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ERLN Practice Guide 1

Historic overview of regional development

Exploring the historical dimensions of regional development internationally and the implications for South Africa

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Purpose and Outline

This *Practitioners Guide* forms part of the *Regional Economic Development Toolkit for Practitioners Operating within Subnational Regions.* The purpose of this guide is to provide an historic and contextual overview of regional economic development internationally, with reference to experiences in South Africa. The purpose of this overview is not to provide a detailed and comprehensive overview, but rather to identify approaches and ideas for regional economic development practitioners.

This guide provides an historic overview of approaches, methods and conditions associated with regional economic development, as the dominant component of regional development, from the 1930s to current times. The task is not to provide a comprehensive account of all published material on the topic, but to identify the main relevant theories, policies and reflections over the last few decades. The historic overview is presented through various '*waves of development*[1]', with particular emphasis on public sector approaches and interventions. The theory overviews illustrate the shifting focus from comparative advantage theory (focussed on incentives to attract industries and manufacturing) to competitive advantage theory (focussed on measures aimed at attracting footloose hi-tech service related businesses) and, more recently, collaborative advantage theory (encouraging firms and regions to collaborate and compete at the same time). Much of the theory review was informed by experiences in the USA as this has dominated economic development discourse worldwide. The overwhelming thrust of economic development policies and practices in the US since the 1920s focussed on steering jobs to people in particular regions, while since 1990, economic development theories, such as industrial clusters and technology-based development, has resulted in steering people to jobs. Some reflection is provided on the application of the regional, spatial and economic development approaches in South Africa. This is captured in Addendum 1: Historic Overview of Global and RSA Regional Economic Development.

First Wave: The Great Depression to WW II (1929/39 to 1945)

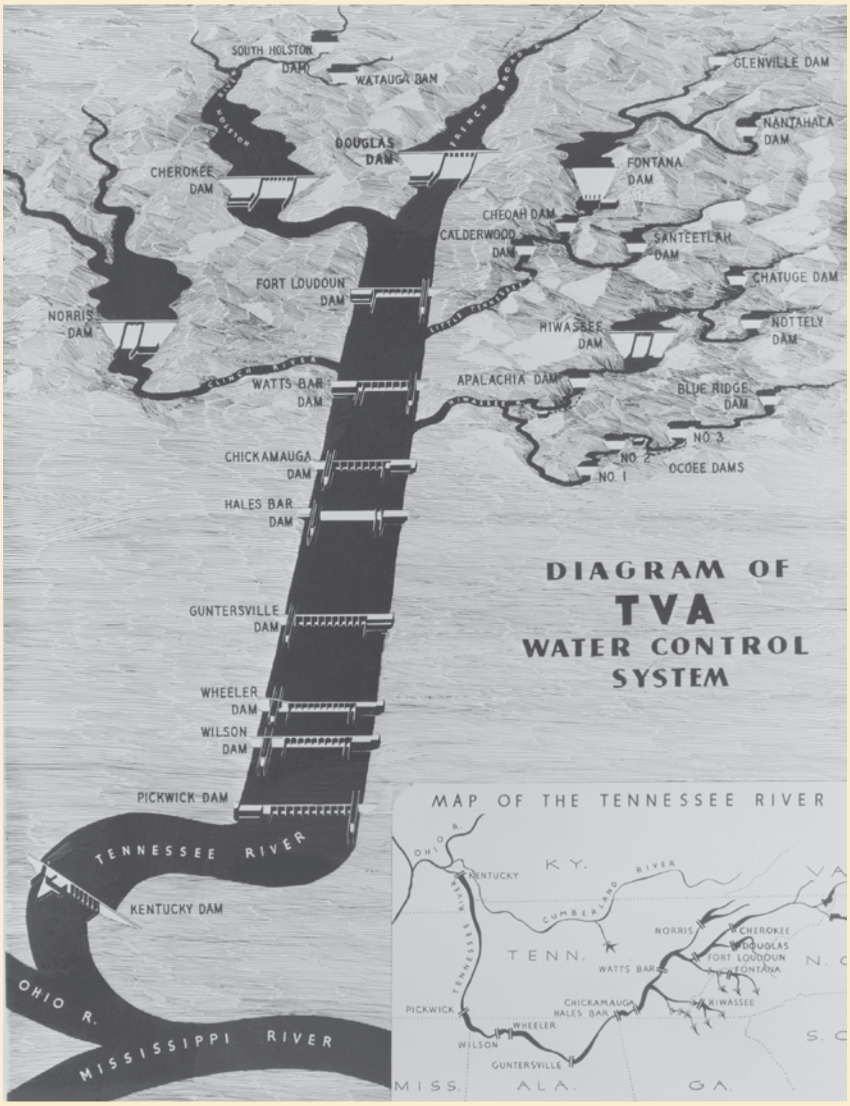
Global and Regional Development

The origins of regional development can be traced back to the Great Depression (1929 to 1939), when the US president Franklyn D. Roosevelt put forward the 'New Deal' as a stimulus package. This resulted in the establishment of the Tennessee Valley Authority (TVA) in 1933 as the first federally owned corporation and regional economic development agency in USA. It also served Alabama, Mississippi and Kentucky (See Figure 1). Roosevelt's efforts during the 1930s were aimed at creating a middle class through home ownership among working class Americans. Regional development has been preoccupied since its conception from the mid 19th century with realising regional balance within territorially defined regions within the context of geographic differences, imperfect markets; and booming and lagging regions. This period was dominated by Keynesian ideology. Walter Christaller introduced his Central Place Theory in 1933, aimed at explaining the relationship between cities and their hinterland. It describes the hierarchical relationship that informs the pattern of distribution, size and number of cities and towns.

