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Systemic Competitiveness Revisited

Conclusions for Technical Assistance in
Private Sector Development

Dr Jörg Meyer-Stamer

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Author: Dr Jörg Meyer-Stamer (Deceased 1 May 2009)

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Mesopartner Partnergesellschaft, Stresemannstrasse 12, 47051 Duisburg

Contact: info@mesopartner.com, www.mesopartner.com

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1 Introduction

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

Starting in 1990 we have tried to formulate a more systematic approach (Esser, Hillebrand, Messner and Meyer-Stamer 1995). We have formulated “Systemic Competitiveness” as an analytical concept, a heuristic framework, which pulls together contributions from various disciplines of economics and social science which, based on our experience, are useful in understanding why industrialisation efforts succeed or fail. The concept of Systemic Competitiveness in this sense had two dimensions:

1. It was primarily a prescriptive concept. It emerged in the context of policy-oriented research. It was designed to provide a set of guidelines for industrialisation policies, SME promotion, industry-oriented technology policy, and the like.
2. It was also something like a growth theory that was based on a detailed analysis of the real economy, as opposed to statistical artefacts or mathematical models. Underlying the concept of Systemic Competitiveness were detailed insights into the functioning of companies, innovation systems, territorial economies and business sectors. The guiding question was why some sectors, territories and countries grow, whereas others stagnate or decline.

We formulated the concept at a time when discussions between advocates of government-driven development efforts and the believers in the free market were in full swing. The government-driven approach, usually under the heading of “import-substituting industrialisation”, had obviously failed in many countries, had created highly distorted structures and uncompetitive industries in many others, and in most developing countries government increasingly appeared as a problem, not a solution. Yet the market-driven approach ignored historical experience (and to some extent even twisted recent historical evidence, for instance in the World Bank’s “The Asian Miracle”),¹ and it ignored the fact that most developing countries (as well as most transformation countries) suffer both from weak governments and weak markets. The concept of Systemic Competitiveness was meant to lead beyond such antagonistic and not particularly constructive controversies. On the one hand, it shares the emphasis on the importance of sound macro-economic management which was a major theme of the 1980s and the early 1990s. On the other hand, it shares the criticism which has been levelled against a naive belief in the beneficial effects of the invisible hand of the market. We did not, though, suggest that government intervention is the answer. We rather did something which was quite unusual at that time: We introduced key concepts of the governance discussion in political science into the discussion on industrial competitiveness. We did not just formulate policy conclusions and proposals, only to hope

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

and pray that somewhere some competent government might fall from heaven and start to implement. Instead, we tried to address, in a systematic way, the question where a society's governance capacity comes from, and what can realistically be expected from government and other societal actors.

At that time, we saw our effort primarily as an academic exercise. We did not really expect the concept to become relevant for the day-to-day business of development co-operation. When, to our surprise and joy, just this happened a few years later, we were too busy with other things to be able to dedicate time to make the concept more digestible for practitioners, and to deepen it in terms of conceptual fundamentals and tools for application. We therefore bear part of the responsibility that German development organisations used the term Systemic Competitiveness yet filled it with a different content.

This paper is a somewhat belated effort to address the concept from a practical angle. It is based on a German language publication (Meyer-Stamer 2001) which addressed some of the conceptual confusion which I had observed in the application of the Systemic Competitiveness concept, yet it is not a translation but an effort to take the discussion one step further.

