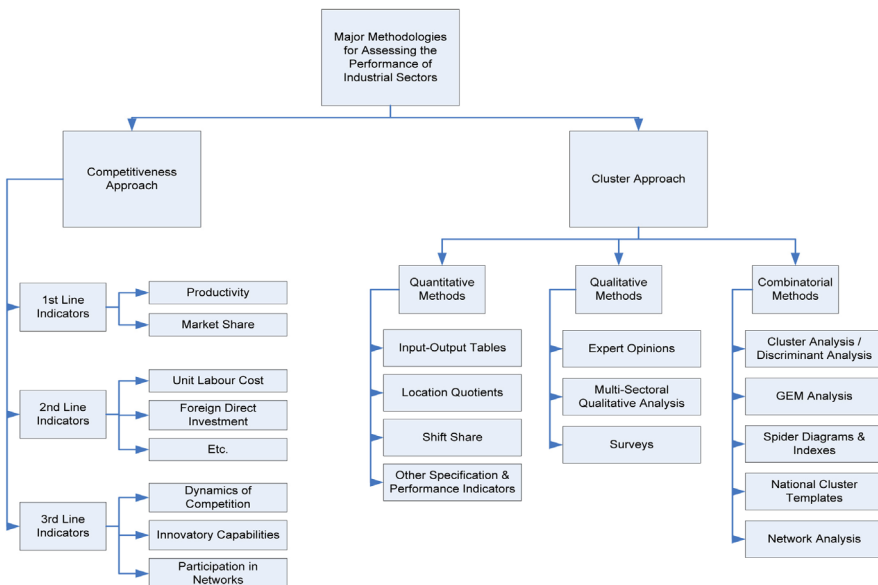


Figure 1: Methodological Framework for Assessing the Performance of Industrial Sectors

Source: Own graphic based on ESCWA, 2001

The Competitiveness Approach

The competitiveness approach is based on the assumption that the productivity of an industrial sector – at national, regional or local level – defines its performance and thus competitiveness. The final verdict about the sector's performance is given by the domestic and international markets where firms and industries are competing for market shares. Thus, the first line of indicators in the Competitiveness Approach is determined by Productivity and Market Shares.

The ESCWA paper discusses the problems and various approaches of how to measure productivity (ESCWA, 2001). For a rapid appraisal methodology, however, any measurement of productivity is difficult, as it presupposes very detailed and industry-specific data research that can be lengthy and cumbersome. Rapid appraisal of economic potential can thus only include back-of-the-envelope estimation of sector-specific productivities, which then however are not very accurate and might be flawed.

In terms of winning market shares as evidence for competitiveness, the paper argues that one needs to look at the indicators domestic market shares, export market shares and increasingly at foreign direct investment accompanied by technology transfer in an ever more globalised world. Various specific, calculated indicators are presented, such as export-import ratios or exposure to international competition. Moreover, it is argued that changes in exchange rates or shifts in regional export specifications can affect market shares without changes in competitiveness.

The second line of indicators are supposed to complement the first line and consist of determinants of the socio-economic environment, such as relative prices, unit labour costs, rate of investment etc.

The third line of indicators introduces a dynamic dimension, considering that industries and their technological capabilities develop over time. This line of indicators includes dynamics of competition (e.g. firm entry and exit), innovation capabilities (e.g. rate of product innovation) and participation in production and innovation partnership networks.

The issue around all indicators listed above is twofold. First, very detailed empirical data are required over a series of years, which is often a challenge, particularly in developing countries, and conflicts with a rapid approach. Second, those indicators have an “ad hoc nature”, i.e. the selection of specific indicators serves a certain purpose for one specific project and cannot easily be transferred to another project. “Strictly speaking, the lack of coherent theory—to choose important variables and determine cause and effect—makes interpretation difficult” (ESCWA, 2001).

The Cluster Approach

Clusters are defined as a territorial agglomeration of closely related industries. Typically, clusters also include supporting institutions, such as associations, research and technology institutes and infrastructure related to the core cluster functions. Industrial clusters have attracted the interest and attention of politicians and economic development officials in charge of identifying, sustaining and increasing regional competitive advantages and thus regional competitiveness. Industrial clusters are considered as impacting regional competitiveness in three ways: increase in current productivity, increase in innovation and productivity growth as well as generating the start-up of new firms (ESCWA, 2001).

Without entering into a detailed discussion on where to draw the boundaries of a cluster, which can be a “creative process” (Porter, 2000), we assume that most industrial cluster analysis methodologies can be used for analysing the competitiveness of regional industries that do not necessarily meet the strict definition of a cluster.

In 1990, Michael Porter developed the very heuristic Diamond model in order to describe and analyse the complex business environment in which firms and clusters operate and try to maintain or increase their competitive advantages. The Diamond model narrows the business environment down to four interrelated elements: factor conditions, firm rivalry and strategy, supporting industries and demand conditions. This model has been widely applied since then, adjusted and expanded by Porter himself,

e.g. by a fifth element 'Government', and also by other authors, e.g. the GEM model (see below). Conducting extensive research efforts along the four elements of Porter's Diamond or alternatively applying the Diamond in a participatory workshop setting with local actors can provide a first, very basic indication of local competitiveness.

Cluster analysts have applied a variety of quantitative and qualitative approaches and tools to study the competitiveness of industrial clusters. Also, some methodologies show a combination of both, quantitative and qualitative studies. Purely quantitative approaches include input-output analysis, location quotients, shift-share analysis and others. Qualitative approaches use interviews, focus group discussions, surveys as well as cluster maps. Combinatorial approaches are based on both statistical sector data and expert opinions.

- The most commonly used quantitative approach is probably the trade-based input-output analysis. Clusters and their competitiveness are derived from formal trade patterns. A recognised weakness of the approach is that trade data are often outdated and industry classifications do not always match existing sub-sectors at the regional level. An innovative, modified input-output analysis is based on innovation interaction matrices, describing the flow of innovation between innovation-producers and innovation-users based on surveys. The weaknesses of this approach are the time and cost required to collect the data.
- A quick and inexpensive approach to determine the sectoral specification of a region is the calculation of a location quotient. The location quotient is the ratio of a regional sub-sector's share of total regional local employment to the share of the national sub-sector's percentage of total national employment. A location quotient exceeding 1.25 typically indicates a regional specialization in a given sub-sector.
- Employment shift-share analyses look at changes in regional employment by sub-sector over a period of time in comparison with

changes in national employment. The results of shift-share analysis reveal strengths and weaknesses in the regional economy.

- Opinions of regional experts collected through interviews, workshops and focus group discussions are the most basic and at the same time most cost- and time-effective means of qualitative cluster and sector research efforts. In order to avoid receiving biased information and to triangulate opinions multiple sources need to be used and a variety of regional actors interviewed (entrepreneurs, public officials, representatives of associations and chambers, leading staff of supporting institutions etc.).
- The Multi-Sectoral Qualitative Analysis (MSQA) is a scoring technique employing certain performance criteria of various sectors in a regional economy with the aim of identifying opportunities and risks (Stough et al., 1997). For the identification of indicators and the scoring exercise key regional decision makers are used. The results are shown in various indices (sector competency index, core competency index, inter-industry opportunity index, export market potential index, regional risk index, among others).
- There is a wide variety of combination methods using both quantitative and qualitative research methods. One example is cluster analysis in combination with discriminant analysis. Here, four sets of variables are used for the analysis that identify the region's industrial drivers: measures of competitiveness (e.g. productivity proxy), indicators of export orientation (e.g. share of local exports by industry), measures of centrality in the regional economy (e.g. forward and backward linkages), and employment specialization (e.g. location quotient). The cluster analysis helps to group regional industries together. Driver industries are then defined by all industries showing six similar characteristics that are pre-defined.
- A method called 'Spider Diagram and Indexes' is based on fifteen economic performance indicators that represent four basic development parameters: scale (e.g. employment), performance (e.g. em-

ployment change), robustness (e.g. productivity), and growth dynamics (e.g. change in location quotient). The results are shown in a spider diagram (or radar chart) with fifteen spokes, which visualizes the strengths of the sector. Next, various indices are calculated: strength index (all 15 indicators), change index (only change indicators) and form index (all 15 indicators). The advantage of this approach is that it helps identify newly growing industries and their performance.

- Network analyses research on linkages between enterprises and sub-sectors using trade-based and innovation-based linkages, patents, strategic partnerships and expert surveys, sometimes complemented by social network analysis.
- In 1998, the authors Tim Padmore and Hervey Gibson developed an expansion of Porter's diamond, the so-called GEM model in order to describe and assess the competitive strengths and weaknesses of industrial clusters from a regional perspective (Padmore; Gibson, 1998). The model provides a framework combining dimensions of Porter's Diamond with an equally explicit accounting of infrastructure and markets, important in a regional framework. The determinants are organized under the headings "groundings, enterprises, and markets" (GEM). Groundings include the supply determinants, enterprises include the structural determinants of production efficiency and markets or demand determinants include local markets and access to external markets. The GEM model seeks to explain what it takes to make an innovation cluster competitive and successful. The characteristics of regional innovation systems are contained in the overall competitiveness framework. The methodology develops simple scoring criteria for each of the six determinants that relate to the overall competitiveness of the cluster and establishes a heuristic competitiveness function (called GEM assay) that captures the substitution/complementarity relationships among the determinants. The indicators of each determinant can be of a qualitative (scoring) or quantitative nature (statistical data). The determinants are arranged in a hexagon radar, with scores from 1 to 10 attached to each of them. The overall GEM score of a cluster results from the hexagon space covered by the specific shape.

4 Identifying Viable Future Industries – A new Approach Aiming at the National Level

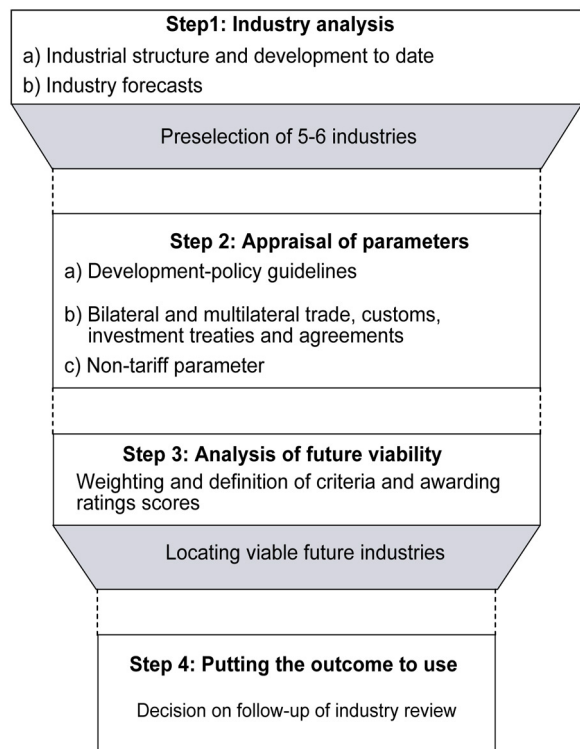
In 2005, GTZ commissioned the German consulting company Regionomica to develop a method for identifying viable future industries. The development of this method is part of the GTZ sector project “Innovative Tools for Private Sector Development”.

According to Regionomica “this industry review is a tool for identifying industries with innovatory and development prospects in developing countries and is intended for use in project appraisals as part of programmes under the developmental priority of sustainable economic development.” (Mahnke, 2006). This means that the tool has a clear developmental perspective to inform donor agencies what sectors they should focus on when designing an economic development programme for a specific developing country.

The GTZ tool consists of a multi-step approach to narrow down the industries to a few most viable and most desirable sub-sectors in the context of development work. Figure 2 below shows the various steps included in this approach.

**Figure 2:
Steps for Identifying
Viable Future Industries**

Source: Mahnke, L.
(2006)



Step 1 'Industry Analysis' mainly relies on statistical data on employment and gross value added at the national level. The relative shares of these statistical parameters in specific industries at the national level of the same parameters are computed and the development trends of sub-sectoral employment and value added for the last 5-10 years observed. Only if statistical data availability is insufficient, qualitative expert opinions are collected.

Next, the national shares (employment, value added) of pre-selected industries are compared to international shares. The international ratios could be in a global context or in the context of the same geographical region, e.g. Southeast Asia.

Step 1 also takes industry and sector forecasts and predictions into account. This sub-step consists of more qualitative judgements about the future prospects of industries than quantitative data. And the assessment is done at the international level rather than on the national level.

Based on the above described sub-steps and in order to arrive at a pre-selection of five to six industries, the analysts need to answer five questions that relate to: the industry representation in the national economy, the record of continuous or partial growth or constant development, industry performance compared with neighbouring countries or the region, the medium-term to long-term forecasts for an industry, and future expectations of the demand for products in this industry. Those industries that mostly receive the answer 'yes' will be selected for further analysis.

In step 2 the framework conditions of each industry are analysed. This includes development policy guidelines, bilateral and multilateral agreements on trade, customs and investments for specific sectors and non-tariff parameters (e.g. regulatory and administrative industry framework). The information to conduct in the analysis of step 2 can be obtained through reviewing official documents and through expert interviews.

Finally, step 3 consists of a scoring exercise along 5 ‘clusters of criteria’. Each cluster contains between 3 and 6 criteria. Depending on the industry analysed the clusters are weighted among each other and the criteria in each cluster are weighted in relation to each other.

The ‘clusters of criteria’ are:

- Prospects of the labour force
- National development prospects for the industry
- International competitiveness
- Innovation
- Ensuring environmental sustainability

In the end, each pre-selected industry receives an overall score rating on its future viability on a 5-point scale. The scoring is conducted by an expert panel. The overall industry scores serve as a basis for the final selection of industry sectors for development work in step 4.

According to the information available to the author, this GTZ-Regionomica tool has been applied twice: in Vietnam (Regionomica, 2006) and in the Philippines.

In conclusion, the tool used to identify viable future industries by GTZ and Regionomica shows the following main features:

- Suitable for an analysis on the national level, not the regional or local level
- Drawing on quantitative data and on qualitative expert opinions
- Main quantitative data utilized are employment and value added. It does not look at trade or investment data
- Strong emphasis on desktop research, particularly in steps 1 and 2

- Participatory elements are introduced through supplementing interviews in steps 1 and 2 and through the final expert scoring exercise
- It can equally be used for manufacturing industries and service sub-sectors.
- The intensive desktop research makes this approach a rather multi-week or even multi-month exercise and it is thus not considered to be rapid

5 Regional Economic Potential Study – A New Approach Aiming at the Regional Level

The method Regional Economic Potential Study was developed by mesopartner in cooperation with the Vietnamese consulting company MCG in Vietnam in 2006. It was immediately pilot-tested in three locations in Vietnam, the secondary centres in the country (Hai Phong, Da Nang and Can Tho). In 2007, MCG applied the same approach with some pro-poor modifications in Tra Vinh province in Vietnam back-stopped by mesopartner. Also in 2007, mesopartner used the approach as one of three steps to develop a regional development strategy for the region Solo Raya in Southern Central Java, Indonesia.

5.1 Rationale of the Methodology

The method Regional Economic Potential Study is primarily based on two sources:

- Analysis of export data in the global market context, as was used frequently in Brazil in the nineties (Meyer-Stamer, 2000; IEDI ,2000).
- ‘Learning form Global Buyers’ approach by IDS in Sussex (Schmitz; Knorringa, 1999)

In order to identify the economic potentials of a region, international competitiveness plays a crucial role. The key questions for a donor em-

barking on a development programme or regional government ambitious to support the regional economy are: what are the products to promote nationally and particularly internationally? What sub-sectors to choose for attracting private investment? What sub-sector producer to link up with national and international intermediaries and buyers downstream the value chain?

Why do we mainly focus on global markets and international demand to measure the economic potential of the region? There are several reasons. First, we have little choice but to start with some kind of official data to make a first selection. Looking at the development of these data over a period of at least 5 years should indicate future growth trajectories and thus economic potential. The data that are most suitable to meet this requirement are local or national trade data, export data or investment data. As domestic trade data are often not available on the regional and much less on the local level and investment data are often incomplete and mostly available only in a very aggregated form, we need to rely on export data and thus on the global market perspective (Meyer-Stamer, 2000).

Second, by interacting with foreign buyers and customers, producers in developing countries are exposed to a level of sophisticated demand that they usually do not face in their home market, yet that stimulates them to upgrade (partly with the support of the global buyers and/or local government), to become more competitive, explore much bigger markets and enter market segments where they can differentiate themselves. If a multi-year series of statistical export data tell us that these producers manage to maintain their global trade relationships and to survive amid fierce international competition, we can get an indication of their level of competitiveness on international, but therefore also on domestic markets.

Third, looking at international trade relations also gives the opportunity to tap into the unique ability of global buyers to compare producers of the same product all over the world and assess their competitiveness according to pre-defined critical success factors (what are buyers looking at when assessing the quality of their suppliers?). Such assessment intro-

duces the views of buyers vis-à-vis producers who not only provide the cheapest or best quality products but also meet other critical success factors that keep their buyers ordering goods with them (Schmitz et al., 1999). If the interviews with buyers and local producers additionally reveal that there is a substantial degree of support from buyers towards producers in terms of upgrading capacity and product quality (maybe even accompanied by some investment), we have an additional indication for the future economic potential of a sector. Tight support from international buyers could indicate that a sector shows future potential and enjoys a positive outlook.

5.2 Description of the Methodology

The Economic Potential Study aims to achieve three results (i) identification of the sub-sectors/economic areas in which a region shows a potential competitive edge in global markets; (ii) identification of the main potentials, threats and current issues hampering global competitiveness of the identified areas; and (iii) looking for stakeholders’ recommendations on how to improve the performance of the pre-selected sectors. A summary of the approach of the Economic Potential Study is highlighted in the following figure:

1. In-depth desk research	Identification of 10-12 existing and emerging sub-sectors with regards to SME development and high trading volume
	Identification of 5 – 7 products and services with stable growth trading over 5-6 recent years
	Identification of 3 – 4 products and services, which appear nationally and internationally competitive
2. Field research (Interviews with Buyers & Producers)	Closer assessment of the competitiveness of 3 - 4 products based on assessment of Critical Success Factors / Learning from Global Buyers
	Assessment of institutional and policy framework, including supporting industries
	Initial identification of linkages to exporters and international buyers
3. Reporting	Compiled analysis of the international competitiveness of products and sub-sectors
	Initial recommendation in designing interventions

Figure 3: Methodological Approach of Economic Potential Study

Source: mesopartner

Typically, the study is conducted in three phrases (see Figure 4 below):

1. In-depth desk research conducted at the beginning, in which statistical production, trade and investment data of the locality or region are examined and aggregated for the specific region resulting in a number of most important growth areas;
2. Field research in the location or region and in major cities of the country, narrowing down the number of potential sectors based on the buyers' assessment of firms' capacity and performance to meet the changing demand, and on the assessment of industry capacity to meet requirements in volume and quantity; and
3. In the 3rd phase, comparing current and potential global demand with current capacities and structures. The identified performances and shortcomings are then presented in a feedback workshop to local/regional stakeholders. The 3rd phase is concluded by the preparation of a comprehensive report, which summarizes the results of all activities conducted throughout the research on the economic potentials.

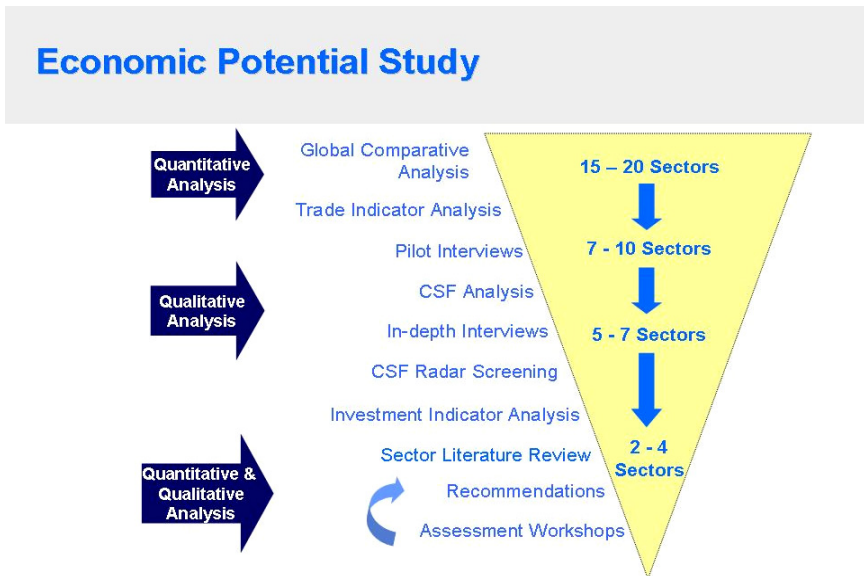


Figure 4: Steps and Activities in Economic Potential Study

Source: mesopartner

Phase 1

During the first phase of the study, desk research is conducted using information collected from different sources including regional statistics, national statistics and international trade statistics (International Trade Centre and WTO). Based on such information, a comprehensive analysis is carried out to identify the strongly growing areas of the regional economy. The world demand and the national demand trends are also considered for the relevant sub-sectors. The following list summarizes the criteria used to identify the pre-selected sectors:

- Sectors with high export volume over last 5 years
- Current & potential economic significance regarding jobs provided
- Development of regional product share at regional export
- Development of regional product share at national export
- Development of regional product share at world market for same product
- Development of product share at world market for all products
- Growth trends of services sectors
- Development capacity and outlook

The selection process is conducted in four stages.

First, the regional export revenues for the previous five years are examined, and accordingly the largest export-earning products of the region identified. From this analysis, we can observe growing or shrinking trends of the products at the regional level.

Second, we examine the national trends of those relatively strong export sectors, i.e. shares of those major export products in the region versus the total product export revenue of the country. The analysis shows the shrinking or growing trends of the sector at national level.

Third, after looking into trends of the sector at both regional and national level, the world market demand is taken into consideration. It is evident that even though the production and export of a product increases in the regional market, its share in world trade might decrease. The possible reason for this scenario is that the world is demanding more of a certain product and at the same time other countries are producing and exporting more of the same product, thus the export volume of regional/national products becomes smaller in the world market. This analysis aims to analyse whether the world demand for the products produced and exported from the region is shrinking or expanding.

Fourth, we conduct research on the significance of the respective products in a global context, i.e. whether the overall world trade of the selected products grew or shrank during the previous five years. The following matrix shows the possible combination of development patterns of products at world markets. Those regional products positioned in the upper right quadrant are considered as having a high international competitiveness in the future.

Assessment of international competitiveness of regional products

<u>Solo Raya</u>	Products showing growing share at world market	Products showing shrinking share at world market
Export products of region with growing share at world market	+ +	+ -
Export products of region with shrinking share at world market	- +	- -

Figure 5: Matrix of development patterns of products at world markets; Source: mesopartner

In addition to the producing and trading of goods, the provision of services also contributes to the development of a regional economy. Service sectors cover a broad array of services including, among others, telecommunications, banking and insurance, distribution, tourism and travel-related services, and transportation. As there are no trade data available for service sectors, we rely on GDP-related and employment data.

Phase 2

In line with worldwide practice on the assessment of enterprises' international competitiveness (Schmitz; Knorringa, 1999), the consultants formulate a set of sector-specific critical success factors based on information from desk research, on previous experience with similar studies and interviews with country-based international buyers focusing on the selected sectors.

Subsequently, those critical success factors are used for interviews with international buyers who then assess the current performance of the sector producers in the region. At the same time, regional enterprises are also requested to self-assess their performance based on the same set of critical success factors. A five-point scale for each of the critical success factors is used for the assessment. The same approach is used for all sub-sectors pre-selected in phase one of the economic potential study. The results are depicted in a radar chart comparing the assessment results of global buyers and intermediaries with the self-assessment of regional producers/service providers. The resulting GAP analysis shows in what critical areas regional enterprises need to improve in order to stay competitive.

Further questions in the interview guidelines for buyers and for producers address topics like framework conditions, infrastructure and sectoral government support, as well as technical assistance provided by global and domestic buyers. During the interviews with regional producers and buyers the consultants also ask the respondents to indicate "one intervention that could improve the performance of your sector in the region dramatically".

Phase 3

As part of the methodology, a feedback workshop in the region is organised before the final reporting. The workshop aims at collecting comments and feedbacks of regional actors from the private and public sector. The specific objectives of the workshop are to:

- review the interim results of the Economic Potential Study
- find confirmation for the most important growth sectors in Solo Raya based on growth trends in global and regional markets and on the CSF assessment
- present and discuss recommendations on most important institutional measures, promotion measures and business development measures that are able to improve productivity and performance in the pre-selected sectors

5.3 Pilot Applications of Economic Potential Studies (2 Examples)

Pilot Application in Vietnam (2006)

In the pilot test in Vietnam in 2006, the consultants succeeded in elaborating comprehensive and significant studies on the economic potentials of all three provinces in a period of four months (April – August 2006). This included global comparative analyses of pre-selected sub-sectors, sets of CSF for those sub-sectors, the assessment of the CSF by international buyers and local producers (compiled radar screens) and first draft recommendations on how to strengthen sub-sectors with economic potential.

Upon completion of the first draft of the report, each province was requested to screen and provide comments and questions on the report. Subsequently, feedback workshops were organised with relevant local stakeholders including government agencies, chambers, and enterprises. A summary of the main findings and recommendations was prepared in a presentation format to be sent to all participants prior to the workshop. This had proved to be extremely useful as local stakeholders had ade-

quate time to study the materials resulting in sensible inputs and comments on the new methodology during the workshop.

Local government officials who typically use different analysis tools for their planning efforts at policy level stated that this approach has opened up a different way to look at economic sectors. Traditionally, policy makers at the provincial level in Vietnam simply extrapolate development trends of sectors which then serve as input for planning and allocating resources. With this new approach, the local authority could clearly see the level of development of their economic sectors within a bigger picture – the world market. The newly elaborated data had them reconsider the future potential of some sectors that are experiencing declining world market trends, though continue to expand in their province. Furthermore, the assessment of the general framework conditions by local enterprises generated important discussions among government officials. In one province, the representative of the Department of Science and Technology agreed with the assessment of enterprises showing that access to technology in their province leaves much room for improvement. In another province, the representative of a local association explained that the poor assessment of the association's quality was due to inadequate communication of the role of the association.

Local enterprises found the comparison of CSF assessed by themselves and by international buyers and intermediaries most interesting. They had never sought a formal assessment by their buyers and hardly tried to identify the factors determining their success and how satisfactorily they meet those factors. The independent assessment revealed the gaps in meeting the CSF from both perspectives, that of local enterprises and that of international buyers. This clearly shows the areas to be improved in the future (see Figure 6 below).

Economic Potential Study: CSF Analysis (Gap Analysis)

Wooden Furniture:
Example Da Nang (2006)

Sub-Sector	Critical Success Factors
Wooden Furniture	<ol style="list-style-type: none"> 1.Reputation 2.Price 3.Punctual Delivery 4.Technology & Equipment 5.Access to materials 6.Innovativeness

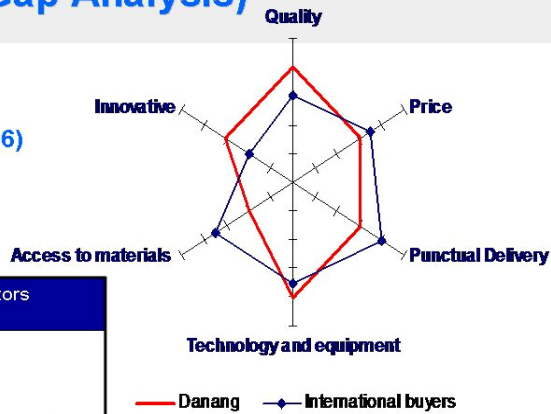


Figure 6: Example of a compiled radar screen (wooden furniture in Da Nang); Source: mesopartner

Following the analysis of each sector, local stakeholders were requested to rank the sectors according to their priority for project intervention. The consultants had proposed their own priority list based on three main criteria: relevance (size and importance), growth potential (competitiveness) and intervention potential (by VPSSP). The participatory facilitation technique Metaplan was used for this exercise. The participants discussed and prioritised two out of the four or five selected sectors in each province. The consultants then consolidated and presented the results. In all provinces, the sector selection by local stakeholders concurred with what was suggested by the consultants. In addition, local actors proposed one newly emerging sub-sector in each location, such as electronics in Da Nang.

Focusing on the prioritised sectors, the participants again used the Metaplan technique to brainstorm on the activities most needed to strengthen the sectors. For instance, tourism is one sector selected by two out of three provinces. The suggested interventions are to assist the province in identifying and developing provincial tourism products, to develop a

tourism promotion strategy and to strengthen the role of the local tourism associations. Fish processing is another sector prioritised by one province, where a value chain analysis for the fishery sector has been suggested by local stakeholders.

Pilot Application in Solo Raya Region, Indonesia (2007)

In 2007, mesopartner had an opportunity to combine and sequence some of its own approaches and tools in an innovative way. The challenge was to develop a regional, inter-district strategy for economic development in the Solo Raya region in Indonesia. The region consists of the city Surakarta (Solo) and six districts. The traditionally most important economic sectors in the region are agriculture and agro-processing, textile and garment manufacturing as well as furniture production. The densely populated region has a population of about 6 million.

mesopartner designed a strategy formulation process that is highly interactive, participatory, primarily bottom-up and pursues a four step approach (see Figure 7 below):

- Compilation of draft district strategy papers for each district based on district profiles, a Business Climate Survey conducted in 2005 as well as data and development plans of the districts
- Regional Economic Potential Analysis to result in a study on the competitiveness of the region Solo Raya and its promising economic sectors in the national and international context.
- Regional foresight process to explore the future of the region beyond the next 5 years by using the foresight method scenario writing in a workshop setting.
- The district strategy papers, the regional economic potential study and the results of the foresight-process served as input for the development of a regional economic development strategy for Solo Raya.

Regional Economic Development Strategy - Solo Raya

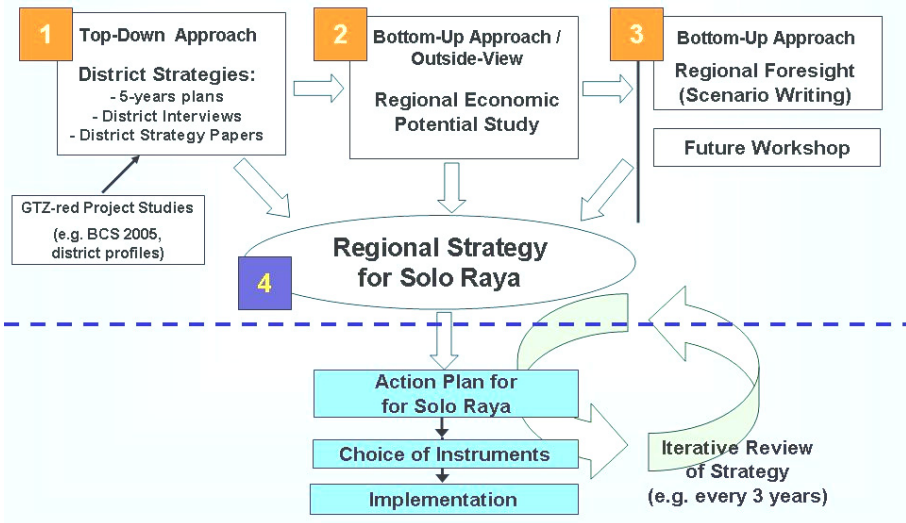


Figure 7: Methodological Approach to Regional Strategy Development in Solo Raya; Source: GTZ-RED (2007)

In the context of this approach, the Regional Economic Potential Study (step 2) aimed at identifying and finding an agreement on a certain number of focal sub-sectors for the economic promotion strategy for Solo Raya. The study has shown that there are three labour-intensive sectors that have the potential to remain and even become internationally more competitive and thus secure the current number of jobs and possibly create more jobs. These three sub-sectors in Solo Raya are textile and garment, wooden and rattan furniture and handicraft. Besides, agriculture and agricultural processing demonstrated its importance for the domestic market. The relevance of the equally important tourism sector had been proved through the elaboration of a separate development strategy.

The Regional Economic Potential Study followed the same approach as in Vietnam in 2006 and consisted of three phases: Desktop research on trade-related data, interviews with buyers and regional producers and a feedback workshop followed by final reporting.

5.4 Assessment and Limitations of the Methodology

A lesson learned study on the tools developed and achievements made in the EU-VPSSP in Vietnam gives the following assessment of the Economic Potential Study piloted in this programme (Kuesel, Linh, 2007): “The methodology of the Economic Potential Studies constitutes an interesting attempt to link international competitiveness with a local development perspective, and combines quantitative and qualitative assessment methods. It constitutes an innovative approach which aims at addressing the lack of methodologies suitable for the identification of sectors”.

Despite this positive assessment, during the initial applications the economic potential study faced a number of limitations and difficulties that could partly be overcome by an improvement and further development of the methodology. The most essential shortcomings are described below.

The consultants need to start with some quantitative analysis, but have to review available data very critically. The availability and quality of statistical data at the regional level can constitute a major problem in the first step of the study. Trade and investment data are often outdated, i.e. the previous one or two years are sometimes not published yet. Also, regional and national industry classifications on the second and third digit level in development countries do not always match the standard classification of the ITC. This handicaps the calculation of market shares in international markets. Moreover, statistical data of locations and regions in developing countries happen to show obvious failures in statistical data processing.

Starting by analysing trade and investment data of economic sectors gives a strong bias towards manufacturing sectors, as for services sectors those statistics are hardly available. We usually also consider service sectors based on a different argumentation, such as development tourist arrivals for the tourism sector. This, however, is not completely consistent with the overall methodology.

Although the objective of the assignments was to identify the sub-sectors/economic areas of a region having a potential competitive edge in global markets, some stakeholders usually envisage that the consultant will identify newly emerging sub-sectors for economic promotion of the region. Based on the approach, the first phase of identifying sub-sectors is conducted based on official data available at regional, national and international level. Unless the consultants are able to obtain any formal set of data on the so-called newly emerging sub-sectors, they will not be able to conduct further research on such sub-sectors, particularly considering the typically limited resources and time available to conduct such a study.

6 Conclusions and Recommendations

Looking at the general methodological framework shown in chapter 3, both relatively new approaches described above can be grouped into the cluster approach (or here better called the value chain approach) and both are combinatorial methods combining quantitative and qualitative information sources to identify economic potentials. No doubt, drawing on statistical data and expert opinions makes the studies more valid, more significant and “more productive” (ESCWA, 2001).

The Regional Economic Potential Study includes elements of a variety of methodologies described in chapter 3 and depicted in Figure 1 above. It has elements of the first line indicator ‘market shares’ of the Competitiveness Approach in terms of considering export data and inbound foreign direct investment. The first step, trade data analysis, shows similarities to the trade-based ‘input-output analysis’, but with a strong focus on trade output analysis. Steps 2 and 3 of the approach are purely qualitative research very much in line with the basic qualitative method ‘expert opinions’ through interviews and workshops with local actors and global buyers. And in step 2, it utilizes scoring exercises and radar screening similar to the methodologies of ‘Multi-Sectoral Qualitative Analysis’, ‘Spider Diagram and Indexes’ and ‘GEM model’.