1 The World Bank refers to 'waves of development' for different periods.

Figure 1: Tennessee Valley Authority (TVA)

The Tennessee Valley Authority (TVA) was established as a public sector commission in its namesake river basin. It was the first large regional planning agency in the USA during the post-depression period. This was in response to high levels of unemployment, poverty and the 'squalor' of the urban working classes. The mandate of this development agency was to generate employment opportunities and provide cheap power as an incentive for industries through the development of utility infrastructure (including the construction of dams for hydroelectric power) and the mining of vast coal reserves. The last dam was built during 1970s. TVA approach was copied around the world in countries such as China, India, and Sri Lanka and the RSA. Although this project was successful from an engineering perspective, the environmental consequences for the valley were disastrous, including the loss of land, removals and disruptions of activities along river courses and damage to the natural ecology.



Regional Economic Development

State intervention was influenced by Keynesian economics during the post-depression period in the US and focussed on public works programmes such as the construction of telephone and rail infrastructure as a means to stimulate economic development and create jobs (Figure 2).

Figure 2: Keynesian Economics

Keynesian economics, advocated by John Maynard Keynes (1883 – 1946), can be traced back to the Great Depression when markets were incapable of optimising and keeping workers employed. Before its onset, neoclassical economic theory dominated and postulated the notions that economic systems automatically right themselves in reaching 'the optimum level of production' and unemployment was 'voluntary'. Keynesian economics argued for the creation of demand by supply. Real investment (e.g. new factories, machinery, etc.) would result in expanding the economy. The state could influence the economy through monetary policy, i.e. lowering interest rates to stimulate spending. Keynesian economist advocates deficit spending, i.e. government deliberately spending more than their revenue through taxation in order to increase demand and boost the economy. (Peet, 2009). Interventions advocated during periods of recession include massive state-led investment in general economic and social infrastructure as well as standard of living orientated programmes. In the USA, state expenditure focussed on infrastructure and grants to stimulate private sector investments (demand-side management). Lyndon Johnson's 1963 'declaration of war on poverty was aimed at 'people and places left behind' and lasted three decades. The aim of regional development was to strive towards equity across the national space, i.e. demand-side driven approach to economic development. Hundreds of community development corporations (CDCs) were created in order to transform the economic vitality of communities. The assumption was that poor communities are not poor by accident but by design, and central to this was the belief that 'corporate America was re-allocating the assets of poor communities to wealthy ones' (Blakely, 2009:43).

This period was characterised by expanding industrial activities, fuelled by power generation and federal state incentives aimed at directing employment opportunities to poor regions. The economic focus was industrial recruitment and 'smokestack chasing', with states (in the USA) attempting to attract manufacturing plants from other states through measures such as tax abatements, loan packages, infrastructure and land development (Bingham and Mier, 1993). Federal government attempted to redistribute employment geographically by stimulating economic development in depressed areas through providing technical assistance, loans and grants to local governments for public projects. The focus on manufacturing and industrial development ensured that a significant number of jobs were created for low skilled workers not only in Tennessee Valley, but also growing northern cities such as Detroit and Chicago. The World War Period (WW2) focussed on the state manufacturing of arms at a global scale.

Second Wave: Post World War II (1945) to 1960s

Global and Regional Development

State-led Keynesian economics continued after WW2 and stimulated the 'long boom' period. The USA experienced 'one of the world's longest and most productive economic cycles' in the three decades after the war. However in spite of this phenomenal job growth, significant spatial miss-match continued to exist between where job growth was occurring and where people were located, with inner city areas and rural areas in particular lagging.

Regional Economic Development

Joblessness during this period of economic growth was viewed as '...a problem of the place or the person rather than as a function of economic structure' (Blakely.1989.18). It was argued that loss of jobs, irrespective of whether it was due to 'economic dislocation, deindustrialization, market failure or capital mobility' remained a disaster for the locality where it occurred (Blakely, 1989:25). Economic emphasis during this period was placed on attracting mobile manufacturing activities to lagging regions based on their comparative advantage, i.e. a country, region or firm's availability of natural resources. Public resources were deployed to attract inward investment and included the provision of 'hard' infrastructure such as land and utility services and the reduction or removal of red tape. This period was characterised by the emergence of Growth Pole Theory (1955, Francois Perroux); John Friedman's Core-Periphery Model (1963) with a focus on backward and forward economic linkages between core areas-urban growth centres-and hinterlands) leading to further industrialisation and Walt Rostow's Five Stages of Economic Growth Model and the application of all these to developing countries.

Third Wave: 1960s to early 1980s

Global and Regional Development

In the USA, the state's goal from the 1960s onwards was to improve equity and increase demand through redistribution. This period was characterised by slow-growing and stagnant world economy and approaches advocated included economic revitalisation through public-private partnerships. The 1960s were characterised by widespread urban race riots in the US., including in the Harlem (1964); Philadelphia (1964); Los Angeles' and Watts Riots (1965), etc.

Regional Economic Development

Subsidies were provided to poor regions through federal, state and local programmes as well as increasing consumer demand, as a way to raise income and to stimulate economic activity. Emphasis placed was on increased economic opportunity through education, job training, social services and community development.

The 1970s were characterised by economic revitalisation focussing on depressed and declining city neighbourhoods. Initiatives combined industrial recruitment and private sector investments using public-private partnerships. The focus was on the attraction of mobile manufacturing and inward investment, especially foreign direct investment and investment in 'hard' infrastructure. Incentives such as grants, loans and tax breaks were offered to businesses (World Bank, 2005).

