ERLN

Economies of Regions

LEARNING NETWORK

TOOLKIT

Understanding Regional Economic Development

ERLN is an initiative of

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Introduction

This tool summarises current global thinking on regional economic development and presents on perspective on what regional economic leaders need to do in developing approaches to strengthening the economies of their regions.

It is largely based on the work of Greg Clark, a leading global thinker and practitioner on the topic, based on his inputs to the "Building Leadership in Regional Economic Development Programme" hosted by the UCT Graduate School of Development Policy and Practice in 2012 and supplemented by additional insights from Professor Michael Enright, another leader in the field.

It concludes with a set of critical questions for regional economic development practitioners in South Africa to assist them in developing appropriate strategies for their regions.

What is regional economic development?

Regional economic development refers to the sustained, concerted actions of policymakers, businesses and communities that promote the economic health of a specific geographic region generally below the level of the nation state.

Regional economic development is increasingly recognised as a critical area of intervention and many countries have developed a deliberate approach and a set of regional economic development instruments and tools.

In South Africa, however, this has been a largely undeveloped space. However, initiatives such as the ERLN seek to facilitate greater understanding of how economic development can be accelerated through a regional focus.

Leadership for regional economic development

Leadership of regional economic development requires skills that provincial leaders and officials often do not have. They have to be learned and acquired. Regional economic development is not like other regional public services, where a defined service is delivered to a relatively well-known customer or population base within a defined geographic area. Regional economic development operates both within governmental spheres and within markets where factors well outside the control of local and provincial governments impact upon the outcome.

Intervening in markets is about trying to influence how market based players behave and it involves some risk taking and risk management. Intervening in commercial markets (including land and property, capital, labour, housing, investment, trade, tourism, infrastructure and utilities markets) requires insights that must be carefully crafted:

- Understanding the markets in critical. It needs detailed and nuanced research. The rationale for intervention must be very clear. The means to intervene must also be very clear.
- Understanding how to intervene is important. Is the intention to help the market respond or to replace the market with something else? Detailed consideration of options is essential.
- Markets are dynamic and changing. When does the rationale for intervention or the nature of the intervention require change? Regional economic development programmes must be nimble, and be able to change as the rationale changes.

Economic development processes also happen within a wider geographical space than local government, and in some cases at a larger scale than provincial or regional (or even national) governments, which implies that substantial inter-governmental co-operation is required. Equally, the time frame in which economic development outcomes appear are more generally more linked to business cycles (over 12-15 years) than to the 3-4 year electoral cycles of governments.

Given all of these factors, it is highly desirable that economic development is orchestrated as an ‘integrating’ activity between public, private, and institutional sectors, with substantial vertical and horizontal collaboration on the public sector side. It is important that long term efforts produce important milestones within short time spans and that activity is customer and investor facing and utilises appropriate organisational vehicles to deliver this.

Due to these differences from other aspects of government and public services delivery, regional economic development requires very specific and complex kinds of leadership. This leadership must:

- Understand regional economies and the changing rationale and skills for intervention in markets.
- Be able to communicate a clear and common economic agenda and to broker and lead coalitions of actors from different sectors, and to set out a common agenda for them to work together through.
- Be able to sequence and balance interventions are different scales (eg in framework conditions such as tax and regulation, with demand side interventions such as marketing and promotion, with supply interventions such as skills and property).

None of this is easy. Regional economic development usually needs to draw upon skills sets that lie outside of government and on three different organisational approaches:

- **The whole of Government approach.** Regional authorities need to address the economic dimensions of a wide range of public services and regulatory roles and leverage their commitment to economic development rather than simply mount economic development programmes.
- **The inter-governmental approach.** Multiple spheres/tiers/orders/levels of government can impact on regional economic development and therefore need to be engaged in some vertical alignment, and multiple municipalities may be within one region, so horizontal coordination is key.
- **The non-governmental approach.** Many of the interventions required need to take place within markets and be led by institutions and firms, so a substantial non-government element is required in the leadership and implementation of regional economic development.

