"**Regional Economic Competitiveness - Measuring Indicators and the Multiplier Effect**"

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Abstract:

"You can't reach a desired destination without first knowing precisely where you are." For a region engaged in competition for talent and jobs, determining where we are from an economic stand point should come from accurate and unbiased data. Most regional sustainability initiatives are governed by principles that incorporate goals of prosperity, fairness and environmental protection described as "3Es" - Economy, Equity and Environment. These goals recognize universal aspirations that are often seen as competing with each other. In reality, it is difficult to achieve anyone without the others. Therefore, it is imperative to understand good data and the derived multipliers that can tell us the "ripple effect" of how one rupee invested into our region will impact incomes, employment, growth and more and in the process help us identify the Networks that are the real engines of growth and economic competitiveness of our region.

Introduction:

Why are some countries/regions (companies/individuals) rich and some countries/regions (companies/individuals) poor?

What does it take for Somalia, Eretria, sub-tropical Africa or our region to catch up with Singapore, Hong Kong, Taiwan, Silicon Valley, Route 128 or Route 110 in Boston or Fujian province?

At what speed should our region grow to catch up

If you are the decision maker (say finance minister, Chief Minister, Collector, Mayor, etc.). What variables would you tweak or focus upon to achieve increasing growth rates in this region.

Economic Growth in a region is a function of Education, Infrastructure, Environment, Industry, Service Sector, Security, Good Governance, etc.

When I see our region, some of the challenges, are:

1. Housing is too expensive for young families and many seniors and workers that are essential for the economy. Are the houses in proximity to transport and jobs. How our region expands its housing supply will be a major factor to determine the number and type of jobs that this region will be able to support. Businesses tend to locate to regions that have access to large work force with the skills that they require.

2. What type of demography is our population, the growth in working age population will support economic growth. Different ages, ethnicities, races, etc. will determine our impact on services – schools, medical facilities, entertainment, etc. If income gains are concentrated in some segment, it will skewed and the impact on energy, water and other natural resources will differ.

3. If the economy is not providing enough well paying jobs it will not be able to attracted skilled people into the region– gulf between rich and poor keeps getting wider – it will also have repercussions on land usage, water, air quality, etc.

4. Poor transport, congestion will have tremendous economic impact on cost of doing businesses making them less competitive, wages, and therefore in attracting good work force.

5. Energy consumption and pollution will have an impact on tourism and jobs.

Like any open economy facing competition for talent, jobs and resources, say if this region is given Rs 5000 cr. or say Rs 5 cr., how will one know which variable contributes more to growth in this region. Do we focus on education, infrastructure, environment… on one of the variables or on some of them or spread thin on all of them.

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Multipliers: Multipliers tell us the secondary impact of spending on any economic activity. For regional growth, they are the fundamental parameters that measure how one economic activity can impact others. Each economic activity will have a multiplier specific to our region. A multiplier will tell us how much economic impact an infusion of Rs 10 crores will have. Say if the multiplier in services or an investment in SEZ is 5 this implies that the Rs 10 crores will create an economic impact of Rs 50 crores. Or if the multiplier of retail is 1.5, the economic impact of Rs 10 cr. will only be Rs 15 cr. Multipliers also tell not only the direct effects they also have induced effects, i.e. revenues from taxes, from services, etc. that will derive from the initial investment and following ripples. Parameters like size of the region, the amount of leakages in the economy (exports have positive inflows while imports lead to leakages), intra and inter regional distribution, etc will influence these multipliers. In sectors where the region has a comparative advantage will have the largest multipliers. Therefore, understanding which sector gives us greater multiplier impact on job, income and growth is vital. It is all the more important for Bankers to know where and how much to invest.

Networks: The second important element to consider in any regional economic planning is to understand regional Networks. The world we live in is a network – some physical and some intangible networks – water network, communication networks, transport network, spatial networks, road network, trade networks, social networks, small business networks, artisans' networks, financial networks, historical networks, distribution networks, consumer networks, etc. What are the characteristics of these networks, understanding the precise structure of these real work networks (are they scale free, are they small worlds, are they based on Power Law driven by positive externalities), can give us tremendous insights into understanding regional supply chains and supra-regional exchange networks. This will help our region to create hubs rather than spooks – like London, Singapore, and Silicon Valley have evolved.

Knowing our multiplier and our networks will help us invest wisely, and make us competitive, while increasing regional incomes, employment and growth rates.