But what can we learn from all the various other tools to improve the Regional Economic Potential Study methodology-wise in order to overcome the limitations described above? Here, we should keep in mind that the methodology should remain relatively rapid and participatory. The recommendations below particularly address step 1 of the study, i.e. the initial screening of industries at the regional level, which is so far mainly based on analysing trade statistics.

In order to reduce the problem of limited availability and reliability of statistical trade data at the regional level, we need to draw on a wider range of data. Export data will remain crucial also in future applications for calculating national and world market shares. But in parallel, more emphasis should be put on investment data and employment data of regional sectors. An interesting approach is the location quotient comparing relative regional employment in a given sub-sector with relative national employment in the same sector and thus providing evidence about regional specialization in this sub-sector. Investment data should not only be sourced in regional statistics, but also in interviews with key sector representatives. Both employment data and investment data will also help to include service sectors in the initial data processing from the beginning.

In order to better take newly emerging sub-sectors and their future competitiveness into account it is recommended to introduce ‘growth dynamics’ along the lines of the ‘Spider Diagrams and Indexes’ tool. The growth dynamics parameter could be based on the rates of change of key statistical data over the years, such as export, investment, location quotient and relative wages. Those sectors with the highest rate of change of several indicators could be considered emerging. Certainly, some economic activities of those emerging sectors need to be underway already.

A more critical review of meso-policies and meso-institutions at the regional level could be carried out at the beginning of the study. This means that the first step of the analysis would also include a short series of initial interviews with regional stakeholders and would not remain a purely desk-top research effort as before.

In addition, or as alternative to interviews at the outset of the analysis, one option is to experiment with a workshop format on Systemic Competitiveness in order to gauge the production system in the region. This would not only cover meso-policies and meso-institutions at the regional level, but also a first brainstorming on sub-sectors with potential (micro level), performance of regional government (macro level) and the interest and organizedness of the regional community regarding economic development (meta level). The participants in this workshop would be key informants from different sectors (public sector, private sector, academia, others), i.e. a “focus group”. A small number between seven and ten individuals would be ideal. Incidentally, this workshop format as a technical part of the Regional Economic Potential Study was suggested by Jörg Meyer-Stamer during a brief brainstorming in February 2006, but has not been integrated into the methodology so far.

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Substitute imports to enhance local competitiveness

By Ulrich Harmes-Liedtke

1 Introduction

This article is inspired by several conversations I had with Jörg Meyer-Stamer¹² on the concept of *import-substituting industrialization* (ISI) and the possibility to utilize it within the competitiveness of sub-national regions and localities. It probably sounds a little bit strange to relate these apparently antagonistic concepts, but I hope that this kind of unorthodox thinking stimulates innovations in our field of Local Economic Development (LED).

The main question addressed in this article is: Can we take the idea of protection and support of *infant industries* from the ISI approach and make it applicable in the promotion of competitive enterprises in small or local economies?

The following chapter briefly introduces the concept of ISI and summarizes recent debates on its critical valuation. On this ground, I present some ideas and examples for competitive strategies based on substituting imports. The article ends with a comparison of both import substituting concepts and a list of key elements of the competitive approach.

¹² Listen for instance to our recently published podcast conversation in Spanish on systemic competitiveness and LED; www.radioDEL.net/org.

2 Import-substituting industrialization (ISI)

The concept of *import-substituting industrialization* (ISI) is intimately related to the experience of the Great Depression of 1929 and the following crisis in international trade. Back then, Latin American countries with their open and raw material export-based economies were hit extremely hard. This historic drama produced strong skepticism towards international free trade and encouraged ideas of developing an own protected industry, at the very least temporarily.

Theoretically, ISI is based on the works of Raúl Prebisch and others, institutionally represented by the United Nation Commission for Latin America and the Caribbean (UN-ECLAC or in Spanish CEPAL). His core argument is summed up in the *Prebisch-Singer-thesis* on the deterioration of the terms of trade for primary products, and the advocacy of import protection as a way of speeding up industrialization. Nowadays increasing prices of commodities lead to serious questioning of the basic assumption of the ISI approach.

The application of ISI in many Latin American countries, and in some African and Asian countries until the 1980s was heterogeneous. During a long period, from the end of the Second World War until the beginning of the 1970s, Latin American countries achieved dynamic growth and an increasing participation of industry in their GDP. Some of today's leading industrial corporations¹³ in the region were born during that time. Later, in the 1980s, the ISI model led to a depression which had multiple reasons: debt crisis; protected industry lost productivity in regard to worldwide competitors; disadvantage for exports and political factors of rent-seeking and corruption. The result was a general shift in the economic policy in Latin America to a market-oriented approach, in line with the general trend coined as the *Washington Consensus*.

¹³ Many of the firms created in the ISI period disappeared during the opening of the Latin American economies in the 1980s. Some of today's "emerging giants" [Khanna/Palepu (2006)] and "translatins" CEPAL (2005) benefited in earlier times from ISI, but their current competitive position was reached without particularly protective measures on the part of governments.

In the mid 1990s, a team from the German Development Institute (GDI, in German DIE), which included Jörg Meyer-Stamer (Esser 1995), introduced a *Third Way* between advocacy of government-driven development efforts and belief in a perfectly free market - the *systemic competitiveness* approach.¹⁴ This implied a critique of the ISI which was renewed in a more recent publication (Meyer-Stamer 2005): “The government-driven approach, usually under the heading of ‘import substituting industrialization’, had obviously failed in many countries, had created highly distorted structures and uncompetitive industries in many others, and in most developing countries government increasingly appeared as a problem, not a solution.”

Today only very few authors defend the ISI approach. Perhaps the most prominent of them is the economist Dani Rodrik who asks in his blog: “Does import substitution deserve its unsavory reputation?”¹⁵ He states that ISI worked rather well for about two decades until the mid 1970s. When the economies countered by ISI began to fall apart in the second half of the 1970s, the reasons had very little to do with ISI policies per se or the extent of government interventions, but rather with the inability to undertake the appropriate macroeconomic adjustments. For Rodrik the root cause of the problems can be explained by social determinants. “Countries with deeper social divisions and weaker institutions of conflict management experienced greater economic deterioration in response to external shocks...” (Rodrik 1997).

It is striking that Dani Rodrik and Jörg Meyer-Stamer both agree on the need for a stable macroeconomic framework and policy – a main argument of the much-criticized Washington Consensus. At the same time, they independently argue that macroeconomic stability alone is not sufficient for development. For Rodrik (1997) ISI is “a set of microeconomic policies” which should not necessarily be associated with macroeconomic failure. Jörg, arguing on the basis of the systemic competitiveness approach, would call these kinds of interventions “meso-policies”. Re-

¹⁴ See the reprint at the beginning of this book and the article by Dirk Messner

¹⁵ Rodrik 2007.

ardless of the terminological differences, both authors are in favor of global trade and international competition and at the same time they see the need for interventions in market mechanisms. For some time they have been advocating industrial policy that recognizes the need for state intervention to handle the issue of market failures.¹⁶ The discussions stimulated by the current financial crisis indicate a broader renaissance of this type of policy.

3 Competitive Substitution of Imports

The idea of *substituting imports* by local products could also be associated to the concept of market economy. It means that products which formerly were imported are now produced at the local level. In an open economy, local enterprises always compete with external firms in their own and in foreign markets. The firms which offer better or cheaper products gain market share. Every time a local company increases its competitiveness it will substitute imports to its home market.

This concept of competitive substitution of imports is especially relevant for small territories like regions, towns and villages. Although during the 1980s and mid 1990s national states like the Asian tigers opened and closed their markets to encourage the growth of national production by providing their companies with space and time to improve over a certain period before opening the market again, this policy is now less possible at the national level under the increasingly important rules of the WTO.

At the local level, there are even fewer possibilities to follow a strategy that provides a certain mixture of time and pressure to improve competitiveness, since localities don't have protective instruments like customs

¹⁶ Jörg (Meyer-Stamer 2008) is currently working on a paper on "postmodern industrial policy" where he quotes the version of market failure by Rodrik (2004) according to which the absence of complementary firms hinders the creation or development of new industries. Jörg's post-modern industrial policy is based on market principles, does not protect local enterprises from rivalry and at the same time advocates a state which not only guarantees a competitive framework but is also able to design markets.

and other trade barriers. They are open for competitors from other places abroad and also from within their own country. Without the possibility of protective measures the local enterprise is condemned to compete with firms from outside.¹⁷

3.1 Why prices are higher in marginal regions?

In many marginal regions the costs of products of daily consumption are excessively high in comparison to the metropolitan and urban centers of the same country.¹⁸

This phenomenon could be explained by the traditional *location theory*¹⁹, which stresses transportation costs as a central factor. It is quite obvious that consumers in locations far away from the main production centers have to pay higher prices caused by the haulage to their localities. At the same time these higher costs are an incentive for firms to produce locally.

Higher transportation costs are not the only, perhaps not even the most important, factor in the excessive prices which consumers in peripheral regions have to pay. Another cause of increased local prices is related to various *market failures* that enable the reduced number of suppliers to get a *higher profit margin* than is usually achievable in a more competitive context. The following table summarizes some of the typical market failures in remote regions and proposes a number of activities to solve them. All the activities can be included as part of LED initiatives.

¹⁷ In analogy to international trade I use the terms “export” and “import” for products and services which cross the limitations of a locality.

¹⁸ The argument that “the poor pay more” was raised in 1967 by David Caplovitz. He observed that the poor in inner-city areas of the United States paid more for good and services than consumers in the wealthy suburbs.

¹⁹ This theoretical approach has strong German roots and could be traced back to Johann Heinrich von Thünen’s work “*Der Isolierte Staat*” of 1826.

Market failure

- **Consumers are not aware of prices in other places (lack of transparency and ‘asymmetric information’ on prices elsewhere)**
- **Individual consumers only buy small quantities at higher prices (lack of critical mass)**
- **One or only a few sellers monopolize the market**
- **Each local firm produces small quantities (lack of critical mass)**

Activity designed to solve it

- **Facilitate information on prices (e.g. by using the Internet or local radio stations)**
- **Joint purchase (Consumer groups or cooperatives)**
- **Facilitate market access (e.g. upgrade road and communication infrastructure)**
- **Promote the supply of local products which substitute “imports” (This kind of promotion also often goes under the slogan, Buy Locally’)**

The protective effect of remoteness is only a *comparative advantage*. Outside companies operating in a more competitive environment will be more productive and innovative than local firms. They may offer cheaper products which easily compensate for the higher transportation costs. Especially when the locality upgrades its transport infrastructure, the competition will increase. More competitive products from outside will reach the locality, and at the same time a better local transportation system enables local customer to go shopping outside their village or town. Further catalytic factors in that context are the increasing opportunities for online shopping and mail-order-selling.

In consequence, trusting in their advantage of isolation is no real option for local firms. In the longer run they have no alternative than to work on their own competitive advantage.

3.2 How can local firms become more competitive in their home market?

Let's start with a practical example of competitive substitution of imports from the Dominican Republic. The case was observed in Bayaguana, which is one of five municipalities that make up the province of Monte Plata, known as the milk basin of the country²⁰ Paradoxically, even though the area produces 100,000 liters of milk daily, which represents 85% of the national production, there was no local facility to produce pasteurized milk. The entire production was sold to the large milk plants in the capital city of Santo Domingo, where it was processed and distributed all over the country. The local population was accustomed to buying powdered milk at a relatively high price.

As part of an LED initiative, the local dairy farmers decided to reduce their dependence on large buyers and began direct commercialization. They now sell a part of their boiled daily milk production in a small shop owned by themselves, which happens to be strategically well located on the route frequented by tourist safaris visiting the area. This has resulted in a 40% increase in income for each liter of milk. Direct sales continue to increase and constitute a significant contribution to the incomes of the small producers. In addition, they are processing cheese, yogurt and caramelized milk, which are also sold directly. Sales of these products have remained stable, with profits exceeding those earned from the sale of milk, at over 50%, which means that it is likely that both supply and demand will persist, since there is currently a high demand for processed products while prices are increasing. The local consumers benefit from this initiative, as now they have the choice to buy locally produced pasteurized milk and other milk products at a competitive price.

This initiative was successful because the region already had a competitive advantage in milk production. It was also important that various producers cooperated in processing pasteurized milk, because it would be

²⁰ This case is based on Harnes-Liedtke et al. 2008.

impossible for an individual farmer to create even a small local processing plant. The LED initiative enabled this example of local import substitution.

3.3 Local base for competitiveness

In his work on territorial competitiveness, Michael Porter emphasizes the relevance of the *home base*: “Ultimately, competitive advantage is created at home: It is where the strategy is set, a core product and process technology is created, and a critical mass of production takes place. The circumstance in the home nation must support innovation and that provides the best environment for global competitiveness.” (Porter 1990).

The idea of the *home base* is intimately related to the specific needs of the local customer. Porter explains that the competitive advantage of nations and regions in many cases is based on scarcities. For example, the Japanese success in very small consumer electronics was pushed by the necessities of the urban population which lives in very small spaces. For them small audio- and video-gadgets are very attractive. Once these devices were developed and produced, customers in other countries living under similar tight conditions also appreciated these kinds of products, which made the success of Japanese consumer electronics possible.

A similar example I recently came to know in the Caribbean Island Nation of Trinidad and Tobago is Carnival.²¹ Traditionally, it had been treated as an exclusively cultural event, but nowadays its economic potential has been recognized. Today Carnival links culture and art with tourism, media production, intellectual property and other businesses. Bands of costumed masqueraders (“the mas band” or “Band”) are not only presenting their shows in the country itself but also join Carnivals all over the Caribbean, in North America and London. Just like its com-

²¹ A study of Carnival Production is part of a mayor study on Caribbean Value Chains carried out by the consulting firm Ideas to Business as part of an Interamerican Development Bank project.

petitor – the Brazilian Carnival of Rio de Janeiro – Carnival in Trinidad and Tobago is a relevant economic activity in the country.

The example shows that even a cultural event could be the base for a competitive advantage. If we look at the whole entertainment sector, we can see that Carnival offers an attractive product which substitutes the consumption of products from other places. At the same time the Carnival home base helps to attract foreign tourists and export cultural services to foreign markets.

Another example presented by Porter (1995) himself looks to the competitive advantages of less favored or depressed areas. In his analysis of the inner cities, he highlights the relevance of local demand: “The inner city market itself represents the most immediate opportunity for inner-city-based entrepreneurs and businesses. At a time when most other markets are saturated, inner city markets remain poorly served – especially in retailing, financial services, and personal services.” He states that even though average inner city incomes are low, high population density translates into an immense market with substantial purchasing power. At the same time, the products and services are usually designed for white upper and middle class consumers and have not been adapted to the specific needs of inner-city-customers. Many of the largest and most enduring successful minority-owned businesses have drawn their advantage from serving inner-city residents’ cultural and ethnic needs.

What is interesting in Porter’s argumentation is that he uses the response to local market demand as a spring-board for inner-city business to conquer markets outside the locality. Like in the case of Japanese electronic consumer products, there are opportunities for successful inner-city enterprise to serve customers with similar needs in other districts, cities or even countries. For Porter, responding to local demand and being successful beyond the frontiers of the locality are complementary goals.

3.4 Substitute imports as a business opportunity

When travelling I always have a look at the labels of the products at the breakfast table. Last time in Port-of-Spain the butter was imported from Ireland, the jam came from the US. It is quite astonishing that hotels frequently prefer products from far away to local procurement. Tourism experts use the term *leakage* here to describe how many cents of every tourism dollar is benefiting business outside the locality or country. In general, there is a high potential for import substitution in the tourism sector.

A study of the Caribbean tourism sector shows the opportunities for local purchasing (Ashley and others 2006): For hotels, building links with local farmers creates locally distinctive food and recipes add to the customer experience:

- The local purchases can provide fresher food and lower transport costs.
- Local foods can be used to develop theme nights, culinary tourism, agro-heritage tourism, and a range of consumables for tourists based on herbs, medicines or processed foods.
- Health and wellness tourism are niche areas with strong linkages to agro-tourism.

At the same time, sales to hotels represent opportunities for small farmer enterprises to expand their markets, develop new products and increase income. Local food items introduced to travelers may then become 'suitcase exports' to be taken home by tourists. This stimulates demand even further. Globalization increasingly requires farmers in small island developing states to adapt their production standards to the international market if they are to sell beyond their local community.

Even though there are a lot of unutilized business opportunities, there are several obstacles which prevent local business from exploiting them:

- Supply problems, including inadequate quality, quantity, reliability, product range, seasonality, packaging, transport, health and safety requirements, etc.
- Weak market links: if local products are not marketed through a wholesaler or farmers' association, procurement from a number of smaller suppliers is a hassle for the hotel or restaurant. Product range: some goods required by tourists are simply not produced locally. Some market segments are resistant to eating local food, preferring food they are familiar with.
- Perceptions and preferences of chefs and food and beverage managers: they may perceive local products as inferior, find imported/wholesale goods more convenient, or be hesitant to change existing supplier relationships.
- Local currency revaluation reduces the cost advantage of local supplies. Lack of focus on how to diversify the tourism experience away from 'beach and adventure excursions' to featuring culinary, agro-herbal, or farm-based tourism instead.

In my own consulting practice I had a nice experience linking tourism with local industries. Villeta is a little town in Colombia known as a centre of production of panela, an unrefined food product obtained from the boiling and evaporation of sugarcane juice. During a workshop of a local economy assessment, a local hotel owner had the idea of substituting the usual fruit welcome cocktail by a panela drink. The panela producers were happy to respond to this new demand and this opened a series of profound collaboration efforts between the panela producers and the local tourism business to promote the Capital of Panela as an attraction in the tourism marketing strategy.

3.5 Large firms interested in developing local providers

While writing this article I came across an initiative of competitive import substitution in Costa Rica (Calvo 2008). The Foreign Trade Corporation (PROCOMER) is supporting the development of local providers

(i.e. for moulds and dyes) for international industries which are based in the country. Usually these big international corporations, especially in the free trade zones, use providers from abroad rather than local firms.

The main reasons why the industries don't hire local workshops and services are long delivery times, lack of required technology and poor quality. One additional obstacle was caused by antagonistic legislation which discouraged hiring local firms. PROCOMER helped to reduce this red tape recently.

The strategy of the Foreign Trade Corporation to develop local workshops is designed to meet the requirements of the industries. The international firms are interested in having qualified and competent local suppliers and they are cooperating with PROCOMER in a supplier development initiative.

What is noteworthy in this case is that this kind of *import substitution* is in the interest of and supported by foreign firms. The promoter of this initiative knows that it will take a significant amount of time for local workshops to be able to respond to the requirements of their international clients. Thus, the creation of an industrial service cluster can be a strategic option which Costa Rica could opt for. To reach this goal SMEs will have to cooperate with each other and reach a necessary critical mass.

3.6 “Buy local” campaign

A general problem of many local products is that their design and image is less attractive than the big commercial brands. This is one reason why local products even with an extraordinary taste and quality are not competitive.

In the last decades, particularly in the United States and in Europe, a movement advocating local purchasing has emerged. Under the heading of “buy local”, campaigners from NGOs and local SME groups promote locally produced goods and services over those produced further afield.

The advocates of buying local usually focus on qualitative aspects of the products. Especially when it comes to food, they highlight the freshness and superior taste of locally produced products. Because these products are usually produced by small farmers, they have fewer additives and preservatives. The argumentation relates strongly to environmental issues. Locally produced products require less transport and packing. They help the consumer to lower his “Carbon Footprint”. Also the campaigners highlight that buying local supports the economy and helps to create employment in the neighborhood or locality.

If we compare “buy local” with the “competitive-advantage- approach” we find that there are differences in the grounding mindset. The buy local approach is more protective and criticizes the negative impacts of globalization, while the competitiveness approach is more opportunity-driven and advocates economic self-interest.²² On the other hand, both approaches appreciate the diversity of local and unique products.

Local communities in developing countries may learn from the buy local campaigns the possibilities of marketing not only the physical product and its price, but also additional attributes which are appreciated by the consumers. At the same time, a *responsible consumer* may be rare in developing localities²³ and therefore it will be necessary to sensitize and educate the local consumers. An interesting instrument in that sense is the organization of a Buy Local Day²⁴ where business networks exhibit their products and at the same time inform the public about the advan-

²² Michael Porter’s (1995) article “The Competitive Advantage of the Inner City” argues that the efforts of the past decades to revitalize inner cities have failed and he criticizes the programs which encouraged small, subscale business designed to serve the local community but ill-equipped to attract the community’s own spending power, much less export outside it. For him a sustainable economic base should be created through private, for-profit initiatives and investment based on economic self-interest and genuine competitive advantage.

²³ Peter Knorringa remarks in his article about the future preferences of the middle classes in emerging countries that if these consumers are going to be more sensitive to environmental and social issues, they could be an interesting target group for buy local campaigns in developing countries.

²⁴ See for example the initiative in Portland (www.thinklocalportland.org) or in Baltimore (www.buylocalbaltimore.com).

tages of buying local. In that sense, upgrading of a local farmer market could be a feasible adaptation for a locality or region in the developing world.

3.7 Creative answers to unsatisfied needs

Unsatisfied needs of the local population could be taken as a source of innovation. When local firms identify specific needs of the locals and develop attractive products and satisfactory services, this could be the source of a new home-based competitive advantage. But how to identify these unsatisfied needs?

A source which may help to identify unsatisfied needs on the local level is the *Bottom of the Pyramid* approach (Prahalad 2006). The management guru Prahalad identified a lot of unsatisfied needs of poor people, because large corporations only focus on the medium and high-income consumers. Totaled up, the world's billions of poor people possess immense buying power and entrepreneurial capabilities. People who have only 1 or 2 dollars per day are a relevant market and there are a lot of unused business opportunities. Prahalad provides the following building blocks for creating products and services for these markets:

- Focus on (quantum jumps in) price performance.
- Hybrid solutions, blending old and new technology.
- Scalable and transportable operations across countries, cultures and languages.
- Reduced resource intensity: eco-friendly products.
- Radical product redesign from the beginning: marginal changes to existing Western products will not work.
- Build logistical and manufacturing infrastructure.
- Deskill (services) work.
- Educate (semi-literate) customers in product usage.

- Products must work in hostile environments: noise, dust, unsanitary conditions, abuse, electric blackouts, and water pollution.
- Adaptable user interface to heterogeneous consumer bases.
- Distribution methods should be designed to reach both highly dispersed rural markets and highly dense urban markets.
- Focus on broad architecture, enabling quick and easy incorporation of new features.

An LED initiative could systematically look for unsatisfied needs of the local population. This may be done by directly asking the local population for products which either don't work or which cause inconveniences. Probably local consumers and firms already have some ideas on how to develop products and services to satisfy these needs.

We can also learn from Procter & Gamble, a company which directly involves clients in its innovation model (Huston and Sakkab 2006). This large corporation nowadays generates half of its product innovation from external sources. The use of this *wisdom of the crowds*²⁵ is still an unexplored territory in LED.

4 Methodological proposal

To make the *competitive import-substitution* useful for our LED practice I suggest a simple seven-step method:

- Step 1: Interview a representative number of households to find out which products and in which quantities they consume weekly, differentiating between products of local production and those from outside the locality. In addition, ask about “unsatisfied needs”, i.e., products and services where there is a purchasing interest but no proper supply.

²⁵ The journalist James Surowiecki argues that under the right circumstances, groups are remarkably intelligent, and are often smarter than the smartest people in them. Adapting this idea to the local economy suggests involving the mass of local consumers to identify new business opportunities.

The reasons for their preferences should also be surveyed. Make a simple questionnaire with open and closed questions.

- Step 2: Inventory of “imported” products: Visit a representative number (at least) of local distributors; make a list of all the “imported” products on sale and ascertain the prices. This activity should be carried out in a participatory way, involving local stakeholders of an LED initiative.
- Step 3: Systematize the products on the list: (1) products that are already produced in the locality, (2) products that could easily be produced in the locality (3) products that are not easy to produce in the locality. Select from categories (1) and (2) a manageable number of products with the greatest chance of being substituted (for example, 3 from each category). Selection criteria: There is (1) existing local experience with the products, (2) limited investment necessary to achieve locally acceptable quality, (3) the possibility of being produced on a small scale; (4) the possibility of being able to supply the substitute at a competitive price.
- Step 4: Bring together the actors in the corresponding chains according to the pre-selected substitute product. Mini-workshop and diagnostic interviews. Guiding questions: Can we produce the product in such a way that it is accepted by the local consumer with regard to quality and price? What must we do to achieve this? In the case of products that are not yet produced, it is necessary to look for strategies to enhance entrepreneurship.
- Step 5: Launch one or more pilot products or services and merchandise them locally. For example by testing them in shops, combined with consumer interviews.
- Step 6: Following the evaluation of the first experience in pilot production and sale, it can be determined whether it is worthwhile going into a large scale production.
- Step 7: If you identify a critical mass of locally produced products you may start a Buy Local campaign in education institutes or at local market places.

5 Conclusions

One main difference between the two concepts is that *import-substituting industrialization* (ISI) is based on a perception of weakness and the need for protection of the local industry, while the competitive approach to import substitution is opportunity-driven and gives local business a perspective in an open economy. ISI was designed in another time to enhance vertically integrated big national industries; whereas competitive import substitution is looking to promote SMEs especially in local economies. At the same time, both approaches are in favor of intervention in the market process to enhance local industries.

Summarizing the lessons from the different examples, these are the highlights of the key aspects for a competitive import-substituting strategy:

- Local entrepreneurs have the possibility to develop competitive products.
- Remoteness may be a temporary advantage to ensure protection from competition outside the locality. This natural protection may help to develop new products and support infant industries.
- Usually small locations do not compete in economies of scale. Focusing on a niche market therefore is more appropriate.
- Specific needs of local consumers could be a source of product innovation and import substitution.
- Import substitution is not only about manufactured products but also includes services.
- There is a need to reach a critical mass to be competitive. Local firms have to cooperate and compete at the same time (co-opetition).
- Large (foreign) corporations can be allies to local business and support efforts to substitute importations.
- Development of local markets and exports do not have to be alternatives; they can be complementary in a strategy to create a competitive advantage of a locality.

- Substituting imports is easier in a joint action and with public support.
- This initiative requires effort over a longer time period, due to obstacles which may hinder or slow down local production.

The opportunities of competitive import substitution could be a new focus of future LED initiatives. Developing or shaping a competitive advantage from the home base may help to initiate a renewed approach to prosperity based on the specific needs of local consumers.

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Do it like the locals! Jörg drinking Mate in Argentina.

What I would like to discuss with Jörg: The Relation between State and Cluster-Initiatives

The challenges for policy makers to promote competition and collaboration

By Wulf Noll

I met Jörg for the first time in 1999, in the context of the project “Meso-Project in Nordrhein-Westfalen”. At that time structural policy in our country was changing fundamentally, and Jörg was employed by the Institute of Development and Peace (INEF) in Duisburg. Regional structural policy and development policy usually have their common roots in the same theoretical basis, and experiences on both sides can be of mutual interest. For this reason I appreciated Jörg’s activity very much. While we in the Ministry of Economical Affairs of Nordrhein-Westfalen²⁶ were occupied with the question of how to evolve our policy-system, Jörg and his co-workers looked from the outside at what was happening in our country and provided some very useful comments and advice. We have never broken ties since then. Actually, our contact has become more self-evident due to common membership of the Society for Structural Policy.

²⁶ We also call the regional government Land-Government. It encompasses a region in Germany with its political administration. (Nordrhein-Westfalen = North Rhine-Westphalia)

1 Experiences of a German Region and its way towards cluster policies

Nordrhein-Westfalen has been able to gain a lot of experience in structural policy over the last 50 years. During the special development phase we extended our tool kit step by step. First we started with modernising and establishing new infrastructure. Then we added technology transfer in the 70s. After this we intensified vocational training and started a new policy for small and medium-sized companies. In the early 90s the Land Government finally began a new policy which we called regionalized structural policy. Our region covers a very large area of Germany. It has more than 18 million inhabitants and roughly 750,000 companies. We divided Nordrhein-Westfalen into 15 regions and urged the regional chambers of commerce and trade, the trade unions, the local authorities and some other interest groups to find their own regional development strategy. Most results were disappointing because the regions did not seek a strategy that was related to their particular situation. Instead, the outcomes of their strategy papers were more oriented towards what the Land-Government wanted to hear because they were aimed at the Government's financial aid. And the second problem was that they mainly focused on their weaknesses and not their strengths. Therefore we were looking for a way to convince them to focus on their regional profile and find a strategy with a positive connotation.

During this time our economy went through a structural change process.. Globalisation was proceeding rapidly. Companies tended to specialise in their core business and started outsourcing to improve their capabilities of competing in the world economy. That raised transaction costs and the state was expected to escort this process in order to hold costs at a low level.

A proper response to both tendencies was the utilisation of Porter's cluster-concept. Jörg and I have discussed this issue many times. Clustering might be very important. But it is not a universal solution in regional structural policy. We both assess the concept this way I guess. In fact, its utilisation depends on what stage of development a region has reached. A

region that is just starting the re-arrangement of its economical structure probably concentrates on modernising infrastructure before discharging into cluster-policy. Clustering will not become important until new regional competencies appear. Even in regional structural policy there is nothing worse than ideologists banging on about one single truth.

During the last years cluster-policy has been advanced and new initiatives embarked upon. The Land-Government has attuned to this change. All ministries involved have fixed a common cluster-policy and pooled main parts of their financial aid.

This cluster policy process in particular has been very much driven by European regional policy. Nordrhein-Westfalen receives a handsome amount of objective-two contributions (for regions affected by structural change processes) from the European Fund for Regional Development (EFRE). The European Commission declared its intention not only to focus on bottlenecks and weaknesses but also on regional chances and strengths. That meets the interests of our country because we can now distribute financial aid by contest proceedings and concentrate on cluster-policy. The latter is now becoming a central aspect of regional structural policy. In the context of the cluster policy experience, a new challenge is emerging that has not yet been considered at present.

2 Competition and collaboration as a challenge in Clusters

To understand the problem we have to go into greater detail. International competitiveness essentially depends on the innovative ability of companies and their supporting environment. Every change, and not only technical change, that improves competitiveness can be called innovation. Even changes in organisation or in management methods can be innovations, such as choosing another legal form of a company. We use Schumpeter's understanding of innovation, unlike innovation-policy practitioners, who mainly think that scientific and technical innovations are the determining factors of innovation. But how do we create innova-

tion and what are its elements? Is innovation the outcome of collaboration? Or is it rather the outcome of competition?

If economic promotion only focuses on value chains, one can conclude that innovation is only the outcome of collaboration. In the automobile industry for instance, the development that has taken place in recent years would be unimaginable without the close collaboration between OEMs and forward linked industries. Currently this point of view is at the foreground when civil servants are thinking of planning new public aid schemes. They all are unfailing in preaching collaboration and promise improvement in competitiveness through following this kind of innovation.

In Nordrhein-Westfalen for instance, people are proud of some new so-called “science-to-business-centres”²⁷, which involve scientists from universities, small and medium sized companies and one big company working together very closely to create innovation in nanotronics or biotechnology for instance. The results are very promising, so this kind of innovation cannot be wrong.

But there is still a second way to innovate. Michael Porter’s considerations in his diamond point out that companies producing for the same market and belonging to one single branch innovate by competition not collaboration. And the closer their neighbourhood, the more intensive the competition. “The more localized the rivalry, the more intense. And the more intense, the better”²⁸. But cluster-policy in the EU, in Germany and in the “Länder” (regions, provinces) does not pay attention to this fact.

3 Lack of competition and results for regions

It is possible to speculate about why this is, but there is probably a simple reason that is keeping the state from intensifying competition by aggra-

²⁷ See: www.degussa.de/degussa/de/innovationen/creavis/s2b_nanotronics

²⁸ Porter, Michael E., *The Competitive Advantage of Nations*, Harvard Business Review, Volume 68, 1990, S. 83

vating competition: It is the political pressure from the companies belonging to the cluster. Companies usually are not interested in intensifying competition. On their own but also within a cluster-initiative they will try to avoid competition wherever they can. Their actions can range from cartelising to affecting state actions. For instance, they can try to convince state authorities to establish tolls or to organise some new technical standards which can help to get rid of disagreeable competitors.

Another procedure has been described by Jörg himself²⁹. The 150 year history of our steel and coal mining companies in the Ruhr Area shows us several examples. Both once belonged to the great land-owners in that area and tried to keep away other industrial employers by refusing to sell them land. This attitude was adopted in regard to all companies even those who did not belong to the steel and coal mining industry. When local authorities tried to buy land they had to do so very carefully and suspiciously. The settlement of a company like Opel in Bochum in the sixties was only achieved by treating the case as a secret file.

This phenomenon belonged to what one Bochum scientist once called a stalemate for innovation. Companies, local authorities and trade unions jointly avoided the search for new alternatives for a very long time in the Ruhr. This didn't change until the coal and steel industry began to cut down their capacities. Until this time the region had surrendered itself to a single-edged structure and an oligopoly as well. It had worked for a long time and satisfied most people living there but it became a handicap in later and recent years.

Can we imagine a selective search for investors who can provide a cluster with the competition and rivalry that it needs for high innovation rates? It would be interesting to experience what an innovation-oriented industrial settlement policy would be like. Some important questions would have to be answered before starting. For instance, what is the level of innovation required to start this policy? How can we convince compa-

²⁹ Jörg Meyer-Stamer, Lokale und regionale Wirtschaftsförderung: Change Management, Governance und Politik, Draft Paper 2004, S. 5

nies to settle in a region housing a lot of competitors? Even foreign investors try to avoid stiff competition. But there are enough examples to show us that companies have appeared on a market attracted by the sales potential and not fearing the competitors. So this approach does not seem to be absolutely impossible.

Finally we come to the issue of how the relationship between cluster-initiatives and the state should be encouraged for the purpose of promoting competitiveness. When local and state authorities realised that there was a need for helping cluster initiatives in the nineties they adapted Porter's theory in a euphoric manner although Porter himself still seems to be sceptical regarding the role of state authorities in cluster policy.

In Germany, with its particular market-driven economy, collaboration has a historical dimension. It seems to be part of our culture. Thus many actors on the state side feel endorsed by Michael Porter. State authorities are regarded as natural born promoters: animating, moderating and mediating initiatives, collecting data for them and providing financial aid. Actually the state was sought out as a partner that could open its tool kit for the requirements of the initiatives. The state welcomes playing this role. Public praise by the companies is seen as an improvement in the politicians' image.

The case of an innovation-oriented "industrial settlement" policy shows the old dilemma between individual and public interest. There might be a difference between the companies' interest and public welfare. People should accept this and look out for the state being able to maintain its latitude. This means the state has to play a double role, to react on requirements and to act on its own decisions.

It would be quite inspiring to discuss this issue with Jörg in the near future.

