

ERLN Practice Guide 2

Regional economic development in practice

Exploring the scope, concerns, characteristics, approaches and processes

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ERLN
Economies of Regions
LEARNING NETWORK

INSIDE

Purpose and Outline

This guide summarises current global thinking on regional economic development and presents a perspective on what regional economic leaders need to do to strengthen the economies of their regions. It highlights key concepts and approaches as well as the range of tools used to facilitate regional economic development and suggests key lessons emerging from practice.

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 and the academic writings of Robert Stimson and others.

1. Scope and Concerns of 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 to this 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 enhanced through a regional focus.

Regional economic development can be seen as a subset of regional planning and development whose origins can be traced back to theorists such as Patrick Geddes and Lewis Mumford in the USA from the 1920's onward with concerns about the city's impact on natural systems and the phenomenon of uneven development. The historic evolution of regional planning and development is captured in Guide 1 and points to the many different perspectives on the challenges of "regional development" that have emerged. As Glasson and Marshal (2007: 6) observe:

> *As the decades passed new ingredients where thrown into the conceptual pot of planning, including regional planning, regional administration, regional economics as well as regional politics. Each of these conceptual approaches had their own understanding of what a region might be. The historical and spatial context is completely determinant of what a region consists of and therefore regional planning as a concept is highly elastic.*

The theoretical descriptions of the scope and concerns of regional economic development are reflected in Box 1.

Box 1: Regional Economic Development

Stimson (2008)

Regional economic development is the application of economic processes and resources available to a region that result in the sustainable development of, and desired economic outcomes for, a region and that meet the values and expectations of business, of residents and of visitors.

Bodanya (2015)

Regional economic development refers to the outcomes of complex, path-dependent, generative economic activities subject to historical and sociological processes that give rise to continuous upgrading of a region, where region refers to a dynamic spatial unit of analysis that 1) is a functional economic unit, 2) subsumes local economic development, 3) addresses the needs of economic wastelands, 4) creates and develops institutional thickness, 5) is based on agglomerations that gives rise to one or more economic or industrial clusters, 6) develops dynamic capabilities of system-wide innovation, 7) serves as linkages between rural and urban, cities and towns, and core and periphery and 8) is supported by government through investment in basic, advanced, connective and institutional infrastructure.

(Position paper by Shamim Bodanya (2015) commissioned by GTAC and the ERLN – this paper is contained in the useful readings section of the guides)

Stimson (2008) argues that much thinking on regional economic development remains embedded in the paradigms of the 1970s, because of an inherent reluctance of many regions and local communities to pro-actively embrace change. He notes that the protection from external competition and other economic support that national governments were once able to provide is now greatly curtailed. However, many regions are not re-equipping themselves fast enough to compete effectively in a post-industrial age. Stimson argues that in order for regions to compete successfully in the global economy, regional organisations and businesses need to:

- Understand the implications of the paradigm shifts occurring in economic policy and regional economic development planning strategy.
- Build the flexible and smart strategic infrastructure to do so.

Changing Role of Regional 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 from Greg Clark (2012).

	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 adapt their approaches to reflect both global and local realities, are going to be better placed in pursuing regional economic development objective. Increasing the effectiveness of our regional development systems by utilising and creating effective tools and governance approaches is important.

2. Characteristics of Regions

Regions in the context of this guide (and how the ERLN understands regions) refer to geographic areas at a sub-national level that are larger and inclusive of more than one local area such as a city, town, hamlet, agricultural and rural area. Sub-national regions within the South African context are multi-dimensional and have underlying patterns and characteristics informed by physiography and ecology, patterns of human settlement; agricultural production and mineral extraction; utility and transport infrastructure; political, historic and administrative boundaries; and cultural and place uniqueness. Economic regions are characterised by interactions and flows between economic activities, such as trade and investment, functionally linked to its endogenous resources (resources, infrastructure, institutional and/or unique human resource skills and capacity).

Regions are multi-layered and are generally defined in terms of either a *homogenous* or *functional* criteria. Regions based on *homogeneous criteria* share common attributes, characteristics or phenomena. This phenomenon could be unemployment, industrial output, or any other indicator of regional performance. Regions delineated by function place emphasis on the functional relationships and interdependencies of all their components (parts) in a given physical, geographical environment. The demarcation of regions could be informed by a wide range of criteria and could include the following:

- ***Environmental Criteria:*** These include biophysical features such as the river basins, physiography, climate, agriculture, ecology and other natural systems.
- ***Administrative Criteria***: These regions are synonymous with political and administrative defined areas such as a provincial, district or municipal governments and government through legislative mandates.
- ***Economic Criteria***: Considerations in this regard include manufacturing production and processing activities; technical skill and know how; areas of trade agreement, etc.
- ***Historic, Cultural and Social Criteria***: These could be informed by historic, cultural and ethnic considerations.

