Competitive Strategies Applied to Regional Development: The Case of Regional Productive Development Agency

Abstract

The purpose of this document is to present a review of the theoretical discussion about competitiveness theories and its application in public policy, which arise from the joint public-private effort to decentralize functions of regional development. In this context, 2006 was created in Chile, the Regional Development Agencies, with the legal form of Committees of the Corporation for the Promotion of Production. The main findings are the poor participation in the acquisition of resources for developing, especially in areas which private interest do not consider profitable. The distribution of income depend on the region characterized for institutions highly centralized in the capital, lack of autonomy and resources according the location of the Regional Productive Development Agencies (ARDP), in addition to the shortage of a comprehensive structural approach to rural development in the country.

Keywords: Strategies, Regional Development, Competitiveness,

Introduction

The classical or traditional economic theory and the one of international trade developed during the XIX century served as a platform for the emergence of new theories that gave rise to the competitiveness theory (Lombana, 2009). Adam Smith believed that the absolute advantage, generated through national specialization, minimized absolute costs and maximized benefits, making commerce the main driving force of the development of the peoples. Later, David Ricardo developed the theory modifying absolute costs to relative, and
including important factors such as factor endowment within a framework of perfect competition.

Competitiveness has become one of the fundamental issues in macro and microeconomic development. Nations of several regions of the world institutionalize competitiveness, thus justifying private and public policies in a constant effort to promote human, natural and infrastructure resources in an attempt to increase the Gross Domestic Product (GDP) and improve social equity and inclusion.

This article presents a research proposal composed of a summarized revision of the literature regarding the principal international trade theories and the competitiveness and their application to public policies and policies, which gave rise to the development agencies in Chile and the environment in which they have manifested. In the methodology, there is an explanation of the way in which agencies operate and the application of the Methodology of the Plan of Competitiveness Improvement (Plan of Municipal Improvement, PMI) and the Dalberg Group Model (2015) in such agencies and continue with the analysis of the situation in the poorest Regional Production Development Agency in the country. Finally, possible solutions to the findings obtained are proposed in the results by analyzing the information, elaborating recommendations and questions considering the region as an analysis unit.

**Economic Theories, International Trade and Competitiveness**

The analysis starts by stating the key economic theories regarding international trade and competitiveness, establishing their scopes in reality. In the study of the classic economic theory, the main models are the theory of Smith (1904), who researched the causes of trade and wrote about specialization, where each country freely focuses on what they can most efficiently produce, calling this phenomenon “comparative advantage”. In the classic comparative advantage, analysis, costs, labor and capital are managed. The fundamental criticism to these theories is that they are unrealistic, since they do not determine the
establishment of international prices. However, the fact is that the lowest opportunity cost for an asset has a comparative advantage for that asset and a comparative disadvantage for another asset not owned (González, 2011). The theory of Ricardo (1821) assumes constant marginal costs, thus we could assume that every country would maximize profits if they specialize in the production of the asset for which they have a comparative advantage.

The advancement of international trade leads us to develop a different economic dynamic, so in 1933, with Heckscher-Ohlin’s theory, an explanation emerged on why relative costs are different among countries. The issue arises when two countries export the same product, thus the business pattern cannot be predicted except by integrating the variables of the relative prices and the technological boundaries.

Following this line of interpretation, after World War II, international trade grew and new trade theories emerged. During the seventies, most trading was intra-industry or two-way, (Baraibar 2012). Thus, trade grows more evidently with similar assets and characteristics and between countries of a similar level of development.

Literature emphasizes that, due to the different factor endowments, markets are inclined towards a different consumption, which poses more complex scenarios of business competition between countries. Krugman (1994) claims that, in general, companies take better advantage of their economies of scale because they have a larger price range against international competition, and consumers can choose between a wide variety of products.