The Cluster Cosmos with Change Vision: From a linear to a reflection- oriented cluster promotion approach in Germany

By Rasmus C. Beck and Frank Wältring

1 Introduction

Jörg has a wide network of contacts with economic development experts from Germany. He invited Rasmus to the mesopartner Summer Academy 2008 to provide the participants with an insight into the dortmund-project, a Local Development Initiative (LED) of the city of Dortmund. Here Frank and Rasmus, met for the first time. After some exchange of opinions the idea emerged to have a closer look into the German reality of cluster promotion. During the “meso project” Jörg had encouraged reflection on cluster promotion policies in Germany and identified a lack of impact orientation and learning within clusters in the country. Based on these findings, we wanted to take a look at the incentive system of cluster promotion in Germany based on own experiences.

The following article does not seek to provide a detailed analysis of cluster promotion in Germany. Its objective is rather to initiate a discussion with cluster practitioners and policy makers. The main question addressed is how cluster promotion could become a more effective regional or local driver of change and economic success. The article tries to figure out whether the current incentive and governance system of cluster promotion in Germany promotes this required change. The authors come to

the conclusion that cluster initiatives as well as cluster policies face a certain reluctance to change because the current system has developed its own functional logic. It seems that present answers are quite unsatisfactory in this regard, because they are too theoretically-orientated or else they come from a very much action-oriented practice perspective that does not put sufficient emphasis on specific learning processes of LED in Germany.

Some provocative hypotheses as an abstract

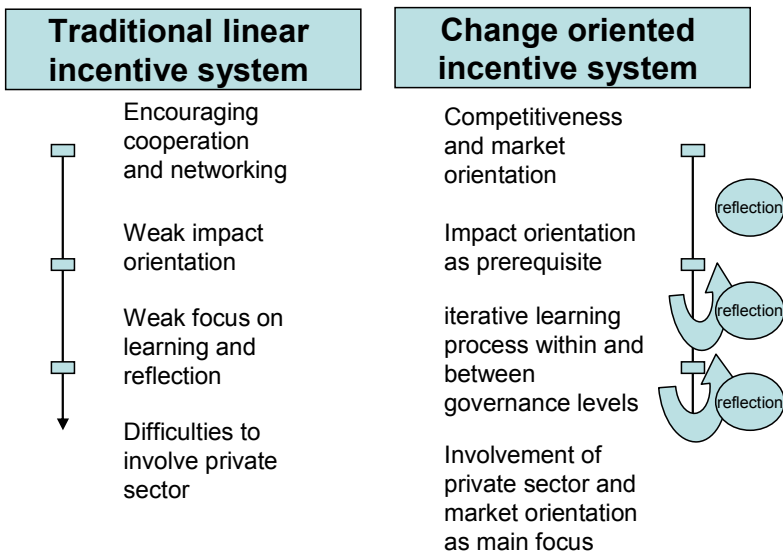
The article follows some provocative hypotheses developed through observations from science and practice. The hypotheses of the article are the following:

- Cluster promotion in Germany does not provide the required incentives to be as effective as it could be.
- The lack of impact orientation in the governance structure of cluster promotion negatively affects the innovation capacity of the respective networks
- Cluster promotion has been mainly directed towards the promotion of cooperation but not competitiveness
- Existing clusters in Germany are mostly politically-driven initiatives. The private sector participates in these initiatives but less so as a driving force
- Cluster initiatives in Germany do not put enough emphasis on the analysis and promotion of real business supplier and buyer relations. Also, real market and applied-oriented product development is rather weak
- The system of promotion includes insufficient encouragement, reflection and documentation of learning processes and experiences. It does not really entail learning loops. The result is a decrease in motivation of the cluster stakeholders.

- The current incentive system should to be more oriented towards the facilitation of change processes that lead to more substantial business and output-oriented networks.

Although these hypotheses sound quite forceful, they contain certain truths which are based on the current incentive system and the functional logic of many stakeholders that profit from or are accustomed to the common practice. How can such a system increase its effectiveness? How can such a traditional and linear-oriented system increase its effectiveness and become a change-oriented system (see graphic)?

Incentive systems for cluster promotion and their different characteristics



The 2nd chapter provides a short overview of the cluster history in Germany, moving from a business-driven towards a politically-driven approach. The 3rd chapter provides an insight into the current linear structured governance system of cluster promotion in Germany and into the functional logic that informs the behaviour of the stakeholders involved. The 4th chapter provides initial suggestions on how to improve the incentive system of cluster promotion so that it is more oriented towards

changing traditional mindsets and encouraging essential elements for learning and competitiveness.

2 Cluster competition on the local, regional, and national level

Nowadays, the process of economic globalization seems to be irreversible and detached from political influences, because international companies like financial service providers and multi national companies (MNC) can operate virtually free from regulatory national policies on global markets. In this regard, some scientists have already ascertained the decline of political control capabilities in the socio-economic context (cf. Zürn 1998). On the other hand, just the buzzword “Globalization” has caused a renaissance of the importance of regional territories and related political intervention strategies to encourage the development of competitive advantages within cities and regions through the creation of synergies between companies, highly skilled labor and a supporting local business environment. In this context, selective cluster policies have become the dominant support strategy to encourage the performance of national and regional locations (cf. Sölvell/Lindqvist/Ketels 2003 & Rosenfeld 1997).

In Germany, we can find a comparatively long cluster history. The first policy initiatives and projects started in the mid 1990s. Since then, the number of cluster initiatives has increased intensively and become closely intertwined with the structural change of industrial regions and related restructuring programs at the European level (e.g. target 2 EU support programs for regions in structural change). In Germany, the first cluster initiatives were public private partnerships (PPP) between MNC and local policy makers in locations like Wolfsburg (Volkswagen AG and the City of Wolfsburg – Auto Vision) or Dortmund (ThyssenKrupp AG and the City of Dortmund - dortmund-project) to counter the deep and often painful process of de-industrialization. In comparison to these early days of cluster promotion, where entrepreneurs and public authori-

ties were often equal promoters of the initiatives, a considerable shift has taken place (cf. Kiese/Schätzl 2008).

Today, the field has transformed into a fairly politically stamped business, where national (e.g. High tech-Strategy of the German federal government), regional (cluster competitions in North Rhine-Westfalia and most of the other regional governments, also called *Laender*³⁰) and local (dortmund-project in Dortmund) projects have been set up in many places all over Germany. In line with this political shift, we can observe the following development: on the one hand, the strong political support for cluster initiatives has led to the setting up of many political institutions with own – politically-driven – initiatives. On the other hand, real PPPs like the ones in Wolfsburg or Dortmund with a strong entrepreneurial participation as a driving force and pressure for concrete action, have decreased in importance. One of the main reasons for this politicisation process is surely the ambition to further encourage the competitiveness of a large number of still economically underdeveloped regions and cities in Germany. The question of how to do this in the most effective way is one that many cluster experts would like to see answered. What seems to be common sense at present: in comparison to earlier more directly supported economic and structural policies that were more oriented towards infrastructure development, isolated SME programs and investment promotion, the cluster approach entails a more integrated and network-oriented approach. The question of how to provide the right incentives for clusters to become most effective is still widely discussed. And it seems that science research as well as practical experience do not provide many useful answers.

During the last decade, the cluster concept has received a good deal of attention in scientific research. This has mainly been due to its interdisciplinary character, which seeks to integrate business management, value chain promotion and regional planning as well as economic development research elements. Additionally, it has always been an interdisciplinary

³⁰ Germany is divided into 16 regional governments with their own administration. These regions are called “*Laender*”.

and fuzzy concept, which has often been praised as an adequate solution for geographic territories to stay competitive in a globalized economy. The first case studies of “industrial districts” and “clusters”, like Silicon Valley (cf. Bresnahan/Gembardella 2004) or regions in Northern Italy (cf. Becattini 1990) in particular, were taken as “blue prints”. Political programs for cluster initiatives and business networks were set up to promote such models. This led to a cluster and initiative boom promoted by policy makers as well as Local Economic Development (LED) practitioners (cf. Kiese 2008).

Whereas scientific research on clusters has focused at a more theoretical level or researched the influence of globalization on clusters (see e.g. cluster studies from the Institute of Development Studies (IDS) in Brighton), in parallel many practical experiences and activities have been promoted through cluster initiatives. Nonetheless, these experiences do not seem to have received sufficient attention from scientists. In fact, it can be stated that science has not caught up with the wide-ranging practical experiences that were acquired during the cluster boom. Such experiences demonstrate that the idea of turning best-practice experiences into universally-valid policy recommendations does not work, because of different path dependencies in different locations (cf. Rehfeld 2005).

Does that mean that every location has to follow a trial and error procedure in order to finally identify the right format of cluster promotion? Definitely not. But then what are the main success criteria of cluster promotion and how do cluster policies and research activities need to be designed to contribute towards increasing competitiveness? Anglo-American publications on regional economies have only made very conservative remarks on the importance of policies for LED (cf. Enright 1993; Porter 1998). The authors of this article believe that policies matter and can make the crucial difference. Practical experiences of many cluster initiatives have proven this. But what are important for the success of a cluster initiative are the right incentives set by the policy makers, cluster initiatives and the cluster management. They can either promote a change of mindsets or encourage stakeholders to stay as far as possible in their comfort zone.

In Germany, the system of cluster promotion has promoted its own functional logic, which can be described as action-oriented and more or less “independent” from impact evaluation. There are only very few valuable evaluations of cluster initiatives that provide a real insight into concrete learning processes and improvement opportunities. Based on this argumentation, the main question from a practice perspective is not if, but rather how, cluster promotion could become a more efficient regional or local driver of change and economic success in the future. Weaknesses in the elaboration and documentation of learning experiences in cluster initiatives can be traced back to the lack of attention these initiatives have received from policy makers and scientists as well as practitioners themselves. In reference to this gap, the main approach of this article is to figure out how a lack of monitoring and impact evaluation has promoted an incentive system and a functional logic on the part of stakeholders, which requires a change in the future.

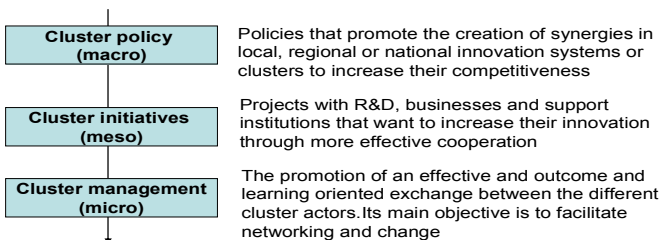
3 The present incentive system for cluster promotion in Germany: its functional logics and results

This chapter provides a deeper look into the existing cluster promotion system in Germany and tries to identify certain functional logics. It is based on own observations made during consultancy in Germany as well as through evaluations of cluster initiatives in recent years.

3.1 The governance of cluster promotion

Not only in Germany but also internationally, the governance of cluster promotion is often differentiated between three levels.

Governance and implementation levels of cluster promotion



- the governance and implementation of cluster policies (macro level),
- the governance and implementation of cluster initiatives (meso level),
- and the governance of the cluster initiative by a certain cluster management team (micro level).

The graphic provides a further definition of the 3 governance levels.

The actors and tasks in the present promotion system

Actors	Policy actors in local, regional and local gov't, econ. dev't agencies, departments in the municipality	University, R&D, further support institutions, core businesses, suppliers, support agencies, consultants	often young professionals, project manager, public sector representatives
	Policy	Initiatives	Management
Tasks	<ul style="list-style-type: none"> • Selection of main clusters or innovation networks • Selection of support programmes • Competition based proposal contests 	<ul style="list-style-type: none"> • Gathering actors for proposal (often through agencies or professors) • implementation of activities with target groups • Monitoring through external research institutes 	<ul style="list-style-type: none"> • workshops to clarify common goals • planning and organisation of action plan • management of the "cluster project" • keeping the project members motivated

In the case of Germany, federal and regional policies constitute the framework for the facilitation of local and regional cluster initiatives and their operational implementation by cluster managers often located in economic development agencies. In the last few years, nearly every regional government in Germany has started to experiment with cluster policies. A prerequisite for a cluster policy is the identification of main important and potential sectors in the respective territory, which is often carried out by consultancy companies (e.g. McKinsey or the Prognos AG) and economic research institutions (e.g. Fraunhofer ISI). In general, it is the federal or regional Ministry of Economy that selects the sectors/clusters according to their potentials in developing competitive advantages. During the last decade, the selected sectors were mainly inno-

vation or knowledge-based. After having selected the main regional or national clusters, tender procedures are developed where cluster network groups can apply with their concepts. These large tender procedures are in general accompanied by tenders for other smaller and locally-based clusters to identify and promote creative ideas. Although the size, funding support and the target group of the different formats of these tenders differ to a large extent, they generally have several aspects in common:

- They all aim to increase the competitiveness of the respective cluster through the cooperation between local R&D institutions, economic support organizations as well as businesses
- They ask for innovative ideas that should make a difference. These should demonstrate a change in usual procedures and provide value added aspects
- They require a clear commitment and involvement on the part of all stakeholders with a special emphasis on the active integration of the private sector (cf. Prognos AG 2008).

The table above demonstrates the different governance levels, actors and tasks involved in the present cluster promotion system in Germany. The incentives set by the tenders encourage a dynamic that requires the participation of the various actors and their different tasks. Potential cluster initiatives react on the financial incentives provided by policy makers via tenders. Main drivers of proposal drafts seem to be the existing local and regional economic development agencies as well as specific cluster-oriented professors from the respective university departments. The latter are also the ones who write the proposals, gathering additional Memory of Understandings (MoU) from other potential members in the cluster. “If the cluster proposal finally wins the tender, then the real work starts”, is a statement made by experienced cluster managers. In general, the main drivers of the proposal draft also expect to provide the management of the cluster. This involves the setting up of a management unit or the employment of a cluster manager, contact building with potential cluster members as well as the participatory development of an action plan. The most important task of the cluster manager during the initial process is to assure the “buy in” of the potential cluster members and motivate them

during the process to take over an active role in the promotion of synergies and concrete outcomes

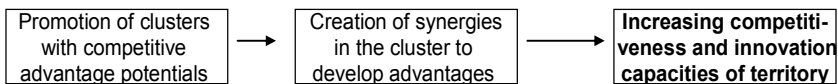
In Germany, the cluster management at the micro level is normally understood as a coordination and network centre that governs the implementation of activities in the initiative. Cluster managers are often attached to an LED-agency or a PPP-association. Their task is often defined more in terms of a project manager than a cluster facilitator. These cluster managers generally organize the different activities agreed upon in the action plan, keep contact with the different cluster members and try to integrate additional ones.

3.2 The linear promotion approach and the functional logics entailed

The governance system outlined above provides a brief insight into the official tasks of the different stakeholders involved in the policy-driven promotion of clusters. The implementation logic is though very linear.

- At the macro level rules and frameworks are set to promote clusters with main potentials and with the objective of developing competitive advantages.
- Cluster initiatives at the meso level then encourage concrete activities that should lead to better cooperation and to synergies between relevant cluster actors.
- Networking and synergy creation are means, at the micro level, of reaching a higher goal: the encouragement of competitiveness of the cluster. The Cluster managers have to support the cluster in achieving this final goal.

Linear goal logic in the cluster promotion system



According to the opinions of the authors, the above-described governance structure of cluster promotion in Germany leads to a one-dimensional and linear procedure. It is based on the basic understanding that cluster actors involved in the system are jointly orientating themselves to reach the final goal: increasing competitiveness and innovation. Nonetheless, the systemic competitiveness approach and our professional practice shows us that reality does not work in such a linear and objective-oriented manner. The objective of encouraging new relations, new ideas and the development of new products requires intensive reflection processes between the cluster actors. At present, it seems as if cluster initiatives are more intensively focused on cooperation activities that are not really provoking a change of mindsets or a reflection process between the stakeholders. For example, cluster managers rarely have in depth abilities to analyze their position, weakness and opportunities in the respective value chains, in conjunction with companies and R&D. The challenge of promoting change also requires challenging the stakeholders and reflecting with them on their position of competitiveness.

Functional logics can become innovation-resistant if they do not encourage a continuous change in their processes. Many evaluations of cluster initiatives demonstrate in that context that the most successful initiatives are those with a strong driving force from the private sector due to a clear orientation towards the market and competitiveness. With the shift from PPP-driven initiatives to politically-driven initiatives, it is questionable whether at present the functional logics lead to the encouragement of competitiveness as a final goal of cluster promotion.

The interests involved in cluster promotion

To analyze this in more depth, it is necessary to take a more detailed look at the different interests involved in the system.

Policy makers:

- Policy makers provide the framework of rules and incentives to encourage the cluster building. But their monitoring procedure is very much based on quantitative indicators lacking information about real impacts
- These indicators look at the number of activities, participants and activities and focus less on the contribution of these activities towards the final goal of making the cluster more competitive.
- The policy incentives create more emphasis on activities for exchange of opinions, and networking of partners. Nonetheless, it seems that they are lacking a clear orientation towards increasing competitiveness, reflecting on market changes and the consequent necessary changes in cluster orientation.

If the rules do not require an impact-oriented monitoring system, it is impossible to reflect on the manifold experiences in the cluster initiatives for the improvement of cluster policies. At the same time, it does not encourage reflection loops about learning experiences within the cluster initiatives.

LED agencies:

- In Germany, many LED agencies at the municipal and regional level were outsourced from their administrations in recent years. Applying for tenders is one opportunity to allocate additional funds. The application for tenders and the creation of cluster initiatives is a chance for them to position themselves, and increase their political and economic influence, financial resources and staff basis.
- Often cluster management is based in agencies. The management units of cluster initiatives do not have to provide impact-oriented results.
- The current system provides the LED agencies with a relatively open playing field that often lacks a clear focus on change and competitiveness.

Science-related institutions:

The functional logic and interests of the different scientific stakeholders involved in cluster promotion has to be differentiated between R&D cluster members and non-member-oriented scientific institutions responsible for the overall process monitoring of the cluster initiative.

- Many cluster proposals were written by university representatives who are more interested in applied-oriented research than in the implementation of these competitive products within the market of the cluster. Many cluster initiative proposals still demonstrate a scientific bias and often also a lack of real business involvement, with the result that it is not competitiveness that is the main focus of attention but the improvement of research.
- The other form of involvement on the part of science refers directly to the “lock-in” situation stated above. It entails the overall process monitoring and evaluation of cluster initiatives. This is normally carried out not by specific research institutes but by economic or regional planning institutions. Their interest and also their policy mission is not oriented towards the understanding of dynamics and change processes within the different cluster initiatives. Their task is much more oriented towards providing overall information about learning processes, which in general is very much aggregated and anonymous. They do not provide information about specific activities and their influence in changing traditional relations into more dynamic ones.³¹

Businesses and their representative associations:

- Businesses are the key target group of clusters. Nonetheless, it is most difficult to involve them in a dynamic cluster process. And this is not

³¹ See the overall process monitoring in the cluster initiatives of the InnoRegio project in East Germany: www.unternehmen-region.de/de/175.php

only the case in Germany, but in most politically-driven initiatives that lack business orientation.

- Businesses are often not sufficiently integrated into many cluster initiatives because many initiatives focus mainly on activities to promote cooperation but not competitiveness.
- The economic mindset is often weak in cluster initiatives, which leads to a situation where cluster members meet others who speak only the same language.
- Many businesses lack awareness about future market potentials. They are not challenged to reflect within their clusters on their situation with regard to competitiveness, their weaknesses in comparison to their competitors and opportunities for improvement.

Cluster manager:

- Cluster managers are in general very much pressured to succeed. Project management places importance on organizing many different activities and keeping control of the work and financial flow.
- However, project management becomes the objective in itself instead of considering the importance of cluster facilitation.
- Many current cluster managers have little experience in the private sector and few facilitation skills to initiate innovative and outcome-oriented relations between the cluster stakeholders. With a lack of change facilitation skills and lack of closeness to businesses and their realities, cluster managers follow the most rational behavior: concentrating on project management, where they can assure the fulfillment of quantitative indicators.

3.3 The result: Cluster promotion in an action-oriented but one-dimensional approach

In Germany, cluster promotion has changed within only one decade from an exotic intervention strategy to an inter-regional contest, which is actually marked by an action-oriented approach. The global competition between locations and regions has caused very quick and sustainable changes in the way policy makers try to counter this challenge by encouraging LED-agencies to create cluster promotion strategies in which cluster managers are ordered to assure the initiatives' success. This top-down bias makes it also hard for new change perspectives in the LED debate. But just how important new inputs are going to be is shown by the increasing political pressure placed on already existing cluster initiatives to succeed. According to this appraisal, public funds will be more restricted in the near future and might be handed out to only very few good practice locations with transparent and professionally organized cluster management. Even established cluster initiatives will have to make clear that they have sustainable experiences in the strategic realignment of their activities. Through this upcoming change, even successful LED institutions must realign and build rearranged strategies to maintain the competitiveness of their cities and regions.

It is not an implausible conclusion to predict that cluster promotion in the medium-term will not just be oriented towards initiating new cluster initiatives anymore but rather towards revising existing ones. For this realignment, it will be necessary to reconsider the existing incentive system at the different governance levels and at the stakeholder level.

4 Making cluster incentive systems work: challenges and restrictions of change approaches in LED

The promotion of clusters is still one of the few possibilities governments have to encourage the economic development of regions and localities within a more globalized economy. But despite the fact that the existing incentive system in cluster promotion used to be successful and well approved, it is not encouraging change and a clear orientation towards im-

proving competitiveness, because it equates the interests of the various actors involved and keeps them in their comfort zones (e.g. policy makers, LED agencies, science and cluster managers).

As the earlier chapter demonstrated, the existing functional logic lacks a clear orientation towards changing traditional ways of thinking and acting. Clusters in a competitive environment will therefore be successful if they encourage change and innovation between companies, support organizations and R&D institutions. This is more easily said than done. How to pressure stakeholders for change? How to encourage the different stakeholders to become more market-oriented? How to encourage businesses and R&D in a cluster to reflect on their position in the value chain and increase their competitiveness and market orientation?

The current linear-oriented promotion system does not provide a sufficient approach to answer these questions. There is a need to reconsider the current system of cluster promotion and move from a linear oriented approach towards an approach that puts the focus of attention on impact-, business- and market orientation as well as change facilitation.

In the following, first suggestions will be made for necessary changes in the system and their possible effects on the incentives for cluster stakeholders.

Change requirement in cluster policies:

- Impact monitoring has to become the guideline for policy makers. This entails the need to reconsider the quantitative monitoring procedures of activities and move towards indicators that put emphasis on learning processes between the stakeholders. With such an approach, businesses would have to position themselves in the market, R&D institutes would have to orient themselves more towards applied-oriented research and the identification of business and product development opportunities.

- Policies have to put more emphasis on initiating concrete learning processes (soft factors) instead of looking mainly at numbers like e.g. participation in activities
- The described “lock-in position” of many scientific research institutions has not contributed very much to representing the real experiences on the ground. Although cluster initiatives in Germany have pushed forward many activities, their impact has rarely been considered in the overall evaluation. Evaluation and analysis of activities and their impact will remain superficial if research institutions do not have to take a deeper look into the real practice
- Development of tenders that place more emphasis on changing mindsets, developing concrete outcome-oriented outputs and the evaluation of internal learning experience.
- Benchmarking existing cluster initiatives in relation to the processes of change and their orientation towards competitiveness would encourage competition on quality and outcome.

Change requirements in cluster initiatives:

- Shifting the focus from action orientation and “just” cooperation towards activities that are oriented towards changing mindsets. This involves efforts to push the stakeholders out of their comfort zone, encouraging concrete interactions and matching between businesses and their suppliers and customers, businesses and applied science, services of support organizations and real demand of businesses. This will lead to new challenges and incentives for the different stakeholders involved
- Appreciation of internal learning processes as a prerequisite for success as well as the alignment of expectations between the cluster members. These learning processes are rarely considered.
- Developing quality and impact-oriented monitoring procedures for the different stakeholders involved (like R&D, businesses, support organizations) to be able to track their contributions to an impact-oriented outcome

- Benchmarking real impact of activities within the different initiatives and comparing them to analyze good practices and success criteria

Challenges for change in cluster management:

- Cluster management is often not able to tackle the real challenges for cluster initiatives. While the management of clusters is important, even more important is change facilitation
- Supply in capacity building for cluster facilitation is rare. If impact orientation increases its importance, the demand for change facilitation skills will also increase. Existing cluster manuals are not sufficiently addressing facilitation competences and new business-oriented tools have to be integrated and developed
- Cluster managers need to have experience in the private sector, and at least must be able to speak the business language. This also requires a change in the job description of a cluster manager
- For a clear orientation towards innovation and competitiveness, it will become increasingly important to include an analysis of business relations within the value chains and to encourage a reflection process with the different stakeholders on how each of them can contribute to the upgrading of companies within the cluster and the respective chain

5 Outlook

Impact orientation and change promotion in clusters have not been explored very intensively up to now. This aim of this article was to take a deeper look into this black box. The authors have attempted to demonstrate that cluster initiatives as well as cluster policies face a certain reluctance to change because the current system has developed its own functional logic and lacks sufficient emphasis on innovative learning processes. Additionally, the authors sought to come up with first suggestions.

The above conclusions mainly derive from practical and scientific experience. We have tried to open up new questions that demand further practical research and discussion. This article is seen as a contribution to this discussion. The authors wish to deepen their knowledge on the topic and exchange with practitioners at the different governance levels.

While writing this article further questions arose, these included the following:

- What are the knowledge and tool requirements to increase change facilitation at the different governance levels in the near future?
- What would integrated approaches of change facilitation for the 3 levels of governance look like?
- What are the concrete demands for capacity building in that regard?
- How important a role does external expertise play in facilitation (e.g. consultants) and what role can be taken over by cluster managers?

Maybe Jörg would like to participate in this discussion. We would very much appreciate his comments.

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Applying new technology in development practices

By Shawn Cunningham

Since 2002 I have been working with Jörg Meyer-Stamer on several projects and ideas. In the beginning I found it amazing how Jörg would use technology in his normal routine work. The technology applications ranged from taking digital photos of all pin boards during and after workshops, to preparing CDs full of not only training content, but also additional and relevant literature.

Maybe I have a personal bias towards the use of technology due to my background in information technology. But then I am sure that these small practical applications of technology have made the lives of many facilitators and experts much easier over the last few years. What is nowadays common practice with most facilitators that I work with started as a strange habit of Jörg's a while ago. Of course I know that other people used the same technology elsewhere, but in South Africa where I worked with Jörg he was the person who spread these ideas into the local development field.

I would like to highlight just a few of the technology applications briefly, starting with the most recent and then going back in time:

- Using Podcasts to reach development practitioners;
- Printing on demand;
- Creative presentation skills; and
- Co-publishing under the Creative Commons license.

From this list it becomes evident that I am referring to a very narrow range of technologies that are all made possible through advances in Information Communications and Technology. I could have included the many other technologies that Jörg has made popular in my world, but decided to focus on some of the small ideas that have become central in the way we do things. Some of the ideas that I have chosen not to cover in this article range from the simplicity of using triangles to explain basic LED Concepts (The Hexagon) to using matrixes to explain fundamental choices or scenarios in LED.

1 Using Podcasts to reach development practitioners

Podcasting is an increasingly popular form of knowledge dissemination. In a very short time more than a million podcast services have been published on the web by various new and traditional media firms. Podcasting means that an audio recording on a specific topic is published to the web for listeners to download. Listeners can then listen to the audio clips on portable media players, or they can burn the audio clips to CDs and listen to the audio programmes in a car while driving.

During 2007, Jörg started experimenting with the technology, and the LEDCast was born. Over the last 18 months, more than 50 shows have been recorded and published. Some shows have been downloaded more than 10,000 times already, increasing our outreach to more development practitioners than we could ever have imagined training or reaching directly two years ago. In some of the shows we interview guests, and some of our enthusiastic colleagues have even recorded their own shows that we published through the system that is now configured to deliver the LEDCast episodes to our listeners.

At some of our recent training events we have given each participant an MP3 player with the LEDCast series and some other interesting shows on as a gift.

The feedback on this technology is very positive, with several practitioners using the shows to inform their customers and target groups on top-

ics related to LED. There are even some universities that are using selected episodes as prescribed material for their students. Where this technology is changing the traditional rules of development consulting, is that mesopartner is giving all its knowledge and experience away for free via this public medium. This means that we have to constantly strive to be innovative in our methods and concepts to stay valuable to our clients; and that our clients benefit from our ability to assist them to capture their knowledge and then disseminate it widely to an international audience.

It would appear that this form of knowledge dissemination is more popular with development practitioners than the traditional documentation or working papers.

2 Printing on demand

In 2008, Jörg introduced the concept of low volume publishing via the internet. These service providers are rivals to traditional publishing houses that take an electronic document and publish it as an electronic book to the internet. If a person decides to purchase the book, the publishing house prints and binds the book at a competitive price, and ships the professionally printed book directly to the buyer. The publisher charges a small fee for each publication printed and shipped, while the author can decide how much margin they want to add to the final price.

While we are still experimenting with this concept, the impact of using this kind of technology is striking. We can now assist our customers to better capture their own learning, and can then assist them to print professionally published books and other kinds of publications in support of their dissemination objectives. These online printing companies can assist with editing, layout, graphics design etc. and will allow development programmes to print highly professional documents at a low cost, without the hassle of large print runs.

This technology creates new opportunities for mesopartner as well, as we can now publish many of our working papers and other documents in a professional way. Many practitioners already use several of the

mesopartner working papers and manuals and reference documents or field guides, and we can respond to this need for printed material through this form of publishing.

3 Creative presentation skills

Jörg very often thinks either by writing a paper, or by designing images and models in Powerpoint. At one point my folder with presentations from Jörg exceeded 100 files. Jörg always gave these presentations to people at training events and there are several training courses and standard presentations that still use many of these slides.

While Jörg still develops his ideas by creating slides in PowerPoint, presenting slides is no longer a prominent feature of the way we do training events. Anybody who has participated in one of our recent capacity building events would have noticed that we are increasingly using creative visualisation techniques instead of MS PowerPoint presentations. In fact, at our two most recent international events we did not even make any slideshows! We have realised that having a panel with a picture that is unpacked or unfolded works much better than a presentation.


Participants are more likely to engage in and contribute to the topic when we use a more visual approach. This kind of creative facilitation is complemented with other facilitation methods, like constructing statues (called Gestalt), forming living value chains – where participants represent actors in a value chain, or standing in matrixes on the floor to illustrate perspectives. This means that the participants become part of the topical discussion in an active way, rather than participating in a traditional passive way.

This trend towards more creative visualisation has not only developed because we want to be creative. It is also informed by the literature of authors like Edward De Bono and others who argue that we have to engage more in holistic thinking in order to unlock the creativity of the people we work with.

Now you may wonder how dropping an IT gadget like a LCD projector is using the latest technology. The truth is that finding ways to involve our participants in a more engaging manner is in itself a different technology. For us as trainers, facilitators and coaches this means that we have to prepare in a more flexible manner and that we have to concentrate on using the experience and the knowledge of the participants that we are working with. The feedback that we have received so far has been very positive in this regard, as participants can relate this kind of input back to their own work. It also stimulates the forming of supporting networks and new relationships.

4 Co-publishing under the Creative Commons license

In the field of development practice there are often sensitivities relating to copyrights, credits and the protection of intellectual rights. There is often a blurred line between the rights of the developer of an idea, and the rights of the sponsor or contracting authority with regard to future rights and claims. Jörg and many others have certainly received criticism in this regard from some quarters, with rumours even spreading at one time that mesopartner was receiving a royalty every time somebody used the PACA methodology or any of the mesopartner MS PowerPoint slides. Of course these rumours were false and were often spread by jealous or misinformed development practitioners.

A not-so-recent development that provided an alternative way of protecting copyrights while sharing the use of information can be found in the Creative Commons License  (<http://creativecommons.org>). The creative commons license system is a more flexible way to share the copyrights of products and methods, and is strongly influenced by the success of the open source software movement.

The Creative Commons licenses enable copyright holders to grant some or all of their rights to the public while retaining others through a variety of licensing and contract schemes including dedication to the public do-

main or open content licensing terms. The intention is to avoid the problems current copyright laws create for the sharing of information.

Creative commons means that copyrights are protected to a limited degree, while free distribution and further development of the specific knowledge is promoted. This means that mesopartner and its clients can get recognition for their intellectual work, while target beneficiaries and other users are free to modify or further disseminate material with some conditions specified. Thus the development objectives of the client (or sponsor) and mesopartner are achieved without restricting the ability of users to use or customise material.

In the last year, mesopartner has increasingly used the Creative Commons to publish manuals and other publications with partners like GTZ, InWEnt and others.

5 Other technologies that are influencing our work

Some of the other technologies that have had a major impact in our work are:

- The use of Skype for meetings and conversations;
- Printing of CDs and manuals that look very professional;
- A PACA newsletter with more than 5000 readers;
- Wireless internet access wherever we go!

Some non-IT related technologies that are increasingly influencing our work are:

- Applying principles and concepts from outside the field of territorial development (e.g. from business management, complexity science, systems theory, change management, etc.);
- Finding new ways to manage the mesopartner microenterprise that spans four continents;

- Finding new ways of constantly innovating in the development and testing of new methods, concepts and tools with a variety of partners and experts depending on us to stay at the leading edge;

6 A new strategic position for mesopartner

The confluence of the four main technology trends described earlier allows mesopartner to position itself as the leading concept developer and coach in the field of territorial development. Instead of publishing our own articles, paper or podcasts, we can assist our clients to capture and disseminate their learning. Ideas, concept papers and manuals can be co-developed and published under Creative Commons in a way that allows our clients to gain recognition for their work, while mesopartner and other practitioners can disseminate and develop the material further. This means that customers can trust us to assist them in developing their ideas without fear that mesopartner (or anybody else) might publish these ideas without recognition of the origin of the ideas.

Furthermore, the LEDCast audio programme allows mesopartner and its partners to disseminate practical insights, tools and concepts to a wide new audience that could not always be reached through more traditional dissemination strategies. By giving away development advice as a public good we are creating new dynamics in the field.

Through more creative facilitation techniques we can assist our clients to discover, capture and further develop their own ideas. In a training context this would imply that we constantly seek to leverage the existing experiences, insights and learning of our participants, and that we seek to add value in the areas where they require further development.



LED-Podcasting Jörg Meyer-Stamer and Shawn Cunningham, 2007

Innovation and Collaboration – Filling the LED Space between the Public and Private Sectors

By Colin Mitchell

1 Context

In 1996, two years after the release of Nelson Mandela from prison, the end of Apartheid and the beginning of South Africa's economic revolution, the established business community was faced with what many perceived to be disruptive change. The mood at the time was uncertain, with mood swings ranging from optimism at the potential of entering into, and competing for market share on, global markets to depression at the spectre of possible nationalisation of resource-based industries and agricultural land. Capital was illegally being exported in unprecedented amounts.

What was clear was that it was now business as “unusual” and that government was going to take a far greater, if not pre-emptive, role in the spectrum of economic development initiatives. The concept of the Development State then became central to economic policy, however the definition seemed to be left open to some interpretation with the classic Marxist definition being promoted by the labour affiliations and a more market capitalist adaptation being argued by very powerful economic blocs. This middle ground, some would say, had abandoned the (economic) principles of the liberation struggle as per the Freedom Charter adopted in Kliptown on the 26th June 1955 which read:

“The national wealth of our country, the heritage of South Africans, shall be restored to the people;

The mineral wealth beneath the soil, the Banks and monopoly industry shall be transferred to the ownership of the people as a whole;

All other industry and trade shall be controlled to assist the wellbeing of the people;

All people shall have equal rights to trade where they choose, to manufacture and to enter all trades, crafts and professions."

