



TOOLKIT

Position Paper: Regional Economic Development

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Introduction

The purpose of this position paper is to offer a definition of regional economic development at a sub-national level. It seeks to offer a perspective that will enable multiple stakeholders to interrogate and debate its nuances, subtleties and underlying theoretical underpinnings. This may serve to inform the policy and practice of economies of regions, to clarify the distinction with local economic development, and to serve as a resource to policy makers, government officials, entrepreneurs and practitioners who have an interest in economic development.

The paper considers the notion of “region” in relation to regional economic development. This is in the context of globalisation, regional economic integration and in relationship with “local” in local economic development. There is much confusion on precisely what region entails because there are multiple usages of both the term *region* and *regional development* which have quite different meanings. It is useful to first clarify what is excluded in the usage of the term region as it is presented in this paper. Region in this paper does not refer to how it is applied in the literature on regional economic integration and trade liberalisation. Region in that context has a supra-national tenor and has to do with a number of contiguous countries that form a larger economic integration unit. Examples of this are the regional trade blocs such as the European Union, SADC, ASEAN and ECOWAS. In the context of regional economic development for the purposes of this paper it is decidedly at a sub-national scale.

The paper begins with problematising the term region in order to identify its key features. Thereafter it presents an analysis of the relationship between local and regional in relation to economic development. It is shown that one of the main attributes of regional economic development is that it subsumes local economic development. The discussion then proceeds to illustrate that in itself it is not sufficient to define regional economic development as there are several other defining features. The paper outlines these other contours that serve as markers of regional economic development by drawing on a few strands of theory that contribute to an understanding of regional economic development. The position paper finally concludes with a definition of regional economic development based on the preceding discussion.

Problematising region

The following are key questions that problematise region in regional economic development:

- What in precise terms is meant by region in regional economic development?
- Why is region significant?
- What are its spatial connotations?
- What are its economic connotations?
- How is regional economic development similar to and different from local economic development?

Contours of Regional Economic Development

Significance of regional and local forces

The rapid pace of globalisation over the last three decades meant a complete structural shift in the global economy with increasing integration across geographies, a highly interconnected technologically-based system of trade, liberalisation of markets and changing of the rules according to which investments occur and trade is conducted. The implication of this is a highly integrated global economy with concomitant demands on economies to remain competitive. This accentuates the importance of global and the assumption was that local is less important. On the contrary, despite the increased significance of globalisation, local and regional forces have become more, rather than less, important. The global system is based on a network architecture. If a region, city or locality is not perceived to be of value to the global network it may be bypassed entirely. The early marker for globalisation was that the world is becoming flat, but instead it has been shown that the world is more spiky. This changing economic geography accentuates the significance of mega-cities and city-regions as accelerated spaces of economic activity and growth. The import of this is that the global economic landscape is dotted with many smaller nodes of concentrated activity and innovation, with a vast, relatively more diffuse economic periphery. Regional economic development attempts to partly address this phenomenon by incorporating the core-periphery linkage within its purview.

Economies as complex systems with institutional thickness

In contrast to neo-classical economics the economy is considered as a complex system underpinned by non-linear dynamic relationships and feedback effects. An economy is a social, institutional and historical system comprised of multiple processes and agents.

Economic development is therefore subject to historical and sociological processes.

The field of institutional economics accentuates the institutional aspects of economies of regions. Institutions refer to the norms, values, perspectives and rules of social interaction and engagement amongst actors. The significance of this is that the role of government becomes pivotal in the economic development, as government is a key player in framing and shaping institutions. The rules of land tenure in tribal lands or how permits for mineral extraction are issued are two examples of such framing. This includes not just legal frameworks but policy framing too.

When economic development is viewed as subject to historical and sociological processes it is clear that regional economic development is context specific, messy, value laden and path dependent. Standard prescriptions based on conventional planning and economic theory become limited. The implications for policy and prescriptions on stimulating development can be quite profound when taking into account non-linear dynamics and institutional thickness.