Small business support units were established by municipalities to assist small business formation and growth (Blakely and Leigh, 2010). The mid 1970s, with rising global competition and a stagnant world economy, brought the realisation that 'smokestack chasing of footloose industry' did not produce the promised jobs and wealth creation (Blakely and Leigh, 2010:59). The end of the 1970s was characterised by plant closures, a slowdown in economic growth in many countries, exacerbated by geo-economic and geo-political conditions such as the oil crisis and Middle East conflict. Bretton woods institutions, such as the Word Bank and IMF, advocated structural adjustment in many developing countries. This period focussed on growing industrial clusters and building the local capacity through education and training of the local workforce. Other approaches during this period included development through economic growth promotion (in developing countries) and replaced with redistribution with growth in the 1970s. Concerned remained about the unequal distribution of the benefits of economic development from a critical Marxist perspective.

Fourth Wave: 1980s to 1990s

Global and Regional Development

The collapse of Soviet Communism (1985-1991), followed by the introduction by administrations led by Roland Reagan (USA) and Margaret Thatcherism (UK), gave rise to *neoliberalism*. US experienced 'one of the worlds longest and most productive economic cycles' in the three decades since World War II (Blakely 1989). This led to economic expansion of the global economy, underpinned the belief in the 'power of market economies' to generate growth and create jobs, following a brief recession. Theories that originated during previous decades dealing with location, growth poles, attraction models and industrial districts became prominent during this era. Other influencing factors during the 1980s and 1990s included globalisation, economic rationalisation, corporatisation and privatisation of public assets and functions. Growing concerns about the environment, social issues and sustainable economic growth led to the emergence of *integrated strategic planning* for economic development in the 1990s (Stimson and Stough, 2009:178).

Figure 3: Neoliberalism

Neo-liberalism positions were taken seriously in the context of the economic and political crisis during the 1970s and early 1980s. John Williams coined the term "Washington Consensus" in 1989 to refer to policy reforms imposed on debtor countries in Latin America. Policy instruments from this consensus applied mainly to third world countries included fiscal discipline, reducing public expenditure, tax reform, market determined interest rates, competitive exchange rates, trade liberalisation, encouraging foreign direct investment, privatisation, deregulation and securing property rights (Peet, 2009). Neo-liberalism is based on a 'free market economy' and with limited state intervention. Globalisation changed the nature and location of production, resulting in greater specialisation and clustering; increasingly in "borderless" societies, with greater unrestricted movement of information, travel and currency between countries' (Stimson and Stough, 2009:178).

Statistical evidence showed, however, that the increasing inequality in the distribution of real income and persistent problems of poverty, homelessness and inner-city decline. According to Stimson and Stough (2009:177) the 'extravagance of the capital markets splurge in the 1980s', followed by the 1987 stock market crash and 1989 recession, led to a significant paradigm shift with increasing focus on the principles of sustainable development and quality of life.

Regional Economic Development

Neoliberal ideology and the associated competitive place theory, became the 'cornerstone of regional economic development interventions in many countries during the 1990's. Economic policy focus was on the retention and growth of existing businesses; the attraction of inward investment; targeting specific sectors or certain geographic areas; globalisation, economic rationalisation, corporatisation and privatisation of public assets and functions. Tools used by cities to achieve this included direct payments to individual businesses, provision of business incubators/workspace, advice and training for small and medium sized firms, technical support, business start-up support, as well as some hard and soft infrastructure investment (World Bank, 2005).

This represented the beginning of a shift from comparative advantage theory (which argues that locations with raw material have the best advantage, also referred to as 'static advantage') towards competitive advantage theory (which focuses on the ability to attract investment due to the ability of combining different resources such as knowledge. However, in spite of this phenomenal increase in jobs, significant spatial miss-matches continued to exist between where the job growth was occurring and where people were located, with rural areas and inner city areas in particular lagging. The world wide stock market crash on 19 October 1987 (Black Monday) followed by world wide recession in 1989.

Figure 4: Black Monday, 19 October 1987.

Fifth Wave: 1990s – 2007

Global and Regional Development

This period was characterised by the continued dominance of neoliberalism and accelerated globalization. Economic growth recovered during the 1990s with the USA economy experiencing unprecedented economic growth and expansion since the mid 1990s. This period saw the emergence of *city-regions*, underscored by regional competitiveness, competitiveness and 'new regionalism'. In the USA this, Post-Fordists' era, reflected a shift to *collaborative advantage,* evident through the 'rise' of the new knowledge economy and the influence of monetarism on macro economic policy. In the USA, jobs moved offshore. This period of jobless growth in the west was also associated with increasing social instability in cities worldwide.

Concerns remained regarding regional imbalance and economic exclusion. However, disparities in income and opportunities remained a concern (Blakely and Bradshaw, 2002). The world become uncertain with the collapse of the economy during 2001 accompanied by the events of 9/11 and the resultant onset of the worldwide recession during 2007.

Regional Economic Development

Michael Porter's (1998) seminal work on *competitiveness theory* (e.g. *competitive advantage; Porter's diamond; clusters and agglomeration economics)* became one of the most influential works on economic and business development over the last century. Public sector focus was on investment in soft infrastructure investments; public/private partnerships; networking and leveraging of private sector investment for the public good; and targeting inward investment attraction to add to the competitive advantage of local areas. Focus shifted during this wave from direct firm financial transfers to making the entire business environment more conducive to business (World Bank, 2005). Competitiveness theory was liberally applied in the context of regional economic development.

Figure 5: Competitive Advantage Theory

Michael Porter (1998)
Competitive Theory
Competitiveness is at the heart of Porter's theories and argues that this dependent on the performance of firms. A firm's performance in terms of competeviness, is a function of the fundamental structure of firms, their inter-relationships and their ability to continually innovate to makes them competitive.
Comparative vs. Competitive Advantage
Comparative advantage refers to a country, region or firm's access to specific assets and attributes within a specific locality and is sometimes referred to as 'static advantage'. Competitive advantage refers to the ability of one business entity to engage in production at a lower cost, and with greater efficiently and delivering better quality products, than another entity. Competitive advantages can be 'created' by combining different resources through the application of skill and knowledge and is also referred to as 'dynamic advantage'. Competitive advantage significantly influenced governments globally, with some explicitly adopting industrial cluster strategies.

