

PRÁCTICAS EXITOSAS EN LA PROMOCIÓN DE LA COMPETITIVIDAD A NIVEL SUBNACIONAL

*Acciones para mejorar el ambiente de negocios e incrementar la
competitividad de las ciudades*

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WORLD BANK GROUP
Trade & Competitiveness

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There are a lot of indicators that aim at measuring city competitiveness

AT Kearney

2016 Global Cities

London unseated to take the #1 spot

by strong performance in **Top 20 cities**

Hot spots Benchmarking

MERCER 2016 QULI

Overall score

- 1 New York
- 2 London
- 3 Singapore
- =4 Paris
- =4 Hong Kong
- 6 Tokyo
- 7 Zurich
- 8 Washington

Top 5 by Region

Taking into account more than 39 factors affecting quality of living, these are the Top 5 most desirable cities for international employees in each region.

Centre	GFCI 15		GFCI 14		CHANGES	
	Rank	Rating	Rank	Rating	Rank	Rating
New York	1	786	2	779	▲ 1	▲ 7
London	2	784	1	794	▼ 1	▼ 10
Hong Kong	3	761	3	759	—	▲ 2
Singapore	4	751	4	751	—	—
Zurich	5	730	6	718	▲ 1	▲ 12
Tokyo	6	722	5	720	▼ 1	▲ 2
Seoul	7	718	10	701	▲ 3	▲ 17
Boston	8	715	7	714	▼ 1	▲ 1
Geneva	9	713	8	710	▼ 1	▲ 3
San Francisco	10	711	12	697	▲ 2	▲ 14
Frankfurt	11	709	9	702	▼ 2	▲ 7
Luxembourg	12	707	13	696	▲ 1	▲ 11
Washington DC	13	706	17	689	▲ 4	▲ 17
Toronto	14	705	11	699	▼ 3	▲ 6
Chicago	15	704	14	695	▼ 1	▲ 9
Montreal	16	699	18	688	▲ 2	▲ 11
Vancouver	17					
Shenzhen	18					
Vienna	19					
Shanghai	20					

lex*

ties, 100=ideal

Score

TOP TEN

97.5	77
97.4	81
97.3	111
96.6	134
96.6	136
96.1	
95.9	
95.7	
94.8	
94.7	
94.0	



Which cities are included and how do they rank?
Global study 2014

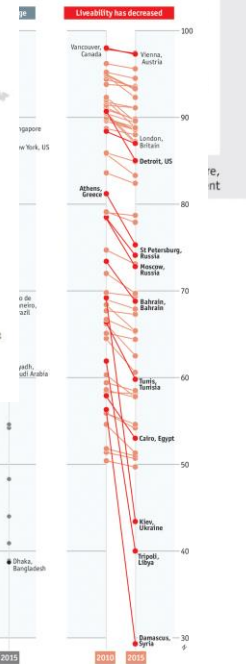


Figure Leaders around the world

Business activity

Human capital

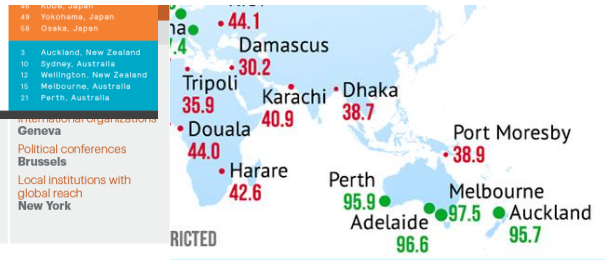
New York

New York

Subdimension leaders

- Bloomberg 500
- Top 40 global
- Capital markets
- Air freight
- Sea freight
- ICCA conferences
- Vienna

- Foreign-born pop
- Top universities
- Population with tertiary degree
- International student population
- Number of international schools
- Istanbul

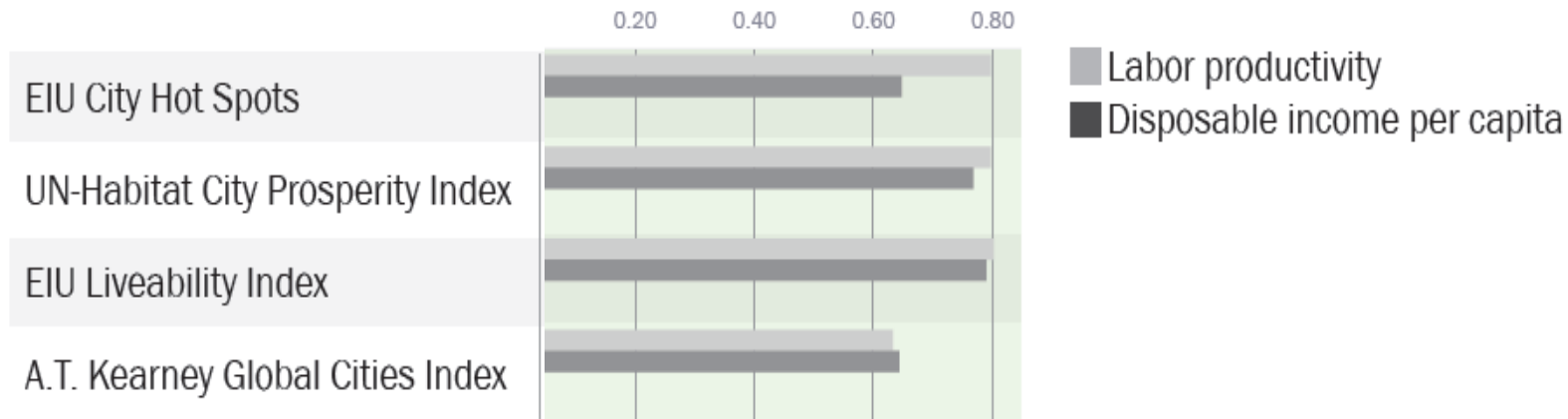


Note: ICCA is the International Congress and Convention Association.
Source: A.T. Kearney Global Cities Index

