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**DEPARTMENT OF GOVERNANCE AND  
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**TEACHING MATERIAL (MODULE) FOR THE  
COURSE: REGIONAL GROWTH AND LOCAL  
DEVELOPMENT (GaDS3142)**

**For 3<sup>rd</sup> year Students**

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# Chapter One

## An Overview of Some Conceptual Foundations

### Introduction

Hello, dear learners, welcome to the first chapter of the course regional growth and development. In this introductory unit, you will learn about some of the conceptual foundations of regional growth and development. This unit concerned with some definitional issues (like region, regionalization and development); and orientation of regional studies and finally the growing concern of regional growth and development.

### Objective

Dear learner, upon the successful completion of the unit, you will be able to:

- ◆ Give the conceptual definition of region;
- ◆ Understand the growing concern with regional growth and development and,
- ◆ Comprehend the goals and objectives of regional growth and development.

### Pre-Test Questions:

- ❶ What does a region mean? Can you define it?
- ❶ Could you define regionalization? What does it mean?
- ❶ What are the features of regionalization?
- ❶ Could you explain the objectives of regional studies?

## 1.1 The Concepts of Regions and Regionalization

► *Dear student, what does a region mean? Can you define it?*

The concept is very elusive/vague and it is a difficult to define because it has complex physical, political, and socio-spatial dimensions. Region is generally, considered to be geographical entities that are similar than a nation state and which possess common physical, economic, or social characteristics which differentiate them from other areas.

Geographers defined region as “an area in which many physical and human factors integrated to form a part of geographical space which was recognizably different and distinctive from others” (Halland, 1976). According to Richardson (1973) a region is defined as a “ sub national areal unit. The sub division of national economy in to a limited number of fairly large and contagious regions”. According to David Simon (1990) a region is a sub national division of space, delimited in terms of some criteria that reflect physically and or socio spatial diversity.

For the purpose of this course, a working definition of region could be the concept given by Glasson (1995) citing Chisolem (1990). Chisolem defined region as an area within a nation which enjoys certain powers of government or at least administratively. It is assumed that such region would be delimited either on the basis of homogeneity of specific characteristics or functional relationships between different components of region's economy.

### 1.1.1 Ways of Delineating Regions/Regionalization

► *Dear student, can you define regionalization? What does it mean?*

Well, regionalization refers to the techniques of delineating space into regions. Accordingly, regional economists and other disciplines delineate regions using different techniques and identified different types of regions. According to Simon (1990) there is no any single ways of delineating regions and therefore, regions can be delineated using several ways. However, most common delineating region is the one defined by state so as to from sub national or lower administrative units.

**Natural Region :** refers to a spatial unit defined by physical criteria like soil, relief, vegetation, climate... whether they are large or small, these regions provide the framework for determinist research on the man-environment relationship.

**Cultural Region :** The term "cultural region" designates the area over which cultures are spread and develop territorial solidarity. Cultural geographies are very rich and provide the link between the history of societies and spatial practices.

Richredson (1978) uses three categories (homogeneity, nodality and programming) to delineate regions. According to the first criteria (homogeneity) areas adhere together to form regions if they have some kind of common elements. These elements could be economic (similar per capita income levels, a major dominating activity, a relatively a uniform employment or social and political elements. A homogenous region is demarcated on the basis of internal uniformity. Exemple uniform agricultural region growing similar types of crops like the winter wheat belt in USA. Applachean region in American and Mezzogiorno in Italy are regions defined on the basis of common syndrome of poverty, arrested economic developemnt, and limited human opportunity.

Another althervative ways of delinating region is based on functional integration. Here a region is composed of areas that exihbit more interaction with one another than the external areas. It is the extents of economic interdependence that serve as a criteria for regional demarcation. Functional Region is defined according to the operational structures of its activities. It is due to its explanatory potential that this concept became of central importance in regioanl studies. It gave regional analyses a more nomothetic character that was to go on to develop regional science and in so doing paved the way for generalizations that were fundamentals to economic planning. The most important features of functional region is that diffenret parts of region's economy are linked through sets of flows of one form or another especially likned in trade.

The third ways of delimiting region is according to the planning problems. Regionalization can also be developed on the basis of regional pathology: the emergence of "problem areas"

which can be category in to four problem regions. These are backward regions; developed regions in recession; regions with excessive growth and regions with growth concentration. Dear learner, we will examine the details of problem regions in unit four. In addition, regions can be delimited on the basis in terms of administrative or political basis. In considering planning and administrative regions, sub regions, districts or other areas homogeneity and functional integration are both relevant.

Behind these widely used human, historical, cultural and economic reality regions can be formed depending on its privileged geographic scale. At the end of the 20<sup>th</sup>c the region has become more economic and more political and it has even become supranational. In the United Nations the world is divided into areas such as "European region" and "American region", etc.

## 1.2 The Concept of Growth and Regional Development

### ► *What does development mean?*

Development is the societal process of shifting restrictions on the realizations of human potential in which the shifting of one constraint necessarily affects the incidence of other restrictions. A satisfactory definitions of development would have to take in to account the differencing opportunities existing for various groups, since restrictions are unevenly distributed over the various groups.

Dear students, the concept of development can be approach in at least three distinct ways: operational, relational and comparative approaches. The operational meaning of development implies that some groups sets objectives for themselves in terms of shifting constraints that may be physical (a lack of water for agricultural production), economic (low products prices due to oligopolistic market structures) or socio-political (a lack of participation in public decision making). For such groups development mean agreeing on the objectives its members want to pursue, the means they intend to use and the actions group has the capacity to undertake. For such group the operational focus may change as reactions by others are evaluated and /or as objectives are attained. Once one constraint has been shifted, the group will attempt to further develop by shifting other constraints.

The concept of development is relational in that it implies changes in economic and socio-political structures. Thus, the positions of a group that has power will in general be affected if another group acquires participation in decision making. Having to share the power weakens the first group's relative position in society. In other words, bringing the concepts of development to the group level makes it clear that changes in the interrelations of groups are implied. In other words, development has an eminently political nature. Finally, the concept of development is comparative in the sense that it can be used to identify inter-group differentials in terms of attributes that are perceived as constraints. For instance, if certain legal rules say that illiterates are not allowed to vote, the group of illiterate has an attribute of the constraints of no voting rights.

► ***Then, dear learner, what is regional development?***

Regional development deals with the processes of economic and social changes at the sub-national level. It deals with the alleviation of development problems within a region based on the national development objectives and priorities. The purpose and objectives of regional development are to increase regional productivities as measured in employment, income, value added etc and to bring social development as indicated in public health welfare, environmental equality.

► ***Dear students, can you explain the objectives of regional studies?***

Generally speaking, the objectives of regional studies are to comprehend the process of changes in human activities as they occur in regions and to analyze the relationships between these processes and the dynamics of spatial structures such as settlement systems. The other objectives of regional studies constitute the investigation of the relationships between activities in the various regions of a country and the effects of international relations upon these processes and relationships all with a view towards helping regions to bring development. In addition to all these, regional studies is also concerned with process of change in and among regions and the ways these processes can be influenced by governmental and non-governmental organizations so as to promote development.

## 1.4 The Growing Concern with Regional Development Issues

As late as 1948, although governments have a large stake in the results of locational development, great power to influence that development and a correspondingly heavy responsibility for influencing it in a socially desirable direction, few governments have ever followed any coherent policy in regard to location. However, a radical change in thinking about regional development was already brewing.

Since the 1950s, we have been observing, with some frustration, that developing countries do not seem to catch up automatically with the more advanced ones, even with continued and massive international assistance of various types. Moreover, economic statisticians and historians who had been investigating interregional disparities of income, found reason to question the inevitability of convergence. One basis of concern and of desire for better understanding of regional development policies has been a realization that regional stagnation that depression can be quite persistent.

Throughout much of the 1960s, attention was drawn to pockets of poverty in what otherwise was thought of as the "affluent/wealthy society." Today, we are less apt to view regions with low levels of economic growth or even those experiencing absolute decline in economic activity as being anomalous.

### 1.4.1 Reasons for the Change in the Concerns of Regional Development

► *What were the major factors which contributed for the change in the concerns of regional growth and development?*

Well, some of the major factors which contributed for the change in the concerns of regional development objectives and policies include the following factors.

**Rapid urbanization:** There is a distinctly urban dimension to many of the changes in the concerns of regional development thinking. The process of urbanization accelerated earlier in this century because of the declining relative importance of agriculture. Unemployment in urban areas is more visible and more unsettling for both the individual and the

community than is rural underemployment. Furthermore, the rapid shift of people from rural areas to urban slums intensified this change; and along with a complex of other problems of urban adjustment, it vastly increased the number of urban areas calling for external economic aid. Moreover, problems of traffic congestion and environmental pollution, particularly in and around urban areas, stimulated a search for more rational use of space and resources. These problems developed during the 1950s and 1960s, when virtually every major metropolitan area was growing.

**Fiscal pressures on local & state governments.** For expanding areas, with increased demands for all kinds of public services, the principal revenue sources of those jurisdictions often do not keep up with rapidly rising demands of the population. States and local communities are rightly fearful that higher taxes will drive away or deter business investment. The same fear persists in regions characterized by decline; the demand for services does not fall proportionately with population. Often, the least mobile persons are most in need of public services.

This as well as the substantial resources required to maintain the existing infrastructure of roads, bridges & sewer systems put upward pressure on tax rates that threatens to place areas hard hit by structural change at further disadvantage.

As a result of these forces, there has been increasing though sometimes reluctant reliance on the more ample and flexible taxing powers of the national government to finance local programs such as education, health and highways and still more broadly to provide unrestricted grants to the states for use at their discretion. This channeling of public money through the national treasury naturally brings to the fore rival regional claims on nationally collected funds and the competition may be intense as national policy makers are themselves forced to reconcile diverse pressures for increased expenditures with slow growth in revenues. Thus, the problem of just and efficient allocation of resources becomes one of the utmost concerns of regional development objectives and policies.

Dear learner, another factor arousing interest in the policy problems of regional development is disillusionment with the effects and objectives of the more naive forms of local and regional self-promotion. As more localities participate in this competitive game,

more of the total effort is recognized as simply canceling out. That is, each community is driven to promotional efforts in self-defense by the activity of rival areas. Thus, more and more questions are raised about whether growth itself is a sensible standard of community interest and objective of public action at the local level.

A significant shift in the attitude of the general public and of most economists, towards population growth on a local, regional, national, or world basis was also contributed for the change in the concern of the objectives and policy of regional growth and development. In the 1920s and 1930s, the beneficence of population growth was unquestioned and leading economists and statesmen were pointing with alarm to the danger of economic stagnation that would be set as if we did not get busy breeding more young consumers. However, this attitude has changed considerably. In part, the change came from the frustration of seeing hard-won output gains in so many of the underdeveloped countries canceled out by mushrooming population growth. The generally inflationary bent of the economy and the relatively high fertility of people low on the economic and education ladder all helped to undermine the venerable new world tradition of the blessings of increased population. Today, regional development objectives and its policies are much more aimed at welfare objectives such as fuller employment and higher per-capita income rather than to the misleading standard of aggregate growth.

Another contributing factor in the shift towards more enlightened approaches to regional promotion is the dilution/intensity of provincialism. We now find it normal for individuals to make their home in several different communities and regions during their lifetime and for them to travel often and widely. This more varied exposure is conducive to more objective feelings about programs that may benefit one region at the expense of another.

Finally, there have occurred (and are occurring) a number of important changes in the factors determining location choices of producers and consumers. These changes, arising mainly from changes in technology and increased income and leisure, really underlay many of the developments already mentioned and have certainly played a significant part in the rethinking on regional development. In general, Concern, controversy, and experiences have

brought into focus some basic issues of regional development objectives and policy, to which we now turn.

### Activity One

**Answer the following questions accordingly.**

1. What does it mean region for this course? What are the criteria used to delineate regions?
- 2 What are the objectives of regional studies?
3. What were the major factors which contributed for the change in the concerns of regional growth and development?

### Summary

Dear learner, so far we have discussed about some conceptual definitions; and the growing concerns with regional growth & development. We have noted that region implies a set of regional activities with a common area of influence, together with the sets of local activities affected by them and the national and international activities located in the area where as regionalization is the techniques of delineating space into regions. Thus, regional economists & other disciplines delineate regions using different techniques and identified different types of regions for instance natural regions, functional regions and cultural regions.

Regional studies originated as a field in various interrelated concerns and disciplines. The various disciplines contributed to the fields of regional studies involved in the field in response to regional policy problems. Besides, public administration and political sciences contributed to the fields of regional studies. Here, the intention was to emphasize the policy orientations and multidisciplinary of regional studies. The interest towards regional studies has greatly increased all over the world in connection with the tasks of planning. The major reasons for the growth and popularity of the concepts related to regional studies/ regional planning include the failure of the socio-economic development and the realization about the necessity to change priorities and the look for compromises and the emphasis on the quality of life.

In summary the objective of regional studies constituted the process of changes in human activities as they occur in regions and to analyze the relationships between these processes and the dynamics of spatial structures; investigation of the relationships between activities in the various regions of a country and examining process of change in and among regions. We have also seen that a radical change in thinking about regional development was already brewing since the late 1948. Some of the major factors contributed for the change in the concerns of regional development include rapid urbanization; fiscal pressures on local & state governments; a significant shift in the attitude of the general public and of most economists, towards population growth at different levels and the changes in the factors determining location choices of producers and consumers.

### Self-Test Exercise

General Direction: Try to answer all of the following questions

#### True or False Questions

1. Regional studies originated as a field in various interrelated concerns and disciplines.
2. The operational concept of development implies the changes in economic and socio-political structures.
3. Today, regional development objectives are much more aimed at welfare objectives and higher per-capita income rather than to the standard of aggregate growth.
4. Sociologists argue that regional identity is an important element in regional growth and development.
5. The interest towards regional studies has greatly increased all over the world in connection with the tasks of planning.

## Chapter Two

### Theories of Regional Growth & Development

#### Introduction

Dear learners, we hope that the lessons in the introductory unit provide you a backdrop to comprehend the subsequent lesson in this unit and the course. In this unit you will learn about theories of regional growth and development. Development theories seek to explain and predict how economies develop or not develop over time; investigates barriers to economic growth and forwards the ways to overcome it ;suggest how governments can initiate, accelerate and sustain economic growth and development.

Dear learner, to make the lesson attractive and easily understandable, it is structured in to three sections. The first section addresses the top-bottom versus bottom-up approaches to regional growth & development where as the second section examines the various conventional theories of regional growth and development. The final section broadens the discussion by drawing attention to the contemporary theoretical perspectives on regional growth and development.

#### Unit Objectives

Dear learner, upon a successful completion of the lessons in this unit, you will be able to:

- ◆ Explain the doctrine of the various theories of regional growth and development;
- ◆ Recognize the dynamic shifts in the paradigms of regional development;
- ◆ Compare & contrast the conventional & the recent approaches and perspectives on to regional growth & development; and
- ◆ Apply the knowledge acquired from the unit to regional development in Ethiopia.

#### Pre-Test Questions

- ❶ What are the purposes of the different theories of regional growth and development?
- ❶ Can you explain the differences between the two types of development paradigms?

- ❶ Can you mention some of the conventional theories of regional development?

## Section One: An Overview of Regional Development Paradigms

### Overview

Development paradigms provide the basic foundation to describe the theories and practice of development at different levels. Theories and paradigms are similar in their abstraction and they are generalizations, but their implications vary across countries.

As paradigms are broader than and encompass many theories, the different theories of development can be seen under two dominant paradigms: development from above or top down approach and development from below or bottom up approach to development. Each of these paradigms claiming their respective arguments held the key prepositions to understand development and underdevelopment and they present their arguments in the context of regional growth and development.

### Objectives

Dear learner, upon a successful completion of the lesson in this section, you will be able to:

- ◆ Describe the underlying assumptions of the two paradigms;
- ◆ Explain the reasons for the changes in development paradigm;
- ◆ Describe the common elements of the two approaches; and
- ◆ Identify some of the critics of the top down and bottom up approaches.

### Pre-Test Questions:

1. Could you explain claims of the top down Approach to regional development?
2. Could you explain the d/cs b/n the arguments of the two approaches?
3. Could you explain some of the criticisms of the two approaches to development?
4. What do you think were the reasons for the changes in development paradigm?

## 2.1 Development from Above (Top-down Development Paradigm)

### ► *What are the basic arguments of the top-bottom paradigm?*

Dear learner, Top-down Development Paradigm views development as essentially emanating from the core and growth centre and trickling down to the periphery and hinter lands. Accordingly, policies and strategies of development are made at the centre by top officials. This paradigm aims to achieve functional integration wherein leading (developed) regions expand in to lagging (backward) regions and resources of the latter made accessible to the leading regions.

The essential argument of this paradigm is that development will spread over time from few dynamic sectors and geographical clusters to the rest of spatial system. This school is rooted to the balanced & unbalanced growth controversies of the 1950s. The unbalanced growth model was given high importance during the 1950s and 1960s.

### ► *What are some of the criticisms of the top-bottom approach?*

The top bottom paradigm assume that development in its social, economic, cultural and political dimensions can be generated only by few selected agents such as entrepreneurial pioneers, the white, the urbanites and the intellectuals. The rest of the population are considered 'incapable of initiatives in making improvements, consequently everything must be done for them from outside, at least temporary. These few agents are able and willing to allow others to participate in the development process within reasonable time span and on equal basis. These other groups are able and willing to adapt the same type of development pattern.

Critics argue that all the assumptions and hypothesis of this paradigm generally imply an eventually monolithic and uniform concept of development, value system, which is in practices varies across the world. It ignores the great diversity of value system and aspirations created by the differences in value systems and the great variations in natural conditions. It serves the interest of large scale organizations and the leading regions and very often overruling the interests of local and lagging regions and rural communities.

