

Region Competitive Advantage Management on The Basis of a Compromise Search Between System and Selective Components of Industrial Policy

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Abstract

The study sets the objectives for the development of the territorial industrial policy methodology based on the study of competitive positions by economic activity types, the determination of core economic activities and the diagnosis of their competitive advantages. The conduct of industrial policy is accompanied by the search for a compromise between the social and economic efficiency of measures to increase the competitiveness of industries and the territory. A pressing issue during the selective industrial policy is the justification of priority (target) industries, which can serve as a source of imperative strategic advantages of the territory in the future. A rather complicated methodological task is the assessment of competitive advantage management effectiveness, since the realization of managerial impacts is accompanied by obtaining indirect and related results that require additional consideration and evaluation. This applies primarily to the problem of industrial policy development on the basis of the economic complex structural modernization, which involves a qualitative change in the industrial profile and entails the preparation of production factors and infrastructure support. Such decisions often lead to unforeseen social reactions, the consequences of which is not always possible to predict due to the lack of a full theoretical justification and reliable methodological tools. The study used the experience and the knowledge gained in the course of a previously undertaken series of projects relating to the evaluation of the Republic of Tatarstan economy effectiveness in 2005–2011.

Keywords: Industrial policy; Structural policy; Competition policy; System components; Selective components; Competitive advantages.



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1. Introduction

The organization of competitive advantage management process in the mesoeconomic system at the sectoral and territorial levels is determined by the peculiarities of the state socio-economic policy. The sources of competitive advantages depend on the changes in the role of state, the decentralization of management and the increase of economic independence of subjects, direct or indirect regulation methods, the level of entrepreneurial activity and market relation development, the ratio of public and private sources of investment activity financing, the principles of location and the territorial organization of productive forces (Safiullin M. and Safiullin, 2011).

As world experience shows, most of the factors affecting the competitiveness of national producers are formed mainly at the mesoeconomic level nowadays within the framework of the industrial policy model. If at the macro level general economic, organizational and legal conditions for the functioning of subjects are determined, as well as the principles and the forms of interaction between the state and the private sector with the highlighting of national priorities, then at the meso-level, within the framework of the set macroeconomic tasks, the directions and ways of their implementation are selected using a specific set of tools. At the level of the territory, a mechanism is created to manage its own competitive advantages through the system of entrusted powers, one of the most important elements of which is the competitiveness of industries and enterprises (Safiullin M. R. et al., 2016). Strategic orientation and systemic solution of sectoral and territorial competitiveness problem is one of the most difficult issues of state regulation, since it touches upon the main provisions of structural, regional, industrial and competition policy, which prevents a reliable functional content and the coherence of managerial influences of the aim of this article is to study the differences between structural and competitive policy. It is noteworthy to mention that competitive policy is implemented as an avenue to hasten the peace and sustainability of economic development. The differences are investigated as well as the study the identical interrelations between them. The chief goal among all the goals is define these categories from different vie points (Martin and Sunley, 2003).

2. Methods

In domestic and foreign economic literature, the discussion about the content and the instruments of industrial policy remains relevant. Many approaches are characterized by a lack of unity, not only by goals and objectives, but also by the forms of organization and the means of implementation. Extreme positions either link such a policy with a set of measures for sectoral regulation, or identify it with the economic policy of the state as a whole and the strategy of its socio-economic development. Such a position does not allow, in our opinion, to formulate clearly the

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tasks and the functions of the state in industrial sector competitiveness stimulation, depriving it of the opportunity to ensure the targeted nature of the impacts and to evaluate their effectiveness (Safiullin A. R. and Shugaepova, 2016)

Studies on the topic of this paper were conducted in different academic centers studying the different aspects of any policy. The research strategy included an expert survey. The implementation of other tasks and comparative indicators of this study can be seen in the work by the Center team.

The total number of experts participating in the expert survey was 120 people. Criteria for the selection of experts were the scope of activities, experience in the field, the ability (competence) to assess the situation and predict its development. Characteristics of the expert group - profile specialists of sectoral organizations, administrative workers and civil servants, employees of relevant departments of higher educational institutions and research institutes, experts of public organizations.