Source: Economist Intelligence Unit

*Based on 30 factors spread across five areas: stability, infrastructure, education, health care and environment

In the end, it is all about productivity



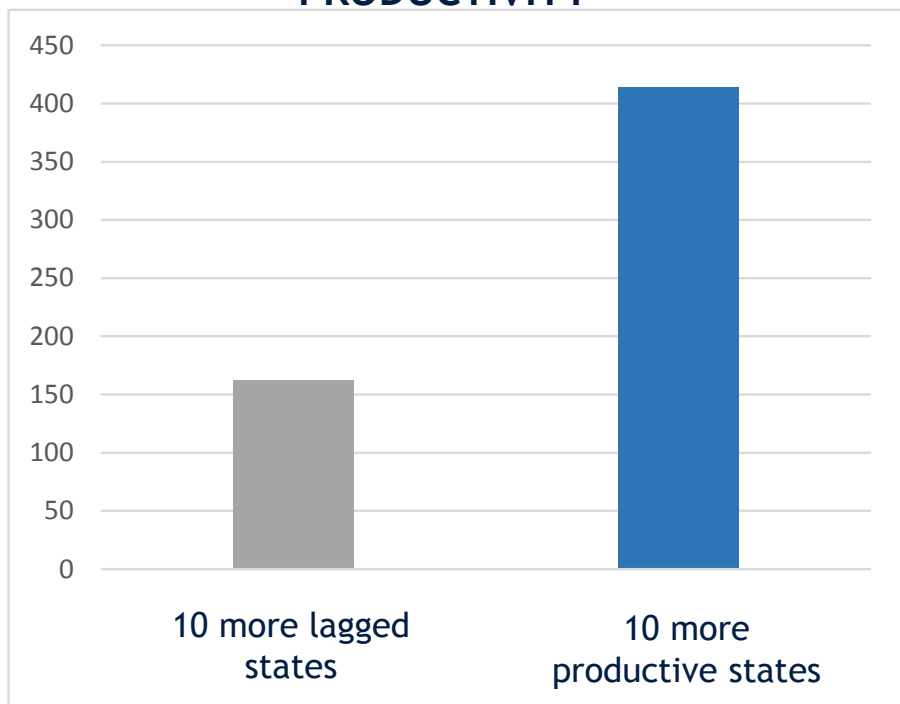
“The obsession with competitiveness is not only wrong but dangerous, skewing domestic policies and threatening the international economic system (...) It leads, directly and indirectly, to bad economic policies on a wide range of issues, domestic and foreign, whether it be in health care or trade.”

PAUL KRUGMAN
COMPETITIVENESS: A DANGEROUS
OBSESSION

Why does this matter for Mexico? There are huge differences in productivity between states

- The 10 more productive states have almost twice the productivity of the 10 more lagged states.
- More productive states exhibit lower poverty rates.

