Systemic Competitiveness and Local Economic Development

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1 Introduction

Why would one address the topic of local economic development under the header of "large scale systemic change"? Is a local economy not, by definition, the opposite of a large system? Actually, it isn't. There are, of course, local economies that can be comprehensively described on one sheet of paper. But looking at the South African reality, even local economies that at first glance appear to be not complex at all, such as rural places in former homelands, turn out to be relatively complex systems as soon as one takes a closer look. Therefore, an effort to stimulate economic growth of a local economy is bound to involve large scale systemic change. Many local economies are complex systems, and quite a few of them are quite dysfunctional or underperforming, so that the category "large scale systemic change" applies.

When one says that LED involves systemic change, this actually has two different meanings. First, most local economies are complex social systems. Instigating change is bound to be an activity that is not trivial, i.e. there will hardly be a linear relationship between input and output. A territorial change process is necessarily subject to complex feedback mechanisms and a variety of unintended consequences. It is important to conceptualise it as a complex process that cannot be planned in any detailed way in advance. Second, the outcome of a territorial change process will be a change in the structure of the system "local economy", i.e. the set of producers, companies and service providers that generate goods and services. With a sustained LED process the local economy will change its level of competitiveness, its positioning in regional, national and global markets and ultimately its sectoral structure.

In this chapter, we will present the concept of Systemic Competitiveness as a framework to analyse economic systems (Section 2). We will explore its applicability to local economies (Section 3). We then investigate the reality of South Africa's economy from a systemic competitiveness perspective (Section 4). This analysis of South Africa's economy leads us to the identification of specific challenges for local economic development, highlighting the importance of quite fundamental systemic change (Section 5). We then discuss possible approaches to induce systemic change at the local level (Section 6).

2 The concept of Systemic Competitiveness

The concept of Systemic Competitiveness is a heuristic model that combines crucial insights from economics, social science and other disciplines in order to better understand the driving forces of economic development. The intention behind the

formulation of the concept was, first, to allow a more adequate analysis of countries and locations that went beyond reductionist, undercomplex approaches, and, second, to permit a more adequate formulation of policy recommendations, in particular recommendations that are not based on the assumption of ideal conditions in terms of capacity and governance capability but rather on a realistic understanding of the existing latitude in terms of problem definition, formulation of action proposals and implementation.

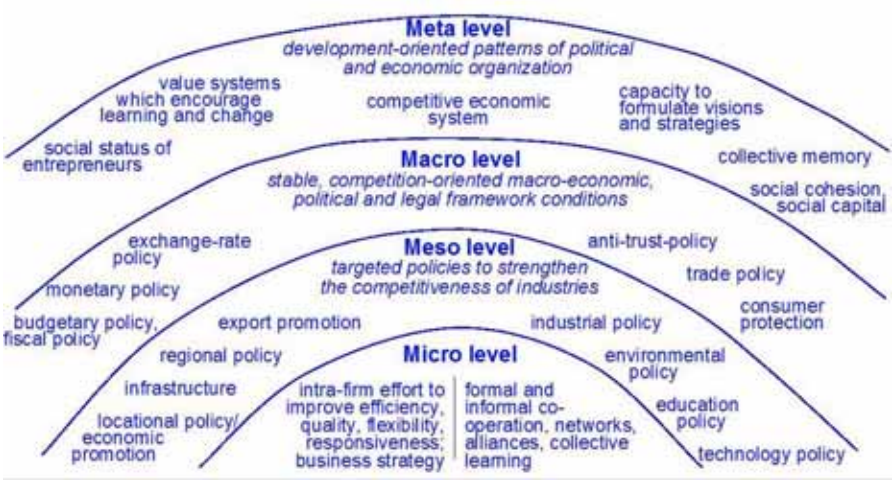
In order to cope with the complexity of factors that drive the performance of a given economy, the concept of Systemic Competitiveness introduces four analytical levels (Eßer et al 1995). Factors at each of them, and the way in which factors at the levels interact, shape the ability of countries, and the locations in them, to thrive in an increasingly competitive world economy. The levels are

- the microlevel where companies compete in competitive markets, but where also networks and alliances of companies emerge to sustain their competitive efforts,
- the mesolevel of selective interventions to support companies' effort to shape a competitive advantage,
- the macrolevel of generic institutions, economic policies and framework conditions,
- the metalevel of basic orientations in a given society as well as other slow variables.

Figure 1 summarises the main point that each level addresses. Figure 2 indicates main policies and key factors at each level.

Figure 1: Four Levels of Systemic Competitiveness

Figure 2: Determinants of Systemic Competitiveness



The concept goes explicitly beyond the conventional view of orthodox mainstream economics which address primarily macro- and microlevel, i.e. opt for an undercomplex approach that is based on disciplinary arrogance and ideology. From that perspective, the mesolevel is primarily the world of distortions introduced by government and other actors to compromise the workings of markets. The metalevel is something that mainstream economics address in a normative way, not in an empirical and analytical way. The concept of Systemic Competitiveness draws on social science literature in order to get a robust understanding of factors that shape the evolution of societal structures, as well as the options and limits in terms of deliberate efforts to govern societal and economic change.

The concept was formulated as an effort to get beyond dichotomistic discussions of the state vs market variety that shaped the discussion in the 1980s and early 1990s. Proponents of state intervention could point at success stories like Japan, Taiwan, South Korea or Singapore (e.g. Amsden 1992), but they tended to ignore the political economy of state intervention that had created distorted, not internationally competitive economies in many other countries (Cavarozzi 1992, Meyer-Stamer 1997). Proponents of the primacy of markets tried to downplay the relevance of state intervention in successful latecomer economies (e.g. World Bank 1993) and to some extent embarrassed themselves with such efforts (Killick 1994).

The Systemic Competitiveness approach acknowledges the crucial importance of favourable macroeconomic framework conditions, robust institutions and a predictable macroeconomic policy for economic development. It emphasises, though, that a favourable macroeconomic environment is a necessary yet not sufficient condition for sustained growth processes. Targeted interventions by government

or other actors are necessary to address market failure and network failure that stand in the way of the upgrading of existing industries and the emergence of new industries which are needed to compete at a global scale (Meyer-Stamer 2005).

Why "Systemic"?

