

COMPETITIVENESS, CLUSTERS AND POLICY AT THE REGIONAL LEVEL: RHETORIC VS. PRACTICE IN DESIGNING POLICY FOR DEPRESSED REGIONS

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Abstract

This paper reviews the most important theoretical foundations of the concept of spatial competitiveness. To that effect it deals with three levels of competitiveness: the country, the region and the tourism destination. It draws attention to the main aspects that such concepts of competitiveness must include, and it links the regional competitiveness with the related concept of cluster. Therefore, section 2 reviews the key aspects of competitiveness at the first level, highlighting the role of the main forces that act at the national level. Section 3 extends the concept to the regional level, highlighting the critical aspects that must be considered when policy tries to increase the competitiveness of a particular region. Section 4 analyses the possibilities of extending the competitiveness concept to tourism destinations. Next, the paper analyses the literature on policy advice and discusses the inconsistency between the theory and the policy designed to promote regional competitiveness. Finally, the paper presents some concluding remarks on regional policy applied to depressed regions.

Keywords: clusters, competitiveness, regional policy, tourism.

JEL Codes: Q25, Q28, R19, R58.

1. Introduction

Since the publication of *The Competitive Advantage of Nations* (Porter, 1990) that competitiveness has increasingly become a paragon in public policy discourse¹. Initially focused on the national level, the idea of competitiveness was quickly extended to other spatial levels of the nation. In fact, a growing body of literature has looked at the region as a distinctive unit in the analysis of economic development, and a consensus exists on seeing the region as an increasingly vital component in the global-local nexus of development (Storper 1997). In the same vein, Porter's argumentation that 'competitive advantage is created and sustained through a highly localised process' (Porter, 1990, p. 19) has determined a shift away from the competitive advantage of nations to the competitive advantage of regions.

So, initially used at the national level, the idea was quickly extended to other spatial dimensions. As a result the tendency to explain regional growth and development in terms of competitiveness has been increasingly vulgarised. However, even though competitiveness is omnipresent in policy-maker' speeches, a scientific consensus about the exact meaning of this concept is absent. Some consider it an extension of the sum of the performances of all firms in a region; others extend the competitive behaviour of firms to regions, while a more recent view takes a step further and stresses the importance of knowledge creation.

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¹ Of course, there are those who consider competitiveness as a 'dangerous obsession' (Krugman, 1994).

Somewhere in between is the recognition of the importance of reaching a competitive performance through territorial quality and public service efficiency. Moreover, competitiveness attained by creating synergies among local actors, or by integrating external firms in the local relational network, exploiting spillovers and increasing returns, is usually added to the picture.

At the same time, as the competitiveness discourse became fashionable, the intention of using tourism with the alleged purpose of propelling the competitiveness of depressed regions has increased in a similar way. However, this strategy is not straightforward. Two points must be called to mind. First, the need to understand what regional competitiveness is, given that it is usually based on a narrow conception of how regions compete, prosper and grow (Gillian, 2005). Second, we need to be aware of the theoretical foundations of regional strategies. Regarding the latter point, there are two alternatives: a strategy that tries to replicate the world's best practices, and a strategy based on the economics of regional clusters. The effectiveness of policy to increase regional competitiveness and to overcome the obstacles to regional development depends on the chosen strategy. In the first case, an enlightened policy-maker designs policy based on an alleged superior knowledge of the best path for the regional economy in the future. This paper will argue in favor of the second alternative.

This second alternative is not only more consistent with the new theories that emphasize aspects highlighted by regional science and economic geography — such as proximity (Boschma, 2005), industrial districts (Putnam, 1993), localized learning (Maskell et al., 1998) and that 'one size does not fit all' (Tödtling and Trippl, 2005) — but they are also consistent with theories that explain economic growth as an endogenous process (Arrow, 1962; Romer, 1986; Pessoa, 2005). In fact, endogenous growth models show not only how important externalities (as for instance localization externalities) are for explaining growth and how policy can affect the growth rate of the economy. Furthermore, considering economic development as an endogenous process allows to explain the different performances of regions, as they have different endogenous resources and so they can create or sustain competitive advantage through a 'localised process', as pointed by Porter (1990).

Hence, given the above-mentioned set of problems, this paper reviews the most important theoretical foundations of the spatial competitiveness conception, dealing with three levels of competitiveness: the country, the region and the tourism destination. Consequently, it draws attention to the main aspects that such levels of competitiveness must include and it links the regional competitiveness with the related concept of cluster. Therefore, section 2 reviews the main aspects of competitiveness at the first level, highlighting the role of the main forces acting at the national level. Section 3 extends the concept to the regional level, highlighting the critical aspects that must be considered when policy tries to increase the competitiveness of a particular region. Section 4 extends the competitiveness concept to tourism destinations. Next, the paper analyses the literature on policy advice and discusses the inconsistency between the theory and the policy designed to promote regional competitiveness. Finally, the paper presents some concluding remarks on regional policy applied to depressed regions.

2. Competitiveness: the Competitive Advantage of Nations

With the publication of *The Competitive Advantage of Nations* (Porter, 1990) in the early 1990s, competitiveness and competitive advantage have become paragons in public policy discourse. This seminal book together with the increasing popularity of the NPM (New Public Management) (Hood, 1991; Osborne and Gaebler, 1992)², compound the basic ingredients of this popularity in policy decision-maker circles. However, popularity and science do not always go hand in hand.