Critics argue that within the context of developing countries, the top-down development paradigm has contributed to external dependence on developed countries and multi-national corporations and internally dependence of rural communities on the urban centre. The persistent dominance of one or few large primate cities, which have critical problems of unemployment and other social and economic problems; Increasing regional development inequalities and real per-capita income inequalities; different social strata; persistent & growing food shortages and deteriorating material conditions in the countryside.

Normally, large scale organizational linkages b/n areas of differing levels of development, unequal distributions of power, unequal terms of trade, unequal distributions of scale economies increasing spatial divergence rather than a convergence of living standards or development disparities. Even with explicit sub national development policies operating through large scale organizations, the sum of back wash effects in most cases still exceed spread effects. The balance of the ‘backwash effects and the ‘spread effects ‘can be maintained if there is a strong control mechanism avoiding leakages to exterior (control on commodity and factor flow from the lagging regions) and a strong internal redistributive mechanism with broad public participation.

## **2.2 Development from Below (Bottom-Up Paradigm)**

### **► *What are the basic tenets of the bottom-up development approach?***

Development ‘From Bellow’ is an alternative development approach to the top-down development paradigm. It gives high priority for economically less developed social groups & areas/regions to their own self determined societal standards. It argues for the need for the change in the level of development decision making: at the local level. The development ‘From Below’ does not necessarily dispute the path of development ‘From Above’; instead it argues for the regions to take control of their own institutions and create a desired life style. According to Richardson (1973), the objectives of development ‘From Below’ is to adapt development patterns to fit regional character and assure generative growth.

Development from below involves controlling the ‘back wash effects’ of development from above and the creation of dynamic development impulses/engine within less developed regions. These require the creation of endogenous factors of change for increased equity &

development dynamics and the changes in the interactions between the different regions. Therefore, development from below aims for the full development of region's/nations natural and human resources/skills for generative growth. Most basic needs services are territorially organized and manifest themselves at the level of small groups and local communities.

Development from below implies alternative criteria for factor allocations (shifting from maximizing return for selective factors to one of maximizing essential resources mobilization; commodity exchange; advocates specific form of social and economic organization; emphasising territorial rather than mainly functional organization; a change in a basic concept of development-shifting from the monolithic concept defined by economic criteria, competitive behaviour, external motivation to diversified concepts defined by broader societal goals, by collaborative behaviour and by endogenous motivation.

It claims that development would need to be considered as an integral process of widening opportunities for individuals, social groups & territorially organized communities & mobilizing the full ranges of their capabilities & common benefits in social, economic and political terms. Different cultural areas need to construct their own development strategies which will require compatibility only at certain points of mutual benefits. Alternative strategies of development from below need to emerge and be adapted to the requirements of different cultural areas and such strategies may change over time. It suggests that large parts of any surplus produced within an area should be reinvested locally for the diversifications of the national or regional economy and provisions of goods and services acceptable for internal accessibility. Through the retention of at least part of the regional surplus, integrated economic circuit would be promoted within less developed regions and development impulses would be expected to successfully pass up wards from the local /regional to national level.

The bottom up development paradigm argue that policies of development need to be oriented towards reinvesting regionally created savings within a region; territorially organized basic needs services; rural and village development; small scale and labour

intensive industries and medium size projects; technology permitting the use of full employment of regional or local human & institutional resources on territorially integrated basis.

► ***What are the common elements of the two approaches?***

First, both paradigms recognize that nations/regions will progress through ‘stages of growth’ and there are also common consciences about how regions evolve from lower to higher stages of development (see Rostow's stages of economic growth). Second, both paradigms have a common ground in the applications of economic base theory and third there is some agreement between the two paradigms concerning the appropriate means for alleviating poverty. Theses may include more attentions to human development; greater efforts to curb population growth; wider and more rapid diffusions of agricultural innovations; planning in terms of functional economic areas and linking functional economic areas by transportations and communications policies that encourage the spatial diffusions of innovations and facilitate the movement of agricultural and light industry outputs from rural areas to large urban markets.

### Activity: Section One

Answer the following questions accordingly

1. Why we need examining the various approaches in explaining regional development?
2. What were the rational for the change in the approach to development during the 1970<sup>s</sup>?
  1. Briefly discuss the fundamental differences b/n the basic tenets of the two paradigms?
  2. Explain the common ground of the two approaches regarding regional growth and development?

## Section 2: Conventional Theories of Regional Growth & Development



### Overview

The economic analysis of regional growth and development has a long history and dates back to classical economists such as Adam Smith and Alfred Marshall. From an analytical perspective, the foundations of modern economic growth theory can be found in the early work of Solow (1956), in which he argues that, in a neoclassical economic world, the growth rate of a region (measured in per capita income) is inversely related to its initial per capita income, a thesis which offers an optimistic perspective for poor regions. Gradually, interesting regional growth models have been extensively developed in the 1960s and afterwards which we will focus on in this section.

This section addresses the conventional theories of regional growth & development. Some of the theories of regional growth and development include theories based on resources and supply; theories based on demand and markets and theories based on concurring space.

### Objective

Dear learner after the successful completion of this section you will be able to:

- ◆ Identify the major conventional theories of regional growth and development;
- ◆ Describe the path of regional growth forwarded by the various conventional theories;
- ◆ Compare the assumptions and hypothesis of the conventional theories of regional development with the recent approaches and perspectives.

### Pre Test Questions

1. Could you mention some of the conventional theories of regional development?
2. Could you explain the assumptions of the conventional theories of regional development?
3. Which approaches (conventional or recent approaches) is more reliable to explain regional growth and development?
4. What are the advantages of regional economies with abundant supply of natural resources?

## 2.1 Theories Based on Resources and Supply

### ► *What is the role of natural resources to regional growth & development?*

The development of natural resources has played a significant role in the expansion of many regional economies around the world. The research that does exist reflects considerable controversy regarding the role that natural resources play in the development process. Some studies have concluded that natural resources are an important catalyst that can expedite growth while other studies have suggested that resources can impede development by creating an unhealthy economic dependence.

### 2.1.2 A Staple Theory of Regional Development/Export Base Theory

#### ► *What is the assumption of a staple theory of regional development?*

The staple theory was developed as a framework for analyzing the role of natural resources in the development process by Harold Innis (1956) and W.A. Mackintosh (1964). This theory integrates the physical geography of natural features with a theory of economic linkages to explain the spatial pattern and institutional structure of the development process in regions. Staple products are defined as being based on natural resource extraction and requiring little in the way of processing prior to export to industrial countries where they are used in the production of manufactured products.

#### ► *What factors determine the impact of staples on the regional economy?*

Dear learner, it is important to note that the path of staple development is obviously more complex than this simplified summary provides. Many factors, including the production function and technology of the staple, which determine the nature of potential linkages, the quality and quantity of the resource endowment, and the institutional environment in which the staple is developed, all affect the impact of staples on the regional economy. The interplay of these factors has given rise to two identifiable schools of staple theory: the dependency school, which argues that staple development distorts the economy in a way that blocks sustained growth, and the comparative- advantage school, which argues that staples have the potential for creating sustained development.

## ***A. The Comparative-Advantage School***

### **► *What are the basic assumptions of the comparative-advantage school?***

The comparative-advantage school is more closely associated with the Mackintosh staple tradition. Mackintosh (1964) began with the observation that “rapid progress in new countries/regions is dependent upon the discovery and development of cheap supplies of raw materials by the export of which to the markets of the world, a country/region may purchase the products which it cannot produce economically at that stage of development.

The comparative advantage school claims that regional growth is stimulated by the direct investment in the extraction of the staple and by the “*spread effects*” of staple development. The spread effects from staple products can be divided into four categories. These are: 1) forward linkages: involving processing of the staple prior to export; 2) backward linkages: involving the production of inputs such as resource machinery & transportation infrastructure that are required to extract the staple; 3) final-demand linkages involving the production of consumer goods & services to meet the regional needs of those who are employed in the staple industry; & 4) fiscal linkages: involving the expenditure of rents & profits generated by resource production (Watkins, 1963).

Regional economies with an abundant supply of easily accessible natural resources have a considerable advantage in the regional development process. Demand, capital & entrepreneurship are supplied by external export markets for the staple product, instead of being restricted by regional consumption and savings rates. Manufacturing linkages are developed by the economic logic of processing resources prior to export to reduce weight and transportation costs. Higher incomes are generated by the in situ value or economic rent generated by the resource. Rent is defined as the surplus income earned in natural resource development after compensating for all other factors of production.

### **► *What is the economic impact of staple?***

The ability to generate rent is an important determinant of the contribution of natural resources to the regional development process. The regional economy expands through these spread effects to achieve the economies of scale necessary to diversify through import substitution and other non staple-related growth. Over time, the regional economy can

become decreasingly dependent on a narrow staple export base and growth can become self-sustaining.

► ***How rent can be generated from natural resources?***

Natural-resource rent can be generated in several ways (Gunton and Richards 1987). First, rent can result from the difference in cost between the marginal producer, who just covers costs, including a normal return to capital, and the intramarginal producer, who covers costs plus a return equivalent to the cost advantage over the marginal producer—generally referred to as “***differential rent.***”

Second, rent can be generated if staple producers have sufficient market power to raise prices by restricting the supply. This is normally referred to as “***monopoly rent.***” Third, rent can result from the short-run mismatch between supply and demand because of the long lead times required to change production capacity. This is typically referred to as “***windfall rent.***” Finally, rent can be generated by the absolute shortage of a resource, which results in higher prices in anticipation of the exhaustion of resource is called “***user cost***” ***rent.***

Dear student it is important to note that, regardless of the type, rent provides a surplus relative to other economic activities that can stimulate growth by increasing incomes and consumption in the regional economy. As Chambers and Gordon (1966) demonstrated, rent is the key measure of the comparative advantage of staples relative to other economic sectors. In benefit-cost terms, rent is a measure of the net benefit of resource development.

Proponents of the comparative advantage school emphasized the importance of foreign capital, entrepreneurship, and technology in expediting the regional development process. As Mackintosh (1964) concluded, “Without such borrowings and adoptions, progress is inevitably reduced to the slow pace of domestic accumulation of savings and the development of local inventions”.

Though Mackintosh (1964) lauded the comparative advantage provided by staples, he was acutely aware of the challenges, particularly the combination of high fixed debt charges incurred to finance the extraction of staples and volatile revenues from the export of staples. As he observed, “since the incomes derived from the export of raw materials are notoriously variable, the economic difficulties which new countries so frequently find themselves are

those that occur when fluctuating incomes are coupled with the rigid expenditures occasioned by heavy debt charges”. He also cautioned that staple regions have a propensity to form excessively bullish expectations during commodity booms that stimulate investment in uneconomic capacity. Mackintosh’s inventory of constraints excluded many of the impediments identified in the dependency critiques. Nonetheless, Mackintosh’s optimism was a qualified one, which included an appreciation of both the advantages and some of the challenges facing a staple economy. Hirschman (1981) developed a synthetic analysis that staples can provide the basis for sustained growth if the income from staples is retained by the regional economy and invested wisely.

### ***B. The Dependency School***

#### **► *What are the main doctrines of dependency school?***

The dependency school argued that the extraction of staples incur high fixed costs because they are capital intensive. As a result of the high capital costs, staple development is often undertaken by large foreign-owned firms that have a bias for locating backward and forward linkages outside the staple region because the linkages are often already established in the home location of the foreign owned firm. The locational bias of foreign owned firms results in the creation of a truncated economy that lacks processing linkages, backward supply-industry linkages, and higher-order management and research and development functions. Incomes earned from the staple are also leaked from the staple economy in the form of payments of profits and dividends to foreign owners. Therefore, final demand and fiscal linkages are also underdeveloped. The foreign domination of staple extraction also distorts the region’s class structure by impeding the emergence of a strong, independent entrepreneurial class in the staple region. The entrepreneurial class that emerges instead is a staple-oriented class that supplies services to the foreign-owned industries but is largely incapable of pursuing new, independent enterprises that are capable of diversifying the economy.

The problems of the staple region are compounded by the nature of demand. In the short run, staple demand is subject to highly volatile international commodity markets in which inelastic demand leads to large fluctuations in prices and regional economic instability. In

the long run, the non-renewable staples are gradually exhausted, and renewable resources can suffer collapse caused by unsustainable harvest rates (Clapp, 1998). The spatial manifestation of the dependent staple economy is the emergence of isolated, single industry towns organized around the extraction of staples. The vulnerability of these resource towns to downsizing and closures has been well documented. The emergence of single industry towns is an inevitable characteristic of a staple economy, and while “there are periods of stability . . . it is never permanent” because “destruction and bedlam are always waiting in the wings” (Barnes, Hayter, and Hay 2001).

According to the dependency school, governments are handicapped in their ability to manage staple development because they are dependent on large foreign-controlled staple industries for regional economic growth. Governments, therefore, are in a weak bargaining position with large foreign owned firms, which have superior knowledge and bargaining power by virtue of their control of savings, investment, technology, and markets. The role of governments in staple regions is restricted to facilitating staple development by supplying subsidized high-cost infrastructure to extract the staple and providing access to staples on highly favorable terms (Clark-Jones, 1987). This restricted role of governments intensifies the problems of staple base. The staple economy will experience financial crises as volatile export revenues are insufficient to cover fixed-debt charges incurred to finance the extraction of staples, and ultimately will collapse when the staple is economically or physically exhausted.

The pessimistic conclusion of the dependency school is that staple-led growth is a high-risk development strategy that cannot provide the basis for sustained regional growth and development. Prebisch (1963) specifically condemned the role of staples owing to their structural constraints, which included the long-run decline in staple prices, low income elasticity of demand for staple products, and the poor bargaining power of staple regions. The preferred strategy was to abandon staples in favor of manufacturing through import substitution and high tariffs. Girvan (1971) illustrated additional pitfalls in staple-led growth in his analysis of the failure of staple-producing regions to develop production linkages because of the oligopolistic structure of multinational capital.

### ***C. The New Synthesis Approach***

#### **► *What are the underlying propositions of the new synthesis school?***

The existence of the above two traditions in staple theory has produced a dialectical interplay between the pessimism of the dependency tradition that staples have a pathological disorder that leads inevitably to crisis and the qualified optimism of the comparative-advantage tradition that staples are an important asset in the development process. The product of this dialectic can produce a synthesis that combines the constraints of staple-led growth identified in the dependency position with the strengths identified in the comparative advantage position to form an integrated framework that exhibits elements of both traditions. Watkins's (1963) pivotal exposition of staple theory is a good example of this synthesis.

Like Mackintosh (1964), Watkins saw staples as a potential leading sector that provided a comparative advantage for resource-rich countries in the development process. Watkins described how a diversified economy could evolve from a narrow staple export base through a series of linkage effects. But like Mackintosh, he identified a number of challenges that could impede development and drive the economy into a staple trap. Watkins cited many of the obvious impediments, including the production function of the staple, which determined what potential linkages existed; export demand; and the quality of the resource base. He also acknowledged the impediment recognized by both Innis (1956) and Mackintosh that staple economies had a propensity for being overly optimistic and building costly surplus capacity.

#### **► *What were the other challenges of staple identified by Watkins?***

Watkins also identified several more challenges of staple. The first challenge is the development of an export mentality that resulted in the over concentration of entrepreneurship on the staple sector at the expense of other sectors. Second, the leakage of incomes to foreign owners that reduced the final demand linkage in the staple region. The third challenge was the reliance on foreign technology, which could be advantageous in providing skills, but could also impede the domestic sector by discouraging the development of indigenous technological capacity. Watkins emphasized that staple regions

are believed to be much more at the mercy of destiny than they actually are and that the key is to avoid pitfalls of staple-led growth by developing the linkages necessary to diversify the economy.

#### **2.1.2.1 Implications of Staple Theory for Regional Development Policy**

##### **► *what is the implication of staple theory to regional development policy?***

The principal implication of staple theory for regional development policy is that regions with a natural resource endowment should concentrate their efforts on realizing the comparative advantage offered by staples relative to other economic activities. Staple development poses challenges, but the net benefit equation favors staples over other economic options, which also pose challenges without the offset of resource rent. Realizing these benefits requires assiduous/diligent management of resource development by the state. Accordingly, two policy initiatives are key: the collection of rent by the public owner and efficient management of resource development. Several studies reveal that the collection and recycling of rent back into the staple region is a complex activity. Results from the case study as well as from other studies on rent-collection strategies provide some guidance (Auty et.al., 2001)).

##### **► *What are some of the important rent-collection strategies?***

First, rent collection techniques must be sensitive to market cycles and collect only the residual that remains after allowing normal returns to capital and labor. Royalties based on rate of- return systems, competitive bidding, and strategic public ownership are the preferred techniques. Otherwise, rent collection could increase instability by collecting too much during downturns, thereby contributing to contraction in the industry as resource firms close capacity and collecting too little during upturns, thereby increasing leakage.

Second, because rent is the most volatile revenue stream from staples, care should be taken to ensure that rent recycling is based on a long term average income stream. Auty (2001), noted how rents during peaks are locked into financing ongoing expenditures that create fiscal stress for the staple economy when the rental income declines. Mechanisms, such as placing resource revenues in a special resource-stabilization fund separate from general revenue streams, are recommended for consideration. Measures to improve efficiency,

particularly in the private sector, are also challenging. Several points are key. First, there has to be a better appreciation of the fundamentals of resource commodity markets and the psychological propensities of investors. The nature of resource development, with its long lead times to develop new supply and high fixed costs, produces commodity cycles that are characterized by extended booms followed by declines as new supply emerges and substitutes are found. These booms lead to the formation of excessively optimistic expectations, which stimulate new entrants with minimal experience who build uneconomic capacity and purchase existing capacity at excess prices.