Instead the language was more focused on the role of the state as an enabler and facilitator of an "embedded autonomy"³² and referred to structural linkages and social interaction with telling contributions to the debate such as "A state is developmental when it establishes as its principle of legitimacy, its ability to promote and sustain development." (Castells³³) and "the development state was the one that was determined to influence the direction of and pace of economic development by directly intervening in the development process." (Johnson)

What has this to do with this article, and more importantly with my interaction with mesopartner and initially with Jörg Meyer-Stamer?

In 1996 I was in business and involved with the development of financial instruments that were a reservoir for funds for the private sector. I was also the president of a regional chamber of commerce that was entering this uncertain new world that seemed to exist somewhere between the philosophies of Karl Marx and Ayn Rand³⁴. The key question on everyone's mind, and one that I was asked over and over again, was: What would be the attitude of government to the established [but racially segmented] business sector?

³² Embedded Autonomy – States and Industrial Transformation (Peter Evans 1995)

³³ Manuel Castells: a sociologist who, in the 1970s greatly influenced the development of Marxist-orientated thought about social interaction especially in metropolitan areas and the power and influence of social movement. His work seems to have strongly influenced the South African Labour movement and their economic ideology.

³⁴ Ayn Rand (1905 to 1982) - , a writer and philosopher who championed the cause of objectivism and the "Laissez-faire" principle of economics with capitalism in its purest form at its heart. Her perspective being that the economy should be "left alone" for the market forces of supply and demand to be self balancing

At the time, and somewhat predictably, there were two primary responses that were manifested by the business community, those of fight and flight. At the time, flight predominated and capital, both financial and intellectual, left the country at an alarming rate.

However, once the lemming-like rush had slowed, people began trying to figure out how this new order was going to evolve and the third response, that of insight, emerged. It was at this time that a journey of discovery began towards better understanding the political and economic principles that could or should influence both the public and private sectors and find some place in the political economy middle ground, which might conceivably enable both to emerge from their different forms of isolation and succeed in, what was for many, a scary new world.

In essence, the worlds of the established and previously segregated business community and the “new” public administrative and development sectors had never interacted. The public sector had never had cause to consider economic development from the perspective of business, nor for that matter had business people stopped to consider themselves as a part of local and regional development or to try to understand the need and mutual benefit for local government to succeed. Possibly more significant was the fact that neither local government nor business had ever considered the impact they each have, or should have, on the communities within which they operate. It was in this space that I tried to find some precedent or basis to begin considering what might happen in the future, where the new government could consider seeking policy and legislative advice and support, and what form and principles underpinned the current economic discussions. At that time, it seemed that the European Union was having the greatest impact on South Africa’s socio-economic thinking with Germany seemingly more focused on economic issues.

The first real insight into understanding the space between economic ideology and policy and how it related to entrepreneurship and “business” was through an (for South Africans) obscure publication entitled *Systemic Competitiveness New Governance Patterns for Industrial Devel-*

opment by Klaus Esser, Wolfgang Hillebrand, Dirk Messner and Jörg Meyer-Stamer; published by the German Development Institute in Berlin in 1995.

Further enquiry led to the GTZ and ultimately a meeting with Jörg at the first PACA introduction to South Africa.

The article will attempt to do three things:

- To showcase a learning and growth experience that has, in its own way, had a real influence on the thinking and practice of many people in many areas of economic development in South Africa.
- To illustrate the systemic nature of development and find a natural point of intersection between the needs of business as an economic driver and the role or impact that the public sector can or should play as enabler.
- To demonstrate how, over time and with the benefit of consistent language and approaches, both the public and private sectors have realised that their individual objectives are more closely aligned than they would have believed, and that change is the product of interaction and dialog and seeking to understand different perspectives

2 Introduction

A great deal has been written about Local Economic Development and Territorial Development, with competitiveness, and more recently innovation, becoming more common and central themes. The usual approach has been about putting local and regional government at the centre and focusing on government's role and its ability to influence economic growth and job creation.

This paper seeks to introduce competitiveness and innovation from the perspective of business and the individual entrepreneur, as well as the decision making process that they would follow, often intuitively, in establishing or expanding a business. This discussion document will enable better understanding of the factor conditions that influence business deci-

sions and as a result will provide greater insight into how local economic development and the “behaviour” of government and other factors can influence a business’s decisions regarding choice of location or whether or not to relocate or to grow its business in a particular area.

The discussion will revolve around three questions:

1. What are the primary factors that influence a business person or an investor to choose one location over another?
2. Is government and its actions a factor in the business decision to establish or grow a business?
3. Where should government focus its efforts to create an environment that encourages private sector investment?

Another objective of this paper is to try and provide a balanced view of the interdependence of business and government and the benefits that could accrue in a synergistic relationship with local society in general. This is particularly relevant given the debate about economic ideology and the perceptions that the two sectors have of each other. The perception of a dis-connect between business and government was made apparent during a strategy development process in the KwaZulu-Natal Midlands of South Africa. According to the business community, the role of business is to make profits, improve the tax base and, as a result, improve the social circumstances of communities. The position of local government was that business must create jobs, and if they don’t we [government] must pass laws to make them do so.

3 Understanding of Local Economic Development

Local Economic Development, just like political economic ideology, is an evolving and changing landscape made up of different perspectives and approaches coming from a variety of international institutions, with all of them being interpreted to build a case for South Africa’s institutional response. Some of these diverse opinions and interpretations are outlined below, however they are not included for purposes of ideological discussion but purely to create a baseline of understanding.

For example the World Bank affirms with regard to LED that “The purpose of local economic development (LED) is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and nongovernmental sector partners work collectively to create better conditions for economic growth and employment generation.”

The International Labour Organisation believes that “Local economic development (LED) is a participatory process which encourages social dialogue and public-private partnerships in a defined geographical area. LED enables local stakeholders to jointly design and implement a development strategy which fully exploits local resources and capacities, and makes best use of the area’s comparative advantages.”

On the other hand, UN-Habitat has a slightly different view, stating that “Local economic development (LED) is a participatory process where local people from all sectors work together to stimulate local commercial activity, resulting in a resilient and sustainable economy. It is a tool to help create decent jobs and improve the quality of life for everyone, including the poor and marginalized. Local economic development encourages the public, private and civil society sectors to establish partnerships and collaboratively find local solutions to common economic challenges. The LED process seeks to empower local participants in order to effectively utilize business enterprise, labour, capital and other local resources to achieve local priorities (e.g., promote quality jobs, reduce poverty, stabilize the local economy generate municipal taxes to provide better services).” (Trousdale 2003)

One will also find random comments in economic literature and policy that refers to the role of the private sector and its importance to competitiveness and job creation.

“Local Government is not directly responsible for creating jobs. Rather, it is responsible for taking active steps to ensure that the overall economic and social conditions of the locality are conducive to the creation of employment opportunities” Alistair Fray – DPLG (South Africa)

“No matter the size of the community or municipality, community leaders are all interested in building strong vibrant local communities. Businesses and the jobs they create are critical components of strong economies. Strong local economies cannot exist without a growing business/job creation sector. Supporting the development and growth of local businesses is fundamental to achieving this objective.” Business Retention & Expansion International (www.brei.org)

Reading these definitions and insights one can see a common thread of people working together to improve their circumstances, collectivism and capacity building all of which imply that Local Economic Development is about institutional interventions that focus on localities, sometimes involve a quite generic process, but most often demand a targeted intervention that builds on a very specific natural or unique comparative advantage.

However, it also apparent that meeting the needs of these approaches will require the application of skills that, on the face of it, are lacking in most developing countries and most significantly in South Africa. The capability needed to fill this LED gap will ultimately be found in development people with a business background or business people with a development background. The next section will explore some of the factors and processes that a business person would undertake, often intuitively, in deciding on a business in the first place and then on the process through which s/he would most likely consider where to locate the business should s/he choose to proceed.

4 Characteristics of Small Business

People will invariably start a business either because they have no other option or because they believe that owning their own business will offer better economic or lifestyle choices.

Necessity: In areas with high unemployment and low levels of education, or for that matter basic literacy, finding a job is not an option and therefore trade of any kind becomes a question of survival. Necessity

small business is also fuelled by a social security safety net that is less than functional in many areas or inaccessible to many people for various reasons.

There are yet other people whose personal value systems drive basic entrepreneurship because, for them, social security is a humiliating last resort; or

The following statistics put entrepreneurship in Africa into perspective:

- Total Early-Stage Activity (i.e. new business start-ups) is 5.1% i.e. 25/35 of countries surveyed)
 - 40% are necessity businesses
 - 60% are entrepreneurial start-ups
 - Only 25% of start-ups will survive 3.5 years
- 2005 - SA GEM Report

Opportunism: An important driver of entrepreneurship is found when people realise they have some competency that they have developed, often by working for someone else, and believe they can make more money or have a better quality of life by working for themselves. Sometimes, with dubious ethics, their ploy is to offer the existing customers with whom they are in contact a similar service but at a better price or more personal attention. Then again, some people seek to convert a hobby, interest or a pastime into a business, This is often found in the hospitality industry and especially the restaurant, pub or bed and breakfast accommodation sectors.

In this sector the failure rates are high, invariably because people underestimate the time and effort needed to build a business, the time that is demanded by the business as well as the capital needed to see them through the birth pains.

Entrepreneurial Culture: On the other hand, there is a group of people, approximately 3% of the population, who choose to get into business because they have a burning desire to build a business and be in control of their own destiny. It is also the case that these people have been exposed to an entrepreneurial culture from an early age, have possibly worked in family business from and early age and have benefited from “business” conversations for much of their lives.

With regard to this entrepreneurial culture, there is no evidence that entrepreneurial potential is predominant in either men or women, however

there is evidence³⁵ that successful women employ on average 4.5 people while their male counterparts employ an average of 10 people. No reasons are offered for this factor but a lively debate is assured!

The business potential of tertiary educated adults is 2.5 times higher than secondary educated people and 11 times higher than people who have not completed secondary school. 2005 - SA GEM Report
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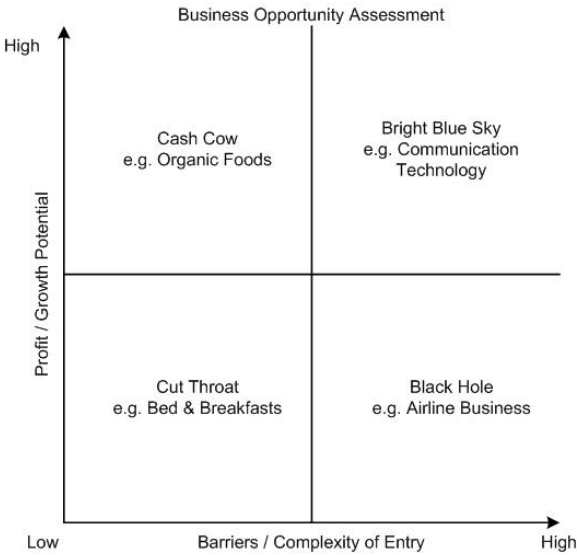
A key statistic that was found to be common to most entrepreneurial people was that they are invariably better educated, have access to good quality information and dynamic and established networks. They also invariably possess an exceptional work ethic, resilience and determination and a willingness to sacrifice in the short term for a vividly imagined longer term goal.

5 Assessing Business Options

Irrespective of whether a business is developed out of necessity or as a conscious entrepreneurial activity, both will benefit from taking a critical look at the potential of the business to make a profit and more importantly to command a competitive position in order to survive and grow over time. It is also necessary to consider the potential of a business within the context of globalisation, especially where (often subsidised) mass production is making it possible to flood markets with low cost products against which local small businesses are unable to compete, at least on price.

One way to illustrate, and critically assess, business options and their potential is to plot two key factor conditions on the X and Y axes of a graph.

³⁵ Global Enterprise Monitor – South Africa 2005



An analysis of the graph provides a clearer understanding of a business's potential and its success or failure³⁶. However, the evaluation of a business purely on the basis of this assessment is necessary but not sufficient, as there are other factors that will need to be considered and factored into the decision.

There are a number of factors, sometimes called externalities that could influence these rules and could lead to an otherwise uncompetitive business surviving and thriving in the short to medium term. The following are three examples of these external factor conditions:

- **Preferential procurement:** Where certain businesses are given a price advantage against their competitors due to political or value chain integration factors. An example of this would be the preference points awarded to black-owned businesses in South Africa when tenders are granted for [usually] government procured goods and services
- **Subsidisation / Incentives:** Certain businesses and sectors receive preferential treatment that enables them to withstand normal competition. These sectors would usually be those with strategic importance or ones that would have catastrophic employment impact if

³⁶ It is also a valuable tool to assess businesses during a value chain evaluation exercise.

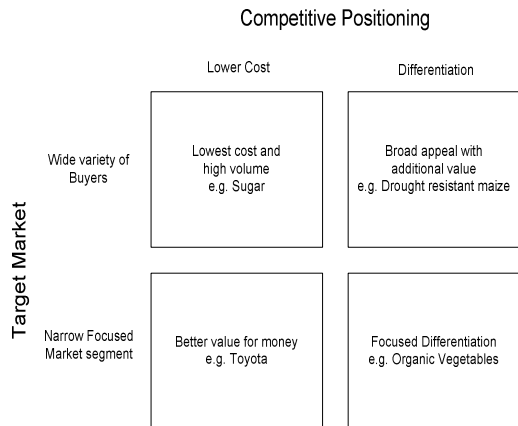
they did not succeed. An example is the South African MIDP (Motor Industry Development Programme³⁷)

- **Locational factors:** Some industries or businesses benefit from a natural or comparative advantage that could, if creatively utilised, enable them to extract a competitive advantage or market premium that may not be available to other businesses in a similar sector or business. Some of these factors might be distance from major competitors or high-volume low-cost producers, environmental factors that are unique to an area or the existence of strong supporting factors.

6 Choosing a Business Model

In all cases a business is set up based on the belief on the part of its owners that they can build and maintain a sustainable competitive advantage over possible rivals. In general, this would normally mean positioning and building a business to compete in one of four³⁸ generic arenas or sometimes an intuitive combination of more than one.

- High product volumes and lowest cost.
- Broad demand with product differentiation.
- Best Cost and Value.
- Narrow market or niche focus.



³⁷ The main thrust of the MIDP was the development of an internationally competitive and growing automotive industry in South Africa. The major lever to be used in pursuing this objective was the encouragement of higher production volumes by allowing exporting firms to earn rebates that can be used to offset automotive import duties whilst exposing the industry to greater global competition through tariff reductions.

³⁸ See Michael Porter, *Competitive Strategy* (New York Free Press, 1980) pp. 35-40
Thompson & Strickland - *Strategic Management* (Irwin McGraw-Hill 1999) pp. 136

Each of these competitive positions demands fundamental attributes to give them a competitive advantage and the best combinations for success.

These are described in the table below.

Position	Main Thrust
High Volume – Low Cost	Manage & reduce cost while maintaining acceptable quality e.g. Staple foods
Broad Demand with Differentiation	Responding to a specific niche in a high demand industry e.g. Drought resistant maize.
Best Cost & Value	Exceeding customers expectation for the price that they are prepared to pay e.g. Fast Foods, family cars
Narrow Niche Focus	Offering a narrow market sector a product that they perceive to be better and worth the premium that they pay e.g. Fashion, health foods.

Note: In general all businesses will seek to manage input costs as best they can, which will lead them to locate their businesses in localities that, for them, have the best combination of proximity to either raw material supply or their main market and that are coupled with low or lower input costs such as labour, energy and water; price of and access to land and good transport and communication linkages.

Although, all of the above are necessary they are not sufficient for long term sustainability and businesses that have tried to build a competitive position on those factors alone have in general had their fair share of challenges with unions, environmentalists and the retention of staff.

The open question therefore is:

What is it that certain business do that elevates them above their competitors and makes them succeed while so many others fail?

7 Innovation as a Competitive Differentiator

"Innovation . . . is generally understood as the successful introduction of a new thing or method . . . Innovation is the embodiment, combination, or synthesis of knowledge in original, relevant, valued new products, processes, or services.

Luecke and Katz (2003)

Innovation is seldom a random event. It is a process of continuous exploration to find better ways to serve your customers and address unmet needs of customers and society in general.

Sam Walton of Wal-Mart was reported to have said "most overnight successes were 20 years in the making"

In general, innovation is found in four areas of a business and, it can be argued, there are three different demand drivers.

The four areas of business innovation are:

7.1 Product and/or service innovation

There are two aspects to this category of innovation

- i. Improving and adding value to existing products and services so that users get the job done better, faster or with less effort.
- ii. Development of products and services that respond to previously unmet or newly evolved needs

The sphere of product innovation often lies in specialised organisations that observe market trends and in people who are inherently inquisitive and who continuously look for problems to solve or synergy in different

products that, on the face of it, have little in common but combined together can provide a competitive advantage. Examples of product innovation would be battery operated power tools for builders, electric tooth brushes, adding a camera to a cell phone etc.

7.2 Business process innovation

This is about finding ways to make cost reduction, process efficiency or in-line quality control a distinctive organisational competency. Organisations that embrace this business model will often invest heavily in work floor training and provide incentives or awards to people who contribute to the overall cost control of the organisation in order to become more efficient, drive down costs or eliminate defects.

Some of the target areas for this innovation would be:

- i. A relentless pursuit of efficiency such as Toyota's Kaizen philosophy that seeks to continuously improve all aspects of a business, from procurement to manufacturing and management.
- ii. Reducing, if not eliminating, areas of external risk. This can be achieved where the physical location of a business takes advantage of environmental conditions or natural resources to improve opportunities for business success. An example of this would be natural water quality for fish farming or areas remote from cities or heavy mining for organic food production.

7.3 Business model innovation

Business model innovation focuses on new ways to do existing business better, more cost-efficiently, more profitably, or on completely new ways to make money. Some examples of drivers of business model innovation would be:

i. Communication and IT technology:

The incredible development in the Information technology and Internet communication sectors has provided the platform for business model innovation on an unprecedented scale. It has seen the emergence of businesses such as Google, eBay etc; it has taken business collaboration out of the physical office into virtual offices, and has turned social networking into a global business.

The IT platform has not only changed the way goods and services are marketed and sold but it has also demanded innovation in how and where goods are manufactured and how a diversity of regional competitive advantages can be exploited as a business model.

ii. Vertical Integration:

Vertical integration is the process where several steps in the procurement, production, marketing or distribution of a product are brought under the control of a single company.

Vertical integration as a business model is usually an option when the producer of a product is competing on a “lowest cost” competitiveness strategy and where bringing certain components of the process under single ownership can capture the profit margins that would otherwise have been harvested by other suppliers.

Some significant benefits of vertical integration are:

- Reduced transport costs of closer geographic proximity
- Improved supply chain co-ordination
- Capturing ownership of critical resources to eliminate competition
- Increased barriers to entry to discourage competitors.
- Reduced managerial or administrative overheads via shared services such as governance, accounting, marketing, procurement etc.

However, there are also disadvantages to vertical integration that would need to be carefully considered, such as:

- Loss of innovation in supplier companies who now no longer have to compete for market share.
- An imbalance between upstream production and manufacturing capability.
- The necessity, and cost, of building new competencies in order to maintain product variety.

iii. Outsourcing:

Outsourcing is described as the transfer of an entire business process to an external service provider based on a negotiated supplier contract where the outsourcer contractually binds itself to purchase the goods or services at an agreed price and period. The supplier agrees to meet certain quality and service levels for the same period. On expiry of the term, the business process reverts to the original owner.

There are inevitably two sides to the debate about outsourcing; one is its positive potential to attract new opportunities into a locality which otherwise may have little comparative or competitive advantage in its own right.

In areas of low intrinsic potential, a catalytic public good investment in infrastructure, machinery or equipment can create a demand for “in-sourcing” that can transform the locality.

A positive example of high impact can be found in Somerset East, a small town in the Eastern Cape, where they found that they had ideal environmental conditions for flying. They convinced the IDC to fund the redevelopment of the local airfield and developed a competency in aviation. Within two years they have achieved a constant through-put of Indian pilots under training and are in advanced negotiations to get a small aircraft manufacturer to relocate to the town. On the other hand however, it must be noted that outsourcing in the context of globalisation has re-

ceived a great deal of negative publicity, especially where there are major job losses in a high labour cost environment and (frequently true) allegations of exploitation of workers often in third world countries such as India, China and many African countries

Some real or perceived reasons for outsourcing are:

- Cost savings by lowering the overall cost of a business e.g. textiles made in China
- Improved quality where certain processes are contracted to places with embedded competencies e.g. Call Centres in India, Computer manufacture and assembly in India and electronics assembly in Korea.
- Reduction in the overall overhead structure of a business at “head-office” to one of project management and logistics
- Reduction in the time it takes to get to the primary market i.e. the cost and lead time of getting fashion clothing from the USA to China.

However, other than the obvious potential for exploitation of cheap labour, there are some other disadvantages that would need to be considered.

- Almost all processes become “standardised” and the opportunity and incentive for creativity and local innovation is removed.
- There is an overall loss of product and process competencies, which appears to lead to an overall loss of product quality.
- Language, communication and local customs may create issues where customer complaints increase, a prime example of this would be European call centres in India.

Henry Ford, when he invented the automobile, reportedly said “If I had asked my customers what they wanted, they would have said a faster horse”

7.4 Disruptive innovation

The concept of disruptive innovation has to some extent been watered down and is too often used interchangeably with product innovation and applied to almost any new product.

Real disruptive innovation is about the creation of a technology that completely changes the way customers think and act, creating markets that were never there before. Examples of real disruptive innovation would be the invention of the motor car, aeroplanes, the personal computer or the Internet i.e. development that has changed forever the way people view the world they live in.

The home of disruptive innovation is usually in mega corporations with huge research and development budgets, specialised research institutions or else universities and other academic institutions.

7.5 Three Types of Innovation

In his paper entitled Technology & Innovation in the context of sustainable economic development (March 2007), Jörg Meyer-Stamer argues that with respect to developing countries it is useful to distinguish three types of innovation:

- **Catch up innovation.** The craft producer in a deep rural area would be a typical example for this. Small businesses in the informal sector typically also fall into this group. With catch-up innovation, producers and companies close the efficiency and quality gap that separates them from the state of the art.
- **Running to stand still innovation.** Any company that is involved in competitive markets needs to innovate all the time in order to match its competitors' innovations. However, even a steady innovation process does not necessarily mean that a company's competitive position changes. Think, for instance, of a company that supplies Ikea with one type of furniture. Ikea expects the price to drop every year. Thus, the producer has to constantly increase its productivity

in order to be able to produce more cheaply. It is upgrading all the time, yet its position in the value chain does not change (Meyer-Stamer 2004).

- **Innovation for competitive advantage.** Ongoing process and product innovation is a minimum requirement for any company. But a company that operates in a competitive market and does not come up with unique innovation will suffer from serious profit squeeze (Porter 1996). Leading companies try to establish a competitive advantage by doing things differently from their competitors, i.e. by being the first to introduce a given process or product innovation.

8 Significance of Location to a Small Business

Locational³⁹ factors are those features which determine whether a given city or region qualifies as a favourable setting for doing business. There are three types of locational factors:

1. Tangible locational factors, which are mostly "hard" criteria and which can often be quantified
2. Intangible factors relevant for companies, which are "soft" factors and not easily quantifiable
3. Intangible factors relevant for professionals, which are basically those factors that define the quality of life in a given location

There is a clear hierarchy between the three types of locational factors. Most relevant are the tangible factors. It is only after tangible factors become increasingly similar across locations that intangible factors become relevant as a distinguishing feature. To put it differently: If your location, unlike other locations nearby, suffers from unreliable electricity supply, water scarcity, and dreadful roads, even excellent supporting institutions and the most effective business network program will have only a limited effect.

³⁹ See www.mesopartner.com/publications/mp-wp5_Hexagon-SA.pdf

In the past, government often tried to promote business even though it was itself the most important obstacle for business – due to high taxes, complex and excessive regulations, and complicated, protracted and unpredictable permit processes. A key objective of local governments these days is to remove unnecessary obstacles to business activities.

Regarding intangible factors, the focus for good practice has changed from specific business promotion activities to the overall local business environment. Among the intangible factors and different from the “business” enabling environment is that of a “social” enabling environment. The key question here is about the quality of family life and the ability of the entrepreneur to attract the right calibre of people to build a successful business. The main issues here are environmental quality of life, recreation facilities, good schools and social capital.

9 Conclusion

This paper is constructed to provide some insight into the understanding of a business, its product or service choices, the perspective its owners have of the overall market and the position it chooses to stakeout within that market. More than anything, it highlights the importance for both business and government to understand their interdependence, the need to be vigilant to external influences and change and be prepared to adapt their tactics on a continuous basis

The discussion has also sought to introduce behavioural choices of the business owners especially with regard to how and what they can do to give them a real or perceived competitive advantage in their business which will allow them to succeed while so many other small business do not.

Finally, it aims to inform the discussion on the role of government with regard to local economic development where its intervention either supports or potentially distorts the market.

Over the last four or five years the overall South African debate about the roles and interdependence of the private and public sectors has gathered momentum and in many localities the interaction between the two is being formalised either by special purpose vehicles or by formally institutionalised regional development agencies.

How much of this new momentum can be attributed to the influence of the GTZ and mesopartner (especially Jörg's contribution) cannot be quantified but evidence of their principles and approaches can be found in national policy discussion documents, LED application working papers and in the design of many of the newly established RDAs and Special Purpose vehicles

In the case of the Chamber of Business that triggered this voyage of discovery in the first place, they have subsequently established a Regional Development Agency to institutionalise their catalytic economic interventions and a Regional Growth Coalition made up of representatives from local and district government and business who meet on a regular basis to discuss and consider solutions to the socio-economic needs of the region.

It is also not surprising that the catalyst for this collaboration was a facilitated process that saw more than forty business and government leaders take part in a participatory process using an interaction matrix designed to systematically consider the benefits, costs and risks of a future relationship with or without collaboration.

“While there is no recipe for economic success, growth requires getting the institutions right. This means the state must take appropriate actions. It also means letting markets do what they do best. For this, the market system must be well designed, so that market information flows smoothly, trading relationships can develop, contracts are enforced, property rights are assured, harmful externalities are controlled, and competition is fostered”

Reinventing the Bazaar, A Natural History of Markets
John McMillan (2002)



Serbia 2002: Jörg as always with his Laptop

Private sector promotion in developing countries: taking stock

By Tilman Altenburg and Andreas Stamm

1 Introduction⁴⁰

Private investment is the most important provider of jobs. In market economies, competition forces private companies to use their resources ever more efficiently, thereby driving productivity growth and higher incomes. The challenge for governments is to create space for private initiative, to correct market failures where they may occur, and to set a regulatory framework, which enhances the social benefits of private investments.

It is nowadays generally agreed that private initiative is key for economic growth, and particularly for *productivity* growth, which in turn are preconditions for poverty reduction. However, private sector development may be more or less inclusive, and certain private investments are even harmful for the poor, especially in developing countries where productivity gaps are large and poor people are often squeezed out of the market. Policymakers should therefore promote socially inclusive patterns of private sector development that benefit the poor at least as much as the rest of the respective societies. Poor people should be able to take part in economic as well as in political life, both as producers and consumers. This calls for a careful balancing of the complementary functions of the state and the private sector (e.g. World Bank 2002).

⁴⁰ This paper is based on an unpublished report written for UNIDO in 2007: “New trends in private sector promotion and their implications for UNIDO’s Corporate Strategy”

This is easier said than done. Neither private investors nor state agents necessarily act as benevolent welfare-maximisers, especially not in developing countries, where markets are often poorly governed, and few checks and balances are in place to hold governments accountable. Finding the appropriate policy mix to build competitive economies in a socially inclusive and environmentally sustainable way in a given country thus requires a thorough understanding, not only of micro and macroeconomic processes, but also of socio-political systems and environmental issues.

Few researchers and policymakers are capable of dealing with this complexity. Jörg Meyer-Stamer is probably one of the best – in both categories. He has a long record of doing applied research on almost every aspect of private sector development in developing countries – ranging from value chain analysis and local economic development to industrial policy and governance structures for industrial competitiveness. He has dealt with firm-level competitiveness, incentive systems in meso-level institutions, and how these depend on macroeconomic trends and political regimes. The concept of systemic competitiveness (Esser/ Hillebrand/ Messner/ Meyer-Stamer 1996) is one of the most fruitful, and still influential, outcomes of this rare ability for interdisciplinary work. What is more, Jörg has been able to link research and practice in very productive ways. We are not aware of many people who have such an impressive list of international publications AND of consultancy work and private sector exposure. Jörg has always been able to identify new trends in academic discussions, extract the practical value for economic policy, operationalize them in the form of applicable policy instruments, test them in reality, and feed practical experiences back into the concepts.⁴¹ This is why his papers are always inspiring and meaningful for practitioners.

This paper summarizes important lessons from previous decades of private sector promotion. The document consists of two parts. The **first**

⁴¹ Good examples include the PACA methodology (Meyer-Stamer 2003) and the application of the systemic competitiveness approach as a benchmarking-tool (Meyer-Stamer 2001).

part briefly discusses the trade-offs between competitiveness and social inclusion. It points out that supporting highly productive and internationally competitive sectors is important for poverty alleviation as it increases access to additional markets, develops new business models that may be replicated by others and raises productivity and incomes both directly in the competitive sectors and indirectly in traditional activities. On the other hand, structural change most often implies that some workers and producer groups lose employment and market positions, especially the weaker actors of developing countries, namely SMEs and workers in traditional sectors. Thus, the paper calls for a two-pronged strategy to build competitive advantages in dynamic industries while also supporting people and companies in coping with globalization and structural change.

The **second part** gives an overview of important new trends in donor support for private sector development. One set of trends stems from globalization and the increasing shift towards knowledge-based competition. Technological and innovation capabilities therefore become more important. A second set of trends originates from recent innovations in donor programmes, including new modes of service delivery, new indicator systems that allow donors to benchmark business environments, or innovative ways of aligning with corporations that take an interest in making contributions to host country development. A third set of changes derives from the Paris Declaration, an international agreement that commits donors to harmonizing their interventions and aligning them with country strategies and systems of implementation.

2 Private sector-led industrialization in a globalizing economy: Implications for a socially inclusive development

Industrialization and the emergence of a modern service sector are nowadays inconceivable without a vibrant private sector. During past decades, the world witnessed the failure of different models of state-led industrialization, be it under socialist regimes in various parts of the world, be it

under more moderate modes of state interference in the economy, such as the import substituting industrialization policies in Latin America or Africa. A 2004 report by the United Nations Development Programme (UNDP) clearly uncovers the multiple relations between the unfolding of the private sector in developing countries on the one hand, and the improvement of living conditions especially for the poor strata of the population on the other:

The private sector can thus alleviate poverty by: Contributing to economic growth, empowering poor people by providing them with services and consumer products, increasing choices and reducing prices (UNDP 2004, 9).

The report concludes that a dynamic development of the private sector is fundamental if the eight development goals laid down in the Millennium Declaration (Millennium Development Goals) are to be achieved.⁴²

Across the globe, the private sector develops under conditions of increasing competition. Since the 1980s national economies have been opening up in most parts of the world. This process was largely propelled by multilateral negotiations and agreements, first under the umbrella of the General Agreement on Tariffs and Trade (GATT) and since 1994 within the World Trade Organisation (WTO). The consequences were an overall reduction of tariffs and the gradual abolishment of non-tariff trade barriers. Simultaneously, in many parts of the world cross-boarder trade was facilitated by the formation and the deepening of regional trade associations like the Mercado Común del Sur MERCOSUR in South America (1991), the North American Free Trade Agreement NAFTA (1994) and the South Asian Free Trade Agreement SAFTA (1995). Openness of national economies was further increased through bilateral trade agreements between countries or groups of countries in the South and countries in the North.

⁴² www.un.org/millenniumgoals

These changes in the institutional regulations of trade combined with the introduction of new means and modes for shipping of merchandise (containerization, inter-modal transport) and technical progress in information and communication technologies led to a rapid increase in global trade. The value of world merchandise exports grew from US-\$ 579 billion (1973) to US-\$ 3,676 billion (1995) and US-\$ 10,159 billion (2005). During the last decades, trade continuously grew faster than production in almost all classes of merchandises (WTO 2006).

Today, most researchers agree that openness to trade tends to favour socio-economic development. Both theoretical considerations and empirical findings substantiate this link:

Trade **theory** substantiates the positive impact of trade openness mainly with the following five arguments (Fontagné / Mimouni 2000):

1. *Specialisation*: Consumers and producers face a new set of relative prices. The latter reallocate scarce resources towards the advantaged activities, leading to overall efficiency gains.
2. *Variety*: Trade gives access to all kinds of products, permitting consumers to choose from among a larger range of consumption goods and increasing efficiency through a larger range of intermediate goods.
3. *Increasing returns*: Market enlargement allows firms to exploit economies of scale.
4. *Pro-competitive effects*: Openness enhances competition, and mark-ups are negatively related to the number of competitors.
5. *Positive externalities*: Technology is spread over the boundaries through trade, open countries benefit from better access to a world-wide basket of technology.

Empirically, the global map of socio-economic backwardness can largely be overlaid by the global map of exclusion from international trade. Many of the countries at the lower end of the UNDP “Human Development Index” ranking are countries with low levels of trade openness

(ratios of exports and imports to GDP). Some of these countries are landlocked (Niger, Chad) and thus have difficult access to international trade routes whereas others impose high tariff and non-tariff barriers to trade.

However, there is also empirical evidence that trade openness does not always and automatically increase growth rates or enhance socio-economic development. In many poor countries the private sector is not sufficiently developed to be able to react elastically to changes in relative prices. Unable to take advantage of new trade opportunities on foreign markets, many of these countries face the crowding out of traditional industries through cheap imports.

Opening up to trade leads to structural change that affects different sectors and stakeholders in different ways. Potential winners are companies that manage to anticipate the direction and possible magnitude of the structural change and to adapt to it through modernization, increased productivity, and the successful penetration of new markets. These are most often large companies, or specialized knowledge-based small firms, with high-level management capacities. Their competitiveness can be achieved and improved through productivity gains that allow them to lower prices without necessarily sacrificing profit margins and/or pushing down the level of wages. In many cases, however, productivity gains are associated with the rationalization of processes at the expense of quantitative levels of employment. As this substitution of labour by capital especially affects low-skilled workers, modernization of given production structures is often associated with higher levels of unemployment in the poorer strata of society. This trade-off can only be by-passed if the modernization of companies is at least counterbalanced by their expansion due to enlarged markets. Even then, in many cases, the internal employment structures will change, with low-skilled personnel being released and higher qualified personnel recruited.

