

Regional Economic Development in Uncertain Times

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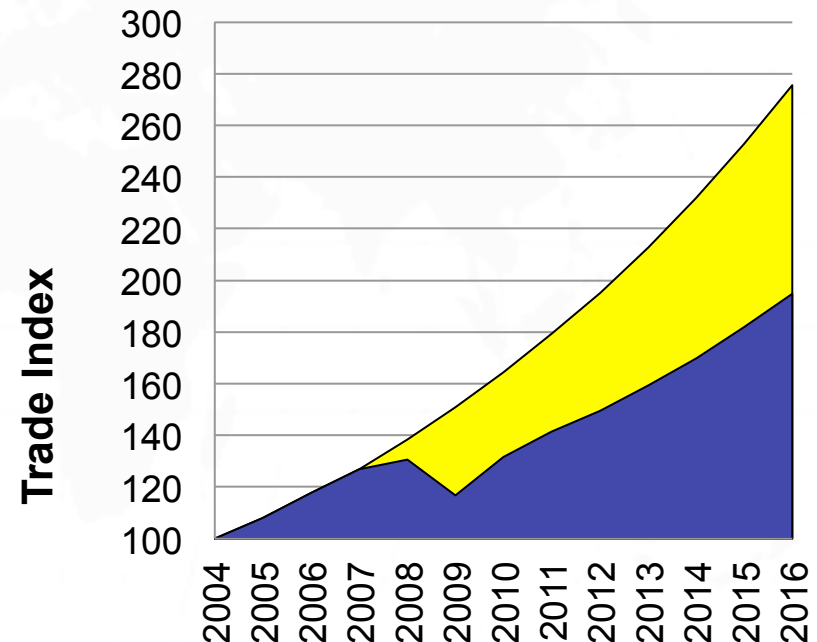
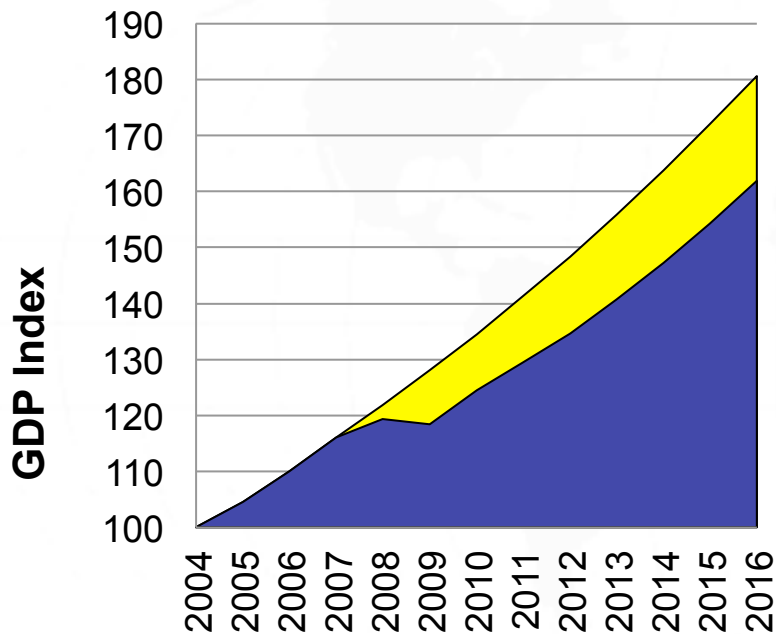


Why are regions developing processes to enhance competitiveness?

A World in Crisis

The Global Economy will lose ~US\$60 trillion in GDP from 2008-2016 versus prior trend

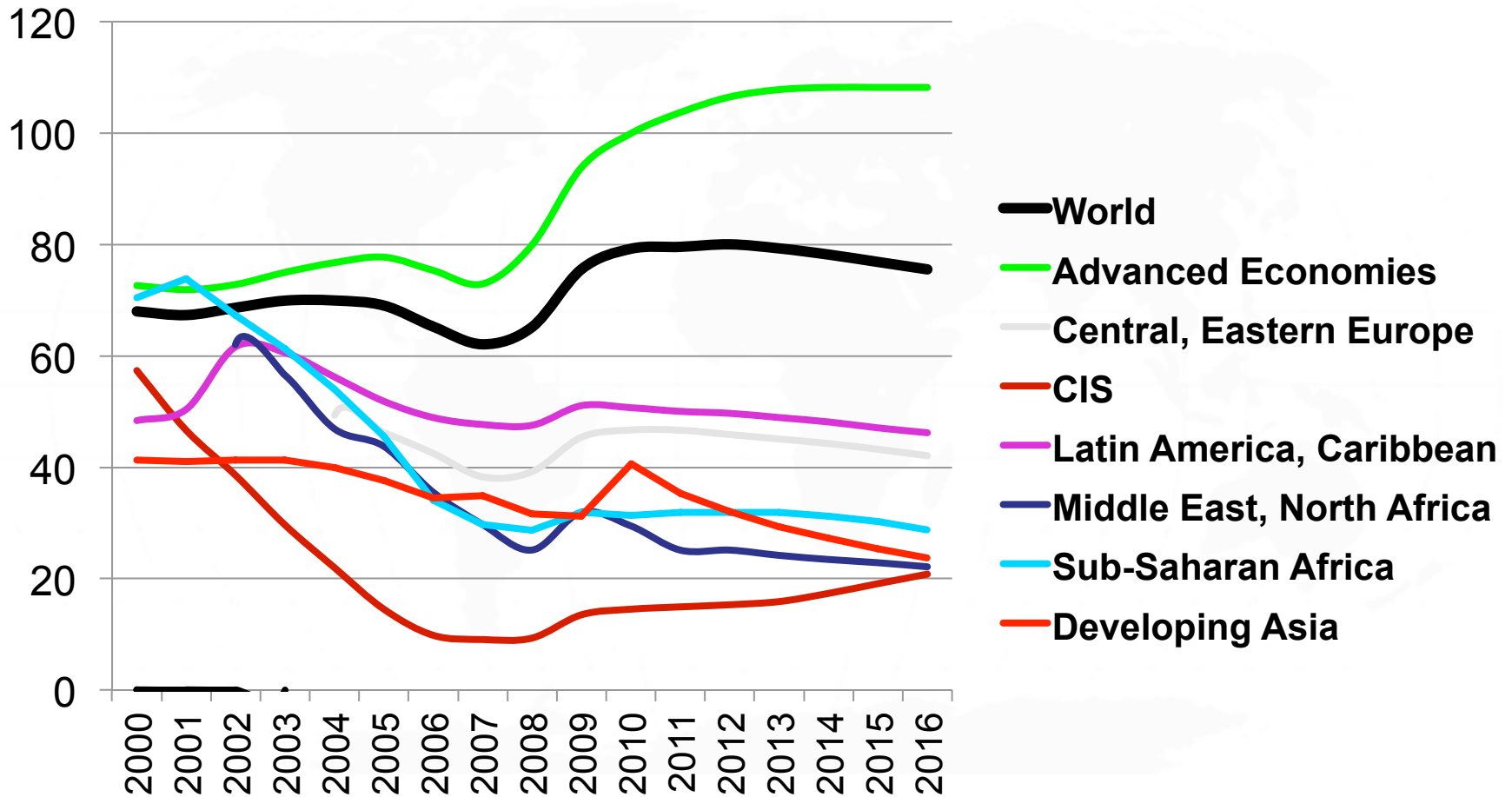
The Global Economy will lose ~US\$110 trillion in trade from 2008-2016 versus prior trend