Figure 6: Porter's Diamond

Porter's competitive 'diamond' mode can be used for assessing the relative competitive strength of nations, and by implication their industries. Porter identified the following fundamental factors that give rise to competitiveness

- *Factors of production* (capital, labour force skill levels and basic infrastructure, etc.).
- *Demand conditions* are the levels of demand in the economy for products and services.
- *Related and supporting industries* - the presence or absence of supplier industries and related activities that can provide services at internationally competitive prices and standards.
- *Firm strategy, structure and rivalry*: the way in which companies are formed, structured and managed.
- *Government and chance*. Influence of government policies and regulation.

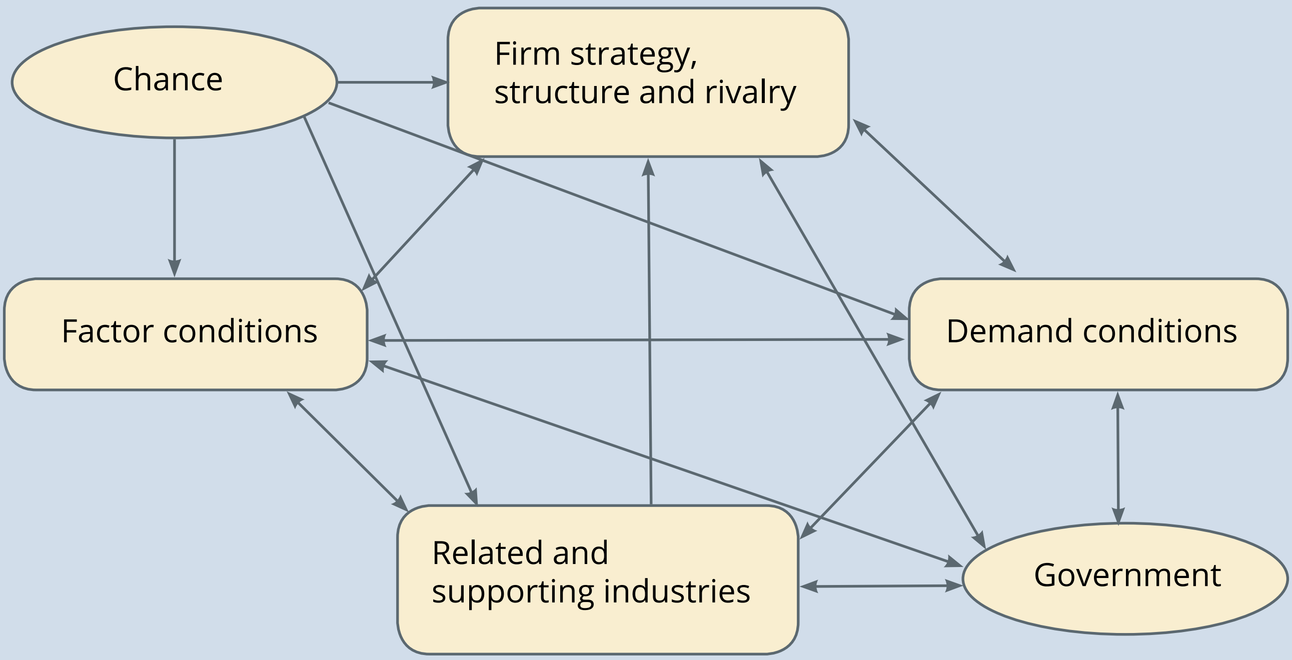


Figure 7: Cluster Theory and Agglomeration Economics

Porter (1998) defined a cluster as: "…a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities". Firms in a cluster are therefore defined by being in the same geographical area

- A cluster is not industry specific
- They must be related either by being in the same industry or in a connected or supporting industry.
- It cannot be defined simply by sector

An understanding of clusters requires consideration of the following:

- Vertically linked firms: either upstream (finance, specialised inputs etc.) or downstream (markets for the good or service produced).
- Horizontally linked: in the same industry at the same stage of production, e.g. a group of pharmaceutical manufacturing firms in a biotech cluster.
- Firms may provide a specialist service to others, such as staff training or equipment maintenance support.
- Firms may be linked to related industries, e.g. banking and insurance
- Firms may be linked to institutions such as universities providing education, consultancy and research.

A cluster is described as a system of interconnected firms and institutions whose value as a whole is greater than the sum of its parts". The key determinants for competitiveness are investments, firm structure and the ability to continuously innovate. Porter identified six fundamental principles that informs competitiveness:

- Firms compete, not nations or regions.
- There are no inherently 'good' or 'bad' industries.
- Innovation and continual upgrading are critical to sustained competitiveness.
- Competitiveness is built over decades, not short-term business cycles.
- No nation is competitive in everything.
- Neither a nation nor its industries have to be large to be competitive.

Agglomeration, Clusters, Hives and Nodes

Agglomeration economies describe the benefits that firms obtain when locating near each other. This can attract more businesses to an area and economies of scale are achieved through business nodes and clusters. The later can be defined as a number of interconnected businesses, suppliers, and associated institutions within a particular field and located in one geographic area. The rationale is that the greater the number of related firms that are clustered together, the lower the cost of production (firms have competing multiple suppliers, greater specialisation and division of labour result), and the greater the market for products. In cases where multiple firms in the same sector (competitors) cluster, there may be advantages because that cluster attracts more suppliers and customers than a single firm could alone.