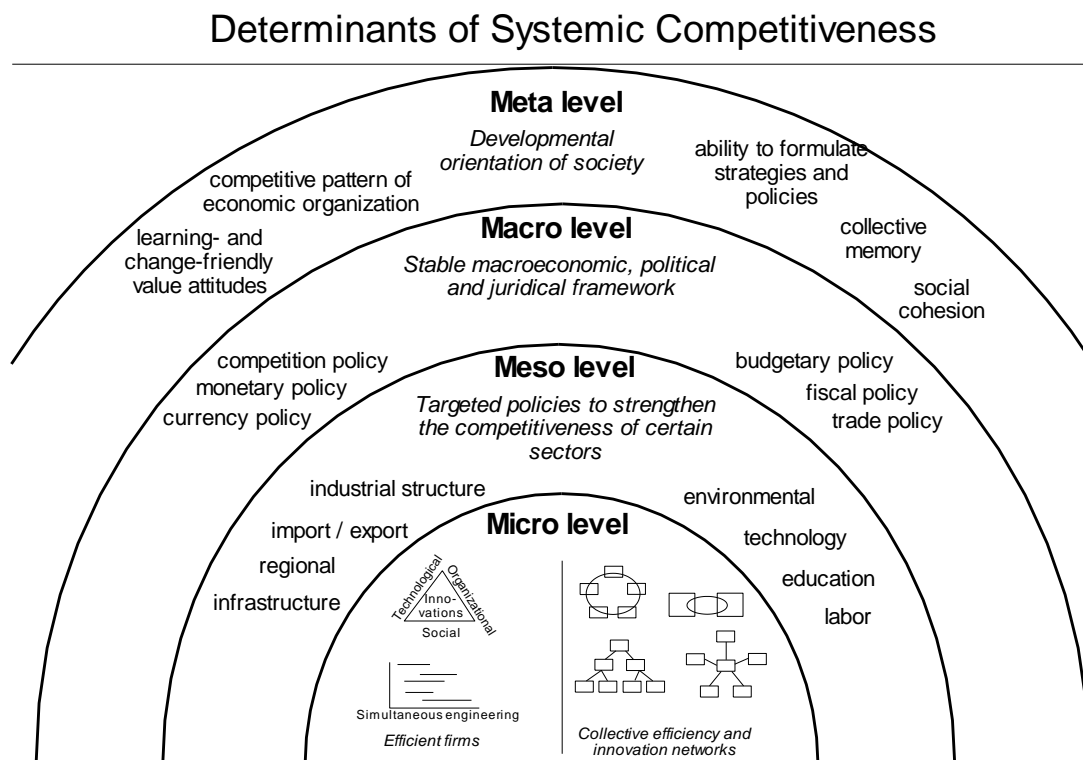
This paper is organised as follows. Section 2 gives an overview of the evolution, key elements and underlying concepts of Systemic Competitiveness. Section 3 addresses the mesolevel and mesopolicy. Section 4 addresses the metalevel. Section 5 looks at systemic competitiveness at the local level. Section 6 draws a number of conclusions for the application of the concept in development cooperation.

2 What is Systemic Competitiveness?

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

Apart from micro- and macroeconomics, we need to address two other aggregates. First, there is the question why actors in a given society do or do not succeed in creating a favourable environment for private business. How do government and non-governmental actors interact, and do they interact at all? Can they agree on an overall vision as to where the economy is headed? Do key actors in the society share basic orientations – on private business, on the relative importance of the market mechanism relative to other co-ordination

Figure 1



mechanisms, on the basic foreign trade orientation (closed or open economy)? We call this level of analysis the Metalevel, as it takes us beyond the scope of macroeconomic factors.

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

Figure 1 summarises the basic structure of the System Competitiveness framework by looking at key elements and policies at each of the four levels. Table 1 looks at factors which, at each level, create incentives for strong development performance. To some extent, it is also possible, and indeed useful, to allocate types of organisations to each analytical level. Table 2 illustrates this point. Note, though, that not all organisations can be clearly allocated. For instance, development banks that also run normal banking operations belong partially to the meso-, partially to the microlevel.

Table 1: Incentive Structures Stimulating the Emergence of Systemic Competitiveness

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

Table 2: Typical Organisations at Different Levels

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

2.1 Why “Systemic” Competitiveness

The concept of Systemic Competitiveness is not related to systems theory (cybernetics). Regarding a given society’s latitude to shape its fate it takes a perspective which is just to opposite of the profound pessimism often articulated by proponents of systems theory (e.g.

Niklas Luhmann). Systemic Competitiveness refers to the term “system” as it has been employed by Friedrich List, one of the 19th century classics of development theory (“The National System of Political Economy”), and more recently by analysts of national systems of innovation (Freeman 1987, Freeman 1992, Nelson 1992). System means a pattern of actors, institutions, organisations and policies which are inter-linked through complex feedback mechanisms and which, taken together, create a coherent entity – an economic system which in Germany is distinct from the economic system of the United States, let alone Argentina or Singapore. When we formulated the concept, our thinking was particularly influenced by comparisons between East Asian and Latin American economic systems (Table 3).