1) A narrower interpretation of industrial policy is reduced to the adoption of anti-crisis solutions. Exploring the processes of market transformation in Russia and noting the special role of the state industrial policy, he believes that the main emphasis in it should be placed on firms or industry bankruptcy prevention that are necessary for the national economy but experiencing temporary difficulties (Tatarkin, 2008). Specifying the main tasks of the industrial policy, the author highlights the initiation and the support of growth, the promotion of competition and the regulation of export and import flows through customs tariffs and quotas.

The increase of competitiveness is recognized as a priority of industrial policy by the majority of specialists. According to the classification of the European Commission, industrial policy should address the following main tasks (Thornley and Newman, 2002):

1) the reforms in the field of rule-making and the development of legislation (including the problems of liberalization, deregulation, social, labor and industrial legislation, financial engineering and privatization);

2) the policy in specific industrial sectors (industrial restructuring, the closure and conversion of defense industries, the support for small and medium-sized enterprises and high-priority industries);

3) employment and productivity;

4) investment in tangible assets (industry, transport infrastructure, communications);

5) investment in intangible assets (industrial research and development, technology transfer; staff training, including managerial; quality improvement, environmentally friendly technologies; the development of standardization and statistics);

6) policy in the field of competitiveness and competition (the measures in the domestic market; export development and trade liberalization);

7) international investment;

8) environmental policy, industrial ecology;

9) industrial aspects of energy policy;

10) regional development policy;

11) industrial cooperation between developed countries and the countries in transition;

12) specific aspects of transition country industrial development.

During the discussion of sustainable economic development factors at the World Economic Forum (Davos, Switzerland), the problems of industrial policy are considered that are of common interest for most countries. These include the support for high-priority industries, international investment, industrial ecology and the industrial aspects of energy policy. There is also a noticeable interest to the problems of industrial research and development and technology transfer. Priority issues are the issues in the field of competition policy and competitiveness.

An object of industrial policy is considered to be an industrial complex as a whole, as well as core and priority sectors and enterprises. Taking into account its complex and systemic nature, other sectors of the economy, such as transport, communications, infrastructure, education and science, etc., may be the part of industrial policy objects.

Let's denote the main prerequisites that make the basis of industrial policy.

The development of an optimal industry structure, like the stimulation of competition at commodity markets, is not a goal as such, it only acts as the way of economic efficiency achievement. Competition is a medium conducive to cost reduction, the creation of new types of activities, production methods, the development of R&D, technological progress, innovation, etc. A necessary level of competition is one that ensures the achievement of a strategic goal - the development of competitive advantages and territory competitiveness increase.

Consequently, the target level of competition and the role of competitive (anti-monopoly) policy will vary depending on the sectoral priorities that contribute to the most economically efficient achievement of the desired competitive positions.

In its turn, the level of structural policy activity should be determined by the agreement of not only economic but also social criteria. When the structure of economy is transformed, it becomes necessary to ensure a socially acceptable adaptation to the rapidly changing conditions of such industries that are on the verge of stagnation and recession, especially if these issues are transformed into employment problems. According to domestic and Western experts, the balance of economic and social efficiency is an important and at the same time most difficult task of public policy. Its essential element is also the independence of decision making by business entities. The industrial policy of even economically developed countries does not allow to take into account the whole complex of interests of economic agents fully. The efforts of the state for a competitive sectoral structure creation should contribute to the emergence of conditions when business entities would have the most extensive opportunities to make independent management decisions.

Some authors referring to the acceleration of technology development dynamics, the changes in the needs and possibilities to meet them, suggest to abandon the term "industrial policy", replacing it with "innovation policy".

Since most industries in developed countries achieved success in the 1970s – 80s of the last century, as experts note, the modern conditions dictate the need for a qualitative change in industrial policy priorities, which leads to the formation of its new content and implementation mechanisms. Thus, the development of an innovative type of state economic policy takes place (Furman *et al.*, 2002; Lall, 1992).