Clusters, hives and nodes can create economies of agglomeration; because it allows for the centralisation of administrative support services, it increases networking, and can facilitate mentoring and sharing advice. Aspects to be considered with the establishment of business clusters include the logistics of such a cluster (i.e. the availability of physical space; the best geographic location (is it close to potential markets, is it accessible to interested entrepreneurs); the quota of businesses in the cluster. Hives enable SMME's to enter the market and seek linkages with established businesses. Economies can improve their competitiveness as a location for economic development through innovation. All that is required is to identify and develop firms in the areas in which the economy has inherent strengths. The cluster theory is based on these assumptions. If an economy can successfully identify the key clusters in which it is likely to gain competitive advantage, and successfully develop these, then economic growth will follow. Agencies must intervene appropriately at cluster level and firms must recognise the benefits of interdependence inherent in clusters.

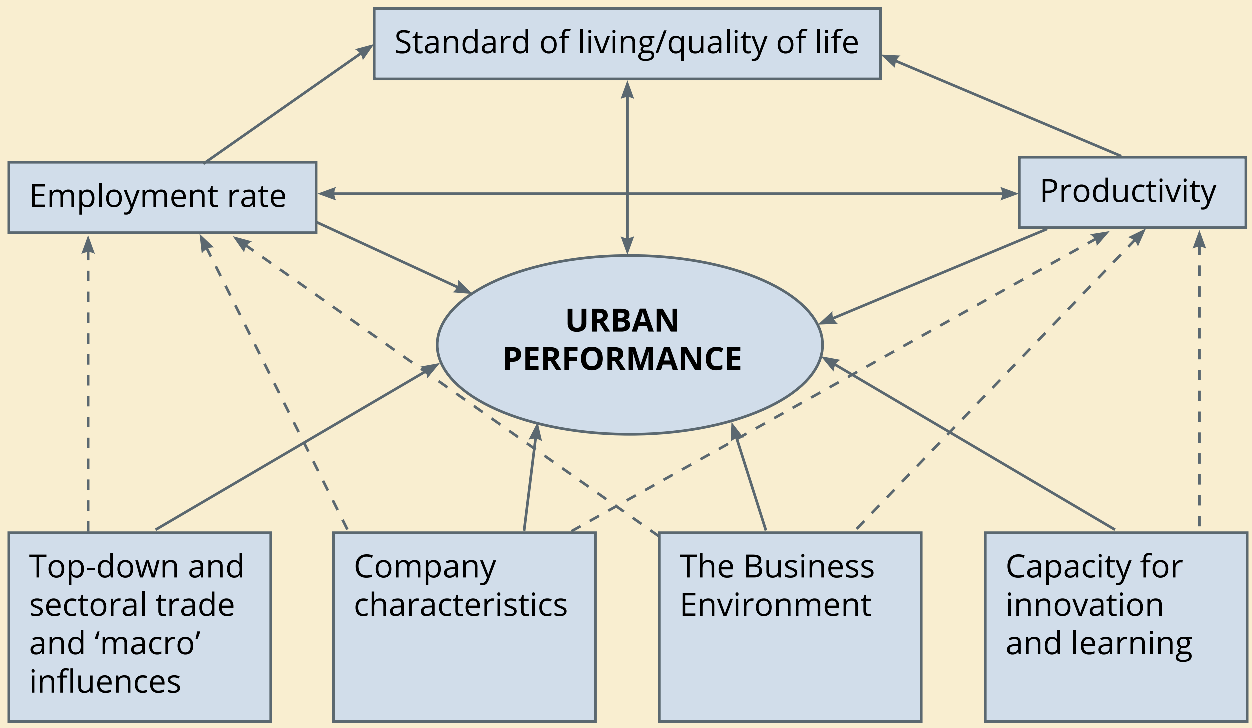
Figure 8: Competitive Place Theory

Porter argued that places that are successful economically have concentrations of specialized knowledge, support institutions, rival firms, related enterprises and sophisticated customers. Proximity leads to special access, closer relationships, better information and powerful incentives to innovate. Many of the assets of cities are products of co-operation between the public and private sectors, sometimes with third sector involvement. The concept of place competitiveness is itself ambiguous and contested. Cities compete in a variety of ways, across market areas of different extents, in conditions which may be more/less stable, and with or without the involvement of territorial agencies. Among forms of competition, the most significant involve rivalry within product markets, and that for inward investment, the attraction of desirable residents, and contests for funding or events from higher levels of government. Competitive place theory is linked to the notion of place as a commodity that can be improved and traded and based on the premise that it's possible to attract mobile investment to specific localities.

Criticism of Competitive Theory

Porter's model was used by practitioners to argue (erroneously) that, through innovation, any economy can be competitiveness as a location for economic development. Paul Krugman (1996) contended that firms, not cities (places) compete. Cities are only the bases for the enterprise. Attempts to theorise spatial patterns of economic behaviour need to be rooted in an explanation of the motives of firms seeking to maximise their returns. Krugman is critical of the notion of competitive place. He noted that a country is not a corporation and has no financial bottom-line, making competitiveness at the outset hard to define. Ian Begg (1999) noted that the capacity of a city to compete is shaped by interplay between the attributes of cities as locations and the strengths and weaknesses of the firms and other economic agents (See Figure 9). A key criticism of competitive and cluster approaches is that it does not explain fully how clusters arise. Simmie and Wood (2002) cautioned that clusters should not be seen as a panacea for regions or for industrial sectors. Begg's (1999) view was that the capacity of a city to compete was shaped by interplay between attributes of cities as locations and the strengths and weaknesses of the firms and other economic agents.

Figure 9: The Urban Competitiveness Maize



Source: Begg, I, 1999.