Losers of structural change are most often Small and Medium Enterprises (SMEs) that provide traditional goods to the domestic markets. These markets are mostly quite narrow due to limited purchasing power, especially in small countries. In most traditional sectors, such as footwear

and apparel manufacturing, barriers to entry (in terms of market knowledge, technical skills and capital requirements) are very low, and the number of small and micro enterprises operating in them is consequently very high. Limited purchasing power and market saturation often lead to fierce price competition and low profit margins. This makes companies vulnerable in the case of changes in the markets, especially because SMEs usually have limited savings and lack access to credits to buffer financial crises. Opening up has led to the crowding out of many of these companies, especially since China with its nearly unlimited supply of cheap labour has positioned itself as the global manufacturing powerhouse.⁴³ As SMEs are important providers of employment and income for disadvantaged members of the workforce, this crowding out can have detrimental effects for the affected societies.

2.1 General implications for private sector promotion

Private sector promotion by national governments, international donor communities and multilateral organizations has to take these elements of economic globalization and the outlined trade-offs as the analytical starting point for the development of appropriate strategies and instruments. Private sector promotion cannot be successful if it neglects the ongoing structural changes. Quite the contrary, it should consider one of its basic tasks to be mobilizing stakeholder dialogue and scientific expertise to predict, to the most accurate level possible, changes in the setting and development frame of countries, regions and sectors.

In dealing with the trade-offs, policymakers should pursue a two-pronged strategy: Helping to build competitive advantages in dynamic industries

⁴³ In a recent study conducted for DFID, Kaplinsky and Morris report that domestically produced clothing and furniture manufactures in both Ghana and South Africa are being displaced by imports from China. A survey realized by Egziabher in the Ethiopian shoe sector revealed that, out of a sample of 96 micro-, small and medium domestic producers, 28 % were forced into bankruptcy and 32 % downsized activity in response to Chinese competition. The average size of micro-enterprises fell from 7 to 4.8 employees, and of SMEs, from 41 to 17 (both studies cited in Kaplinsky, Cormick and Morris 2006).

while supporting entrepreneurs and workers in traditional sectors in coping with globalization and structural change:

1. Under conditions of globalization, economic dynamics can only be consistent if based on “engines” capable of actively taking advantage of trade opportunities and improved access to regional and global markets. These “engines” will usually be highly productive private sector companies in market segments that allow for growth through continuous product and process innovations. Even if these companies in most developing countries represent a very small proportion of the private sector, they often have important multiplier effects in national economies and societies, e.g. by developing viable business models that can be replicated and by exploring new market opportunities that can be seized by other firms. Well-remunerated jobs in highly productive sectors of the economy furthermore increase demand for the goods and services provided by the poor, and they often generate remittances. And finally, any formal job that is created in competitive urban industries reduces oversupply of labour in the rural economy or in low-productivity informal sector activities and thereby contributes to higher productivity and wages in those areas where the poor live and work. Recent empirical studies in fact show that urbanization is not only good for those who migrate but also helps to reduce poverty among those who remain in rural areas (Ravallion 2007).⁴⁴
2. Private sector promotion can and should make efforts to include as many companies as possible in such “engine of growth” segments. This implies taking measures to accelerate learning and upgrading among the companies that have the potential to survive and possibly grow even under conditions of increasing competition. This can be achieved through the integration of domestic companies into international value chains where the former can acquire knowledge from the “lead firms” (see Chapter 1.2) or by showcasing management

⁴⁴ Rural-urban migration may of course aggravate problems of urban congestion, especially if dynamic industries are highly concentrated in the primate city.

and technological capabilities of local branches of multinational companies.

Education and training of entrepreneurial skills and of workers' capabilities are probably the most important complementary policy areas to direct private sector promotion. Increasing levels of education and skills are required both to build new competitive advantages and to make the economies more inclusive. Low-skilled persons are most at risk of becoming the losers of structural changes, be it persons losing their dependent employment, be it small business owners or self-employed workers that are not prepared for coping with structural changes.

2.2 Technological learning and innovation capabilities: Decisive cross-cutting issues for private sector promotion

Given the enhanced global competition and increasingly sophisticated production patterns, it is essential to strengthen technological learning and innovation capabilities at all levels of industrial production. This is particularly true for countries that are seeking to gain development impetus through active integration into international markets. Since the 1980s, world market shares of medium and high-tech products have continuously risen at the expense of primary and resource-based products. In the last few years, a significant increase in prices of many primary products has changed this trend, but even if this resource boom can be expected to continue in the years to come, there is a need to diversify and improve technological capabilities beyond the resource-based sectors. Developing countries thus have to cope with the fact of rising technology content and knowledge requirements of contemporary products and processes.

Increasing knowledge requirements do not affect high-tech sectors exclusively, such as the electronics or automotive industries. Even in traditional sectors, trade and value chain relations are becoming more and more knowledge and technology-intensive, e.g. because complex product and process standards require scientifically-backed methods of conformity assessment, due to the introduction of tracking and tracing systems or because interaction along the value chains is increasingly based on

electronic communication and data exchange. Rising knowledge content of value chain interaction also affects the domestic markets of many countries. During the last two to three decades, supermarkets, which usually work at international “best practice” levels regarding logistics and technology, have been taking over large shares of traditional retailing (Reardon / Henson / Berdegué 2007) and introducing more stringent quality and scale requirements on domestic suppliers.

Rapid advances in Information and Communication Technologies (ICT) and the implementation of global communication networks have opened up new business opportunities for developing countries. Services and functions that until the recent past were inseparable parts of large business entities of the industrialized countries are increasingly contracted out to independent enterprises (outsourcing). These services are sometimes relocated to countries and regions where they can be acquired at reduced costs (offshoring). The relocated services are either provided by subsidiary firms or by independent units (offshore-outsourcing). While the first round of offshoring was largely limited to routine software programming and labour-intensive back-office services, recent technological advances now make it possible to offshore more knowledge-intensive services that require real-time interaction.

In 2005, a study conducted by McKinsey estimated that the number of service jobs that might be relocated from industrialized to developing countries might grow from 1.5 million in 2003 to around 4.1 million in 2008 (McKinsey 2005). Even if this number is much lower than initially expected (and feared, e.g. by the trade unions of the industrialised countries), it indicates the potential to generate a significant number of high-qualitative jobs in developing countries, already at present. Given the rapid advances in information technologies and communication networks, evolving new business models (Offshoring Research and Development) may significantly accelerate the relocation of white collar jobs from OECD to developing countries and emerging economies in the near future. This also affects manufacturing: Transnational corporations may for example assign more demanding tasks to affiliates in developing countries if the related service infrastructure is already developed as a re-

sult of offshoring. Likewise, clusters of indigenous manufacturing firms may benefit from infrastructure improvements and increased export connections.

However, the prerequisites for penetrating the offshoring market are rather high. The recipient country and location needs to be connected to the global communication networks with adequate bandwidth, high quality and low downtimes. Companies providing the services must have significant technological capabilities or be able to resort to specialised providers in their surrounding area. Additionally, high management capabilities are required.

Technological capabilities are crucial in **all types** of developing countries. Due to rapid and deep changes in the world economy, no country can rely on simply perpetuating given patterns of welfare generation. To the extent that an increasing number of countries acquire basic operating and production capabilities, new competitors arise for many traditional manufacturing and agricultural goods. The surge of China as a global supplier of low-cost manufactured goods has already crowded out many SMEs and craftsmen from their established local or regional markets in developing countries, or obliged them to accept diminishing margins and often lower living standards.

Technological capabilities can be subdivided into three broad categories (Bell 2007: 22f):

1. Capabilities for *creating new knowledge*, either in generally applicable form or for specific applications. These are usually described as R&D capabilities.
2. Capabilities for *transforming general knowledge* into specific and concrete forms. These are usually described as design and engineering capabilities.
3. Capabilities for *using knowledge* in the form of specific operational systems. They can be described as operating or production capabilities.

All three categories of technological capabilities are important, but have to be weighted differently depending on the conditions of the specific country and of the objectives of private sector promotion. Operating or production capabilities are indispensable to induce or accelerate the build-up of production in any industry, whether based on the mobilisation of local capital or through the attraction of foreign investors. The importance of design and engineering capabilities is often underestimated, but these capabilities are crucial during initial investment and operational phases of infrastructure and projects (Bell 2007: 29-33). R&D capabilities are one important source of innovation, especially if a country aims at innovations that are “new to the market” or even “new to the world”.⁴⁵

Low Income Countries (LICs) are especially vulnerable to structural changes, as their industrial basis is often weak and characterised by a narrow specialisation. So even in these countries, private sector promotion must not limit itself to raising efficiency in existing industries but should also strive to develop capabilities to change and diversify the structure of economic activities.

Middle Income Countries (MICs) are most often in a better starting position to embark on an innovation-oriented development path. Installed production capacities, and often also natural resource endowments, are more diversified, which translates into better opportunities to generate innovation through a recombination of production factors (Schumpeter 1957). Additionally, MICs most often have a broader basis of skilled people, including persons that have completed tertiary education. In many cases they also have at least basic and sometimes rather advanced R&D capacities.

Promotion of technological innovation must follow a **systemic approach**. Innovation systems consist of public and private entities which

⁴⁵ The “OSLO manual”, which provides guidelines for collecting and interpreting technological innovation data, distinguishes four categories of “novelties” implemented in production technologies: “innovations new to the world”, “innovations new to the market”, “innovations new to the firm” and “non-innovations” (OECD 2005).

fulfil different tasks but interact closely (e.g. Nelson 2004). Knowledge generation and high-level training are known to be activities characterised by market failures due to the problem of non-appropriability. A private actor investing in R&D can never be sure that he will exclusively benefit from the generated knowledge. Empirical studies indicate that even knowledge generated within the boundaries of a company tends to “leak out” to the competitors after rather a short time. Effective regimes to protect intellectual property rights can partially solve this problem, at least regarding codified and patentable knowledge. However, in most developing countries, intellectual property rights are not yet effectively protected.

Non-appropriability is especially a problem when it comes to generating generic knowledge that may be used and implemented in different sectors and branches. As such knowledge can be an important trigger for broad-based economic dynamics, it is obvious that purely market-based mechanisms lead to a level of knowledge creation below what is desirable for the society. A similar analysis applies to high-level training as labour is a mobile production factor and skilled persons may easily change from one employer to another. Thus, public actors have an important role to play and public money must be invested in knowledge generation and high-level training.

Many developing countries have recently taken up the challenge of enhancing technological and innovative capabilities. For instance, in 2005 the African countries belonging to the NEPAD initiative approved the “Science and Technology Consolidated Plan of Action”, the objective of which is to *“harness, apply and develop science and technology in order to eradicate poverty, fight diseases, stem environmental degradation, and improve economic competitiveness”*. Reflecting their commitment to a more technology and innovation-driven development path, many countries announced they were to significantly increase public and private expenditure on R&D, e.g. in the NEPAD case to 1% of GDP (from currently insignificant levels). Bilateral donors and multilateral organisa-

tions should welcome these commitments and offer support to design appropriate innovation policies. These include, among others:⁴⁶

1. on the *microlevel*: incentives for firms to invest in innovation, to collaborate among themselves and with knowledge-generating organisations. Another effective tool for innovation promotion are programmes that increase the start-up rate of knowledge-based companies. Knowledge organisations (universities, research organisations) in particular can spin off enterprises based on market-creating innovations and with significant growth potential.
2. on the *mesolevel*: reforms of the existing (mostly public) universities and non-university research institutes, in order to make them more practice-oriented, more efficient and more responsive to the needs of the private sector. In many developing countries, there is a lack of effective financing mechanisms beyond microcredits, that can provide seed and start-up capital to new companies and allow existing ones to finance innovation and growth.
3. on the *macrolevel* a business environment that fosters competition rather than rent-seeking in protected environments is especially conducive to innovation (see chapter 2.2). In addition, effective IPR regimes are to be established that balance the legitimate interests of researchers and technology developers and those of technological followers, thereby guaranteeing the diffusion of innovations and more inclusive patterns of growth.
4. on the *metalevel*, by far the most important entry point for intervention is the education system. Reforms of curricula and learning materials that promote a culture of innovation and related role models are crucial. Additionally, public innovation and start-up contests may help to change traditional mind-sets step by step.

Finally it should be stated that in many regions, e.g. in Sub-Saharan Africa, innovation systems can hardly be developed on the level of the individual nation states. Cross-border networks and well-performing Centres

⁴⁶ See e.g. Esser / Hillebrand/ Messner/ Meyer-Stamer (1996.); Meyer-Stamer (2005).

of Excellence that stimulate technology development and innovation for a whole region seem much more promising. The above-mentioned NEPAD Action Plan is based on this approach of international cooperation.

3 New donor perspectives on private sector promotion

Despite several decades of research on private sector dynamics in developing countries and extensive donor engagement in this area, there is no consensus on the right mix of regulatory and supporting measures. The Washington consensus is now largely discredited, and heterodox economic policies seem to become the new orthodoxy, as Simon Maxwell put it in a recent discussion. Industrial policy – until recently a no-no in many academic circles – is back on the agenda.⁴⁷ What is needed is to “normalize” industrial policy (Rodrik 2007) in the sense that it is as necessary in private sector development to find the appropriate balance of market liberalization and government support as it is in any other field – e.g. health policy or education policy, where this has never been questioned. On the other hand, some influential agencies still sell the old simplistic minimalist messages, most recently the World Bank’s Doing Business team.⁴⁸

Nevertheless, five major tendencies can be identified that will significantly influence donor funding in the years to come:

- In order to improve the structural base for a dynamic development of the private sector, donors concentrate their efforts on the creation of an **enabling business development**. In 2.1 we describe how international organizations and bilateral donors define the term and where the authors identify flaws in the concept, which have to be considered before adapting it to a new corporate strategy.

⁴⁷ However, assessments of industrial policy remain controversial, see e.g. Cimoli et al. (2006), Rodrik (2004), and Pack/ Saggi (2006).

⁴⁸ See Altenburg/ von Drachenfels (2006) for a critique of de Soto and the World Bank’s Doing Business approach

- In recent years, **non-state actors** (private sector firms, non-governmental organizations) have gained importance as agents of change within private sector promotion (2.2). This reflects the significant increase in foreign direct investment in developing countries, the emergence of large private charity organizations and the strengthened role of NGOs as “watchdogs” of corporate behaviour and as partners in strategic change alliances.
- An important trend concerns the modes of **delivery of services** to private companies (2.3). The Business Development Services (BDS) market development paradigm challenges old ways of public sector-driven and subsidy-based service provision that are often unsustainable. The chapter discusses to what extent market-based approaches are appropriate for delivering business services and where public intervention is still required.
- Project-level interventions often improve conditions for local target groups, but usually have limited outreach and contribute little to improving the overall investment conditions. The challenge for development agencies is thus to **achieve country-wide impact**. Chapter 2.4 discusses what can be done to influence reform processes in favour of pro-poor development and calls for a stronger link between project-level activities and high-level policy dialogue and advisory support.
- Probably the most significant document regarding the delivery of Development Aid is the 2005 “**Paris Declaration on Aid Effectiveness**”. This declaration reflects the international debate on how to increase the impact of development aid. Chapter 2.5 describes the principles laid down in the Paris Agenda and discusses what they imply for activities in the field of private sector promotion.

3.1 Creating an enabling business environment

Donors have long recognized that good governance and appropriate sector-wide incentive systems constitute key success conditions for the effi-

ciency, outreach and sustainability of development projects and programmes. Typical project-based aid often helps to improve local situations or the functioning of particular partner agencies, but only rarely does it impact on a whole sector or the quality of governance structures in general. This is because projects that focus on service delivery for a specific group of enterprises or a particular institution – e.g. a business association or a cleaner production centre – usually involve a relatively high subsidy per customer which limits their outreach and financial sustainability.

What is more, project achievements at the local level may be undermined and rendered unsustainable if the overall policy environment deteriorates. Conversely, improvements in the policy environment – such as property rights reforms, simpler regulations for service providers, or civil service reforms – may prompt considerable social and economic dynamism. Hence there is a strong rationale in favour of tackling overall governance problems and inappropriate sector policy frameworks rather than focusing on local projects. This is one of the key lessons learned from previous decades of development cooperation.

It is not easy, however, to identify what a supportive business environment is. The first obvious question is: *supportive for whom and what?* Some measures to improve the business environment are likely to benefit (almost) anyone – e.g. improvements of rural road systems. Most interventions aimed at changing investment conditions however will have a differential impact on economic actors. Trade liberalization for example may improve allocative efficiency and favour trade capital as well as large foreign corporations, but it may undermine the viability of less efficient domestic producers.

Whether the net development effects will be positive or not depends on a variety of factors, e.g. whether the crowding out effects are compensated by efficiency gains of other producers or not, whether opportunities exist for technological learning, and whether profits are reinvested locally. In a positive case, the newly emerging business models will expand at a faster pace than the destruction or less efficient firms or sectors so that net em-

ployment effects are positive while productivity, wages and profits increase. In a negative scenario, imports or new entrants with highly efficient production methods replace traditional small-scale producers without creating significant new employment, e.g. because they apply scale-intensive and labour-saving technologies, source internationally, and transfer most of their profits abroad. Deregulation, protection and proactive support thus need to be designed carefully to find the right balance that challenges entrepreneurs and speeds up innovation without destroying the often weak and emerging entrepreneurial tissue.

Governments and donors have recently taken great interest in measures to reduce the cost of doing business (World Bank 2004; World Bank/IFC 2007). The annual Doing Business Reports, first published in 2004, have developed a benchmarking system based on ten indicators which measure the ease of starting a business; dealing with licenses; employing workers; registering property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; and closing a business. The publication of the reports has triggered an enormous reform drive in many countries.

The Report has great merits in drawing attention to a topic that has often been overlooked, or at least underestimated, by donor agencies, namely unnecessary bureaucratic procedures as an obstacle to enterprise development. Most donors address market failures, tacitly assuming that government regulations generally tend to serve the public interest. Interestingly, the Doing Business Reports even show that certain regulations fall especially heavily on the poor. This challenges the widely-held assumption that deregulation may be good for economic growth, but rarely has pro-poor outcomes.

The new focus on bad regulations has now opened up completely new perspectives for private sector promotion. Different analytical tools may be applied and different bottlenecks tackled. Whereas traditional value chain analysis for example focused on market failures (e.g. information and coordination failures), FIAS now employs an analytical tool to identify government-induced distortions and their price effects (FIAS 2007).

Donors now have at their disposal concrete benchmarks that may be employed to create public awareness, mobilize new reform coalitions and trigger public-private policy debate on regulatory issues; they may also assist developing countries in setting up agencies that systematically screen regulations and weed out unnecessary “red tape”; they may support the establishment of one-stop agencies with lean procedures; and they may support rules that regulations are dropped automatically if the respective agency fails to provide evidence of their benefits.

There is a risk, however, that the new emphasis of governments and donors on the easing of regulations will divert attention away from other much more binding constraints for the private sector in developing countries, e.g. low levels of entrepreneurial and technical skills or lack of access to product and capital markets. The reform agenda is based on a misleading assumption that administrative simplification will create “level playing fields” where all entrepreneurs have the same – and generally much better – opportunities for growth. This is a gross understatement of existing asymmetries in terms of enterprises’ size, technological capability, capital stock etc that are likely to result in crowding out and social polarization if governments do not adopt measures to protect and support indigenous small enterprises. The same critique applies to other indicators, e.g. the Index of Economic Freedom that is published on an annual basis by the Heritage Foundation. According to this index, economic freedom is defined as

“the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself. ... When government coercion ... starts interfering beyond the protection of person and property, it risks undermining economic freedom.”⁴⁹

A business environment that is truly *enabling* thus requires much more than just regulatory simplification. As we have shown in Chapter 1.2, systemic policies are required to foster technological and innovation ca-

⁴⁹ 2006 Index of Economic Freedom.

pabilities. Furthermore, specific support is required to enable poor people to engage in productive activities and make the economy more socially inclusive.

The appropriate mix of administrative simplification and deregulation on the one hand and proactive industrial and innovation policies on the other depends on the country context, especially the relative strength, diversification and learning capacity of domestic entrepreneurs and the steering capacity and development orientation of policymakers and implementing agencies.

3.2 Engaging change agents from the private sector and NGOs

In the past, donor support for PSD has overwhelmingly been channelled through government agencies, e.g. Ministries of Industry and Commerce as well as specialized public organizations such as investment boards, national standard bodies, laboratories, and development banks, and in some cases business associations. Where the private sector was involved this was usually done through business associations.

In recent years, however, non-state actors have gained importance as agents of change for the development of the private sector. Two types of organizations in particular emerged as important partners for government and donor programmes:

1. Private sector firms, especially those that organize and control significant upstream and downstream activities (potentially) involving indigenous producers.
2. Non-governmental organizations (NGOs), including local and international civil society organizations as well as private foundations.

For three reasons **private sector firms**, and foreign investors in particular, are becoming more important development partners.

Firstly, FDI inflows into developing countries rose dramatically during the 1980s and 90s, reaching an all-time high of almost 250 billion US

dollars by the year 2000. After a slump between 2000 and 2002, FDI recovered and almost regained its previous level in 2004 (233 billion). The developing country share of global FDI inflows reached 36 % in 2004, the highest percentage since 1997.⁵⁰ The index of transnationality, which measures the importance of foreign affiliates in total economic activity, is clearly on the rise in developing countries.⁵¹ Although FDI inflows to the developing world greatly concentrate on a few countries, inflows to Africa and to the group of least developed countries are also rising on average. Even though the share of least developed countries (LDCs) in world FDI inflows (2 %) remains at a low and unsatisfactory level, the shares of FDI inflows in gross fixed capital formation are greater for LDCs than for other developing countries (20 % compared to 10 %).⁵² In Uganda for example almost 50 % of the larger enterprises operating in the country are TNCs, and these often dominate their respective sectors (e.g. the brewery industry and the telecommunications sector (Zake et al. 2005). Hence FDI is a relevant factor in the economic development of most countries, even the poorest.

Secondly, trade is increasingly organized in quasi-hierarchical value chains that are organized and controlled by certain “lead firms”. These firms are often brand owners and therefore take a strong interest in defending their brand image and guaranteeing the integrity of the totality of upstream and downstream operations; or they are “full package” or “systems suppliers” who take responsibility for the supply chain on behalf of another customer.

Lead firms increasingly introduce:

- new products, e.g. new designs and fashion trends and demand that their suppliers make the respective adaptations;
- require minimum quantities from their suppliers;

⁵⁰ Based on UNCTAD (2005), chapter I.

⁵¹ UNCTAD (2005), p. 3. The index is a measure of the relative importance of FDI inflows and inward stock, value added of foreign affiliates and FDI employment in the host economy.

⁵² Data for the period 2002-2004 (UNCTAD 2005, p. 7).

- set and enforce specific quality standards (such as ISO 9000f, ISO 14000, HACCP, SA 8000) throughout their supply chain;
- establish certain compulsory modes of delivery, e.g. just-in-time delivery, introduction of bar-coding systems and specific enterprise resource planning software;
- develop franchising systems, etc.

All this opens up new opportunities for firms that are willing and able to cope with the increased requirements. The lead firms may open up much larger and more stable markets for their suppliers; they may provide access to new technologies and implement more productive logistics throughout the chain. While some lead firms simply expect their suppliers to comply with ever more sophisticated standards and continuously raise their productivity, others actively support their business partners, especially in less developed countries where the supply base is still weak.

Lead firms thus create opportunities for those firms that are able to comply with the necessary supply chain standards and allow them to increase their market shares. The drawback of this is higher barriers to entry for other firms. The trend towards higher standards and increasing control of entry by lead firms is likely to force many firms to exit the market. Lead firms are therefore standard-setters and “gatekeepers to markets”.

Thirdly, large, especially brand owning firms, are increasingly held accountable for the integrity of their products and the social and environmental conditions in their supply chain. Non-governmental organizations and the media are today often in a position to keep firms under surveillance, spot socially or environmentally harmful practices and denounce them in public. This may substantially damage the image of companies and their products, cause diminishing sales and spoil efforts to increase corporate identity of the workforce. Firms, and foreign investors in particular, thus have a strong incentives to avoid bad practices and improve their image. The Corporate Social Responsibility (CSR) movement – although partly also developed by purely altruistic personalities – is

mainly a response to increased public vigilance and calls for accountability.

NGOs have long been engaged in development issues. However, the diversity of organizations and their engagement in private sector promotion has increased significantly. Three reasons stand out:

1. more watchdog organizations have emerged that systematically observe the compliance with certain social and environmental standards;
2. more NGOs are willing to build development alliances with private companies. Some collaborate in the development of social and environmental standards and certify compliance (e.g. Rainforest Alliance). Others jointly implement development programmes with private companies, for example organizing and training smallholders and artisans and enabling them to sell improved products to large processors or exporters (e.g. in the Ugandan cotton – textile chain).
3. large private charity organizations (such as the Aga Khan Foundation, the Bill and Melinda Gates Foundation) fund large-scale development programmes. The total funds disbursed by such organizations already exceeds official development aid in some policy areas. Although most funds are dedicated to health and education programmes, some are also promoting productive sectors and their market linkages, ICT solutions and the like.

Developing country governments and donors need to recognize the increasing role of (transnational) lead firms and NGOs and redesign their policies in a way that incorporates these change agents in a meaningful way. Donors may team up with private corporations and/or NGOs in a number of ways:

1. Supporting multi-stakeholder alliances to support integrated sector policies, e.g. bringing together lead firms, suppliers, unions, NGOs and government agencies to draft and implement consensual policies for sustainable tourism.

2. Supporting CSR activities in the private sector. Two types of CSR activities may be distinguished: CSR in value chains (capacity building for local suppliers, measures to raise social and environmental standards) and in community development. The former are especially relevant as contributions to socially inclusive industrial development.
3. Promoting linkage policies (matchmaking, supplier development). Given the increasing trend towards global value chain and the inherent risk that local producers are excluded from them it is especially important to tie investment promotion and supplier development together.
4. Fostering the development of more socially inclusive standards and helping indigenous firms to cope with more demanding standards as well as to build linkages with lead firms. This requires, in most cases, building on collaborative efforts with lead firms. In some cases such initiatives may also integrate public and private standards and certification bodies as well as NGOs.
5. Setting up challenge funds that offer grants, matched by private sector contributions, to innovative but unproven business ideas which encourage greater participation of poor people in markets. Private enterprises often have specific expertise and financial resources. However, firms are often reluctant to invest where the perceived returns do not seem to justify the level of risk, or where a firm lacks market knowledge. Competitive grants can help reduce risks for piloting good ideas and encourage firms to adopt additional measures (e.g. training programmes) beyond their own requirements in order to create greater development impact. They can also have a demonstration effect, that is, the success of a funded project proves that the actual risk-return ratio can be much more favourable than the private sector might assume.⁵³

⁵³ See www.africaenterprisetchallengefund.org/

3.3 Supporting service delivery for pro-poor growth

One crucial condition for competitiveness of companies and especially SMEs in developing countries is their ability to link up with other companies or institutions that can provide them with assets which they cannot produce themselves, i.e. support that permits them to increase flexibility and productivity and to innovate in products and processes. This is one of the most important findings of the “systemic competitiveness approach,” but also of the research focusing on industrial clusters and districts.⁵⁴ Many of these linkages involve the delivery of services to business.

In many (developing) countries, business services have for decades been provided by state or parastatal agencies or non-governmental organizations. In many cases international donors have contributed to building up and maintaining these service providers. Services were mainly considered public goods. In the 1990s a series of flaws and problems related to this mode of service provision became increasingly evident:

1. Lack of financial sustainability. Most services are delivered on a highly subsidised basis. Service providers thus depend on continuous public support. In view of the fact that most countries are cutting back on public expenditure, they are forced to cancel or substantially reduce many support measures.
2. Insufficient outreach. Even in times marked by high government revenues or deficit spending, or substantial inflows of foreign aid, business services usually only reach a relatively small percentage of the target group.
3. Lack of business orientation. Public service providers often operate on the logic of public administration, e.g. budget allocation is not linked to programme performance, employees do not act in a business-like fashion, and beneficiaries are not treated as clients. Incentives – both for support institutions in general and for the personnel working within these institutions – are often not designed to actively

⁵⁴ See e.g. Meyer-Stamer (1999) ; Altenburg/ Meyer-Stamer (1999).

search for linkages with the business sector and to strive for client satisfaction.

4. Poor quality. Since service providers and clients work in accordance with different incentive systems, operational routines, and even different mindsets, service supply is often not tailored to the needs of clients. In addition, products delivered at low cost or for free may induce dependency and generate cynicism over quality and value..
5. Crowding out of private competitors. Service delivery at highly subsidized rates distorts markets and hampers the emergence of commercially viable service providers.

The assessment of “high cost and low impact” of public sector-led service provision has triggered a paradigm shift in the discussion on how best to deliver services to companies in developing countries. Lessons from microfinance supported this change in mindset. These illustrated the importance of regarding small and even micro businesses as consumers of a financial product, rather than as beneficiaries of development aid or charity. The new approach, thus, sees services primarily as private goods, and considers the mobilising of market forces as the most powerful tool to achieve impact, outreach and (financial) sustainability in the provision of BDS to private companies:

“The ultimate vision for BDS, on which these Guiding Principles are based, is of a well-functioning market with a diverse array of high-quality services that meet the needs of a large proportion of SEs [small enterprises] affordably.” (DCED 2001).

This new thinking regarding the character of services transformed into the BDS market development approach. The central idea guiding this concept is that BDS markets do not function or at least not to their potential level, because of market and basically information failures that may be reduced or removed by limited interventions. Information failure may occur:

- on the *demand side*: (potential) clients do not know what is available, lack direct experience of the benefits of BDS, are uncertain about the possible impact etc.

- on the *supply side*: service providers lack information on level and sources of demand and fear not being paid.

When market development is hampered by information failure, limited government and/or donor intervention can be effective and can easily be justified as generating a public good. Typical interventions under the BDS market development approach include vouchers for the (partial) subsidisation of (first) contracting of service, the establishment of registers or matching platforms etc.

However, there is little empirical evidence that functioning BDS markets can be induced through government or donor activities, at least not easily and with limited intervention (Meyer-Stamer 2006). Obviously, the classification of services as purely/mainly public goods or purely/mainly private goods is too simplistic. Following recent literature on this topic (Bell 2007, Altenburg/ Stamm 2004) four different types of services can be distinguished that combine elements of private and public goods to different extents and require different modes of delivery:

1. *Embedded business services*: Important services are often delivered as part of commercial transactions between buyers and sellers of other products, for instance design advice offered by a retailer to a producer (Hitchins et al. 2004). In this respect, the integration of weaker business units into value chains governed by larger companies with high-end and up-to-date knowledge can be considered a possible tool for service provision.
2. *Operational business services*: Many services have a direct and predictable outcome on a firm's performance. These may be services that are essential for basic operation (electricity, telephone), legally required (notary and accounting services) or advanced services that are not essential but still have a predictable impact, e.g. the introduction of a software to increase process efficiency. These are marketable services (if the basic infrastructure is in place) that in most countries today are actually provided on a commercial basis.
3. *Strategic business services*: Other services that enhance the long-term capacity of an enterprise to compete, mainly by enriching its

knowledge base and/or by increasing its capability to acquire, process and apply information. This group is mainly composed of training, consultancy and advisory services, provision of information, research and development (R&D), and some forms of technology development and transfer. The outcome of strategic business services is indirect rather than direct, long-term rather than short-term, and, finally, uncertain and in many cases unpredictable. Market failure is reinforced by the problem of non-appropriability because the contractor cannot be sure of being the exclusive beneficiary, e.g. in the case of R&D.

4. *Technical standards, metrology and related activities*: Compliance with technical standards (public regulations and private standards) plays an increasing role in shaping competitiveness. For companies to adequately adjust to standards and to prove compliance, a complex quality infrastructure is required consisting of standardisation, metrology, testing, certification and accreditation. Even if commercial actors can and must play an important role in a functioning quality infrastructure (e.g. testing laboratories), market failures are very frequent, especially in small and poor economies, where e.g. the demand for accreditation services is too low for an accreditation body to be maintained by fees, and public subsidies are required. Metrology institutes are always public as they develop and maintain the national measurement standards (Sanetra / Marbán 2007).

Stressing multiple market failures should not be misapprehended as a recommendation to go back to the old modes of supply-, state- and/or donor-driven service provision. Wherever information failure is the central bottleneck impeding well-functioning commercial systems of service delivery, the market development approach and its instruments are clearly the best option. However, in many fields, cautious public intervention seems unavoidable if an adequate supply of business services is to be provided to all strata of companies. This has to be based on a clear market and needs assessment. Politically biased “pet projects” have to be avoided as does the crowding out of private service providers. Whenever publicly subsidised services provision schemes are in place or being es-

tablished some measures of precaution may avoid some of the sticky problems of state bureaucracy:

1. *Separating funding of services from delivery.* Some major problems with subsidised service provision arise when the service provider and the organisation managing and administering the funds are identical. Without a more or less complicated external supervision it is nearly impossible to commit this “system” to an efficient and cost-sensitive execution of its tasks.
2. *Improving accountability:* Many service providers offer an ample set of different services, often without having established an accountability system to measure the cost and the income generated by each service offered. This situation may be detrimental to the service provider himself, because important resources may be dedicated to services that are not really relevant for the target group. It may also be detrimental to other (private) service providers, because a lack of accountability may lead to unintended unfair competition. It is therefore highly important to improve accountability and enable service providers to monitor market success and cost-related aspects of each and every service offered.
3. *Monitoring and evaluating performance:* Public service provision needs continuous, transparent and independent monitoring and evaluation of performance. The two sub-systems of service provision – funding and delivery – need to be evaluated according to different performance criteria. Within the organisation that manages the funds, the cost-benefit ratio of the previously established objective(s) should guide the evaluation. At the level of service delivery the evaluation should be centred around the proven impact and the efficiency of provider-SME linkages.
4. *Establishing a direct link between performance and resource allocation:* Monitoring and evaluation are not an objective in their own right but should be used to continuously improve the system. The most effective way to ensure the system’s responsiveness is to link the allocation of funds directly to the performance of its agents.

3.4 Achieving country-wide impact

In Chapter 2.1 we stressed the importance of improving the overall business environment for private sector development. Project-based support for specific target groups may also be required in many cases, but it is likely to fail if the overall situation is one of uncertainty with regard to political stability and economic rights. Investments will be held back if investors are threatened by expropriation or arbitrary changes in the basic ‘rules of the game’, if contracts cannot be enforced and bribes have to be paid, or if red tape makes private economic activity costly.

Improving the overall business environment, however, is not easy. Most development agencies have no difficulties in demonstrating project-related improvements at the level of certain producer groups or individual localities or institutions. When it comes to changing framework conditions and basic incentive structures in developing countries, however, their track record is less clear.

This is not surprising. Good policy advisory support is much more than any simple conveyance of blueprint solutions to decision-makers. Policy reform processes involve complex societal changes, including the redistribution of power and the removal of privileges, and therefore always have multiple supporters and opponents. Different groups in society tend to have different attitudes towards reform, either pursuing particular change agendas or trying to veto any change. For example, monopolists and beneficiaries of trade protection will in most cases oppose reforms that enhance competition; bureaucrats may resist liberalization and private competition; polluting industries are likely to go up against the introduction of environmental standards, etc.