■ Trajectory 2004-07
■ Actual+IMF Forecast

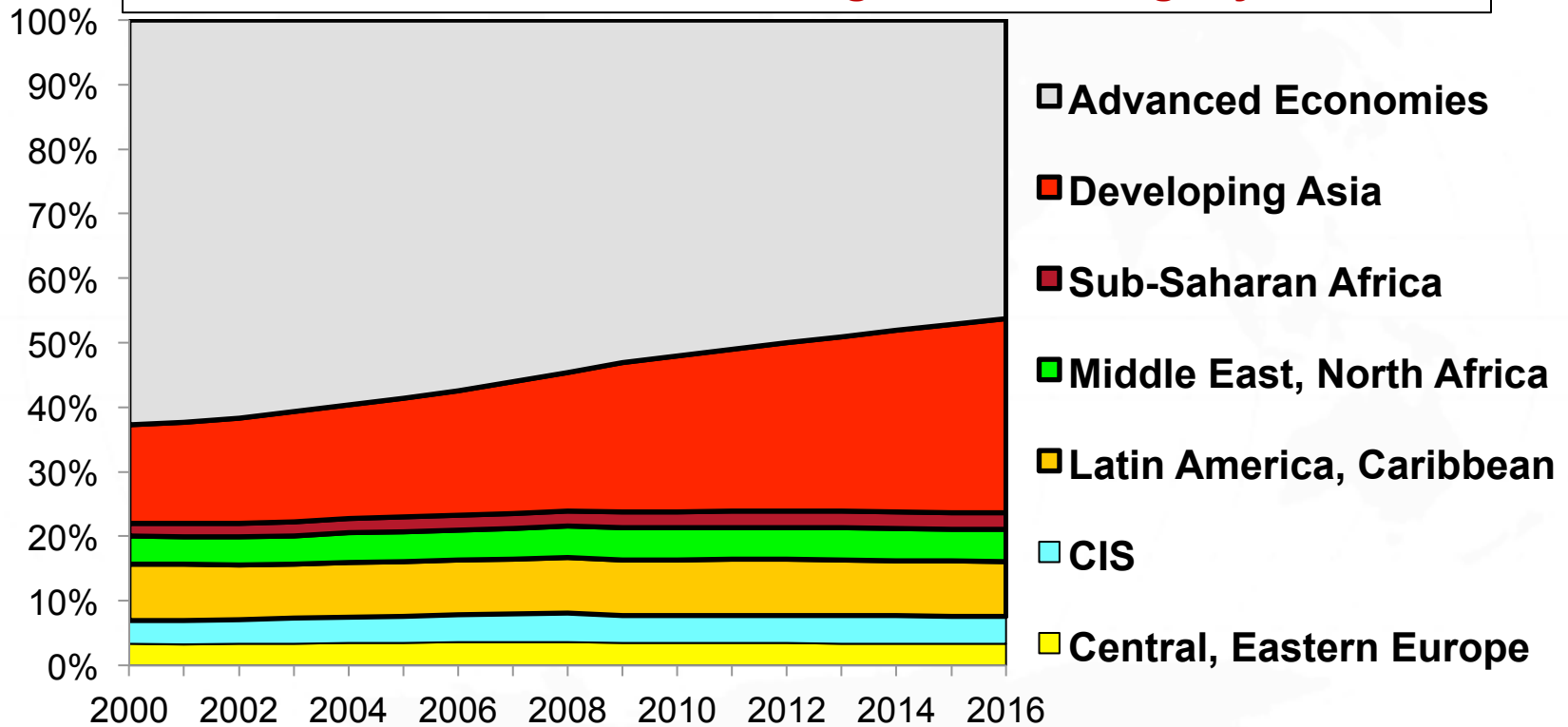
■ Trajectory 2004-07
■ Actual+IMF Forecast

Gross Government Debt (% of GDP) (IMF Forecasts)



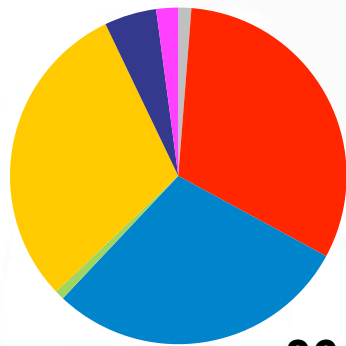
Rebalancing: Share of World GDP (PPP) (IMF Forecasts)

The vast majority of the gains will be made in Asia, Sub Saharan Africa to grow share slightly

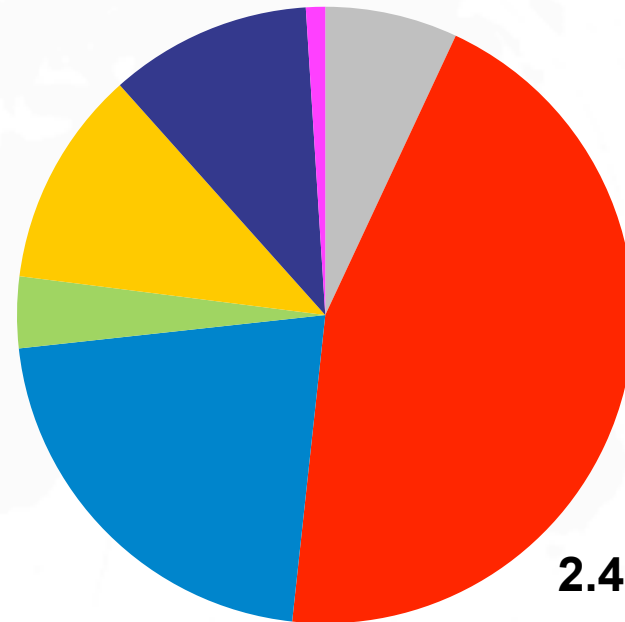


The Communications Revolution (1)