Local and Regional Economic Development

The distinction between local and regional economic development needs to be clarified. The application and use of these concepts both in the literature and in practice is quite confused. In some instances they are used interchangeably and in others they manifest as different things. The basic argument in this paper is that while there are similar nuances in regional and local economic development, there are important but subtle differences. Region is a unit of analysis that transcends and subsumes local economic development. Both regional and local are defined by a functional economic unit as a whole. Region is of a higher order abstraction and conceptualisation. It has distinct spatial and economic connotations. A region is quite likely to subsume several lower level "locals". While the basic framing is of necessity one of geography embedded in a spatial perspective, it does have additional contours beyond just a wider spatial

boundary than that of local, or a group of several local territorial units. These contours are informed by a number of strands of theory that will be dealt with later.

We begin with a set of illustrations to define region more precisely. We may consider a particular geographic area, for example, the Eastern Seaboard of the Province of KwaZulu Natal. We now do a transformation of a map taking into consideration that we have “wall-to-wall” municipalities in South Africa. This is depicted in Figure 1 as a set of inter-locking hexagons. This kind of conceptual representation of municipalities in a given delineated geographic area may be akin to a metro-underground map found in many countries. A metro-underground map is a conceptual representation of a railway system not an isomorphic mapping.

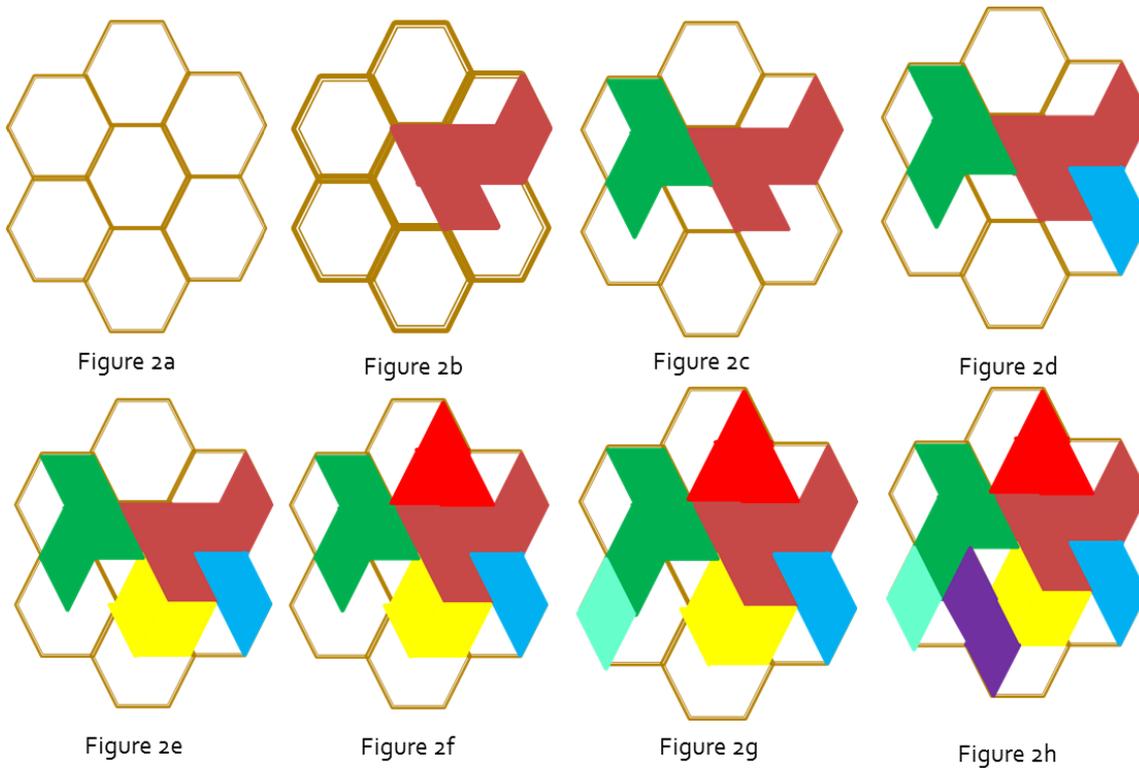


Figure 1

Let’s suppose that each of the hexagons represents the geographical boundaries of a political and administrative unit, namely, a local municipality. LED must be based on economic potential and underlying assets, and it is therefore unlikely that the spatial area in which LED occurs will coincide with the administrative boundary of a municipality. In other words, local in LED refers to a territory that is bounded spatially but may or (and more likely) may not have direct relationship with a political or administrative boundary. By definition, LED occurs within parts of an administrative municipal boundary, and depending on the scale will likely span across administrative boundaries.

Given its strong historical precedence in planning theory, both local and regional economic development are often thought to be all about place. However, when flows of money, information, energy and materials are taken into account, and supplemented with an economic connotation to dynamic flows and accumulations, then territorial development whether at local, or regional scale is much more than just place; this is what may be termed the spatial turn.

In the practical sense, in South Africa, given the case of our local municipalities, it is likely that LED will span across parts of municipalities. The following diagrams depict these using different colours. Each colour represents LED that spans across the hexagons and therefore spans across two or more municipalities.