PRODUCTIVITY

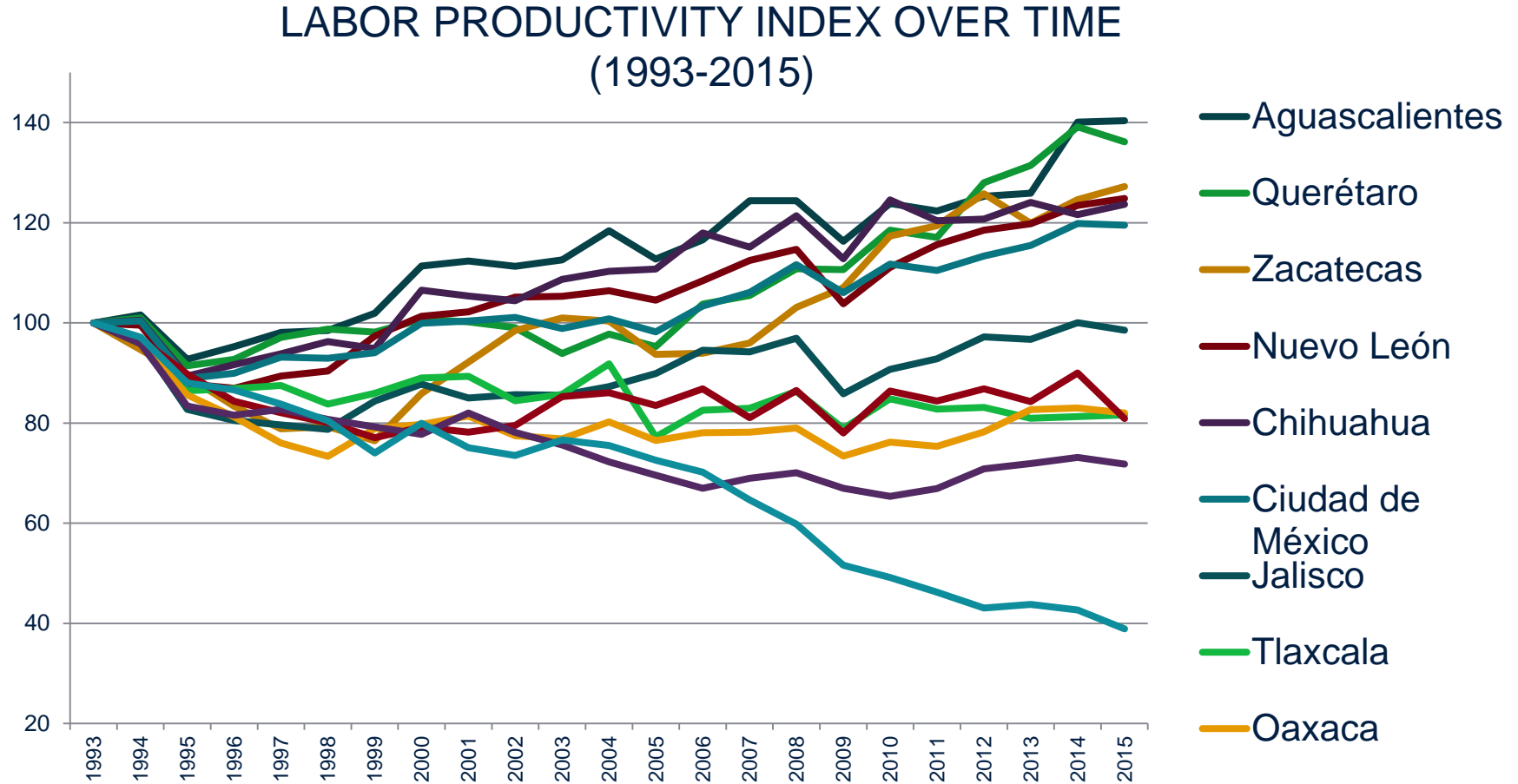


POVERTY AND LABOR PRODUCTIVITY



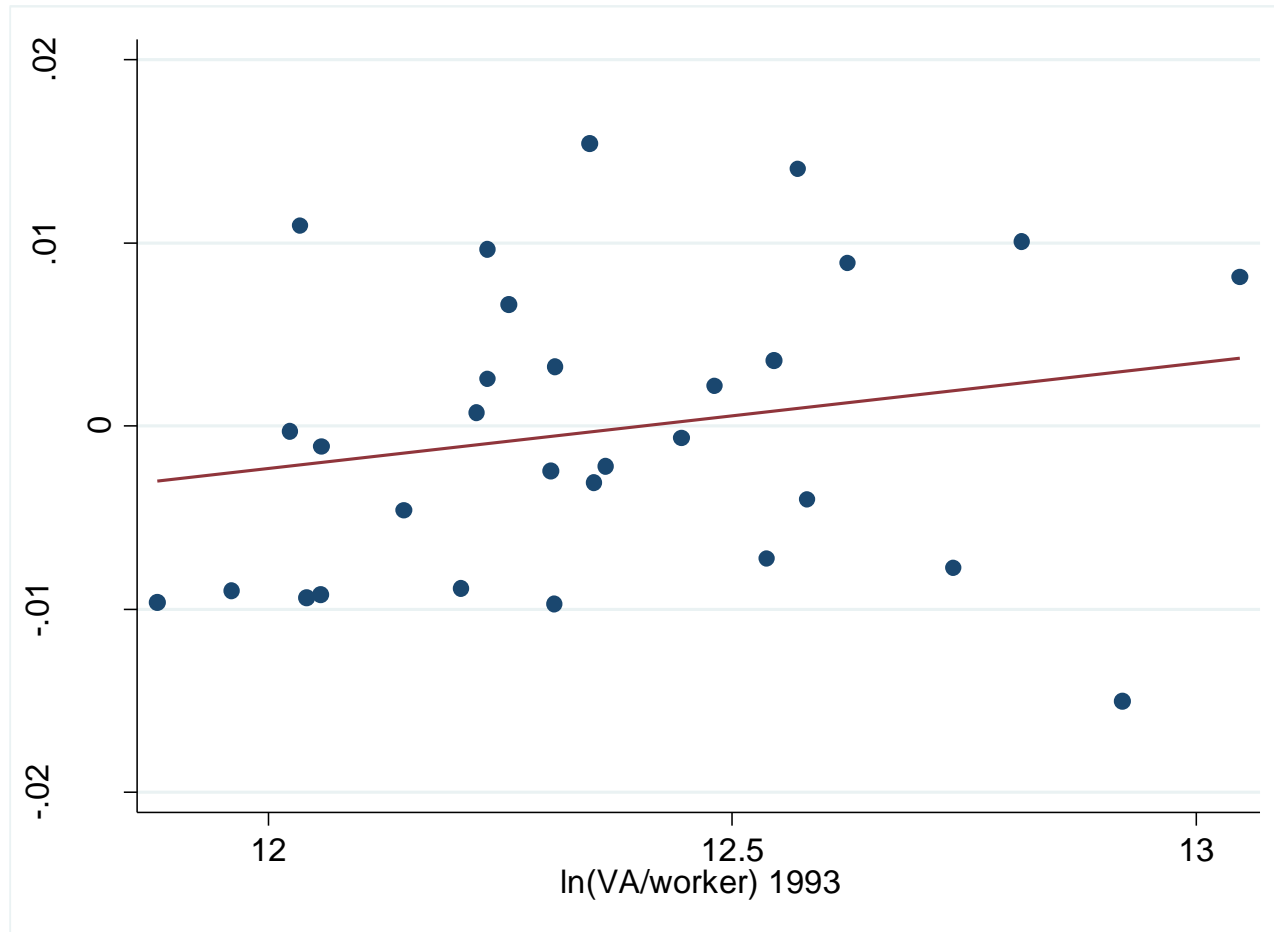
**Campeche and Tabasco are excluded from the sample*

And there are also huge differences in growth patterns



Moreover, there is no catch-up

ANNUAL AVERAGE GROWTH 1993-2015 VS. VA/WORKER 1993



Source: Own calculations with data from INEGI
*Campeche and Tabasco are excluded from the sample

Which factors can explain low productivity?