Porter's *Competitive Advantage of Nations* can help understand the competitive position of a nation in global competition, and it highlights some differences from the traditional view, which was prevalent after the Second World War. According to this traditional perspective, competitiveness depends on endowments of generic factors of production (capital, labour and natural resources, such as minerals, energy and land) and, therefore, competition is driven by the cost of inputs with a clear

² For instance, Hood (1991) explicitly refers to competition as a doctrine for public management. But, the idea of competition is the most widely accepted concept among authors identified with the NPM.

effect on policy grounds: the recommendations are to accumulate factors and compete where the nation had a comparative advantage (Porter, 1990).

In his book, Porter argues that, as a rule, the competitive advantage of nations doesn't result from the accumulation of generic factors, but on the contrary, it is the outcome of four interconnected influences in and between companies which can be influenced in a pro-active way by government. The interrelated forces for Competitive Advantage in Porter's Diamond, as is depicted in figure 1, depend on: i) the context for firm strategy and rivalry; ii) demand conditions; iii) factor conditions; and iv) related and supporting industries.

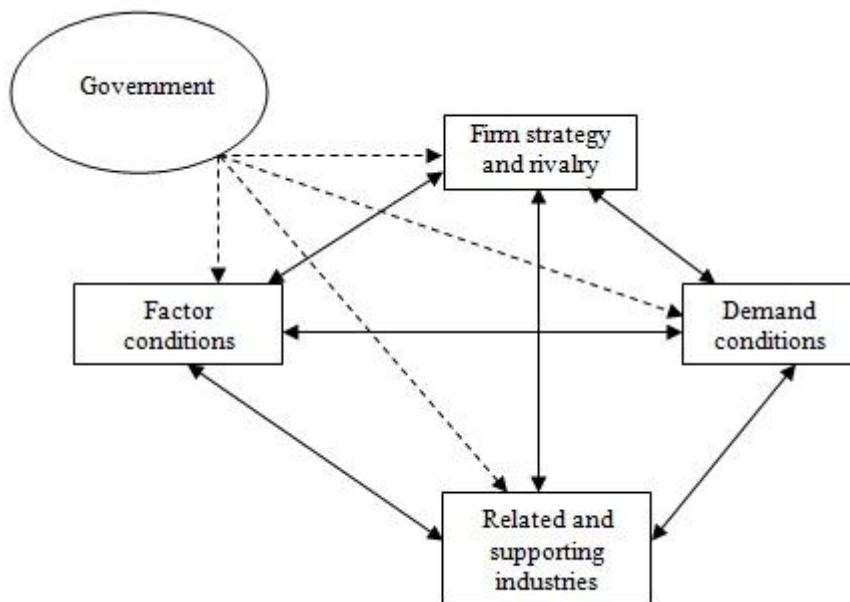


Figure 1. Porter's Diamond Model for the Competitive Advantage of Nations

The government can influence all these forces positively. For instance, regarding the context for firm strategy and rivalry, the government can provide not only the incentives for the business climate³ but also by using policies toward competition. In relation to demand conditions, the government can use several policy instruments to upgrade demand ranging from setting up quality, safety, and environmental standards, to the policy ruling buyer information and after sale services, in addition to policies that promote early adoption of new products and services.

Porter's Diamond Model has clear implications on development policy, pointing to a role for Government, and reducing the traditional bias towards supply side. The role of government, acting as a catalyst and challenger, it is to encourage, or even push, companies to raise their aspirations and move to higher levels of competitive performance. So, it must encourage companies to raise their performance, to focus on specialized factor creation and to stimulate rivalry by limiting direct cooperation and enforcing anti-trust regulations (Porter, 1990).

A low level of local demand tends to reduce local innovativeness and entrepreneurship, encourages the exodus of skilled and educated workers in search of better employment prospects elsewhere, hinders the development of high-quality cultural and infrastructural capital, and generally

³ The business climate is broadly defined and includes macroeconomic and political stability, the tax system, labor market policies affecting the incentives for workforce development, and intellectual property rules and their enforcement. All these contribute to the willingness of companies to invest in upgrading capital equipment, skills, and technology.

weakens the competitive dynamics of the area. Tackling the supply side is certainly necessary to foster growth and development, but may not be sufficient as such. Action may also be needed to help stimulate local demand and, particularly, stimulate early demand for advanced products.

For the aim of this paper two specific forces deserve further attention: factor conditions and the related and supporting industries. Factor conditions refer to the basic inputs that allow competition to take place. They range from material things, such as physical infrastructure and research organizations, to more intangible ones like legal and institutional infrastructure, and information. To increase productivity, factor inputs must improve in efficiency, quality, and ultimately, specialization to particular cluster areas.

However, as alleged above, Porter's analysis disputes the traditional view on competitiveness, arguing that for understanding what competitiveness is it is fundamental to divide the production factors in two categories: specialized factors and general use factors. The former are created, not inherited, while the general use factors are non-key, as is the case of natural resources, unskilled labor and raw materials. Any company can obtain these, and so, they do not generate any sustained competitive advantage. On the contrary, specialized factors involve important sustained investment and so are more difficult to be replicated by other firms.

On the other hand, the endowment of all inherited (or hardly influenced by policy) factors gives the country a rather passive view towards national economic opportunities. So, an important contribution of Porter's argumentation is that sustained industrial growth has hardly been built on basic inherited factors. On the contrary, he is in agreement that abundance of such factors may actually weaken the competitive advantages of a particular country. In this respect, there is in Porter's perspective some similarity with the natural resources course view (e.g., Sachs and Warner, 2001).

The critical importance of the specialized factors, particularly those connected with innovation, is apparent not only because they are necessary for high levels of productivity, but also because they tend to be less tradable. Therefore, an important lesson to take is that competitiveness policy must concentrate on specialized factors. But, which are the specialized factors in the sense given by Porter? This is a key question to design a policy capable of enhancing competitiveness. But, for now, let's return to figure 1.

