

Regions in the globalised economy: theories and contemporary processes of regional development

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Balanced Development Module

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Region: A subnational spatial or territorial unit
Can be defined by

- Administrative fiat
- Natural features
- Functionality
- Territorial identity
- Common characteristics

Development:

Processes and actions which raise average productivity in a regional economy in a sustainable way

AND

Which involve structures which allow the regional economy to derive most of the benefits of this increased productivity

Why should unbalanced development be a public policy issue?

Equity argument:

- All citizens are entitled to equal treatment and equal opportunity regardless of where they live

Efficiency argument:

- Below-average productivity in certain regions represents an underutilisation of resources

Industrialisation & unbalanced development

- Industrialisation led to the emergence of major regional development disparities
- Most industry located in coalfields
- Different regional specialisations emerge (cotton in Lancashire, wool in West Yorkshire, engineering in West Midlands, etc)
- Industry concentrated in urban centres

Early Regional Development Theory

Alfred Marshall (1890) *The principles of economics*
Localisation:

The clustering of firms in the same industry in the same area

- Leads to the formation of industrial districts
- Facilitates establishment of specialist input suppliers
- Minimises transport/communications costs between suppliers & customers
- Facilitates circulation of industry-specific information
- Creation of industrial culture attuned to industry needs
 - Tacit knowledge
 - Social capital

Early Regional Development Theory

Alfred Weber (1909) *The theory of the location of industry*

- Industry seeks to find the location which minimises costs
- This determined by three factors
- Transport costs
- Labour costs
- Agglomeration economies
 - Savings which firms make by clustering together
 - External economies

Early Regional Development Theory

Two kinds of agglomeration economies:

- *Localisation economies*
Savings made by firms in the same industry through clustering together
- *Urbanisation economies*
Savings made by all firms (regardless of industry) through clustering together

Regional development policy

First regional development policies introduced in depressed 1930s:

- UK Special Areas
- Tennessee Valley Authority
- After World War 2, major growth in regional policy initiatives in Western Europe, arising from the widespread election of social democratic governments with commitment to social equity
- Also increasing interest in assisting development of underdeveloped countries generates debates on the most appropriate policies for the spatial allocation of development assistance within these countries

Export Base Theory

Douglas North (1955) Location Theory and Regional Economic Growth *Journal of Political Economy*

- Regional development requires the creation of an economic base of exporting firms/industries
- The level of regional development depends on the extent to which export revenues succeed in stimulating the creation of spin-off industries within the region:
 - Ancillary industries which supply inputs to the basic industries
 - Consumer industries which supply the needs of workers in the basic and ancillary industries
 - Residential/non-basic industries
- Related concepts: linkages, leakages, multiplier effects

Unbalanced development

Albert Hirschman (1958) *The strategy of economic development*

- Scarce resources should be selectively invested in regions with greatest potential
- Regional growth will depend on the ability of new industries to generate backward and forward linkages
- Leading regions will suck some resources from lagging regions: polarisation effects
- Leading regions will also have beneficial spinoffs for lagging regions: trickling-down effects
- Trickle-down effects will tend to dominate over polarisation effects, leading ultimately to convergence and regional balance

Unbalanced growth

- Gunnar Myrdal (1957) *Economic theory and underdeveloped regions*
- Once certain regions pull ahead of other regions, they build on their derived advantages to move further ahead
 - Cumulative causation
- The negative effects which leading regions exert on lagging regions (backwash effects) will tend to outweigh the beneficial effects (spread effects)
 - Ongoing regional divergence

Unbalanced development

John Friedmann (1967) General theory of polarized development

Domination of peripheral regions by core regions

Mechanisms of core domination:

- The dominance effect: sucking of people, capital and natural resources from the periphery
- The information effect: encourages innovation in the core
- The psychological effect: success breeds success (not necessarily economically optimum solutions)
- The modernisation effect: transformation of social values and behaviour in the core in order to facilitate further innovation
- The linkage effect: local spinoffs of innovation
- The production effect: economies of scale and specialisation
- Urbanisation/localisation effects