Firm level productivity

Factors allocation

- An important group of MSMEs that does not grow.
- Informality (labor market distortions)
- Lack of access to finance and capital

Lack of innovation and skills

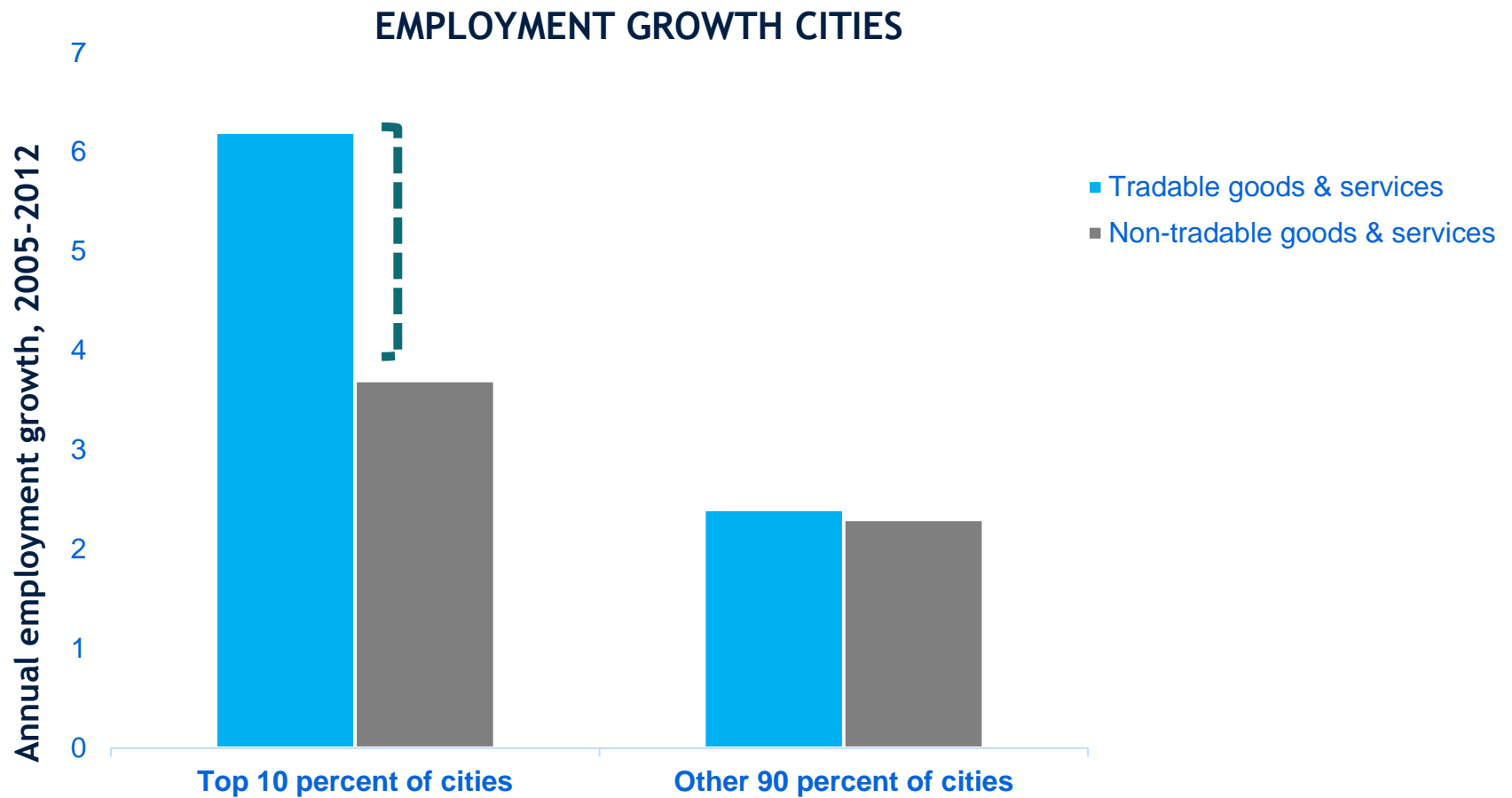
- Low quality of education
- Low investment in Human capital, innovation (products and processes), R&D and ICT.
- Poor management practices

Business environment and investment

- Overregulation
- Lack of legal certainty
- Low competition
- Crime
- Lack of flexibility in inputs markets.
- Lack of infrastructure, mainly in the South

What do we know from successful subnational development globally?

Capacity to integrate into global markets matters a lot



What do we know from successful subnational development globally?

	Institutions and Regulations	Infrastructure & Land	Skills and Innovation	Enterprise Support and Finance
National government	<p>Macroeconomic management</p> <p>National investment and trade policy</p> <p>Legal framework and property protection</p> <p>Industry-specific taxes and regulations</p>	<p>Highways, roads, airports, ports</p> <p>Power grid</p> <p>Regulations for infrastructure provision, such as PPP laws</p>	<p>Public education system</p> <p>Immigration policies to attract talent</p> <p>R&D funding, support schemes</p> <p>Healthcare</p>	<p>Export and trade facilitation</p> <p>Access to finance support schemes</p>
District / city / local governments	<p>Municipal taxes and incentives</p> <p>Zoning and land use policies</p> <p>Construction permits; business licenses</p> <p>Public safety and law enforcement</p>	<p>City roads and public transportation</p> <p>Water and sanitation</p> <p>Public safety</p> <p>Housing/slum upgrading</p>	<p>Talent attraction programs</p> <p>Cluster development support</p> <p>Linking firms with academia</p>	<p>Business support services</p> <p>Investment policies, promotion, and aftercare</p> <p>Facilitation of seed, catalyst, and risk capital</p>
Private sector	<p>Standards and certification associations</p>	<p>Additional infrastructure and shared services</p>	<p>Vocational training programs</p> <p>R&D</p>	<p>Business associations and support networks</p> <p>Market intelligence and business information</p> <p>Equity and debt</p>

