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REGIONAL COMPETITIVENESS ASSESSMENT: THE CASE OF CHINESE REGIONS

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There is now widespread agreement that the regions are the key loci in the organization and governance of economic growth and wealth creation. The credo of competitiveness has attracted various believers and followers. Economists and experts everywhere have elevated competitiveness to the status of a natural law of the modern capitalist economy. To assess a country's competitiveness and to devise policies to enhance it have become officially institutionalized tasks in many nations, e.g. the USA, the UK, Belgium, Italy, the Netherlands and Japan. Also city and regional authorities are themselves increasingly obsessed with constructing local competitiveness indices sp as to compare the relative standing of their localities with that of others, and with devising policy strategies to move their area up the "competitiveness league table" [5, p.991]. The issue of regional competitiveness is subject of theoretical, empirical and policy debate. In an era of performance indicators and rankings it is perhaps inevitable that regions and cities should be compared against each other in terms of their economic performance. It is important to understand that this term does not mean games in which there are losers and winners, but it is a possibility of the region to attract investment. Specialization, efficient resource allocation, innovation and creativity, uses of geographical and resource advantages, etc. – positively affect the economy, not only of a specified region, but also of the whole economy [11]. Competitiveness is generated by the capacity of the region to provide such an economic activity that will affect the dynamic economic growth.

However the new focus on "territorial competitiveness" is itself highly problematic. The very notion is contentious and far from well understood [5, p. 992]. Although the academic literature has been expanding there is still no generally agreed theoretical or empirical framework for answering the questions about the precise meaning of the regional competitiveness, the tools with which it can be measured, the connection between regional competitiveness and prosperity.

We define regional competitiveness as the success with which regions compete with one another over attracting capital and workers which is attained by the effective use of regional competitive potential while maintaining or increasing standards of living of their citizens.

It's important both for the research and the regional governance to differentiate the following definitions: "the sources", "the factors" and "the conditions of regional competitiveness".

Each region has some competitive potential. Usually the sources of regional competitive advantages are based on the regional potential. We suggest the following list of the sources of regional competitive advantages: innovation, information, labor, investment, infrastructural potential and the potential based on natural resources. The presence of an innovative and creative class, the extent and speed of information flows, the quality and skills of the labor force, the scale and quality of public infrastructure and the abundance of capital investment and natural resources are all very important to support and underpin the regional competitive advantages.

We define the factors of regional competitiveness as driving forces of regional development, which assure the effective utilization of the regional resources by means of turning the potential opportunities into the sources of regional competitive advantages. Foreign and Russian researches single out different factors of regional competitiveness. Most of them define the following factors: human, institutional, informational, infrastructural, innovational factors, the factors of availability of natural resources and of geographical position of the region and the attractiveness of the region for the population. We won't define human and natural resources factors and the factor of geographic position of the region among the factors of regional competitiveness. All of them are the sources, but not the factors of regional competitiveness. The factors of regional competitiveness which transform the regional competitive potential into competitive advantages are represented in the figure 1.

Innovation is the key element of high regional competitiveness. Innovation doesn't mean only the new and high technology, but also any improvements in production, marketing, management and organization system. Taking this into account, it is clear how innovations impact on a competitive advantage of some region. The development of innovations is most influenced by the existence and connectivity of research centers, universities, companies, public, financial and other institutions. High innovativeness also requires a suitable environment, infrastructure, and co-operation within clusters of firms.

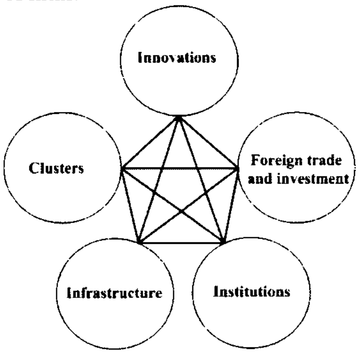

Figure 1: Factors of regional competitiveness

Clusters represent an important component of regional competitiveness. Regions which develop clusters are almost always more competitive than others because they are characterized by greater specialization, better capacity of information and business organization, the positive effects of entrepreneurial networks, etc.

Institutional support applies to government and institutions support to strengthen regional competitiveness. Appropriate regional policies, with the support of institutions (funds, agencies, etc.) generate regional competitiveness and growth.

Domestic and foreign investments are an important determinant of growth and competitiveness of the region. When the investors make investment decision, they usually take into account several regions, choosing at last only the most attractive. The various factors will affect that decision: distance from markets, infrastructure, regulatory environment, cost factors, quality of human capital, entry barriers, social and political stability, and so on.