Internet Usage, 2000



Internet Usage, 2012

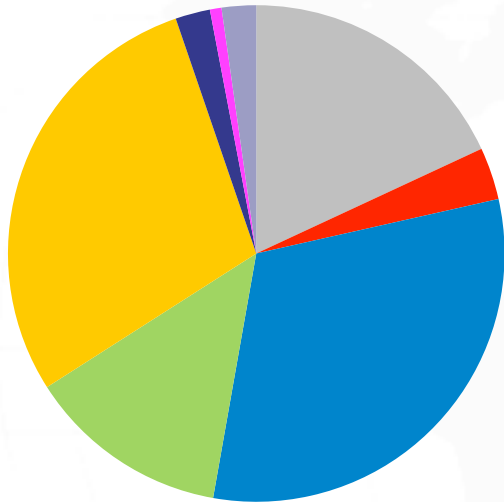


- Africa
- Asia
- Europe
- Middle East
- North America
- Latin America / Carib
- Oceania/ Australia

- Africa
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- Europe
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The Communications Revolution (2)

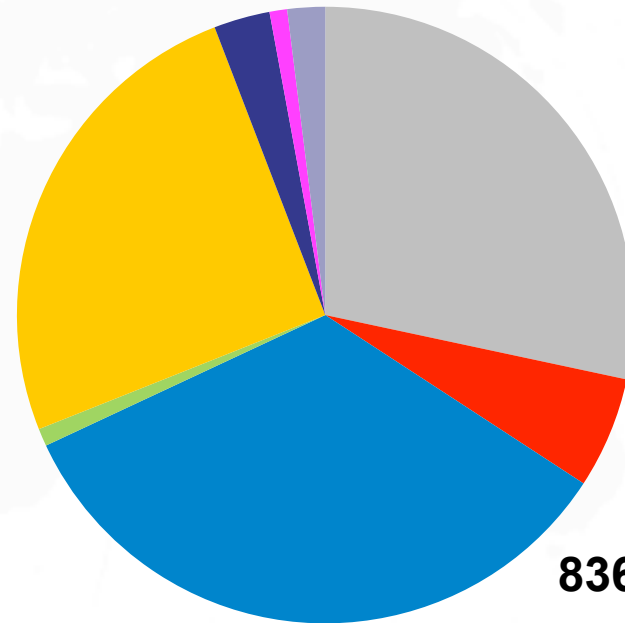
Facebook Usage, Aug 2010



518 million

- Asia
- Europe
- North America
- The Caribbean
- Africa
- Latin America
- Middle East
- Oceania / Australia

Facebook Usage, June 2012



836 million

- Asia
- Europe
- North America
- The Caribbean
- Africa
- Latin America
- Middle East
- Oceania / Australia

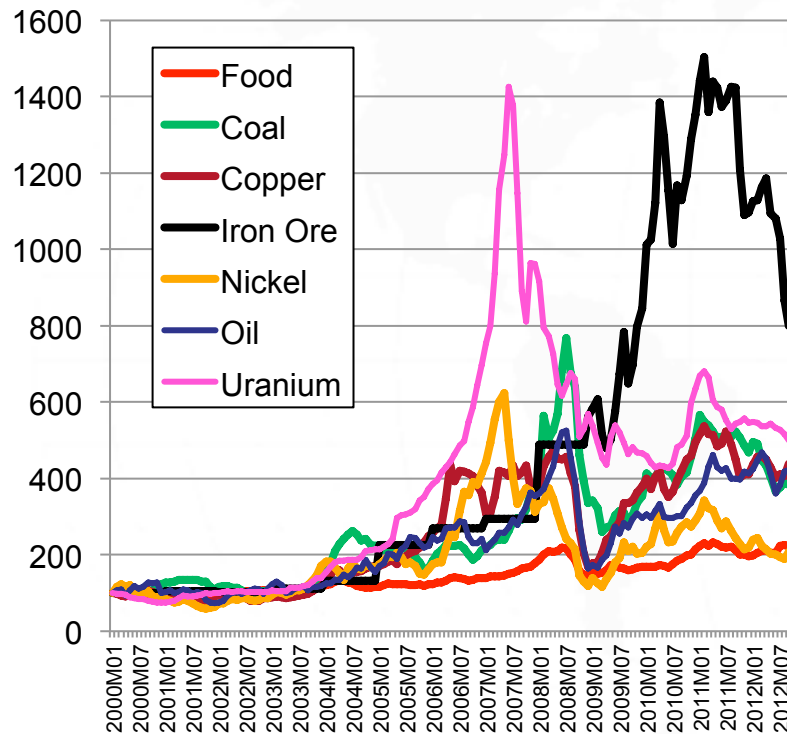
Internet Usage

World Regions	Internet Users 2000	Internet Users Dec 2011	Penetration 2012 (% Population)	Growth 2000-2012	Users %
Africa	4,514,400	167,335,676	15.6%	3606.70%	7.0%
Asia	114,304,000	1,076,681,059	27.5%	841.90%	44.8%
Europe	105,096,093	518,512,109	63.2%	393.40%	21.5%
Middle East	3,284,800	90,000,455	40.2%	2639.90%	3.7%
North America	108,096,800	273,785,413	78.6%	153.30%	11.4%
Latin America / Carib	18,068,919	254,915,745	42.9%	1310.80%	10.6%
Oceania/ Australia	7,620,480	24,279,579	67.8%	218.60%	1.0%
World Total	360,985,492	2,405,510,036	34.3%	566.40%	100.0%

Source: Internet World Stats

Resource Pressures

Rising Commodity Prices



Source: IMF

Projected Probability of Global Supply Shortfall by 2030

Nearly Certain Probability	Very High Probability	High Probability	Low Probability
Cadmium Gold Mercury Tellurium Tungsten	Cobalt Lead Molybdenum PGM Phosphate Rock Silver Titanium Zinc	Chromium Coal Copper Indium Iron Ore Lithium Magnesium Compounds Natural Gas Nickel Oil Phosphate Rock	Bauxite REM Tin

Source: The Oil Drum

Pressures in the “Almost Flat” World



“Flattenor”