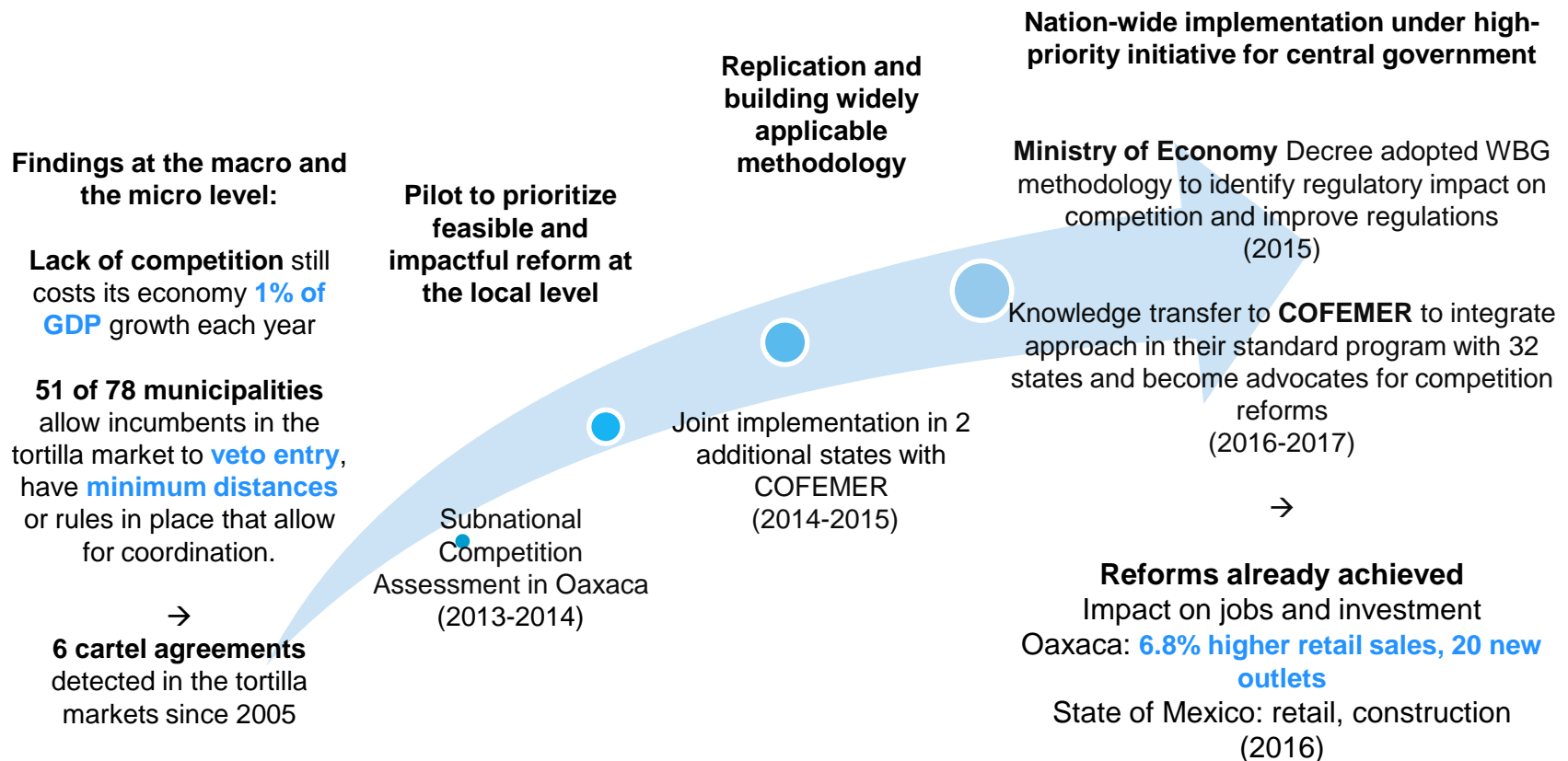
Source: World Bank.

Source: World Bank (2015) *Competitive Cities for Jobs and Growth: What, Who, and How*

Note: PPP = public-private partnership; R&D = research and development.

What have been focusing on at the World Bank?

From a subnational pilot initiative to a national competition policy program and reforms on the ground in Mexico



MARKETS AND COMPETITION POLICY ASSESSMENT TOOL (MCPAT)

INTERNATIONAL APPLICATION

1

Identify sectors where sub-national authorities have legal mandate or role in implementation

Prioritize sectors that are key for the development of the local economy and exhibit signs of lack of competition

2

Understanding the inherent market characteristics (natural barriers to entry, economies of scale)

Identify the specific market scenarios in the subnational markets

3

Identifying regulatory barriers to competition

Assess implementation issues

4

Prioritizing reforms based on likelihood of actually affecting competition dynamics

Prioritizing reform based on feasibility/impact

5

Measure the impact of the reforms

- Rules that reinforce dominance or limit entry
- Rules that are conducive to market outcomes or increase costs to compete in the market
- Rules that discriminate and protect vested interests

Improving market functioning

Competition in local markets



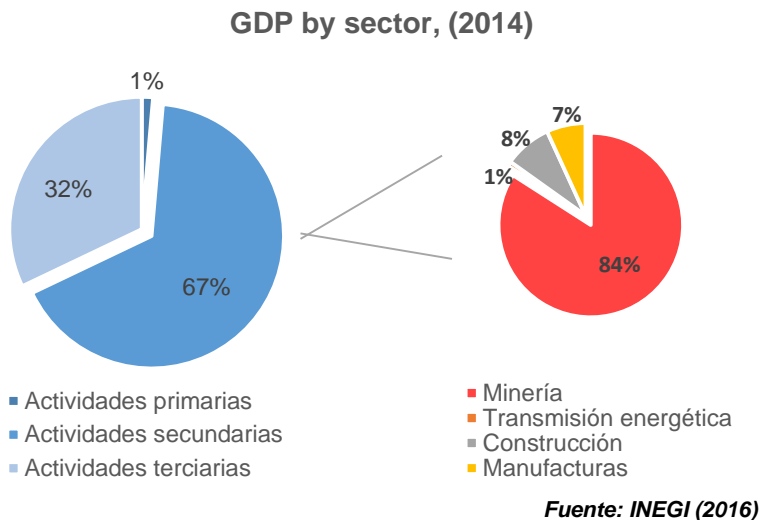
Not just solid enforcement of competition laws but also proper design and implementation of government intervention in markets