The concept of Systemic Competitiveness has since the outset been formulated as a tool to guide policy advice. The concept is not related to system theories such as Karl W. Deutsch's cybernetics approach. In fact, regarding a given society's latitude to shape its fate it takes a perspective which is just the 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.

Let us look at two examples to explain how the Systemic Competitiveness framework looks at the interaction between factors at different analytical levels. In a country with conditions that are favourable for development, a robust and predictable macroeconomic framework creates stable expectations in the business sector. At the same time, a liberal trade regime, a consistent anti-trust policy and other institutions and policies make sure that markets are structured in a competitive way. Strong rivalry among companies forces them to constantly upgrade, to improve productivity and quality, and to innovate. Targeted interventions at mesolevel address market failure (e.g. underinvestment in skills formation and in research and development), thus supporting the efforts of companies to strengthen their competitiveness. Behind the ability of a society to create this type of environment are metalevel factors such as a basic consensus on the economic model (competitive integration into the world market), a development-oriented political-administrative system with a strong focus at problem-solving, and ongoing conversations among the key groups in the society regarding strategic priorities.

In the worst case, fundamental disagreements and antagonistic relationships at the metalevel lead to erratic macro-economic policy making, generating a highly volatile economic environment that obstructs the growth of the private sector. The private sector focuses at short-term survival rather than long-term growth, thus underinvesting in equipment, skills, and innovation. Demand for services from

mesolevel organisations, even if they exist, is weak. (Cf. Altenburg, Hillebrand and Meyer-Stamer 1998 for a number of case studies of both good and bad cases.)

3 Systemic Competitiveness at the local level

When we first formulated the concept of Systemic Competitiveness, we addressed national economies. A few years later we realised that the concept is also useful in analysing subnational aggregates, i.e. regional and local economies; the case study on industrial clusters in Santa Catarina, Brazil, was the first study which implemented this approach (Meyer-Stamer et al. 1996). Subsequently, we also looked at local economies from a systemic competitiveness angle; the PACA concept, a practical approach to analysing a local economy in a participatory, action-oriented way (Meyer-Stamer 2003), is explicitly related to the Systemic Competitiveness concept.

3.1 From the supranational to the local level

The Systemic Competitiveness concept emphasises the importance of factors determining the evolution of economic systems which are not systematically addressed by conventional macro- and microeconomic approaches. Distinguishing between four analytical levels, the micro-, meso-, macro- and metalevel, and investigating the inter-relationships between them does not only make sense at the level of national economies. It is also useful in understanding the evolution of local and regional economies, and it is even helpful to address supranational factors. Table 1 illustrates this.

In fact, Table 1 addresses factors at different analytical levels and levels of aggregation from the perspective of local development initiatives. Let us consider the different fields to understand how factors at other levels influence, shape or limit local level efforts.

Table 1: Some key factors determining Systemic Competitiveness at different levels of aggregation

	Supranational	National	Regional	Local
Meta	Competition between different types of market economies (1)	National development model, national innovation systems (2)	Regional identity Strategic capacity of regional actors (3)	Local actors' capacity to co-operate, trust, innovative milieu (4)
Macro	International financial markets (5)	Macroeconomic framework conditions (e.g. tax system, financial system) (6)	Solid budgetary policy Investment capability of government (7)	Solid budgetary policy Investment capability of government Quality of life (8)
Meso	EU industrial policy EU technology policy Montreal protocol (9)	Promoting new technology, export promotion, specialised financing agencies Sectoral environmental policy (10)	Regional economic development, technology demonstration centres, R+D institutes, training institutions, regional environmental policy (11)	Local economic development and employment promotion, training institutions, incubators, Chambers (12)
Micro	Transnational corporations Global commodity chains (13)	Medium-sized and large corporations Dispersed networks (14)	SME Regional clusters (15)	Local cluster, local subcontracting (16)

In fact, Table 1 addresses factors at different analytical levels and levels of aggregation from the perspective of local development initiatives. Let us have a look at the different fields to understand how factors at other levels influence, shape or limit local level efforts.

- Metalevel: (1) Competition between different models of capitalism is more than an academic issue. For instance, in the aftermath of the Asian crisis of 1997, there was a very manifest conflict around this topic: Was it preferable for a given country to emulate the Anglo-Saxon model of capitalism, or rather the East Asian model of guided capitalism, or perhaps the European model of socially moderated capitalism, or a different model altogether? (2) The basic political and economic pattern of a society shapes the development options of the different locations and regions in that country, without determining them entirely. (3) This is particularly evident in countries where provinces have a certain level of autonomy, and display very different abilities to come up with development-oriented governance patterns. (4) But even at the local level it is not rare to find that neighbouring cities display marked differences in terms of the ability to define a shared development objective.

- Macrolevel: (5) and (6) A hint at the economic turbulence of the 1990s suffices to explain why supranational and national macroeconomic framework

conditions shape the opportunities for development at the local and regional level. But why should there be a (7) regional and (8) local macrolevel? Provinces and municipalities have no say in monetary or foreign-trade policy. However, their budgetary policy has a major impact on development options. If they run major deficits or are effectively bankrupt, this obviously limits the options in terms of active development promotion. Moreover, it is often at this level that government interacts with businesses and citizens, so that it is here that inefficient and clumsy administrative procedures generate the biggest suffering.

- Mesolevel: (9) For European citizens, it is obvious that there is a supranational mesolevel, as there is European technology policy, regional policy, employment policy, agricultural policy, and so forth. But there are also – albeit timid – incarnations of mesolevel policies in Mercosul and ASEAN. At the global level, the Montréal Protocol is an example for a meso-policy. (10 – 12) Within a given economy, it is difficult to determine whether a given meso-policy ought to be executed at the national, regional or local level. For instance, technology policy is conducted at all three levels. National level is promoting the development of new generic technologies, provincial government is supporting their introduction into businesses, and local government runs technology incubators to assist start-up companies that try to commercialise this new technology.