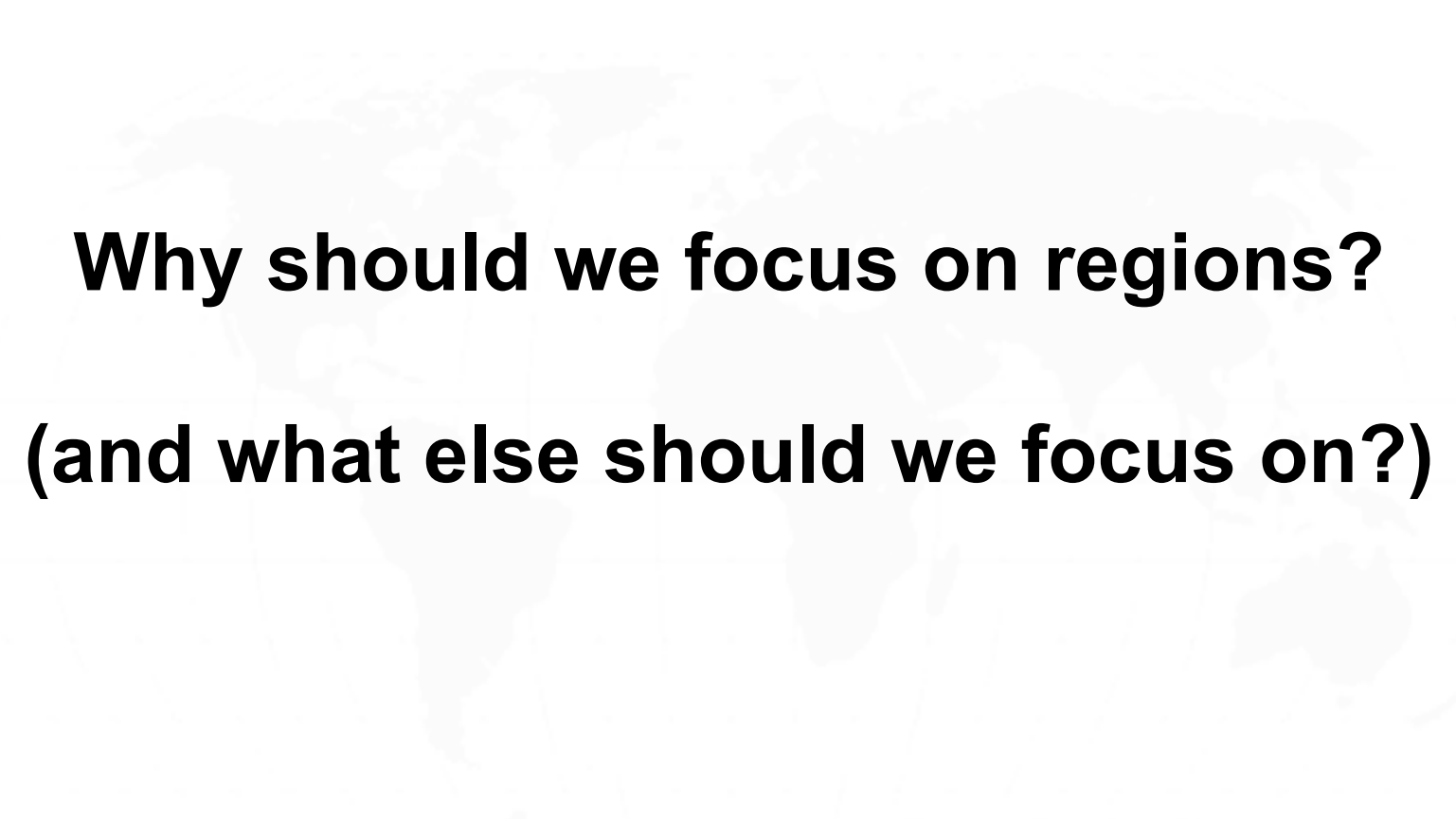
“Flattenee”

The Competitiveness Imperative

- Many of today's problems have arisen because individuals, companies, and nations have tried to borrow, rather than earn, their prosperity.
- The simple fact is that individuals, companies, regions, and nations have to improve their competitiveness if they are to achieve a prosperity that is sustainable.
- Improved competitiveness is essential if economies are to grow without pushing debt levels higher.
- Improved competitiveness is also essential for economies that have avoided the excesses, because they will be fighting for international markets that are less robust than expected.
- And in today's world, it is competitiveness that allows a nation or region to be the "flattener" rather than the "flattenee"

So What is Regional Competitiveness?

- **The ability of the region to generate a rising standard of living for the region's residents in a very challenging environment.**
- **The ability of the region to compete successfully in a range of economic activities that allows for economic advancement.**
- **The ability to contribute to national development through its own efforts and through interaction with the rest of the country**



**Why should we focus on regions?
(and what else should we focus on?)**

Units of Analysis and Action

	Activity	Industry	Cluster	Economy
District within a city				
City				
City and suburbs				
City-region / region without a city				
Nation				
Supra-national region				
World				



“Traditional”



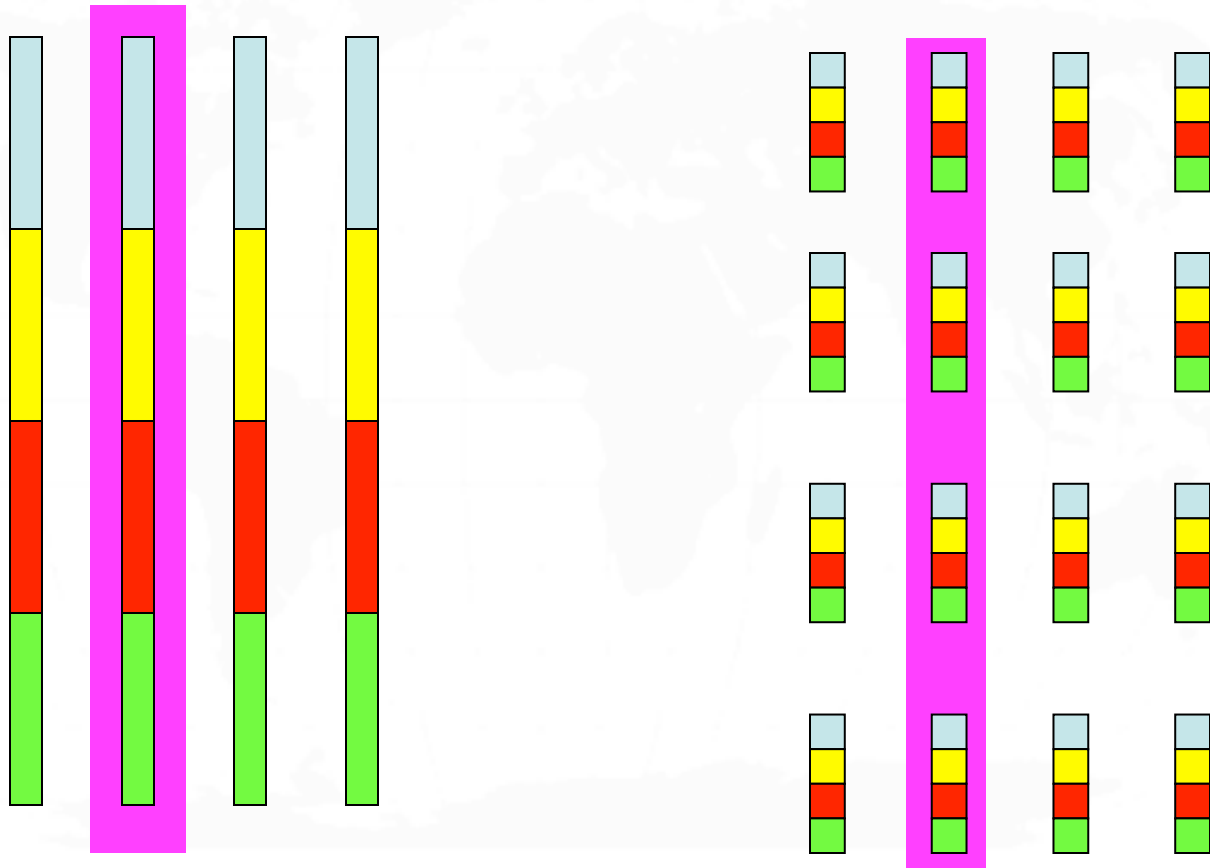
New focal points

Competitiveness in...