WBG MARKETING AND COMPETITION POLICY ASSESSMENT TOOL (MCPAT) SUBNATIONAL MARKET ASSESSMENT OF COMPETITION (SMAC)

Advocacy objectives	Areas of analysis	Tools
<ul style="list-style-type: none">• <i>Change the way in which governments intervene</i>• <i>Activities that increase knowledge of benefits of competition policy</i>• <i>Change firms' behavior in the market and compliance</i>	<ul style="list-style-type: none">• <i>Regulatory reform and economic policies.</i>• <i>Investment incentives and public aid.</i>• <i>Deregulation</i>• <i>Privatization, SOEs and competitive neutrality.</i>• <i>Competition policy in regulated sectors.</i>• <i>Compliance.</i>	<ul style="list-style-type: none">• <i>Impact assessment of regulations and policies</i>• <i>Assessment of potential benefits of privatization</i>• <i>Neutrality analysis prior to change in SOEs mandate.</i>• <i>Guidelines for trade</i>• <i>Guidelines for public officials.</i>

EXAMPLE: REMOVING EXCLUSIVITY RIGHTS IN THE CARGO TRANSPORT SECTOR TO BOOST POTENTIAL FOR LOGISTICS HUB

1. State's strategic objective is to diversify its economy and exploit its geographical potential to become a logistic hub



2. Efficient road cargo transport services are key to reaching this goal, both in transport of goods (cold chains) as well as construction material (for road works).

3. However state regulation grants monopoly rights to local transport associations to provide cargo transport services in each municipality.

- Construction firms are often even rejected a license to transport their own materials.
- Lack of incentives and capacity for local transport associations to invest in new and larger trucks: Union trucks are 7-14m³ and 20-30 years old while large construction firms require modern 32m³ gondolas.
- **These inefficiencies raise the cost of constructions overall by 30% and increase the cost of public road works by 15%.**



Regulations

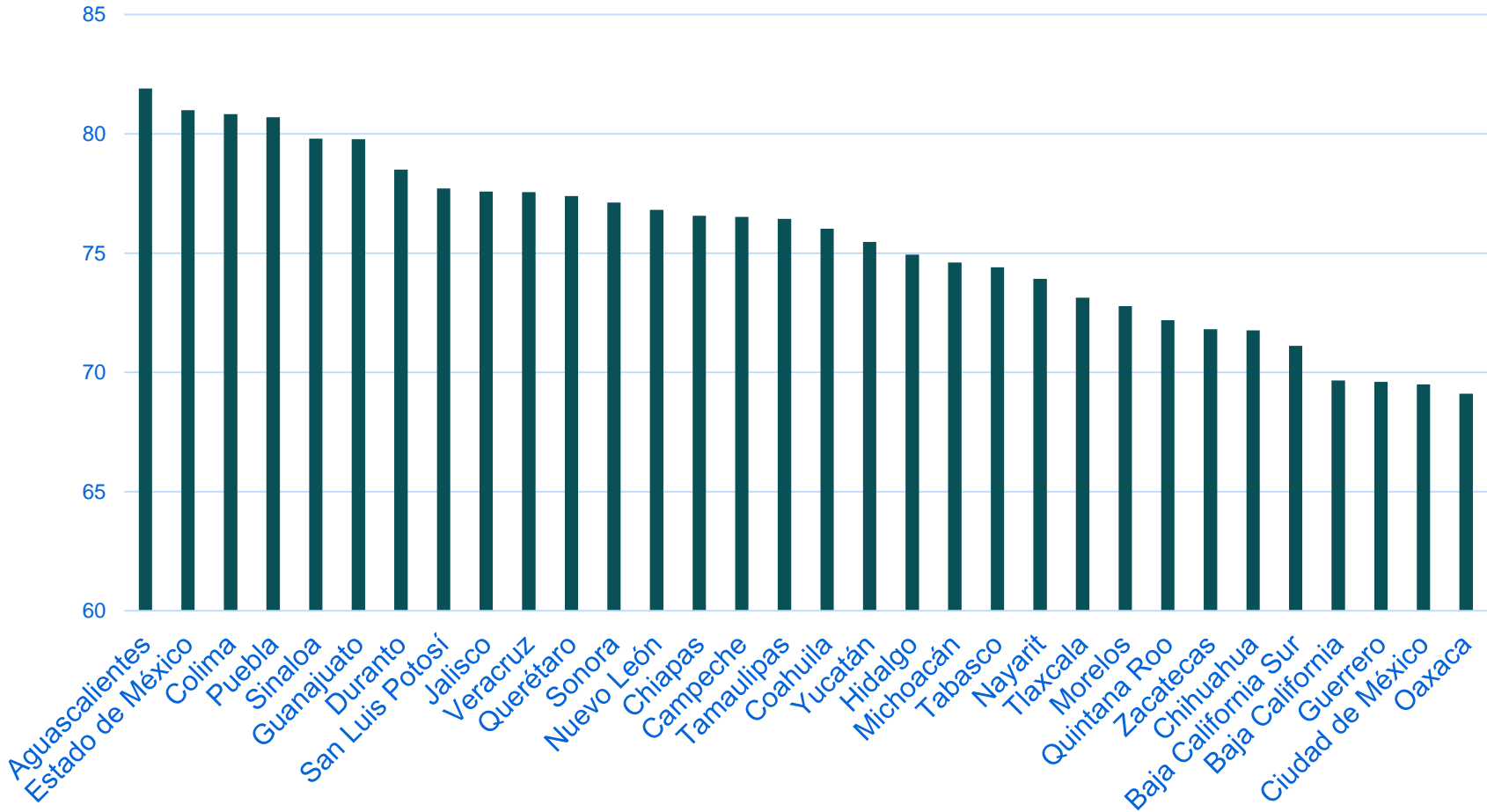
- A Dynamic private sector requires regulations that help it thrive. Regulations need to be efficient, accesible to all who use them and simple.