Unfortunately, the applied research of recent years does not allow us to agree with this point of view. Despite the processes of international integration, not all countries have the necessary potential for innovative growth today. The most important target of industrial policy is to increase socio-economic efficiency. If the state stimulates only production economic efficiency increase, this can lead to negative social consequences. Then the shift of priorities towards social efficiency will inevitably lead to the emergence of barriers for the introduction of cost-effective technologies.

Moreover, according to the events at the financial markets during early 2000, the mechanism of innovation development based on market principles has significant defects. An artificial profitability of innovative projects based on very optimistic expectations creates an unreasonably high, often speculative investment demand, which leads to the decrease of traditional project attractiveness. Thus, in the wake of opportunistic trends, the development of traditional industries may face the problem of investment source growth shortage. Accordingly, both traditional and innovative markets need state support in order to avoid the risk of possible losses from an unbalanced rise of profitability.

Finally, modern conditions also indicate that systemic crises in the global economy are capable of innovative growth restraining, while maintaining the relevance of government regulation. The global financial crisis faced by most countries has once again revealed the existing shortcomings of the market mechanism. Innovative projects, even with government guarantees, do not satisfy the requirements of investors expecting short-term profitability at low costs. Thus, in many cases, the only solution to preserve such projects is the transfer of investor obligations to the state.

In general, the reasons for the existing differences in the definition of industrial policy content, its goals and objectives, the subject and the object, implementation tools and mechanisms are represented by the approaches regarding the role and the place of the state in the economy. The need for state regulation is actively discussed throughout the entire process of economic theory evolution. As historical experience shows, such discussions are exacerbated during the periods of structural changes, during which new arguments are presented in favor of a liberal or an administrative model.

The differences in approaches to economy state regulation are reflected in industrial policy models. International practice has developed two main models of state industrial policy - selective and system-wide (Avdasheva and Shastitko, 2004).

The system-wide industrial policy is aimed to create the conditions for production development that are common to all industries and enterprises and have a horizontal focus of action. Its measures do not have any selective purpose (a clear focus on industrial complex, industry, corporation), but evenly affect all market actors, forming the economic and institutional, organizational and legal environment of their activity. This kind of policy is liberal. Its mandatory vector is to ensure a formal equality of external conditions (economic and legal) for all market subjects; in this regard, its reliance on measures of financial stabilization and the transformation of property relations is essential. At the same time, the system-wide policy is a conducting one: an economic order is formed on its basis, which sets certain permissible and generally accepted frameworks of activity for economic entities and imposes the rules of economic behavior.

A selective industrial policy implies targeted influence on certain groups of market actors. Its action has a vertical orientation (of the center along the steps of the national economic hierarchy, up to the primary link of production — the enterprise). This kind of policy shows clearly the regulatory and management function of the state, its administrative role in relation to the real sector is manifested more clearly. At the same time, the selective support for industries or enterprises becomes the most effective one (and its actual result is as close as possible to the target intentions of the industrial policy subjects) if the system-wide requirements for the development of the macroeconomic, infrastructure and legal environment of the market entities are met to the maximum. If these requirements are ignored, there are possible failures in the implementation of selective industrial policy, which cause unforeseen results, the activities remain episodic and are not distributed anymore. For example, the state financial support for various industries, rendered in the context of an unresolved problem of inflation or an inefficient tax system is depreciated and the effect of selectivity disappears. Such support is not very effective also in the absence of an effective nationwide control system over financial flows.

Selective and system-wide approaches are reflected in structural and competitive policies, through the prism of which it seems appropriate to consider industrial policy.

Structural, industrial and competitive policies have a common goal in accordance with the theory of social utility maximizing - the provision of sustainable economic growth and population welfare improvement. However, the implementation of this goal involves the use of alternative approaches. At that, if structural and industrial policies are based on general principles, then competition policy provides for the use of several other means to achieve the stated goal.