The development of infrastructure has a major impact on the competitiveness of the region. When we observe a certain infrastructure of the region (which affects its competitiveness), then we think about transport, telecommunications, IT, energy, social, business and institutional infrastructure [3, p. 110].

With the global abolition of trade barriers, the shift of political, administrative and in some cases even the fiscal power to supranational and sub-national entities the regional competitiveness is going to be even tougher than ever for market shares, investment, and skilled workers. The main task for the policy-makers is to search for best practice and innovative territorial policies.

In the case of China, surprisingly little attention has been paid to the experience of the emerging Chinese regions. The financial crisis directly led to a sharp decline in global transnational direct investment meanwhile hurting foreign investment in China. Although China remains most attractive country for foreign investment, China still should timely adjusted policies and adopted a series of initiatives, such as maintaining financial stability and promoting the revitalization of industries and the advancement of technological innovation, so as to create a sound investment environment and provide domestic and foreign companies with new opportunities and room for development.

However, substantial disparity in regional development is a reality in every geographically large country, and the causes of the disparity are numerous and complex. Regional inequality has been an important issue in China. Public concern for regional income disparity in China has been increasing quickly since the early 1990s. The concern for social equity and social stability has led China's top leaders to commit themselves to accelerating the economic growth of the interior provinces. The budgets for infrastructure investments in the poor provinces have increased substantially every year, and a Western Region Development Office has just been established under the State Council (the Chinese cabinet) to formulate a comprehensive development strategy and to coordinate its implementation.

To assess the competitiveness of the Chinese regions we suggest fulfilling the following procedure (figure 2).

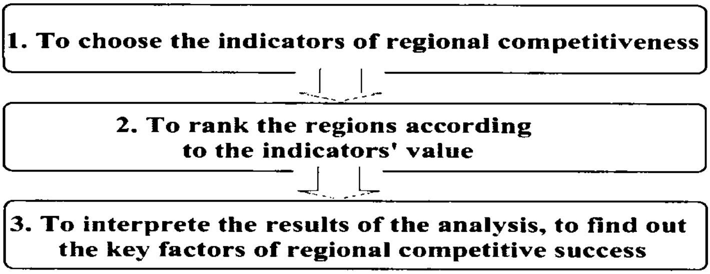

Figure 2: The algorithm of regional competitiveness assessment

We suggest the following indicators of measuring of Chinese regions' competitiveness: GRP per capita; the growth rate of GRP; labor productivity; capital-labor ratio; share of wages in GRP; population life expectancy; income per capita; quantity of R&D personnel; share of expenditure on R&D in GRP; number of students with degrees and diplomas; quantity of R&D projects; share of export in sales revenue of new products; number of patents applications accepted; length of highways, railways and waterways; freight by highways; railways and waterways; investment in fixed assets; export quota; registered capital of foreign investors; geographical position of the region towards the foreign trade borders of China.

After the indicators are esteemed all the regions are ranked according to the indicators' value. We suggest making 6 ranges of regions. Those of the regions which have the minimum value of the indicator are assigned the value of 1 point, those with maximum value – 6 points.

Let's analyze the competitiveness of Chinese regions in 2003-2009 on the base of this algorithm.

The high value both of the indicators of economic development and economic growth and the indicators of the level and quality of life is characteristic to: Beijing, Tianjin, Liaoning, Shanghai and Inner Mongolia. The leaders according to the value of the indicators of the level and quality of life are Hubei, Jiangsu, Shandong, Guangdong. The brightest innovation performance is typical for Beijing, Tianjin, Shanghai, Jiangsu, Guangdong. The most developed infrastructure can be found in Hubei, Inner Mongolia, Anhui, Shandong, Henan, Hubei, Hunan, Guangdong, Sichuan, Shaanxi. The highest value of the indicators of investment and foreign trade development are typical for Liaoning, Shanghai, Jiangsu, Zhejiang, Shandong, Guangdong.

The results of the analysis show that the leader in regional competitiveness among other Chinese regions is Shanghai. The only thread of its high competitiveness is the weak level of infrastructure development.

The results of our analysis are close to the results of Chinese Academy of Social Science research, according to which the most competitive regions/cities of China are Beijing and Shanghai.

Let us examine the sources of Chinese regions competitiveness.