SUBNATIONAL DOING BUSINESS (DOING BUSINESS IN MEXICO 2016)



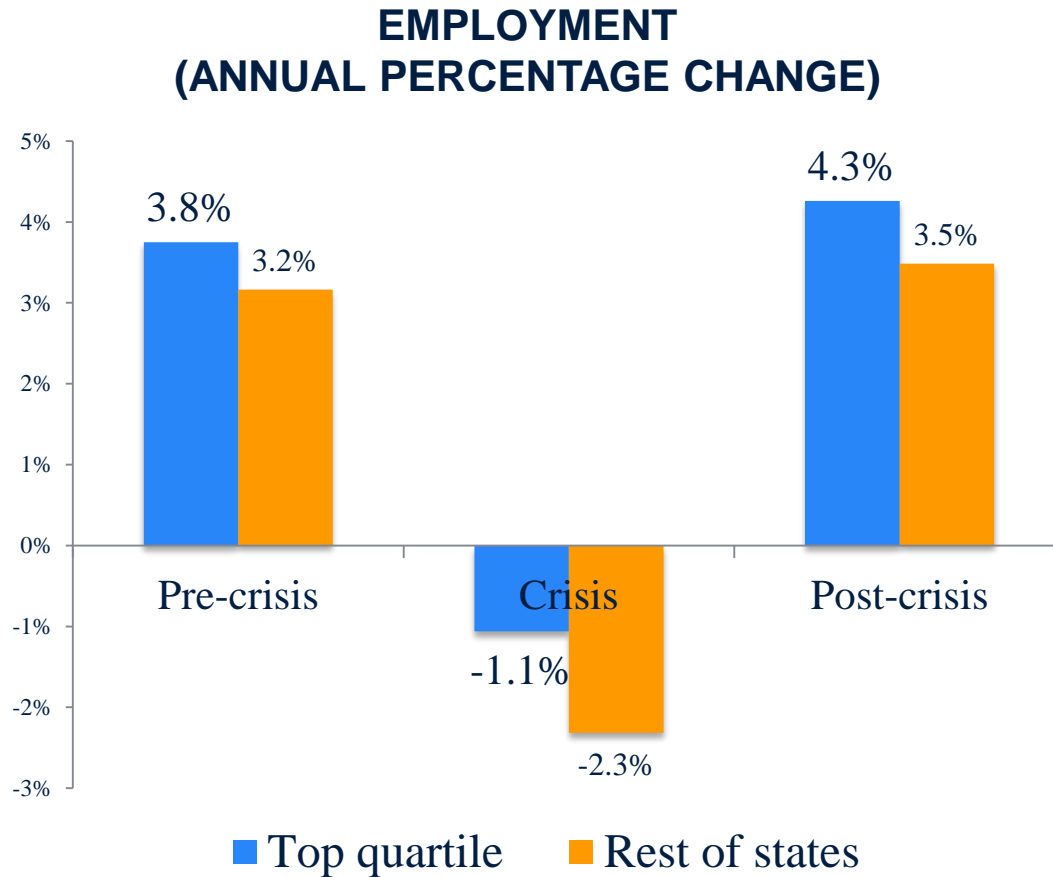
Regulations: there are great differences between states

Distance to the global frontier 2016 (4 indicators)



Regulations are important for employment generation

- Mexican states with better regulations recovered faster from the 2008 crisis.



Source: Iacovone et al. (2017)

Note: "Top quartile" refers to the 8 Mexican states with better ranking in Doing Business in Mexico 2007. "Rest of states" refers to the remaining 24 states.

Effectiveness of spending: Are resources allocated to local public programs improving welfare?

PUBLIC EXPENDITURE REVIEW (PER) AT THE LOCAL LEVEL

1) How much is spent by the government, by whom, with what objectives?

- *How much is spent in each of the intermediate outcomes?*
- *What is the state consolidated budget?*
- *Are there complementarities or overlaps?*

2) Are expenditures generating the expected outputs? Are they doing it efficiently? Do programs and funded activities generate the expected output with a reasonably level of inputs?