Seventh Wave: 2008 Recession Onwards

Global and Regional Development

The current worldwide financial crisis was triggered by the disintegration of the USA subprime housing market and failure of its banking system as well as events such as the collapse of the UK bank Northern Rock in 2008 and downturn of stock markets worldwide. The onset of 2008 recession in the USA and Europe impacted significantly on the global economy with some evidence of recovery recently accompanied by slow down in China with its second largest world economy.

This crisis has resulted in closure of businesses, decline in consumer wealth and general decline in economic activity, initially in the USA and UK, followed by European Economic Union (EEU) countries and their trading partners globally and has been compared with the Great Depression of the 1930s. Neo-liberal advocates argued that recovery from the global recession meant a shift from 'business as usual' and this required '...an economy focussed on reinventing itself through new technologies, innovations and renewed commitments to ethical leadership (Blakely and Green. 2010). Other commentators raised concern about how growth was shared and discourses explored in the US included growing racial inequality, the working poor, the decline in good jobs, the rise in the foreign-born population, the profile of prison populations, increasing spatial, metropolitan and rural inequality and global warming (Blakely and Leigh, 2010).

The recent Brexit vote and rise of conservative economics in the USA counters some of the arguments for free trade and movement of people associated with competitiveness theories. This is however not in response to the economic welfare concerns of the workers in the global south, but rather to workers in the US and the UK.

Regional Economic Development

The focus shifted towards 'building the economy from within', linking it to the regional and global economy. This period continues to rely on market solutions and the promotion of metropolitan and regional strategies (Blakely and Leigh, 2010). A key issues discussed on global platforms remains economic exclusion of the vast majority of the world population, in global south countries as well as working class developed countries. This has stimulated debates centred on the economic growth vs. economic development vs. sustainable economic development, central themes in understanding regional economic development.

Figure 10: Economic Growth, Development and Sustainability

Economic Growth vs. Economic Development

Economic growth and economic development are not synonymous. Blakely and Leigh (2010) argued that, while economic growth had traditionally been defined as increased total output or income, economic development is a broadly based and sustainable increase in the overall standard of living for individuals within a community. While economic growth was one-dimensional, economic development was multi-dimensional. Malizia and Feser (1999) contrasted growth, which increased output by mobilising more resources and utilising them more productively, with development, which changed the output mix by devoting local resources to doing different kinds of work. Although growth and development might proceed one without the other in the short term, growth could retard development or development could lead to a decline in growth. Moreover, development could occur in one location by draining resources from another. Another erroneous assumption is that economic growth always creates upward mobility and reduces poverty (Malizia and Feser 1999).

Quality of Life and Sustainability

Greenwood and Holt (2010) argued that issues of growth, quality of life and sustainability had to be tackled jointly and that these required thinking and acting locally, as well as globally. Their position was that,

- *Firstly,* the trickle-down model was not accurate, as extra-ordinary growth over the past century 'has left enormous gaps in education, infrastructure, health care and environmental protection' (2010:9).
- *Second*, all capital stocks should be valued for their contribution to quality of life and sustainability of development in addition to measuring their contribution to economic output and income.
- *Thirdly*, although market forces should be relied upon to achieve a socially desired outcome and avoid unnecessary bureaucracy and concentration of power, some forms of capital required more public investment than others.

They further argue that bringing new firms and investment to a town, increasing total output and raising the price of land are often labelled 'economic development', but this does not guarantee economic development. Economic development can be achieved through increasing knowledge and through consideration of its practical application, that is, reinvestment in community productivity is economically more sustainable. They challenge the conventional wisdom that flexible labour markets, low regulation, low taxes, weak unions, low workers' compensation and low unemployment insurance rates is good for businesses. Although this may be appealing for many business managers, low bargaining power of workers often means low wages, benefits and job security in the community. Low salaries, means that the multiplier effect on money spent locally is significantly reduced and less tax revenue per worker to pay for public services. The externalities of the cost of urban sprawl, bulk services and public transport are often not considered when the focus is only on economic growth; i.e. the economy and the environment are separate entities that compete with each other.

Greenwood and Holt (2010) noted that it is possible to achieve sustainable development through ensuring the following:

- There is a shared vision and values and that local and regional community differences are accommodated.
- The focus should be on people and productivity. A nation's wealth does not depend on amount of gold and silver; but rather how productively people use resources and to create standard of living-increase in knowledge development and its practical application (Adam Smith. Wealth of Nations, 1776).
- Promote local and regional 'import substitution', that is, encouraging the purchase of locally produced goods and services.
- Quality of life include income as well as non-market goods (health, education, culture, open space, safe neighbourhoods, social capital, etc.)
- All capital stock should be sustained (that is, including natural resources) and take into consideration the unintended consequences of development through measures such as the outcomes of cost benefit analysis; i.e. spill over effects; displacement, etc.
- Appropriate urban management including urban growth management; such as securing water supply, waste recycling, sustainable energy, and organic farming
- Development of human capital, in particular basic education and vocational training.

Synthesis

This brief historic overview of regional economic development within the context of global and regional development shows that there is no single theory of regional economic development.

Events in the USA and the UK have dominated economic trends globally. The overwhelming thrust of economic development policies and strategies in the USA since the 1920s focussed on steering jobs to people in particular regions, while since 1990, economic development theories, such as industrial clusters and technology-based development are aimed at steering people to jobs (Miller, 2010:35). Earlier theories were predominantly associated with industrial activity and manufacturing and were aimed at incentivising factories to relocate to specific regions and towns.