- Microlevel: Local companies, in particular in the manufacturing sector, are rarely purely locally oriented. (13) Some of them are integrated into global value chains, i.e. they produce for identifiable foreign buyers, not for an anonymous global market. Other local companies are affiliates of transnational corporations. In both cases, this implies restrictions on the latitude of local action. (14 – 16) Similarly, companies that are integrated into national or regional supplier networks have a specific perspective at locallevel development initiatives, for instance cluster promotion initiatives. If companies feel that the relationship to global buyers or the integration into national value chains is the main driver of their competitiveness, they may respond unenthusiastically to locallevel initiatives.

Looking at local economic development from this angle helps to identify possible fields of action, but also structural limitations of local initiatives (see Meyer-Stamer 2003 for a detailed account).

3.2 What do we mean by “competitiveness” at a territorial level?

We can define the systemic competitiveness of a territory as the ability of a locality or region to generate high and rising incomes and improve livelihoods of the people living there. Systemic competitiveness is primarily the result of human

agency, i.e. individual and collective action. In some cases, a region's prosperity is founded on the availability of natural resources. More often, though, there is a trade-off between availability of resources and an effort to build competitiveness. If a society can go for the soft option of simply exploiting a given natural resource, it will tend to prefer that to the hard, arduous and risky task of creating a competitive advantage; in the literature, this is discussed as the "resource curse".

Systemic competitiveness is a non-trivial feature of a territory. It is not primarily the direct result of a limited set of actions of a limited set of actors that are explicitly aimed at creating competitiveness. Companies build competitiveness not because they want to but because they have to, since otherwise they would be pushed aside by their competitors. However, their competitiveness also depends on a variety of other factors, many of which are not conceptualised and addressed by specific actors under the heading of competitiveness. For instance, the education effort is driven by a variety of motives, life chances in a competitively structured economy being just one of them. The effort to build a robust infrastructure is driven by the motive to improve the quality of life of local citizens just as much as by the intention to promote the economy. The ability of political actors to strategise, to compromise and to solve problems is a critical component of systemic competitiveness, yet it is an aspect that is rarely directly discussed under this heading.

In order to better understand the fact of systemic competitiveness being non-trivial, it is useful to look at the issue of innovation. It is widely acknowledged that innovation is a critical component of competitiveness. Innovation is primarily the outcome of actions by innovative entrepreneurs and companies. To some extent, they innovate due to intrinsic motivation. However, the main motive to innovate is that they have to in order to survive and thrive in competitive markets. Thus, the structure and effectiveness of markets becomes the main driver of innovation, rather than political action, such as technology policy, that explicitly aims at stimulating innovation. Moreover, the ability of a given society to compete based on innovation is then closely correlated to its ability to encourage and sustain entrepreneurship, a feature that is linked to the fundamental way in which a society is organised rather then the agency of a limited set of economic development actors who try to encourage and support entrepreneurship. In a region where government discourages companies with overcomplex regulations and clumsy bureaucracy, and where the social prestige of entrepreneurs is low, targeted development interventions to promote innovative enterprises will have a limited effect only.

3.3 Complex systems and local economic development

LED is a set of activities conducted by local people that aim at generating income for local people, though the two groups are not necessarily the same. When the local elite pursues projects that primarily make the local richer even richer, many LED practitioners would not describe this as proper LED. When the local elite runs, through local charities and perhaps in collaboration with local government, activities that aim at assisting the local poor, then many LED practitioners would tend to describe this as LED, even though it is debatable whether it actually should fall under this header.

This argument is about the normative underpinnings of LED. In the past, LED has sometimes been done from a business promotion angle, but just as often, if not more frequently, from a social development angle. There is not just conceptual confusion but actually ideology-driven dissent on whether LED should be run under the banner of competitiveness, as explained in the previous section, or as a social development activity. We will argue below that this kind of dissent has important implications regarding the conceptualisation of LED as a systemic change activity.

For now, though, let us look at the local economy's feature of being a complex system, and the fact that it is inadequate to conceptualise LED in a mechanic way, i.e. as something that involves simple, straightforward cause-effect links. Let us look at three examples to explain this point. Each example looks at LED from a specific angle.

1) Imagine a location where local decision makers have decided that they want to promote and support self-help, income-generating activities that improve the livelihood of poor citizens. In order to do that, local government creates a community garden. A consultant is contracted to manage it, and local citizens are mobilised to plant vegetables and to look after them; they are promised a share in the income once the vegetables have been harvested and sold. Everything runs well, and a few months later vegetables are harvested. The municipality persuades a local hospital to purchase them. So is this an LED success story? Perhaps not, since that hospital probably did already purchase vegetables somewhere else before, so that somebody else sees his or her income drop now. Imagine, for instance, that so far they have purchased part of their vegetables from a community group that had organised without external assistance and that has now lost its main customer. Thus, now one group is better off, one group is worse off, and the balance in terms of social development is zero. And what if local government does not contract the consultant for the next planting season, and the community garden falls idle? Then the net effect of the developmental activity is negative.

2) Imagine a location where the town centre has been declining since the construction of a mall at the fringe of town. Local government embarks on a city centre renewal programme. In order to make the town centre more attractive for shoppers, roads are reorganised. Car owners now find it clumsy to navigate the town centre and to find a parking space. As a consequence, they rather drive to the mall. Effectively, the town centre now declines quicker than it did before.

3) Imagine a location where local government employs an LED officer. She is under constant pressure from councillors to give advice on business plans to potential entrepreneurs from their respective wards. A lot of her work time is spent providing this service. As a consequence, other LED activities make little headway. Moreover, she hesitates to highlight to some of the potential entrepreneurs that they do not really have a business idea, or that their idea is deeply flawed, since she does not want them to give a negative feedback to their councillor. As a consequence, some individuals embark on business ventures that fail quickly once they face the realities of the market place. Another problem is that she is creating unfair competition to professional business plan advisors, who see their business nosediving. As a consequence, the LED process is worse off, potential entrepreneurs are worse off, and business plan advisors are worse off.

Developmental activities have a strong tendency to be subject to the law of unintended consequence. Decision makers who drive LED often have the best of intentions, but not necessarily the understanding of systemic feedbacks that is essential to avoid that interventions backfire and lead to the opposite of the intended consequences. A local economy is, first and foremost, an aggregate that is driven by the behaviour of free individuals who behave according to their preferences and the prevailing incentives. A local economy is not a command-and-control system. LED decision makers do not always understand this.