Related and supporting industries refer to the local pressure, the lack of suppliers of materials, components, machinery and services, as well as the existence, extent and international competitive strength of other industries in the nation that support or assist the industry in question. Spatial proximity of upstream and downstream industries facilitates the exchange of information and promotes a continuous exchange of ideas and innovations. Productivity and productivity growth are higher where firms or industries are not isolated. That is, where there is a cluster⁴.

According to Porter (1998, p. 78) "clusters are geographic concentrations of interconnected companies and institutions in a particular field". "Clusters take varying forms depending on their depth and sophistication, but most include a group of companies, suppliers of specialized inputs, components, machinery, services, and firms in related industries." So, clusters typically include firms in downstream industries, producers of complementary products, specialized infrastructure providers and other institutions that provide intangible inputs. Education, information, research, specialized training, and technical support, provided by universities and other organizations such as think tanks, vocational training providers, and standards-setting agencies are usually found inside the cluster location. Clusters can also contain trade associations and other professional bodies for its members.

So, following Porter (1998a) the advantages of clusters vis-à-vis outsourcing or vertical integration are an increase of productivity, which results not only from access to information and other specialized inputs, but also from complementarities among cluster participants. Often clusters improve the rate and success of innovation and shrink barriers to new business formation. Porter argues that this is a different view from traditional agglomeration economies, which are centred on cost minimization, while cluster advantages rest on information, transaction costs, complementarities, and externalities that result from other investments.

⁴ According to OECD (1999, p. 381) "Clusters are characterised as networks of production of strongly interdependent firms (including specialised suppliers), knowledge producing agents (universities, research institutes, engineering companies), bridging institutions (brokers, consultants) and customers, linked to each other in a value-adding production chain".

In sum, clusters stimulate the formation of competitive advantages. But, as it is well known, clusters are not equally distributed in the national territory. There are regions with several and vibrant clusters while in other locations clusters are absent. So, if the competitive advantage is associated to the existence of clusters and these are territorially localized, two conclusions can be drawn: first it makes sense to consider regional, instead of national, competitiveness; second, policy should promote cluster formation and upgrading. However, in policy terms, what is the right way? Should policy reinforce and develop existing and emerging clusters or, on the contrary, create entirely new clusters?

Although the shift from comparative to competitive advantages has been vulgarized in policy makers' speeches this seldom has consequences in practice. Many governments and other public authorities use the term competitive advantage instead of comparative advantage, but go on to draw the policy as if some generic factors can be a source of competitive advantages per se. In fact, it is crucial to consider that the sources of competitive advantage are unique-location specific factors that stimulate learning and innovation activity. So, as Porter highlights, the competitive advantages are localized. As Porter (1998, p. 77) points out, local competition on a global market has created a paradox: "Competitive advantages in a global economy lie in local things — knowledge and relationships that distant rivals cannot match". Malecki (2004) also argues that in a globalised economy, the key resources for regional and urban competitiveness depend on localised processes of knowledge creation, in which people and firms learn about new technology, learn to trust each other, and share and exchange information. This refocuses the advantages as regionally specific and puts also the focus on clusters.

3. Regional competitiveness

Regional competitiveness is an interesting subject from the academic perspective, as is visible by the increasing number of academic studies (see, for instance, Steinle, 1992; Amin and Thrift, 1994; Steiner, 1998; Cheshire and Gordon, 1995, 1996, 1998; Storper, 1995, 1997; Camagni, 2002a, 2002b; Porter, 1998a, 2000, 2001, 2003). However, despite the growing literature, there is still no generally agreed theoretical or empirically-based consensus about a useful framework to deal with regional competitiveness and, perhaps because this lack, the public policy discourse is 'somewhat chaotic and ill-defined' (Gillian, 2005). So, without a clarification of what regional competitiveness is, it seems that policy action is partly guided by fashion and partly motivated by the belief that the performance of a region is governed by competitiveness understood as something like a 'natural law' (Kitson *et al.*, 2004) of the modern economy.

But, what are the drivers of regional competitiveness? What is the exact meaning of regional competitiveness?