Second, public policy in resource development needs to be risk averse. Instead of fueling excess expectations by promoting growth through financial incentives and investment in infrastructure, governments need to limit their involvement. In those instances in which economies of scale and external benefits necessitate public investment, such involvement should be contingent on independent reviews that are based on the principles of full-cost recovery. Therefore, a policy of discouraging or being neutral toward private-sector investment, instead of the usual approach of the aggressive promotion of investment, would have resulted in substantially higher benefits. Finally, governments must be more aggressive in collecting rents from the resource sector, both to encourage efficiency and to achieve an equitable return for the public owner.

## 2.2. Theories Based on Demand and Markets: Economic Base Theory

### ► *What is the assumption of the economic base theory? Can you explain it?*

Dear learner, the economic base theory is one approach to an explanation of regional growth and development. The essential idea of this theory is that some activities in a region are peculiarly basic in the sense that their growth leads and determines the region's overall development. The other (*non basic*) *activities* are simply *consequences* of the region's overall development. If such an identification of basic activities can really be made, then an explanation of regional growth consists of two parts: (1) explaining the location of basic activities and (2) tracing the processes by which basic activities in any region give rise to an accompanying development of non-basic activities. The usual economic base theory

identifies basic activities as those that bring in money from the outside world, generally by producing goods or services for export.

The argument advanced for this approach is that a region, like a household or a business firm, must earn its livelihood by producing something that others will pay for. Activities that simply serve the regional market are there *as a result of* whatever level of income and demand the region may have achieved: They are passive participants in growth but not prime movers. A household, a neighborhood, a firm, or a region cannot get richer by simply "taking in its own washing"; it must sell something to others in order to get more income. Consequently, exports are viewed as providing the economic base of a region's growth.

A regional economic base theory generally seeks (1) to identify the region's export activities, (2) to forecast in some way the probable growth in those activities and (3) to evaluate the impact of that additional export activity on the other, or non-basic, activities of the region. The result is not only a projection of the region's prospective growth and structural change but also a model that can be used in evaluating the effects of alternative trends of export growth. It mainly focuses on firm's productivity, and firm's location. It describes the economic relationships b/n hierarchies and development is sustained through vertical and complementary linkages among industries. This theory identifies three types of external relationships critical for regional growth and development imports & exports of goods and services; migration of people (in their capacities as both consumers & workers) and migrations of other factors- principally capital for investment.

It further suggest that economic activities of a region can be divided b/n industries producing goods and services for export and industries producing goods for local consumptions. The economic development of a region depends upon its ability to raise the volume of exports and to continue in doing the same relative to consumption of locally produced goods and services. This requires attracting capital and skilled labour essential for sustaining its development.

► ***How can we determine the region's export activities?***

A region's export activities can be determined with various degrees of precision. The simplest and crudest procedure is simply to assign whole industries or activity groups to the export or nonexport category without making a specific local investigation. Thus, retail trade, utilities, local government and services may be classed *en bloc* as nonexport, while manufacturing is considered wholly an export activity.

A more sophisticated approach is to recognize that almost all activities in a region produce partly for export and partly for the regional market, and to try to estimate how much of each activity is for export. A community with a large number of packing plants is also likely to have a large number of tin can manufacturers. Even though, the cans are locally sold, they are indirectly tied to exports. Location quotients will show them as exports.

A more painstaking procedure of determining a region's export activities is to get information on actual shipments of goods and services out of the region. In recent years, progress has been made by the Census in collecting and organizing data on manufacturers' shipments between large regions. For some time, however, there will continue to be a dearth of information on exports from smaller regions such as individual metropolitan areas or countries; and exports of some services pose additional data problems. Many economic base studies have canvassed at least a sample of the firms that are believed to be involved in exporting, in order to get a reasonably accurate measure of the region's external trade.

The view of export demand as the prime mover in regional growth raises some interesting questions that indicate the need for a more adequate explanation. Consider, for example, a large area, such as a whole country, that comprises several economic regions. Let us assume that these regions trade with one another, but the country as a whole is self-sufficient. We might explain the growth of each of these regions on the basis of its exports to the others and the resulting multiplier effects upon activities serving the internal demand of the region. But if all the regions grow, then the whole country or "super region" must also be growing, despite the fact that it does not export at all. It appears, then, that internal trade and demand can generate regional growth. That is a region really can get richer by taking in its own

washing. Dear students, let us next look at the role of import to regional growth and development.

► ***What is the role of import for regional development?***

In the mechanism of the regional export multiplier, expenditures for imports represent *demand leakage* from the regional income stream. The greater the proportion of any increase in regional income that is spent outside the region, the smaller is the multiplier. Then, it follows that if a region can develop local production to meet a demand previously satisfied by imports, this "import substitution" would have precisely the same impact on the regional economy as an equivalent increase in exports. In either case, there is an increase in sales by producers within the region.

Dear learners, it is important to remember that it is quite incorrect to identify a region's *export* activities exclusively as the basic sector which can generate regional growth. It would be more appropriate to identify as basic activities those that are *interregionally footloose* (in the sense of not being tightly oriented to the local market). This definition would admit all activities engaging in any substantial amount of interregional trade, regardless of whether the region we are considering happens to be a net exporter or a net importer. Truly speaking, basic industries would be those for which regional location quotients are either much greater than one or much less than one. This necessary amendment to the export base theory, however, exposes a more fundamental flaw. We are still left with the implication that a region will grow faster if it can manage to import less and that growth promotion efforts should be directed toward creating a "favorable balance of trade," or excess of exports over imports. Let us examine this notion further more in details.

If a region's earnings from exports exceed its outlays for imports, on net there is an exodus of productive resources from the region (as embodied in goods and services traded). In this sense the region is loaning its resources to other areas,- and its people and businesses are building up equities and credits in those areas. Thus, the region is a net investor, or exporter of capital. By the same token, if imports exceed exports, the region is receiving a net inflow of capital from outside. Hence, it is patently meaningless to argue that the way to make a

region grow is to invest the region's savings somewhere else, and that an influx of investment from outside is inimical to growth. If anything, it would seem more plausible to infer that a region's growth is enhanced if its capital stock is augmented by investment from outside which means that the region's imports exceed its exports. In short, in any event, regional development is normally associated in practice with increases in both exports and import

## 2.3. Theories Based on Concurring Space

Dear learner, in the preceding lessons, we have discussed about the conventional theories of regional growth which comprises theories based on resources and supply and theories based on demand and market. Besides, there are many other theories of regional growth based on concurring space: growth center theory, cumulative causation theory; core periphery theory and agropolitian development theory.

### 2.3.1 Growth Pole or Growth Center Theory

► *What is the assumption of the growth center theory? Can you explain it?*

One of the regional growth theories based on concurring space is the growth center theory. This theory was introduced by Perroux in 1955. Perroux coined the term 'growth pole or growth center' with the primary concern intended to promote interactions among industrial sectors rather than spatial development processes. He distinguished the concept of growth center/pole and hinterland within the context of regional development. **Growth pole/cente** are urban or extended metropolitan areas, also called 'urban fields' containing of expanding economic activities which induce economic development from which growth further expand throughout its hinterlands. **Hinterlands**, on the other hand, cover an area outside the urban fields.

The theory argues that with limited resources, it would be inefficient and ineffective to attempt to sprinkle development investments thinly in all sectors or across all regions rather key urban canters should be selected for concentrated investment programs that would benefit from economies of scale and external economies of agglomeration. It further argue that Economic growth doesn't appear everywhere at the same time rather economic growth

manifests itself in growth pole/center, with variable intensities, then growth spreads by different channels and with variable terminal effects for the economy as a whole.

According to Perroux development in hinterlands is fuelled by expanding metropolitan centres. That is investment trickles out from the growth center/pole to the hinterlands. However; empirical studies reveal that the innovation diffusion process and the spread effects to the hinterlands are minimal and highly discontinuous in spatial terms. Perroux emphasised the importance of entrepreneurial innovation in the process of development which succeeds by dynamic sectors or pole through time. He also stress on few dynamic sectorial clusters as well as on urban-industrial growth as key to regional development.

### **2.3.2 Cumulative Causation Theory**

► ***Dear learner, what is the basic assumption of the cumulative causation theory?***

Cumulative causation theory is another theories of regional growth based on concurring space. This theory is developed by Myrdal in 1957. In his work, Myrdal distinguished the existence of leading and lagging regions in the process of regional/spatial aspect of development. The concepts of leading-lagging distinguish advanced/developed regions from the underdeveloped/backward regions both at the global and regional levels.

Myrdal used the concepts of “backwash” and “spread effects” to explain the results of leading and lagging regions relationships. He argues that leading regions possesses comparative advantages due to its location, infrastructures and other factors of development. Ever increasing investment in the leading regions results in agglomeration. These will further promote development in the leading regions. In contrast, little investment/development incentives/ moves to lagging regions due to its comparative location, shortage of infrastructures and other resources. The elites of leading regions control investment in the lagging regions to ensure the economic dominance of their respective regions. Myrdal also argues that development in lagging regions are further inhibited because of “the back wash effects” and other barriers. But, dear learner,

► ***What does he mean by backwash effects? What does spread effects mean?***

The 'back wash effects' involves the phenomenon of population migration, trade and capital movements to the leading regions; skilled workers, business leaders and venture

capital will move from the hinterlands (lagging regions) to the growth pole (leading regions) to seek high returns as the result of increased demand available at the growth center or the leading regions. Goods and services produced in the leading regions are sold to the lagging regions at low prices that the local industries in the lagging regions cannot compete and which in turn the growth of local industries. Therefore, such “backwash effects” create the tendency of an increased inequality b/n the leading regions and the lagging regions.

Although, it takes long time, there is a propensity of ‘spread effects’ that may counter the “backwash effects” that emerge as the result of the relationships between the two regions. This is because one feature of leading regions is that they tend to spread out in to lagging regions. In addition, most lagging regions have comparative advantage principally, in natural resources that result in positive investment flow in to the lagging regions. Therefore, increased outlets of investment opportunities for lagging regions’ agricultural products; raw materials and a tendency of technical advancement to diffuse from the center will be imminent. Therefore,

► *Under what conditions, development in the lagging regions occurs?*

Myrdal concludes that cumulative causation (i.e. development) will happen in the lagging regions, when the spread effects is stronger than the backwash effects where as the reverse situations will adversely affect the process of development in lagging regions but it is positive for the leading regions.

### **2.3.3. Core Periphery Theory**

► *Dear learner, what are the basic doctrines of the core periphery theory?*

The theory of core periphery was developed by Friedman in 1972. He made an attempt to formulate the systematic and comprehensive core periphery model. The core periphery concept distinguishes b/n regions of a global scale, while regions can be composed of the entire nations or collections of states. The theory involves not only the matter of the national economic development of individual countries or regions but also a significant and highly integration of international dimensions.

According to this theory, development originates in a relatively small number of “center of changes” located at the points of highest interactions. Then innovations diffuse from these centres (origin) to dependent areas of lower interactions. Friedman argued that regional development is the result of the creative potential of a society through a successive series of structural transformations. It assumes that development occurs through a continuous & cumulative process of innovations. He suggests that the creations of multinational firms on a continental basis as a preconditions for more rapid diffusion of innovations in developing countries. In general Friedmann’s theory assigns a decisive influence/role to the institutional and organizational arrangements of a society.

Dear learner, in our previous discussions, we have noted that the growth center theory assumes that development starts only in few dynamic sectors and geographical clusters from where it will spread to the remaining sectors and geographical locations. On its part, the core periphery theory argues that the trickle down process essentially supposed to start at the global level (from the world innovation centres) and then filter down and outward to national or regional units through the urban hierarchy, inputs and outputs relations; channels of multinational business organizations or large scale government organizations. Therefore, this theory emphasis urban and industrial capital intensive development; the highest available technology; and maximum use of external and scale economies. This usually involves large investment projects; increasing units of functional and territorial integrations; increased scale of the private and public organizations required to transmit innovations through these integrated units and reductions of economic, social, cultural, political and institutional barriers which might hinder the transmission of innovations within and between these units.

### **Activity**

1. Briefly explain the underlying assumptions of the following theories of regional growth and development? Also identify the policy implications of these theories?
  - A. Staple Theory
  - B. Economic Base Theory
  - C. Central Growth Theory
  - D. Growth Pole/ Growth center theory
2. In your opinion, which one of the above theories presents convincing theoretical explanations for regional growth and development?

3. What are the major challenges of staple product identified by the three schools?
4. What are the policy implications of staple theory to regional growth and development?
5. What are some of the important rent-collection strategies?

## Section 3: Contemporary Approaches & Perspectives on Regional Development

### Overview

Dear learner, so far you have learned about the conventional theories of regional growth. These theories were conceived on the basis of resources, demand and supply and concurring space. In this section, you will learn about the contemporary approaches & perspectives on regional development. Some of this approach and perspective includes endogenous growth theory; basic need approach and learning, innovation and regional development and theory of Entrepreneurship.

### Objectives

Dear learner, upon a successful completion of the lessons in this section, you will be able to:

- ◆ Mention the major contemporary approaches and perspectives on regional growth;
- ◆ Explain the doctrine of contemporary approaches and perspectives on regional growth;
- ◆ Describe some of the differences between contemporary & conventional approaches to regional development.

### 3.1 New Growth Theory/Endogenous Growth Theory

► *Dear learner, what are the basic doctrines of endogenous growth theory?*

New Endogenous growth theory is an alternative development approach to the unsuccessful externally induced and standardized development approach, propagated by international organizations like WB, UNDP, and IMF. This theory is also known by various names like ‘self reliant theory’, or ‘new growth theory’. Endogenous development model is relatively a self sustaining model capable of transforming the local economic system based on local characteristics. It emphasis the necessity of building ability of a region to control certain fundamental resources like ensuring the use of local resources for local development

(capital, entrepreneurship, material resources); the ability to check the accumulation process; the ability to innovate & developing of productive interdependence between firms and economic activities. Proponents of the endogenous development theory advocates:

- ✎ Reducing dependence on imported goods and services by import substitutions;
- ✎ Changing in the consumption patterns of the local people from imported goods to endogenous products;
- ✎ Improving regional/local capacity for negotiating with transnational corporations;
- ✎ Expansions of internal markets (regional and inter-regional) which should be covered with local products to solve specific problems & to provide goods & services to the local people;
- ✎ Promoting efficient production & distributions through a proper functioning prices System and efficient and sustainable uses of natural resources;
- ✎ Developing human capital of a region/nation and mobilizing internal and external resources necessary for local development and wisely using these resources.

In general, Endogenous growth theory has played a central role in the growth debate since the 1990s. The main idea of this theory is that technological progress is not exogenously given, but a self-organized response of individual agents in an entrepreneurial business environment. Consequently, the emphasis is much more on firms' individual economic behavior. In this way, it can be demonstrated that regional growth is not the result of exogenous productivity-enhancing factors but rather is the result of deliberate choices of individual actors (firms and policy makers). It is noteworthy that the identification of endogenous determinants of growth was the crucial scientific issue that explained the birth of regional development theories.

Development is in fact by definition endogenous. It is fundamentally dependent on the concentrated organization of the territory, embedded in which is a socio-economic and cultural system whose components determine the success of the local economy: entrepreneurial ability, local production factors (labour and capital), and the relational skills of local actors. All these generate cumulative knowledge acquisition & moreover, a decision-making capacity which enables local economic and social actors to guide the development process, support it when it is undergoing change and innovation, and enrich it

with the external information & knowledge required to harness it to the general process of growth, and to the social, technological and cultural transformation of the world economy.

### 3.2 Need Based Development Approach (NBD)

#### ► *What are the basic doctrines of need based development approach?*

The basic need development is a new line of development thinking advocated by those who try to redress the meaning and purpose of regional development in the context of human welfare. As alternative development approach, NBD is a relatively recent phenomenon that emerged as the result of the failure of the other approaches & strategies. It took over dominance in the development discourse and practices since the mid 1970s.

According to Chambers (1994) this period has been marked by a shift in development approaches from 'top down to bottom up development approaches'; 'centrally planned to local diversity', 'blue print to learning processes. This fundamental shift in the development approach is variously referred in literatures as: Another development'; 'alternative development'; people centred development'; community based development and participatory development approaches. Need based development is aimed at meeting the basic needs of human beings and improving standards of living in a wider perspectives. It seeks to ensure sustainable regional development and realizing poverty alleviations; give due attention to poverty eradication, employment creation, income distributions and the provisions of basic services to people. That is, its goal is to empower the poor.

#### ► *What is empowerment? Can you explain it?*

Empowerment refers to enabling the poor to take direct control over the circumstances of their own lives so that they are in positions to become their own development agents in the future. According to Chambers (1993) empowerment means that people enabled to take more control over their lives and secure a better livelihood with ownership and control of productive assets as one key element. From the empowerment point of views, the purpose of community Based development is enabling poor people to achieve all life necessities. The general belief is that through empowerment individuals, communities, and nations

could obtain collective responsibility for their own future and manager of their own development; imply the formulations of strategies to ensure poverty alleviations & sustainable development; and Implies changing the patterns of controlling resources and political power as the attainment of self reliant development and determinations of their own destinies by the disadvantage groups.

NBD is also known as Community Based Development. Accordingly, Hope (1995/6) referring CBD as a process that involves social and economic actions for solving local problems by combating efforts and resources of various stakeholders. CBD needs understanding of the basic social and economic problems of a given community and then taking necessary actions to solve it. It is intended to achieve progress in the living standards, achieving economic growth, generations of wealth and the use of regional resources on a continuous and sustainable manner.

