

**Memorandum of Intent**  
**for a Network for Applied Economic Research of ASECU (ASECU-NAER)**

**Abstract:** In the last General Assembly of ASECU (March 2011 Thessaloniki) it was decided to set up an Observatory /Network for the scientific co-operation of ASECU-members. Subsequently to the first relevant e-meetings (see the attached meeting-minutes of the first e-meeting on 09-07-2012), representatives from six ASECU members<sup>1</sup> decided to define the overall topic of ASECU-NAER as “*Regional International Competitiveness and Development*”.

We recognize that this topic has to be developed in details, identifying the specific scientific questions and research areas that shall be included, providing a thorough, systematic structure of the Network. The present Memorandum of Intent provides a proposal for this structure, based on the international literature, the relevant research-objective of the European Commission, as they can be derived from recent FP-7 calls of interest, but also on the personal, academic views of our colleges.

Moreover, based on this structure, the following pages discuss some first conceptions for the quantitative aspect of the Network, meaning the data, the indicators and the analytical models that we can use. Not to mention that this has to be clarified in details after the official establishment of ASECU-NAER.

**1. The Meaning of “*Regional International Competitiveness and Development*”**

Economic development, in all its dimensions, is the continual purpose for human society, given the continuous changes in the input/output mix and in the sectoral allocation. Beside to the pure quantitative issue of economic growth, development refers to all the other aspects of the fundamental economic problem: not only how much, but what to produce and how to distribute; moreover, how to produce with respect to social and environmental sustainability. The economic growth and its social consequences in a country and its regions directly depend on the rational use of the available capacity and the effective mechanisms of distribution and redistribution of its results.

On the other hand, given the self-reinforcing process of internationalization, economic development is unattainable without being integrated in the globalized system of economic relations. This might be a necessary condition, but it is surely

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not sufficient, as the degree of international competition is extremely intense and, on the same time, the endogenous contradictions of globalized markets create dangerous distortions. Thereafter, it is of crucial importance to strengthen the international competitiveness of an economy in order to get as much as possible from the inevitable economic internationalization.<sup>2</sup>

Last, but not least, the intensification of international economic relations goes hand in hand with a gradual spatial segmentation of political and economic affairs, especially in the “developed” part of the world. There are both, socio-political but also pure economic reasons for that. The fact that the European Commission (EC) adopts an obvious re-orientation of all of its programs, from the national states to the segmented regions, is certainly not simply a coincidence. First, spatial segmentation helps to overcome long-lasting sociopolitical distortions and conflicts that rose at the level of national bourgeois states. Second, as regional socioeconomic characteristics may be quite different within a state, comparative advantages and the resulting trajectories for relative specialization are also region-specific.

## 2. Scientific Structure of the Topic

The above considerations justify the choice of “*Regional International Competitiveness and Development*” as the main topic for ASECUN-NAER. The appropriateness of this topic becomes more obvious if we consider the spatial dimension of ASECUN along with the historical, intense socioeconomic and political relations and interactions of all the regions that belong to the area of eastern and south-eastern Europe, the Balkans and the Black Sea. Yet, we need to define precisely the systematic structure of specific scientific questions and research areas that shall be included.

Table 1 provides a list of categorized research areas, in relation to the previous theoretical discussion and also to the prevailing international experience. Moreover, we considered the objectives of the EC, based on the experience from recent FP-7 calls of interest. We discuss the following research areas with respect to the spatial dimension and time, as well as the micro- or macro-orientation of the analysis.

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<sup>2</sup> Look also in [http://www.oecd.org/document/37/0,3746,en\\_2649\\_34413\\_36878693\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/37/0,3746,en_2649_34413_36878693_1_1_1_1,00.html)

<sup>3</sup> Ronald L. Martin, “A Study on the Factors of Regional Competitiveness – A draft final report for The European Commission Directorate General Economic and Financial Affairs”, UNIVERSITY OF CAMBRIDGE, [http://ec.europa.eu/regional\\_policy/sources/docgener/studies/pdf/3cr/competitiveness.pdf](http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/3cr/competitiveness.pdf)

<sup>4</sup> See in <http://www.intracen.org/>.