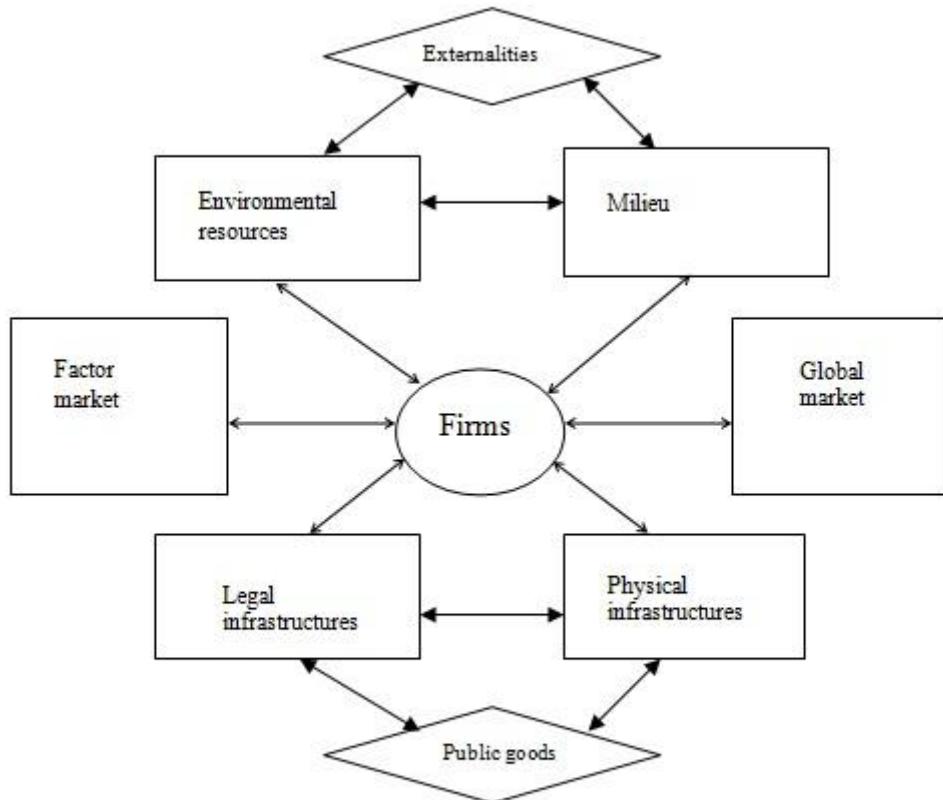
In a previous article (Pessoa, 2008) we have addressed the first question considering a framework for analysing regional competitiveness. This is reproduced in Figure 2, which highlights a model that shows the basic elements that constitute the idea of regional competitiveness. In this model we have firms, which play a central role, and six focus areas (environmental resources, the local milieu, factor market and global market and legal and physical infrastructures), which drive the behaviour of firms. In the framework, two main reasons for market failures are also present: the externalities that arise from the environmental resources and from the milieu and the existence of public and semi-public goods, such as legal and physical infrastructures. All the drivers are interrelated and influence the firms' behaviour. Apart from the solution for these market failures, public intervention at regional level has limited capacity to affect regional competitiveness⁵ positively. So, in figure 2 the motivation for public intervention is associated to market and coordination failures that are linked to the existence of externalities and public goods.

Clusters are important sources of externalities. As stated by Delgado, Porter and Stern (2012) industries participating in a strong cluster register higher employment growth as well as higher growth of wages, number of establishments, and patenting. Since clusters are not equally distributed in the national territory, externalities associated to clusters can be significant in the convergence/divergence dynamics. Although at a more aggregate level neoclassical theorists tend to foresee convergence while

⁵ Of course other public policies can influence the competitiveness of a region. But unless they affect positively national competitiveness, the increase in competitiveness of a particular region is offset by a decrease in another or other regions.

the new economic geography has a propensity for predict divergence, at the regional level we can analyse the cluster effects more accurately and see that for depressed regions the possibility of establishing strong clusters can mean convergence with economic and technological frontier regions. Moreover, there is some cumulativeness associated to clusters and externalities, as it is shown by the evidence that new regional industries emerge where there is a strong cluster environment (Delgado, Porter and Stern, 2012).

The framework depicted in figure 2 can be used to assess the competitiveness of a specific region. Using this framework in a previous paper (Pessoa, 2008) we have concluded that the Portuguese Douro region is not competitive at the regional level. However, figure 2 is compatible with different meanings of regional competitiveness, and so it's time to deal with the second question above: What is the exact meaning of regional competitiveness?



Source: Pessoa (2008)

Figure 2. Regional competitiveness: the central role of firms

Source: Pessoa (2008)

In fact, regional competitiveness is used in a plurality of meanings. At its simplest form, it might be defined as the success with which regions compete with one another in some way: over shares of domestic and/or export markets or over attracting capital or workers (Kitson *et al.*, 2004). This assertion has been criticised in varied instances. On the one hand, because regions are not firms they cannot exit (Krugman, 1994, 1996; Boschma, 2004). On the other hand, if regions compete for a relatively small number of large investment projects, they are placed in a Prisoners' Dilemma game: as

Thomas (2003) has shown, there is no incentive for them to cooperate or not to continue to compete by offering subsidies and other incentives to investors. So competition between regions cannot be taken as the main characteristic of the regional competitiveness concept (Cheshire and Gordon, 1998; Turok, 2004).

There are other authors that see regional competitiveness as a combination of two or more characteristics. It is the case of Storper, who presents one of the most well-known concepts of 'place competitiveness'. He defines it as "the ability of an (urban) economy to attract and maintain firms with stable or rising market shares in an activity, while maintaining or increasing standards of living for those who participate in it" (Storper, 1997, p. 20). Not only "stable or rising market shares" but also "maintaining or increasing standards of living" are possible with high productivity. So, why not define regional competitiveness by the level of regional productivity?

In fact, regional productivity measured both from firm-based micro-data and from aggregate regional output figures can be viewed as a useful indicator of the so-called 'revealed regional competitiveness' (Gardiner *et al.*, 2004). However, we cannot mechanically extend the notion of national competitiveness to the regional level. When Porter and Ketels (2003) have emphasized that true competitiveness is measured by productivity, they were referring to the competitiveness of a nation. Although the evolution of productivity can offer helpful information on a region's standard of living, both in cross-sectional and temporal terms, there are empirical problems in accurately measuring it, as well as there are theoretical concerns about the interpretation to give to the real *regional* productivity (on this conceptual issues see Kitson *et al.*, 2004)⁶.

Apart from that, looking only to productivity can be misleading: a high productivity of labour can result from reductions in employment by, for instance, shutting down plants. So, it is more useful to look at competitiveness as a function of complex interrelationships between variables (Turok, 2004). In this perspective, competitiveness can be thought of as an attribute of regions that base its dynamics in three variables: i) sales of local products in contested external markets; ii) use of local assets (people and other endogenous resources) in an efficient way; iii) adding value to its firms and workers, which means maintain or increase employment.