Community based development emphasis the adoptions of need oriented regional strategies which focus on the establishment of small scale projects which can increase social and economic access for the disadvantaged groups/regions & be managed and easily duplicated. This project should be adaptable to local conditions (knowledge, skills, technology etc) & be community owned and directed so that they can create local self reliance. As instruments to Need Based Development, projects should be demand driven & be targeted towards poverty alleviations, employment creation, raising incomes, and increase availability of basic services.

### **3.3. Learning, Innovation and Regional Development**

#### **► *What are the basic doctrines of learning regions in the process of regional development?***

A resurgence of interest in the region as a scale of economic organization and political intervention has been apparent within economic geography and regional development studies over the past decade. At first sight, this seems paradoxical, given the prevailing emphasis on globalization as perhaps the political and economic meta narrative of the 1990s (Held and McGrew, 2000). In many ways, however, it is precisely this tendency for production and finance to become increasingly globalized that explains much of the renewed concern with regions. As a consequence, national economic coherence has been

undermined, reducing states' control over flows of investment and directly exposing regions to the effects of international competition. This has focused attention on the need for regional-level intervention if regions are to be able to shape their own development prospects in a climate of rapid technological change and increased capital mobility (Amin and Thrift, 1994).

In view of the apparent shift towards a 'knowledge driven economy', the capacity of regions to support processes of learning and innovation has been identified as a key source of competitive advantage. The concept of 'learning regions', emphasize the importance of knowledge and learning. The proliferation of these concepts reflects a focus on social and institutional conditions within regions in terms of how they shape processes of economic development (Hudson, 1999).

The shift of interest in agglomeration and new industrial spaces into a focus on 'learning regions' during the 1990s, is indicative of a general shift towards a broader concern with the social and institutional foundations of regional development. It emphasise the importance of locally specific social and institutional factors in shaping economic development, particularly in terms of supporting innovation & entrepreneurship through the development of collaboration and trust between firms & organizations (Morgan, 1997).

The concepts of 'learning regions' and 'clusters' have attained hegemonic status within contemporary regional development discourses. In a climate of increasing globalization, the turn towards neoliberal forms of regulation has exposed regions to increased competitive pressures. This has created a demand for new concepts and models of development which offer guidance on how to increase competitiveness and foster innovation, as regional agencies strive to promote and defend the interests of 'their' areas in the face of increasing competition for investment and resources (Tickell, 1994). Many empirical studies share a concern with tracing the mechanisms by which knowledge is generated and circulated within regional production systems. In general, researchers identified three key mechanisms of learning relating to the extent of local spin-off from existing organizations through the formation of new enterprises, the level of inter firm interaction, & flows of skilled personnel between firms (Keeble *et al.*, 1999 ).

► ***What is the basic assumptions of learning regions to regional development?***

Accounts of learning regions and innovative milieux share a concern with the creation of sustainable localized advantages in the face of increasing global economic integration. The learning region concept has evolved from a set of essentially ‘top-down’ prescription of the links between innovation and economic success against a background of globalization. More specifically, the notion of learning regions can be seen to have emerged out of a concern to channel insights from the broader literature on national systems of innovation into a ‘new regional science’ (Cooke et al., 1998). one of the problems associated with the transfer of ideas about learning and innovation from national to regional levels concerns the failure to recognize the specificity of the ‘nations’ and the ‘regions’ as distinct scales of political-economic organization.

► ***What are the key propositions of learning regions and knowledge economy?***

Dear learner, while questions of knowledge creation and regional development have been addressed from a range of perspectives (Storper, 1997), it is worth detailing the common propositions apparent in the literature on learning regions.

First, globalization is actually held to be associated with the emergence of new forms of agglomeration based around knowledge creation (Storper, 1997). In a world where increasing efforts are made to codify knowledge and make it ubiquitous or cosmopolitan those places that become the repositories for tacit specialized local knowledges can derive considerable advantages. Second, there is claimed to be an increasing tendency for these non-material advantages, rooted in sets of social relations between firms and institutions, to be located at the regional rather than the national level (although different authors emphasize different scales). Such ‘relational assets’ or ‘untraded interdependencies’ are seen as key sources of learning which enable certain regions to respond and adapt effectively to changes in the external market environment and increase their competitiveness.

A third feature is that tendencies towards agglomeration in learning regions are associated with increased sectoral specialization. The increased importance of knowledge as a source of competitive advantage is likely to increase the tendencies for clusters of specialist and

related industries to develop in particular places. The importance of 'being there' in the form of geographical proximity to related firms and industries, is likely to be strengthened because of the need to access tacit knowledges within everyday production processes. This proposition rests upon an important distinction between tacit and codified forms of knowledge

► *What is the differences between tacit and codified forms of knowledge?*

While codified knowledge can be easily traded or communicated through markets and hierarchies and can in principle become universally available where as ***tacit knowledge*** is much 'stickier', being embedded in production practices and the 'know-how' of particular firms and workers. The key claim made by advocates of the 'learning region' is that the increased emphasis on tacit knowledge makes spatial proximity between associated producers more important, since this form of non-codified knowledge is best transmitted and developed through close interpersonal and inter-firm relations.

A fourth point is the emphasis that is placed upon the importance of ***collective learning*** processes in stimulating agglomeration. The concept of collective learning needs to be differentiated from simple learning that involves bilateral cooperation. It is referring to cumulative learning processes that take place over time among a community of firms in a locality. These learning processes require a degree of continuity and stability in inter firm relations which is likely to be facilitated by spatial proximity. As collective learning processes develop, information about knowledge creation becomes a 'public good' in the sense that innovations become available to the universe of firms within a network and not just to those who generate the original ideas.

Localized forms of collective learning can only be sustained over time if firms continue to participate in this open exchange of knowledge and ideas. There are strong incentives encouraging such participation, particularly for smaller firms which generally lack the knowledge and scale economies of larger firms. In particular, it is argued that innovation can be seen as a process of collective learning where complementary forms of knowledge are combined. Lawson and Lorenz (1999) argue that innovation often involves specialists

bringing together different tacit knowledges to create new forms of knowledge greater than the sum of the constituent parts.

► ***Dear learner, what is the mechanism to sustain collective learning between firms?***

The establishment of trust between actors/firms is considered to be ***critical to collective learning activities***. Such relations of trust extend beyond the dynamics of individual optimization which form the basis of neoclassical conceptions of economic exchange. Firms within high-trust business networks benefit from the reciprocal exchange of information and knowledge, but at the same time are bound by ‘strong ties’ of obligation which regulate behaviour and prevent ‘malfeasance’ (Granovetter, 1985).

In this way, trust is conceptualized as a key form of ‘glue’ which binds networks together and sustains firms’ involvement in processes of collective learning. An important implicit claim in the learning region literatures is that geographical proximity between associated firms and producers is more likely to generate such high levels of trust than more dispersed relations. The emphasis on trust reflects the growing importance of inter firm networks as sources of learning and competitive advantage.

► ***What type of regions can be benefited from knowledge economy?***

At the level of policy, it is argued that the learning region concept can be applied to less favoured regions as well as more advanced ones (Florida, 1995; Morgan, 1997). Incremental notions of innovation suggest that branch plant and low technology regions will also be repositories of forms of practical know-how that have the potential to provide localized competitive advantage. It is argued that the task for less favoured regions is to develop better learning capabilities, predicated upon their collective ability to develop more reflexive ‘rationalities of action’ (Amin, 1999). In general, the argument that learning and knowledge creation are imperatives for all firms and regions is widely accepted, and strong claims are made about the relevance of learning concepts for less favoured regions (Morgan, 1997).

### 3.4 Entrepreneurship Theory

#### ► *What are the basic doctrines of entrepreneurship theory?*

The accumulation of factors of production such as knowledge, physical or human capital cannot alone explain economic development. They are necessary inputs in production, but they are not in themselves sufficient for economic growth to occur. Human creativity and productive entrepreneurship are needed to combine these inputs in profitable ways, and hence an institutional environment that encourages free entrepreneurship becomes the ultimate determinant of economic growth. Thus, the entrepreneur and entrepreneurship should take center stage in any effort to explain long-term economic development.

The characteristics of entrepreneurial economy are high level of innovation combined with high level of entrepreneurship which results in the creation of new ventures as well as new sectors and industries. It emphasizes the identification and perception of economic opportunity, the existence of technical, organizational and behavioral skills, managerial competence, and motivation to achieve results.

#### ► *Dear students, what is entrepreneurship?*

Entrepreneurship is defined as "... the process of identifying, developing, and bringing a vision to life. The vision may be an innovative idea, an opportunity, or simply a better way to do something. The end result of this process is the creation of new venture, formed under conditions of risk and considerable uncertainty. Entrepreneurship is business idea generation and implementation by taking in to account the technological, geographical and sociological factors. The start up of entrepreneurship could be opportunity driven or necessity driven of the combination of both opportunity and necessity.

The economists assume that the factors of production possess a high degree of mobility; that inputs and outputs are homogenous, and that producers; consumers and resource owners have knowledge of all the possibilities open to them. As is well known, in an underdeveloped country such ideal conditions do not exist. As such, the entrepreneurship envisaged by economists cannot be developed in such a country by considering the economic dimensions alone. Schumpeter's concept is a synthesis of three different notions

of entrepreneur i.e. a risk bearer, innovator and a coordinator cum manager. He assigned the role of an innovator to the entrepreneur and not to the capitalist. Capitalists supply capital and entrepreneurs constantly innovate and are usually the large-scale business persons. He stated that 'whatever the type, everyone is entrepreneur only when he actually carries out a new combination and loses that character as soon as he has built up his business, when he settles to running it as other people run their business'.

There are two types of theories termed as gap filling theories; the sociological approach, which suggests that as a result of withdrawal of status, some social classes will work to fill the void and be more entrepreneurial. The other is an economic approach which implies entrepreneurs fill up the gaps in the market. Leibenstein postulates that the entrepreneurs are gap-fillers i.e. they have the ability to perceive where the market fails and to develop new goods or processes that the market demands but which are not currently being supplied. This can be regarded as a special kind of innovation. He assumes that entrepreneurs have the special ability to connect different markets and make up for market failures and deficiencies. Leibenstein also suggests that entrepreneurs have the ability to combine various inputs into new innovations in order to satisfy unfulfilled market demand (Leibenstein, 1995).

### ► ***Dear learner, who is entrepreneur?***

Peter F. Drucker (1985) defines an entrepreneur as a person who looks out for any changes, responds to it and exploits the opportunity generated by the change. It may mean provision of a new business, new product or a new service. He feels that a resource becomes an economic resource only when somebody finds a use for it. Some thinkers suggest that the entrepreneurs are to be found in the social sectors e.g. NGOs as well, and are called ***Social entrepreneurs***. They are an agent of change and help increase the standard of living. Some other thinkers have identified Entrepreneurs, who perform all the functions of entrepreneurs, but are not the risk bearers as they are employed in some organizations. These people innovate, go through all the labor pains of creating new divisions within existing organizations, they do not bear the risk, or uncertainty, and also may not get any reward in proportion of the success of the new venture/ division but they certainly are agents of change in the organization.

► ***Dear students, what do you think are the role/s of entrepreneurs?***

Different economists assign different important roles to the entrepreneurs. In general the following are some of the important role entrepreneurs play in the economy.

- ✎ Creation of job opportunity;
- ✎ Identification of business opportunities and markets;
- ✎ Introduce better techniques of production;
- ✎ Create better utilization of the available resources;
- ✎ Abolition of monopoly and enhancement of competition;
- ✎ Increase in per capita income and outputs and generate or save foreign currency.

### **3.5. Agropolitian Development Theory**

► ***What are the basic assumptions of agropolitian development theory?***

This theory argues that regions/nations themselves have to determine the kinds of economic and social development that is desired by a particular region. The theory believes that development mainly occur from internal sources. Advocators of this theory argue that only by preserving cultural regionalism would a regional society have a chance to carry on industrializations with its tendency to force cultural conformity with the industrial interests. They propose regional /national planning that would formally create autonomous organic territories that would be defined by natural resources, climate certain historical elements, cultural traditions, and social structures. This theory aims at self-sustaining regional/local development through the supposed ability to transform the socio-economic system; react to external challenges and the formulations of social learning & specific forms of social regulations at local level. It also favours export base industries that have potential to raise quality of local life and production of goods and services.

► ***What are the implications of agropolitian development theory?***

First, the theory assuming greater control & manage over renewable natural resources to sustain yields and thereby assure permanent economic base. In less developed regions with surplus labour and sufficient capital, agropolitian theory, suggest the establishment of

labour intensive technologies to use local resources/natural resources. Moreover, it argues that efforts would be made to support local industries to provide goods and services locally that would otherwise be imported. High way Infrastructures would be built to improve accessibility within the agropolitan areas not necessarily between agropolitan regions and growth centres. Encourage those export base industries that improve the quality of local life and development and discourage those export base industries that exploit local resources but do not improve the quality of local life. Encourage Investing local savings in to local opportunities even when the returns of the investment may be less than returns earned by investing outside the agropolitan region. Efforts would be made to create a social consciousness towards common benefits and development goals.

### Activity

1. Briefly explain the underlying assumptions, areas of concerns of the following theories contemporary approaches to regional growth and development? Also identify the policy implications of these theories?
  - A. Need Based Development Approach (NBD)
  - B. New Growth Theory/Endogenous Growth Theory
  - C. Entrepreneurship Theory
  - D. Agropolitan Development Theory
2. Describe the roles of entrepreneurs for regional?
3. What are the key propositions of learning regions and knowledge economy?
4. What is the mechanism to sustain collective learning between firms?
5. What is the difference between tacit and codified forms of knowledge?

## Summary

Dear learner, in this unit we have addressed the various theoretical perspectives on regional growth & development mainly the conventional theories of regional growth and the current perspectives thoughts. We have started with a brief overview of the development paradigms & broaden the discussion further by elaborating the various theories of regional growth and development. Development paradigms & theories are similar in their abstraction and they are generalizations. However, paradigms are broader than & encompass many theories. Thus, the different theories of development can be seen under two dominant paradigms: the top bottom and bottom up paradigms.

Development paradigms provide the basic foundation to describe the theories and practice of development at different levels. The top-down paradigm views development as essentially emanating from the core and growth centre and trickling down to the periphery and hinter lands. It assumes that development will spread over time from few dynamic sectors and geographical clusters to the rest of spatial system This paradigm aims to achieve functional integration wherein leading regions expand in to lagging regions and resources of the latter made accessible to the leading regions. In contrast, development from below, fundamentally, aims to create regional autonomy through the integration of all aspects of life within a territory defined by its culture, resources, landscape and climate.

Thus, they diverge in the level of integration desired between leading and lagging regions and in the capacity of any given region to tailor policies and resources to achieve indigenously determined social, economic, and political institutions. However, there may be much overlap between the two paradigms as both apply economic base theory to describe the notions of development and design national /regional development policy and acknowledge the different successive stages of growth in the level of development.

Theories of development seek to explain and predict how economies develop or lag behind in its growth over time; investigates barriers to economic growth & forwards the ways to overcome obstacles & suggests how governments can initiate, accelerate and sustain economic growth and development. So far we have discussed about the various theories of regional growth organised under conventional and contemporary theories of regional

growth. The major conventional theories of development discussed so far include theories based on resources like staple or export base theory; theories based on demand and supply and theories based on concurring space.

We have addressed that staple-led growth provides an important advantage in the development process if it is properly managed. The key to successful management revolves around one of the key features of staples: their ability to generate rent. Staple regions must focus on collecting rents to increase regional growth by recycling them back into the regional economy. Furthermore, the collection of rent and the elimination of subsidized infrastructure will help increase efficiency and avoid the construction of surplus capacity.

Moreover, we have also discussed about contemporary approaches & perspectives on regional development. Some of this approaches and perspectives include endogenous growth theory; basic need approach and theory of entrepreneurship and agropolitian theories. We have also discussed about recent debates on innovation, learning and regional development, identifying key arguments and propositions. The emphasis on knowledge implies that economic under-development is not just about dependency relations within national and international divisions of labour but also reflects poor learning characteristics that are internal to regions themselves.

The strategic relevance of knowledge for innovation and entrepreneurship is thus increasingly recognized. The spatial distribution of knowledge and its spillovers are considered as important success factors for regional development in an open competitive economic system. Thus, the geographical patterns of knowledge diffusion, as well as the barriers to access to knowledge, are decisive for regional development in a modern global and open space-economy. Consequently, knowledge policy – often instigated by ICT advances – is a critical success factor for regional welfare creation. Knowledge refers to education, learning, training, creativeness, and R&D.