**Table 1: Proposed research areas**

Research Area	Specific Issue	Spatial		Time		Aggregation	
		Intra-regional	Inter-regional	Short-run	Long-run	Micro-level	Macro-level
<b>RC.a</b> Regional Micro-Competitiveness: the capacity of firms to compete, to grow, and to be profitable - the ability of firms to consistently and profitably produce products that meet the requirements of an open market in terms of price, quality, etc.3	<b>RC.a.1</b> Major financial indicators by 2-digit branches in the region: turnover, employment, profitability, the level of wages compared with the average salary in the region, Debt Coverage Ratio (Net income divided by debt payment), Debt to Worth Ratio (Creditors capital to owners capital) etc.						
	<b>RC.a.2</b> Trade performance indexing by 2-digit branches in the region: net exports, exports as a % of world market, dynamic evolution of extroversion, import-dependency of domestic producers.4						
	<b>RC.a.3</b> Foreign investment analysis by 2-digit branches in the region: domestic FDI attractiveness by 2-digit branches, FDI activity of domestic firms by region and by branch.						
	<b>RC.a.4</b> Intra- and Interregional Clustering: case study and benchmarking analysis of horizontal and vertical clusters, focusing on the effects on extroversion and import-dependency.						
	<b>RC.a.5</b> Estimating trade, FDI and Clustering potential by 2-digit branches in the region – spatial analysis on the basis of gravity methodology.						

Research Area	Specific Issue	Spatial		Time		Aggregation	
		Intra-regional	Inter-regional	Short-run	Long-run	Micro-level	Macro-level
<b>RC.b</b> Regional Macro-Competitiveness: the ability to produce goods and services which meet the test of international markets, while at the same time maintaining high and sustainable levels of income or, more generally, the ability to generate, while being exposed to external competition, relatively high and employment levels'. <sup>5</sup>	<b>RC.b.1</b> Revealed Comparative Advantages (Balassa index and alternative indexes) and socioeconomic reasons that may explain them.						
	<b>RC.b.2</b> Export sustainability and prospects analysis: considering regional degree of specialization along with the spatial distribution of exports, the world market share and the growth rate of world market volume in key branches.						
	<b>RC.b.3</b> Market-access analysis based on several tariff levels faced in different trade partners, infrastructure, sociopolitical and cultural / ethnical connections.						
	<b>RC.b.4</b> Foreign Investment Attractiveness Index <sup>6</sup> (including directly or indirectly affecting aspects, like bureaucracy).						
	<b>RC.b.5</b> Regional Competitiveness Index <sup>7</sup> (Keep in mind that the index requires purely economic data but also social, political and ecological information, which may create specific difficulties with respect to the selection and the comparative assessment or relevant data.)						

<sup>5</sup> See in “The Sixth Periodic Report on the Regions (1999)” and in Ronald L. Martin (as above). Yet, keep in our minds that in the relevant literature many authors recognise a lack of a commonly accepted definition for macro-economic competitiveness, which is in itself one source of opposition to the concept – essentially the argument is that it is dangerous to base economic policy around such an amorphous concept which admits of diverse interpretations and understanding. Krugman goes so far as to describe the concept of national competitiveness as a dangerous obsession (Krugman, P., “Competitiveness: A Dangerous Obsession” Foreign Affairs, 1994, Vol. 73(2), pp. 28-44.).

<sup>6</sup> For instance, compare the Foreign Direct Investment (FDI) Confidence Index by A.T. Kearney (<http://www.atkearney.com/>) and the work of A.P. Groh and A. Wich, 2009, “A composite measure to determine a host country’s attractiveness for FDI”, IESE Business School – University of Navarra.

<sup>7</sup> For in stance, look at the methodology presented by Paola Annoni and Kornelia Kozovska in “EU Regional Competitiveness Index RCI 2010”, [http://composite-indicators.jrc.ec.europa.eu/Document/RCI\\_EUR\\_Report\\_updated.pdf](http://composite-indicators.jrc.ec.europa.eu/Document/RCI_EUR_Report_updated.pdf) and in the UK Competitiveness Index 2010 (downloadable from <http://www.cforic.org/pages/ukci2010.php>).

Research Area	Specific Issue	Spatial		Time		Aggregation	
		Intra-regional	Inter-regional	Short-run	Long-run	Micro-level	Macro-level
<b>RD.</b> Regional Development: how much can be produced (economic growth), as well as what to produce and how to distribute; moreover, how to produce with respect to social and environmental sustainability.	<b>RD.1</b> Economic Growth: determining, observing the factors that affect regional growth of GDP per capita and evaluating the exact impact. Proceed with medium-term prognoses.						
	<b>RD.2</b> Intraregional socioeconomic inequalities with respect to personal of household's income, to living conditions, to educational levels and to the access to social / public services.						
	<b>RD.3</b> Interregional inequality: $\sigma$ - and $\beta$ -convergence estimation among the other regions of the same country and among all the regions of the wider geographical area (Balkans, Black Sea, Eastern Europe etc.).						
	<b>RD.4</b> Unemployment and Working Conditions: employment and unemployment rates by demographic and socioeconomic characteristics, nominal and real wages in absolute and purchasing power, workload, collective bargaining.						
	<b>RD.5</b> Health and Safety (H&S) Issues: H&S for the whole regional society, H&S in public areas, H&S in the working environment, regional H&S index.						
	<b>RD.6</b> Education and Human Resources, regional human resource quality index.						
	<b>RD.7</b> Environmental Sustainability: Public environmental expenditures and investments, Private environmental expenditures and investments, emissions, environmental management applications in the public and in the private sector						