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

Table 3: Comparing Post-WWII Industrial Development in Latin America and East Asia from a Systemic Competitiveness angle

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

economic performance, it is essential to look at the system, not just some of its components.²

But does it make sense to talk about the “systemic competitiveness of a country”? Paul Krugman (1994) has argued that it is nonsense to suggest that countries compete, at least not

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

in the way companies compete. But then again countries do compete, for instance when it comes to attract large investments. But the more relevant observation is that countries compete in a more abstract way, namely around the most promising way to organise a national economy. The controversies at G7/G8-summits in the 1990s, in particular at those occasions when the United States presented themselves as the most efficient model of capitalism, illustrate this point.

2.2 Theoretical Background of the Concept

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

Table 4: Conceptual Background

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

approaches.

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

- Concepts from innovation economics, such as path dependence or the distinction between incremental and radical change and the related emphasis on discontinuous development, are not only useful to understand the evolution of companies and markets. They can also be employed to gain important insights into the evolution of the political-administrative system (Hinterberger and Meyer-Stamer 1997).

- New governance concepts do not only explain the behaviour of actors in the political-administrative system. They are also very useful in analysing co-operative behaviour and collective action in the private sector (Messner and Meyer-Stamer 2000).
- Concepts from industrial sociology are very helpful when it comes to understanding why apparently plausible concepts emerging from management science are not applied, or do not render the expected results, in companies (Meyer-Stamer 1995).

3 What is “Meso”?

As you go through the literature, you will find two different ways in which the term “meso” is used. One use is in a territorial sense: Authors distinguish macro, meso and local level, and they thus re-label the national, regional and local level (e.g. Bergman and Feser 1999).³ This is due to the fact that many American researchers use the terms “regional” and “local” as synonyms (Blakely and Bradshaw 2002, xvi), so that they need a different term for the aggregate which is addressed as “region” in Europe, namely a subnational entity (or possibly a transborder aggregate, such as Euregios) which includes a number of localities. If you work in a place where the distinction between “regional” and “local” is commonplace, it is pointless to use to introduce the term “meso” as a reference to a territorial aggregate, since this only creates confusion.

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

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

3.1 What is mesopolicy?

The defining criterion for a mesopolicy is its selectivity. Fiscal policy, monetary policy, exchange rate policy and trade policy are generic policies. They affect all economic actors in the same way, and they are thus elements of the macrolevel. Mesopolicies, by contrast, are selective. They specifically target limited groups of economic actors. Typical examples are technology policy (aiming selectively at innovative companies or sectors) and regional policy

3 This use of the term is also common in German development organisations.

(selectively promoting lagging regions and the economic actors that happen to be based there). A nasty definition would go like this: Macropolicies create equal conditions for all economic actors, mesopolicies distort those conditions. However, the justification for mesopolicies goes the other way around: Markets often fail, and mesopolicies try to remedy market failure. Technology policy is a typical example: In a pure market economy, companies will underinvest in R&D, because the investor can appropriate only a part of the investment in R&D. SME promotion is another example, since SMEs suffer from structural disadvantages due to economies of scale and indivisibilities.

It is not always possible to define clearly whether a given policy is part of the macro- or the mesolevel. For instance, trade policy often involves both macro- and mesopolicy. There are the generic elements of trade policy, which are an element of the macrolevel. But there are also trade promotion activities or selective trade barriers, which are a part of the mesolevel. Likewise, anti-trust policy spreads across both levels; those activities of anti-trust policy which are driven by industrial policy considerations are part of the mesolevel. Environmental policy also involves both macro- and mesopolicy; selective treatment, for instance delayed application of new policy tools in vulnerable sectors, establishes a mesolevel environmental policy. Observing that certain policies belong both to the macro- and the mesolevel is not a weakness of the Systemic Competitiveness concept but rather highlights a weakness of real world policy making, where policy makers sometimes try to sneak in selective policies camouflaged as generic policies.

Statutory vs voluntary tasks and the relationship to governance

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

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

Government vs non-government mesopolicy

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

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

3.2 What is the mesospace?

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

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

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

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

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

Table 5: Typical mesospace activities

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

3.3 The mesospace at different levels of aggregation

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

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

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

Table 7: Mesospace at different levels of geographical aggregation

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

institutions as examples.