**Competitive Growth Policies**

There is a large number of different opinions about the concept of competitiveness. For this work, we take the definition from the United States Competitiveness Council that has merged the performance of foreign trade and global productivity into a single concept. Thus, regarding the work of Warner (2005), it shows that competitiveness is the ability to produce assets and services that stand the test of international competitiveness, while citizens enjoy an
increasing and sustainable standard of living. StoneHouse & Snowdon (2007) define competitiveness in the words of Porter as the production efficiency that leads to product and service value, measured by the prices paid in the free markets. It does not directly emphasize productivity, contrary to Krugman’s definition (1994), but both agree that there are no specific policies to create productivity, since the overall environment has an impact on its conception and development. Productivity is focused primarily on the companies that create products and unique services – highly distinguishable and with added value – through efficient methods primarily based on knowledge innovation and generation, with direct repercussions on overall cost and quality of life of the consumers and the micro and macroeconomic environments. On the other hand, Krugman (1994) bases his vision of competitiveness on the very new international trade theories of the work of Gonzalez (2011), where interesting features have been found through the models of Melitz and Bernard regarding international trade, stating that there are exporting and non-exporting industries, the latter showing less productivity. In regards to trade liberalization, exporting industries provide a better standard of living, employment and wages to their workers. The latter contributes to innovation, generates knowledge and learning takes place and becomes a constant of infinite, competitive business advancement. Figure 1.

Figure 1. Model of Competitive Advantage
Although in Porter’s model – according to Stonehouse & Snowdon (2007) – government is not an endogenous variable, other cases like World Bank recognize in the international economic activities the performance of the States, which global economic indicators currently show having significant improvements for their involvement. However, it is still important for the economies to avoid stagnation in matters of public polices so this indications of economic catalysts become a reality, as pointed out by Kaushik Basu, executive vice president and economist at World Bank (Banco Mundial, 2014). This reinstates the position of the States – through governments – as having an active role in the economic development, idea also supported by Romo & Musik (2005) and Devlin & Moguillansky (2009).

The new competitiveness theory states that “economic agents are able to create comparative advantages through private agent strategies or public business policies” (Lombana 2009, p. 5). This predominantly refers to the creation of environments that consistently support the sustainable regional and national productivity growth.

In this way, speaking in a historical framework of commercial development, the first development agencies emerge as part of the public policies oriented towards competitiveness, established in Europe in response to the economic crisis caused by the effects of World War II, the economic decline and the economic crisis of that period. These agencies had the responsibility to rebuild devastated regions. Initially, they were a short-term response, and it is estimated that there are probably more than 15,000 around the world (Clark, Huxley & Mountford, 2012), all of them primarily backed up in Latin America by the Inter-American Development Bank (IDB), the Organization for Economic Cooperation and Development (OECD) and the Economic Commission for Latin America and the Caribbean (ECLAC).

Analysis of Public Policies and Programs Focused towards Chilean Competitiveness
Public-private cooperation includes governmental and specific policies in which all participants of the productive processes interrelate with each other, delivering results that can be contextualized within the current competitiveness models (Guaipatin, 2007). Within the neostructuralist approach mentioned by Devlin & Moguillansky (2009), there are important requisites for public-private partnerships to be an efficient tool for the development strategies in the world.

In Chile, the development of raspberry marketing mentioned by Guaipatin (2007) is an important historical reference, where from 1970 the Production Development Corporation ( Corporación de Fomento a la Producción [CORFO]) developed a fruit-growing plan including the University of Chile and the Agricultural Research Institute (INIA) (Jarvis, 1994).

It is important to mention that, according to Lombana (2009), governmental activities are essential for the development of competitiveness through the generation of clusters linking exportation to the industry, government, society, formal small and large businesses, environment, infrastructure, technology, university and research centers, and also work together in the face of a latent international demand.

Reality shows that, although developing countries have the intention of seeking competitiveness, efforts are isolated, disjointed and lack cohesion among their members. Are the old win-lose strategies managed within the business-work relationship with meager wages by regions and the continued poor health and education conditions? (Jarvis & Vera-Toscano, 2004); because with this circumstance it becomes impossible to think in international competitiveness models, thus the policies or institutions created to that end.

The National Council on Innovation for Competitiveness (Consejo Nacional de Innovación para la Competitividad [CNIC]) was created in 2005, and in 2006 the first ARDPs where set up to expedite decentralization, establish a public-private participation model,
develop Small and Medium-Sized Businesses (PYME), and reengineer the institutional structure of productive development according to Devlin & Moguillansky (2009).

As stated by Stonehouse & Snowdon (2007), competitiveness according to Porter results from studies indicating regional resources, determining available factors, demands, strategies, business structure and value chains, among others. This refers to finding niches in which countries – in this case Chile – could successfully compete in international markets capitalizing on their territory, geographic location, abundant natural resources, human resources and economic stability. Indeed, during 2005 this strategy was implemented in Chile and development programs continued to be launched. Table 1.

Table N°1
Generation of Programmes and Actions to Focus on Competitiveness 2006-2014.