It used to be believed world-wide that the main source of China's economic competitiveness is cheap labor. Up till recently that used to be true. But now the situation changed. Labor costs have risen sharply in the last five years. There are now many countries with a decided labor cost advantage over China. And yet China remains the "factory of the world". For one thing, its workers have higher productivity than those earning lower wages in countries like Vietnam, India or Indonesia.

Nowadays the main source of Chinese competitiveness is cheap factory land. Factories, and other productive assets like mines or logistics centers, are built on land that is either free of close to it. The result is that in China land costs usually represent an inconsequential component of overall manufacturing and operating costs. This, in turn, gives China an inbuilt edge and, when added to the productivity of its workers, an insurmountable cost advantage over the rest of the world.

There is no good international data on the percentage of a company's fixed costs that come from purchase or rental of land. But, it is certainly the case that in China, this percentage will be far lower than in any developed – and many developing – countries. This isn't because land is cheap in China. The market price, in most areas, is often on par with land costs in the US. But good businesses in China don't pay market price. This has two useful aspects for the favored Chinese business. First, it means the cost of expanding operations is limited primarily to the cost of new capital equipment and factory construction. Second, the business given a plot of land is thus endowed with a valuable asset it can use as collateral to secure more funding from banks. Even better, if the business runs into trouble or later goes bust, the owner will be able to sell the land at market price and pocket a huge personal gain [4].

It can't be overstated just how important this is to a business owner's calculation of risk, and so the success of Chinese entrepreneurial companies. Owners know that if all goes bad, they still hold land acquired for little or nothing for that is worth millions of dollars.

All land in China belongs to the Chinese government. Every year, a fraction of it is released on a long-term lease (usually forty years or longer) for development into commercial or residential land. While there is no official central policy to make land available at low prices to successful businesses, in practice, this is the way the system works. Land is sold at deeply-discounted prices, or given outright, to businesses that are seeking to expand, often by building a new factory or office building.

Land in China is in very high demand. It's a crowded country, and only 15% of the land is flat or fertile enough to be suitable for cultivation. This "good land" is also where most new factories get built.

There isn't enough new land released every year to meet the enormous demand. This is true both for residential land, a key reason why housing prices are so high, and commercial land. For most businessmen, it's impossible to get new land, at any price. A privileged group, however, not only gets land to expand, but gets it at artificially low prices. In China, land prices are elastic. Different levels of government have ways to transfer land to companies at prices equal to 5%-15% of its current market value.

Officially, the land allocation system in China is meant to work in a more market-oriented way, with new land for development being auctioned publicly, and selling prices controlled and verified by higher levels of government. In other words, the system is meant to discourage, if not prohibit, land being given to insiders at low prices. In practice, these rules are often more observed in the breach. Local governments have ways to control the outcome of land auctions and so guarantee that favored businesses get the land they want at attractive prices.

These below-market sales deprive the local government of revenue it might otherwise earn from a land deal done at closer to market prices. But, there is some economic logic at work. The sweetest of sweetheart land deals are generally offered to successful companies whose growth is being stifled by insufficient factory space. The new land, and the new factories that will be built there, will increase local employment and, down the road, tax revenues.

Mainly, of course, the losers are the international competitors of Chinese companies getting cheap land to expand. It's hard enough to stay in business these days when facing competition from China. It verges on hopeless when the Chinese companies can build output and lower unit prices because of land they get for free or close to it [4].

Another sources of regional competitive advantages in China according to the research of London University are the growing volumes of export, high investment attractiveness, policy, oriented on the attraction of high-skilled labor, high effectiveness of business.

The main factors of regional competitiveness in China are cluster and investment ones. China actively attracts the capital from Hong Kong, Macao, Singapore and Taiwan. Formation and development of industrial clusters promotes the lessening of competition among Chinese regions, widening of the free economic zones, development of the depressive regions.

We may conclude that the notion of regional competitiveness is rather complex and rich concept. It focuses more on the determinants and dynamics of a region's long-run prosperity than on more restrictive notions of competing over shares of markets and resources. Ultimately competitive regions and cities are places where both companies and people want to locate and invest in. Having analyzed the competitiveness of Chinese regions in 2003-2009 we found out that the most competitive regions is Shanghai. The only thread of its high competitiveness is the weak level of infrastructure development. Nowadays the main source of China's economic competitiveness isn't the cheap labor but the cheap factory land, the growing volumes of export, high investment attractiveness, policy, oriented on the attraction of high-skilled labor, high effectiveness of business. The main factors of regional competitiveness in China are cluster and investment ones. All these complex of measures will boost the competitiveness of Chinese regions and China as a whole.

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