How does this systemic competitiveness framework help in this regard? It looks at economic development issues not only from an economic but also from a social science angle. The economics angle helps to understand the microeconomic issues around competitiveness, i.e. the way in which markets work and the challenges (and support necessities) companies are facing. It also helps to understand the macroeconomic issues around competitiveness, i.e. the overall incentive structure (from the interest rate to the system of property rights) that economic actors are facing. The social science angle helps to understand the societal structures into which economic processes are embedded, and the governance structures that underlie developmental activities.

Over the past two decades, both economics and social science have made important progress that has fed into the systemic competitiveness framework. In economics, evolutionary economics are a particularly relevant strand (Nelson 1995, Nelson and Winter 2002). Among other things, it highlights the importance of

conceptualising economic change as a learning process. Decisions by economic actors are not only subject to uncertainty in the conventional meaning of the term, e.g. the fact that nobody can know for sure how business will go in the future, but also subject to second order uncertainty. For instance, at an early stage of technological development, decision makers cannot take an informed decision about technological alternatives, as only future can tell whether this or that interesting idea is going to turn into the more efficient technology. Similarly, decision makers at the level of a territory are facing second order uncertainty when they have to decide which emerging industry or service subsector they should focus their development effort of.

In social science, a particularly relevant line of research has evolved around the issue of policy networks and network governance (Mayntz 1991, Mayntz 2004, Mayntz and Scharpf 1995). In many countries, in particular advanced industrial countries, government has been facing increasing challenges in terms of formulating and implementing policies (Mayntz 1980). Relevant resources, in particular information, is increasingly distributed across various societal groups. Moreover, government itself is increasingly fragmented. As a consequence, policy making (problem definition, action planning, implementation) increasingly evolves into a system where various governmental and non-governmental actors are constantly involved in negotiations. This applies to statutory tasks of government, such as environmental policy, and it applies even more starkly to voluntary tasks, such as economic development and business promotion, where government cannot credibly threaten non-governmental actors if they do not participate.

3.4 Local economic development and systemic competitiveness

What does it then mean from a practical perspective if a local economic development (LED) initiative is to be based on the systemic competitiveness concept? It means that the systemic perspective has to be considered both in the *assessment* of the local economy and in the design of LED *interventions*. This will take local actors to an LED practice which is different from the orthodox approach.

The orthodox approach to LED often looks as follows. A local or regional government decides to start economic development activities. It contracts a consultancy firm or researchers to conduct an assessment of the local or regional economy. The consultants analyse the micro- and mesolevel of the local economy, using tools such as a SWOT analysis or Michael Porter's diamond. The results of this assessment are then contrasted with the supposed best practice in business and economic promotion. The final result of this effort is a desirable specialisation profile of the economy and a long list of proposed practical activities to move towards this profile. A given local government may or may not pursue the proposed activities. Such approaches are to some extent encouraged by international organi-

sations whose LED concepts are informed by urban planning methods and who fail to understand the evolutionary nature of local economic development (Cunningham and Meyer-Stamer 2005).

Applying the systemic competitiveness framework in the investigation of a local economy will lead to a different diagnosis and a different action plan. The diagnosis will not only address micro- and meso-level but also investigate macro- and metalevel factors. In fact, it will emphasise them. Practically, this means the following:

- The local macrolevel refers to the financial capacity of local government and the local regulatory framework. If local government suffers from serious budgetary constraints, its ability to come up with a serious development effort is very limited. Therefore, there is no use in suggesting fancy best practice activities, unless they cost next to nothing. Also, if the local regulatory framework is not business-friendly (both in terms of locally formulated regulations and in the local mode of implementation of regulations which are defined by higher government levels), local government's development effort is not credible from the perspective of the private sector. Before getting involved in any kind of mesolevel activities, government must get its own house in order, i.e. remove the unnecessary obstacles it puts in the way of business.

- The local metalevel refers, first and foremost, to the local stakeholders – their ability to communicate, to agree on a definition of the main problems, to formulate practical development activities and to implement them effectively. If the analysis finds serious deficits in this respect, there is, again, no point in coming up with a long list of best practice-based proposals.

The analysis of local macro- and metalevel factors defines the parameters for meso- and microlevel activities:

- If it shows that stakeholders are very competent, capable of conflict resolution and comfortable with strategic approaches, it is appropriate to engage them in an effort to formulate a demanding and ambitious local mesopolicy, looking at strategic interventions to strengthen the competitive advantage of local industries, be they mature, growing or emerging. In practical terms, this can imply very different activities, such as the creation of a technology incubator or research centre, or the introduction of highly sophisticated financing instruments (such as the sale and lease-back of patents), or a focused investment promotion campaign to attract complementary firms to strengthen a local cluster.

- If the diagnosis reaches a less encouraging conclusion, mesopolicy must not only take this into account, i.e. avoid overambitious proposals, but should also address those weaknesses and formulate appropriate proposals, for instance

simple activities with quick and visible results. This may help stakeholders overcome distrust and fragmentation, thus strengthen metalevel factors and create the basis for subsequent more ambitious and strategic mesolevel interventions.

In both cases, mesopolicy needs to find an adequate balance between the three basic forms of coordination, namely markets, hierarchies, and networks (Meyer-Stamer 2006). LED actors seems to have a tendency to overemphasise hierarchy (allocating too many tasks and responsibilities to government) and network (creating too many coordination bodies that have to meet too often for too many hours), while underemphasising markets. This is unfortunate, since developmental activities that follow the "making markets work" principle have a big advantage: As soon as a given market works, local actors can direct their attention and energies to other problems or opportunities. Especially in constellations that are defined by complex, non-linear processes, the market process is a coordination mechanism that is vastly more efficient than hierarchy or network.

4 The Systemic Competitiveness of South Africa

How is South Africa faring from a systemic competitiveness perspective? At first glance, and from the perspective of orthodox mainstream economics, it is doing very well. Macroeconomic policy is very responsible and consistent. The institutional framework is robust; property rights are secure, the legal system works well, and the economy is organised through markets. At the microlevel there are markets and companies that thrive in them, and there is a significant number of companies and sectors that have a robust growth and export performance.