In figure 3, which puts together the above-mentioned variables, productivity in itself is only one aspect of revealed regional competitiveness. As underlined by Kitson *et al.* (2004), the ability to sustain a high rate of employment amongst the working-age population is as important as having a high output per worker. But, of course, efficiency matters for regional competitiveness. The link between static efficiency and the prosperity of regions stems from the fact that not only the reduction of slackness but also the reallocation of resources and the improvement of organization make the level of output, produced from given inputs, theoretically higher⁷. This increased output allows higher sales at the same time as it consents high rates of employment. However, what is here in analysis is the identification of regional competitiveness with the prosperity of regions. So, to a certain extent, regional competitiveness and regional prosperity are interchangeable concepts: prosperity is competitiveness based on endogenous resources.

⁶ Apart from the general problems associated with measuring and interpreting national or sectoral productivity, there are specific problems associated to the sub national status of the region, such as the need to opt between indicators based on residence and workplace-based measures.

⁷ By *slack-reducing* efficiency gains we mean those gains that involve the movement of the economy from within its production possibility frontier onto the frontier, thus resulting in full utilization of all available labor, capital and other factors of production. By *allocative* efficiency gains we mean those gains that involve along the economy's production possibility frontier from less efficient lines of employment of labor, capital and other inputs, to more efficient ones, thereby increasing regional economic output at full employment. By *organizational* efficiency gains, finally, we mean those gains that stem from outward shifts of the production frontier as a result of the reorganization of production, for instance, through the adoption of new production methods or better management.

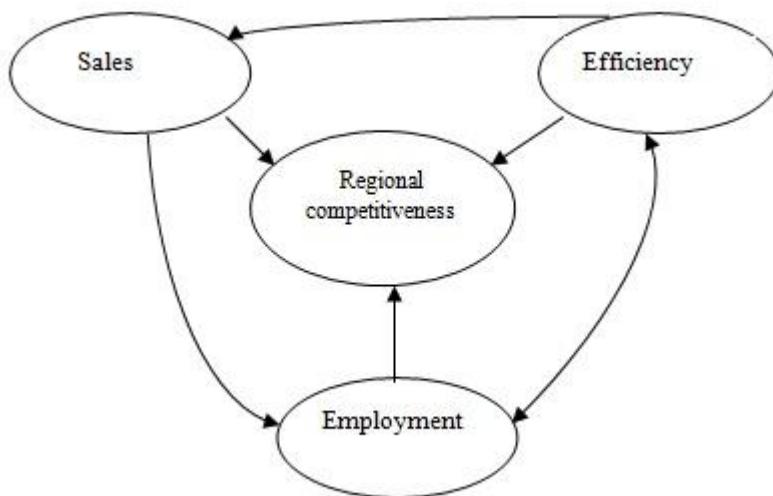


Figure 3. Regional competitiveness

Regional prosperity depends on the resources given, including endogenous resources such as the raw materials and the local labour force, together with physical capital. But the quality and skills of the labour force, the extent, depth and orientation of social networks and institutional forms, the range and quality of cultural facilities and assets, the presence of an innovative and creative class (knowledge, learning and creativity), and the scale and quality of public infrastructures are all just as important as, and serve to support and strengthen an efficient productive basis to the regional economy (Kitson *et al.*, 2004). This productive basis is also enhanced by the interactions between environmental resources and ‘milieu’, as depicted in figure 2. Such interactions condition the ability of regions to attract skilled, creative and innovative people, forcing to provide high-quality cultural facilities and to encourage the development of social networks and institutional arrangements. In sum, because all these interactions originate key regional ‘externalities’, or ‘assets’, they are not only forces that benefit local firms and businesses but they also feed a common commitment to regional prosperity, and hence they are major aspects of regional competitive advantage.

Although figures 2 and 3 highlight the more important drivers and assets of regional prosperity, they are, however, too static. Competitive advantages rest on ‘making more productive use of inputs, which requires continual innovation’ (Porter, 1998, p. 78). So the fundamental question is: how can the innovation capacity be improved in a regional context?

Here, we agree with Porter (1998): clusters make the difference, since they drive the ‘direction and pace of innovation, which underpins future productivity growth’ (Porter 1998, p. 80). Additionally, because a cluster allows each member to benefit as if it had a greater scale, or as if it had joined with others without sacrificing its flexibility, clusters affect regional prosperity in two other ways: by increasing the productivity of firms based on the area, and by stimulating the formation of new businesses. Furthermore, the use of the cluster theory gives to policy-makers the opportunity to focus on the advantages of the economies of agglomeration and on the role of social capital interactions in the development of a region (Novelli *et al.*, 2006).

In sum, two lessons must be drawn from the regional competitiveness perspective: i) although productivity can be important for competitiveness as underlined by Porter (1990, 1998) and Krugman (1996), the most decisive criterion for classifying a region as competitive is its prosperity; ii) clusters are important forms of spatial organization and critical drivers of the firms’ productivity and, therefore, of regional prosperity.

4. Competitiveness in tourism destinations.

The positive impacts of tourism on regional development, are widely acknowledged (Pessoa, 2008) particularly in areas where there are few alternative economic activities (Hall and Boyd, 2005). On the one hand, there are direct economic benefits (tourist spending, the increase in demand for

labour, the construction of collective and cultural infrastructures, etc.) and social and cultural effects (interacting with people from different environments and with diverse traditions increases the cultural level and enhances the capacity for understanding different cultures). On the other hand, tourism can also have positive externalities over all the community, such as a greater awareness of the environment and local culture, conservation of monuments and wildlife preservation (Tisdell, 1983, 1987)⁸.

Recognizing the above positive effects, many national Governments, as the Portuguese, have chosen Tourism as a strategic sector in the respective economy. In Portugal, this choice has been materialised in the Tourism Development Plan, which determines the implementation of a varied range of measures and projects to eliminate certain difficulties that previously threatened the development of traditional tourist destinations, as well as the use of tourism to transform some 'lagging' Portuguese regions into tourist destinations.