Figures 2a to 2h successively overlays new LED territorial units that span across municipalities. It must be noted that there are a number of white spaces on the diagrams. These represent parts of the municipality that offer very little economic potential and hence may be considered “economic wastelands”. While this term may be provocative, it represents the reality of many parts of, especially, rural South Africa. The myriad of instruments devised by government as social security nets for the poor apply primarily to the rural population that reside in the latter areas.

Figure 2h depicts 7 LED territorial units. While the entire hexagon as depicted in Figure 1 also contains 7 municipalities or administrative boundaries they do not coincide with the 7 LED territorial units.



Figure 3

Figure 3 shows thick coloured borders that circumscribe regional economic development. These represent the boundaries of regions. Several LED units are within the thick borders representing regional economic development. Thus, there are 3 regions that encompass the whole area. The diagram clearly shows the distinction between regional economic development and LED and how it subsumes LED. Given that LED usually does not combine contiguous spatial units that fully cover the political boundaries of a municipality, it is at the regional scale that the remaining areas (economic wastelands) have to be included. This perspective of regional economic development shows that by conceiving of economic development beyond administrative units (which, unfortunately is the current practise) new value is unleashed through appropriate combination of economic assets and potential. This new economic creation and value must be used to develop the economic wastelands over time and hence regional economic development has to be seen in a dynamic way and not limited to a static analysis based on linear causality. It has to take into account mutual causality and an economic trajectory over time.

Agglomeration Economies

One of the defining characteristics of region is that of agglomerations. Regions become attractors and points of concentration for capital, resources, competencies and skills, technologies, information, knowledge, and energy. They also serve as a confluence of non-market processes, such as formation of trust and social capital, and institutional development. The latter are the key inputs for strong institutional development characterised as institutional thickness.

An important aspect of agglomerations is that they are built on non-linear dynamic processes and stock accumulations and therefore do not merely refer to a static characteristic of connectedness. There is a strong resonance between the idea of space

as flow and that of agglomerations. Increased value is generated in agglomerations through positive externalities and knowledge spillovers. Upgrading of the region is not confined to a single component but works in synergistic ways to upgrade the whole. Agglomeration economies ensure that the region becomes a mechanism for unlocking hitherto unrealised value, resulting from dynamic and systemic processes of interactions between actors, institutions, economic exchange and markets.

Industrial and economic clusters serve as a practical articulation of agglomeration economies. This means that there is an entire body of knowledge that relates to industrial and economic clusters that is relevant to regional economic development. The focus of regional economic development may include existing clusters, but as important would be developing and seeding new clusters that have latent and untapped potential when drawing in combinations that reside in different parts of the region.