A closer look produces a different picture, though. The most striking finding is that despite its solid macroeconomic policy South Africa has fallen behind comparable countries; Rodrik (2006), for instance, highlights the fact that in the late 1980s South Africa and Malaysia were pretty much at the same level of development, while since then Malaysia has leaped ahead while South Africa has fallen behind, suffering from a process of de-industrialisation. In an orthodox perspective, one of the elements that is missing at the macrolevel is a consistent anti-trust policy. Not only is government running monopolies or creating unfair competition in a number of sectors that might also be organised in a competitive way (e.g. electricity, telecommunication, air transport). Also a number of sectors that are organised through private enterprise are effectively monopolies or oligopolies (and often oligopolies that effectively operate like cartels). The lack of competition in the domestic market is one of the reasons why numerous South African industries are fundamentally not internationally competitive and rely on massive devaluation of the currency to sustain their export performance.

Another important problem is that the mesolevel in South Africa is highly deficient. The “meso landscape”, i.e. the set of organisations that are supporting companies in their effort to strengthen their competitive advantage, is very shallow to start with (Qualmann 2000). Problems are exacerbated by the fact that policy guides the existing institutions to devote a large part of their effort to assisting the so-called “second economy”. This is a segment of the economy that is populated with small businesses, the majority of which are needs-driven and of a survivalist nature, i.e. do not reflect an entrepreneur’s ability to spot business opportunities but rather the fact that jobs are scarce and many job seekers are not employable due to deficient skills.

This takes us to the fundamental problems that are holding back economic growth in South Africa. These are problems that are linked to the metalevel. One problem is the lack of a consensus on the fundamental economic development model. In the political sphere, there are relevant actors who are fundamentally uncomfortable with a model of economic development that is based on private enterprise, competitive markets and an active integration into the world economy. In its most extreme way, this leads to a disagreement of the capitalism vs socialism variety. In the less extreme way, it leads to a controversy between proponents of a liberal economy and defenders of an interventionist, protectionist, state-led economy. These disagreements hamper consistent policy making that aims at strengthening competitiveness and exploiting the opportunities creating by a globalised world economy.

The other problem, that to some extent underlies the first one, is a widely held misconception of the South African economy and its performance. The perception is that there is a “first economy” that is going strongly, and that there is a “second economy” that needs all sort of support to offer acceptable livelihoods. The first economy appears like the cow that can be milked, and the dairy products can then be used to feed the inhabitants of the second economy. To put it differently, there is a controversy about distribution vs growth. One group of stakeholders holds the view that the key challenge is to prioritise redistributive activities while a different group of stakeholders emphasises that a much stronger effort is needed to make sure that there is something that can be redistributed in the first place. The perception that the first economy is going strongly is not only held by individuals who are excluded from it and who envy the lifestyle that individuals who are fully integrated into the first economy can afford. The perception is also held by the BMW and bakkie owners of the first economy. They perceive the performance of the first economy as much better than that of the second economy, and that of other African economies, but they fail to realise how inferior the performance of the South African first economy is to the economic performance of other resource-rich emerging countries such as Chile or Malaysia.

Thus, South Africa faces serious challenges regarding the metalevel. There are fundamental disagreements about the preferred development model, and they are related to fundamental misconceptions regarding the performance of the current development model. As a result, the systemic competitiveness of South Africa is lower than that of other countries with a comparable income level. At the metalevel, fundamental disagreements stand in the way of a consistent effort to build competitiveness. At the macrolevel, government tolerates or even sustains monopolies, so that at the microlevel markets are not quite as competitive as they should be, and the competitiveness of many sectors is low by international standards. The mesolevel is seriously underdeveloped, and those segments of the business sector that seriously strive to improve their competitiveness cannot build on a dense landscape of supporting organisations in the way their competitors in other countries can.

5 Consequences for LED and local strategy formulation in South Africa

The assessment of the overall systemic competitiveness of South Africa applies to local and regional economies to different degrees. A few metros, most notably in Gauteng, appear to have achieved a level of systemic competitiveness that is relatively high, even compared with other middle income countries. Other metros are lagging behind, and other regions and locations tend to be somewhere between third and fourth world.

What consequences does this have for territorial development initiatives? First and foremost, it must be pointed out that LED as a change process, as an effort that goes beyond small, incremental efforts, requires a certain degree of strategic alignment among the key stakeholders in a given location. In South Africa, this alignment cannot be taken for granted. Thus, any LED initiative ought to be set up in a way that leads to strategic alignment along local stakeholders. Strategy formulation is impossible in a situation where key stakeholders fundamentally disagree about basic economic development orientations. In this situation, a strategy formulation effort generates results that, from a genuinely strategic perspective, are trivial. It is easy to agree on, say, bringing electricity and clean water to poor communities. Yet this has absolutely nothing to do with strategy. Strategy is about making choices. Strategy is about prioritising certain sectors, approaches and activities over others. Strategy is about stakeholders having a shared perspective at where the main development potential of a territory lies, and at how to leverage it through efforts that aim at creating a location-based competitive advantage (Porter 1998).

It is difficult to formulate an explicit strategy when stakeholders strongly disagree about priorities, e.g. industry vs agriculture vs services or high-tech vs low-tech.

This kind of disagreement is common, though, and it can be addressed through research and a conversation among stakeholders where options and choices are assessed in a sober, objective manner.

Things are quite different when stakeholders disagree about the fundamental approach to development. In the face of antagonistic controversies regarding capitalism vs socialism, free markets vs etatism and promoting competitiveness vs focusing the entire development effort at directly alleviating poverty, it is impossible to have meaningful conversation on strategy. An effort to mount such a conversation will necessarily lead to a multi-stakeholder monologue. Since this monologue is to a significant extent driven by ideology, feeding the participants with more information based on research makes little difference.

There are, thus, two entirely different constellations with respect to territorial development initiatives in South Africa.

1. There is a rather small number of locations where stakeholders have moved beyond antagonistic, fundamentalist discussions and where it is widely accepted that improving competitiveness is a crucial goal and a top priority. In this setting, in all likelihood a significant amount of data gathering and qualitative research has already been done. So the main challenge is not to do more research but rather to initiate a conversation where stakeholders assess the available research results, digest them, and prioritise development options. This may immediately lead to an agreement on strategy, i.e. developmental priorities regarding the effort to build a local competitive advantage. However, it is not mandatory to reach this agreement at such an early stage. It is perfectly possible, and sensible, to launch a limited number of development initiatives which are, to some extent, exploratory in nature, and then to assess how different initiatives, and the sectors they address, are going. If in this type of location the LED process has already matured, it may even be possible to have a conversation on strategy.