## Self-Test Exercise

Part I: Choose the best answer from Among the given alternatives

- \_\_\_\_\_ 1. The top-bottom development theory which argues for concentrated investment programs in key urban centers that would benefit from external economies of agglomeration is called\_\_\_\_\_.
- A. Polarization And Trickle Down Theory
  - B. Growth Pole Theory
  - C. Cumulative Causation theory
  - D. Functional Development Theory
  - E. Core Periphery Theory
- \_\_\_\_\_ 2. According to the growth pole theory, development in hinterlands can be achieved through \_\_\_\_\_.
- A. The expanding metropolitan centres
  - B. investment trickles out from the growth pole
  - C. cumulative causation in the hinterlands
  - D. a successive series of structural transformations.
  - E. All of the above
- \_\_\_\_\_ 3. Which one of the following development theory believe that development originates in a relatively small number of “centre of changes” located at the points of highest interactions?
- A. Core Periphery Theory
  - B. Growth Pole Theory
  - C. Functional Development Theory
  - D. Polarization And Trickle Down Theory
  - E. Cumulative Causation theory
- \_\_\_\_\_ 4. Identify the valid or true statement about the balanced growth model of the classical period?
- A. It advocates using resources in a concentrated & selective manner according to comparative advantage.
  - B. Argues that investment should be thinly distributed over sectors and regions.
  - C. All sectors move in balance
  - D. Envisages that different firms/sectors grow at different rates.
  - E. Argues that investment should be made in strategic & leading industries.
- \_\_\_\_\_ 5. Which one of the following development theory fosters economic development disparities between the national territories and geographical areas?
- A. The growth center development theory
  - B. The territorial development theory
  - C. The endogenous development theory
  - D. Functional development theory
  - E. The community based development theory
  - F. None of the above
- \_\_\_\_\_ 6. Which one of the following development theory gives due attention to the significance of promoting few dynamic sectorial clusters and key urban industrial growth centers, where investment is concentrated and generate economies of scale.
- A. The big push development theory
  - B. The unbalanced growth theory
  - C. The growth center development theory
  - D. The theory which designed based on leading and lagging regions
  - All of the above.
  - F. None of the above

## Chapter Three

### Policies and Strategies of Regional and local Development

#### ★ Introduction

Dear students, so far you gained insights into some basic conceptual foundations and the conventional and contemporary approaches and perspectives of regional development in the previous units, respectively. We hope that these might provide a foundation to grasp the subsequent lessons in the course. In this unit you will learn about policies and strategies of regional development.

The unit is organized in to two major sections. The first section will take up three interrelated issues: (1) changing paradigms of regional development policy; (2) pathology of regional development and (3) finally, the available tools to improve/relax the development challenges of regions. In line with the contemporary regional development approaches, the second section focuses on investigating strategies of regional development.

#### Unit Objectives

Dear learner, upon a successful completion of the lessons in this unit, you will be able to:

- ◆ Highlight the differences b/n traditional & contemporary regional policies.
- ◆ Understand the objectives of regional development policy;
- ◆ Comprehend a shift in the strategies and policies of regional development;
- ◆ Identify the appropriate strategies for influencing development in a desired direction.

#### Pre-Test Questions

1. Could you explain the differences b/n traditional & contemporary regional policies?
2. Why do you think regional policies changed in its policy characteristics (aims, objects sphere of influences); in policy structures (spatial focus, analytical base, key instrument) and in policy organization?
3. Which type of problem regions need urgent corrective actions?
4. What appropriate strategies exist for influencing development in desired directions and

## Section One: An Overview of Regional Development Policy

### ★ Overview

The formulation of public policies on location and regional development was stimulated in the second quarter of this century by continuing interregional disparities in income and economic opportunity by the increasing role of the national government in financing & providing regional services, by disenchantment with population increases as an objective & with competitive regional subsidization of growth & by changes in factors affecting location. Nowadays, there is a shift in the paradigm of regional development with respect to theory, policy goals and implementation mechanisms.

The traditional approach to regional development was undertaken by central governments using the levers of subsidies to firms, infrastructure and the location of public sector activity. In part, this has been superseded by a ‘contemporary’ approach, characterized by decentralized intervention based on integrated regional development plans and strategies, designed and delivered by partnerships of regional and local actors. In this section, we will discuss about policies of regional development. It highlights the paradigms approaches to regional development; the concerns of contemporary regional development policy; the emergence of problem regions and finally, the tools for influencing regional development in the desired directions.

### Objectives

Upon a successful completion of the lessons in this section, students will be able to:

- ❶ Differentiate the contemporary regional policy issues from the traditional approaches;
- ❶ Explain the objectives of regional development policies;
- ❶ Describe the natures of problem regions;
- ❶ Identify the appropriate policy to improve the conditions of problem regions

### Pre-Test Questions

1. Could you mention some of the changes in the approaches to regional development?
2. Do you know the objectives of regional development policies?
3. What are some of the corrective measures to tackle problems in the problem regions?

## 1.1 Changing Paradigms of Regional Development Policy

### ► *What were the major reasons for the changing paradigms of regional policies?*

Nowadays, regional development policies have been undergoing a shift in 'paradigm'. It is argued that there has been a fundamental change in all aspects of how regional development is conceptualized and how regional policy is conceived and delivered. This shift begins with the theoretical underpinnings of regional development and the factors that are considered to explain the geography and economy of development. It proceeds through the aims, objectives, sphere of action and mode of operation of policy, and is evident in the changing organization of how policy is developed, managed, delivered and evaluated. However, the shift is by no means universal; not everyone subscribes to the new theories of regional development. Nor is it complete; in many countries and regions, the shift in policy is partial and may turn out to be transient.

The central pre-occupation of regional policy makers at this time was regional convergence – reducing economic disparities between regions, especially core- periphery differences. Conceptually, regional policies were based on traditional theories of regional development. The common characteristic of these theories was that they were concerned with explaining variations in the location of economic activity with reference to the attributes of regions or urban areas, such as the cost of land, transportation costs, market size and the availability of workers. Policies to reduce disparities were, therefore, generally developed to influence these factors e.g. reducing investment or employment costs, subsidizing transport costs, providing cheap land and premises in the problem areas, while (in some cases) increasing the costs of development in the core or congested areas.

### ► *What were the major issues of concerns of regional development policy?*

The major issues of concern to regional policy makers were primarily underdevelopment and depopulation in rural areas. In addition, regional policy also attempted to address problems of geographically concentrated unemployment. The main policy objective was equity, equalizing variations in standards of living, infrastructure or employment across the national territory. Problem areas were designated on the basis of administrative or data collection units generally suffering from slow economic growth, low incomes and high

unemployment. In these regions, policy instruments comprised four main types: financial incentives in the form of grants, loans, tax concessions, depreciation allowances, employment premia, removal cost allowances, transport subsidies, labour-training aids and rent subsidies; infrastructure investment, especially in rural and sparsely populated areas; the use of investment targets or other social obligations on the part of state-owned or state-controlled industries; and the diversion of development from congested areas through *development controls on manufacturing industry or the relocation of private and public sector offices*. A particular focus in some countries was on growth centers, serving as a focus for geographic concentrations of public investment & stimulation of growth opportunities which would then spread to the surrounding areas.

► ***What were some of the issues emerged in regional policy during the 1980s?***

During the 1980s regional development policy moved against active government intervention, especially through subsidies to firms. First, the policy focus shifted towards privatization, deregulation and the liberalization of markets. In a number of countries, the effectiveness of regional policy was questioned & criticized. Regional policy moved progressively downgrading the policy goals of reducing disparities and promoting regional convergence. Policy took on more limited objectives, focusing in some countries on the maintenance of settlement structures in sparsely-populated areas, in others on attempting to ameliorate the economic and social consequences of job losses in those regions suffering the highest levels of unemployment and, in a few, on the attraction of inward investment to the problem regions.

Second, the ‘retreat’ of central government from active regional and industrial policies was accompanied by the rise of a new regional and local dimension to economic development. This was partly attributable to regional institution-building which accompanied the increasing delegation of authority for certain economic development activities with a view to enhancing local identification with policies and increasing local responsibility for economic development. The trend was also due to a growth in ‘bottom up’ initiatives, as local authorities and other groups began to develop and implement their own measures to deal with growing economic and social problems. Third, regional policy thinking was shifting towards the promotion of endogenous development with a (re)discovery of the

importance of entrepreneurship and small and medium enterprises. Moreover, technology was increasingly seen as decisive factor for growth and prosperity.

Fourth, from the mid-1980s onwards, new concepts of regional development began to be evident. The competitiveness of economies was increasingly attributed to the ability to innovate, particularly within the context of environments that facilitated learning, interaction and networking between enterprises. Technological & organizational changes were altering the way in which firms organized their activities, both internally and with suppliers and customers. The progressive removal of trade barriers and other constraints on the free movement of labour and capital was leading to an accelerated internationalization of economic activity through foreign investment, trade and inter firm links, such as acquisitions and mergers.

In this context, new theories of regional development came to the fore, especially those concerned with industrial milieux and the role of clusters and networks. It was recognized that competitive advantage increasingly implied the ability and capacity of regions to facilitate the generation, acquisition, control and application of knowledge & information, in the interests of innovation and marketing. The spatial interrelationships between organizations, for example, participation in information & research networks, supply chains, SME collaboration & government-industry links were recognized as critical. These dynamics necessitated the development of a more sophisticated approach to improving both regional capabilities and attributes with measures that are socio-cultural as well as economic. A new type of regional policy concerned with the strategic management of regional development is termed as '*contemporary regional policy*'. Dear learner,

► ***What are the characteristics of contemporary regional policy?***

Well, some of the characteristics of contemporary regional policy include the following. First, they have a broad sphere of action, covering a range of policy sectors: physical and economic infrastructure, business development, human resources, tourism, environment etc. Second, the national policy versions tend to encompass economic development in all regions, not just those designated for regional policy purposes. Third, they tend to take a pro-active approach to development, with a multi-annual programme of measures targeted at the business environment & soft infrastructures. Lastly, they have a distinctive approach

to policy implementation, led by regional authorities and involving a wide range of partners from local government, voluntary sectors, business and social communities.

**Table 1: Summary the changing paradigm of regional policy**

S.N	Criteria	Classical	Modern
1	Conceptual basis	Industrial location theories Key factors are regional attributes - production costs, availability of workers	Learning region theories, key factors are regional capabilities e.g. Innovation milieux , clusters and networks
2	<b>Policy characteristics</b>		
	Aims	Equity or efficiency	Equity and efficiency
	Objectives	► Employment creations ► Increasing investment	Increase competitiveness- entrepreneurship, innovations
	Spheres of action	Narrow/industrial	Broad –multisectorial
	Mode of operation	Reactive-project based	Pro-active, planed, strategic
3	<b>Policy structures</b>		
	Spatial focus	Problem areas	All regions and localities
	Analytical base	Designation indicators Regional exporting	Regional SWOT analyses
	Key instrument	Incentive scheme	Development programme
	Assistance	Business aid Hard infrastructures	Business environment Soft infrastructures
4	<b>Organizations</b>		
	Policy development	Top down/centralized	Collective, negotiated
	Lead organizations	Central government	Regional authorities
	Partners	None	Local government, voluntary sectors and social partners
	Administration	Simple/rational	Complex/ bureaucratic
	Project selection	Internalized	participative
	Time scale	Open ended	Multi-annual planning periods
5	<b>Evaluation</b>		

	Stage/s	Ex-post	Ex ante, interim, and ex-post
	Outcomes	Measurable	Difficult to measure

## 1.2 Regional Objectives in a National Setting

Dear learner, it is important to recognize that regions are not self-contained or independent of one another. Thus, a true concern of regional policy calls for a good understanding of the various forms of regional ties and framing policy goals on a multiregional or national basis.

Dear students, it is difficult to expect any satisfactory solution to problem of unemployment and arrested development except in the context of a prosperous national economy. In a depression period, businesses are doing relatively little capacity expansion and have little difficulty in finding locally the necessary labor, services, and space for such expansion as they want to undertake. Their investment is more likely to take the form of cost-cutting improvements in existing plants, and this may well involve closing down some branch facilities at the more marginal locations. Moreover, in slack times, the surplus manpower in any area has literally nowhere to go and fewer resources to go anywhere; we cannot look to labor migration for any significantly useful adjustment.

The national monetary and fiscal authorities have great powers to increase the nation's money supply and disposable income and thus to stimulate spending and investment in the aggregate. Such action helps to maintain the necessary buoyant climate in which constructive regional adjustments by people and industries can occur.

### 1.2.1. Efficiency, Equity And Structural Unemployment

Some people feel that maintaining a high level of employment and demand in the economy is as much as the national government should do in regard to regional economies. However, there are two distinct arguments for other and more specifically, region-oriented national policies and programs. The first argument call upon the criterion of *efficiency*, claiming that there are other ways *besides fiscal and monetary policy* for facilitating effective allocation of resources among regions and the necessary dynamic adjustments. The efficiency argument rests largely on the idea of "structural unemployment." This type of

unemployment comes about because there are wide disparities in the employability of different groups in the labor force. There are poor matching between the kinds of labor that are in demand and those that are available and there is insufficient mobility and interchangeability within the labour force.

This makes shortages, rising costs and consequently inflation inevitable, while millions of the less employable are still out of work. Obviously, any policies that will reduce these wide disparities and make manpower more mobile and interchangeable will have the good effect of shifting the inflationary brink closer to the ideal of full employment. Therefore, there is a strong opt for public programs involving education and worker training and retraining, and for more direct aids to spatial and occupational mobility: for example, improved information about job opportunities, assistance to migrants, and removal of racial and other discrimination in employment. Such efforts ought to focus on upgrading the least advantaged types of workers and reducing their competitive handicaps. The second argument is based on *equity*, claiming that the national government has a responsibility for helping disadvantaged regions through provisions of subsidies and grants.

### 1.2.2. Helping Regions Versus Helping People

► *Dear learner, what does we mean by “place prosperity” and “people prosperity.”?*

It is persuasive to argue that if public policy should specifically help the less-advantaged classes of people to find jobs, then it should by the same token seek to support the prosperity and growth of all communities. Such a view has been pertinently characterized as substituting *“place prosperity”* for the more fundamental objective of *“people prosperity.”*. The place prosperity doctrine represents that whatever is true of individuals must also apply to areas. It argues that the best way to help a person is to promote the overall prosperity of the area in which he or she happens to live.

► *What are the doctrine of the people prosperity?*

Since people have some mobility, the best way to help disadvantaged people who are living in a particular region may be to encourage them to move. Accordingly, they argue that migration can serve both the objective of efficient use of resources and the objective of

interpersonal equity and distribution of opportunity. It is argued that in any community or region where there are unemployed and needy people, there are also employed and prosperous people. Thus, increased employment and income for the area as a whole may help those who need it most; but a large part of its local benefits will come to those who do not need it. Generally property owners and the operators of established locally oriented business. Growth of aggregate area income and employment does not automatically mean improvement in per-capita income or the reduction of unemployment and thus, it generally injures some while helping others. They conclude that such considerations suggest that attacking human hardship and lack of opportunity, *solely through place prosperity*, might be like using ‘*a shotgun to kill flies*’.

### 1.2.3. Regional Rivalry and the National Interest

#### ► *What are the adverse impacts of regional rivalry to the national welfare?*

Like other forms of competitive promotion and warfare, regional rivalry contributing nothing to the national welfare as one region's gain is another's loss. That is, it can be in large part self-defeating or a "zero-sum game". This is especially more likely when the regions are small and when the primary weapons are persuasion and subsidy. Resources such as capital and labor that are drawn to one area cannot be used in production elsewhere, and from a national perspective there is no net gain, unless the productivity of those resources is higher in the receiving region. Therefore, regional growth must be generative rather than *competitive*. In this more positive light, efficiency gains in each region may promote national prosperity.

Harry Richardson argues that it is possible for national growth to be increased by faster regional growth and it is possible for regional growth performance to be improved without additional resource inputs. Agglomeration economies and spatial clustering of activities may induce more output than if production is dispersed. A change in settlement pattern (a more efficient regional urban hierarchy) or a reorganization of the intra-regional transportation system may improve productive efficiency and promote faster regional growth.

Thus, enlightened local efforts to enhance a region's growth potential can result in significant net benefits. The progressive local efforts to enhance regional growth and development may take various forms. These include protecting and improving amenities; stimulating entrepreneurship and innovation; fostering cooperation among various business, social, and political elements and discovering the true comparative advantages of the region for generative development. All these efforts favor better utilization of resources and are clearly in both the national and the regional interests. Therefore, a *logical national policy* with regard to regional development should include some efforts to channel the growth urge/support of regions into these constructive paths.

► ***What are the adverse effects of regional rivalry in development?***

Dear learner, note that regional rivalry in development can be something *worse* than a zero-sum game, if it distorts the efficient allocation of resources. This danger is inherent in the use of local subsidies and most of all with respect to the use or abuse of natural resources and the neglect of externalities. Competitive regional development may involve regions in a competitive race to offer up for private exploitation of their air and water quality. The resulting resource deterioration involves transfer of income from local residents to business firms. Competitive tax concessions to attract development may also result in relative weakening of the public sector. National policy in terms of the development of specific regions can help to achieve more efficient use of natural resources as well as to reduce regional unemployment and broaden human opportunity.

### **1.3 Regional Pathology: The Emergence of "Problem Areas"**

Regional economic growth is not a smooth and straightforward process. The persistence of efforts to explain development in terms of successive "stages" can be evidence of the existence of important discontinuities. The development of a region, like that of a nation, encounters from time to time, crucial situations in which its future course can be significantly influenced by major planning decisions and policies.

"Problem regions" are of several different types, including backward areas halted at the threshold of self-sustaining development; already developed areas with arrested growth due

to loss of competitive advantage in their basic activities or obsolescence in those activities as such, with accompanying loss of ability to substitute new kinds of activities and areas of excessive growth or excessive concentration. Let us further considers these problem regions in a more details.

### **2.3.1 Backward Regions**

#### **► *What is backward regions? What are some of its underlying features?***

A familiar type of problem areas is that of the backward regions poised on the threshold of development. Much effort has gone into defining the conditions necessary for a successful surmounting of the threshold, the so-called "takeoff in to self-sustaining growth" process. Employment opportunities haven't developed (in amount, in variety, or in both) fast enough to keep pace with the size and aptitudes of the labor force and resources are underutilized.

Almost all countries in the third world have many backward regions with the above features. For instance, in Ethiopia the newly emerging regions of Benshangulgumez, Afar, Gambella and Somali fall within this category. Most of the advanced countries have one or more backward regions, which seem to be fall up at a threshold on the road of development and not to have kept pace with the structural changes and the rising income and opportunity levels of the more fortunate regions of the country. However, the term, backward region is relative and the features of such regions many not be similar in different countries.

