Constantin BORDEI
Doctoral School of Economics and Business Administration
„Al.I.Cuza" University, Iasi

REGIONAL COMPETITIVENESS AND REGIONAL CONVERGENCE – TOGETHER TOWARDS THE SUCCESS OF DEVELOPMENT

Theoretical article

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Abstract

This paper comes to describe the relation between two representative concepts within the wide literature in the field of regional development and cooperation. As many of concepts that are used in our times, the regional competitiveness and the regional convergence are two notions that have a transdisciplinary feature, a phenomenon that emphasizes the fact that the approaches in the literature are different and are the results of the researches in different field, though approaching the same two aspects. Regional competitiveness regards the ability of one region to compete and develop itself through the products and services it produces and provides, which are the ultimate result of the cooperation between the companies, institutions, socio-political policies within that region, while maintaining or developing the living standards of its population. On the other hand, regional convergence is the result of a series of policies and decisions made by a superior institution, that are designed to reduce the differences between the development level between the economic regions within a certain area.

Introduction

Regional competitiveness has been one of the frequent actual issues approached in the papers, articles or volumes of many authors in the field. While trying to understand the general meaning of the "competitiveness" concept, we can find a significant number of definitions regarding different situations and subjects. In spite of all these, we question ourselves how the competitiveness regarding the regions can be defined. The competitiveness concept, although relatively accurate when applied to companies, is harder to define and evaluate when it regards regions or countries.

Before defining the concept of regional competitiveness, we need to enumerate what might influence the regions to make efforts in order to be competitive. If a company is competitive, it means that is has a large volume of sales, and, due to an efficient behavior, a large profit. A competitive region will not reach such a volume of sales, but it will probably become more attractive for its inhabitants. If the competitive region provides the customers with high living standards, they will not take into consideration the necessity of changing their addresses. Moreover, the general living standard in the region might attract new inhabitants. On the contrary, in the case when the regions stops being competitive any more, its inhabitants will start moving in a region they will consider to be more attractive.

The competitiveness concept is frequently considered as representing the ability of a country/region of generating long term welfare for its inhabitants. Aiginger makes the difference between welfare and competitiveness, as an economic part of the welfare. Though, most of the regional competitiveness' definitions are not directly related to the issue of the individuals. Kitson et al. consider the regional and municipal competitiveness in a very vague manner in the beginning, seing it as "the success with which the regions and cities compete against each other in a certain manner" (Kitson and others, 2004) without mentioning on which field they compete. Practically, they only provide the definition of the regional competitiveness that Storper developed: "The capacity of a (urban) economy to attract and maintain the companies with stable or growing market share while maintaining or increasing the living standards of the population" (Storper, 1997) . At the end of their work, Kitson et al. provide the following, more accurate definition: "In the end, competitive regions and cities are the places in which companies and individuals desire to locate and make investments" (Kitson and others, 2004).

The regional competitiveness concept also seen as an aggregate competitiveness of companies can be based on Porter's diamond. Some of the factors are measurable in an objective manner, while others not. In spite of these facts, the main problem of this concept is the fact that it assumes that companies and regions have the same priorities. It is clearly false; for example, in the case of the work force occupation, if there is an orientation of the companies towards efficiency, the regional unemployment rate can grow.

The controversial nature of economies' and regions' competitiveness is emphasized by the discussions in the middle of the 1990's, initiated by Paul Krugman's article, "Competitiveness: a dangerous obsession" (Krugman, 1994), in which he criticizes the practical economic policy which results from the idea that nations (national economies) compete against each other and win to the prejudice of others, and he claims that "…competitiveness would prove to be a funny way of saying productivity and it would not have nothing common with international competition" (Krugman). Otherwise, the importance of competitiveness as productivity can be found in Paul Krugman's previous work: "Productivity is not everything, but, on long term, it is almost everything. The capacity of one country of improving the living standards in time depends almost entirely on its ability of increasing the production per worker." (Krugman, 1994).