What is the connection between mesopolicy and the mesospace? The mesospace is the tangible result of mesopolicy. But mesopolicy does not only address the mesospace. Its main

objective is to strengthen structures – companies and networks of companies – at the microlevel. The creation of a competent mesospace is not a goal, but a means to achieve the goal of strengthening the competitiveness of companies. In fact, it is conceivable to have mesopolicy without a single meso institution. Think of a country which limits its mesopolicy to the promotion of innovation, using fiscal incentives as the only instrument.

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

3.4 The evolution of mesopolicy

In the course of the 1980s and 1990s there has been a fundamental change in mesopolicy. When we first formulated the concept of Systemic Competitiveness, industrial policy was still a hotly debated issue – not only in many developing countries but also in the EU. Today, mentioning the term causes little more than a yawn or a giggle, even though this may be changing (see, for instance, Rodrik 2004). Two factors have caused this fundamental change: the changing role (or perception of the role) of the state, and globalisation.

- Ten years ago a discussion around the issue of “picking the winners”, i.e. selective government interventions to promote promising sectors or even individual companies, would have generated a hot debate. Today, hardly anybody would suggest that government has much of a capacity when it comes to picking anything. Both in developed and in developing countries, the ability of government to guide and steer industrial development is strongly questioned; the contrast between Japan’s strategic industrial policy in the 1960s and 1970s and the government’s inability to pull the country out of a decade-long stagnation is but one experience which helps in explaining this scepticism. At a conceptual level, research by the OECD (with respect to industrialised countries) and by the World Bank (looking at developing countries) questioned an active role of the state since the 1980s, and did in fact go as far as questioning the validity of almost any mesopolicy, i.e. any type of selective government intervention to pursue developmental goals.
- In the late 1980s, the British computer manufacturer ICL was excluded from EU technology programmes after it had been taken over by Japan’s Fujitsu. Industrial policy into the 1980s tried to build “national champions” in “strategic industries”. A politician who suggested something like this today would immediately face questions regarding his mental health, would be ridiculed as somebody who is desperately struggling for political survival through populist and nostalgic means, or would simply get a slap on the hand by the European Commission. The globalisation process has created a pattern of transnational corporate holdings which defeat the idea of creating national champions.

So what do we see today? Are we experiencing the phasing-out of mesopolicy? In fact, the opposite is the case. Globalisation is creating a strong pressure both on national and local economies to increase their “efficiency”, i.e. to remove unnecessary obstacles to business

activities, and to increase their locational quality. As there is a structural imbalance between corporations, which are offering jobs, and locations, which desperately need jobs, medium and large companies can easily play one location against the others. In most parts of the world this leads to a proliferation of incentives; the only exception is the EU which has created limitations on subsidies and implemented a monitoring system to enforce this (Schweke 2000, EURADA 2002). Yet there is little dispute that incentives are not a major factor in corporations' decision-making on locations (UNCTAD 1996). Such decisions are basically informed by a profound analysis of locational factors, and corporations seek those locations which offer an attractive combination of locational qualities (Renschler 1995). With increasing locational competition, the focus of mesopolicy is shifting from the national to the local and regional level. This shift is accompanied by two further main trends: a tendency towards linking business promotion, SME promotion, technology policy and other incarnations of company promotion to employment promotion activities, and a focus at market-adjusting rather than market-distorting mesopolicy.

3.5 Mesopolicy at the local and regional level

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

- Traditional regional policy did not address regions as functional entities. It did not focus at economic regions, in the sense of territories with a specific economic profile created by marked input-output-relations, strong feedback mechanisms and a specific milieu. It rather addressed administrative regions which were defined by below-average rates of employment, entrepreneurship or other characteristics. The definition of the term "region" in traditional regional policy has very little relation to current concepts of "endogenous potential", "competitive regions", "innovative regions" or "learning regions".
- Traditional local mesopolicy, or local economic development, involved mostly local government activities around the development of industrial estates and the infrastructure, as well as investment promotion. Today, locational policy has a much wider scope; the main instruments are summarised in Table 8.

At the same time, it must be noted that equalling localised development efforts with mesopolicy is not adequate. In fact, it defeats the main thrust of the systemic competitiveness approach. Systemic competitiveness at the local level is not just a matter of formulating nice mesopolicies. It rather involves the pattern of interaction between factors at all four levels.