### **2.3.2 Developed Regions in Recession**

#### **► *What are the symptoms of developed regions in recession?***

A second and quite different type of problem area is the mature industrialized urban region afflicted by development stagnation. The characteristics of this particular region are easily recognizable. The ailing region's rate of growth has been increasingly subnormal for many decades. Unemployment is high and chronic and out-migration is heavy. The area appears to have somehow lost the dynamic growth character that had brought it to its peak importance in days gone by. There is a feeling that unless something really decisive happens, stagnation will prevail indefinitely.

It is believed that in most cases such a situation can arise in a region whose economy is heavily based on a few activities that have ceased to grow or have begun to decline. They are the activities of yesterday & today but not those of tomorrow. But arrested growth in a region may also mean simply that the factors of interregional competition, in specific activities, have taken a trend adverse to that particular region. The region's difficulties are compounded if both of the above conditions apply, so that it finds itself with shrinking shares of declining activities.

After all, we could hardly expect that every activity would continue to grow forever, or that any given region could forever retain or increase its relative position in its principal activities. A healthy regional economy can absorb losses in its stride and shift its resources into new fields, getting a share of the emerging new rapid-growth activities to balance the inevitable decline of other activities. The region has to develop its ability to make such adjustment successfully to changing conditions. Thus, it is important to keep this in mind, in making national and regional development policies.

### **2.3.3 Excessive Growth and Concentration**

#### **► *What are the symptoms of regions with excessive growth & concentration?***

This type of regions undergoes extremely rapid growth involving massive inward migration. The growing pains of such regions are felt as impairment of the quality of services, destruction of local resources and amenities through overuse, a high rate of obsolescence of facilities, neighborhoods, and institutions and a general deterioration of the quality of life. The forestalling or mitigation of these effects through analytical foresight and advance planning poses a major challenge to regional specialists.

The problem of excessive spatial concentration of development, specifically in gigantic metropolitan centers is related to but distinct from the question of too rapid growth. Concern on this score is felt in nearly every country. In the less developed countries, the problem is seen as exclusive concentration of modern industrial development, business and population in the chief city. Large cities have been variously assailed as hotbeds of vice, breeders of psychological and political disorder and hazards to health and safety; and they

have been extolled for equally diverse virtues. With respect to economic criteria, it is often argued that the rising costs of housing, public services and similar items make large cities uneconomical as places to produce or to live. These diseconomies of size are said to outweigh, in very large cities, the positive advantages of urban agglomeration. Many regional economists' forwards a public policy of diverting growth from such cities to medium-sized one are very important to relax the problems in such regions.

## **2.4 The Available Tools: The Way Forwarded**

### **► *What must be done to address the arrested development in the problem regions?***

Dear students, it has to be noted that, any actions to improve the situations of problem regions, needs a critically understanding of the nature of their problems and the solutions should also take in to account the variations in the nature and magnitude of the problem regions. It also needs the effective cooperation of different stakeholders.

It is generally believed that a region can influence its structure and development from within. However, a national government can assist a healthy regional adjustment and development in many different ways. Dear students, let us have a quick look at some of the means that can be used to improve the conditions of problem regions.

### **► *How a national government assist a healthy regional adjustment and development?***

In general, such assistance involves the provision of information and the improvement of the quality and mobility of productive resources including labor, capital and land; aid to education and vocational training, improvement of communications and financial markets, preparation and distribution of statistical and technical information, improved labor market information and placement services and a wide variety of other programs help to reduce the structural underutilization of labor and other resources in all regions. Moreover, maintenance of a high national level of demand makes it easier for labor & capital to find their most productive uses.

Nowadays, many national governments take the important additional step of designating certain regions for special attention. In a few special cases, the purpose is to restrict further growth and development in an area judged to be overcrowded (excessive growth and

concentration regions). Much more often, the immediate purpose is to increase employment and income in a backward or otherwise "distressed" area.

Further line of action involves easing the supply of capital to encourage growth of employment in problem regions. Accordingly, investment funds are made available at low interest rates, generally on a matching basis, to establish or expand business facilities in problem areas. A wide variety of tax exemptions and incentives (such as deferment of taxes, allowance of larger write-offs against income before taxation, and special low assessments on real property taxes) further encourage private investors. Public authorities (often working through local development associations) also encourage business expansion in certain areas by direct investment involving the purchase and assembly of land, clearing of sites, and construction and operation of "industrial parks" provided with all the necessary utilities and sometimes with buildings that can be adapted or leased by private firms.

In the contrasting case of areas in which development is to be restrained, public policy is implemented by imposing restrictions on further private investment or land use. Another policy option involves transport costs and services and the construction or licensing of new routes. In regulatory decisions on freight rates, the regional effects are given some weight and the regions that stand to gain or lose by the decision often mobilize impressive and costly efforts to protect their interests. More recently, many cities along inland waterways have been involved in efforts to attract federal assistance for the rebuilding and upgrading of locks and dams. They have also fought hard to promote the continuation of pricing policies that shift the maintenance costs of these facilities to the general public by avoiding the imposition of user charges.

Another tool is the regional allocation of procurement contracts. The procurement agencies themselves are not particularly interested in conferring regional stimuli; but they have been adjured to follow policies of greater decentralization, or of preference to areas of high unemployment. A region especially can sometimes effectively increase the demand for some of its products by sales promotion in outside markets or protective measures designed to restrict imports, and some states have been quite ingenious in setting up interstate trade barriers for certain commodities.

A region can sometimes be effectively aided in development by subsidized technological progress or technical assistance leading to more efficient and profitable ways of using some special regional resource. Thus, national government supported research, on new uses for regions resources, may play a significant part in improving the economic status of backward regions. In such types of research and development efforts, the state governments, universities, and private foundations in the region are generally active as well.

A region's development can also be guided along more effective lines through support of general analysis of the region's economic situations and potentialities and through the formulation of integrated development plans. Modest but significant amounts of federal funds and technical assistance have been made available for planning activity and demonstration projects. Allocation of funds to improve local public services and utilities has been a substantial element in regional assistance, particularly in backward regions. This includes, in addition to schools, health services, and roads, the construction of water supply and sewerage facilities, libraries and some kinds of recreation facilities.

In addition to all these, programs to upgrade and mobilize human resources through education, vocational training and retraining, easing of ethnic discrimination and other kinds of restrictions on employment and assistance in job finding and relocation in search of employment opportunity are very important to improve the situations in problem regions. Obviously, the need for such programs is greater in regions where skills and mobility are particularly restricted and where there is a particularly poor match between labor supply and the demand for labor.

### Activity Three

General Instruction: Answer the following questions accordingly.

1. How national governments assist a healthy regional adjustment and development?
2. Mention the different types of problem regions and also discuss their symptoms?
3. Describe the doctrine of people prosperity versus place prosperity? Also explain your own opinion?
4. Describe the fundamental differences b/n classical and contemporary regional policies?
5. What were the reasons for the changes in the policy approach of regional development?
5. What were the major issues of concerns of contemporary regional t policy?

## Section Two: Regional Development Strategies

### Overview

Dear learner, so far we have discussed about the changing paradigms of regional development policy and the various types of problem regions and some measures to improve their situations in the previous section.

This section, in general, focuses on discussing regional development strategies. Here, the general concepts of strategy, basic issues of regional development strategy and the various strategies existing to influence regional development in the desired direction are the major points of discussion.

### Objectives

Dear learner, upon the successful completion of the lesson in this section, you will be able to:

- ❶ Describe the difference between policy and strategy;
- ❶ Outline the changing concerns of the paradigms of regional policies & strategies;
- ❶ Distinguish the different problem areas and their features;
- ❶ Identify appropriate strategies for influencing regional development in desired directions;

- ❶ Explain the basic issues of regional development strategy?

## Pre Test Questions

1. What appropriate means exist for influencing regional development in desired directions?
2. What are the basic issues of regional development strategy?
3. What kinds of adjustment must be taken if man power is scarce in some areas while jobs of similar types are scarce in other areas?
4. What are the possible ways to develop human capabilities?

### 2.1 Basic Issues of Regional Development Strategy

► *Dear learner, what are the basic issues of regional development strategy?*

There are four basic issues raised in connection with public policy and strategy towards regions. These are 1) degree of reliance on place prosperity versus people prosperity criterion; distress versus development potential; 2) allocation of regional assistance as charity or as investment, 3) focusing of assistance in growth centers as contrasted with wide dispersion and 4) issue concerns the appropriate choice of means of assistance from among the large variety of available devices for influencing regional development.

#### 2.1.1 Place Prosperity versus People Prosperity

► *What kinds of adjustment must be taken if manpower is scarce in some areas while jobs of similar types are scarce in other areas?*

If manpower is scarce in some areas/regions while jobs of similar types are scarce in other areas, the situation can presumably be improved either by moving some jobs or moving some people or both. Both kinds of adjustment do take place spontaneously, though not by any means to the extent that would be necessary to eliminate or equalize regional structural unemployment. Both can be assisted or impeded to some extent by public policies. The question of which policy should be emphasized is a persistent one and was debated with particular heat several decades ago. It is a crucial question today in every country that is seeking to improve regional adjustment (particularly in certain depressed industrial areas).

The answer depends on our judgments about the foot looseness of people on the one hand and that of investment and employment opportunity on the other. If we believe that people are reluctant to move, that we should not try to induce them to do so, and that practically any populated area can be made attractive to new employers, then it follows that the proper strategy is to induce more employers (investment and employment opportunity) to move to regions where unemployment is high.

### 2.1.2 Degree of Distress versus Development Potential

#### ► *What is the basic criterion for allocating assistance to regions?*

Another basic issue of regional development strategy is an emphasis on degree of distress as the criterion for allocation of assistance to regions, since it is assumed that people have to be helped *in situ* and that every region has adequate development potential. By this approach, place prosperity is equivalent to people prosperity. This view would imply that assistance should be given to individual small areas and should be widely diffused, since people are assumed to be tied to their labor market areas. To sum up, place prosperity propose the allocation of assistance on the basis of need to a large number of quite small areas and inducements to employers as the principal means of *assistance* other than straight *charity*.

#### ► *What is the doctrine of People Prosperity?*

People can reasonably be induced to move and that some backward regions lack the potential for eventually self-sustaining growth in employment or that some developed but distressed regions must inevitably shrink in size in order to adjust to new economic conditions. This strategy implication is the people prosperity. We conclude that many of the unemployed people will best be served by moving to some area with better opportunities and we draw a sharp distinction between the people prosperity and place prosperity.

In this case, assistance logically takes the form of improving the employability and mobility of the people affected, facilitating their relocation and promoting employment opportunities in the areas of greatest potential. Thus, the elements of this position are **people prosperity**,

stimulation of *development on the basis of growth potential* and stress on the upgrading of human resources. Job creation does not have to be stimulated on a diffused basis in a large number of individual areas, since people are prepared to move to one of a smaller number of growth centers. It is important to note that neither people prosperity nor place prosperity is wholly right or wrong, since both people and employment activities are partially footloose. But dear learner,

► ***Where does all this leave us in terms of the basic strategy for regional development assistance?***

In general, the points raised so far suggest the following conclusions. Firstly, migration can and should play a substantial role in effecting desirable regional adjustments. Its effectiveness tends to grow and can be greatly enhanced by programs of education, training, retraining, equal opportunity, open entry, job information and placement services especially directed at the least employable and least mobile manpower groups in areas of labor surplus. However, as out-migration is highly selective in favor of the better trained and more educated people, we cannot presently count on migration alone to solve all the problems of distressed areas by draining away their unemployed human power. Such migration from distressed areas may result in a lower "quality mix" of the labor supply of those areas, which may further handicap them in any competition for new employers.

Secondly, the mobility of employment locations is the other important strategy relating to the issue of bringing jobs to people. However, employment is not fully footloose. There are important differences in the development possibilities/potential of different areas. It would not be feasible to bring employment to each and every labor market area. Thirdly, place prosperity is an inadequate and misleading strategy because development assistance should be allocated on the basis of the *needs* of people and the *development potential* of areas. Such assistance should be at least to some extent, focused on particularly promising locations and human resources programs of the type outlined above.

In any event, there seems to be ample evidence that an attempt to solve problems of regional unemployment by bringing investment and job opportunities to every community or labor market area would be wasteful and ineffective. Fourthly, strong political pressure is

to be expected in the direction of the use of local distress as a priority guide, the discouragement of emigration, and the diffusion of assistance to more and more areas.

### **2.1.3 Focusing of Assistance in Growth Centers as Contrasted with Wide Dispersion**

#### **► *Should we concentrate assistance in growth center or widely disperse to a range areas?***

One of the four basic issues of regional development strategy concerns the focusing of assistance upon a relatively small number of selected ***growth centers***, at which there exist or can easily be created the necessary conditions for expanding employment opportunity and the public infrastructure and the external economies that most activities require or distributing assistance in all areas. Such growth centers are then expected to attract commuters and migrants from surrounding areas of labor surplus, and at the same time to stimulate secondary growth of employment in some of those areas.

The two types of areas do share certain symptoms of maladjustment. Both suffer essentially from obsolescence of the bases for their former economic viability; both need help in making a structural shift to a new base in response to changes that have occurred in demand, resources availability and competition from other areas. For both, a successful transition calls for modernizing human & capital resources and infrastructure (including institutions and attitudes) so that they can effectively grasp new opportunities provided by technological and economic change and thus become more resilient, self-reliant and generative.

With respect to needs for education, the two kinds of areas are likely to differ substantially. The population of a distressed developed area may show no particular deficiencies in all-round literacy and capability for productive industrial or tertiary employment. Internal and external transport and communication facilities in such an area are also likely to be adequate or more than adequate. There are substantial local resources of capital and at least some relevant industrial know-how. The basic elements of growth centers are already there and the problem is essentially one of modernization—reorienting the local labor force, business community, infrastructure, and public sector toward the opportunities of today and

tomorrow. By contrast, for truly backward areas with little industrialization or urbanization, the necessity of finding or creating specific growth centers is of major concern of development paths.

The fourth, basic issues of regional development strategy concern the appropriate choice of means of assistance from among the large variety of available devices for influencing regional development. This issue will be briefly discussed under section 2.2 as follows.

## **2.2 Types of Regional Development Strategies**

There are a large variety of available devices/strategies available for influencing regional growth and development. Therefore, choosing the appropriate strategy from among the large variety of the available devices is essential to influence regional development in the desired directions. For instance, employment generation, human capital development, nurturing entrepreneurships, social capital development, public investment strategies and developing rural urban linkages are some of strategies employed to facilitate regional development. Dear learner let us further elaborate some of these regional development strategies.

### **2.2.1 Employment Generation Strategy**

A substantial number of cases of fairly severe unemployment do occur from time to time in basically flourishing labor markets. Often these are transitory situations and in some cases the unemployment is mainly seasonal; but it may be more chronic in areas that attract large numbers of migrants by their amenities.

Employment generation strategy involves solving the disparities in the employability of different groups in the labor force and the kinds of labor that are in demand and those that are available and improving labour mobility and interchangeability within the labour force. Therefore, Public programs to upgrade and mobilize human resources through education, vocational training and retraining, direct aids to spatial and occupational mobility: for example, improved information about job opportunities, assistance to migrants, and removal of racial and other discrimination in employment and other kinds of restrictions on employment and assistance in job finding and relocation in search of employment opportunity are very important to improve the situations. Such efforts ought to focus on

upgrading the least advantaged types of workers and reducing their competitive handicaps. It is quite possible and certainly more appropriate to upgrade the less productive and less mobile groups so that they will be better able to migrate and also will be more attractive to potential employers wherever they are.

One of the great virtues of a strategy of human resources development requires improved job information and placement services. This creates a double-action impact. In the first place, it helps people to move to jobs and helps jobs move to people at the same time. The long-term prospects seem good for some continued increase in the mobility of the disadvantaged groups in labor surplus areas. Obviously, the need for such programs is greater in regions where skills and mobility are particularly restricted and where there is a particularly poor match between labor supply and the demand for labor.

Another line of action involves easing the supply of capital to encourage growth of employment opportunities. Accordingly, investment funds are made available at low interest rates, generally on a matching basis, to establish or expand business facilities in problem areas. A wide variety of tax exemptions and incentives (such as deferment of taxes, allowance of larger write-offs against income before taxation and special low assessments on real property taxes) and provisions of basic infrastructures further attract private investors which in turn expanded employment opportunities.

### **2.2.2 Human Capital and Entrepreneurship Development Strategies**

Human capital is one of the most important factors in the process of economic development. It is a broad concept which identifies human characteristics which can be acquired and which increase income. It is commonly taken to mean peoples' knowledge and skills, acquired partly through education and also include their strength and vitality, which are dependent on their health and nutrition. Human physical and mental capabilities are partly acquired and partly inherited and it varies from individual to individual.

Theodore (1964) considered human capital as important determinant factor of economic development. Economic development, particularly the service sector requires skilled, experienced and innovative human resources for their success. Human capital contributes directly to economic development through its positive effects on productivity and through

reduction in resistance to the diffusion and use of new technology in the economy. An improvement in the quality of human labour is as essential as investment in physical capital. An advance in knowledge and the diffusion of new ideas and objectives are necessary to remove economic backwardness and instill the human abilities and motivations that are more favorable to economic achievement

Most economists now agree that, it is the human resources of the nations, not its other capital or material resources that ultimately determine the character and pace of its economic and social development. Human resources development through nutrition, improvement in health care, provision of appropriate education and training, and empowerment deserves the highest priority which also true under Ethiopian conditions. What is need for developing countries like Ethiopia with very large size of population and considerable natural resources is a long term policy for development of human resources through education, training, health care and empowerment & creation of a congenital socioeconomic, institutional & political environment for the fullest utilization of the vast, untapped reservoirs of human power and ingenuity.