Unbalanced development

Friedmann rejects functional integration

Functional integration: the idea that the interests of peripheral regions are best served through closer integration with the core

- Classic tenet of modernisation theory

Friedmann: Top-down policies emanating from the core serve the core's interests

- e.g. branch-plant industrialisation

Alternative approach: bottom-up territorial integration within peripheral regions based on mobilisation of regional resources

- Build local self-reliance (not self-sufficiency)
- Agropolitan vs metropolitan development

Growth pole/growth centre theory

Francois Perroux:

In the industrial economy, groups of firms are clustered or *polarised* around *propulsive industries* which, if undergoing long-term expansion, constitute *growth poles*.

Growth centres (Jacques Boudeville)

Urban centres in which investment is concentrated in order to create a self-sustaining growth pole

Growth centres in principle seek to recreate the kinds of complexes of interrelated industries which underpinned the industrial revolution

Require a time-frame and level of intervention not amenable to western parliamentary democracy

Implied spatial selectivity not politically acceptable

Regional development theory in the post-Fordist informational economy

Key considerations in emergence of new regional development thinking

- Shift from manufacturing to informational services as key driver of economic growth
- New emphasis on innovation-based competitiveness
- Influence of experience of "Third Italy"
 - Localised concentrations of craft-based industries characterised by small, specialised, flexible firms: "Marshallian" Industrial Districts
- 1988 reform of EU structural funds
- Devolution of responsibility for development to regional and local bodies
 - Justified on grounds of facilitating better targeting and local participation
 - Necessity dressed up as virtue

The new regional policy orthodoxy

- Regional development through the promotion of local enterprise
- Small firm cultivation
- Endogenous rather than exogenous development
- Emphasis on integrated programmes rather than individual projects
- Key resources: skill, technology, know-how
- Emphasis on informational products and services

Michael Porter: *The competitive advantage of nations* (1990)

- Countries tend to be competitive in particular industries
- These tend to be concentrated in localised "industrial clusters", made up of
 - A set of firms producing final products for export
 - A set of sub-supply (ancillary) firms providing inputs to the exporting firms.
- Example: The Brenta footwear district in NE Italy
 - 10% Italian shoe output
 - 430 shoe makers
 - 396 input suppliers
 - 67 shoe designers
 - 75 trading companies Total empl: 12000
 - 88% of output exported (2000)

Characteristics of industrial clusters

- Intense local competition stimulates innovation
- Culture of information-sharing/circulation stimulates innovation
- Co-operative competition
- Local government supports special needs of cluster
- Education/research institutions orientated to cluster needs

Regional innovation systems

- Localised structures in which various actors (firms, government bodies, educational institutions, trade unions, sectoral and voluntary organisations, etc.) interact in such a way as to facilitate the systematic generation, dissemination and utilisation of knowledge

Learning region:

- a region whose internal organisational structures facilitate a capacity to adopt new ways of doing things

Promoting endogenous development

Vázquez-Barquero:

Three ingredients for development:

- Hardware
 - Buildings/infrastructure
- Software
 - Personal capabilities
 - Technical skills
 - Business know-how
 - Capacity to learn/innovate
 - Entrepreneurial attitudes
- Orgware
 - Collective organisational capacity
 - Inter-firm joint ventures, networks, associations
 - Co-operative links between business, government and public institutions

Obstacles to endogenous development in peripheral regions

Peripheral regions:

- Skills-deficient
- Weak institutions
- Weak business/entrepreneurial culture
- No orientation to skills/business development in local educational institutions
- Emigration of people with potential ("brain drain")
- Domination by conservative groups & attitudes
- Little self-help/organisational capacity
- Weak local government
- General absence of social capital
 - Social capital: attitudes, institutions, social structures and leaders conducive to change and development