Table 8: Core instruments of locational policy

<p><i>Instruments targeting tangible locational factors</i></p> <ul style="list-style-type: none"> • Real estate development • Infrastructure development • Predictable energy and environmental costs • Skills development programmes • Fiscal incentives and subsidies <p><i>Instrument targeting intangible locational factors that are relevant for individuals</i></p> <ul style="list-style-type: none"> • Improving the quality of housing and neighbourhoods • Securing good environmental quality • Assuring a high quality of schools and other education institutions • Providing a good social infrastructure • Assuring a good leisure infrastructure (sports, cultural events) <p><i>Institutional structure of local development</i></p> <ul style="list-style-type: none"> • Merging economic development and employment promotion agencies • Organise economic development as a non-profit company • Involve private actors in economic development (chambers and associations, utilities) • public-private partnership 	<p><i>Instruments for intangible locational factors that are relevant for companies</i></p> <ul style="list-style-type: none"> • Creating a business-friendly climate - Indicators: <ul style="list-style-type: none"> – Swift response to applications – Swift registration of business start-ups – Bundling of administrative responsibilities – Effective support for businesses in transactions with regulatory bodies – Economic competency and hospitality of key actors (e.g. mayor) – Constructive style of communication between local politicians and government administrators, and companies and their associations • Stimulating business networking • Promoting innovative financial instruments • Providing competent research and development institutions, technology incubators • Stimulating an innovative milieu • Encouraging an active role of business associations and chambers • Promoting a positive image
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3.6 Linking business and employment promotion

Apart from the shift from national-level to regional and local policy initiatives, the 1990s have seen another shift in the practice of mesopolicy. There have been efforts to combine business promotion (SME support, promotion of innovation etc.) with employment promotion. For instance, Scotland abandoned the traditional practice of having separate ministries for economy and for labour and created a Ministry for Enterprise and Lifelong Learning. Likewise, the different delivery agencies were merged into one organisation, Scottish Enterprise. Similar steps have been taken by some German local municipalities. They are driven by the insight that there is no point in keeping divides between various institutions and instruments that ultimately all address economic development.

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

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

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

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

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

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

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

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

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

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

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

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

This leads to a clear distinction between interventions which are driven by economic policy and interventions which are driven by social policy. As approaches become more consistent, one may expect that their impact improves.

3.7 From market-distorting to market-adjusting mesopolicy

In the course of the 1990s, the Donor Committee on Small Business Development (1997, 2001) formulated a scathing critique of conventional approaches to business promotion. It also formulated a new approach to business promotion, called the BDS approach, where BDS stands for business development services. It was based on the analysis of earlier business promotion activities in developing and transformation countries. It was found that the majority of such interventions did not only not achieve its objectives but actually caused serious amount of damage, as they ignored existing business services and tended to crowd them out with subsidised interventions. The conclusion was the propagation of a new approach, the BDS approach, which aimed at creating a market for business services rather than having government or parastatals deliver them for free or at a highly subsidised cost.

While the diagnosis underlying the BDS approach is hard to deny, the approach has certain shortcomings, some of which are admitted by key proponents (Bear, Gibson and Hitchins 2003), some not.

The main shortcoming of the BDS approach that continues to be neglected by its proponents is a simple insight which was one of the starting points of the systemic competitiveness concept:

“The alternative is not State v market, but an efficient, flexible, competent State capable of coordinating, together with strong competitive companies and properly functioning institutional links between the private and public sectors v a weak, populist State, weak profit-oriented companies and a lack of social cohesion.” (Messner & Meyer-Stamer 1994)

The BDS approach does not include an explicit analysis of the state, or more specifically: of the governance structures in developing and transformation countries. Statements about the state are based on case-studies of donor projects in those countries, not on a sound theoretical conceptualisation of the state.

Likewise, the BDS approach is not based on a sound theoretical concept of the market and the way it works – or doesn't. The BDS approach is similar to the structural adjustment orthodoxy of the late 1980s in its naive trust into the functioning of markets.

The BDS approach is mostly concerned with the micro- and meso-level, and the interaction between them. Early papers looked at the macro-level. The meta-level does not appear explicitly.

Alternatives

What are alternatives to the BDS approach? In my view, there are at least two obvious elements of a pragmatic approach.