In many developing countries the characteristics of economic backwardness is still manifest in several particular forms; low labour efficiency, factor immobility, and limited specialization in occupations, a deficient supply of entrepreneurship and customary values and traditional social institutions that minimize the incentive for economic change. The slow growth in knowledge is especially severing restraint to economic progress.

► ***What are the possible ways to develop human capabilities?***

The principal institutional mechanism to develop human skills and knowledge is the formal education systems. Formal education impart knowledge and skills to individuals to enable them to function as economic change agents in their societies and it also imparts values, ideas, attitudes, and aspirations that may or may not be in the nation's best development interest. Schultz identified the following important activities that improve human capabilities:

- Provisions of health facilities and services broadly conceived to include all expenditures that affect the life expectancy, strength & stamina, & the vigour and vitality of the people;

- Provisions of on the job training organized by firms and other organizations;
- Formally organized education at the elementary, secondary and higher education's;
- Study programs for adults that are not organized by firms including extension program notably in agriculture and other business and
- Migration of individuals and families to adjust to changing job opportunities.

In general, human resources constitute the ultimate basis for wealth of regions. Capital and natural resources are passive factors of production unlike human beings who are the active agents who accumulate capital, exploit natural resources, build social and economic infrastructures and carry forward the regional development. Harbison (1973) and Todaro (1992) clearly stated that a country which is unable to develop the skills and knowledge of its people and utilize them effectively in the national economy will develop anything else. The slow growth in knowledge is especially severing restraint to region's economic progress.

The ability of a region to initiate and sustain long-term economic growth is dependent on the ability to apply innovative idea to solve practical social and technical problems; managerial and technical skills of its people and its access to critical markets and product information at low cost. Human capital and entrepreneurship nurturing strategies involves actions to improve human ability to apply innovative idea to solve practical social, economic and technical problems. It involves enhancing knowledge about marketing, distribution, inventory control, and transaction processing and worker motivation. Romer concludes that the gap in the ability to apply innovative idea to solve practical social, economic and technical problems is critical to determine the pace of regional growth and development.

### Activity Two

General Instruction: Answer the following questions accordingly.

1. What are the four basic issues related to policies and strategies of regional development?
2. Explain the roles of migration in effecting desirable regional adjustments.
3. What are the necessary measures to promote the human capital of a region?
4. What are the factors determining the ability of a region to initiate & sustain long-term economic growth?

## Summary

The formulation of public policies on location and regional development was stimulated in the second quarter of this century by continuing interregional disparities in income and economic opportunity by the increasing role of the national government in financing and providing regional services, by disenchantment with population increases as an objective and with competitive regional subsidization of growth, by the dilution of provincialism, and by changes in factors affecting location.

Nowadays, regional development policies have been undergoing a shift in 'paradigm'. It is argued that there has been a fundamental change in all aspects of how regional development is conceptualized and how regional policy is conceived and delivered. This shift begins with the theoretical underpinnings of regional development and the factors that are considered to explain the geography and economy of development. It proceeds through the aims, objectives, sphere of action and mode of operation of policy, and changing organization of how policy is developed, managed, delivered and evaluated. However, the shift is by no means universal and in many countries and regions, the shift in policy is partial and may turn out to be transient.

Since the 1980s and later on the policy focus shifted towards privatization, deregulation and the liberalization of markets; regional institution-building which accompanied the increasing delegation of authority for certain economic development activities with a view to enhancing local identification with policies and increasing local responsibility for economic development and the promotion of endogenous development. The aims of the contemporary regional policy are to achieve equity & efficiency & increasing regional competitiveness. The competitiveness of economies was increasingly attributed to the ability to innovate & facilitating learning, interaction and networking between enterprises. Technological & organizational changes were altering the way in which firms organized their activities, both internally and with suppliers and customers.

The emergence of problem areas is indicative of the dramatic changes in our attitudes towards regional development. In the past, problems areas were categorized on the basis of high income, fast growth and unemployment, with no emphasis on the environmental impact, destruction of amenities and deterioration of the quality of living. These problem regions include backward areas/regions-halted at the threshold of self-sustaining development; developed regions in recession-due to loss of competitive advantage in their basic activities or obsolescence in those activities with accompanying loss of ability to substitute new kinds of activities and areas of excessive growth or excessive concentration.

We have also noted that even though a region can influence its structure and development from within; a national government can assist a healthy regional adjustment and development in many different ways. Public policy can influence regional structure and development through many measures, which include upgrading manpower quality and factor mobility, maintaining a high national employment level, subsidizing or restricting investment, controlling transfer rates & services, allocating public purchases & investments among regions, supporting research & development and assisting in the provision of local or regional infrastructure.

In this regard the basic issues raised in connection with public policy and strategies towards regions are degree of reliance on place prosperity versus people prosperity criterion; distress versus development potential: allocation of regional assistance as charity or as investment; focusing of assistance in growth centers as contrasted with wide dispersion and issue concerns the appropriate choice of means of assistance from among the large variety of available devices for influencing regional development.

We have also discussed the various strategies used to influence regional development in the desired directions. Among others employment generations; human capital development and nurturing entrepreneurship strategies; public investment strategy; cluster based economic development strategies; developing region's social capital and institutions and rural-urban linkage are widely mentioned in the regional studies literatures.

## Self-Test Exercise

General Direction: answer the following questions accordingly.

### Part I. True or False Questions

1. Efficient allocation of resources is the utmost concerns of the contemporary regional development objectives and policies.
2. The shift in the policy approaches to regional development is & complete in its nature.

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## Unit Four

### Local Economic Development (LED)

#### Introduction

Dear student, in the previous unit you have learned about regional development policy and strategy. We believe that you have grasped many lessons from this unit. In this unit you learn about local economic development. The unit concerned with the changing dynamics of local economic development; the new generations of local economic development initiatives and actors of local economic development.

The unit is organized into three sections. In the first section, we will elaborate the conceptual definition of local economic development and briefly outline the changing dynamics of local economic development. The second section deals with the new generations of local economic development initiatives. In this section we will mainly discuss about community based economic development, components of community based economic development and enterprise and business development. The final part of the unit elaborates on the principal actors and their roles in local economic development.

#### Objectives

After the successful completion of this unit, you will be able to:

- ❶ Understand the meaning of local economic development;
- ❷ Elaborate the reasons for the change in the approach to local economic development;
- ❸ Distinguish the components of community, enterprise and locality developments;
- ❹ Identify the roles of the various actors of local economic development; and
- ❺ Understand the underlying features of the new generations of LED.

#### Pre Test Questions

1. What is locality development?
2. Can you explain reasons for the change in the approach to local economic development?
3. What are the major components of community based development?
4. Can you list the components of locality development?

5. What are actors in local economic development?

## **Section One: Dynamic Changes in Context of LED**

### Overview

This section elaborates the changing approaches in the context of local economic development and the major forces of the change in the context of LED. Up till the mid-eighties, the economic development of particular localities and regions critically depended on central government interventions. Many of these interventions were implicit and discrete rather than based on an explicit policy of local area development.

However, the context of local economic development has dramatically changed since the 1980s in low-income countries. The change in the context of LED is resulted from sets of forces of changes. All these forces of change resulted in the emergence of the new generation of local economic development which we will discuss in the next sections.

### **Objectives**

Upon the successful completion of this section, you will be able to:

- ❶ Define local economic development;
- ❶ Explain aims of community based economic development
- ❶ Identify the changed aspects of local economic development;
- ❶ Elaborate the major forces of change in the context to LED;
- ❶ Explain the principal characteristics of a new generation of LED initiatives;

### **Pre Test Questions**

1. Can you define local economic development?
2. What were the forces of change in the approach to LED?
3. What are the major geo-economy forces leading to the change in the context of LED?
4. What are the principal characteristics of a new generation of LED initiatives?

## 1.1 Changes in the Context Local Economic Development

► *Dear learner, can you define local economic development?*

Here, it is essential to understand the meaning of local economic development (LED) before moving to the discussions of the dynamic changes in the approaches to local economic development. Local economic development (LED) is defined as a process in which partnerships between local governments, community-based groups and the private sector are established to manage existing resources to create jobs and stimulate the economy of a well-defined area. It emphasizes local control, using the potentials of human, institutional and physical and area natural resources. Local economic development initiatives mobilize actors, organizations and resources; develop new institutions and local systems through dialogue and strategic actions.

It is important to note that until the mid-eighties, local development conditions were largely shaped by central government agencies. The lives of peasant farmers depended on parastatal agencies that provided or were supposed to provide key inputs such as seeds, fertilizers and extension. Government determined prices of crops and bought up cash crops through marketing boards where as little was left to the market and to individual peasant decision-making. In urban areas, small enterprises, also named as ‘informal sector’ continued to be partially repressed by the state and were rather inadequately served by central government. The small and micro enterprises served primarily local markets and faced intense competition. As many people moved into self-employment, more SME became survival based, sharing poverty rather than generating economic growth.

Economic development outside agriculture and outside the indigenous small and micro enterprise sector was largely a matter of central government parastatal enterprises and mostly foreign investors or transnational corporations. These enterprises were generally large and vertically integrated. They internalized the production of inputs and of allied services and thereby they minimized their demand for inputs and services from other local producers. Foreign exchange to buy essential raw materials and inputs was scarce and heavily rationed. There was little competition in these product markets.

Basic services were provided free of charge by public sector agencies. In a number of countries, pre-existing private and NGO initiatives had been curtailed in the wake of independence. Official Development Assistance (grants and soft loans) funds became increasingly important to finance and organize the investments in basic services and physical infrastructure. Infrastructural investment depended on ad-hoc central government decision-making and on the availability of project based donor finance.

In general, under the above situation, the economic development of particular localities and regions critically depended on central government interventions. Many of these interventions were implicit and discrete rather than based on an explicit policy of local area development. Government decisions on large-scale industrial investments were also largely discretionary and ad-hoc. Policies of regional development served only as indicative guidelines for the spatial allocation of public investment. The dominance of central government in all spheres of economic life contributed to the underdevelopment of the local social and economic fabric. Internal dependency on central government increased and central government bureaucracies became the 'glue' that held it all together. However, the quality of the 'glue' declined over time for a number of reasons. However, the context of local economic development has dramatically changed since the 1980s in low-income countries. Let us further consider the major forces of changes in LED.

### 1.1.1 Forces of Changes in the Context of Local Economic Development

► ***Dear learner, what were the forces of change in the approach to LED?***

There are two sets of forces of change in local economic development context, each being composed of a bundle of issues. The first set refers to fundamental changes in development policy. In this regard, structural adjustment and liberalization policies; disenchantment with the state and state-led development are the major factors which brought the change in LED. The second force of change is what is called the new 'geo-economy' which consists three factors namely i) space reducing technologies in transport & communication; (ii) the technological and managerial changes in production of goods and services and, (iii) the growing volume of people, capital and firms that are mobile across (parts of) the globe. Let us briefly outline these forces of changes in LED context.

## A. Fundamental Changes In Development Policy

Structural adjustment and market liberalization (which actually means ‘liberating’ markets from public intervention) changed this general local economic context. Central government ceased to be the main organizing agency. The business environment changed from being heavily regulated by central government and run by public institutions to one in which there is very little regulation but where market supporting institutions were lacking.

Following this, many countries have experienced serious economic downturns, often associated with structural adjustment and sometimes with political instability. Few have been able to restore economic growth. The overall climate for local economic development has been negative. Secondly, central governments have lost their central economic coordinating role; other actors have to come in to make the market economy work. Investments & improvements plans of local producers critically depend on complementary investments by other producers and other economic agents (traders, banks) as well as government. This interdependence may produce a deadlock. Local economic development can contribute to reduce such deadlock.

After structural adjustment, central governments paid even less attention to equalization of conditions across regions and localities. Socio-economic gaps between localities and regions are likely to have been rising. Simplifying, one can distinguish three types of situations 1) cities and regions which are integrating in the new geo-economy; (2) localities and regions which have the resources and potential to integrate and (3) localities and regions which are or have been unable to link up. The latter category would include, amongst others, regions with a predominantly subsistence economy.

Localities are increasingly thrown onto themselves to create ‘place prosperity’, to create the right conditions for the economic advancement of its population. Local governments have an important role to play in creating place prosperity. However, local governments must realize that they are not in the driving seat when it comes to local economic development. Much depends on private enterprise & their associations, CBOs unions & support agencies including NGOs) & on convergence on the direction of local economic development. Lastly, the new generations of local development initiatives brought about new roles for

the public sector. This applies both to central government & to local governments. Local government is to provide the right mix of local public goods and secondly to facilitate or enable other actors, communities, private firms, workers and NGOs to make their most productive contribution. There is growing recognition in this connection that the public sector can be a source of private sector and of community economic growth.

## B. The New 'Geo-Economy'

### ► *What are the major geo-economy forces leading to the change in the context of LED?*

The second set of changes in the context of local development refers to what Dicken (1998) called the new 'geo-economy'. This consists of three factors, namely (a) space reducing technologies in transport & communication; (b) the technological and managerial changes in production of goods and services and, (c) the growing volume of people, capital and firms that are mobile across (parts of) the globe. The new 'geo-economy' context creates winners and losers. Some localities are able to export goods and services to larger domestic and to international markets and to attract external firms, capital and expertise to enable them to grow further, others are unable to benefit from the opportunities offered by new geo-economy and are losing their own local resources (capital, firms and educated people) that look for 'greener pastures' elsewhere.

Finally, globalization exemplifies the growing mobility of firms, capital and people. There is ample evidence that the flow of foreign direct investment has grown substantially over the last decades. Mobility has increased and so has competition to attract firms, capital and people especially professionals. The competition increased due to two factors. One is that firms, capital and people have more alternative opportunities. They are better informed and can more easily switch to alternative places. Secondly, territories (countries and municipalities) increasingly compete with each other to attract these in order to create local employment & income. Territories intensify their efforts to attract foreign investment, capital and people. Here, competition intensified because getting a small share of a large volume of international mobile investment may make a big contribution to local employment and income. Moreover, selective attraction of inward investment may assist in bridging the local-global gap and may help to resolve crucial bottlenecks in the local

production system and improve access to new external markets. All these changes resulted in the emergence of new generations of local economic development initiatives.

► ***What are the principal characteristics of a new generation of LED initiatives?***

The principal characteristics of a new generation of local economic development are discussed as follows. First, it is multi-actor. Its success depends on its ability to mobilize public, private and non-profit actors; second, it is multi-sector. It refers to public, private and community sectors of the economy; third, it is multi-level. Globalization, both as a competitive threat and as a resource opportunity, forces local initiatives to be framed by an analysis of global changes. Local economic development is increasingly ‘think globally and act locally’.

 Activity Three

**General Instruction: Answer the following questions accordingly.**

1. Briefly explain the conceptual definitions of local economic development?
2. Compare and contrast the contexts of LED before and after the mid 1980s.
3. Mention the major features of local economic development before mid-eighties?
4. What are the characteristics of the new generations of local development initiatives?
5. What were the major forces of change in the context of LED?

## Section Two: New Generations of LED Initiatives

### Overview

Dear learner, in the previous section, you have learned about the concept of LED; change in the context of local economic development and the major forces of the change in the context of LED. We have noted that until the mid-eighties, the economic development of particular localities critically depended on central government interventions. Since the mid 1980s however, the context of LED has dramatically changed as the result of structural adjustment and liberalization policies; disenchantment with the state and state-led development; development of space reducing technologies; technological and managerial changes in production of goods and services & due to other forces of change.

In this section we will carefully examine three main components of LED initiatives namely community based economic development; enterprise development which consists of initiatives that directly target and involve cluster of enterprises and finally locality development which deals with the overall planning & management of economic and physical development of the area.

### Objectives

Dear learner, after the successful completion of this section, you will be able to:

- ❶ Identify the main categories of local economic development initiatives;
- ❶ Identify the major constraints of local economic development;
- ❶ Define community-based economic development
- ❶ Explain aims and components of community economic programs;
- ❶ Distinguish components of enterprise and business development; and
- ❶ Explain the aims and components of locality development.

## 2.1 Community Based Economic Development

### ► *What is community based economic development? Can you explain its components?*

In the past decades, communities in many poor rural areas and urban slum settlements have experienced many problems or challenges. These include: I) feminization of poverty; ii) poor settlement conditions which in urban areas generally imply overcrowded settlement; iii) housing conditions that are deficient and in urban areas often not very suitable for income generating activities; iv) lack of access to basic services, and v) insecurity of income and work as well as serious physical insecurity.

Poor settlement and housing conditions have also negative economic consequences. They often create additional costs and introduce greater risks. Physical insecurity & health risks (inundation of settlement, disease, theft and violence) reduce productivity. Economic activities have to be interrupted frequently and assets and stocks may be lost or damaged. The lack of access to basic services (water, sanitation and energy) and taking recourse to informal sector solutions to these problems raises costs. Production and transaction costs increase. In many respects these activities suffer from diseconomies of micro scale. There are immense obstacles. One is institutional insecurity, in respect to land and natural resources and in economic transactions and in relation to economic and environmental legislation.

The other constraint is lack of appropriate planning. Planners have often ignored the economic function of settlements as if only residential use mattered. New approaches are needed which recognize self-employment and household-based economic activity is the predominant form of livelihood rather than wage employment in distant industrial areas. Community economic development will inevitably suffer from resource inadequacy. There are always more needs than resources. This implies however also that every investment made should bring the highest possible level of local impact. Finally, community based economic development rarely enjoyed substantial political attention. Thus, local development initiatives would have to take the interdependencies of these issues into account. At present, the democratic decentralization offers new political opportunities that

also can be exploited for economic development of local communities. With political decentralization, local governments take great responsibility for community development.