2. There is a much larger number of locations where stakeholders fundamentally disagree on development approaches and priorities. In this type of location, calling the stakeholders together to have a conversation on development strategy will necessarily be a frustrating, and indeed a paralysing, experience. Instead, one might prefer to launch a process that involves only a selected group of stakeholders, namely those likeminded organisations and individuals that can agree on fundamental development priorities and find it useful to engage in collective action to address opportunities and challenges that they have in common.

In the first type of location, a wide set of stakeholders can be involved in a conversation on strategic priorities around the objective of building a competitive ad-

vantage. In the second type of location, it is much more complicated to devise a promising LED approach.

6 Systemic Competitiveness and approaches to LED

6.1 Locations with antagonistic stakeholders

Established LED approaches tend to assume that local stakeholders can easily agree on the overall objectives and then engage in a process of prioritising activities. They do not anticipate a situation where stakeholders in a given location hold antagonistic views about the preferable development path and pattern.

Imagine a location that is economically not particularly strong. Commercial agriculture is one important source of income, manufacturing of metal products in a few medium-sized companies is another one. The location does not have a clear specialisation profile. Competitiveness of producers and manufacturers depends primarily on their in-house effort (micro-level). The is a local business association, but it is little more than a social club. Support structures are rudimentary; the most important one is a public vocational school that offers a variety of basic, generic skills (meso-level). Local government provides infrastructure, but with no particular focus at the needs of companies; its main focus is at voters, and paving roads and providing clean water in residential areas, including poor neighbourhoods, is a promising way of securing votes. Local government interacts with companies primarily in those areas where it has a statutory task to fulfil, for instance by emitting permits whenever they erect some new structure. This is pretty much a routine affair, and local government is not concerned about the delays that often occur (macro-level). In fact, local government could not care less since it perceives commercial farmers and SME owners as the rich guys, those who spend a lot of money on upgrading the local golf course but try every possible way to minimise the taxes and fees they have to pay (meta-level).

In this kind of location, LED needs to be conceptualised as a fundamental change process. Territorial development thinkers have spent some thought on how to transfer change management concepts and tools from organisational development to territorial development.[1] Transfer is not easy and straightforward because territories (i.e. local or regional economies) are different from organisations in several respects. For instance, a territory does not have an obvious overarching reason for its existence; it does not have a CEO who can essentially order change to

1 See, for instance, Hummelbrunner et al (2002).

happen; and territorial change processes necessarily have to be open-ended, whereas in an organisation they are often focused at a clear deliverable.

Let us have a closer look at the last point. In an organisation, a change process will often be initiated by a change in the environment. One example are changes in legislation that force certain organisations to change their procedures; the impact of anti money laundering legislation on banks would be typical example. Another example is the emergence of new competitors who pose a serious threat to incumbents in a given market and force them to seek for new, innovative, disruptive ways to improve their competitiveness. In the first case, the result of the change process is that the organisation complies with the new legislation and that the affected employees change their work practices in a more than superficial way. In the second case, the result of the change process is that the organisation meets new performance benchmarks.

In a local economy, the starting point for a change process is less clear-cut. The territory is not going to disappear as a result of other territories becoming more competitive. Sure, this local economy will lose jobs, and prosperity will decrease. However, in today's complex economic reality it is difficult to attribute this clearly to the superior performance of competing territories. Decline of a local economy will tend to reinforce fundamental political disagreements, with fundamental critics of a competitiveness-focus of economic development yelling "neoliberalism!" at those local stakeholders who defend a pragmatic approach to local economic development that is based on business principles.

For organisations that compete in markets, i.e. companies, competitive pressure is a strong stimulus for change. For territories, it is an important learning step among local stakeholders to understand that they are part of a competitive game that involves various locations. In a location with antagonistic relations between key stakeholders, such a learning process will not happen easily or quickly.

When contemplating on how to launch an LED process, an LED practitioner can benefit from the thinking of experts on change management. One of them, Peter Senge, highlights the following five principles for the launch of a change process (Senge et al 1999, 55 f):

1. While nothing happens without commitment, initial commitment is almost always limited to a handful of people.

2. Start small, grow steadily.

3. Intended results and useful tools are more important than a detailed plan.

4. If you're short of time and you're up against the wall, fix the crisis first.

5. Remember that leverage lies in the limits and that they will come.

Let us have a closer look and investigate what these principles mean at the outset of an LED process.

1. Commitment: Even when there is widespread agreement that something needs to be done to stimulate the local economy, it is unlikely that you can immediately mobilize a huge group of active supporters. Rather try to identify likeminded people in different sectors and create a core group that initially drives the LED process.

2. Start small, grow steadily: Don't start your LED process with a huge effort to mobilize each and every stakeholder for a Vision & Strategy Event. Also don't start with a huge and costly research effort. Rather involve the core group in a rapid assessment of the local economy, identify quick-win activities, and implement them. Success breeds success. If other stakeholders see that LED is actually delivering results, more will come on board.

3. Results and tools vs plan: As long as you don't know who is going to support you, there is no point in preparing a comprehensive plan. Again, it is quick wins that count, and after that more achievements. Make sure that you use available tools, in particular to avoid series of boring and unproductive meetings that turn off those highly motivated individuals who want to do something, and not just talk about it.

4. Fix the crisis: Imagine that it is not the nagging of some councillors which has the mayor order a local government official to do something about LED. Imagine that instead the starting point is the declaration of the largest local employer that it will shut down its factory shortly. In such a situation, the advice to grow an LED process organically over time obviously does not apply. Instead, you must respond massively – send the mayor to corporate headquarters to try to change the decision, send the mayor to the capital so that political pressure can be exerted, or contract a consultant to check whether a management buy-out may be an option.

5. Limits and leverage: There is only so much the core group can do. In fact, its members may reach the limits of their skills and time availability quickly. This, however, is not necessarily a crisis but rather a strong incentive to learn and to actively seek other stakeholders who can be involved in the process. New stakeholders bring more skills, more resources, and more creativity.