Clusters focus on the underlying factors and inter-relationships between factors that give rise to competitive advantage. These include firms, rivalry between firms, knowledge spillovers, asset multipliers, research and development and social capital. All of these underlying factors and inter-relationships between them in cluster theory may now be added to the defining contours of regions.

Innovation

Innovation is central to cluster development. Firstly, innovation inside firms is a way of constantly upgrading the competitive advantage of these firms. Secondly, innovation between firms and within the cluster itself occurs as a result of the positive externalities and exchange between the various components of the cluster. Thirdly, in the same manner that countries create national systems of innovation based on their national system of science and its applications, regional innovation systems need to be conceived and created at regional scale. These regional systems of innovation take into account the local and regional idiosyncrasies which remain muted when the focus is only on national systems of innovation.

There is therefore a strong relationship between cluster development, agglomeration economies and regional systems of innovation. Embedded in these concepts is the perspective of productive networks.

Value Chains

A focus on value chains is imperative in regional economic development. While clusters are defined by multiple linkages vertically, horizontally and non-linearly, value chains serve as horizontal linkages between firms from raw materials through to markets. Value chains serve as intersects between localities that would otherwise be isolated into one of economic value creation, by connecting for example, the place of creation to another place of consumption.

Within the context of economic geography, value chains become the connective architecture that links a region with other regions. The relationship between clusters and value chains are of two different kinds. The first is where a cluster incorporates a value chain within itself and the entire value chain is almost subsumed within the cluster. This would be the practical application of linking urban with rural, city with towns, and core with the periphery. The second kind is where a value chain links one cluster with another temporally and spatially, meaning across time and space in a more dynamic formation.

Linkages between rural and urban and core and periphery

Levels of urbanization are high and as the trend continues, economic activity tends to shift towards urban areas. Apart from agriculture and tourism, there tends to be a shallowing out of economic activity in rural areas. In addition, given the relatively lower densities in rural areas, combined with the shift to low cost production of many products and commodities there is a loss of markets in rural areas. In order for productive economic activity to be successful in rural areas there has to be market linkages into value chains elsewhere. The urban-rural linkage that a region provides offers some level of amelioration. As cities become engines of growth through agglomerations, regions offer “spreading” or diffusion of value into rural areas by exploitation of the urban-rural linkages. This becomes a lever for regional economic policy. However, the link with cities and urban areas as destination markets is of a first-level order only. The quest should be for higher-order level linkages that contribute to developing competitive advantage in the periphery that adds to and upgrades the region as a whole including the marginalised and impoverished areas.

Role of Government

There needs to be a consideration on what the role of government in regional economic development ought to be. By drawing on agglomeration economies and the importance of cluster formation, this function may be identified. There are four main roles for government in relation to regional economic development. Firstly, it is the provision of basic infrastructure and delivery of services, and to ensure major infrastructure investments in energy, water and sanitation. These support basic economic activity. Secondly, these must be supplemented with provision of the connective infrastructure including networks of communications such as rail, air, road and other corridors, ports, logistics, transport systems, and freight infrastructure. Thirdly, a higher-order level of government engagement is investments in institutional capabilities. These include enabling legislation, democratic institutions, property rights regimes, enforcement mechanisms, and anti-corruption, anti-trust and anti-monopolistic mechanisms. Finally, it is also the function of government to develop and support regional systems of innovation. These include development, support and upgrading of key institutions such as universities, research laboratories, financial instruments, special purpose vehicles, all of which serve as agglomeration architectures.

Conclusion: A definition of Regional Economic Development

Based on the preceding analysis and discussion, and the delineation of the key contours of regional economic development, the following definition is presented as the culmination of this position paper.

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 economically depressed areas, 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.

The outcomes of regional economic development includes an increase in jobs, wellbeing, income, educational and livelihood opportunities for citizens, creation of new enterprises, upscaling of the productivity and efficiency of firms, and the development of social capital, trust and social cohesion across all sectors of society within the region.