"When we compare the regions that are the leaders with the rest we find that there is not a single magic bullet. Instead, regional leadership is systemic. It requires a relatively benign and supportive national environment. It requires the development of extensive linkages between industries, their supply chains, their customers, supporting services and institutions. It requires industries with sufficient competition to drive companies to improve and sufficient cooperation to overcome the disadvantages of fragmentation and limited scale. It requires companies that are able to leverage local advantages and overcome local disadvantages to compete successfully at home and abroad. Regions that are not world leaders can still make enormous progress. Regional development is not an all or nothing game. There are always ways to improve. It turns out that while becoming a leading economic region is difficult, becoming a more prosperous region is in some ways more possible than before." *Michael Enright 2012*

Economic Regions

There is no one theory or practice of economic regions or regional economic development that is dominant. There are different impulses around the world that have caused the idea of regional economic development to become common again. These include:

- Metropolitan Regions
  The processes of urban growth associated with globalisation and increased urbanisation and metropolitanisation leads to the need for arrangements to support economic development across regions of neighbouring municipalities, often with a large growing city at their core. Examples currently are the wider regions around most large cities in North America, Europe and China. The focus is on metropolitan regions. The critical issue is to how to achieve inter-municipal co-ordination and a clear economic agenda. Such approaches may be led by a 'regional government' if one exists, or formed by the bottom up efforts of neighbouring municipalities, or generated by a national effort or some combination of these.

- New Regions
  The increased connectivity between places means that some 'new regions' are created by improved connectivity that then shapes the flows and markets for economic activities such as labour and housing markets, land markets or the infrastructure platform. These new regions include places such as the Pearl River Delta around Hong Kong, the Oresund Region in northern Europe and those places where high speed trains have reduced travel times and 'distances'. The key issue here is to build a new region and organise for it across political boundaries (some of which may even be national borders).

- Lagging Regions
  A third type of region is the 'lagging region' - a region that is losing population and experiencing industrial decline, or a rural region that is experiencing emigration. In this kind of region there are challenges associated with dwindling resources and the need to stabilise the region and identify potential sources of future growth as well as the longer term need to connect and complement better with other regions where growth is occurring.

- Political Regions
  The three types of regions above all represent 'natural' or 'functional' geographies. But there are also 'political' regions in many countries. In South Africa these are called provinces, and elsewhere they include states, regions or counties. Political geographies do not typically match the functional geographies of economic regions. In some cases they do. The Western Cape and Gauteng are, for example, quite good equivalents of current regional economic geographies. There are other famous cases such as Massachusetts State (Boston Region), Lombardy Region (Milan

Region), Maharashtra State (Mumbai Region), and Barcelona Diputacion/Province (Barcelona Region) where the geography is a relatively good fit. But there are many more examples where the geography is a bad fit. The New York functional region is in three different American states. The London Region is actually in three different British regions. The Berlin region is in two different German Lande/States. The San Diego Region is in two different countries as is the Seattle/Vancouver region. The challenge in these cases is that the political regions (States/Provinces/Regions) sometimes mount their own economic development efforts for their political geography will little regard to the functional economic geography. This might be called 'regional economic development' but it does not cover a functioning region and may be wasteful or distorting.

Changing Role of Regional Economic Development.

Around the world the tools used for effective regional development are evolving and changing considerably. Globalisation places new stresses on how national and sub-national economies perform, and is influencing the ways that regional economic development policies are designed and executed. One way to understand how regional economic development has changed is to note a shift from traditional approaches rooted in "regional planning" to a new style focused on "territorial development" more influenced by global change. This shift is summarised in the table below.

	Traditional Regional Policies 'Regional Planning' 1950s to 1990s	**New Regional Policies 'Territorial Development' 1990s to present**
Objectives	Balance national economies by compensating for disparities. Narrow economic focus	Increase regional development performance across the whole nation Integrate economic with spatial, environmental and social development measures
Strategies	Sectoral approach	Integrated development programmes and projects
Geographic focus	Political regions	Metropolitan regions and economic regions
Target	Lagging regions	All regions (especially metropolitan regions) Connections between regions and across national borders
Context	National economy	International economy and local economies

Tools	Subsidies, incentives, state aids, and regulations	Assets, drivers of growth/productivity, soft and hard infrastructures, skills and entrepreneurship, collaboration incentives, development agencies, co-operative governance, financial intermediation, investment incentives
Actors	National governments and sometimes regional governments	Multiple levels of governments, private and civic actors; implementation agencies; collaborative governance; a major role for business and civic institutions

The implication is that regional economic systems in most countries are at some point on a continuum between 'old style' regional policies and 'new style' regional development approaches. Those countries that can most quickly adapt and modernise their approaches are likely to more successful in pursuing regional development objectives, other things being equal. Therefore many countries are working hard to increase the effectiveness of their regional development systems by building new tools and governance approaches.