First, there is no reason why mesoinstitutions should not learn fund-raising, preferably from the beginning. There are always funds available somewhere. In developing countries, an important reason for this are donor interventions. Apart from that, in both industrialised and developing countries there is the political economy of mesopolicy. As politicians come under pressure to do something about specific problems, such as unemployment, government launches regional policy, structural policy, technology policy, employment policy, and so on. In a democratic society there is no way of avoiding this. The choice we have is to leave mesopolicy to political opportunism or to try to support those political actors who want to see an effective mesopolicy. One way of doing the latter is by convincing political decision makers to avoid creating core-funded, permanent meso institutions and rather launch mesopolicies where various meso institutions can compete for funds.

Second, there is no reason why there should be no direct competition at the mesolevel, not only in terms of access to funding. It seems to be a widely held belief that mesoinstitutions should be consolidated, perhaps even into unified SME support institutions. This is nonsense. I know a number of cases of competition between mesolevel institutions, in particular the Porter variant of fierce localised rivalry, and it usually has led to highly competent, agile, and customer-oriented institutions.⁴ Moreover, exits among meso institutions are perfectly acceptable. It is in this sense that business is a strong metaphor for mesolevel institutions.

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

Looking at the issues in a more profound way, I would argue that there is a third option under the heading of market-adjusting mesopolicy. It is based on an understanding of markets that, first, points out that in many if not most instances they are the most efficient mechanism for allocation decisions, and that, second, highlights the fact that markets tend to fail.

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

4 For instance, in the city of Florianópolis, Brazil, two technology incubators have not only co-existed but actually competed fiercely since the early 1990s. As a result, both of them have shown a remarkable performance in developing high-tech firms in a location that has no tradition in manufacturing.

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

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

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

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

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

4 What about the metalevel?

We have never pretended that the Systemic Competitiveness concept is a consistent theoretical construct, let alone a social theory. We have rather drawn on social theory and governance theories in order to derive key conclusions for the understanding of industrial competitiveness. Looking back, I must admit that even though we intended to develop an understanding of governance and governability, as well as the learning and change capabilities of societies, we did not get far enough in this respect. Much of what you find in the 1996 book is of a normative nature, describing how things ought to be but not being specific in terms of how to get there. In particular, we failed to deliver an adequate conceptualisation of the reality in many developing countries: formally existing, but exclusive and non-participatory democracies; deeply rooted anti-reform coalitions; ineffective and inefficient yet costly government apparatuses; societal fragmentation.

The main problem, though, was to try to advise the transplantation of the pattern of network governance that has emerged in industrialised countries to developing countries where the preconditions for effective network governance more often than not are absent. Renate Mayntz, one of the main authors around the policy network concept, has recently pointed out that this concept cannot claim to be a comprehensive concept of political governance (Mayntz 2004). It is rather a concept that addresses a specific type of governance, namely in societies where the rationale of government activities is around problem-solving.

In our 1996 book, we drew on the earlier work of Mayntz to define the conditions under which policy networks can operate effectively:

“The functioning of policy networks is bound to rules, values, and action-related orientations accepted by the actors involved so as to rule out moral hazard (opportunistic advantages derived by individual actors). Important rules are:

- fair exchange,
- reciprocity,
- distribution of costs and benefits of decisions jointly taken,
- voluntary restrictions of freedom of action,
- respect for the legitimate claims associated with the interests of others (Mayntz 1991).”
(Esser et al. 1996, 43)

At that stage, our thinking was rather simple: Either the political actors in a given developing country work this out, or else. In the meantime, we had to realise that in most countries the

“or else” part happened. Political systems are persistently driven by specific interest groups, often a self-referential political class that aims at maximising its privileges, rents and benefits without caring about the common good (Haldenwang 2004). Clientelism, patrimonialism, paternalism and corruption continue to be key features of political-administrative systems in many developing countries.

In a certain way, the simple way of thinking has its charms. If societies display a persistent inability to come up with fundamental reforms in order to put themselves onto a development-friendly track, it is convenient to highlight this fact and refute arguments that look at other factors – globalisation, unequal exchange, inadequate policy requirements of multilateral finance institutions – to explain the stagnation or decline of many developing countries. However, from a development cooperation perspective the simple way of thinking is not helpful, since aid organisations are still supposed to implement some meaningful activities in societies that are organised in a development-unfriendly way.