As a consequence, policy reforms are necessarily open-ended iterative processes that require experimentation in order to test general concepts, negotiate acceptable compromises, tailor the concepts to country conditions, and gain broader acceptance. Shaping and advancing reform processes thus involves dialogue, consensus-building, and the formation of reform coalitions. Trying to decree and implement reform in a top-down

manner is usually a futile undertaking, even under authoritarian regimes. Likewise, it would be naïve to assume that demonstrating the viability and pro-poorness of certain reforms would suffice to induce change.

The question thus arises of how donor agencies can influence such political processes in favour of pro-poor private sector development. The following elements all contribute towards this end:

- *Donor coordination and alignment* (see Section 13.2.5). Individual agencies may coordinate their contributions to country-led initiatives, in particular Poverty Reduction Strategies or Sector-wide Approaches. Such programme-based aid rests on the idea that host country governments agree with donors on certain policy reform packages and the donors commit to reliable contributions to the programmes if the reform measures agreed on are implemented. The process thus involves a mutual commitment and therefore increased leverage for reform. Moreover, donor agencies sit on advisory councils or ‘round tables’ where they have the opportunity to bring in their expertise.
- *Developing indicators and supporting international benchmarking*. In recent years a great number of international indicator systems have sprung up. Such systems make performance transparent and thereby create pressure to improve the respective rank places, especially for bad performers – true to the motto “what gets measured gets changed.” The Global Competitiveness Index, the Ease of Doing Business Index, the Bertelsmann Transformation Index, the Index of Economic Freedom etc. all assess economic performance, and they all have significant influence on policymaking. As these indicators measure the deviation from certain norms, they implicitly promote certain normative agendas. The Index of Economic Freedom and the Ease of Doing Business Index for example place countries high on the rankings whose governments interfere the least in the economy, whereas other indexes build on the assumption that policies need to be in place to increase the technological readiness of firms. Support for a particular benchmarking process is thus another option to influence policy. From a pro-poor perspective, it is noteworthy that no index

measures (informal) micro enterprise performance and/ or the appropriateness of different business environments for these firms.

- *Influencing through intellectual leadership.* Many reforms in private sector promotion have been influenced by policy-oriented academic work. Porter's work on clusters for example gave rise to innumerable cluster promotion programmes (Porter 1990); Gereffi (1994) drew attention to the increasing importance of "governed" value chains and the role of lead firms, which later triggered manifold donor activities aiming at pro-poor value chain development;⁵⁵ de Soto (1987, 2000) highlighted the role of property titling and lower bureaucratic entry barriers for the formalization of informal micro enterprises and inspired much of the World Bank's work on investment climate reforms; the Donor Committee for Small Enterprise Development challenged traditional modes of service delivery and developed the new BDS paradigm (DCED 2001). None of the new paradigms however is undisputed.⁵⁶ Hence there is a strong need for policy research and non-ideological work on appropriate private sector policies. The flagship publications of several international organizations (Industrial Development Report; World Development Report; World Investment Report; Least Developed Country Report) are good examples of research-based documents that provide guidance – with remarkable conceptual differences – for policymakers.
- *Embedding projects in multi-level programmes.* As we argued earlier, micro-level projects rarely impact on policies. On the other hand, secondment of experts as policy advisors to governments as such does not guarantee success either, mainly because good policy solutions need to be tested in practice, and stakeholder support needs to be built through participatory learning processes. In fact, multi-level approaches that combine pilot projects and high-level advice have shown good results. For example, it has proven to be successful to develop Environmental Management Systems on the firm level, develop the respective institutional structure for quality assurance and certifi-

⁵⁵ See www.sedonors.org/groups/group.asp?groupid=4

⁵⁶ See e.g. Duranton (2007) for a critical review of cluster development.

cation and support reform of environmental legislation in a coordinated way. Within such programmes, micro-level project activities are important to bring in international expertise and tailor it to specific country needs; project experiences are then assessed and conveyed to policymakers. This assessment and conveyance however does not happen automatically. It presupposes a programme design that systematically institutes pilot projects according to the requirements of the policy process, evaluates the experiences gathered at the project level, draws generalized policy conclusions and establishes channels to feed these conclusions regularly into the policy process (Altenburg, ed. 2007).

- *Focusing on replication.* In addition to feeding “vertically” into the policy process, there is also a need for mechanisms to disseminate results widely and increase project outreach “horizontally”. The use of mass media, the preparation of instruction materials prepared and distributed to service providers in other regions or institutions as well as training programmes for policymakers and multipliers all help to disseminate good practices and increase outreach. ‘Train-the-trainers’ systems, whereby a certain business development service is passed on through different tiers of certified trainers, has successfully been applied in developing countries, e.g. in entrepreneurship development. Jörg Meyer-Stamer’s PACA methods are a case in point. Building strategic alliances with big companies is another possibility to increase outreach. For example, some exporters and processors of labour-intensive goods reach out to several thousand producers (cotton farmers, fruit and tobacco growers, garment producers etc.). Likewise, some companies involve thousands of poor people in their village-level distribution systems (e.g. Hindustan Lever and Grameenphone, see e.g. Prahalad 2004). Working with such firms, e.g. absorbing part of the transaction costs involved in dealing with huge numbers of poor suppliers or sales agents, may therefore have a broad impact on poverty. In sum, different channels may be used to upscale the effects of development projects.

3.5 Taking the Paris Declaration on Aid Effectiveness into consideration

During the last years, several studies indicated that the impact of ODA is often limited and unsatisfactory (UNDP 2005, 126 ff., World Bank 1998). Several factors were identified that explain this insufficient performance. For instance, the multitude of donors and aid activities often leads to uncoordinated or even contradictory concepts. A second mayor problem lies in the isolated character of many activities, with no or only limited demonstration and diffusion effects. Donor activities may even weaken the implementation capacities of the partner countries if they work outside of the given administrative structures. Finally, partner countries often have to carry high transaction costs to deal with development aid, e.g. to receive donor delegations and due to the need for reporting to many single donors.

Since the late 1990s, an intense debate has been taking place on how to improve aid effectiveness. In March 2005, ministers of developing and developed countries and heads of bilateral and multilateral development institutions gathered in Paris in order to discuss far-reaching reforms of the ways assistance is delivered and managed. The “Paris Declaration on Aid Effectiveness” sets quantitative indicators in order to make it possible to verify progress of these reforms. It states five principles for ODA delivery:

1. *Ownership*: partner countries shall exercise effective leadership over their development policies, and strategies and co-ordinate development actions.
2. *Alignment*: donors shall base their overall support on partner countries’ national development strategies, institutions and procedures.
3. *Harmonisation*: donors’ actions shall be more harmonised, transparent and collectively effective.
4. *Managing for results*: aid shall be managed and implemented in a way that focuses on the desired results and uses information to improve decision-making.

5. *Mutual accountability*: donors and partners are mutually accountable for development results.

The Paris Declaration sees Programme-Based Approaches (PBA) as an important step towards the implementation of these principles (Klingebiel / Leiderer 2007). The underlying philosophy of PBAs is that the most effective means of aid delivery is dedicated support to appropriate policies pursued by the partner countries. The focus is no longer on individual projects identified by the donors. The emphasis is rather on dialogues on appropriate policies and on direct support for them, mainly in the form of financial contributions. In this way, development aid and its impacts shift from the project to the system level and become much more country-owned. Policy dialogues and financial contributions are coordinated among the donors, thus reducing transaction costs and pooling resources for an up-scaling of programmes. PBA take two different forms: programmes on the macrolevel and on the level of specific sectors:

Programmes on the **macrolevel** (general budget support) aim at supporting cross-sectoral reforms of the economy, its framework conditions and institutions. Additionally, sector-specific aspects can be included in the policy dialogue. Conditionalities serve as instruments for policy dialogue and donor coordination and as triggers for disbursement. Important programmes on the macrolevel are:

- Poverty Reduction Support Credits (PRSC) of the World Bank; These are multi-year macro-programmes designed to support the implementation of PRSPs.
- Multi-Donor Budget Support (MDBS): macropolitical programmes of other donors (EU-Commission, Regional Development Banks, bilateral donors). Most often, they focus on social sectors (education, health, water) and governance aspects.

Programmes on the **sector level** (Sector Wide Approaches, SWAPs) aim at supporting reforms and financing of expenditure in single sectors. SWAPs play an important role in focus areas of PRSPs, such as educa-

tion, health, transport and agriculture. There are different types of SWAPs:

1. General budget support, linked to a policy dialogue and conditionalities related to specific sectors; donor resources go into the general budget, while the policy dialogue is focused;
2. Sector specific budget support: donor money goes into the general budget, however, it is earmarked for achieving specific (high) levels of spending in defined sectors.
3. Basket financing: donors jointly finance an expenditure plan, in order to implement specific activities, derived from the development strategy for a specific sector.

As PBAs are rather new, empirical evidence regarding their effectiveness is still limited. Based on a survey of available studies, Klingebiel and Leiderer (2007, 79) come to the conclusion that

“where the instruments concerned have hitherto been used, i.e. predominantly in low-income countries heavily dependent on development cooperation and having a relatively good governance performance, the findings are satisfactory in various respects.”

In more detail, they come to the following conclusions:

- As Budget Aid increases the proportion of resources subject to national budgetary processes, national parliaments are given improved opportunities for participation.
- In general, the instruments have a positive impact on the governance in the partner countries.
- Budget aid has resulted in the better alignment of development cooperation with national policies and national budgetary cycles.
- Budget aid has helped to make spending more transparent; accountability structures have been strengthened.
- Donors usually attach considerable importance to capacity development, however, activities in this respect have often not been adequately coordinated.

While the overall assessment of the contributions of PBA to aid effectiveness is positive, some problems remain. For instance, available studies indicate that, contrary to what has been expected, transaction costs in partner and donor countries have not yet been reduced by budget aid, but have instead tended to increase. This is basically related to the fact that in most countries PBAs (with their own procedures) have been introduced, while traditional project-based development cooperation structures are still in place. A second problem detected is that while budget aid encourages the expansion of public services, quality aspects are not sufficiently taken into account.

PBAs are clearly not adequate for all types of developing country. They require a rather high level of confidence in the partner countries. PBAs are most often implemented in poor countries with satisfying levels of governance including adequate financial management capabilities. PRSPs are in most cases the basic reference document for joint policy dialogues. Fragile countries, repressive regimes or countries with pervasive corruption are clearly not eligible for the application of PBA.

Even where Budget Support or SWAPs are not the preferred option for delivery of development aid, donors as well as multilateral organisations will have to reconsider their activities in the light of the five principles of the Paris Agenda:

- Is the partner or member country actually taking the lead in the programmes that are implemented?
- Do the activities actually refer to development plans and priorities set by the partner or member countries?
- Are the activities harmonised with or at least related to activities of other donors and how can collective effectiveness be achieved or improved?
- Is development aid implemented in a result-oriented way and do the donors and organizations manage the information required for result-oriented monitoring?
- Are the resources spent for development purposes managed in a way that maximises transparency and accountability on both sides?

In sum, several important long-term trends create challenges for governments and donors and open up new perspectives on private sector promotion. More policy research with a sound empirical basis is needed to fully understand these trends and their implications for the design of private sector policies. We are optimistic that Jörg will continue to contribute valuable academic and policy papers to the debates that we have sketched out in this article.

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Linking Innovation Systems and Global Value Chains in Developing Countries

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1 Introduction

In this paper we would like to investigate the complementarities of two approaches on which Jörg has contributed with some very useful pieces of research: the Innovation System (IS) and the Global Value Chain (GVC).⁵⁷ An important value added of many of Jörg's research papers is the attempt to operationalise some of the concepts introduced in the literature, making them useful and usable for policy. One of his points is also that firms are at the same time embedded in clusters and GVCs as well as in innovation systems and therefore all these approaches have important roles to play, and ultimately, they complement each other and need to be in place at the same time if we want to sustain producers and, more generally, to pull countries out of poverty.

With this in mind, we would like to offer our contribution to this book, addressing two main groups of research questions:

- How does the learning mechanism operate in different chains? In which chains are lead firms promoting learning through increased pressure? In which ones are they supporting the innovation process through deliberate knowledge transfer and direct involvement in the learning and innovation process? In which type of chains is learning instead resulting from unintended knowledge spillovers?

⁵⁷To mention just some of the most recent contributions, see Meyer Stamer (2005 and 2007) and Knorringa and Meyer Stamer (2007).

- What is the role of the innovation systems, at national, regional or local level, in this GVC-driven learning and innovation process? How can innovation systems foster (or hinder) the efforts of firms in developing countries to gain a profitable entry into, and interaction within, GVCs?

The chapter is organised as follows. The next section briefly discusses the appropriateness of the concept of IS, developed having in mind advanced industrial countries, for less developed countries (LDCs). Section 3 analyses GVCs with special reference to the different patterns of governance and the different mechanisms of learning prevailing in the various types of chains. Then Section 4 explicitly links the literature on GVCs and their governance with the notion of IS. Section 5 concludes.

2 Innovation Systems in Less Developed Countries

The idea that innovation occurs in a ‘system’ – a set of interacting enterprises, institutions, research bodies and policy making agencies that share knowledge and jointly and individually contribute to the development and diffusion of new technologies – is by now widely accepted. The notion of Innovation System is rooted in List’s concept of ‘National Systems of Production’ (List, 1841) and in more recent times was introduced by Freeman in his 1987 book to account for the outstanding process of economic growth of Japan in the post-war period. In the following years many other scholars have contributed to elaborating this concept.⁵⁸

The introduction of the IS concept in LDCs is more recent, but it has rapidly diffused. This follows the realization of the need for conscious and purposive innovation effort and capacity building in less developed countries, even if relying primarily on imported technology. It is likely that there are similar – to developed countries - systemic elements that affect LDCs’ ability to innovate and to access, master, adapt and improve upon

⁵⁸ Among the many see Freeman, 1995; Lundvall, 1992; Nelson, 1993; Metcalfe, 1995 and Edquist, 1997.

imported technologies (Freeman, 1995; Lundvall et al., 2007). And it is also likely that these elements differ across countries – this is vital to explaining the widening gap between a small group of successful emerging countries and the rest of the less-developed world, what Abramovitz (1986) terms the ‘forging ahead’, ‘catching up’, ‘falling behind’ of economies.

There are a number of reasons why the application of the concept of IS in the context of a developing country is not at all straightforward. First, the processes of innovation are of a different nature with respect to developed countries: incremental innovations and absorption of knowledge and technologies new to the firms are more frequent and relevant than radical innovations that are new to the world. Second, key science and technology organizations of the innovation system often analysed in developed countries, such as universities, R&D laboratories, and research institutes, in some developing countries are missing or may be inadequate, and linkages among them and with local firms are inexistent or rather weak; indeed, the organizations that often matter more in such “systems” in developing countries are organizations dealing with technology diffusion and extension (metrology, standards, testing, quality – MSTQ). Third, and key for the scope of this paper, the inflows of knowledge and technology from external sources are essential components in the innovation and learning processes in LDCs. From this it follows that policies and institutions affecting international flows of equipment and services, human capital and foreign investments, as well as global value chains also matter.

While acknowledging the very differentiated reality hidden by the sketchy and simplistic definition of “less developed countries”, we still argue that, due to the reasons listed above, the analysis of the innovation systems in LDCs has to be different from that of mature industrialized countries. Since the bulk of technological activity in the former concerns the absorption and improvement of existing technologies rather than in-

novation at the frontier.⁵⁹ For most firms in developing countries, the ability to use existing technologies at competitive levels of cost and quality is what really matters. This follows from the bi-dimensional nature of the process of technological change in developing countries: the absorption of technology and knowledge produced elsewhere and the local generation of incremental innovation. This implies a shift in focus and a renewed interest in different organizations: more MSTQ and less basic research and frontier innovation. This view of the system as open and deeply inserted in global flows of knowledge and technology is shared by other scholars such as Ernst (2002), who believes that NIS theory fails to address the disruptive changes imposed by globalisation on the geography of innovation systems.

Moreover, it is by now widely agreed that there is a need to adopt a broader notion of innovation system that includes economic, social, educational and political institutions that can affect learning and technology and knowledge diffusion (Arocena and Sutz, 1999; Cassiolato et al., 2003; Chaminade and Vang, 2008; Edquist, 2001; Gu, 1999; Intarakamnerd et al., 2002). In developing countries – to a larger extent than in industrialized countries - this includes the policies governing the macro-economic framework, international trade, migration and foreign direct investment flows, cross-border operations of trans-national corporations and global value chains, as well as education and technical training, and technology diffusion. One very useful model along these lines is that of the “Four Pillars” developed by Hillebrand, Messner and Meyer Stamer (2004) stressing the importance of framework conditions, technology and education institutions in innovation systems.

To conclude, the literature on IS in less developed countries unanimously agrees on the crucial role played by foreign sources of technology, knowledge and innovation, but it fails to understand how these global

⁵⁹ In this sense, we have argued on previous occasions that the term ‘National Technology System’ might be more appropriate to developing countries than ‘National Innovation System’, in accordance with Lall and Pietrobelli (2002, 2003 and 2005).

learning processes take place or what the mechanisms are that might enhance or hinder the transfer of knowledge within firms participating in global value chains. The literature on GVC might shed some light on these issues.

3 Global Value Chains

It is by now common knowledge that enterprises outsource a number of activities which they had previously handled internally, keeping in-house those activities on which they do have core competences. Different parts of the production processes are therefore increasingly dislocated in different developed and developing countries according to their specific endowments of factors and capabilities, or to additional strategic considerations (e.g. fiscal incentives, market access, local physical and technical infrastructures, etc.).

Over the past two decades, this form of coordinated trade has given rise to a new line of research: Global Value Chain (GVC) analysis. The focus of this research is on the linkages through which information and knowledge, as well as goods, flow among the various actors involved in the chain and on their implications for development (Humphrey and Schmitz, 2002b). The concept of governance is central to the analysis of the relationships among actors in the chain that might, in turn, facilitate or hinder the transfer of knowledge between the different actors.

In 2005, Gereffi et al. (2005) introduced a useful typology which identifies five different GVC governance patterns, discussing under which conditions these types can be expected to arise. According to the authors, three factors determine the lead firm's choice between one of the different patterns: the complexity of information involved in the transactions, the possibility to codify information and the competence of suppliers along the chain. The five analytical types are:

Market-based chains characterised by low complexity of transactions, simple and easily codified product specifications and capable potential suppliers;

Modular chains characterised by highly codified links simplified by technical standards, where suppliers make products to a customer's specifications and take full responsibility for process technology;

Relational chains characterised by complex transactions and highly idiosyncratic relationships which are difficult and time-consuming to re-establish with new value chain partners (i.e. "switching costs" are high). In these chains, mutual dependence is regulated through reputation, social and spatial proximity, family and ethnic ties, where trust plays a central role;

Captive chains characterised by suppliers with low capabilities, dependent on larger, dominant buyers, who exert a high degree of monitoring and control;

Hierarchy is a governance form implying vertical integration when transactions are complex and not easy to codify and the competence of suppliers is low.

As represented in Table 1, in the various chains characterised by different patterns of governance diverse mechanisms of learning prevail.

In market-based GVCs, only firms holding adequate capabilities can eventually become suppliers in the chains. The inclusion in the GVC offers an open window – and the related information - on the global market's requirements in terms of products, processes, technology and standards. The main mechanisms of learning are spillovers and imitation through which small LDC firms capture the knowledge needed for adaptive change and innovation in order to stay in the chain. Schmitz (2004) provides some examples of market-based chains sharing a common characteristic: the small size of buyers. In Brazil, buyers selling in the domestic market purchase ready-designed shoes and either sell them under their own labels or under the supplier's own brand. Similarly, in Ludhiana (India) the knitwear firms selling to small foreign traders develop their own products (Tewari, 1999). Based on this empirical evidence, Schmitz (2004) concludes that advances in functional upgrading seem to be facilitated by dealing with small rather than large customers. It is the different

capabilities of firms to make the required investments in design, product development and marketing that may explain why some firms succeed and others do not.

In modular chains the suppliers learn how to produce components and modules with fully specified technical standards. The need to accomplish these standards is an important channel inducing learning; lead firms impose on their suppliers the pressure to innovate and to keep up with technological advancements, but they are not directly involved in the learning process. In other words, the lead firms represent a crucial external stimulus for the learning and innovation process of suppliers, being a spectator and a final judge of this process.

Table 1- The Gereffi-Humphrey-Sturgeon Theory of Value Chain

Governance Type	Complexity of transactions	Codification of transactions	Competence of suppliers	Learning mechanisms within GVC
Market	Low	High	High	- Knowledge spillovers - Imitation
Modular	High	High	High	- Learning through pressure to accomplish international standards. - Transfer of knowledge embodied in standards, codes, technical definitions
Relational	High	Low	High	Mutual learning from face-to-face interactions
Captive	High	High	Low	Learning via deliberate knowledge transfer from lead firms confined to a narrow range of tasks – e.g. simple assembly.
Hierarchy	High	Low	Low	- Imitation - Turnover of skilled managers and workers - Training by foreign leader/owner - Knowledge spillovers

Source: adapted from Gereffi et al., 2005

Firms involved in modular chains need to undertake highly specific investments, build specific production capabilities and constantly update them to enter and stay in the GVC. Nevertheless, they need to exert their learning efforts by themselves, as they are hardly supported by GVC leaders. As reported by Quadros (2004), in Brazil in the GM and Volkswagen GVCs local suppliers have improved their quality standards of production and achieved ISO 9000 certification, but leading firms in the chains have expended only minor efforts to assist suppliers in the adoption of these standards. Instead, firms received technical support mainly from consultancies and accredited certification institutions. Similar evidence is also observed in the automotive sector in Argentina (Albornoz et al., 2002) and Mexico (Dutrénit et al., 2002).

Given the high complexity of tacit information and knowledge transferred, in relational chains the linkages are very tight, often implying a lot of face-to-face interactions and mutual learning. In this type of chain, firms have highly complementary competences. LDC suppliers should maintain and be able to strengthen their production and linkage capabilities to interact with the lead firms in the GVC. The learning efforts needed imply (sunk) costs and take time, and this binds the parties to continued interaction, i.e. switching costs are higher.

The apparel firms in East Asia which have been able to upgrade from mere assembly to “full package” production, implying the capability to interpret designs, make samples, monitor product quality and meet buyers’ price and time conditions are a good example of a relational value chain (Gereffi, 1999). According to Gereffi et al. (2005), the main opportunity of learning in such a chain is that “...it allows local firms to learn how to make internationally competitive consumers goods and generates substantial backward linkages to the domestic economy.” (92).

Another interesting case of local suppliers that have progressed from producing to the specification of their buyers to their own design manufacturing is presented by Kishimoto (2004) in his study on the Taiwanese computer industry. Analysing the same case, Guerrieri and Pietrobelli (2006) emphasize that from MNCs to local suppliers the knowledge is

mainly transmitted through the supply of blueprints, the interaction of personnel and the transfer of tacit dimensions of technology creation. Besides, the relevant technology and technical expertise acquired in manufacturing in a GVC is transferred in the products made for other multinationals and/or in the production for their own designed and branded products. Thus, Taiwanese firms often participate in more than one GVC. This is what Schmitz (2006), quoting Lee and Chen (2000) names “the leveraging of competences across chains” (561).

In Latin America, another example of learning in a relational chain can be found in the Brazilian State of Espírito Santo, where local SMEs have benefited from interacting with larger firms, acting as “anchors” for the local cluster. This process has been fostered by the activities of intermediate institutions – match-making the interests of small and large firms – and by the active role of the local government, enjoying the authority and credibility to negotiate with large firms better linkages and collaboration with SMEs (Villaschi et al., 2007).

In captive chains, lead firms actively intervene in the learning process of suppliers that lack the competences required. Their support is usually confined to a narrow range of tasks – for example simple assembly. However, there are risks of lock-ins because lead firms hardly sustain the development of strategic “core” capabilities. The case of the shoe industry in the Sinos Valley in Brazil (Bazan and Navas-Aleman, 2004; Schmitz, 2006) is an exemplification of how inclusion in GVCs can facilitate product and process upgrading but prevent functional upgrading, leaving firms dependent on a small number of powerful customers. In the Sinos Valley, local shoe suppliers were discouraged from engaging in design, marketing and sales because these are the core competences of the US buyers, the leaders of the main GVC. Brazilians have been feeding into the footwear value chain mostly as producers, and their buyers have been more than happy to maintain the status quo. Other empirical evidence on the Brazilian sports shoe sector shows that in terms of design and product development the local suppliers have developed the capability to adapt designs to local conditions (tropicalização) but they have not

been involved by the lead firms in new design development (Lemos and Palhano, 2003).

In this regard, Schmitz (2006) makes an important point, explaining that over time the direct involvement of US buyers in assisting the product and process upgrading of Brazilian shoe producers diminished: initially in the 1980s most of the support came from US specialised technical staff, who were gradually replaced by local staff and moved to China in the 1990s, because the risk of supplier failure was much higher there at that time.

The Sinos Valley offers an additional insight on important learning mechanisms that occur across (inter-) GVCs. In fact, in this case functional upgrading in design, branding and marketing, prevented by US buyers, has been achieved by those firms selling to buyers in the domestic and regional markets in Latin America . A similar process of transferring experiences from one chain to another has also been detected among the Mexican footwear producers selling in the domestic market and in some cases also in the rest of Latin America (Rabellotti, 1999).

Finally, at the opposite extreme of the typology is vertical integration, where the lead firm takes direct ownership of some operations in the chain. This turns out to be like the case of the intra-firm trade between a trans-national company and its subsidiaries, involving various potential mechanisms of learning, widely analysed in the literature on FDI in LDCs, such as transfer of management, skilled labour turnover, training of local workforce, knowledge spillovers and imitation (Barba Navaretti and Venables, 2004).

4 Linking learning patterns in GVC with innovation systems

The GVC analysis suffers from a significant shortcoming because it does not pay much attention to the institutional context within which local firms interacting in GVCs are embedded. This limitation has been rightly stressed in the literature on Global Production Networks (GPN), which

deals with how actors in various GPNs are embedded in different places, including therefore the geographical dimension from the national to the local scale (Ernst, 2002, Hess and Yeung, 2006). The work of geographers and planners on local industrial agglomerations has also stressed the spatial embeddedness of tacit knowledge and the importance of tight interdependencies between geographically clustered firms (Storper, 1995).

At the national level, the relevance of rules, values and institutions (e.g., financial system, corporate governance, education and training systems) profoundly affecting the character and evolution of industries and firms has instead been stressed in the literature on the varieties of capitalism (e.g. Berger and Dore, 1996). Among these rules and organizations, especially remarkable are those “... elements and relationships which interact in the production, diffusion and use of new, and economically useful, knowledge, ... and are either located within or rooted inside the borders of a nation state” (Lundvall, 1992). These institutions and these organizations may have profound effects on value chain governance and on the appropriate innovation and learning strategy of firms in developing countries. In this section we try to integrate the two approaches discussed above to address the issue of the role that innovation systems may play within the GVC-driven learning and innovation process in developing countries. To this aim, we follow up on the classification discussed so far.

Our focus is on two aspects of innovation systems: innovation policies and organizations. Innovation policies cover such areas as technology import by licensing and FDIs, networking, incentives for local R&D and for training and in general competence building in different organizations of the system. The organizations are the main actors in the system. In the following discussion we will focus mainly on technology organizations like quality, standards, metrology and technical extension bodies, R&D and training organizations such as universities or research centres. This partly differs from industrial countries – as noted above – where the emphasis lies much more on basic research and creation of new knowledge. These organizations may be government-run, started by the government

but run autonomously, or started and managed by industry associations or private actors. In developing countries, government-run organizations often play a leading role, given the weakness and precariousness of the private productive sector.

How do different innovation systems affect the determinants of GVC governance? The relationship between the form of governance and the nature of the system cannot be univocal (one-to-one), given the variety of possible systems and the endogeneity of most of these events, with frequent two-way directions of causality and continuous feed-backs.⁶⁰ Moreover, the nature of the innovation systems often has effects across the whole range of possible modes of governance of value chains. Following Table 7.2 we discuss the relationship between the GVC governance and the nature of the IS by looking at how the latter affects the three key determinants: complexity of transactions, extent of codification, and suppliers' capabilities.

Complexity of transactions and innovation systems

A well-structured and efficient innovation system may help to reduce the complexity of transactions, and therefore make transactions based on markets or on weak hierarchical forms of GVC governance possible – the risk of falling into a captive relationship, or even of being acquired by a leader, diminishes. In other words, the lower the complexity of transactions the less an effective IS is needed - but an effective system also raises the capabilities to cope with complex transactions.

When investors take make-or-buy decisions, they face a trade-off between lower costs of production and increasing transaction costs. In countries with weak institutions, implying weak contract enforcement,

⁶⁰ In an effort to develop the discussion, we will be tempted to classify innovation systems along a linear dimension (from “good” to “bad”), although we are fully aware that non-linearities and idiosyncrasies are especially relevant and frequent here. Clearly, there is simply no single best way to organize an innovation system, and it is the different forms taken by IS that determine different effectiveness.

pervasive corruption, cumbersome bureaucratic procedures, multiple barriers to trade and poor infrastructure it is difficult to capitalise on the benefits of inter-firm specialisation (Altenburg, 2006b).

The weaker the institutional framework is, the costlier and riskier will be contract enforcement, inter-firm coordination and transactions will be more difficult and therefore convenience tilts towards non-market forms of governance, and possibly up to vertical integration. An additional downside of the related unnecessary bureaucratic procedures and high administrative costs for the registration of small firms may be their exclusion from doing business, “emerging” out of informality, and from linking up with global and national value chains.

More specifically with regard to science and technology, if the system offers efficient and homogeneous standards, testing, and quality assurance institutions and organizations, the costs of technology and learning-related transactions will be lower and the relational forms of governance will be easier and smoother. Likewise, local firms’ learning in captive VCs may extend beyond simpler tasks into, for example, design and planning of activities. The experience of Taiwan in the industrial and technological development of its firms and clusters offers insightful examples of an innovation system supporting the transition from hierarchy and captive chains led by foreign leaders to local innovation, functional upgrading, domestic firms-led value chains. Taiwan’s IS grew stronger over time thanks to substantial investments in human capital and scientific and technological research, institutions and rules rewarding innovation, and organizations such as S&T parks that further eased efficient inter-firm and University-Industry collaborations in high-tech activities (Guerrieri et al., 2001; Saxenian and Hsu, 2001; Tsai and Wang, 2005; Wen-Hsiung and Wei-Tzen, 2000).

Codification of transactions and innovation systems

In market-based transactions, all relevant information is conveyed by the market price – given that the complexity of transactions is rather low. However, if complexity increases, most enterprises in developing coun-

tries are likely not to have the internal skills and capabilities to operate within a context of codified transactions. The innovation system may enhance their efforts, and especially the metrology, standards, testing and quality (MSTQ) infrastructure.

MSTQ institutions form the basic infrastructure of technological activity in any country. Standards are a set of technical specifications used as rules or guidelines to describe the characteristics of a product, a service, a process or a material. The use of recognized standards and their certification by internationally accredited bodies – and sometimes by GVC leaders themselves - is increasingly demanded in world trade.⁶¹ Standards can reduce transactions costs and information asymmetries between the seller and the buyer, and so minimize uncertainties with respect to quality and technical characteristics. Metrology (the science of measurement) provides the measurement accuracy and calibration without which standards cannot be applied. The application of standards and the certification of products necessarily imply (accredited) testing and quality control services.

In recent years, the importance of industrial standards has risen because of the fast pace of technical progress, the growing complexity of new products, the increasing multiple use of technologies and the growing fragmentation of industrial activities. Therefore, standards importantly contribute to the diffusion of technology within and across industries. Most importantly, in a developing country a standards organization can disseminate best practice in an industry by encouraging and helping firms to understand and apply new standards and, to our present aims, this is also likely to induce an improvement in suppliers' competence. Redundant experimentation with new technologies is reduced, and enterprises are forced to use a common language that is also shared by the interna-

⁶¹ The International Standards Organisation (ISO) has introduced the best known quality management (not technical) standards in use today: the ISO 9000 series. ISO 9000 certification has become an absolute must for potential exporters, signalling quality and reliability to foreign buyers, value chain leaders and transnational corporations seeking local partners and subcontractors.

tional market. In turn, this reduces the complexity of inter-firm technical linkages and collaboration.

The existence of well-structured (complete) MSTQ institutions and organizations has important implications for GVCs, for their governance and for developing countries' innovation and technology systems. Indeed, the better standards and metrology organizations are in a country, the easier it is to handle complex transactions and the easier it will be for a GVC leader to govern its web of local relationships. In principle, modular and relational chains are more likely to prevail, provided that local suppliers are competent, understand and use technical codes and standards. The choice of either form may in turn depend on the different degrees of codifiability of knowledge.

Standards increasingly matter also for natural resource-based activities. Thus, for example, in Southern Chile a very successful salmon cluster has developed since the early 1990s, and the study of the standards setting and compliance processes offer remarkable insights (Katz, 2006, Maggi, 2007). More specifically, by complying with the standards, the Chilean salmon industry has achieved the transformation from 'passive' to 'active' learning, with greater involvement of local firms both as value chain leaders and suppliers in foreign-led chains (Iizuka, 2006). In this process, a meso-level institution, the Association of (Chilean) Salmon Industries, appears to have played a crucial role.

An explicit account of the dynamics may also help to better understand the implications that different systems may have on the GVC governance and on the opportunities for learning (Table 7.2): better systems of MSTQ organizations may enhance the probability of modular or captive forms of governance to occur and transition from a captive to a relational VC is easier with a "better" IS.

The probability of a relational value chain emerging is related to the existence of complementary knowledge between the leader and local partners. Local clusters and firm agglomerations may help increase the local generation of innovative processes and practices, and this may further at-

tract GVCs and induce them to choose relational forms of governance. Indeed, several authors have shown that such agglomerations are the places where the most relational portions of global value chains might be found (Sturgeon, 2003; Schmitz, 2004).

Suppliers' competence and innovation systems

The innovation system also includes all the institutions and organizations that contribute to improving suppliers' competence. They consist of the organizations in charge of education and technical training, as well as the set of incentives that induce individuals to further invest in improving their knowledge and competences. While suppliers learn and improve their competences, the GVC governance is also likely to change accordingly. In very general terms, we would expect that increasing capabilities in the supply-base help to push the architecture of global value chains away from hierarchy and captive networks and toward more relational and modular chains (Gereffi et al., 2005). However, higher suppliers' capabilities are also likely to have effects within the same mode of VC governance, and *ceteris paribus*, enhance learning mechanisms within all value chains and allow suppliers to benefit to a larger extent from participating in VCs.

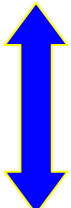
An example of the possible local interactions between technical competences, the IS and value chains is provided by the states of Jalisco (Mexico) and Penang (Malaysia), where strong local systemic coordination has produced human capital synergies in two of the largest electronics clusters in emerging economies (Rasiah, 2007). Local human capital and suppliers' competences, and the specific differentiation and division of

labour that has emerged in Penang and Jalisco, have allowed remarkable integration with multinational corporations and global value chains.