It is not particularly difficult to adapt Senge's principles to a territorial development process, in particular in a setting where significant obstacles to change exist. These obstacles are mostly related to metalevel factors. Territorial change management can address the metalevel factors that stand in the way of dynamic local economic development in two different ways, namely directly and indirectly.

An **indirect approach** would be based on self-selection of like-minded local stakeholders. It would involve a selective, targeted LED process that aims at quick-win activities and only over time move towards strategic interventions that require broad support. The expectation would be that such a selective approach would initiate a virtuous circle. As quick wins would start to happen, and the core group of stakeholders who drive the process would start to advertise them, more local stakeholders would get interested in participating in the process. Behind this expectation is the following reasoning. In a location with antagonistic relationships, some stakeholders are proponents of one of the extreme positions, while others are undecided. Like swing voters, the latter are attracted by that group that offers the more convincing advantages and achievements, and if the business-focused LED process delivers results, they would be attracted to this process and the group that drives it. Over time, as the tangible results of LED mount, the antagonistic opponents would become increasingly marginalised, and ultimately irrelevant. In other words, change at metalevel would happen in an incremental way, as an indirect effect of practical activities that will probably address micro- and mesolevel issues.

A **direct approach** would address the mental models of stakeholders and the relationships between them in an explicit way. It would try to launch a learning process. In this regard, it is important to understand that learning is not necessarily the result of training, let alone teaching. Territorial change management processes that directly address metalevel issues would rather use one of the following approaches:

- An analysis of the local economy that is conducted by local stakeholders themselves, guided by external facilitators: Local stakeholders often believe in "truths" regarding the local economy that under closer inspection turn out to be myths. As stakeholders' propensity to believe in certain myths is directly related to their ideological predisposition, demystification will lead to a change in thinking, at least among those stakeholders who do not belong to a small group of ideological stalwarts. It is crucial that local stakeholders themselves conduct the analysis; research that is conducted by external consultants is routinely refuted by those local stakeholders that do not agree with the findings.

- Direct communication between antagonistic stakeholders: If antagonistic stakeholders are invited to participate in a conversation that follows a traditional format, they will have the traditional conversation, and change is extremely unlikely to happen. In order for direct communication to have any chance of inducing change, it must be based on unusual, innovative formats, and it should occur at unusual places. A conventional conversation among stakeholders tends to be a multilateral monologue rather than a dialogue. It is thus crucial to organise events that systematically discourage any attempt to

exchange the usual arguments in the usual way. Robust formats that take local stakeholders beyond the usual monologues are, for instance, the LED Café (InWEnt and mesopartner 2005) and Regional Foresight Exercises (e.g. FOREN 2001).

- Communication through media and public relations: Preaching alone will have little impact on stakeholders' thinking. However, complementing approaches like the two mentioned before with a consistent multi-channel communication approach that uses electronic and print media, the Internet, public seminars and other formats is a practical way of reinforcing an ongoing learning process.

In a setting with antagonistic stakeholders, it may be an option to pursue either a direct or an indirect approach. It is more promising, though, to pursue both of them at the same time so that they can reinforce each other.

6.2 Locations with aligned stakeholders

Locations where stakeholders more or less agree on the description of the reality, have a shared perspective of what they want to achieve with an LED effort, and can agree on practical interventions, still pose a challenge in terms of systemic change and change management. In this case, it is not the steep challenge of getting beyond ideologically based antagonisms, but the less daunting challenge of getting beyond incremental LED activities. In this type of location, it will be relatively straightforward to mobilise local stakeholders for quick-win activities. However, they will achieve little more than incremental upgrading. This may be sufficient, but probably it is not since many locations in many different countries are constantly upgrading their locational quality. However, local actors would ask: Why change the system? Why fix something the isn't broken?

In order to identify entry points for LED interventions that go beyond incremental upgrading it is useful to conduct a qualitative benchmarking exercise. Qualitative benchmarking is a method which has successfully been applied for company benchmarking. It is fundamentally different from quantitative benchmarking. Quantitative benchmarking methods, which are being applied both for companies and for regions, are often difficult since many data are not available or not consistent. Moreover, they often do little more than indicate problems which are obvious anyway. Qualitative benchmarking looks at key factors which determine successful development – be it of a company or a region – and then applies a scoring model which is based on group discussions with key stakeholders. The company-related approach has been described by Collins, Cordón and Julien (1996); its applicability in a developing country setting has been demonstrated in Brazil (http://www.iel.cni.org.br/html/made_in_brazil.htm). In the Annex, you

find a checklist to apply this type of approach for territorial benchmarking. It is based on a questionnaire that is supposed to help practitioners in getting a better understanding of the systemic competitiveness of the location they are investigating. This questionnaire is designed for use in interviews or for application in a workshop with a group of local stakeholders. It provides them with a list of features which define the difference between poor and high-performance localities. A high-performance locality would score high on most, if not all features.

This qualitative benchmarking framework is informed by the systemic competitiveness concept, but as such it is additive rather than systemic. It does not address systemic interaction between factors at different levels. In order to do this, and thus achieve a deeper analytical understanding, one has to map the interaction between factors at different levels. In a workshop setting, an experienced practitioner would consider to apply participatory systemic tools like the Paper Computer.[2]

In a location where meaningful collaboration between local stakeholders is possible, it is crucial for them to guide their activities not only by acute problems and opportunities, and certainly not by the fact that some things are inconvenient.[3] Instead, they need to identify strategic priorities and have them guide their actions. The systemic competitiveness concept is useful in the identification of such priorities.

7 Conclusion

Our understanding of large scale systemic change is still in its infancy. It is quite clear what is *not* going to work, for instance strategic planning approaches that consistently fail to understand the relevance of either feedback processes within the system (Dörner 1989) or radical change in the external environment. It is also clear that an effort to stimulate and manage systemic change at the level of very large aggregates, such as a national economy, is hugely complicated; the experience with transitions to democracy in former authoritarian societies (Haggard and Kaufman 1997) or with transitions to the market economy in former socialist countries (Svejnar 2002) underlines this insight.

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2 The Paper Computer is a tool that has been developed by Frederic Vester. A brief description is available at http://www.economy-point.org/p/paper-computer.html.