Industries

Vertical Chains

Activities

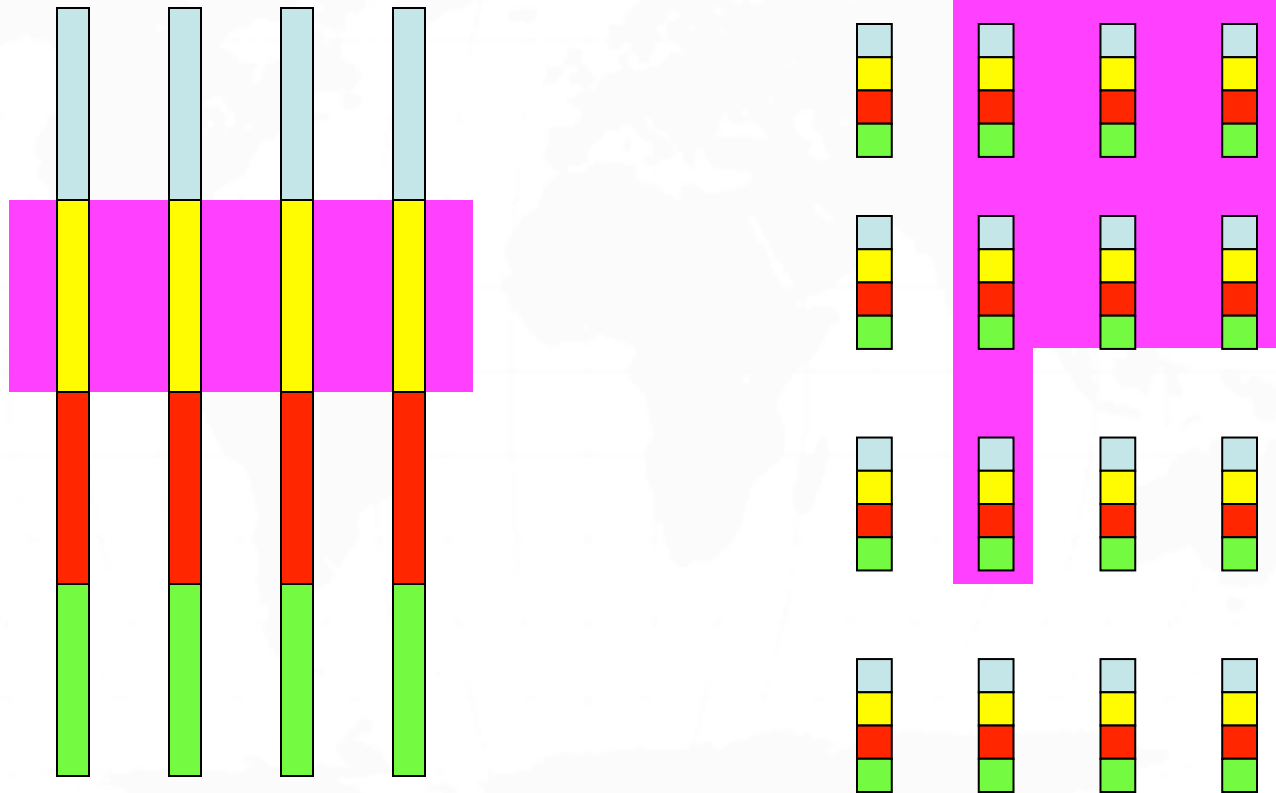


Competitiveness in...

Industries

Clusters

Activities



Activities as well as Industries

Which activities are performed in the region?

Which are performed by local firms, which by foreign firms?

- **Research**
- **Development**
- **Product Design**
- **Product Engineering**
- **Process Design**
- **Process Engineering**
- **Component Manufacturing**
- **Subassembly Manufacturing**
- **Product Assembly**
- **Supply Chain Management**
- **Marketing and Branding**
- **Selling**
- **Retail Management**
- **Distribution**
- **After Sales Service**
- **Warranty and Returns**
- **Senior Management**
- **Strategy Setting**
- **Firm Administration**

Clusters as well as Economies

- **What are clusters?**
 - Groups of firms in the same or related industries whose development is interdependent
- **What are the types of clusters?**
 - High technology agglomerations
 - Low tech, labor intensive industries
 - Fashion and creative industries
 - Large scale manufacturing industries
 - Small scale craft industries
 - Business and financial services
 - “Anti-cluster clusters”
- **Why are they important?**
 - Economies develop through clusters
 - They leverage and build local skills and capabilities
 - They foster interaction and collaboration among firms
 - They provide impetus and direction for innovative activities
 - They develop and attract resources
 - They allow locations to connect to the global economy
 - They provide a useful unit for policy and public-private interaction

Nations and Cities

- **National Emphasis**
 - Macroeconomics
 - Monetary and fiscal policy
 - Exchange rate policies
 - Trade policy
 - Foreign investment policy
 - General education, training, infrastructure
 - International negotiations
 - Framework conditions
- **National Governments**
 - By their nature, work on issues that can only be addressed at the national level
 - This is too big to have the local interaction necessary to foster local and regional economic development
- **City Emphasis**
 - Urban transport
 - Urban utilities
 - Housing
 - Physical planning
 - Policing and local security
- **City Governments**
 - These work on intensely local issues
 - The small size means they have little power over regions
 - Cannot operate at the “economically appropriate” geographic level
 - Often do not work to integrate with their hinterlands

Why Regions?

- Nations and cities have different emphases, which leaves a gap in the policy framework for regions
- Nations are often too big and cities too small to match the interactions, supply chains, infrastructure requirements, financial linkages, capabilities, and logistics linkages necessary to do business
- Combining city and region in most cases covers 80+% of the important interaction that real companies have
- Regions often draw upon common resources, labor pools, inputs, knowledge bases
- Regions can benefit from coordinated investments in infrastructure, education, training, marketing, information gathering, and related public goods
- Lack of coordination at a regional level will tend to leave city, state or provincial, or district economies isolated and uncompetitive
- **Regions are a crucial unit of analysis and action**