At the same time, for external advisers it is essential to consistently point out a number of simple facts to local decision makers in developing and transformation countries. In particular, when it comes to economic development policy, politicians in most countries are highly dependent on know-how and information of private sector players and other actors in order to formulate economic development policy. Government there will never have the analytical and planning capacity of Korea's Economic Planning Board in the 1960s and 1970s. While politicians think that they are the power centre and control centre (and sometimes this reinforced by a legally established development mandate), in reality they are facing all sorts of limitations in terms of problem definition, policy formulation and implementation that are basically the same as the “implementation crisis” that was analysed in industrialised countries 25 years ago (Mayntz 1980). As a consequence, decision makers have no alternative but to foster the emergence of policy networks. The question is, though, how long it will take them to understand this.

5 Systemic Competitiveness and development cooperation

5.1 Typical misunderstandings

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

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

work on the concept we have emphasised that the key difference between macro- and mesolevel policies is about specificity and selectivity:

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

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

Why is the distinction between generic and specific/selective policies the key criterion in distinguishing between macro- and mesolevel? This has to do with the overall structure of mainstream development strategy thinking as it has evolved since the 1980s. The main argument of the criticism levelled against traditional development concepts had to do with specificity and selectivity: In the view of influential economists, specific and selective sectoral and issue-related policies (such as industrial policy and regional policy) had created market distortions which actually blocked rather than promoted economic development. The main conclusion drawn for the structural adjustment concept was the emphasis on moving from specific, selective policies to generic policies. The main message was: Forget about things such as industrial policy. Streamline regulations and liberate markets instead. More recently, this way of thinking has been reformulated by the Donor Committee on Small Business Promotion, which was criticising selective interventions and suggesting a strict focus on the facilitation of markets for business development services instead. In other words, the development orthodoxy which emerged with the so-called Washington Consensus was highly critical of mesolevel policies and interventions. And things have not really changed in the current phase of “Washington confusion” (Rodrik 2007), where the emphasis of the Donor Committee has changed towards creating an “enabling environment”, which is an approach that almost exclusively addresses macrolevel factors.

The one-sided focus at the macrolevel fails to recognise the crucial role mesolevel policies have played in all successful latecomer development processes, from Germany and the USA to the East Asian NICs. This is why we emphasise that it is crucial to have both adequate macrolevel policies, creating a level playground and an overall distortion-free, development-friendly setting, and mesolevel policies to address all the market failures which are imminent in latecomer development. And it is the reason why we distinguish between macro- and microlevel the way we do.

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

This kind of approach is the key of the conventional logical framework. There are two problems with this approach.

- First, it often is an ex-post justification of some decision which has been taken in advance – due to suggestions by the local partner, political opportunity, practical opportunity, or similar motives. This is how strange key challenges used to come about ("A key bottleneck for the competitiveness of Argentinian industry is the lack of skilled welders" – to justify a German technical assistance project which did exist in the mid-1990s).
- Second, it follows a type of diagnostic which is based on techniques such as problem trees. This kind of approach certainly was adequate with traditional project approaches, when it came to creating or strengthening organisations such as technical schools. It is, however, not adequate when it comes to more ambitious approaches, such as regional development initiatives or German "sustainable economic development" programmes that are supposed to contribute to an improvement of the overall framework conditions for private sector development as well as pursue selective interventions. Here, it is essential to understand how different factors interact; usually, in developing countries with an unsatisfactory growth record they interact in terms of creating obstacles to dynamic development. The systemic perspective is not only about looking at interaction, feedback-loops and vicious or virtuous circles. It also provides a relatively wide framework to identify issues which one should look at when trying to understand a local reality. For instance, in order to strengthen a regional economy, it will often be perfectly sensible to promote SMEs and entrepreneurship. However, only in rare cases the low competitiveness of SMEs and low entrepreneurial dynamism are the key deficits, let alone the causes of economic stagnation.

Instead, it is advisable to draw a picture of the way factors at the four levels interact to create a favourable or unfavourable setting for development interventions. The starting point will often be problems at the microlevel. However, an effort to trace the underlying problems usually leads directly to the metalevel.