<table>
<thead>
<tr>
<th>Year</th>
<th>Initiatives</th>
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</table>
| 2006 | Corfo Technological Nodes  
Conicyt Regional Programme  
Corfo Clusters Programme  
MOP Ministry of Public Works (Ministerio de Obras Públicas - Infrastructure Plan for the Competitiveness 2007-2010)  
Subdere/BID Provincial Offices of Productive Development (Bío-Bío, Los Lagos and Valparaíso Region).  
Subdere National Fund for Regional Development. |
| 2008 | Innovation for Competitiveness Fund (FIC) |
| 2011 | National Consumer and Financial Service (Sernac), Competitiveness Impetus and a Law which accelerate the Creation of Businesses |
| 2013 | SERNATUR National Estrategy of Tourism, Turism Service  
GP Competitiveness Impetus Agenda. (Government Programme)  
Transparency Project in Business Transactions of Farming Products  
Incentives to the Incorporation of Small and Medium size enterprises (PYMES) to the Financial Markets. Year of Innovation: Access of Small and Medium size enterprises (PYMES) to Communication and Information Technologies (CIT)  
Learn and Launch Programme  
Start-Up Programme  
Digital Agenda 2013-2020 |
Productive Development

The program Chile Emprende, which started in 2001 and from 2005 was named this way, ran in parallel. This program is currently managed by a board comprised by Indap, Fosis, Sence, Minecom, Subdere and Sercotec, institutions which, in turn, provide the resources and tools for the development and actions arising from a participative process of territorial planning followed by programs and actions in favor of competitiveness development.

During the last Concertacion government led by then-President Bachelet, the territorial economic development policy of Chile focused on competitiveness improvement and the economic development of the country (Ropert, 2009). All the initiatives were implemented pointing to that direction, in which resource allocation is given based on the national development strategy and public policy support of economic growth and productive development to improve the value chains formed or that may be formed in Chile.

Economic and Productive Development Regional Agencies in Chile

Currently, there are fifteen of the original thirteen Economic and Productive Development Regional Agencies (ARDP) in Chile (Gobierno de Chile, 2015). That came into being with the intention to promote the country’s competitiveness improvement and economic growth through a development strategy proposal with public policies and programs aiming to improve the competitiveness of the high potential value chains seizing the assets of the territories involved.

The ARDPs emerged as a public-private partnership proposal, according to Devlin & Moguillansky (2009), to “expedite the decentralization of the decisions on productive development at a subnational level” (p. 9). However, the government that created ARDPs and the following government were not able to integrate the tools that would enable an optimal

\[\text{Source: Prepared by the author based on the informations of (Ropert, 2009), Ministry of the General Secretariat of the Presidency (2013), Corfo (2014) and Chilean Tourism National Office.}\]
formulation of adequate policies for the public effort. Resources, as rightly pointed out by the CNIC (2014), are “absorbed by the system” instead of being vehicles that allowed to inject annual fresh resources to increase the level of public investment in innovation (p. 3). Therefore, different instruments are required to increase the promotion of productivity more rapidly and to mainstream more entrepreneurs to the growth and development process of the country. The economic concentration in a few individuals, the difficult access to bank financing, and the absence of a sustainable short and long-term public policy has prevented innovation and productivity to match the needs of a country that requires greater investment. According to Frigolet (2012), competitive advantage continues to be based in natural resources without adding the added value. Within this context two constant themes arise from the general debate in the country competitiveness and poverty.

**Characteristics of Region IX - Araucania – (Social) the Poorest Zone in the Country – Wealth (Resources) ratio.**

Within the current poverty situation, of the 15 regions comprising the Chilean territory, Araucania is the poorest region of the country; 27.9 percent of the population is below the line of poverty; 16.2 percent is poor non-destitute, and 5.3 percent is destitute. Table 2. This table also shows the 12 regions which currently have a Productive Development Agency in the area.