The Douro Valley, one of the 'lagging' Portuguese regions, is promoting tourism by implementing several projects through different channels, including infrastructures and marketing. The often proclaimed objective is to transform Douro into the fourth Portuguese tourism destination. The highly competitive market of global tourism, and the belief that the expected contribution of tourism is significant, drives public authorities to invest large amounts of resources into advertising activities to promote this tourism destination. This is often justified with the need to increase regional competitiveness. However, the success of such an application of resources in the improvement of market shares and in increasing regional competitiveness in depressed regions is doubtful at best. Two points must deserve attention: tourism competitiveness and the need to consider externalities, as well as increasing returns, in the promotion of regional economic activities.

Despite being considered a 'nebulous phenomenon' (Hunter and Green, 1995), tourism relies directly and indirectly on a wide range of environmental resources, such as landscape, climate, environment and culture. The specific combination of these resources is a distinctive mark among regions, and so it can constitute a potential advantage when competing with other regions. However, we must note that what gives the advantage is not the resource *per se* but the way local agents exploit such combination. In fact, if the environmental resource is not exploited, i.e. if nobody has taken advantage of it in the near past, this means that a real advantage doesn't exist.

On the other hand, to recognize the contribution of tourism for the growth of some countries and regions doesn't mean that tourism is a panacea for all depressed regions. The strategy used in order to enhance regional competitiveness must be locally justified. However, is competitiveness in tourism equivalent to any other activity? Before answering this question, let's look at figure 4, where competitive forces in tourism are depicted.

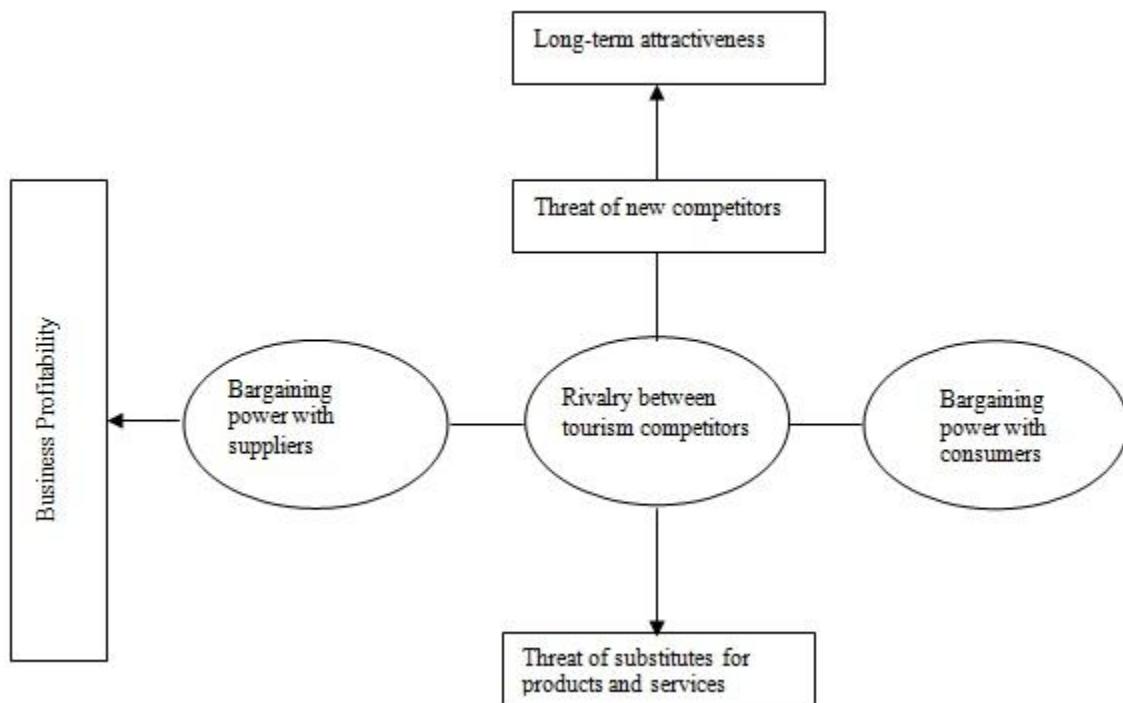
Figure 4 is built up of two axes. The horizontal axis illustrates the main forces that determine the business profitability in the short to medium run. One can observe that these forces (bargaining power and rivalry) are not specific of tourism. So, we must concentrate on the vertical axis, which highlights the main factors that determine the long-term attractiveness of the tourism destination. This axis illustrates an important point in driving competitiveness in tourism: competitiveness depends on the phase of the life cycle of the tourism destination. This specificity distinguishes tourism from other economic activities in terms of rivalry and costs incurred in marketing and advertising.

In fact, while the rivalry between two firms in manufacturing is important in increasing the efficiency of both firms, in tourism this cannot be a principle of an absolute kind. In this respect, two cases must be distinguished. If the region where firms operate is a well-known destination, and tourism is a mature industry, rivalry between tourism competitors is fundamental to innovate in services provided and in increasing the long-term attractiveness of the tourism destination. However, if the region is trying to be noted as a tourism destination, the cooperation between local agents is crucial. Here more important than to fight for a share of the scarce market is to explore complementarities and to benefit from the mutual externalities that arise not only between tourism

⁸ Investments based on tourism can certainly also produce negative externalities. Tourism at any destination is closely interlinked with the host community and its way of life, and has a symbolic dimension that differentiates each destination. So, individual projects that do not fit the cultural or symbolic values will have negative effects that will affect all the others. But apart from this, tourism may also impose various pressures on the host community during growth phases. (Buhalis and Fletcher, 1995 Brown and Giles, 1994).

competitors⁹ but also, and more importantly, from external economies that take place when interacting with other economic activities.