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 or City-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 the provinces could be considered an example of this. 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.

- ***City-Region Characteristics***

A key idea in contemporary regional economic development has been that of the city (or metropolitan) region. Clark, Dexter and Parnell (2007) argue that the six drivers of the rise of city-region approaches are: ·

- The shifting demographics of rising populations, increasing mobility and immigration and steady urbanisation mean that the metropolitan areas and polycentric city regions have become the global hubs of population flows.
- The changing structure of industrial production, trade and information has transformed cities, as they have had to reorient their focus to their position on the global value chain. To do this cities have to improve the quality of life of residents, ensure business competitiveness. For secondary cities it is crucial to define niche services and advantages of the region within the global system.
- Cities both contribute to and are affected by global environmental changes. Adapting to and mitigating climate change and the sustainable management of ecosystem services on which large cities depend is a priority that necessitates a regional approach.
- Technology is restructuring cities internally and creating new opportunities for once peripheral cities to engage in the global economy. There are also major new investment and employment opportunities associated with ICT, nanotechnology and bioscience opening up specialist niches for cities in the world economy.

- Continental and supra-national integration (such as NEPAD, NAFTA, EU Integration and Enlargement) gives some cities important new roles in the regional system. More generally, it re-balances the importance of cities and continental bodies with national systems of government.
- The urbanization of poverty and inequality means that cities must become key sites of welfare policy and redistributive action. The increasing proportion of the urban population, who are poor, alongside the declining fiscal base of cities and the limited capacity of local government, is associated with increased inequality and a decline in overall quality of life indicators in the large cities.

Clark et al (2007), (p.2-6) note that 'regional development approaches are now being pursued implicitly or explicitly because they make a positive contribution to development and facilitate collaboration between parties in areas of complex negotiation'.

A regional approach is effective because:

- The geographical focus enables the cumulative effects of different policies to be more visible, the impacts of larger drivers to be recognised, and the gaps better understood.
- The emphasis on institutional collaboration (building institutional thickness) provides for an optimal use of resources and for other efficiencies such as shared use of intelligence and resolution of implied tensions between policy goals.
- A regional frame results in a better determination of the major public transport spines and the long-term requirements for key transport hubs.
- It is an appropriate scale for establishing a set of incentives and disincentives to promote densification and mixed use-mixed income settlement and for enabling the identification of suitable land within a regional context for in-fill and new development to accommodate household growth.
- It enables the identification of the most appropriate sites for economic diversification.
- It is an appropriate scale to protect and upgrade open space assets (wetlands, parks, river corridors and the coast) and to put in place a sustainability regulatory framework.

3. Product and process components of regional economic development

Stimson (2008) argues that regional economic development is both a 'process' (the industry support, infrastructure, labour force or human capital development, and market development with which regional scientists and regional economic development planners and practitioners tend to be most concerned) as well as a 'product' (measured in jobs, wealth, investment, standard of living, and working conditions with which people living, working and investing in regions tend to be most concerned).

Stimson suggests that it consequently has both a 'quantitative' and a 'qualitative' dimension. It is quantitative with respect to the measured benefits it creates through increasing wealth and income levels, enhancing the availability of goods and services and improving financial security and well-being. It is also qualitative in creating greater social/financial equity, achieving sustainable development, creating a spread in the range of employment and gaining improvements in the quality of life in a region.

4. Regional Economic Development Goals

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.

5. 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.

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 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 as 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 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 in the form of small firm formation. Innovative thinking and social entrepreneurship is also required in relation to civic society and public institutions. This reflects a recognition that FDI will not deliver enough jobs on its own and building on endogenous assets is essential, 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 healthcare facilities, schools, childcare facilities;
- 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. The process designed should be informed by the intended outcomes. It is of importance that the regional economic development approach and method is responsive to the context specific complexity, challenges and opportunities.

6. 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. Things to bear in mind include:

- 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 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 on different scales (e.g. 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-governmental 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*

7. Lessons from regional economic initiatives

A range of lessons has 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 committed to driving the regional agenda that is prepared to recognise the competitiveness imperatives.
- They are characterised by 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 are usually 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."

Michael Enright 2012.

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