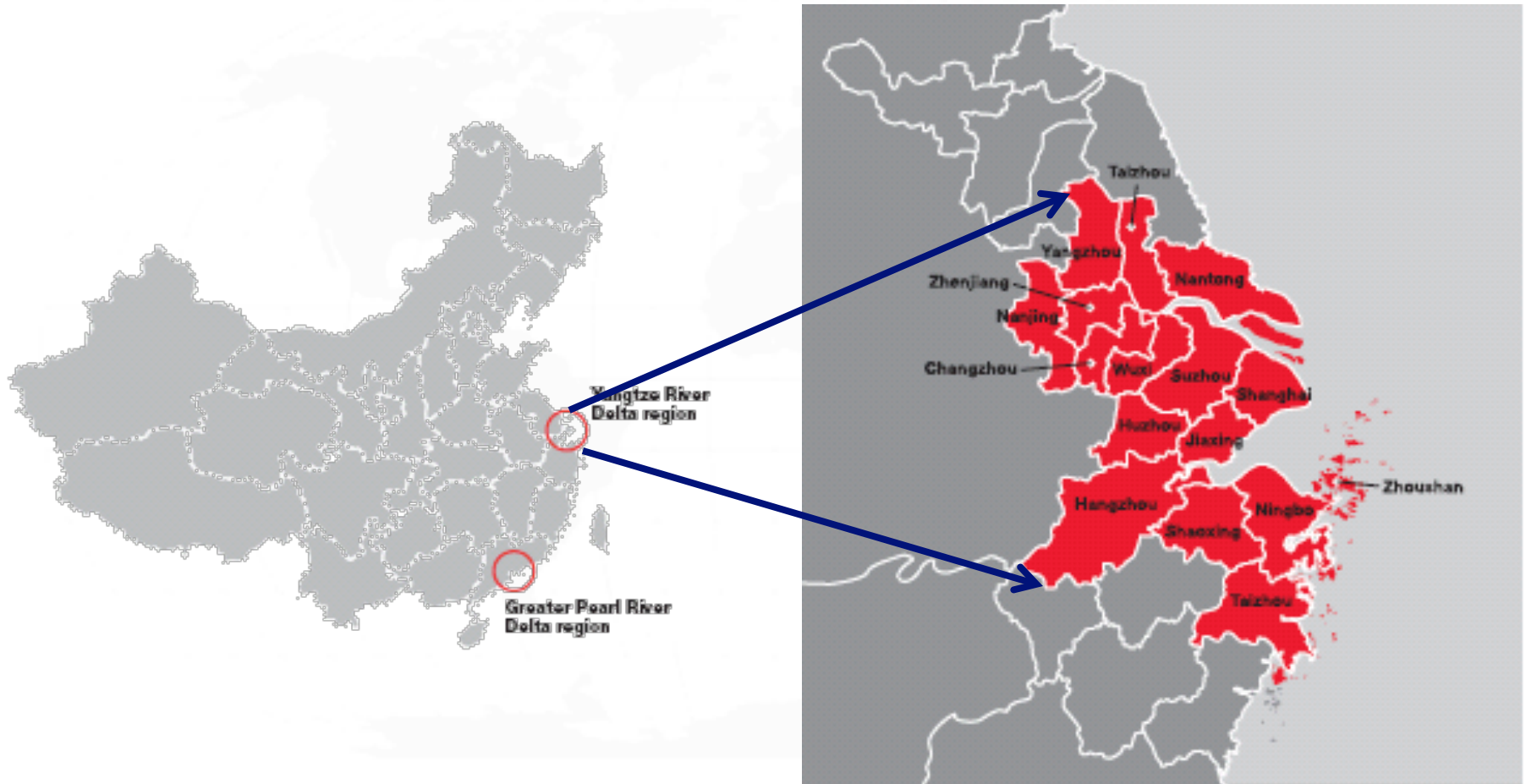
Why Regions?

- **Much of the action in the world economy today goes on at the regional level**
- **It is often regions, not nations, that are competitive in certain industries**
- **Regions are an effective unit of analysis and action in more and more countries**
- **This is even more true as supranational groupings become more prominent**
- **“Regions are there”**