During the 1960s and 1970s the 'war on poverty' was driven by a concern about lagging regions and towns, while the occurrence of urban riots spurred public authorities to pursue urban renewal and regeneration strategies in inner city and 'black' ghetto areas. The shift from an emphasis on locations with comparative advantage to competitiveness and 'footloose' industries, coupled with increasing importance of tertiary economic activity, influenced regional economic theory and policies significantly. The last four to five decades represented the transformation from the 'industrial' or 'Fordist' era to the 'post-industrial' or 'post-Fordists' era of the new knowledge economy with a shift from the focus on comparative advantage to competitive advantage and more recently on collaborative advantage. The latter focused on encouraging firms and regions to 'collaborate in competition' for strategic advantage, particularly through partnerships and alliances (Stimson and Stough, 2009).

It is argued that economic development is about creating jobs and wealth, with the role of the public sector being the facilitation and promotion of this aim (Bingham and Mier, 1993) Approaches identified included space-based strategies (such as development of rural areas, neighbourhoods and localities), labour and capital theories (dealing with labour force, education and work), as well as political and social theories (dealing with political economy, urban development, race and class).

However, in spite of the wealth of resources and depth of theory globally, there is a growing concern about ' how growth is shared', the increasing trend for inequality to split along racial lines, as well as the growing trend for many urban and rural dwellers to be structurally unemployed. Although the economic growth vis-à-vis economic development debate has remained contemporary, it has not enjoyed centre stage attention. Rather concerns about global warming and resource sustainability have become the dominant discourses.
Typically, many theorists and practitioners combined selected components depending on what the perceived anticipated outcomes should be, or worse, on what was the most popular trend. Others would argue that it was possible through linking theory and policies to 'build' a useful framework, that was aware of the particular strengths and weaknesses of each and recognised

that each theory provided a different set of information to guide policy direction. It is clear that the selection of appropriate policies based on the theories and models described should be dependent upon the condition and needs of the economy in question. Rowe (2009) argued that it was not possible to achieve a universal theory that dealt with all aspects of economic development.

Some commentators in South Africa continue to argue for minimising government intervention and privatising services where possible. By contrast, others believed that strong government planning was key to achieving more inclusive economic growth. However, macro-economic policy over the last two decades remains predisposed to market-orientated neo-liberal approaches. Regional economic development strategies have re-emerged over this period, more as an effort to implement national development programmes, than a strategic response to economic development challenges facing sub-national regions. Efforts in South Africa at regional economic development have been significantly influenced by competitiveness theory. These *competitiveness approaches* including value chain analysis, economic clusters, place as a commodity, land value capture, entrepreneurship and innovation. The concept of competitiveness is an integral part of the practice of economic policy-makers in the South African context as evident by the overwhelming public efforts aimed at promoting high value, high-tech parks and special economic zones. However, the potential of all localities to become globally competitive is limited. One of the most popular (introduced in the NSDP) efforts at regional economic development in South Africa is '*spatial targeting*', within a neo-liberal contextual frame, and include efforts such as spatial development initiatives and special economic zones.

Critical questions of relevance in pursuance of competiveness approaches include: *How can competitive theory be applied more effectively? What are the endogenous factors that sub-national regions can work with, for example, local assets and partnership between the public, private and academic institutions, i.e. triple helix linkages?; Is it realistic to impose punitive conditions on the private sector to ensure that they comply with providing minimum amount of training and skill development for their employees, given that this was not achieved through the BEE score cards?*

There is a tendency to advocate competitive theories and associated policies independent from broader development challenges such as widespread inequality, poverty and inequality or attention to the role of institutions. South Africa has followed competitiveness approaches without critical consideration of the underlying theoretical assumptions; how these conceptually relate to each other; the degree of internal contradictions, the relevance of geographic scale and less so the economic contextual realities of the majority of inhabitants within various regions in South Africa. The dangers of simplistic interpretations of elements of competitive theories should be confronted with questions such as: *What are the opportunity costs? Could better results be achieved if initiatives aimed at generating sustainable jobs were targeted directly? What would have been the returns of such investment in more direct strategies linked to education or skill training schemes?*

It is, therefore, evident that unquestioned pursuance of competitiveness advantage approaches and practices do not automatically result in sustained increase in economic growth and even less so, economic development. The current application of competitive theories within regions is superficial and precarious, as the underlying theoretical understanding and more so the relevance within the South African context is not fully understood.

The existing approaches coupled with the inability of pursuing home-grown and context specific economic development policies and strategies (endogenous approaches), have impacted negatively on the capacity of regions to pursue inclusive and sustainable growth and development paths within an ever changing global economy.

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Addendum 1: Historic Overview of Global and RSA Regional Economic Development

Period	*Development Focus*	*Economic Focus*
Great Depression to WW II (1939– 1945)		
International	• Great Depression (1929-39) • Capitalism in crisis. • Est. of the Tennessee Valley Authority (1933). • Focus on achieving 'balance' within territorially defined regions. • Industrial recruitment and 'smokestack chasing'.	• Focus on manufacturing and industrial development. • Emphasis on comparative advantage of regions. • Federal government incentivising private industrial development. • Directing employment opportunities to poor regions. • Growing international trade
South Africa	• Promulgation of the 1913 Land Act restricting African land ownership and marginalising the bulk of the population from 'white' urban areas and its growing industrial base. • Genesis of explicit regional policy during 1940's. • Mainly development of resource based industries.	• Industrialisation of 'white' cities.
Post World War II (1946 - 1960s)		
International	• Long boom period. • Subsidies provided to poor regions through federal, state and local programmes. • Emphasis on increased economic opportunity through education, job training, social services and community development.	• Linear growth theories. • Keynesian traditions from 1950s 1970s • Long-term massive state-led investment. • Lyndon Johnson's 1963 'declaration of war on poverty' aimed at 'people and places left behind' – lasted 3 decades
South Africa	• National Party came to power in 1948 and formally introduced Apartheid, Bantustans/"homelands", influx control and inferior Bantu education. • Industrial decentralisation and homeland development policies were pursued during the 1950s's and well beyond – up to 1980s. • 1950's industrial decentralisation and homeland development policies introduced. • This deliberate process of underdevelopment of the black majority in homelands resulted in industrialisation in unviable locations. • International regional theories, such as Growth Poles, used to justify decentralisation.	• Rapid economic growth during 1960s. • Restructuring of the economy to demand more skilled labour. • 1967 – controls on metropolitan growth through control of release of industrial land and limited expansion of labour intensive industries in cities. • 1968 onwards- policy shift to promotion of industrial development within homelands.