<table>
<thead>
<tr>
<th>Region of Tarapacá</th>
<th>(%) 8.2%</th>
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<tr>
<td>Region of Antofagasta</td>
<td>(% 4.0%)</td>
</tr>
<tr>
<td>Region of Atacama</td>
<td>(% 7.3%)</td>
</tr>
<tr>
<td>Region of Coquimbo</td>
<td>(% 16.2%)</td>
</tr>
<tr>
<td>Region of Valparaíso</td>
<td>(% 15.6%)</td>
</tr>
<tr>
<td>Region of Del Libertador General Bernardo O'Higgins</td>
<td>(% 16.0%)</td>
</tr>
<tr>
<td>Region of Maule</td>
<td>(% 22.3%)</td>
</tr>
<tr>
<td>Region of Biobío (+)</td>
<td>(% 22.3%)</td>
</tr>
<tr>
<td><strong>IX Region of Araucanía</strong></td>
<td>(<strong>27.9%</strong>)</td>
</tr>
<tr>
<td>Region of Los Lagos</td>
<td>(% 17.6%)</td>
</tr>
<tr>
<td>Region of Aysén del General Carlos Ibáñez del Campo</td>
<td>(% 6.8%)</td>
</tr>
<tr>
<td>Region</td>
<td>%</td>
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<td>---------------------------------------------</td>
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<tr>
<td>XII Region of Magallanes y de la Antártica Chilena</td>
<td>5.6%</td>
</tr>
<tr>
<td>XIII Region Metropolitana Santiago</td>
<td>9.2%</td>
</tr>
<tr>
<td>XIV Region of Los Ríos (+)</td>
<td>23.1%</td>
</tr>
<tr>
<td>XV Region of Arica y Parinacota (+)</td>
<td>14.6%</td>
</tr>
<tr>
<td>MEDIA NACIONAL</td>
<td>14.44%</td>
</tr>
</tbody>
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This is the region’s development priority, attempting to optimize the use of available resources to obtain the highest volume of wood in the shortest time possible in small tracts of land with the least environmental impact. The contribution to the regional GDP, according to Central Bank of Chile (Banco Central, 2012).

**Productive Development Regional Agency of the IX Region**

In 2009, the statutes for an institutional reengineering were being drafted, which gave rise to the Regional Agency of Productive Development in Araucania (ARDPA). The provincial governor of Araucania, joined by some deans of regional universities, CORFO, Sercotec and Regional Cooperatives for 2012, gained the approval, becoming a private corporate entity and undertaking projects to improve the competitive capacity of the regional economy, promote decentralization. Figure 2.

![Regional and Comunal Planning Tools](image)

Figure 2. Existing Public and Private Institutions in Araucania, in charge of the Regional Development
**Characteristics of the Companies**

According to the Internal Revenue Service (Servicio de Impuestos Internos [SII]), there are over 48,274 companies operating in the IX Region, which is approximately 4.8 percent of companies in the country (SII, 2014). As in the rest of the regions, a very large proportion of almost 80.6 percent corresponds to microenterprises and 16.9 to small businesses. Medium-sized businesses comprise only 1.9 percent, and large businesses, 0.6 percent of all businesses in the region.

The main issue here is that the management methodology does not structurally require actors to bear the dynamism of the desired development process (Ropert, 2009). According to Fernandez, (2013), the distribution of income and the lack of opportunities depend on the region on which you live. There is a noticeable increase in the number of businesses not reporting sales for eight years and the fact that these business are not qualified to make a formal analysis of the specific situation of the area.

Temuco has 17,219 businesses and 99,931,730 CPL (Chilean pesos) in sales; Villarrica, 3,285 businesses and 8,620,922 in sales; Angol, 2,604 businesses and 7,758,229 in sales; Lautaro, 1,704 businesses and 12,917,965 in sales; and finally, Padre de las Casas, 1,965 businesses and 9,272,402 in sales, according to the Regional Government of Araucanía (Gobierno Regional de la Araucanía, 2013).

**Regional Competitiveness Index**

The Regional Competitiveness Index (Icore) – generated from 2002 and prepared by the University of Development Centre for Studies in Economy and Business – shows the structural condition differences of the regions of Chile influencing competitiveness in each region (Universidad del Desarrollo, 2011). This indicator considers seven relevant factors with 83 variables each one. These are Individuals, Business management and employment

The most important overall competitiveness index increases for 2011 were 55 percent in Araucania, which came second to last according to the Icore ranking, and came last the five previous years. The regions with the largest gap in regards to the Metropolitan Region are still Maule and Araucania, which ranks 12/15 in the Individual variable. In terms of Business management and employment quality, Araucania reached the 11/15 position. In Infrastructure and capacity, Araucania holds the 15th position (last place). In Innovation, 7/15, and in Infrastructure, the 15th position (last). Direct foreign investment shows no investments by 2012 in the area; however, the sectors obtaining more direct foreign investment from 1974 to 2011 are wood and paper industries, followed by agriculture and agroforestry.