Alongside with this academic discussion, productivity has been included in many cases in the definition of competitiveness. An interesting approach of regional competitiveness, as the "ability of increasing the occupation rate, of diversifying the production, of increasing the productivity and the added value to an adequate rate so that the business relations to be able to develop in a stable manner" (Benes, 2006, p. 22) was provided. The author emphasizes the fact that it is necessary to diversify the production, which he sees as a reasonable phenomenon. In the case when the region has only focused on a certain industry or field, the significant changes at technological level or at the level of preferences might influence the region in a higher manner and might lead to the loss of competitiveness for a longer period of time. Moreover, it is necessary to realize that the competitiveness of regions, cities or countries is fundamentally different from the competitiveness of the companies. If a company does not keep up with the competitors, it will get bankrupt. Against all of these, we cannot talk about a similar way of liquefying and dissolving the regions/countries due to the lack of competitiveness.

1. Regional competitiveness and convergence – together towards development

"Regional competitiveness and the urban one is related to the success in which regions and cities compete one against each other for the shares on the national and especially on the international markets" (Gardiner and others, 2004, p. 3). Porter and Ketels see the competitiveness as productivity. They claim that, in order to understand the competitiveness, it is important to know the prosperity sources of the nation/region and that "the living standard of a nation is determined by the productivity of its economy, which is evaluated through the value of the goods and services produced by a single unit of the human resources, by the capital and the natural resources of the nation" (Porter&Ketels, 2003, p. 7). Then, the productivity depends on the efficiency with which goods and services can be produced, as well as the value they produce (evaluated through prices). "The real competitiveness, when it is measured through productivity" (Porter&Ketels, 2003, p. 7) which allows one nation/region to ensure a higher living standard.

The geographical theories nowadays also consider the next hypothesis: regional clusters are the result of the gathering of labor force within certain areas with strong ties between. From the perspective of this theoretical approach, the high prices for transportatinon act as a protector of small companies within medium and small markets. The result of reduced transportation costs and a high level of competitiveness between companies, the result cannot be noticed.

This kind of theoretical approach supports the market integration phenomenon, the local markets, the transportation network and the scale economies, also supporting the economic clustering in the central areas, the advantages of the work force market and the location of specialized technology and knowledge.

The institutional theory places the institutions at the basis of the economic development, reflected in the technological limits of the economic ranking, due to the fact that these cand direct the capacity of the economy to use and manipulate the resources in a positive manner. When the institutional implication is not uniform, the institutional factors support the clustering activities, thus providing advantages for the most specialized activities in the developed regions.

A defining feature of the is the fact that they ease the innovation, the R&D process, the business environment, altogether describing the innovative networks, leading to a low, unavoidable converging procedure from the perspective of the GDP/capita. Political decisions are known for their significance at a regional levels, which are to ensure the equilibrium between the labor fore and the concentration tendencies.

At regional level is recognized the importance of political measures and actions necessary to ensure balance between the work forces and tendencies of agglomeration (concentration). Myrdal explains the increase in international differences in development from similar initial conditions.

The circulation of the capital, the migration process and the commerce of goods and services reach significant levels regarding the international and regional differences. The elimination of trading barriers, the less developed regions and the low level of human capital and leading innovational technologies lead to the specialization of mainly primary goods, which are known to have a inelastic demand reported to the level of the income and the one of the prices. As a result, the developed regions attract higher and higher volmes of capital and working individual from the less developed states.

A new perspective on this problem was introduced by Boschma (2009), which is concerned by the issue of regional development and claims that "the regional development is mainly based on the exploitation of intangible assets, such as the knowledge and the implicit institutions, rather than on the static cost advantages" (Boschma, 2009, p. 2). Moreover, he emphasizes the fact that a large variety of these goods can represent the main reason of the development of regional disparities. Skokan's approach is also interesting due to the fact that it reveals the significance of the innovation ability, especially given the business environment context where there is a strong stimulation of the teaching and cooperation processes between companies, in other words, in the so called business clusters.