3 Local stakeholders frequently guide LED activities at issues that are inconvenient, such as traffic problems. Addressing such an issue can make life for local people more comfortable, but it does not create a competitive advantage.

Compared to the challenge of managing the change of an economic system in an entire country, the challenge to manage change in a local economy appears less daunting. Seen from this angle, local economic development and other territorial development approaches offer something like a “real life laboratory” to researchers of large scale systemic change. LED processes are complex, but they are not too complex. It is still possible to reconstruct the relationships between causes and effects, and the feedback mechanisms that lead to intended and unintended results. At the same time, as the field of territorial development is still travelling on a steep learning curve, i.e. can rely on proven and robust concepts only to a limited extent, there is a huge opportunity for systemic change researchers to frame their concepts in a way that makes them applicable for practitioners, and thus to test them in a real world situation.

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Annex: Benchmarking-table to assess territorial Systemic Competitiveness

Metalevel

Points:	1	2	3	4	5
Government	Local government agencies are not interested in economic development		Local government agencies show some interest in economic development, but it is not their top priority		For local government agencies, economic development is a top priority
Entrepreneurship	Businesspeople enjoy little respect and social prestige		Businesspeople are respected, but other professions are more prestigious		Businesspeople are highly respected, and becoming a businessperson is preferred option
Organizations	There are no or weak business organizations. They have a small membership base.		Business organizations are mostly dominated by local leading businessmen which pursue their own agenda		Business organizations have a broad membership base and are internally organized in a democratic, transparent way. They are representative of the private sector
Policy networks	There are no effective means and channels of communication and negotiation between local government and the private sector		There are some means and channels of communication and negotiation between local government and the private sector, but they are on an ad-hoc basis		Local government is consulting the business sector on key policy decisions, and there is an ongoing practice of problem-solving-oriented negotiations between both sides
Vision, development strategy	There is no shared vision regarding the development goal and strategy of the locality		There are competing views regarding the development goal and strategy of the locality		Key stakeholders agree on a development goal and strategy of the locality

Macrolevel

Points:	1	2	3	4	5
Finance	Local government is financially broke and has no means of fulfilling tasks which are elementary for economic development (infrastructure, education, health)		Local government is suffering from budget restrictions, but it fulfills its elementary tasks		Local government is financially strong and can make funds available for economic development projects
Red tape	There is a dense web of laws, regulations and permits which make doing business really difficult, and local government is doing little to simplify things		There are numerous laws, regulations and permits but local government is trying to reduce them		Government is streamlining laws, regulations and permits, and it is committed not to let them stand in the way of business
Business mindedness	Local government officials have no idea what running a business involves, and they do not care		Local government understand that running a business is not easy, but still they interact with companies in a bureaucratic manner		Local government is dealing with companies in a business-like manner
Corruption	Most interaction with government involves a bribe		Businesses do not have to bribe government officials, but it makes processes much swifter		Very few government officials would accept a bribe, and few businesses to try to bribe an official

Mesolevel

Points:	1	2	3	4	5
Policy	There are few defined economic and business promotion activities		Government and other institutions have defined economic and business promotion policies, but they are fragmented and ideosyncratic		Government and other organizations systematically and coordinatedly adjust and develop their economic and business promotion policies
Evaluation	Governmental economic development and business promotion organizations are not evaluated		Governmental economic development and business promotion organizations are only occasionally evaluated		Governmental economic development and business promotion organizations are regularly evaluated
SME promotion	Institutions do not respond to the needs of companies		Only some institutions respond to some extent to the needs of companies		Most institutions respond with their offers to the demand of companies
Chamber	The Business Chamber is little more than a club of some local business leaders		The Business Chamber has a few professionals and is organizing activities such as legal advice and seminars		The Business Chamber is highly professionalized and offers a broad spectrum of services
Business Associations	There are no operational sectoral business associations		The capacity of sectoral business associations is limited, e.g. to ad-hoc lobbying activities		Sectoral business associations play a crucial role in organizing exchange between companies and supporting their upgrading effort

Mesolevel (continued)

Points:	1	2	3	4	5
Secondary training	Local institutions do not respond to the needs of companies and the labor market		Only some institutions respond to some extent to the needs of companies and the labor market		Most institutions respond with their offers to the demand of companies and the labor market
Higher education	Local institutions do not respond to the needs of companies and the labor market		Only some institutions respond to some extent to the needs of companies and the labor market		Most institutions respond with their offers to the demand of companies and the labor market
Technology institutions (if existent)	Institutions do not respond to the needs of companies		Only some institutions respond to some extent to the needs of companies		Most institutions respond with their offers to the demand of companies
Development finance institutions	Institutions do not respond to the needs of companies and the labor market		Only some institutions respond to some extent to the needs of companies and the labor market		Most institutions respond with their offers to the demand of companies and the labor market
Co-ordination	There is little communication and no co-ordination among mesolevel institutions		There is some amount of communication and co-ordination among some of the mesolevel institutions		Communication and co-ordination among mesolevel institutions is a well-established practice

Microlevel

Points:	1	2	3	4	5
ISO 9000	There are no or only a handful of certified companies in the locality		In the main industries, only a minority of companies is certified		In the main industries, the majority of companies is certified or preparing for certification
Benchmarking	Hardly any company is involved in any systematic benchmarking effort		In the main industries, only a minority of companies is pursuing a systematic benchmarking effort		In the main industries, the majority of companies is pursuing a systematic benchmarking effort
Specialization	In the main industries, most companies are producing the same or very similar products		In the main industries, there is some degree of specialization between companies, both in terms of final products and in terms of production steps along the value chain		In the main industries, there is a high degree of specialization between companies, both in terms of final products and in terms of production steps along the value chain
Informal collaboration	In the main industries, there is little or not informal collaboration between companies		In the main industries, there is some degree of informal collaboration between companies, e.g. mutual support after a key machine broke down		In the main industries, there is a high degree of informal collaboration, e.g. constant exchange about new trends in technology and markets
Formal collaboration	In the main industries, there is little or not formal collaboration between companies		In the main industries, there is some degree of formal collaboration between companies, e.g. joint visits to foreign fairs		In the main industries, there is a high degree of formal collaboration, e.g. joint purchasing / sales, export consortia, technology alliances