However, although this has initially generated remarkable economic and export performance, it appears that the growing deficits in technical and R&D scientists and engineers, together with the relatively underdeveloped high-tech and R&D infrastructure in both Malaysia and Mexico,

Table 2.
GVCs and the role of innovation systems; Source: authors

	Governance Type	Determinants	Systems of innovation
1	Market	Low complexity	
		High codification	MSTQ organizations matter
		High supplier competence	Education, training organizations matter
2	Modular	High complexity	
		High codification	MSTQ organizations matter
		High supplier competence	Education, training organizations matter
3	Relational	High complexity	"Local" systems and complementary knowledge matter
		Low codification	MSTQ are perhaps less crucial
		High supplier competence	Education, training organizations matter
4	Captive	High complexity	
		High codification	MSTQ organizations matter
		Low supplier competence	
5	Hierarchy	High complexity	Local R&D organizations may benefit from interaction
		Low codification	
		Low supplier competence	GVC is expected to improve human technical skills



4-5 may prevail also with 'poorer', fragmented systems. The chain leader may compensate system weaknesses, but upgrading is restricted.

Possible Dynamics

- Improvement in MSTQ may ease shift towards **2 or 4**
- Improvement in "local" systems favour **3**
- Transition **from 4 to 3** is facilitated by improved systems

have undermined the capacity of MNCs and local firms to achieve functional integration. This situation has not attracted or produced higher value-added segments in value chains and the consequent horizontal integration necessary to drive regional synergies to higher levels. Of course, suppliers' competences matter across the board, as human capital improvements matter in GVCs as well as in all other forms of industrial

development and innovation. It has been suggested that lead firms should be involved in the design and implementation of policies (Altenburg, 2006a, Pietrobelli and Rabellotti, 2007). This is a reasonable proposal that could find a specific application in the joint definition (and to some extent implementation) of training programmes and university curricula on the basis of the needs expressed by leaders and local suppliers.

Learning across different chains (innovation systems may help)

The literature has shown that noteworthy learning mechanisms also occur across different value chains. Innovation systems may also help in this regard. As a matter of fact, this often happened in Taiwan in the 1990s, where Taiwanese firms, embedded in a developed IS, often participated in more than one GVC (Guerrieri and Pietrobelli, 2006), and leveraged competences across chains (Schmitz, 2006). This has also happened in the Sinos Valley, where suppliers could learn and employ different competences by working with two or more VCs.

Within this domain, public policies may sustain diversification of value chains and mechanisms of learning from one chain to another. For example, an information-bargaining outfit to identify emerging/promising markets and chain leaders could help, through information and motivation events, subcontracting exchange schemes, supplier fairs and exhibitions (Altenburg, 2006b).

In sum, this section has shown that the IS interacts with GVC governance and suppliers' learning and innovation in multiple interesting ways. We have started to sketch some possible forms of interactions and mutual effects. More analytical and empirical research may draw further light on these issues.

5 Conclusions

Questions have been raised over whether the spatial embeddedness of learning and knowledge creation might be challenged by alternative organizational forms.⁶² According to this view, organizational or relational proximity would be more important than geographical proximity in supporting the production, identification, appropriation and flow of tacit knowledge. Thus, multinational firms as well as global value chains, with their dispersed but carefully organized knowledge bases and sites of innovation – often also in developing countries -, and their use of “community of practices”, may well overcome the absence of geographical proximity.

This hypothesis with a focus on GVCs has been addressed in this work to argue that innovation systems interact with global value chains in multiple ways, and that they influence whether and how firms in developing countries may benefit from entering and interacting within GVCs. The relational proximity created within GVCs cannot replace – but rather interacts – with IS.

The first main message here is that the different characteristics of the value chains have an impact on the mechanisms of learning prevailing in the chain. In general, LDC firms learn and innovate thanks to their participation in the GVCs because they have to satisfy the requirements in terms of product quality, delivery time, efficiency of processes, environmental, labour and social standards imposed within the chains. Nevertheless, the learning mechanisms can be very different in the various types of chain: it can be the result of the pressure to accomplish international standards or it can be facilitated by a direct involvement of the chain leaders when the competence of suppliers is low and the risk of unsatisfactory compliance is very high. When the competences among actors in the chain are complementary, the learning mechanism can be mutual and based on intense face-to-face interactions.

⁶² See Asheim and Gertler, 2005 for a discussion.

The second main message of this chapter is on the multiple forms of interaction between the IS, the GVC governance and suppliers' learning and innovation. More analytical and empirical research is needed to cast further light on these issues. However, we expect that a well-structured and efficient innovation system may help to reduce the complexity of transactions, and therefore make transactions based on the market or on weak hierarchical forms of GVC governance possible. In other words, the risk of falling into a captive relationship, or even of being acquired by a leader, diminishes. The lower the complexity of transactions, the less an effective IS is needed- but an effective system also raises capabilities to cope with complex transactions. The system of organizations in charge of Metrology, Standards, Testing and Quality (MSTQ) also plays a central role, and may affect the convenience of different forms of governance.

The avenues for further research that this chapter opens are multi-fold. More quantitative analyses on value chains, their forms of governance, and the impact they may have on local firms are needed⁶³. The same applies to innovations systems in developing countries, with their specificities. Moreover, as GVCs and their modes of governance tend to change over time, studies on their dynamics are also very necessary.

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⁶³ See Pietrobelli and Saliola (2008) for a recent attempt to develop a method to measure GVC governance.

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Passion for speed and technology

LED and CSR: Window-dressing or Breakthrough?

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1 Abstract

This contribution aims to highlight when and how Corporate Social Responsibility (CSR) might become a significant force of change at local level. It will depend on the consumer preferences of the new middle-classes in the Global South whether demand for responsible products will increase significantly. The extent of localised impacts of CSR will depend on whether LED practitioners are able to use the leverage offered by CSR interventions to construct more attractive social contracts at local level.

2 Introduction

Jörg and I recently published a paper arguing that LED is a useful instrument but ‘suffers from intrinsic limitations,...it will only induce incremental change,...and it will do nothing to change the position of developing countries in the global economic hierarchy.’ (Knorringa & Meyer-Stamer 2008, 19). Even more recently (September 2008), drawing the consequences from our observation above, we discussed the desirability of writing a book on enhancing the relevance of LED through linking it to a set of major issues that significantly mould the setting within which LED operates. We could easily agree on some of these issues – climate change, conflict, poverty, nation building - but Jörg remained sceptical of my suggestion to include Corporate Social Responsibility (CSR). I would like to use this opportunity to focus my contribu-

tion to this anthology on putting forward a bit more systematically why CSR might provide a breakthrough for LED interventions.

However, at present LED practitioners' first association with CSR might well be the CSR manager of a major company at local level, sent to participate in an LED round table. Such CSR managers politely attend, possess little clout in their own organisation, and are among the least likely suspects to take on the role of a local change agent. In effect, such CSR managers might often feel like a millstone around the neck of an LED facilitator. But this image should not lead us to turn away from CSR as a potentially significant force of change. If and when lead actors in global value chains increasingly push responsibility attributes through the chain, opportunities for social and environmental upgrading at local level arise. Whether local actors can leverage such a value chain pressure towards responsibility to generate a relatively higher-road trajectory at local level, partly depends on whether local actors are aware of the potential effects and possess the tools to construct a more attractive localised social contract. But before I suggest adding a responsibility 'clamp' to the LED toolkit, this contribution aims to make three main points.

First, the existing management-driven definitions and practices of CSR do not provide much space to address local development issues. I discuss existing definitions and present a more dynamic taxonomy that helps to get more grip on the CSR debate from a local development perspective.

Second, to briefly investigate the likelihood of new middle-class consumers in the Global South increasingly demanding more responsibly produced products. After all, recent estimates are that 92% of global middle-class consumers will live in developing countries by 2030 (World Bank 2007). The behaviour towards responsibility of these new consumers will determine whether lead actors in global supply chains will feel pressured to increasingly adopt such responsibility standards.

Third, how can we enhance localised impacts in developing regions from CSR-related activities. So far, for example, higher social standards in a supply chain do benefit individual workers, but these interventions have

not yet led to a more systematic leverage of CSR interventions at a local level. This section develops some initial ideas about how to make this shift. In other words, how can the CSR business tool be used to provide an impetus to local development interventions. In this contribution I take my cue from the introductory article of a recent stocktaking publication on CSR and Development in the *Third World Quarterly*:

‘..CSR initiatives work for some firms, in some places, in tackling some issues, some of the time.’... ‘... the challenge for engaged researchers is to explore the potential and limitations of CSR in specific settings’ (Newell & Frynas 2007, 674).

3 CSR: definition and a dynamic taxonomy

Many CSR definitions by management scholars include the fact that firms not only need to go beyond what is required by law, but also beyond the interest of the firm (McWilliams, Siegel and Wright 2006).⁶⁴ I find this counter-intuitive and counter-productive, as the more sustainable achievements in responsible production most feasibly are to be found in situations where firms can actually increase long-term profitability and sustainability by engaging in CSR as a way to differentiate themselves and their products. In a very critical, forcefully-argued recent survey (Jan 20 2005), *The Economist* even goes one step further and argues that only the type of CSR where both profits and social benefits increase makes sense. Given their dislike of the CSR terminology, they prefer to label the situation where higher profits and increased social benefits go together as ‘good management’, so as to differentiate it from three other types of CSR which they feel are flawed.⁶⁵ This type of ‘good

⁶⁴ McWilliams, Siegel and Wright, as guest editors of a Special Issue on CSR in the *Journal of Management Studies*, one of the top business school journals, define CSR as ‘actions that appear to further some social good, beyond the interests of the firm and that which is required by law’ (2006, 1).

⁶⁵ These three situations are: 1) ‘pernicious CSR’, where profits increase but social benefits decrease (this is where governments have failed to appropriately regulate the economy), 2) ‘borrowed virtue CSR’, where profits decrease and social benefits increase (this is where shareholders fail to control managers who spend excessively on

management' is what in much of the business-school CSR literature is referred to as the 'business case for CSR' (see below). This implies a win-win situation, often without much emphasis on the inherent conflicts of interests among the different 'stakeholders' in such initiatives. Two other recent special issues on CSR by development researchers (*International Affairs* (2005) and *Third World Quarterly* (2007)) shed a very different light on the debate (see eg. Blowfield 2005; Jenkins 2005; Newell and Frynas 2007). They argue that the development relevance of CSR will remain inherently limited in terms of reach as long as only internationally operating brand-sensitive firms in consumer markets are pushed to behave responsibly, and depth remains limited as long as private sector actors can get away with defining, implementing and evaluating what is to be seen as socially responsible.

Even though philanthropy is often the first association with the idea of CSR, especially in the USA and in many developing countries, in this chapter I focus on the more strategic dimensions of CSR in terms of incorporating responsibility attributes into the day to day operation of the firm. In other words, while philanthropy is basically about ways to use profits to 'give back to the community', I focus on CSR as part of a business strategy or when CSR 'becomes the way in which the company does business...' (Chapple and Moon 2005, 425).

The more strategic CSR literature often uses the following typology of three different but in reality often partly overlapping strategies:

- Compliance (with existing regulations, laws, conventions and standards),
- Risk minimization (safeguarding brand-name goodwill and company reputation by moving beyond mere compliance) and,
- Value creation (using CSR activities as a way to compete and essentially differentiate oneself from other companies that offer similar products) (Nelson 2000, p.7, 28).

social programs), and the worst case scenario is both a reduction in profits as well as social benefits which *The Economist* labels as 'delusionary CSR'.

These are usually visualized as a pyramid, a base of many firms focusing on compliance, a smaller but still substantial group of (A-brand) companies that aim for risk minimization, and a small but significant set of organisations for whom achieving and maintaining responsibility is their core strategy.

This categorization gains a dynamic perspective by adding the Norm Life Cycle model, a useful tool to analyze the process of how new norms can become mainstreamed (Finnemore and Sikkink 1998, 898).⁶⁶ They distinguish three stages: norm emergence, norm cascading, and norm internalization, with a key role assigned to the ‘norm tipping’ that takes place between the first and second stage (Segerlund 2005, 5). In the first stage of norm emergence, altruism, empathy, idealism and commitment are seen as the main motives for ‘norm entrepreneurs’ to push for example for better labour standards. This refers to the frontrunners in responsible production, in particular various types of Fair Trade initiatives. Moreover, it also includes those firms that really use their responsibility image to create value (a well-known example is the Body Shop).

Once a certain critical mass of key companies has adopted such a norm, ‘norm tipping’ brings us to the second stage of norm cascading. In this stage legitimacy, reputation, and esteem become the main motives of companies to join what is now seen as ‘the right thing to do’. This is also where risk minimization comes in. A-brand companies start seeing they need to invest in boosting their responsibility image, in order not to ‘fall behind’ those firms who used to be seen as frontrunners but are now increasingly setting the new level of expected responsible behaviour.

In the third stage of norm internalization the new norm has become a generally accepted minimal standard that all participants need to conform to, and at this stage for example new laws on minimum labour standards can further institutionalize the now generally accepted new norm. At this stage also those firms who focus on compliance need to respond to the changed situation. Adding this dynamic dimension therefore shows that

⁶⁶ This model was developed originally in the context of analyzing state behaviour.

firms need to actively respond to changes in norms, even when they continue to follow the same CSR strategy. Moreover, through this dynamic process of new norms becoming mainstreamed and subsequently internalized over time, the ‘floor of basic compliance can be raised’, and overall compliance requirements can increase over time

The danger with these types of models is that one might be tempted to think only in terms of inevitable improvements leading up to a steady state of utopia. Obviously, over time companies may move up and down through this model, and it is important not to be naïve about ever reaching a state in which a majority of companies would use their responsibility profile to differentiate themselves from competitors. Nevertheless, I feel this model helps to more systematically assess trends in the occurrence of responsible production.

The basic point here is that the role, motivations and incentives inherently differ for state, private, and civic actors in these various stages of the Norm Life Cycle model. Moreover, this adjusted taxonomy also provides a step towards a more analytical understanding of where and when different combinations of regulatory and voluntary governance can be applied more effectively, one of the new and fashionable themes for those working on CSR and development. An emerging research theme is to investigate how to dovetail state-driven legal regulation and voluntary self-regulation by corporations, with civil organizations as both watchdogs and catalysts in these processes (Braithwaite 2006). Perhaps because most research on CSR remains caught at the level of doing case studies, what has so far been neglected is the fact that the relative roles, motivations and incentives for state, private and civil society actors are not simply diverging because of case-by-case contextual peculiarities. Instead, a more analytical underpinning of these differences can be explored by adding the Norm Life Cycle model to a more established typology of CSR strategies.

This leads to three intermediate conclusions. First, to develop a policy-relevant research agenda, we need to recognize the inherent differences in roles, motivations and incentives for the distinct actors in various

stages in the Norm Life Cycle. Second, dynamizing the taxonomy of CSR strategies helps to emphasize the importance of process and of dynamic connections between various modalities, while existing categorizations often enhance a counterproductive emphasis on what separates various initiatives. This sometimes leads to Kafkaesque debates about which initiative or civil society organisation occupies the moral high ground, instead of emphasizing a shared responsibility towards strengthening each other's efforts and optimizing overall progress on achieving a more responsible production system. Third, more generic analytical devices such as the Norm Life Cycle model can help to break the mould and mental imprisonment of the present case study approach to CSR. And that is one of the things we need to do in order to take the next step in developing this field of expertise, and make it relevant to local development.

4 Do new middle-class consumers care about responsibility?

This section briefly reports on our lack of information about a key issue that will at least partially determine whether responsibility attributes might be mainstreamed: the consumption preferences of new middle-class consumers in the Global South. The global middle-classes are growing rapidly, 'twice as fast as the overall world population' (World Bank 2007). This group of consumers, with yearly household earnings between \$17,000 and \$72,000, will increase from 400 million in 2005 to 1 billion in 2030. By 2030, 92 % of the global middle-classes will live in developing countries (also because many OECD upper middle-class consumers are labelled as 'rich' because they earn more than \$72,000 a year per household). Therefore, the World Bank estimates that by 2030: '...more than a billion people in developing countries will buy cars, engage in international travel, demand world-class products, and require international standards for higher education.' (World Bank 2007, 69, emphasis added).

The question then becomes, how likely is it that the world-class products they demand will include responsible attributes? The sad truth is that we know nothing about this likelihood. I am searching desperately for this kind of information, but have not yet been able to secure any solid information. On the positive side, this means we cannot rule out the possibility that the new middle-classes might be triggered by responsible attributes. However, what we do know about consumer behaviour from consumers in OECD countries does not sound very hopeful. Research indicates that relatively few consumers (around 5%) actually use their 'consumption as voting' (Shaw et al 2005), while it needs to be stressed that this type of research is still in its early stages in terms of representativity.

The second issue is an implication of 'Bottom of the Pyramid' thinking (Prahalad 2005). The Bottom of the Pyramid debate focuses on bringing another 4 billion relatively poor consumers into the global market realm by 'simplifying' existing consumer products, to produce them at cost levels within reach of relatively poorer consumers. From the perspective of this study, one might argue that such a simplification of product attributes would probably leave no space for 'luxury' responsible attributes. In other words, branded products also will increasingly need to find a way to produce a broader variety of simpler products at lower price ranges.

Nevertheless, in OECD countries consumer organisations have played, and will continue to play, an important role in the area of promoting responsible production and consumption, as soft power plays a crucial role in consumption behaviour. Consumer organisations have the potential to act as catalysts of change in introducing new norms in consumption behaviour, to punch beyond their weight, and to push for norms to become more mainstreamed. For example, the Fair Trade movement has played a crucial role as norm entrepreneurs, setting an example of how international trade can (at least aim to) be done 'differently'. Fair trade has played a catalytic role in raising consumer awareness, especially among middle-class consumers in Europe and the USA. It can be argued that the present fashionability of Corporate Social Responsibility (CSR) among leading companies can at least partly be attributed to the pioneering role

of Fair Trade. One of the key questions for future research would be to find out in what ways and to what extent Fair Trade can play an equally catalytic role among new middle-class consumers from the Global South.

5 Enhancing localised impacts of CSR

At present, CSR is a business tool, a point made in various ways by most of the relatively few development-oriented scholars working on CSR (see for example the special issues on CSR and Development in *International Affairs* (2005) and *Third World Quarterly* (2007)). This will not change by itself, as private sector actors do not have - and cannot be expected to develop - a focus on localised impacts beyond what they need in terms of verifiable information that satisfies their stakeholders. Therefore, it is up to the development community to enforce such an addition to the menu. We need first to convince stakeholders like consumers of the need to push for inclusion of broader developmental goals in codes and standards. Second, we need to develop good practice cases that show the fundamental developmental value added of such a broadened approach. Obviously, this is easier said than done.

One way forward is perhaps best introduced through an anecdote from a recent interview⁶⁷ with the director of a prominent NGO dealing with verifying of codes of conduct in global garment supply chains. We discussed in detail the need to localise items for verification, such as wages, toilet facilities, overtime regulations, freedom of association, and we discussed the ins-and-outs of their monitoring system. When we started to discuss the difference between output, outcome and impact indicators, the discussion took a surprising turn as he basically said that what they really meant to achieve ('impact') was to 'contribute to an emerging social dialogue by providing an example of how combined NGO-buyer pressure can be used to improve employment conditions and relations'. However, the output and outcome indicators all focused on issues related

⁶⁷ Conducted as part of a study on the role of private sector actors in private sector and enterprise development programmes by Dutch NGOs, together with Bert Helmsing.

to direct employment conditions and labour relations in the monitored factories. This anomaly seems to be indicative of the present situation. While CSOs involved in Multi Stakeholder Initiatives ultimately aim at economic, social and political empowerment of poorer groups at local level, their direct activities are limited to monitoring conditions of workers in specific factories that are part of their initiative.

So far, private sector actors have been very successful in setting the agenda and determining the indicators to measure responsible behaviour. For example Locke et al (2006), after studying one of the show cases of CSR, Nike, concludes that the existing codes of conduct, even when followed through consistently, do not seem to be very significant in terms of achieving local developmental impacts. This is at least partly a result of the fact that the issues included in most codes reflect the interest of companies to be able to show potential consumers they behave responsibly, and do not often seem to reflect the priorities of poorer segments in the local workforce, nor local development priorities (Blowfield 2005; Jenkins 2005).

In order for CSR to gain more developmental relevance, other actors like local CSOs, development professionals and engaged government officials need to find a way to start co-moulding this agenda and determining future indicators. Moreover, we need to recognize that these types of standards or codes can only be one element in a broader development strategy (Barrientos 2000). Codes that lead to improved labour standards in the export-oriented local factories can be a catalytic point of departure for other pro-poor development interventions only if and when other local or national developmental actors can and will use this as a lever. In a somewhat similar line to the arguments made by Evans (1996) and Moore (1994), one might envisage a catalytic role being played by a number of successful 'pockets' of effective responsible production, if and when it can be shown that localised depth of responsible production provides developmentally relevant inputs to processes of local development. Going against the odds, such 'pockets' of effective responsible production could set good practice examples. Moreover, they may stimulate further debate and provide CSOs with ammunition to influence pub-

lic opinion and politicians on the need for more stringent government policies and laws to enforce compliance with specific labour and environmental standards. Such a strategy aims to reinforce norm emergence, and gets us closer to the norm tipping point.

But such a strategy is also risky, as higher standards may well push out weaker and often smaller suppliers that pay lower and more irregular wages to poorer workers. In response to standards by outside buyers, local firms tend to concentrate production in easier to monitor places of work and cut-off smaller subcontractors from their supply chain, either for real or only on paper. A similar process occurs in terms of labour contracting, where permanent workers or middle-men contract casual workers (often (seasonal) migrants) to take care of the more tedious work, without enjoying the benefits from working in a responsible chain. This may increase the gap between a relative elite of local firms supplying to global value chains with improved labour conditions, and a mass of local firms ruled by low-road production in which labour conditions are not likely to improve (Gibbon and Ponto 2005).

Nevertheless, in some localities it might be feasible to mobilize (among state, private, and civil actors) the critical mass needed for norm tipping and subsequent norm cascading at local level. In trying to achieve such localised depth in responsible production, we face a paradox. What matters most is not the highest standards, but a way to optimise the linkages with other local initiatives, to achieve broader and deeper localised impacts. From the supply chain perspective, responsible production will only start to really make a difference, when firms integrate responsible attributes into their purchasing practices (Barrientos & Smith 2006, Locke & Romis 2006). Moreover, based on a case study of footwear suppliers to Nike in Mexico, Locke & Romis go one step further in arguing that this integration is achieved more easily in supply chains that are

more quality-driven (as opposed to price-driven) and where relationships are more long-term and less asymmetric (Locke & Romis 2006).⁶⁸

Therefore, to strengthen localised depth in responsible production, some local-global responsible catalysts need to convince and cajole local and supply chain actors to build realistic coalitions. One element in pushing forward such a strategy could be to connect to the emerging field of a more localised and actor-specific manifestation of the broader discourse on ethics and morality in development (Gasper 2005, Proctor 1998). This would also be a modest but important step in ‘universalizing’ decent work standards at local level (ILO 2002).

In this process of constructing pockets of responsible production government actors need to play a crucial but not necessarily labour-intensive role. In terms of the role of government it is often mentioned that governments might be relatively good at setting standards and producing laws and regulations, but that the main problem lies with implementation. Some innovative work seems to argue for giving other actors a role in the implementation, giving government actors the possibility to concentrate more on setting the standards. Weil (2005), based on a case study related to informal garment manufacturing in Los Angeles, argues that involving the buyers in monitoring minimum wage regulations in small subcontractor firms reduces the number of violations in paying minimum wages, and that using buyers to monitor increases the ‘credible threat’ to subcontractors. Again, this seems to work best in situations where buyers and suppliers have (a perspective of) a more long-term relationship. The key point for experiments with increasing the depth of responsible production is that this illustrates how one might creatively look at new delineations in the complementary roles of private, state, and civil actors.⁶⁹ In short,

⁶⁸ A study on comparing two footwear suppliers in China gave similar results in terms of better employment conditions in the factory with a more network type of relation with the main buyer (Frenkel 2001).

⁶⁹ For an innovative approach on how governmental and non-governmental actors may fill state capacity deficits, see Braithwaite 2006. For a case on government as possible driver of CSR, see Moon 2004.

while the whole debate on mainstreaming responsible production is dominated by private actors, with CSOs ‘breathing down their neck’, the issue of strengthening the local developmental relevance of responsible production inevitably brings local government back into the equation.

6 Conclusion

The case for including CSR as a key issue for future LED interventions seems to hinge on the likelihood of a higher-road upgrading trajectory in which product and process upgrading go hand in hand with social and environmental upgrading. But how likely is this to happen? I know Jörg is sceptical, and I am also not a true believer in mainstreaming this higher-road trajectory, even when it is formulated as elegantly and forcefully as it is by Sabel, O’Rourke and Fung (2000) in a paper called ‘Ratcheting Labour Standards: Regulation for Continuous Improvement in the global Workplace.’ But as long as it is an option, it is worthwhile to pursue it, and to try and use good practice examples to dynamize other settings. Is it not possible, after all, that new middle-class consumers in the Global South might increasingly demand more responsible products? Retailers and other lead actors in supply chains will then push such demands through the value chain. In some settings this could tip the scales at local level, providing the leverage to solidify a more socially and environmentally-friendly agenda. Such pockets of responsible production might then serve as good practice examples. Will this go beyond the obvious fashion-identity goods like clothing, shoes, perhaps mobile phones and beyond A-brand retailers? Perhaps. In any case, a first step for LED practitioners could be to expand the LED toolkit with a responsibility clamp that links supply chain pressures to local social dialogue, ready for use when the opportunity arises.

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Energizer at the LED Summer Academy 2007

The young Jörg, The mature Jörg ... What is next?

Enrique Dussel Peters

I am quite sure that the next 50 years will be at least as good!

I remember Jörg Meyer-Stamer very vividly at the INEF (Institut für Entwicklung und Frieden) at the University of Duisburg-Essen. Jörg, together with Dirk Messner, Claudio Maggi, Michael Giese and Frank Wältring, among other researchers and assistants; they worked for several years on projects on meso-level policies in Nordrhein-Westfalen (NRW) and gathered an incredible amount of experience, contacts, information and analytical results (Meyer-Stamer, Maggi and Giese 2004). Personally I had read much of the research and many publications by Jörg since the 1990s concerning his work at the German Development Institute in conjunction with Klaus Esser and Dirk Messner, among others. My brief research stay at INEF in 1999, in addition to meetings and interviews in NRW, allowed me to comprehend Jörg's deep commitment and analytical interest, but also his personal closeness to Duisburg, his excitement about the restructuring of the "Ruhrpott" in general, but specifically with regard to Duisburg. His enthusiasm for showing us personally the many projects of the Internationale Bauausstellung Emscher Park, meetings and discussions with the "actors" at very different levels of the region, but also the difficulties in terms of the meso-level experiences that Jörg accumulated also had an important impact on my own work and on our friendship. After this shared experience and my brief stay at INEF we kept in touch, through a visit Jörg made to Mexico as well as regular electronic exchanges.

The title of these reflections of course attempts to add a touch of humor; nevertheless, it also proposes –for Jörg's sake and that of readers– to briefly discuss part of Jörg's research agenda related to systemic competitiveness –the "young Jörg"– and his more recent work at mesopartner

–the “mature Jörg”–⁷⁰, inviting a more in-depth discussion and possible future debates, while of course attempting to invite Jörg to participate in this agenda, in particular regarding future research topics. Clearly, (and imagining Jörg’s first reaction), it is not a matter of a more “academic” vs. an “entrepreneurial” or even “down-to earth”-orientation, but rather of continuing to permit discussion among these views and experiences together with the public sector at all levels. I believe that several of the persons invited to participate in this reflection process have worked in the last years on these issues.

Thus, in what follows the document will be divided into two parts. First, some reflections on Jörg’s work on systemic competitiveness and his experiences at mesopartner with the PACA methodology. The second and final part will discuss different topics based on the former issues with the intention of inviting –Jörg and others– to participate in future research and dialogues between the academic, private and public sectors.

1 Systemic Competitiveness and PACA

From a Latin American perspective –with emphasis on the Mexican debate– the proposal of systemic competitiveness developed by Jörg, Klaus Esser and Dirk Messner, among others, has been of particular relevance as a result of the particular historical context: after several decades of import-substituting industrialization policies in most of Latin America, since the 1980s (and until the present day) most socioeconomic policies in the region have been highly influenced by macroeconomic stabilization and orthodox policies (Dussel Peters 2000). Today in cases such as that of Mexico the control of inflation and the fiscal deficit still remain the central economic policy of the government.

In this context, Michael Porter (Porter 2000) – whilst acknowledging prior debates by authors such as Fajznzylber (Fajznzylber 1981) at the

⁷⁰ A future more “exegetic” analysis of Jörg’s work would require us to understand the causes of this shift in his work and personal life.

Economic Commission of Latin America and the Caribbean, among others – popularized internationally a debate on the comparative advantages of nations, but much more specifically on the topic of the competitiveness of countries. This specific debate from the 1990s on was relevant since it allowed for a macroeconomic discussion beyond a primitive view of macroeconomic stability as the primary goal and almost unique policy priority after the “lost decade” of the 1980s. Porter’s dynamic “diamond” (Porter 1990:71ff.) –defined by conditions of supply, demand, the structure of a firm, its embeddedness, as well as relationships with clients and suppliers– and several institutions such as the World Economic Forum (WEF) and the International Institute for Management Development (IMD), also attempt to measure the competitiveness of a group of countries using different criteria.

A rich and diverse debate has emerged since then, highlighting additionally that:

First, Porter’s work has been significant, as macroeconomic theory and policies had become preeminent since structural adjustment in the 1980s in Latin America, i.e. the focus on competitiveness at the firm level at least reflected that macroeconomic adjustment was not sufficient for national competitiveness, growth and development.

Second, several authors from different schools of thought have criticized the “obsession with competitiveness” (Krugman 1994) and highlighted that competitiveness at the firm and national level are very different issues.

Third, numerous authors have concentrated on the “learning process” (Humphrey/Schmitz 2001; Messner 2004; Schmitz 1997), different experiences of associationism and agglomeration of firms and territories (Borras/Zysman 1998; Mortimore 2000; Piore/Sabel 1984), technological development (Katz 1998; Lall 1999), industrial organization and intra and inter-industrial relations (Chudnovsky/Kosacoff/López 1999; Garrido/Peres 1998).

It is in this context that the rationale of “systemic competitiveness” proved critical: stressing the relevance of the micro, meso, macro and meta levels of analysis, this approach allowed for bridging between Latin America’s structural and macroeconomic stability and Porter’s firm-level discourse, i.e. all four levels are simultaneously relevant (and not just one of them). The approach also demonstrated the weaknesses of uniquely, and highly dogmatic, macro-approaches (until 2008), as well as overly simplistic Porter-like firm-level analysis, and of the failure to bear in mind that firms are not equal to territories or even countries. The discussion on systemic competitiveness has been extremely relevant in Latin America, since today in practically all countries competitiveness has included the concept, for better or worse (sic).⁷¹ Additionally, the systemic competitiveness approach has emphasized the relevance of the meso level analysis or the institutional or inter-firm relationship (Stamer 2000/a/b, 2001).

The discussion on systemic competitiveness has left important lessons in Latin America from several perspectives. On the one hand, it has permitted a discussion, multiple analysis and policy recommendations regarding “competitiveness”, clusters, and industrial districts in Latin America. The latter would have been unimaginable in most of Latin America under the hegemony of macroeconomic stability and structural stabilization programs. Moreover, the discussion on competitiveness has permitted a new dimension on policy options –on topics such as trade, industrial policy, firm-level policies– that has significantly enriched the policy experiences during the 1990s.

While Messner and other authors continued their research on an international level in conjunction with other academic networks –for example

⁷¹ In my personal experience “systemic competitiveness” is today widely known at ECLAC, Central America, the Caribbean and Mexico, in some cases also as a result of debates with Porter and some of his students and regional institutions. In some cases, however, the level of comprehension has been small (systematic instead of systemic competitiveness, sic). In others, for example in Mexico, at least since 2000 “systemic competitiveness” has been included as part of the six-year business and industrial policies in Mexico.

with the Institute of Development Studies at the University of Sussex and debates with the network of Gary Gereffi, among others–, Jörg briefly continued his research on the topic of “What is meso” and from the late-1990s and 2000 on devoted himself completely to his consulting work at mesopartner through the PACA-methodology. One of the last issues directly discussed by Jörg –what is meso, which was published in several versions in German and in English– on systemic competitiveness attempted to concentrate on the meso space and meso institutions defined by its selectivity: from R&D to education, measuring institutions, etc., particularly at the regional and local levels. The persistency of meso level policies reflects, according to Jörg, long-term market failures (Meyer-Stamer 2005:19-20).

Since then, however, and I believe not only based on personal decisions but also on the need to allow for a more pragmatic approach to policy and territorial experiences, Jörg has devoted practically all of his time to mesopartner ⁷² Jörg –on mesopartner’s webpage and in person (Meyer-Stamer 2000/b) is very clear in stating the goals and main approaches of PACA and mesopartner: as a result of the increasing demand for Jörg’s expertise and experience, he developed the Participatory Appraisal of Competitive Advantage (PACA) from the late 1990s. The basis of PACA – with dozens of experiences since then in Latin America alone– has been its ability to react quickly to specific demands from specific territories, mainly business organizations and municipalities or other kind of territorial institutions. Additionally, PACA’s objective is to react quickly and with limited financial and time constraints, in contrast to long-term research projects. This allows for fast interactions between mesopartner and the respective territories within weeks and quick workshops in order to provide first impressions and results within the territories, also based on “metaplan-exercises” (Meyer-Stamer 2000/a).

In spite of these dozens of experiences carried out by mesopartner up to 2008, it is not entirely clear how to generate coherent and conceptual re-

⁷² For a full discussion, see: www.mesopartner.com.

sults and conclusions from PACA in general, or from the experiences of mesopartner, in order to improve and to generalize some of their experiences in other parts of Latin America and globally.

2 Discussions and debates surrounding Systemic Competitiveness and PACA

From a conceptual perspective, and with few exceptions, most of the prior discussions have done little to embed competitiveness and globalization in “space and time”. Since the 1970s, and particularly since the 1980s, several authors have discussed the main socioeconomic tendencies that have resulted in the current “globalization”. In brief, it has been observed that mainly –but not only– transnational corporations (TNCs) have been able to transfer an increasing part of the segments of their global commodity chain (Gereffi/Korzeniewicz 1994; Piore/Sabel 1984). The changes that were required by this new global socioeconomic structure –also known as flexible production– were implemented by an increased flexibilization in demand, particularly in sectors such as automobiles, electronics and clothing, among many others. Thus, the specific context of increasing openness in core and peripheral countries – including goods, services and capital, as well as through substantial improvements in transportation and electronic communication–, permitted this process of globalization. In contrast with prior historical periods, in which for example during ISI in Latin America TNCs either imported their goods from other countries to be sold or they were produced in the specific country for this specific market, since the 1980s a new production network has evolved: TNCs, but increasingly other firms too, integrate into specific segments of global commodity chains depending on the strategy of the specific firm. Thus, countries no longer necessarily produce a final good, but participate in segments of its global commodity chain. These new global conditions, added to potential incentives in the respective country, catalyze new investments, in order to respond to global demand and new forms of organization in space and time.