Generally, the term convergence is commonly used in comparative economic analysis approaching the process of economic integration as to emphasize the tendencies of the national, trends entities (national, sectorial, regional) to a landmark considered the most performant or of medium level.

The elimination of differences assumes close values of the performance indicators, thus leading to the elimination of differences between the development levels of the companies; three types of application domains of convergence can be seen witin this field.

1. Real convergence – in order to dissolve the differences between the states and areas, through the significant level of development reflected by the GDP/capita.
2. Nominal convergence – is applied in monetary policy and regards the achievement of economical equilibrium and the transition to the EUR
3. Institutional convergence - requires compatibility in terms of structure and functioning of institutions.

For a better understanding of this problem, we might consider useful the process of defining the regional disparity concept and indicate the most frequent causes. Even different factors that stand at the basis of regional disparities can determine the fact whether the region will converge or diverge in time. The disparity concept, as well as the regional competitiveness, has numerous definitions. The disparity can be generally defined as "an difference or inequality of signs, phenomena or processes that have an unique geographical position and which appear in the case of at least two entities within the same spatial structure" (Hucka, Kutschraurer, Tomanek, 2008, p.8).

There are different factors that can be placed at the basis of the different development of regions. Amongst these ones, we can enumerate the geographical location of the region, its natural conditions, the transportation infrastructure, the investments and the funds that have been directed towards the respective region, the institutional factors or a political decision. Hucka et al. (2008) claim that the fundamental factors of disparities are the following ones: "the endowment with production factors, the natural conditions, the geo-physical natural advantages, the economic structure and socio-cultural and institutional factors" (Hucka, Kutscherauer, Tomanek, 2008, p. 15). As for the natural conditions, the different level of development can be caused, for example, by the existence of large deposits of mineral resources and the existence of more adequate condition for the agricultural processes, compared to other regions. As a result, the quality on the environment will also develop itself in the future. Regarding the geographical location, the proximity to other developed regions or to other economic centers is also considered as being significant by the authors.

There are more theories of regional development that can be classified, through an accurate manner, in two categories, namely the theory of convergence and the theory of divergence. The convergence theories or the theories of the regional equilibrium assume that regions converge in time, so that the disparities between the regions disappear. On another side, the divergence theories or the theories of regional misbalances claim that the regional disparities will become deeper and the regions will diverge in a higher manner (Blazek, Uhlir, 2002). It is certain that the development of the regions and, as a result, their convergence/ divergence is, in a certain manner, influenced by the development of the states. The regional convergence process is not conditioned only by the stage of the national development, but also by the features of the state.

National development can be significantly different from a country to another, depending on the geographical location, by the moment when the developing process begins, by the development itself or by its intensity, by the product specialization, by the regional structure and by many other factors. Another aspect that can influence the regions' development is the fact whether they are located in the proximity of large regions. The study regarding this subject has been carried out by Hammond, who studied the divergence between the metropolises from the neighboring regions and who reached an interesting conclusion. An undoubtable fact is that metropolises tend to diverge in time, but the non-metropolitan neighboring regions have the tendency of converging in a higher manner than other non-metropolitan regions that are not located in the proximity of a region.

From the perspective of the effective evaluation of the convergence/divergence of regions, most of the authors carry out calculations using only basic macroeconomic indicators for regions, especially the PIB/capita one.

Many authors approach the convergence subject, thus defining two types of convergences at the level of economies; these are the absolute convergence and the conditioned convergence. The absolute convergence assumes that countries or regions with lower initial values of the capital/work register a higher growth rate of the production per capita and tend to catch up and converge with the countries or regions with a higher capital/work level. We can though suppose that economies are similar from the perspective of their structure; they have the same parameters and, as a consequence, the same equilibrium stage. Closer to reality is the concept of conditioned convergence, when we do not apply the conditions that economies have the same parameters and the same equilibrium stage. This model does not predict the convergence in all cases, as there can be a situation in which the more developed economies grow in a faster manner compared to the less developed economies.