Regional economic strategies

There are many different strategic approaches to facilitating regional economic development. These include:

- Regulatory approaches focused on regulatory reform such as that applied in South Korea.
- Infrastructure approaches where the provision is large scale infrastructure is used to stimulate economic activity.
- Incentive based approaches to facilitate investment such as China's EPZs.
- Collaborative, co-investment approaches such as those used in several EU countries.
- Networked approaches to facilitate value chain development such as Chile's high tech industry.

Regional Economic Development Goals and Approaches

Clearly regional economic development goals will vary from between nation and regions. Most regional economic development programmes tend to focus on a balance of three different goals – growth, development and inclusion.

Growth

The growth of a regional economy usually requires changes to how resources are organised, the business and investment climate, connectivity and promotion/marketing.

Overall the need is to increase the demand for the goods and services of the region and to improve the productivity of its economic systems.

Development

The development process usually involves deliberate attempts to shape the sectors, locations, and firms/people who are the channels for growth. Sometime this means supporting physical development projects. In other cases it means organising targeted sector efforts. In others, it may, for example, mean working on the skills of SME owners.

Inclusion

This is about finding means to ensure that the benefits of growth and development are shared in ways that improve the participation of people who are otherwise excluded or participate in sub-optimal ways. There are often multiple barriers to effective participation so this means it is essential to combine interventions such as spatial development, skills and education with social support and other mechanisms.

Whilst some public inputs such as an accessible and transparent business climate, improved skills and enhanced infrastructure will support all three types of goals, for the most part these three goals require different tools and approaches. Many regional economic development programmes seem to try to achieve the particular outcome with the wrong tools.

Different tools and approaches are required for each kind of goal. For example infrastructure projects or incentive programmes that have the potential to boost growth will not also deliver inclusion unless the barriers to inclusion are tackled. At the same time, initiatives that foster social development or urban regeneration will not necessarily lead to economic growth unless they are part of a wider programme that tackles barriers to growth.

Regional Economic Development (RED) Tools

Regional economic development requires careful planning and organising based on evidence and analysis as well as consideration of different options and alternatives. It is useful to think about regional economic development tools from the perspective of organising and the three goals outlined above as outlined below.

Organising for regional economic development

Given the vast array of organisations involved in a regional economy, it makes sense to address the regional economic development system as a whole, and to try to actively shape that. That means that it is essential to define which organisations form part of that system and to find a means to orchestrate their collaborative endeavour and to forge some common goals. This is has been done in different ways in different countries. For example:

- In Europe, Regional Development Agencies have been used to lead and co-ordinate economic development activities.
- In North America, coalitions and commissions such regional economic councils have been created to create a 'top table' for co-ordination purposes.
- In Asia, metropolitan governments have often been created for larger cities and metropolitan regions and have facilitated a government-led approach to supporting the regional economic system.

Business leadership organisations have also proved to be very useful in several countries either as a complement to, or a participant in, the other organising arrangements, or even as an alternative means to coordinate.

Tools for growth

Economic growth can be supported through a range of tools that raise productivity, increase market access or stimulate demand side interest. These include regional-level interventions such as:

- Business and investment climate improvements (such development rebates, red tape reduction actions, fast tracking planning approvals and so on);
- Quality of the living environment improvements (such as addressing crime and improving settlements);
- Investment facilitation tools and resources (such as incentives and investment agencies);
- The provision of hard and soft infrastructure (such as energy, telecommunications, logistics, educational institutions);
- High end skills training;
- Regional marketing and branding interventions.

Following the economic crisis a major new focus has been on how to use land assets, tax incentives, and financial engineering to leverage external investment. There is substantial investment capital seeking opportunities and there are new dynamics in investment markets for infrastructure, real estate, and utilities. There are many different approaches that can be taken by national and local governments here, and there are different philosophies concerning what is the eventual goal.