Research Area	Specific Issue	Spatial		Time		Aggregation	
		Intra-regional	Inter-regional	Short-run	Long-run	Micro-level	Macro-level
<b>CA. Crossing Areas</b> Specific comparisons with other regions, in our area, in Europe, or even worldwide may reveal quite useful conclusions and policy implications – for instance, what lies behind the lack of efficiency in using EU-funds between different member-states?	<b>CA.1 Environment and Regional Competitiveness:</b> competitiveness-effects of environmental strategies provide a research frontier for the academic literature. <sup>8</sup> Moreover, the political reports on the same issue are getting increasingly significance. <sup>9</sup>						
	<b>CA.2 Working Conditions and Regional Competitiveness:</b> The way how working conditions affect competitiveness forms a very intense and long-lasting debate in the economic and political literature, with obvious effects in the living conditions.						
	<b>CA.3 Political Stability, Democratization and Regional Competitiveness:</b> IMD World Competitiveness Yearbook 2010 gives special attention to policy factors, such as pragmatic government policies and the risk for political instability. <sup>10</sup>						
	<b>CA.4 Public Goods and Regional Competitiveness:</b> The role of intangible public and private investment such as research, health and safety, innovation, culture or education is of great importance. Yet, especially in the present European and global economic situation, there is an inherent danger that such investment – which is important for long term smart, inclusive and sustainable growth and for the society – are understood merely as a ‘cost and cut’ exercise. <sup>11</sup>						

8 See the proceedings of the annual European Trade Study Group (ETSG) Conferences ([www.etsg.org](http://www.etsg.org)).

9 See for instance the final report “The costs of not implementing the environmental acquis” from the European Commission Directorate-General Environment, ENV.G.1/FRA/2006/0073, September 2011, or the OECD Environment Working Papers – No. 13 “Linkages between Environmental Policy and Competitiveness”, conducted by Leena Lankoski on January 2010.

10 Downloadable in <http://www.2da6s.com/2010/05/imd-world-competitiveness-yearbook-2010/>.

11 The fact that the study of intangibles in the public sector is one of the specific issues in the recently published call for FP7 financed projects is not simply a coincidence.

Note that our priorities shall be on the first three research areas, namely Regional Micro- and Macro-Competitiveness and Regional Development – if we look at the Specific Issues that illustrate them, obviously, the first three research areas are closely connected with each other. The 4th Research Area can become more relevant later on, when the Network will be definitely organized and the co-operation of our researchers will enable them to find specific correlating interests between themselves.

### **3. Quantitative Structure of the Topic: Data and Analytical Models**

At the present stage of our initiative, speaking about the exact form of databases that we are going to need and, even more, about the specific econometric models that we are going to adopt / develop would be too early. First, we need to conclude on the specific research areas and issues that will make the scientific range of our Network (think of the above proposal). Even more, we have to decide upon this part of our scientific range that will provide the basis for the start of our co-operation – many of the above issues, even if they are interesting and fit to the overall topic of NAER, might be better to deal with in the future, after a necessary maturing period. Finally, we have to study precisely the availability of regional data with respect to these decisions and to see how we can overcome methodological distortions and / or possible lacks of information.

Nevertheless, even if the definitely discussion on data and analytical models is not to be completed now, given the previous presented proposal on the research areas, we think that it might be useful to take a first look in the relevant literature. Here is a list of references that we have chosen, that might help us to start having specific thoughts on the databases and the analytical models that we could adopt:

- Ronald L. Martin, “A Study on the Factors of Regional Competitiveness – A draft final report for The European Commission Directorate-General Regional Policy”, UNIVERSITY OF CAMBRIDGE

[http://ec.europa.eu/regional\\_policy/sources/docgener/studies/pdf/3cr/competitiveness.pdf](http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/3cr/competitiveness.pdf)

Especially the second part of this report provides a useful information and examples: Chapter 3 describes Data Audit and Collection, Chapter 4 analyses the existing data and Chapter 5 focuses on the methodology of econometric analysis.

- P.Annoni and K.Kozovska, “EU Regional Competitiveness Index 2010”, JRC-EC Scientific and Technical Reports, EUR 24346 EN – 2010.
- J. Huovari, A. Kangasharju and A. Alanen, “Constructing an Index for Regional Competitiveness”, Pellervo Economic Research Institute, Working Papers No 44, Helsinki, June 2001.
- B. Gardiner, “Regional Competitiveness Indicators for Europe - Audit, Database Construction and Analysis”, Regional Studies Association International Conference, Pisa, April 2003.