This phenomenon can be attributed to the fact that the neoclassical model does not predict that each economy converges to its own equilibrium state and the fact that the convergence speed is opposite to the distance to it. Thus, in the case when a more developed economy is more distant from its equilibrium stage than a less developed economy, it grows in a faster manner and the differences between those economies will increase. This way, the convergence is conditioned by the determining factors of the equilibrium state. The absolute convergence, which suggests that poor countries tend to have a production per capita increasing rate that is higher than the one of the rich countries corresponds to the concept of β-convergence. This convergence can be defined by the following equation:

$$\log\left(\frac{y_{i,t+1}}{y_{i,t}}\right) = \alpha + \left(e^{-\beta} - 1\right) * \log y_{i,t} + \varepsilon_{i,t}$$

Where y is the selected indicator (usually the real GDP), i is the country or region and t is the period of time. The hypotheses of normal distribution with zero average value and constant variance are imposed to the random variable $\varepsilon_{i,t}$. This one has to be independent from the previous values and from other variables in the model. The left part of the equation can be interpreted as a growth rate of the yi indicator and the above mentioned formula supposes the fact that this increase depends on the α and β parameters. α represents the level of the equilibrium state and β represents the value on which the difference between the equilibrium state and the reality decreased during the whole period. B represents the convergence speed and in the case when the value is positive, it means that the economy converges, and if the value is negative, it means that the gap increases, and contrary wise, the economy diverges.

The conditioned convergence corresponds to the σ-convergence, which happens when the variance of the yi indicator decreases in time. This thing also supposes that "the convergence of the first type (poor countries tend to increase in a faster manner than the reach ones) tends to generate the convergence of the second type (reduced dispersion of the incomes or of the products per capita), but this process is compensated by new random disorders that tend to increase the dispersion". The σ-convergence is a sufficient condition, but not necessary for the σ-convergence.

The perspective of conditional convergence originates in the classic concept of beta convergence, which supports the fact that the convergence depends on the structural features that are specific to each economy, and that these features will make the difference between the GDP level of each country or region.

Other two processes are fundamental to the structure of regional economies, and namely the public capital collection and the human capital. The availability of these elements come to influence the economic state of the region. Alongside, the convergence of the average school level of the individuals that create the labor hand contribute to the lowering of the GDP/capita differences within the economic development regions. Public sector investment and optimized network of production withing those regions are seen as an instrument in the policy of regional development process. As a result, public investments are seen as disturbances of the system, leading to the stimulation of less developed regions and they are to somehow reduce or balance the level of regional convergence. If these investments are not geographically targeted and timed properly, the benefits of these investments could disproportionately accrue to richer regions.

Conclusions

Regional competitiveness has been one of the always actual issues approached in the papers, articles or volumes of many authors in the field. While trying to understand the general meaning of the "competitiveness" concept, we can find a significant number of definitions regarding different situations and subjects. In spite of all these, we question ourselves how can the competitiveness regarding the regions be defined.

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Generally, the term convergence is used in comparative economic analysis regarding economic integration in order to identify trends entities (national, sectorial, regional) to a landmark considered the most competitive or of medium level.

There are different factors that can be placed at the basis of the different development of regions. Amongst these ones, we can enumerate the geographical location of the region, its natural conditions, the transportation infrastructure, the investments and the funds that have been directed towards the respective region, the institutional factors or a political decision.

There are more theories of regional development that can be classified, through an accurate manner, in two categories, namely the theory of convergence and the theory of divergence. The convergence theories or the theories of the regional equilibrium assume that regions converge in time, so that the disparities between the regions disappear.

As the decisions made in order to ensure the regional competitiveness and the regional convergence are fundamental to the development of the regions that are to support the consequences, we must pay significant attention to the ideas in the literature and to the authors that have studied these two concepts. The results are to lead to the development of the regions and to the reaching of a balanced level of development of the regions, conditioned by the fact that the decisions had been taken and applied only after an accurate analysis of all the factors that are significant for the development of the respective regions.

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