There is also a renewed focus on education and other 'knowledge creating' organisations and how these can best be integrated into strategies for national competitiveness and regional development. Most countries realise that these are competitive assets that need to be managed as part of the regional development system. In many countries universities are being reformed to make them more focused on their economic roles.

There are also renewed efforts to increase entrepreneurship, both in the form of small firm formation and in relation to civic society and public institutions. This reflects recognition that FDI will not deliver enough jobs on its own and some endogenous growth is also required, and the need for public institutions to be flexible and 'hungry' in their contribution to regional development.

Tools for development

The development of particular firms, sectors or locations can be supported at regional level through activities such as:

- Sector and cluster development programmes and networks;
- SMEs and entrepreneurship initiatives and support services';
- Spatial development initiatives such as urban redevelopment, regeneration programmes and business improvement districts;
- Sites and land redevelopment for specific purposes such as convention centres and innovation parks.

Tools for inclusion

Regional level interventions to enhance economic inclusion typically include:

- Addressing spatial inequalities often by facilitating better access to high-opportunity areas;
- Labour market interventions especially in skills, employment and recruitment practices;
- Interventions to support the development of new entrepreneurs and firms;
- Preferential procurement and contracting for HDI and smaller firms;
- Social infrastructures such as health, schools, childcare;
- Enabling policies in social welfare such as housing subsidies and child support grants;
- Community and local economic development.

An effective regional economic development strategy needs to integrate and align strategies for growth, development and inclusion within a common agenda.

Lessons from regional economic initiatives

A range of lessons have emerged from the practice of collaborative regional economic processes. Successful regional processes tend to have the following characteristics:

- There is a widely shared common vision and agreement and commitment between multiple stakeholders on how to make the region a better place to work, live, study, visit, invest and operate a business.
- They have a credible leadership commited to driving the regional agenda that is prepared to recognise the competitiveness imperatives.
- They are characterised strong relationships between stakeholders including sound collaboration and vertical and horizontal alignment across government. These often benefit from a multi-stakeholder engagement mechanism.
- They have skills and capabilities across multiple industries and an innovation system that includes research, brokerage and financial capabilities.

- They have a sequenced plan that starts with the quick wins and is delivered in a systematic step by step manner.
- They usually are tightly linked and integrated into a larger system of production with other neighbouring regions (e.g East Asian manufacturing complex links regions in China, Taiwan, Japan, Singapore, Vietnam etc playing different roles in value chain).
- They have good capacity to analyse and understand the present state of the regional economy, how it fits into the national and global economies and the options for moving ahead.
- They typically have a strong dynamic city at their core. Competitive cities supercharge regions. Uncompetitive cities similarly are a drag on their regions.

"When it comes to regional development I am often asked what needs to happen first, what needs to happen second, and so on.
What needs to happen first is people need to have an understanding that regional development is crucial to national as well as regional and local well-being and that regional development is what can provide the resources for government to carry out its other roles.
What needs to happen second is that people who share the understanding come together and explore ways to move forward in their own communities and across the nation.
What needs to happen third is that a focus on regional development needs to be institutionalized within governments, business groups, universities, and other groups in the community."
Prof. Michael Enright 2012.

Key questions

Scale and frames

- How should economic regions be defined for purposes of establishing regional collaborative processes in the South African context?
- Is there a need for organising around functional city regions beyond city boundaries? If so, is the province potentially an appropriate geography for organising the regional level?
- How can urban and more rural regions complement each other?

Regional economic strategies and tools

- How does South Africa's current policy menu support the development of its economic regions? How can policy be refined to optimize such support?
- What have been the primary tools used in South Africa to enhance regional economic development?
- Have they been the right tools? What other tools are needed?

- How have different regions sought to balance the goals of growth, inclusion and development?
- How do different regions complement each other within the overall national plan and globally?

Institutional arrangements and leadership

- What forms of regional level coordination and joint action do we find in South Africa's economic regions?
- How would we assess the potential for successful regional processes based and what needs to be done to realize this?
- How do we get stronger private sector engagement and leadership at the regional scale? How do we involve universities and other knowledge institutions at a regional level given their key role to play in R&D and innovation system.