5.2 How to address the metalevel

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

In fact, development assistance more often than not is, most of all, about the metalevel – it is about trying to introduce new ways of seeing reality, of defining problems, and of

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

How can you turn a sound analytical understanding of the systemic competitiveness of a given country, or lack thereof, into practical development interventions? Essentially, it comes down to a chess-like approach: you plan your moves ahead, trying to lure your opponent into activities that you can exploit, but you stay flexible and are constantly able to change your moves to respond to unexpected moves of the opponent.

Where do you aim your moves? They may address one or more modes of coordination in any given society: markets, hierarchies and networks.

Markets

Development projects are often supposed to contribute to more favourable framework conditions. As framework conditions are often defined in terms of macroeconomic conditions that are created by government (trade regime, tax system, rules and regulations, etc.), projects aim at influencing government decision makers – often to little avail. But framework conditions also include the existence and functioning of markets. For a donor project, it may be easier to influence markets than government decisions. “Influencing markets” would mean market adjustment – understanding market failure, prioritising it in order to identify critical market failure, and devise means of remedying critical market failure.

A typical practical example would be the area of vocational training. Traditional technical assistance tried to build sophisticated vocational training systems and institutions, which in many settings were inappropriate to local conditions (e.g. Meyer-Stamer and Gocht 1993). The alternative is to understand the skills market and to make sure that the market works less imperfectly. The key market failure in skills development is due to the fact that there it does not have a simple seller / buyer structure but rather a triangular structure: the skills provider, the trainee, and the employer who may or may not employ the trainee once s/he has built skills. Decisions of skills providers are often not informed by the specific needs of employers, and decisions of trainees (for instance, which provider and which course to choose) are also taken under high uncertainty. Improving the flow of information between the three parties can create a much more transparent, and thus much more efficient, market for skills provision.

Hierarchies

The typical approach to address hierarchies are explicit Organisational Development processes. However, institutions, especially government organisations in aid recipient countries, are frequently unwilling to engage in explicit Organisational Development

processes. The alternative approach is then to launch implicit OD processes by organising learning processes based on practical problem-solving (see, for instance, Müller-Glodde 1993).

Networks

In many developing and transformation countries, the concept of networking and of “policy networks” is understood in a different way than it is in industrialised countries. In industrialised countries, many societal spheres are based on networks, since this has emerged as a relatively efficient way of organising things. It is important, though, to note that there it is based on a certain degree of permeability of social stratification. In societies where social stratification is rather rigid, networking is often perceived as a mechanism of reinforcing privileges of those who are already powerful and privileged.

From a change perspective, it is thus important to create occasions for networking that cross social strata. Recent donor activities to promote participation, including those in the context of PRSP, have headed in this direction. However, they sometimes emphasised participation as an objective in its own sake, without a clearly stated goal from the outset and with an inconsistent management of expectations. The more promising approach is probably to organise networks very specifically for problem-solving, i.e. create a situation where networking is a necessary and expected side effect of the solving of a specific problem. It is interesting to note that in industrialised countries this kind of approach has given rise to a new sector of specialised firms in the field of facilitation of societal processes, since government and other actors have learnt that efficient, competent and professional facilitation is a key prerequisite for success.

6 Final observations

Is the concept of Systemic Competitiveness still useful today? It probably is, since other concepts that have come up since its formulation share the defect of earlier approaches in terms of a weak theoretical foundation and an undercomplex, non-systemic conceptualisation of societal and economic realities. In particular, Systemic Competitiveness is a highly relevant and practical way of addressing territories, i.e. while formulating and implementing local economic development and regional economic development initiatives. Systemic Competitiveness highlights the importance of governance, and of understanding and addressing governance issues, for any development effort. Given the fact that conventional approaches to territorial development in developing and transformation countries are somewhat underdeveloped in terms of governance issues (Meyer-Stamer 2004), Systemic Competitiveness can inform more promising approaches – in particular approaches that recognise the relevance of the metalevel. # donor discussion has not evolved since 1990, still macro / micro, a lot of literature is not based on sound theory and concepts

Addressing the metalevel is a core activity of development cooperation. In many instances, influencing the metalevel in a direct way, possibly as a hidden agenda, is a relatively straightforward exercise, at least from a conceptual viewpoint. The key challenge is typically

to deal with a governance pattern that inadvertently encouraged fragmentation between organisations. Challenges become almost insurmountable in societies where key groups hold fundamentally different views regarding the preferred development model (e.g. capitalism vs socialism, secular vs religious society).

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