Period	*Development Focus*	*Economic Focus*
1960s to 1980s		
International	• Dis-organized capitalism. • Bottom up, basic needs. • Regionalism informed by critical Marxist analysis.	• Mid 1970s, rising global competition and stagnant world economy, • Growth and redistribution. • Economic revitalisation through public-private partnerships • Attraction of mobile manufacturing and foreign direct investment and investment in 'hard' infrastructure. • Realisation that 'smokestack chasing of footloose industry' did not produce the promised jobs and wealth creation.
South Africa	• 1978 Independent homelands introduced.	• Late1960s/early1970s technocratic thrust - 'growth poles' - ports of Richards Bay and Saldanha; steel in Newcastle • 1975 National Physical Development Plan rationalising economic activity in space; settlement hierarchy, development axes, growth points; de-concentration points planned metropolitan areas
1980's to 1990's		
International	• Collapse of Soviet Communism (1985-1991), • Reagan and Thatcher administrations. • Expansion of the global economy. • 'Power of the market economies' to generate growth and create jobs. • Theories originated during previous decades dealing with location, growth poles, attraction models and industrial districts became prominent during this era. • National policies facilitate conditions to enhance building of local capability in regions with a reliance on strategies of self-help' • Rise of Neo-liberalism, followed by brief recession.	• USA experienced 'one of the world's longest and most productive economic growth cycles'. • Shift towards the retention and growth of existing businesses and emphasis on inward investment attraction. • Focus on targeting specific sectors or certain geographic areas. • Globalisation, economic rationalisation, corporatisation and privatisation of public assets and functions. • However, significant spatial miss-match between where job were and growth was occurring. • Neoliberal ideology as 'cornerstone of regional economic development policy and planning strategy • 1987 stock market crash and 1989 recession.

South Africa	• International mobilisation in opposition to Apartheid and the Bantustan/ homeland system. • Political and economic isolation of the regime e.g. economic sanctions.	• 1982 – major expansion of industrial decentralisation policy and incentives, in terms of state reform. • Late 1980s, and shift to a market based approach, • Market drive to decentralise low wage industries. • Argument against decentralisation. • State focused on inward industrialisation and import substitution and regional planning.
Period	***Development Focus***	***Economic Focus***
1990s and 2007's		
International	• Accelerated globalization, • Rise of neoliberalism • Focus on city-regions and regional competition. • Competitiveness: new regionalism.	• Porter's (1998) seminal work on competitiveness, factors conditions (diamond), clusters and agglomeration economics. • Shift from comparative advantage theory to competitive advantage theory • Shift to institutional importance in regional development; notion of learning regions (Scott and Storper, Ash Amin, etc)
South Africa	• 1990's – 1994: release of political prisoners and unbanning of anti-Apartheid organisations. • Kempton Park talks and SA Constitution. • ANC as first democratically elected government; embraced neo-liberalism. • Early rhetoric embracing redistribution and social capital formation through Freedom Charter confined to Reconstruction and Development Programme (RDP); later abandoned in favour of social welfare grants and public works programmes. • Concerns about perpetuating apartheid spatial disjuncture – National Spatial Development Perspective, modelled on EU Spatial Framework (1999). • Spatial Development Initiatives from 1996 – circa 2001 • On-going and escalating municipal service protests countrywide.	• High levels of economic growth were coupled with decreasing manufacturing jobs, increasing levels of unemployment i.e. jobless growth. • Regional development during this period also took the form of spatial targeting i.e. IDZs and Special Economic Zones.

2008's Recession Onwards		
International	• Onset of recession 2008 triggered by disintegration of USA subprime housing market; failure of banking system including UK, downturn of stock markets worldwide. • Global economic slow down, including in China. • Emergence of integrated strategic planning for economic development.	• Downturn for emerging economies dependent on commodity exports. • Focus on sustainable development and quality of life; learning regions. • Re-emergence of the city-regions. • Refocus on endogenous potential of regions.
South Africa	• Comprehensive Rural Development Programme (2009). • National Development Plan 2030 (2013). • Spatial Planning and Land Use Management Act 16 of 2013 (SPLUMA). • Context of continued pressures to increase spending driven by the public sector in particular on housing, education, energy and basic services. • Continued stubborn high levels of and structural unemployment and widespread poverty. • Fees-Must-Fall protests gained momentum in 2015 and re-emerged stronger during 2016- has significant implications for the fiscus and public spending priorities.	• Manufacturing Development Programme offering tax holidays (incentives -limited spatial element replaced industrial decentralisation, with limited effect. • Notions of developing endogenous potentials ('bottom up'), and followed European models. • Industrial Development Zones and Special Economic Zones (2014) • Global economic slow-down resulted in significant decrease in the demand for commodities worldwide, in particular from emerging markets e.g. Africa and RSA • Economy remains heavily reliant on commodities (gold, platinum and iron ore in particular) and has not diversified sufficiently during the resource boom. • SA's GDP growth increased only on average 1.8 % between 2009 and 2014. • Period of structural and low economic growth, with projected GDP growth for 2016 to well below 1%. • RSA rand has declined by 51% since 2010.