Figure 4. Competitive forces in tourism



Moreover, the relationship between costs and returns of tourism promotion is not linear: the ratio between costs and benefits depends on the phase of life cycle of the tourism destination. In a depressed region that is trying to be noted as a tourism destination the ratio of the costs of marketing per new attracted tourist is considerably higher than in a mature tourism destination. The best promoters of tourism are tourists, and so it is very expensive for a depressed region to become a tourism destination, without massive application of money. So a question arises: What is more profitable from a social point of view? To spend this money in the promotion of tourism or, on the contrary, to use that money in promoting a generic “business and peoples’ climate”?

The lessons extracted from the previous sections make it clear that using tourism to increase competitiveness in a region without tourism tradition only makes sense if tourism is assumed as a complementary activity to other activities that are embedded in the region and that can provide some tourism assets. Moreover, as was demonstrated in sections 2 and 3, the existence of potentialities is not a sufficient reason to justify a competitiveness strategy; the decisive factor in regional competitiveness is not the potential of resources, but the way they are profited, managed and used.

Why did policymakers choose tourism to pull the entire region, instead of looking to the embedded activities and regional clusters? The most obvious answer is the lack of policy advice in the existing literature. In our view, however, the problem is not the lack of policy advice, but the scale of values of policy makers. There is an ideal ranking of industries in the policy makers’ mind that they try to impose because they consider it miraculous, as they have proven elsewhere to be growth enhancing.

⁹ For instance, in rural tourism each investor will benefit from the fact that other sites or farms are available in their region, because this will increase the attraction of the rural location for external visitors.

5. Policy Advice

The literature on how to enhance regional competitiveness is characteristically varied and aims in various ways to incorporate different concepts (e.g. proximity, social capital, social embeddedness). Typically these concepts have developed from different approaches. Although much of this work is positioned within regional studies or economic geography, there are other important sources. For instance, some concepts came from the resource-based perspective¹⁰; others were derived from the new trade and growth theory, as well as from empirical insights resulting from a wealth of case studies of regions with innovative firms.

Even though the literature is varied, there have been very few attempts to bring the diverse sources of theoretical knowledge together in contributions that advise on regional policies. Most contributions concentrate on single elements of such policies (for example, finance or technology transfer agencies). Even the significant body of literature on the innovation systems¹¹, which consists of both theoretical and empirical work on innovation systems, is of little help on policy advice, perhaps because scholars face a paradox (Rosenfeld, 1995): The advice of scholars is much more appropriate for policy-makers than other theoretically refined contributions, but its high level of specificity narrows the range for policy motivation.

Rosenfeld (1995), Koschatzky (1997a) Archibugi *et al.* (1999), OECD (1999) and Tödtling and Trippl (2005) are some of the few contributions on policy advice. But these publications have limitations. In fact excepting Rosenfeld's (1995) book, which presents a practical guide to policy-making for strengthening clusters of different types, all the other publications are narrowly focused on specific aspects of innovation and learning. Although the book edited by Koschatzky (1997) takes a practical and pragmatic view upon regional policy, it is essentially focussed on high-tech SMEs. On the other hand, Archibugi *et al.* (1999) focuses only on a national level, while the OECD (1999) book takes the interaction between regional clusters and national-level innovation systems into consideration, yet it spends the most substantial effort on reviewing existing innovation policies.

The central idea of Tödtling and Trippl (2005) is that there is no “ideal model” for regional policy, as innovation activities differ strongly between regions. They followed the typology of RIS (regional innovation system) presented by Isaksen (2001) and built a taxonomy composed by 3 types of less-favoured or “problem” regions (metropolitan, peripheral and old industrial regions). According to Tödtling and Trippl (2005, p. 1215) the key challenge in peripheral regions is to strengthen and upgrade the regional economy by fostering “catching up learning”. Additionally, the proper policy measures include the attraction of external companies and efforts to embed them into the region. Moreover, firms should be linked to knowledge providers and external clusters, as well as to innovation systems at national or supranational level.

Regional policies cannot be copied and pasted as a citation in a paper, because regions are embedded in different systems of innovation, and different systems have different specific factors. Following the high-tech appeal of the 1980s and the 1990s, experiences with implementing replicas of policies that have provided evidence of success in other regions have proven strongly discouraging, as the implementation of many ‘dirigiste RIS’ have shown. In those years, in several countries, with more emphasis in France, Japan (Park, 1997) and Taiwan, regional policy consisted of assembling high technology industry and R&D into larger regions. Such were the cases of Japanese ‘technopolis’ project (Bass, 1997; Park, 1997; Sternberg, 1997), ‘science cities’, or ‘technology parks’ (Bass, 1997). Although such endeavours were highly expensive and complex, and often aimed at creating altogether

¹⁰ The resource-based approach aims to explain the organization of economic activity and competitive advantage through a focus on capabilities and learning. While Foss (1996) discusses the theoretical bases, Maskell *et al.* (1998) and Lawson and Lorenz (1999) have empirically applied this perspective at the regional level.

¹¹ This literature tries to empirically describe how, and theorize on, systems of firms, networks and institutions support firm-level innovation. For a description of national innovation systems (NIS) see Lundvall, 1992; Nelson, 1993; and Edquist 1997. For regional innovation systems, which interlink NIS with economic geography, see Asheim, 1997; Asheim and Cooke, 1999; Braczyk *et al.*, 1998.

new RIS¹², the results have on the whole been unsatisfactory (Hassink, 1996; Sternberg, 1997; Asheim and Cooke, 1999)¹³.