This paper reports on the construction of a comprehensive set of regional competitiveness indicators for Europe, including the European Union and candidate countries. Various sources have been investigated, included Regio and other Eurostat databases, the OECD Territorial Database, National databases, and data from private bodies, e.g. trade organizations.

- “Regional Competitiveness Indicators: A reassessment of method”, Local Economy February 1999 13: 310-326.
- T. Berger and G. Bristow, “Benchmarking regional performance: a critical reflection on indices of competitiveness”, Regional Studies Association (RSA) Annual Conference, May 2008.
- A.P. Groh and A. Wich, 2009, “A composite measure to determine a host country’s attractiveness for FDI”, IESE Business School – University of Navarra, WP 833, November 2009.
- J. Cortright, “Making Sense of Clusters: Regional Competitiveness and Economic Development” Report of Brookings Institut, March 2006, downloadable in <http://www.brookings.edu/research/reports/2006/03/>.
- “Structural policies and European territories: Competitiveness, sustainable development and cohesion in Europe – From Lisbon to Gothenburg”, EC Directorate-General for Regional Policy, 2003.
- Look also in:
  - CSDI - Competitiveness and Sustainable Development Institute, [www.csd-institute.org/](http://www.csd-institute.org/)
  - Stanford Center for Sustainable Development & Global Citizenship, <http://www.stanford.edu/group/sdgc/>

#### **4. Some First Thoughts about the Activities of ASECU-NAER**

The above discussion for the research areas and the specific questions form the range of issues that can be the subject of our co-operation in the frame of ASECU NAER. Beside to that, it is important to lay out the schedule of the Network’s activities. Again, this is perhaps an affair which has to be discussed and decided after we define definitely the range of issues and in collaboration with the administration of ASECU. Yet, we thought that it would be constructive to make use of the present report in order to provide some initial relevant thoughts.

We think there are two crucial dimensions to schedule the activities of our network: periodic / provisional initiatives and purely scientific actions / initiatives with direct policy implications. The following table presents a preliminary vision of the activities of NAER, categorized according to these dimensions.



**Table 2:** Proposed Activities

	<b>Periodic</b>	<b>Provisional</b>
<b>Purely Scientific</b>	<ul style="list-style-type: none"> <li>▪ Cross-regional Database development and maintenance – Annual reports on main indicators and descriptive data.</li> <li>▪ Semi-annual magazine with reports / papers on specific issues from the defined research topic.</li> <li>▪ Annual Regional Competitiveness and Development Report</li> <li>▪ Working Papers Series as a medium for pre-publication of member's research</li> </ul>	<ul style="list-style-type: none"> <li>▪ Proposing and realizing awarded research projects in the frame of European and international funding schemes (e.g. FP7, Interreg, World Bank and OECD Research Platforms)</li> <li>▪ Provisional Research Initiatives, responding to the current socioeconomic global and local occurrences.</li> </ul>
<b>Policy Implications</b>	<ul style="list-style-type: none"> <li>▪ Biannual Workshop for Policy Implications and Proposals on a specific theme, with participation of NAER-members representatives and local as well as central government agents.</li> <li>▪ Biannual Clustering Workshop ,where NAER-representatives and business agents may present and discuss on specific case studies, best-practices and benchmarking of cross-regional, horizontal and vertical business clustering.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Provisional Consulting Initiatives for the public and / or the private sector, responding to the current socioeconomic global and local occurrences.</li> </ul>

With respect to the sequence of the above Activities, it seems realistic to start firstly with Periodic – Purely Scientific ones. Getting access to international funding schemes will make then feasible the realization of Provisional – Purely Scientific group. Next, we should pay attention on the provisional activities with respect to policy consulting and finally we shall move on to the permanent, periodical organization of policy oriented workshops.

## 5. Concluding Remarks

In the above paragraphs, a systematic structure of specific research areas for NAER is being presented. Having in mind the defined overall topic, “*Regional International Competitiveness and Development*”, as well as the relevant literature and research / policy practice, we proposed four different sub-areas along with the specific issues; Regional Micro-Competitiveness, Regional Macro-Competitiveness, Regional Development and the category of Crossing Areas.

Moreover, based on this structure, we offer simply references of conceptions for the quantitative aspect of NAER, meaning the data, the indicators and the analytical models that we can use.

Last but not least, the 4<sup>th</sup> section presents some first thoughts on the scheme of activities for our Network.

Once again, allow us to repeat that the present Memorandum of Intent provides a proposal, based on the international literature, the relevant research-objective of the European Commission, but also on the personal views of the author. Thereby, it should be only understood as a contribution to our teamwork and brainstorming.