As a result, globalization –understood as a result of global commodity chains and flexible specialization–, has several effects. On the one hand, and considering the increasing “openness” of national States, globalization has territorial effects beyond national frontiers, i.e. rather paradoxically for some, globalization has local effects. On the other hand, this historically new process –the “glocal” sphere (Altvater/Mahnkopf 2002)– creates profound socioeconomic and territorial challenges: territories –at the local, regional, supraregional, national and supranational level– integrate directly into the world market through this historical-specific form of globalization (Storper 1997). From a policy-making perspective, the “glocal” sphere, rather than an exclusively national perspective, is also the most appropriate one when it comes to facing up to and countering globalization and tendencies that affect them, including education, socio-economic development, poverty, etc. For many countries with a deeply rooted centralist tradition of policy-making such as Mexico, the delegation of resources, qualified personnel and decisions at the local level is a matter of the utmost difficulty.

Additionally, this understanding of globalization in space and time has several other implications. On the one hand, it highlights the effects of globalization on territories. Contrary to most views of competitiveness in a context of globalization, it is territories which integrate directly to the world market. This is significant, since in addition to the distinction of competitiveness between firms and nations, there is a substantial difference between competitiveness among territories and firms. Let us imagine, in the worst case scenario, highly competitive firms in a very underdeveloped and peripheral territory. On the other hand, the “glocal” implications and challenges of globalization in space and time are significant, since they can integrate in at least two extreme forms into the world market: either through a high degree of endogeneity, or, on the contrary, by generating a deepening of the socioeconomic process of polarization (Dussel Peters 2000). Thus, the specific form of integration of a territory into the world market –in specific segments of the global commodity chain with impacts on inter and intra-firm relations, learning processes, value-added generation, employment, wages, and technological development and potential, among many other issues– is of critical relevance.

As a result, systemic competitiveness and global commodity chains have to be understood from a territorial perspective in space and time, i.e. to generate territorial endogeneity.

Very concretely regarding systemic competitiveness and its main findings, several critical issues may be highlighted:

(a) There has been little dialogue and interaction between adherents of the systemic-competitiveness framework and other schools of thought with similar “points of entry”, particularly the “global commodity chains” literature (Bair and Dussel Peters 2006; Bair and Gereffi 2003; Gereffi 1994) and the large body of work on “production networks” (Ernst 2000, 2001, 2003) not identified explicitly in the discussions on systemic competitiveness and PACA, but operating with a very similar perspective on the international dimension of inter-firm networks. A transparent and clear dialogue with these institutions would be very productive, as it has been with the Institute for Development Studies (IDS). Topics such as production networks, commodity chains and their segments, as well as demand or supply driven chains, among others, could be very helpful and useful in terms of the discussion on “governance” and meso level instruments and policies.

(b) Systemic competitiveness has emphasized the four levels of analysis and their global and local dimensions (in the case of meso level policies for example). The approach, however, has not paid adequate attention to issues of space, and a territorial perspective is fundamental for understanding dynamics of socioeconomic development. While systemic competitiveness analysis tends to focus on meta, macro, meso and micro-level analysis, topics such as upgrading within a commodity chain and territorial adjustments and restructuring require a “territory-first” approach. While also drawing on the global commodity chains and systemic competitiveness frameworks, several authors have attempted to discuss this question with reference to the concept of “territorial endogeneity” (Dussel Peters 2000; Vázquez Barquero 1999, 2005) and the spatial dimension of globalization (Storper 1997) in order to focus issues of

industrial development, intra and inter-firm networks, as well as integration into the world market from a territorial perspective.

(c) Since the second half of the 1990s, authors have analyzed the relevance of “collective efficiency” –understood as the competitive advantage resulting from the externalities of local economies and joint activities– for particular regions or clusters. Schmitz (1997) argues that collective efficiency and the formation of inter-firm networks in specific territories are an important component of the competitiveness of successful clusters. Recent analyses (Humphrey and Schmitz 2000; Messner 2004) have also shown that integration into the world market through participation in a commodity chain will vary depending on the type of governance structure characterizing the chain. The greater the vertical nature and control of a reduced group of clients and/or buyers over the chain, the fewer opportunities suppliers have in terms of learning and upgrading. On the contrary, the higher the number of clients and the more reduced the dependence on standards imposed by leading companies, the greater will be the options for integration, coordination, cooperation, diffusion, learning, and upgrading – that is, the development of collective efficiency among firms in a region. In other words, collective efficiency does not automatically result from the incorporation of a set of firms or a cluster into any commodity chain.

The former topics and issues are simply an invitation to continue developing the concepts of systemic competitiveness and PACA with other current methodologies and schools of thought. This has been done in some cases through institutional relations and personal friendships, also in some current work by Jörg (Meyer-Stamer 2008), but this is clearly not enough. It would also be fascinating and instructive for me to understand the experiences of mesopartner from a more qualitative perspective and in a dialogue with global commodity chains, systemic competitiveness, production networks and territorial endogeneity frameworks and experiences. Without a doubt, Jörg’s current work, considering his past experiences, can play a substantial role in this dialogue and learning process.

So, Jörg, I would not completely give up on academics (sic) and continue to allow for a discussion and debate among these groups of experiences and more pragmatic-oriented visions in the future.

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Jörg is passionate in many things, not only in LED



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Personal Birthday Wishes
from around the World

for Jörg Meyer-Stamer's





On the Occasion of His 50th Anniversary

Andreas Wittkowsky has the Honour to Extend his Sincere Congratulations

To the Discoverer of the 5th Level of Systemic Competitiveness

When a group of international social scientists focussed the torch of Enlightenment on the Theory of Systemic Competitiveness in a cold November night, they knew they had discovered an essential element for the survival of an almost dying species – the believers in planned development. However, they also realised that before gaining world wide acceptance, and particularly in sceptical gtz-circles, they would need to find the final missing link – soon to be well-known as the 5th Level of Systemic Competitiveness.

While the first four Levels (Meta, Makro, Meso and Mikro) were rather easy to identify (and their existence was thereafter proven in a two decades-long field experiment in a small Berlin laboratory), the 5th Level remained mysteriously hidden. A unique co-operation effort with Japanese scientists in the late 1960s failed to produce the desired breakthrough, as a paper produced during a brainstorming retreat by the sea side was washed away by a spring flood and could only be recovered covered with algae and has since found its way into Japanese cui-sine, where it became popular as Miso soup.

It was a still fairly young social scientist in a German think tank (which in spite of its name DIE was not dead), who following intense readings on the political economy of diamonds,

found a way out of the dead end – Dr. Meyer-Stamer. With the help of a polylux projector and Meta plan cards, he furthered our understanding on the dialectics of „fun“ and „leadership“ as the constituting elements of systemic competitiveness, thus succeeding to identify the missing Level. It was only consequent to label that Level after him, so that the Meyer Level could finally complete the Theory of Systemic Competitiveness.

For the second half of his life we wish Dr. Meyer-Stamer many happy returns of this Level, with all the fun and leadership he could possibly desire!

Andreas Wittkowsky
Berlin/ Prishtina in October 2008



Looking Back: Some Fragments about the Start of PACA

Jörg – 50?

It is still easier for me to imagine Jörg in the sixties in short Bavarian leather trousers strolling around in my neighbouring village in the Ammerland. For those who don't know this small district in the north of Germany not far from the coast: it is flat there, most of the time wet and windy, people speak very hard German, drink schnapps out of tin spoons and have a pretty dry humour – which includes telling the biggest nonsense with a serious facial expression.

This common provenance eased the communication when we met the first time in 1996 in Joinville, deep in the Brazilian interior. We, that is to say, the analyst and theorist from the DIE, dealing with the systemic competitiveness of big industries and the questions: how is the world? How should the world be? And myself, the practitioner, who tried for some years in the framework of a small partnership project between a German and some small Brazilian business chambers to open the doors of these closed “business clubs” for bakers, carpenters and other SMEs, many of which had poor entrepreneurial characteristics, dealing with the question: how to get things moving?

We quickly got to know each other: the prevailing hostility among the Brazilian entrepreneurs – the other man is not only my competitor but also my personal enemy, with whom I do not talk, exchange – leads to inefficiencies in the local and regional economies. And this behaviour is not about to be changed through teaching and the presentation of rational arguments.

In the chamber partnership project we had started the creation of groups of entrepreneurs called “Nucleus”, where entrepreneurs began to overcome their mutual mistrust, to get to know each other, to exchange know-how and experiences, to start common activities and to perceive step-by-step that they all had similar problems and ideas. Action learning in its purest form. All this looked simple – but included many hidden elements which lead to far-going organisational change and development processes in the business chambers and the enterprises. – Today this is called the “Nucleus Approach”. More www.Nucleus-International.net.

In 1993 we had started discussions about the goals and objectives of the business chambers with their boards of directors. One subject we discussed was the improvement of the framework conditions for entrepreneurs through lobby activities. But the participants presented mainly community problems which the chambers were supposed to solve – hospitals, kindergartens, etc. In all

this political and economic mess in Brazil, on the local level they did not suffer. Another subject was the promotion of enterprise founders as a task for business chambers. The answer was a clear “No! We have enough enterprises here. We do not want more!” It took some time to understand. There had been considerable economic growth in the sixties and the early seventies in the region. Existing enterprises grew, new ones started up. Growth meant at that time more employees, more immigrating population from the interior and consequently more social problems. And therefore the chamber leaders thought about the construction of a “Berlin Wall” around their towns – the fact that the Berlin Wall served to prevent people from getting out and not getting in was not perceived. We tried to explain that due to globalization the enterprises had to work more efficiently and that more new enterprises were needed for those workers that the chamber entrepreneurs would dismiss – no reaction. The right subject at the wrong time with the wrong people.

Four years later, some time after Jörg had returned with his DIE student group to Germany, an entrepreneur came to say “You were right about the coming changes in our enterprises and the employment development in our towns. And therefore we want to start marketing in favour of our municipality to attract external investors. So, how do we do this?” He put a lot of paper on my desk, “statistics”, a huge mess – the number of bus stations and taxis, the income from local taxes, and so on. I saw Sisyphus in front of me and felt lost.

In my helplessness I contacted Jörg in order to see whether he had any ideas. He returned in 1998.

The first rough idea was to develop the design for a document for the self-presentation of a municipality stressing its hard and soft competitive advantages and its promotion instruments for investments – as small and as simple as possible.

But as everyone knows, Jörg prefers to do what he likes to do and not what he might be asked to do.

He went together with some of the project colleagues to interview a number of stakeholders from the town about its competitive advantages and found out that they did not know what they were. He added his own observations and comparisons, put the whole thing together, applied the concept of systemic competitiveness to it as a grid, confronted the stakeholders with the results during a meeting, as directly and provocatively as possible, and by means of group work elaborated a small action plan. All this in five days, quick and dirty.

To an extent, what we did in the chambers was transferred to the local level: call people – who mostly do not communicate with one another – to come together, improve the quality of communication through moderation, Metaplan etc., try to break the traditional tunnel thinking and let them identify their own activities and solutions. One question was – and still remains – who would be the driving force to continue the initiated processes? And can or must the whole project be institutionalized in order to gain sustainable impact?

Jörg and his colleagues started in Mafra, a typical small town like hundreds of others in Brazil with nothing special about it. In Mafra, the approach worked – see Jörg's respective report about tomatoes, strawberries, milk and palaeontology. It worked because the subject was right, now the time was right, in Mafra there was the right configuration of persons and due to the running chamber partnership project trust prevailed. In addition, the town had suffered and its population proved to be robust. Most important: the observations of the team did not hurt anybody but served as an eye opener to perceive the town in a different way.

This was different in the next town, in São Bento do Sul, a timber and furniture centre. It was from there that the marketing idea had originated. Here the focus was to bring the entrepreneurs down to earth. They turned away, more or less in disgust. No, this picture of their industries and their municipality did not correspond to what they had in mind about themselves. The doors closed. – Nine years later they are still encountering the same problems as before: the strong Real is hindering their exports.

Nevertheless, this was the birth of the so-called “Programa Marketing Municipal”, which later turned into PACA (or LOCA in Sri Lanka).

Mafra is still there, I passed by last year. Stagnating? Progressing? I do not know. The business chamber is well off, employing three counsellors. This could indicate that we left something there. Ingo Welp, the CEO of the chamber and the driving force of the whole movement at the end of the nineties, had left the chamber due to disputes with the new president and sadly died shortly afterwards. “In a project, the people make the difference!” was his saying. He was right. This often went through my mind when Jörg and I were trying hard in Sri Lanka. But that is another story.

Jörg – 50!

Congratulations. All the best! There is still ample time to do further big things!

Rainer Müller-Glodde
Consultant, Dakar/Senegal, developer of Nucleus approach





Dear Jörg,

On your 50th birthday – Congratulations and all the best for the future!

After half a century it is common to look back and reflect, as well as look forward and develop visions. As you are driven by learning and innovation, the following (somewhat personal) brief reflection might contribute to the verification of your own thoughts.

Personally I believe, and few will disagree, that you have shaped a generation of economic developers. In this field your impact is felt daily when meetings take place and systemic approaches, local and regional economic approaches and many more buzzwords are shared.

Your first impact on me personally dates back to August 2002. As a GTZ Trainee I had the task of documenting an international workshop on Rural Economic and Enterprise Development. Systemic competitiveness was presented and I ended up replying to a large number of emails from the development community who were interested in having a copy of the illustrated legendary depiction.

Whilst aware that the thinking is a result achieved by a group of people, and a great deal of communicating, it can all be traced back to you.

A little while later, I was fortunate to join the Enterprise Service Systems Promotion Project in Kandy, Sri Lanka, where Volker Steigerwald engaged me to work with PACA, or rather LOCA (Lo-

cal Competitive Advantage, for reasons of language). We were “living la vida LOCA” and having a fruitful time: organising trainings, exercises, adapting the approach and most importantly – very good discussions and intensive learning. I am sure that most of us who have been lucky enough to work with you over a period of time feel the same and have benefited from your thinking. I joined a LED training in the Ruhr Area, visited the Duisburg inner harbour, and since then have followed developments going on there to a large extent. The message is: learning with you has been exciting and sustainable. My philosophy of economic development continues to build on this foundation today, and this holds true for the majority of economic developers to date.

A few weeks ago, a colleague, Brigitte Späth, presented us with a depiction of approaches to economic development in the German Technical Cooperation, illustrating this point very nicely. What it says is that your talent lies not only in conceptual work, but also in convincing, innovative and impressive communication: well formulated and readable reports, newsletters, PACA Flash, or the LED-casts, as well as lively and informative seminars and trainings. Not to mention the very entertaining “Berichte von weit weg”. Frankly, it makes me wonder when you find time to rest and what will come next.

Perhaps DIE, mesopartner, GTZ and other colleagues will quite rightly feel underrepresented here for their significant contributions to this work, but for the sake of your 50th birthday, please allow me this very simplified personal view.

It has been a great pleasure working with and learning from you and I am looking forward to very many more interesting years to come, keep going!

*All the best, **Daniel Bagwitz**
GTZ Private Sector Promotion*



Daniel Bagwitz provides us with this picture, and explains:

“Looking forward, I found a nice picture taken at a local school in Hasalaka (rural Sri Lanka). To my mind it says a lot: keep learning, on (modest) chairs, from local realities and having good fun.”





***Jörg's** conceptual brilliance and ability to translate complex ideas into simple language are renowned, as is the originality and creativity of his process designs. I have heard less spoken about another of his qualities: the generosity with which he shares his ideas and time with colleagues. This is to thank you for your generosity, Jörg.*

Doug Hindson

LED Practitioner, South Africa and France



Very Happy Birthday Jörg!

It gives me a lot of pleasure to write this. I first met you in 1994 when if you remember we shared a house together in Brighton. I had just returned from doing my PhD fieldwork in Pakistan and you were a visiting Fellow at IDS. At the time we were both very much immersed in work on clusters and their dynamic implications for local economic development. I was struck then by your work on systemic approaches to competitive-

ness. Over the years we have had many opportunities of working together and collaborating from which I've benefited hugely. What has always struck me about you is your incredible enthusiasm, your immense - some would say superhuman - productivity and the boundless energy you bring to your research and your practical work. That enthusiasm is infectious and I've seen it transform a room, engaging colleagues and collaborators in a way that adds real value to our collective efforts. Very Happy 50th and here's to the next half century.

Khalid Nadvi

*Institute of Development Policy and Management (IDPM)
Manchester*



Dear Jörg,

You have turned 50 and we have known each other for 20 years. Our paths have crossed frequently, sometimes by coincidence and often by design. Thank you for many years of collaboration and friendship. I admire your energy and creativity.

Happy Birthday.

Hubert Schmitz

Professor of the Institute of Development Studies, University of Sussex



Happy Birthday Jörg,

We met off and on already in the 1990s, when you were still working at the German Development Institute and later at INEF, and I was working at GTZ headquarters, dealing with SMME and economic and employment promotion (remember the WBF Wuerfel ☺). But our intensive collaboration really started at the end of 2002, when I began managing the LED Project in South Africa and leaned heavily on you to get some conceptual and strategic clarity into the LED landscape in SA and you were happy to use our field work to play around with ideas and tools. The picture I have attached is from this time, a snapshot from Mpumalanga, when as the picture clearly shows, you were optimistic and I was sceptical at the outcome of some of our trial and error activities. And, as usual, we both were right. ☺

Anyhow, six long years have passed, sometimes it felt as if you were spending more time in South Africa than in Germany, and in the course of these years, South Africa and the project were a platform to jointly refine PACA and develop Genesis and Compass. And sometimes it was tough, the two of us frequently not agreeing on issues. But the outcome was worth it! Have a wonderful birthday!

Gabriele Trah

GTZ South Africa



Dear Jörg

Since knowing you I have always been impressed by your generosity: you like to share, especially your broad knowledge, and you are impressively proactive in any kind of exciting project. Also, I appreciate your openness in exchanging soft topics and I value your ability to communicate in a most efficient and empathic way. In the past I have highly enjoyed our missions and I am looking forward to our future cooperation in enabling local communities in the developing world, helping to convert their challenges into real opportunities. It's great to have you in our business team.

Ulrich Harmes-Liedtke

*Founding-partner of mesopartner,
Buenos Aires, Argentina*





On your birthday, all the best to you!

We met for the first time in December 2000, when you had your very first consulting mission in Kandy, in the central highlands of Sri Lanka. There, you tried to explain Systemic Competitiveness to an astonished local Team, sad to say: in vain. Meanwhile, until mid 2007 this project became a yearly short time mission, and converted into a successful Sri Lankan - German Economic Strategy Support Programme (ESSP): a show-piece project in regional economic development. As PACA is a 'dirty' word in Sinhala, it was renamed LOCA and, by the end of the German contribution, LOCA enjoyed a wide diffusion in the GTZ-supported ESSP throughout the entire country. Thank you for your enormous input and also for always being such an easy-care guest with us in Kandy. Playing billiards we often let you win, but playing golf....

Happy Birthday!

Volker Steigerwald

*(GTZ program leader in the Phillipines)
with Leah, Volker und Mutti Steigerwald*



*Picture provided by Volker Steigerwald (Philippines), who comments:
“Jörg has already driven off,
but the ball still lies peacefully on the Green!”*





Dear Jörg

For your Birthday I wish you all the best from the heart. May your hopes and wishes come true. Your curiosity I always found contagious, and your ideas have always been an inspiration to me. Actually, if I had a wish, I would prefer you to stay the way you are.

Wulf Noll

Economics Ministry of North Rhine-Westphalia, Germany



Dear Jörg

At the conclusion of the first 50 years of your tireless creativity: Happy Birthday!

When I first came to the Latin-American department in DIE, 13 years ago, and thanks to your intermediation, I learned a lot from you and the colleagues. The enthusiasm for policy-oriented investigation in economic development and social inclusion remained, and until today, many years after you left DIE, I still profit from

your reports and practical experiences. Hopefully your struggle for innovative and pragmatic concepts will bestow us many more years of fruitful interchange of ideas. In this spirit, affectionate regards – also from our colleague from DIE, Andreas Stamm.

Cordial regards

Tillmann Altenburg

Head of Department "Competitiveness and Social Development", German Development Institute (DIE)



Dear Jörg

For your repeated 29th Birthday I wish you all the imaginable best and wonderful: sufficiently interesting assignments, good friends and further on great enjoyment of life, decorated with lush blackberry plants in the Ruhr area.

In our first encounter in 2001 we focused on the academic discussion on Porter's Diamond and Regional Economic Policy. Throughout the months and years emerged a frequent and very exciting interchange of perspectives and ideas, which became more and more practical. This culminated into a training program in the Ruhr Area, kicked off a national network and fi-

nally it inspired the successful and global approach to regional economic development (in all modesty).

These times of intensive discussions with you, I have enjoyed very much, even though the tenacious struggles over positions demanded a great deal of me, being a Junior.

For your trust and your inspiration I want to thank you and I hope that you will continue passing it on to many more people! All the best!

Anja Gomm

GTZ Philippines, Private Sector Promotion (SMEDSEP)



Dear Jörg

Happy Birthday and congratulations sends your Professor from your university past!

Hans J. Kleinsteuber

*Institut für Politische Wissenschaft
Institut für Journalistik, Universität Hamburg*



Jörg is a Master of Direct Action. Unforgettably, I remember a bicycle tour which we both made through the Ruhr Area, where he outlined the opportunities and problems of Structural Change by pointing out concrete objects to me. He is one of this rare species, who has the ability to weave theory with practical application, always driven by exuberant curiosity and entrepreneurial dynamic.

Keep up the good work!

Thomas Fues

German Development Institute (DIE)



Dear Jörg

It has been a long time since our Volkswagen Foundation Project on the 'Interaction between local and global Governance' came to a close. Lasting working collaborations and friendships were created through our work together in that project. I feel privileged to count you as

one of those lasting collaborators with whom I've enjoyed sharing ideas, documents and professional opportunities over the last seven years.

However, on this occasion when we are celebrating your 50th birthday, it is difficult to wish you any more success because you have achieved so much already! Instead, I will say "thank you". I will thank you for your contributions to the field of local economic development, for creating methodologies aimed to help developing countries get the most out of their endowments and circumstances and, (more selfishly) for keeping me in your network of professionals with whom you 'test out' some of your ideas. You have always been concerned about promoting the new generation of practitioners all over the world so I predict that your next 50 years will bring you the enormous satisfaction of seeing many of these practitioners flourishing and carrying on your good work.

Happy Birthday!!

Lizbeth Navas-Aleman

*Research Fellow at the Institute of Development Studies,
University of Sussex, Brighton*





Dear Jörg

Over the last couple of years we have spent a lot of time together exploring ideas, running workshops, shaking comfort zones of people and laughing. Your appetite to learn new things and explore new ideas always inspires me to keep on searching for better questions and different answers.

Thank you for being so determined to simplify the many theoretical and abstract issues so that locals and less-educated people can use and apply cutting edge methodologies and tools. I will always be grateful for your coaching and advice, and for taking some of my ideas so seriously.

Best wishes,

**Shawn
Cunningham**

*Partner of mesopartner,
South Africa*





Dear Jörg,

I wish you the very best for your birthday. Thank you for your friendship, generosity of spirit, and your willingness to share your experience and deep insight into such a diverse range of topics, concepts and issues.

I look forward to a long and engaging collaboration in the future.

Colin Mitchell
Ballito – South Africa



Dear Jörg,

I want to use this opportunity today to emphasize how much I appreciate all your conceptual and organisational inputs, which form the very basis of the mesopartner success story. I and certainly all other partners are very much aware about your personal value for our company. I thank you for pulling me into the exquisite circle of the mesopartner founders following our initial interaction in the PERISKOP project in Indonesia in 2001. I value your continuous efforts to

innovate our company and increasingly urge us to not stand still, but to take mesopartner to the next, higher level of development.

I am looking forward to many more successful and inspiring years of cooperation.

All the best for your birthday!

Christian Schoen

founding-partner of mesopartner, Hanoi, Vietnam



Dear Jörg

We Sri Lankans always remember you as one of the pioneering persons who brought new dimensions to our LRED activities in introducing LOCA. On your 50th Birthday we all wish you a healthy and happy life throughout the next half century to continue your LED mission in the development world. They are eagerly waiting for your inputs.

**Deepabandhu
Ratnayake (Ratty)**

Sri Lanka

*Photo: LOCA Upgrading ⇒
Workshop in Kandy, 2005*





Dear Jörg,

In our lives we meet many people, persons with whom...

- ... We share special moments,*
- ... We exchange ideas and experiences,*
- ... From whom we learn,*
- ... Persons we also admire,*
- ... Persons with values and human qualities.*

Now that your birthday is approaching, I want to “Give you the gift of my recognition”, since I consider you to be a person who fulfills all these characteristics.

Which makes me proud to know that we don't just believe in methodologies and concepts, but also and especially in people...like you Jörg, Best wishes dear friend!

Américo Herrera

*Private Sector Cooperation
PPP Projects, DED – Nicaragua*





Dear Jörg

Although we do not have a mutual history of academic interchange, I'd also like to congratulate you on your birthday!

Personally, for me there have always been very clear selection factors on accepting jobs throughout my own professional history (among others, no arms trading and respecting environmental and social issues). However, since working with mesopartner, I have now included one more important point: That is the respect for people in economic environments in need.

Jörg, especially your persisting, demanding, and serious work to change human beings' lives and circumstances to a much better situation makes me proud to collaborate with you! Thanks to your tireless seeking for new and modified concepts, thanks to your demanding attitude and your profound care for people, I came to know a new species of entrepreneur. Your motivation is not about profit, but rather about your concern for others! I highly value your attitude and cannot express sufficiently my respect for your work and your driving energy!

May you have a very happy and joyful 50th Birthday!

Ute D. Mayer

assistant to mesopartner since 2004, Argentina



Dear Jörg,

Ever since we met the first time in 2002 at the Cologne headquarters of what then was the Carl Duisberg Society (before it merged with the former DSE to become what is now InWEnt) our professional paths kept on crossing. I still feel proud to have been among the co-organizers and participants of the first PACA training course in Latin America. I consider the “Camiri experience” far, far out in the Bolivian Chaco in January 2003 as one of the turning points in my professional life.

I still remember you as a quiet observer of the training sessions, apparently busy typing some article on your laptop, but now and then suddenly standing up from your chair to give us one of your thoughtful five-minute insights in “Portuñol” that always had the eye-opener effect, i.e. you managed to make apparently complex matters amazingly straight forward and simple. If I had to define what most characterizes your work as a trainer and writer, it would probably be this way of simplifying complex matters while keeping them relevant and ready to use in our daily practical work.

Camiri happened at a time when, after several years of work in the field of SME development, I suddenly became involved in LED, as I started coordinating the Peruvian component of InWEnt’s capacity building project Concadel in mid-2002. As in Camiri, it turned out to be quite a challenge to discover competitive advan-

tages in tiny places in the Peruvian jungle where there apparently was not much going on besides the annual beauty queen contest, weekly farmers' markets and occasional cattle fairs. Local business chambers often appeared more like a Buena Vista Social Club (at least as far as the age of its members and board of directors is concerned) than vibrant business communities, and it was not always easy to convince local mayors and city councils that local development promotion meant more than building new communal soccer fields. So even when local reality often seemed terribly far away from Porter's writings I still think that the PACA projects in which I participated in the following years in several countries all over the Andean region have changed local people's way of thinking and practicing LED. Also here in Ecuador, where I started working a few months ago, I have come across a whole bunch of people all over the country who consider that having participated in a PACA exercise was highly helpful for their understanding of how local economies work, what kind of market failures have to be addressed and what kind of strategies and actions foster the competitiveness of local production systems.

As time goes by, there have been some lessons learnt and our attention has been drawn to complementary and new fields. Overall I think that here in Latin America in the last five years we have moved from conceiving Local Economic Development essentially as a local/municipal field of action to a broader territorial perspective, focusing our attention increasingly on how different types of private sector institutions and public institutions from different government levels can practice common strategy development and establish and maintain dynamic workspaces where each player makes its contributions to a shared territorial competi-

tiveness agenda, according to its recognized role, capacities and functions. Finding an adequate institutional setting that matches the particularities of each territory, the dynamics of its production systems and set of organizations involved still keeps us busy thinking about the form that best follows function. You and the other mesopartners have developed many practical process management tools in this field (such as the Compass) which I found highly useful for my practical work for GTZ with public-private territorial councils in Chile for example.

For my current work, the first mesopartner Summer Academy held in Latin America in Buenos Aires in 2004, delivered important new insights into concepts and tools for value chain promotion and territorial innovation systems. I consider that the practical cases presented by some of the academy experts have been extremely helpful in drawing our attention to the need for conceiving most local economic activities as part of larger production systems that stretch out of the territorial setting, as well as the multiple ways in which constraints and bottlenecks in one subsystem of the value chain tend to affect the competitiveness of the whole system. As you did at the Summer Academy, I still like to draw on the Stupid Cow Syndrome as a practical piece of evidence for that. Thanks to the networking effect of the Summer Academy, by the end of 2004 we were able to train a first group of Chilean consultants and territorial managers in the methodology of value chain promotion developed by the CIAT people in Cali, Colombia. Value chain upgrading has become an extremely popular exercise in our professional field. It also keeps inspiring my present field work in improving existing methodologies and developing new tools while being involved in four public-private value chain

initiatives in four Ecuadorian provinces. As with the PACA proposals, without doubt one important effect of these initiatives is allowing territorial actors to gain practical experience in exchanging information, coordinating their actions and cooperating with each other. Another thing in common is the fact that there are also some myths to be discovered as we analyze the value chains and their current bottlenecks. Thus, as time goes by in the competitiveness field, the fundamental things still apply – which isn't so bad after all.

In October 2004, we were pleased to have you on your birthday as a key note speaker at our Conference on Regional Development Agencies in Chile – a virtual expert so to speak, as you inspired the event from your very home office while we transmitted your picture and sound by Skype (then a somewhat adventurous undertaking which fortunately worked well). I still remember you smiling into your webcam, a little bit embarrassed, when the approximately 100 conference participants at the end of your brilliant presentation suddenly started singing “Happy Birthday to you” in English and Spanish.

Though you are a renowned workaholic, I hope that this year you won't be delivering any keynote speeches at your birthday - but rather celebrating with your friends and colleagues from all over the world. And though I won't be able to join the party, I wish you all the best and hope to meet you again soon somewhere in this part of the planet.

Feliz Cumpleaños Jörg! And best regards from Quito, Ecuador!

Wolfgang Demenus





Dear Jörg,

The first remembrance I have of you goes back to the INEF conference room where I participated in a study course you gave. Although I have forgotten the topic of the study course (I think it was about the “Meso project”) what I remember very well is that you impressed me in two ways: first, the open relations you had with the students. We were sitting around a large table instead of (university like) in front of the professor and you asked us about our expectations of this course. Second, cards and markers were lying on the table and we were asked to write our thoughts on these cards. This first experience with you is still in my mind. In this course I think all the students had the impression that they were taken seriously and that somebody was sitting with them at the table who was really interested to exchange his opinions and knowledge in a very dynamic way. Later, when we worked together in the INEF my first impressions of you were reconfirmed. Although then my colleague, for me you were still the professor from the study course. But you became also a coach to a certain extent, always sharing opinions when we wrote the Mittelstand-paper together or later when I decided to work for the GTZ. Finally we worked together again when you asked me to join mesopartner. And I must positively admit: sometimes I still feel like I did in the study course, seeing you with your cards asking for new ideas and integrating me into the process and discussion. The difference is that I had the chance

to learn and work with you during the last 8 years. I would like to take the chance to express my thanks for this time, for the support with which you provided me and the open and encouraging exchange of experiences. I am looking forward to continuing working with you in the future! There is much more to learn from you. Happy Birthday, Jörg!

Frank Waeltring

partner of mesopartner, Germany



Dear Jörg,

Birthdays often produce strange situations: you wake up, everything is fine, and at some point in the course of the day people around you display curious behaviours: they hug you, utter hardly understandable wishes and congratulations and what have you, and in turn expect alcohol in whatever form. What the hell has happened? Systemic disturbance of the mind? Or worse: a change of reality that you have missed?

Just consider one of your own ideas you once produced about the future of Paraguay (or Argentina or ...) as a Latino Park and extend it little bit further and follow a guy called Nick Bostrom (an alias name?). Computers (I cannot imagine you without a computer) simulate human minds and the worlds they live in. A laptop

would become the home for endless numbers of simulated minds and you couldn't tell a simulated one from a "real" (what is that?) one. They will share the same experiences and both will explicitly reject the idea of being simulated. Assume for a while this level of technology is today's state of the art - who is to tell this reality has not yet become reality? That to reject this idea might be nothing but a tribute to the programming of the computer? - Well, in that case relax, your waking experience is nothing but a nightmare and nothing has really happened. You are not 50, these lines are fake, just like all the others - but are you really sure?????

So, just in case, consider your waking up is real and enjoy the day!

Wolfgang Portratz

Institut fuer Arbeit und Technik, Gelsenkirchen



Dear Jörg,

It is my pleasure to congratulate you on your 50th Birthday. Welcome to the Club! Isn't the year 1958 a very special vintage??

Looking back at the time when we started working together I remember two concepts: the Systemic Competitiveness and Local Economic Development which were

and still are very useful for my work within GTZ. I learnt a lot from you, especially related to the peer learning process between German and Latin American, Asian and African experiences in LED. I appreciate your passion and engagement, your analytical capacity and your "sharp tongue"...

All the best for the next 50 years!!

Marita Brömmelmeier

GTZ Germany, Section Eastafrica



Jörg

The most vivid memory I have of working with Jörg is at a training for LED practitioners in South Africa, 2003. I've rarely met anyone with the ability to provide participants with such a wealth of knowledge in such an effective, clear and – at the same time – entertaining way. He has the sort of depth of experience which makes everyone in the room feel sure they'll be learning stuff that's relevant for them. There's no rubbish, no marketing slang. It's all well thought out, tried and practiced. And Jörg is also a pleasure to work with because he's interested in people. He's really intrigued by what he doesn't know (yet). I suppose that's why he now knows so much. 50 years of curiosity, hard work

and research have made their mark on the way people develop in the developing world. Congratulations and happy birthday!

Natasha Walker M.A. (Oxon)
*Head of Facilitation and Dialogue,
Communication, IFOK GmbH*



Photo:

*Shawn Cunningham and
Natasha Walker co-
hosting a training for
high-level LED consultants
in South Africa, 2006*

JMS – An Ode

*Who for me is JMS?
He's tall and smart,
Up with the best
And has the art
Of getting teams
To think a new,
'Cause what he means
Is topped by few.*

*Change you will,
And reach famed heights,
He'll strive to instil
You with insights
To rock the globe
From east to west.
He'll prod and probe,
You'll pass the test
And get it right
With RDA or LED.
As PACA-ite
You'll learn to be
Simply better at helping SME.*

by Natasha Walker

Publications by Jörg Meyer-Stamer 1993-2008

Publications 2008

(edited with Jerry Haar:) Small Firms, Global Markets. Competitive Challenges in the New Economy. Palgrave, 2008.

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