On the other hand, experience from more unpretentious policy measures implemented in territorially embedded regional innovation systems, (also called “grassroots RIS”) as for example, real services in Italian industrial districts, or technology transfer agencies in regionally networked innovation systems (also called “network RIS”) as the German *Länder*, have offered important alternative inspiration for regionally-based policy. These more modest policies mostly support present economic activities within regions and hence sustain their present functioning, while stimulating bottom-up learning by offering local firms incremental innovations and motivation to change routines¹⁴.

Policy certainly has costs. But there are policy instruments that are more expensive than others. The cheaper policy is the one that uses spontaneous market incentives. This is in accordance with the advice of Maskell *et al.* (1998, p. 189): ‘successful public policy *must conform to the market processes*, not try to work against them’. The idea of an enlightened policy-maker, designing policy according to a superior knowledge of the best path for the regional economy, is indeed naive. As Glasmeier (1999) points out, instead of focusing on what regions should and should not produce, policy-makers should take account of what goes on at the ‘substructure’.

A general policy subject in this respect is to stimulate linkages of various kinds, to particular types of other firms and knowledge centres (for example, technological service centres, R&D organizations, or universities), as has been mentioned by several authors (e.g. Asheim and Cooke, 1999; Malecki *et al.*, 1999). In order to obtain new technological knowledge, to encourage cross-region linkages is also important. In this respect, vertical linkages to external customers or suppliers, horizontal linkages to external partner firms, linkages to external universities or research organizations are of critical importance for organic learning¹⁵. Additionally, the important role of organic learning, stressed by several authors (see Lorenzen, 2001), shows that policy should leave room for experimentation and variety.

To conclude, only few attempts to elucidate policy options are made in the existing literature, and contributions on policy that take local factors into account are in fact exceptional. Until now, most contributions have been dedicated to clarify the basic theoretical arguments and to offer empirical illustration, while less attention has been paid to describing broader conclusions (Lorenzen, 2001). This fact helps to explain why policy-makers typically employ a way that is denied by theory: they use its belief on the use of a generic factor that has proven elsewhere to have positive effects on growth to force an ‘ideal’ regional policy, without attending to the specific factors that drive the competitiveness of a given region.

6. Concluding remarks

The way central and local authorities are usually dealing with peripheral regions forgets many of the theoretical lessons of the two last decades. They typically have decided to use some type of industry (high tech, tourism, etc.) as a catalyst of regional development in a voluntarism way without a serious analysis of the regional competitiveness factors. In what respects to tourism, they confuse environmental resources with tourism resources, and act as if the potentiality given by the environmental resources were a competitive advantage *per se*. However, one of the lessons of the recent theory is that competitive advantage results not from the mere existence of resources but is the outcome of the ability to drive the factors in the context of the specific problems they are seeking to solve.

Tourism support in a peripheral region is not disputable *per se*. What is doubtful is the preference given to tourism investments in a region with low demand of tourism and, moreover, the belief that tourism development is sufficient to pull the other activities in the region. This preference

¹² This type of RIS is called regionalized national innovation system in the Asheim and Gertler’s (2005) taxonomy, but it is also known as “dirigiste RIS”.

¹³ The analysis of these frustrated experiences is also useful to illustrate the fact that a top-down approach at the regional level is easier said than done (Lorenzen, 2001).

¹⁴ See Lorenzen (2001) and the references therein.

¹⁵ While organic learning has a variety of non-planned origins (for example, learning by trial-and-error or learning by interacting with suppliers and customers), the planned learning at the microeconomic level is related to a deliberate ‘search’ for information.

distorts intersectoral competition and contributes to the crowding-out of other investments, as well as to spent large sums in promotion and marketing with very uncertain results¹⁶.

Another problem is that policy for peripheral regions tends to be significantly supply-side in approach, and little attention is given to the demand side. It seems that policymakers believe in a variety of Say's law for regional competitive advantage: if all the 'drivers' are in place, then demand should follow. As Porter's work has emphasised, demand for a region's products is not simply an end result, but is itself an important 'driver' of a region's competitive advantage. This excessive supply-side orientation of policy, and the consequent little attention paid to the demand side, tends to neglect the need for stimulating local demand and creating favourable macroeconomic conditions and policies.

In opposition to the 1980s and early 1990s, regions today compete on at least two fronts. Firstly, regions must attract investments by forming an inspiring business climate: by providing attractive space for location, by guiding firms through public administration, by reducing the bureaucracy burden, etc. Secondly and closely linked, the ability to attract and retain highly skilled labour is crucial to the current and future prosperity of regions (Florida, 2002). So, they must attract people by shaping a competitive people's climate, which is also able to impede people from draining to the outside.

As an economic issue, regional competitiveness suggests that both local authorities and central government will have a role to play. First, regional systems are locally and sectorally specific. In regional competitiveness, as in innovation, one size does not fit all (Tödtling and Tripll, 2005). The implication is that policy decisions need to be informed by locally relevant knowledge, and varied by region and economic sector. Yet, for regional competitiveness, many of the effective governmental forces are proper education, infrastructure, and collaborative and coordinative mechanisms. In summary, for governments to play an effective role in building a vigorous competitive regional system, it is necessary to invest in the longer term, based on deeper insight into the patterns and dynamics of innovation in sectors specific to the region, principally in the existing clusters. As Porter explains, although governments should support *all* clusters, policy should reinforce and build on existing and emerging clusters, rather than attempt to create entirely new ones (Porter, 1998).

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¹⁶ For instance, seven years after the decision of transforming Douro Valley in a tourism destination, this region goes on suffering from a significant decrease in resident population, whereas the tourism activity grows at rates excessively lower than the national average.

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