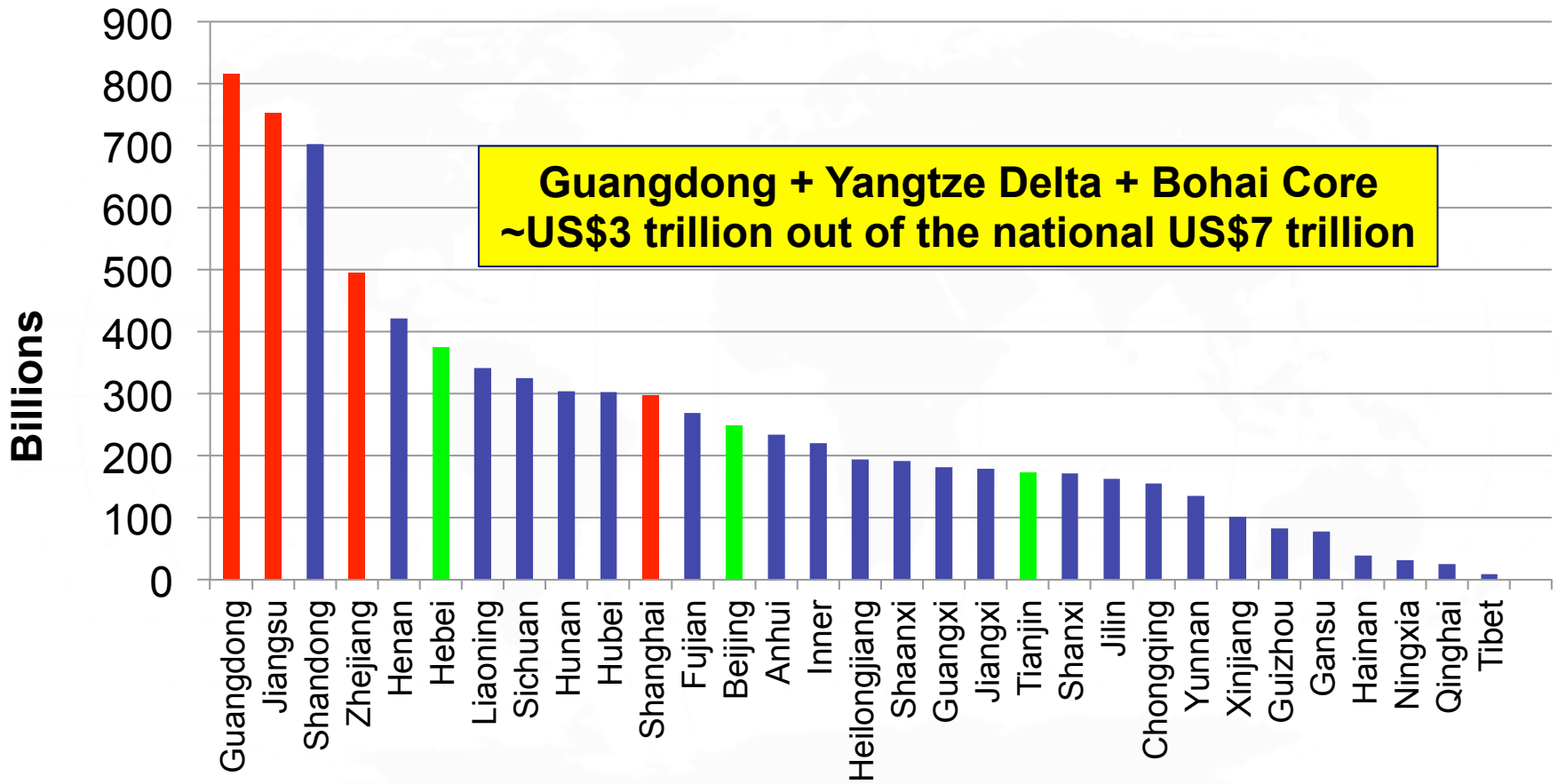
Driving Regions in China, Greater PRD



Driving Regions in China, Yangtze River Delta



GDP by Province in China , 2011, US\$



Source: China Statistics Bureau

Challenges in Dealing with Regions

- **Regions vary greatly in size**
- **Political jurisdictions might not match natural economic areas**
- **Different industries and clusters have different geographic scopes**
- **In some countries, the power and budget for economic development does not correspond to the natural economic areas within the country**
- **Natural economic regions often span political boundaries, increasing the difficulty of coordinated approaches**

Reasonable Jurisdictions for Regional Policy?



Reasonable Jurisdictions for Regional Policy?



- **What is the right set of jurisdictions for regional policy in South Africa?**
- **Does it map to political jurisdictions?**
- **Does it map to financial and analytical firepower?**
- **Does it map to natural economic areas?**
- **What to do if all of these differ?**



What is the role of cities and city-regions in regional economic development?

Cities and City Regions

- **Why is city competitiveness important? Because cities are:**
 - Centers of population and opportunity
 - Engines of development
 - Markets for goods, services
 - Service and financial centers
 - Links to national and international markets
 - Command, control, and coordination centers
 - Public administration centers
 - Cultural, education centers
- **Lessons from around the world**
 - Competitive cities supercharge their regions
 - Uncompetitive cities are a drag on their regions
 - It is extremely hard to develop beyond simple resource exploitation without well-functioning cities
 - The difficulty in meeting day to day challenges of cities makes it difficult to engage in planning
- **All this makes long-term city planning that much more important**

Issues and Leverage Points in Cities in Developing and Middle Income Countries

• **Issues**

- Inefficient city structures
- Uncontrolled sprawl
- Inadequate housing
- Lack of basic water and sanitation in fringe areas
- Problems with public safety
- Transportation challenges
- Core city services stretched
- Lack of formal sector employment opportunities in some parts of the cities
- Lack of inclusiveness

• **Leverage points**

- Urban planning
- Investment in utilities
- Transport
- Communication
- Public services
- PPPs and development agency participation where appropriate
- Education / training
- Business support
- Community building
- “Safe havens”
- Community-based service delivery

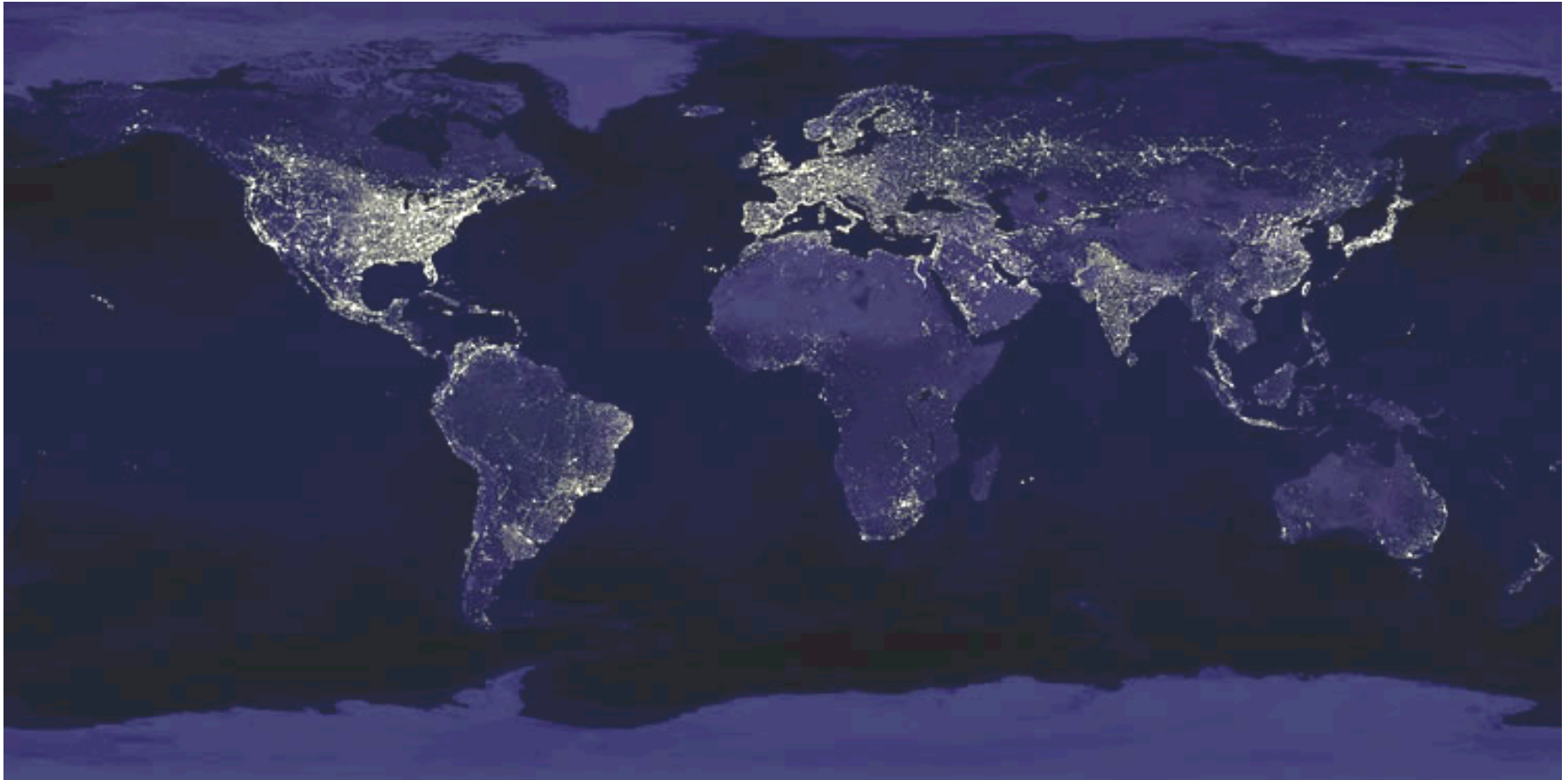
City Regions in Asia-Pacific



Source: NASA

- **A limited number of city-regions dominate the economies of Asia**
- **These cities provide the high-value services, connect the countries to the rest of the world, management and coordination, economic leadership**
- **A question for other parts of the world is where is their world-class city that plays these roles?**