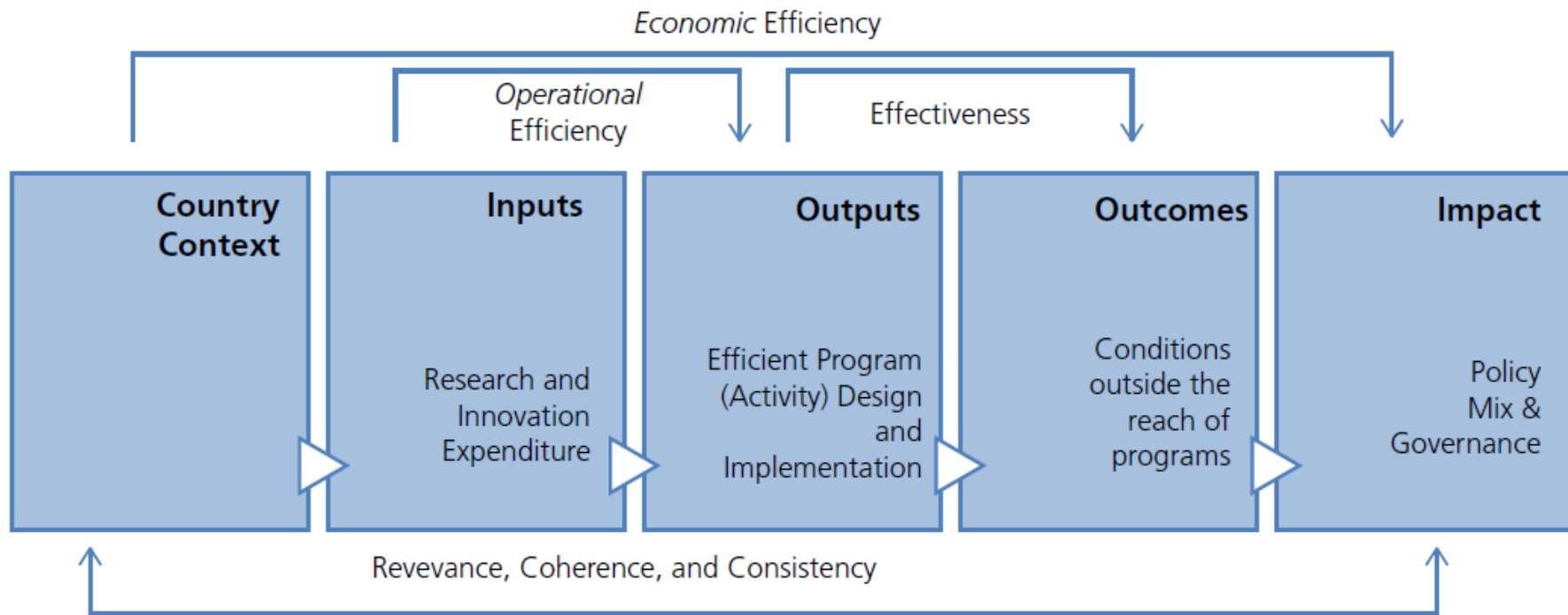
- *Design and implementation issues affecting performance of programs*

3) Are public expenditures effective? Are outputs translating into intermediate outcomes?

4) How does the composition and level of public expenditures (the policy mix) affect its impact? Is the composition of public expenditures relevant to the state's development stage, consistent with existing higher-level goals, and coherent in terms of the funded measures?

Effectiveness of spending: Are resources allocated to local public programs improving welfare?

PUBLIC EXPENDITURE REVIEW OF PRODUCTIVITY PROGRAMS (PER) AT THE LOCAL LEVEL



Special Economic Zones

This is a very diverse instrument:

Type	Development objective	Size	Location	Activities	Markets	Examples
Free trade zone	Support trade	<50 h	Port of entry	Entrepot and trade-related activity	Domestic re-export	Colon Free Zone (Panama)
Traditional EPZ	Export manufacturing	<100 h	None	Manufacturing or other processing	Mostly export	Bangladesh, Vietnam
Free enterprises (single unit EPZ)	Export manufacturing	No minimum	countrywide	Manufacturing or other processing	Mostly export	Mauritius, Mexico
Hybrid EPZ	Export manufacturing	<100 h Only part of area is EPZ	None	Manufacturing or other processing	Export and domestic	La Krabang, Thailand
Freeport/SEZ	Integrated development	>1,000 h	None	Multiuse	Internal, domestic, and export	Aqaba, Shenzhen

Special Economic Zones

SEZ objectives

1) Attract FDI

2) Serve as pressure valves to alleviate large-scale unemployment.

3) Support a wider economic reform strategy (develop and diversify exports)

4) Experimental laboratories for the application of new policies and approaches.

SEZ components

Incentive packages

Ownership and management schemes to attract and facilitate dynamism

Corporate tax breaks

One-stop-shops

Independent zone regulators

Good infrastructure and logistics

Special Economic Zones

Trends

- Emphasis on physical, strategic and financial links between SEZ and local economies.
- Greater focus on differentiation through the investment climate.
- Growing importance of privately owned, developed and operated zones.

Lessons

- SEZ should REALLY be special
- Effectiveness of design, implementation & management is determinant for success or failure.
- Leverage countries' comparative advantages.
- It takes time (incubation period)- provide consistent support.
- Infrastructure reliability is key to success. (high-quality ports and roads connection to zones)
- Fiscal incentives are not enough and could pose risks in the long-term
- Focus on “smart incentives” beyond just tax breaks
- Integration with local economy is critical (backward and forward linkages)
- Importance of skills, training, knowledge sharing, clusters and public and private cooperation.

Key challenge for SEZ...avoid enclaves

How to achieve the double objective of:

- (a) Attract new investment to promote growth, investment and exports; and**
- (b) Avoid developing “enclaves”?**



1. Actively promote the establishment of suppliers relationship between the large “anchor investors” and local SMEs
2. Generate “capacity” for responding to “new demand” and promote human capital development

Special Economic Zones

Evidence

- **Mixed evidence.** Some programs were successful in attracting investment in the short-term but failed to be sustainable (once advantages reduce).
- **Many SEZ were successful in generating exports and employment and came out marginally positive in cost-Benefit.**

SUCCESS STORIES:

- **East Asia's tiger economies- SEZ were critical to facilitate industrial development and upgrading.**
- **China- SEZ provided a platform for FDI and export oriented manufacturing**
- **Dominican Republic (at peak 7.5% of GDP and 90% of national exports), El Salvador and Honduras used them to generate large- scale manufacturing**

Conclusions

- In the end, the problem of competitiveness is a problem of productivity
- Mexico exhibits huge regional differences in productivity and in growth patterns. There is no catch-up...Mexico is not unique in Latin America
- There are different factors capable of improving productivity at the regional level:
 - Improving market functioning
 - Better regulations
 - Improving the effectiveness of spending.
 - Special Economic Zones
- All of them require strategic design, intelligent experimentation (coupled with M&C) and long-term commitment.

THANKS FOR YOUR ATTENTION!

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