Araucania area is characterized for exporting raw material to other regions, which represents a loss of added value that could be incorporated at a regional level and would generate sources of revenue and employment (Oficina de Estudios y Políticas Agrarias, 2007)]. Similarly, it does not have a sampling and sanitary certification site from the Agriculture and Livestock Service (SAG) and the U.S Department of Agriculture (USDA) for improving its processes applied to fruits and vegetables (FIA, 2009)]. Thus, both the need of innovation resources and the formation of partnerships to promote productivity is clear.

Regional Development Agency Intervention

The ARDP has a Strategic Committee led by the provincial governor of each region, and comprised of relevant representatives of the public and private sectors of the area. During their implementation and deployment, ARDPs progressed in their economic/productive diagnostics of the regions and in the definition – from public and private participation processes – of regional productive development agendas supported by regional consultants. In 2013, the budget to cover the agency’s operations and the transfer of public bidding was
$811.816.657 million pesos, of which only $137.415,657 million were for project implementation, representing 16 percent of the budget, according to data provided by ARDPA (2013).

**Dalberg Methodology Applied to Regional Development Agencies**

The international consulting firm Dalberg Global Development Advisors and The Cluster Competitiveness Group supported the development of competitiveness improvement programs to prepare regional agendas for productive development. Dalberg’s methodology explained by Devlin and Moguillansky (2009) was developed for its application to agencies to create regional clusters. It was divided into four phases intended to be implemented within six months in the region. Phase I was the launching and official characterization of the work to be done. Phase II took into consideration the creation of the PMI Strategy. Third phase was the Action Plan and Monitoring, and finally, Phase IV was the consolidation of the know-how. However, its implementation failed in Araucania.

**Competitiveness Improvement Program**

This program aims to strengthen the clusters that may be created in the regions so each one can establish coordinated actions to improve communication between the public and private sector. The program’s goal is to combine the strategic analysis of the global industry with changes and tendencies as management tools determining the strategic position of the companies, as well as it obtainable options, and identifying the improvement needs in the value chain, hiring a consultant to coordinate the process (Alul, 2010). At the end of these 4 years of work, the outcome of the Araucania’s agency management was that Dalberg’s methodology and the Competitiveness Improvement Program were not successfully implemented.
Devlin & Moguillansky’s (2009) revision of their work mentions that one of the limitations of the ARDPs is the lack of their own budget. As mentioned, agencies have advantages and disadvantages that make them necessary, but this requires a functional structure adequate to the own needs and features of the regions, and this is a central point of their development.

Some of the advantages of the existence of these agencies is them being an institutional and formal space where public and private sector both agree to create future scenarios, bonds of trust are created accessing markets, getting to know each other – entrepreneurs and institutions – in other dynamics.

One of the major disadvantages is the representativeness of the election of committees and their representatives operating inside the entrepreneurial and regional structure.

Conclusions

According to current international trade theories and their liberalization, businesses with little productivity will not be able to compete in international markets and will tend to leave them. For the above, government plays a relevant role in public polices focused on the improvement of innovation and business development activities, so business may internally compete in international markets through prices and quality of the asset or service. This means investing to perfect the entrepreneurial process regarding infrastructure, worker training, decrease production costs and promote the emergence of new businesses in integrated territories.

Public policies and programs are being implemented in Chile aiming to promote economic development and competitiveness, seeking the integration of PYME and the development of clusters. However, the legal and administrative structure used for the development agencies is inadequate due to the duplication of efforts which, instead of
strengthening complementarity, probably create frictions between the economic-politic interests, the regional cabinet and the agency, which has responsibilities but no power, authority or economic resources to make decisions. The dislocation and decentralization are evident among the different programs with similar goals, different responsibilities, and complementary fields of activity. The key point is that it should be made clear by all other sectors where they are directing their efforts and what do they want to lead so the State, public policies, the private industry and public programs develop according to the proposed goal.

The participation of PYME in the agencies of Araucania is low due to the same concept of committee structuration. Consequently, decisions are made in favor of large businesses, and PYME, due to their size and participation in technology and innovation, are not taken into consideration. This is a fatal mistake for value chains if we consider that 86 percent of businesses in the area are PYME.

The capability and the desire to lead this type of projects from the private industry is another issue, since not all of them are organized, have the skills and information to make adequate market decisions and either of them sees a representative value in the partnership.

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