Leading City Regions in the World



Source: NASA

Some Leading City-Regions

- **Europe**
 - London region
 - Paris region
 - Germany-several
 - Milan region
 - Rome region
 - Amsterdam-Rotterdam
 - Zurich region
- **Americas**
 - New York Metro region
 - San Francisco-Silicon Valley
 - Los Angeles region
 - Chicago region
 - Toronto region
 - Mexico City region
 - Sao Paulo region
 - Rio de Janeiro region
- **Asia-Pacific**
 - Tokyo-Yokohama
 - Osaka-Kobe-Kyoto
 - Seoul region
 - Hong Kong-PRD
 - Shanghai-YRD
 - Beijing-Tianjin-Hebei
 - Singapore-Johor
 - Bangkok region
 - Mumbai region
 - Sydney region
 - Melbourne region
- **Africa**
 - Cairo region
 - Nairobi region
 - Lagos region
 - Cape Town region
 - Johannesburg region



How do regional approaches differ from others?

Regional Approaches

- Tend to take macropolicies and macroeconomic conditions as given
- Tend to look beyond the immediate day to day considerations of cities
- Therefore regional approaches can focus directly economic development matters without mixing too many things together
- Tend to cross jurisdictions, which means they require some measure of cooperation
- Tend to focus on groups of firms and industries (i.e. clusters) rather than individual firms and industries (because the latter are too small to develop a whole region)
- Tend to involve supply chains and support services as well as core industries
- Tend to involve infrastructure that cuts across multiple industries and locations
- Tend to focus on skills and capabilities that cut across multiple industries
- Tend to provide more detailed insights into the private sector demand for public services than many other approaches
- That is when they are done right

The ESA Approach to Regional Development

1. **Assess the overall performance of the regional economy. In which activities, industries, and clusters does it succeed and in which does it fail?**
2. **Success in activities, industries, and clusters involves certain minimum conditions, to succeed in an individual activity (assembly manufacturing for example) requires much less than succeeding in entire clusters of complex industries. Understand the advantages and disadvantages of the region for different types of activities, industries, and clusters.**
3. **The best way to build an economy is to work from the base one has, remove bottlenecks, and make focused investments that are designed to overcome specific disadvantages and leverage specific advantages. Identify the bottlenecks and leveraging investments.**
4. **The next best way to build an economy is through the development of new activities and industries that are adjacent to those the region is already active in. Identify the bottlenecks to doing so and invest in the knowledge necessary to compete in those activities and industries.**
5. **Attracting foreign investment allows nations and regions to get around capital constraints or the need to succeed in all activities in an industry. Assessment of what types of investments can be attracted and the discipline of competing for foreign investment are useful development steps.**
6. **From a policy standpoint, focus on specific market failures: impacted information, managerial myopia, underprovision of public goods, and coordination failures linked to the existing and potential activities and industries for the region.**

The ESA Approach to Regional Development

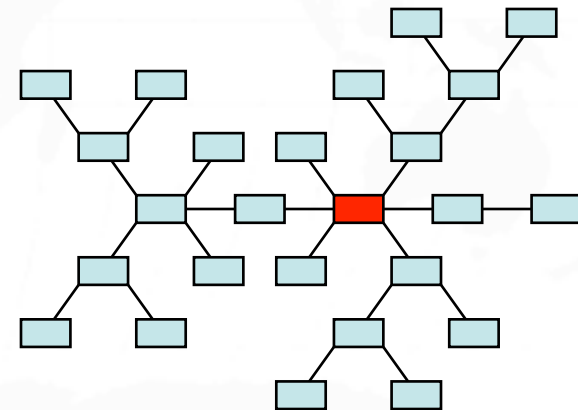
7. **Assess the potential for collective activities to overcome the difficulties associated with small firm development, international sales, and understanding trends in technologies and business models. Also assess the potential for collective action to brand, provide complementary goods and services, and to link into the supply chains of multinationals.**
8. **Understand that different industries and clusters have different characteristics, so one size does not fit all in terms policies and strategies to address them.**
9. **Ensure that regions have enough decision making and funding authority to work with local businesses. In countries where everything is run at the national level, regional development suffers. National oversight, support, and direction is great, but diagnosis and action is usually best carried out regionally.**
10. **Try to build a sense of regional identity. This helps businesses define common problems and seek common solutions. It allows local competitors to become collaborators when it comes to competing with other regions and nations. It helps foster the trust necessary for business and government to work together.**
11. **Have government act as a catalyst, providing some initial information, identifying opportunities and obstacles, if necessary creating private sector counterparts in the process. Acting as a catalyst allows government to work with several industries or clusters over time.**
12. **Think of sequencing. Don't start with the biggest problems, start with the ones that are easiest to solve. This helps create some positive momentum and gets the relevant parties to know each other. Then tackle the more difficult problems.**

Regional Competitiveness Assessment

INDUSTRY TYPES	Agriculture, forestry, fishery	Extractive industries	Low-tech manufacturing	Mid-tech manufacturing	High-tech manufacturing	Financial services	Professional services	Manufacturing / ag support services	Etc.
ACTIVITIES									
R&D									
Product D & E									
Process D & E									
Components & SA									
Assembly									
Mktg & Branding									
Selling & Retail Mgmt									
Distribution									
AS Service, W & R									
Strategy Setting									
Firm Admin									

There are identifiable features that foster the genesis and evolution of regional economies

- **Initial location**
 - Resource base
 - Location of markets
 - Related industries and spillovers
 - Particular entrepreneur or firm
 - Government impetus
- **Subsequent development**
 - Skills and capabilities
 - Labor/ supplier/ buyer pools
 - Innovative performance
 - Competition and cooperation
 - New entrepreneurs and firms
 - Other external economies





**What are the key capabilities required
for success?**

Requirements for Success

- **For regional economies**

- Skills, capabilities, advantages that can be leveraged in some activities or industries
- Companies (local or foreign) that leverage these into business opportunities
- Access to inputs, capital, labor, infrastructure sufficient to be in the game
- Industries that have a mix of competition and cooperation
- A policy and macro environment that supports business development
- An international environment that allows us to trade and invest, or attract investment

- **For regional policies**

- Analytical firepower
- The ability to use analysis to focus investments in public goods
- The ability work with the business community
- The ability to investment in the right education, training, infrastructure
- The ability to craft policies for the specific region not just copy the policies of others
- The ability to work with other governments or levels of government

The Most Important Requirements

- **A willingness to recognize the competitiveness imperatives in today's challenging times**
- **The realization that complacency is not an option, or at least not a good option**
- **The ability to analyze and understand the present state of the regional economy and how it might move ahead**
- **A shared commitment to making the regions better places to work, live, and operate a business**
- **This is what is needed to meet today's competitiveness imperatives**

Thank you

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