Structural policy is an integral element of economic policy and involves an active state intervention, which can and should contribute to the optimal structure of social production in terms of economic system effective functioning provision. Accordingly, the main goal of the structural policy is the development of such an optimal economic structure, which allows the most efficient use of the available resources and ensures progressive structural changes in accordance with new innovative technologies. Let us dare to disagree with the opinion of experts, who note that

structural politics is involved only during the period of structural crisis. Indeed, structural policy has a more long-term nature, since it is connected with the transformation of economy structure on a new material, technological and organizational basis. However, in our opinion, its relevance is manifested in the process of industrial policy implementation, which is aimed at effective condition creation for the development of the chosen optimal structure (Babkin, 2015).

If there are the signs that are evaluated from the point of view of the resource potential and possible risks as significant for the competitiveness of the territory, it is possible to take preventive measures to change the structure of the economy in accordance with the new needs within the framework of the industrial policy. Thus, industrial policy also forms the structure of the territory economy, the core and the priority sectors that constitute its competitive potential, suggesting that direct and indirect measures stimulate the development of their competitive advantages. This expresses the selective nature of industrial policy. The initiation of progressive structural changes, aimed at company, industry and national economy competitiveness, is noted by many authors as a priority task (Tallman et al., 2004).

3. Results and Discussion

The considered criteria for state support priority sector determination enable the selection of various proposals and projects, the preparation of effective programs for the development of competitive advantages. As the economic situation changes, the level of the noted criterion significance may be reduced or supplemented. In our opinion, it is impossible to exclude the possibility of composition expansion and the scope of such criterion application, given the high dynamics of socio-economic processes. Thus, the selective nature of industrial policy makes it possible to stimulate economic growth and structural changes in the economy of a territory in favor of those activities that contribute to the intensive growth of its competitiveness.

The industrial complex of the territory affects its competitiveness in terms of productivity per capita and the production of material goods. High value added industries have a greater impact on the growth of the territory economy than low value added industries. As was noted by Western experts, they depend on the intra-industry level of productivity (Porter, 2000). For example, there may be significant differences between high-tech sectors and traditional industries (mining, metallurgy, etc.). A typical example is the service sector and agriculture, where labor productivity is significantly differentiated (on the one hand, tourism services that do not have a particularly high level of productivity, on the other, the services in the field of finance and business).

The historical experience of industrial development shows that there are limits to comparative advantage increase. The evolution of technology, production and export is provided not only by comparative advantages, but also by structural changes. Therefore, in order to achieve higher economic growth rates and employment increase, the industrial policy of the territory must be active in the selection of promising, dynamically growing sectors of the economy, and not only in the areas of its relative specialization.

Thus, the mechanism of structural and industrial policy influence on economic growth is not only the increase of the competitive advantages of existing (core) industries, but also the encouraging of new industries that can ensure the long-term sustainable development of the territory and its strategic competitiveness. In this regard, competition policy is an effective element of state regulation, ensuring the uniformity of management influences on the development of industry competitive advantages. This policy is aimed at the environment development for fair competition, contributing to the efficient allocation of resources not only in competitive sectors of territory specialization, but also in promising industries.

4. Conclusions

Structural, industrial and competitive policy can ensure the achievement of the same results. The differences between structural and competitive policy consist in the means used to accelerate the pace and increase the sustainability of economic development. The means that these two types of policy use allow us to consider them as the complementary elements of the management process concerning the development of territory competitive advantages.

Taking into account the considered approaches, as well as the identified interrelations between structural and competitive policies, we propose the following definition: industrial policy is a system of measures aimed at competitive advantage development of core and priority economic activities that ensure the growth of the territory competitiveness. The most important task of such a policy is to preserve and to stimulate competitive mechanisms where they contribute to a more effective implementation of the planned measures. This definition reflects both the systemic and targeted, as well as the structural and competitive nature of the state industrial policy.

5. Summary

The conduct of industrial policy is accompanied by the search for a compromise between the social and economic efficiency of measures to increase the competitiveness of industries and the territory. Despite the fact that these benchmarks have different directions, the achievement of economic efficiency allows to solve social problems. Thus, the development of competitive advantages of enterprises and industry leads to the economic growth and population living standard increase - the resulting criteria of the territory competitiveness.

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