► ***What are the aims of community based economic development?***

Community based economic development has a number of broad aims. First, it is intended to stimulate a sense of community. Secondly, to promote self-help & community empowerment, third to contribute to the generation of (self-) employment opportunities. Fourth, to improve living and working conditions of community and to create public and community services for the local community.

### 2.1.1 Components of Community Based Economic Development

Dear learner, remember that It is almost impossible to generalize about development policy prescriptions and to formulate universally applicable community development programmers. What follows below is not more than a general repertoire of practices and experiences which have demonstrated to have relevance in terms of community based economic development. By the same token it is not pretended to be a complete nor exhaustive listing. Below we will concentrate on discussing the components of CBED.

#### I. Creating Local Safety Nets

One of the key features of poverty is the inability to withstand economic shocks of any kind. Creating local safety nets and reducing insecurity is fundamental for creating better conditions for local economic development. Day care centers run by women groups can be the basis of local mutual support networks at neighborhood level. Financial safety nets can be created through the formation of savings and credit groups to meet income emergencies. Physical security is often a very serious economic problem. Village & neighborhood watch committees organized by communities can have some impact especially in relation to theft, but their effectiveness depends on backup and support from formal law enforcement.

#### II. Housing Improvement and Settlement Upgrading

Community settlement upgrading usually involves a package of activities. One is improving the design of the settlement by creating space for basic services, such as water, sanitation, roads, community facilities for health and education as well as to improve homesteads and housing quality. It has been increasingly realized that settlement upgrading should allow for home based economic activities and incorporate provisions of small enterprise plots while

commercial redevelopment of central locations of the settlement may complement the whole.

### III. Basic Service Delivery

The restructuring of the delivery of basic services has been set in motion in the 1990s and that is likely to be extended well into the next century. A pragmatic approach would be needed that takes into account the ‘unbundling’ of service delivery within specific sectors. Unbundling can help to determine which components in the service delivery process can be privatized (either commercially or on a non-profit basis), which can be brought into the realm of community enterprise & which continue to require public sector direct responsibility.

### IV. Stimulating Community Economy

Households act in the local economy in three ways: as consumers, as micro-entrepreneurs and as workers. They act individually and as organized (functional) groups that have a community of interest, for example as a consumer cooperative, user associations of basic services, workers unions and producer associations. It should be noted that poor people are weak market parties. Their very limited and insecure resource base (e.g. because of a poor capital asset base or because of limited technical/ functional skills) cause low productivity. This, in turn, often in combination with intense competition (because of large numbers of poor people in similar positions) yields very low incomes and makes poor people vulnerable to unequal market exchange.

Policies that aim to increase the reliance on markets to allocate resources and to provide goods and services therefore may put poor people at more and greater risks. Market regulatory policies should therefore also ‘level the playing field’ for the poor and their enterprises, i.e. reduce barriers arising from informality. Micro-enterprise programmers would constitute the core of community economic development. Such programmers could consist of three or more components-credit, training and technical assistance and marketing. A special category of training concerns training of MSE’s as contractors of basic public services. As local movements also increasingly move towards contracting out of public services and contracting out to MSE’s and community enterprises. In the labor market some

measure of success can be achieved in improving the employability, for example via training and skills programmes associated for example with construction in settlement upgrading and with the delivery of basic services.

## 2.2 Enterprise and Business Development

### ► *What roles do local business associations play in local economic development and how can these be strengthened?*

One of the central guiding ideas of LED is its concern for the development of the local economic base of an area. The local economic base refers to the activities that involve exporting their product and services to outside the area concerned. It is often also called the export base of an area, district or town. The destination of these exports is for all practical purpose anywhere, in other parts of the same country or abroad. The economic base of a district may consist of one or several agricultural products, or of manufacturing or service activities (trading or tourism). Other local economic activity mainly supplies the local market and hence depends for its demand ultimately on the growth of the local export base.

The export or economic base normally consists of one or more geographical concentrations (Clusters) of local producers. Firms and clusters may grow and specialize in their activity. This specialization itself is an important growth mechanism. Due to specialization, local producers may achieve internal economies of scale, which in their turn may generate increasing returns. That is as volume of production increases the unit costs decline and hence, enhancing the competitive position of these producers. Clustering and specialization may contribute to the emergence of agglomeration economies. These are advantages that accrue to local producers and that arise from the geographical concentration of particular activities. In theory the major agglomeration economies are a pool of (specialized) labor, availability of specialized inputs and knowledge spill-over.

### ► *What is the advantage of clustering of local firms and activities?*

Once a cluster has come into existence a new phase of local economic development may set in, namely that of ‘active collective efficiency’. The active collective efficiency has three components. First, local producers, especially when they are of a medium or small size, may find it advantageous to specialize amongst themselves. The second component is the

creation of private regulatory and support institutions by joint action among local producers. Local producers, if clustered, are likely to develop their own local production practices, norms and standards. The creation of a local producer or business association is often indicative of such a potential for ‘private governance’. The third component refers to local collective action of local producers towards both central and local government to lobby for public support insertions and infrastructure like the area of vocational training, technology development or a local transport terminal. An area that has developed these three types of ‘active local efficiency’ in its economic base would enhance its cumulative advantage as compared to producers in other areas who are dispersed & who lack the development of local institutions and joint action.

Moreover, by being part of agglomeration, local producers can greatly expand their learning capacity. Learning takes place via supply chain linkages (i.e. supplier and customer relations), via mobility of skilled labor between the firms and via spin-off activity (creation of new start-ups). It also may involve imitation and reverse engineering; informal knowledge exchange and specialist services. In short, an agglomeration facilitates group based and collective learning.

## 2.1. Components of Enterprise and Business Development

### ► *What are the major components & actors of local enterprise and business development?*

The core of a local economic development programme would be the expansion, restructuring or creation of the economic base of the area. The economic base may consist of one single or various concentrations or clusters of local producers in particular industries. Initiatives to be developed by local producers can develop in two directions. First, strengthening the cluster formation process along the lines depicted above. They may give rise to the creation of enterprises and employment in allied services; second, advancing the local participation in the corresponding commodity chains, either by new investment of existing local firms or by selective attraction of external firms, or a combination of both.

An important issue in local enterprise and business development is the target group. One can distinguish at least four distinct ones. I) Attracting firms from elsewhere (e.g. foreign direct investment, multinational corporations; ii) formation of new firms; iii) expanding

existing firms; and iv) Innovation and graduation of MSE. Each target group would have its own approach and specific requirements.

► ***Should fiscal incentives or real services be provided for the local enterprise and business development?***

Many local governments are nowadays offering local financial incentives. Financial incentives seek to compensate for locational disadvantage but real services support to local enterprise may help to create competitive disadvantages. For local producers to gain access to more remunerative external markets, they generally require specialist business development services (BDS) to enable them to acquire knowledge about these markets. They also need these services in order to prepare their own manufacturing operations financially, technologically & organizationally for internationally competitive production. Large firms may be able to marshal the resources to engage in required market development and associated product development efforts. Small and medium enterprises, however, often have to gain access to external resources and rely on specialist business service providers to obtain market and product information, tools and technologies, skills etc.

► ***What types of programmes are required to promote enterprise & business development?***

There is a great range of special programmes required to promote enterprise & business development (EBD). They seek different levels of achievement in relation to agglomeration. The first type of programmes basically seeks to generate 'passive' agglomeration economies'. A growth point or growth centre would be a good example. Government concentrates public infrastructure investment in particular places, possibly in combination with other incentives to attract new firms into an area. Geographical concentration may generate specialization.

A second type of programme goes further and seeks to promote the formation of clusters of enterprises. These progenies assume that geographical concentrations of local producers are already in existence and that through joint action by local producers a new range of advantages can be created, strengthening the competitiveness of a cluster as a whole. Business support services and inter-firm cooperation are principal avenues of action. A third avenue of action is to focus on group learning for local producers to acquire new competencies. The rapid introduction of new agro-exports (vegetables, fruits and flowers in

Guatemala, Chile and Kenya, respectively) is based on the existence of group based learning of the norms and standards for the products and of associated production practices and techniques, especially quality control.

Often an actor, playing a key role in the governance of the chain and contributes to the spread of new knowledge to the local producers may include foreign buyers, a local business association or a local enterprise agency. The most advanced type of programme seeks to generate collective learning whereby the latter extends itself to the enterprise support network. This is called a local innovative milieu. There must be a collection of players consisting of firms, research & training institutes & local authorities, which must have relative decision-making independence & relative autonomy in making strategic choices.

Local producers have to develop associational capacities, at the level of the firm, at the level of inter-firm cooperation and the commodity chain and at the level of enterprise support systems. The main challenge is to get the interaction right between these three elements. The locality or region can perform strategic enterprise support functions that cannot easily be done centrally. The national level is too high to cope with complexity and detail, while the local regional level allows for an appropriate incorporation of local diversity and specificity. Local network must be forged which facilitate coordination and convergence across these three elements.

### Activity Three

General Instruction: Answer the following questions accordingly.

1. Give the definition of CBD and also outlines its major constraints?
2. What are the three main categories of local economic development initiatives?
3. What are the major components and actors of community based development?
4. What types of programmes are required to promote EBD in the local area?
5. Describe the major contribution of enterprise & business development for the LED.
6. What are the target groups of local enterprise and business development?

## Section Three: Locality Development and Actors of LED

### Overview

Dear learner, in the previous sections, you have studied about the two major categories of local economic development initiatives. In the first section we have outlined the concepts, aims and the main components of community economic programmers where as business or enterprise development is the main themes of discussion in the second section. This broad category consists of initiatives that directly target and involve cluster of enterprises. In this section you will learn about the third major categories of the new generations of local development initiatives. That is locality development which refers to the overall planning and management of economic and physical development of the area.

In third section of this unit, we will focus on addressing the concepts and goals of locality development; its underlying components like physical planning and development controls, urban planning and design; infrastructure and socio-economic overhead capital. This will be followed by a briefly discussions of the major actors of locality development with great emphasis on local producers & local government.

### Objectives

Dear learner, after careful reading of the lessons in this section, you will be able to:

- ◆ Define locality development;
- ◆ Identify the major components of locality development; and
- ◆ Differentiate the different actors of locality development.

### 3.1 Definitions of Locality Development

► ***Dear learner, can you define locality development? What does it mean?***

Locality development corresponds to the management of the entire local territory. That is, it built up physical infrastructure and economic and social overhead capital of the locality in such a manner that it generates the balanced development of all land uses, resolving land use conflicts, minimizing negative (congestion, pollution) and maximizing positive externalities (agglomeration economies) in the locality. It refers to the overall planning and management of economic and physical development of the area concerned. Locality development is about the planning and realization of infrastructures and of relevant economic and social overhead capital. Locality development is not restricted to the export base of an area but also has to address the orderly development of the non-basic sector of the local economy and that also includes the community economy.

When a local economy develops a certain export base, this gets reflected in its built up of infrastructures geared to serve it. For example when an area is specialized in particular agricultural production or manufacturing sector, specialized physical and socio-economic infrastructure are needed to serve it. Moreover, technical training centres to form skills in related trades and occupations where as warehousing facilities and freight infrastructure expands in response to demand. On the other hand, a tourist destination area is likely to develop different training institutions offering different skills and passenger rather than freight transport infrastructure facilities. Part of this infrastructure is public sector and timely planning and development of these infrastructures will stimulate complementary private infrastructure services. Together they enable a locality to improve the basic conditions for the economic activities to stay competitive and expand.

In general, localities that succeed in better management of their territories contribute to enhance the competitiveness of their economic activities and it may also improve the local quality of life. Together these may make the locality more attractive to external investment, firms and people. Dear learner having the conceptual foundation as a backdrop, let us further broadens our discussion by considering the major components of locality development.

### 3.2 Components of Locality Development

► ***What are the components of locality development? Can you mention them?***

As locality development is the management of a territory, it involves several components and stakeholders. The most important components of locality development is participatory local economic development planning. Since it is a multi-actor affair, rarely one single stakeholder holds all the stakes and has all the resources to achieve LED goals. There are important investment complementarities within the private and community sectors and between the public and private agents, which when properly managed, can result in important economic gains and external benefits that otherwise would not be forthcoming.

Local government can make an important contribution by properly coordinating its own public sector investment programme with needs and investment priorities of communities and the private firms and through its physical planning. Local convergence among actors is central to local economic development initiatives. This needs exchange of information and procedures for decision-making. The participatory formulation of a local development strategy plays an integrating role in locality development. It identifies the overall local development priorities, defines a set strategic issues and related action programmes, both for public & private sectors and in doing so, provides a basis for coordination of complementary investment programmes.

### 3.2.1 Physical Planning and Development Controls

Urban land market is rife with all sorts of distortions and requires government regulation. Zoning and other land and building regulations can be an important tool if it is carried out with flexibility and with a developmental attitude rather than for the purpose of any rigid master plan control. The latter implies that the interest of all urban citizens and groups need to be taken into account including urban agriculture and home based enterprise. Regulations should be simplified, understood and agreed by all parties. Subsequently local authorities should make these regulations stick. The lack of transparency often makes this a lucrative area for rent-seeking and corruption. Different agencies can co-ordinate and simplify their procedures, through which permits and licenses can be obtained for instance by setting up a ‘one-stop’ service.

### 3.2.2 Urban Planning and Design

Economic performance can be improved if commercial centers are upgraded through improvement of commercial streets and premises, often involving selective conversion of land uses & higher densities. This includes actions geared towards the improvement of the town or city central areas and makes them more attractive for residents and prospective investors. The policy requires a physical planning process supported by a cooperative attitude of both the local authority and the potential beneficiaries. For instance, local businesses and local community organizations are coordinate to discuss existing problems and to set in motion actions to implement action plans.

### 3.2.3 Infrastructure

Land is more attractive to potential users if it has already been developed or it can be provide at lower costs. Available infrastructure shortens the time between acquisition and operations and saves them the cost of building the infrastructure themselves. The basic services to be provided are water and sewer, electricity and street lightning access roads and sidewalks. The supply of improved sites should take into account the diversified demand for such sites, for instance, taking into account the demand by micro and small enterprises. Public-private partnerships can increase the capacity of local governments to provide infrastructure.

### 3.2.4 Socio-Economic Overhead Capital

One of the important challenges of locality development is the creation and expansion of economic & social overhead capital. This refers to public, non-profit and private institutions in the areas of education and training, research and technology, information and communication & social capital serving the locality as a whole as well as institutions dedicated to its specialized industries. One of the roles of local movement, together with other private sector and civil actors, is to contribute to create and/or to attract to the locality (branches of) specialist providers of such overhead capital.

## 3.3 Actors in Local Economic Development

► ***Dear learner, what are the major actors of locality development?***

The context for local economic development has enormously changed in the last two decades and so has the thinking about policies. Central governments have considerably reduced their responsibility for place prosperity. Localities and regions have been thrown onto themselves to take responsibility for their own development. Mostly by default & occasionally by design, local actors have been given the frameworks & have themselves developed the full range of processes to do so.

Dear learner, the range of actors of locality development has been identified including governments, communities & their organizations, non-governmental organizations and private enterprises. The debate on enablement has made clear that governments continue to play a major role in the development of locality.

### 1.3.1 Community Based Organization (CBOs)

#### ► *What are the roles of CBOs for community development?*

It is important to bear in mind that Community & their community based organizations continue to be the principal actors in locality development. Here, it is important to make a distinction between grassroots territorial community based organizations (CBOs) and ‘self selected’ grassroots groups’.

Community Based Organizations (CBOs) is encompassing & broadly representative & multi-purpose community organization organizations. Often, such CBO’s are framed by local tradition and custom and increasingly also by local or national government legislation whereas a women’s savings club is an example of a self selected’ grassroots group. Such groups are mostly single purpose oriented, more homogeneous and are less hierarchical and every member participates by virtue of its accepted membership. On the other hand, territorial CBO’s have been the main focus of community development efforts in view of their public character, in the context of markets. Self selected community groups become more important but in order to strengthen the position of community groups, the formation of second and third level organization is important. That is associations of grassroots groups and federations of associations.

#### ► *What are the advantages of the establishment of associations and federations?*

The establishment of associations and federations has several important advantages. Firstly, numbers raise voice as apex organizations can yield a more than proportional influences. Secondly, associations can facilitate sharing of information and experiences and can contribute to learning. Thirdly, due to their larger size & scale of operation, associations can undertake functions, which are not feasible at CBO level. The 2<sup>nd</sup> and 3<sup>rd</sup> tier organization can strengthen the autonomy of CBO's vis-à-vis the state as well as the market.

### 1.3.2 Local Producers and their Association

► ***What are the major roles of local producers and their association in the process of locality development?***

Local producers are one of the key actors in local enterprise & local business development. Inter-firm cooperation and joint action plays a central role. However, local producers are very often individualistic and find it difficult to combine competition with cooperation. Several commentators have indicated that joint action and inter-firm co-operations, of the kind enumerated above, does not come easily. Some argue that such collaboration requires a kind of external catalyst or brokerage role.

The multiple roles of business associations in economic development are increasingly recognized. Associations may take a variety of forms. Traditionally, they represent their members in their dealings with government & lobby for more favorable economic policies. They also often negotiate with trade unions and provide a reference group for individual entrepreneurs. More recently, the emphasis shifted to two other functions, the provision of business development services and 'private interest governance'. The experiences with new industrial districts provide ample evidence of services, such as information, training, technology and marketing. Private interest governance refers to regulatory functions performed by associations, like establishment of norms & standard products, & codes of conduct. They can also resolve conflicts of interest between their members.

### 1.3.3 Local Government

► ***What are the major roles of local government in the process of locality development?***

Local government plays a more prominent role in local economic development. Several factors have contributed to a more prominent role for local government in local economic development. The first is a generalized and persistent trend towards decentralization in the public sector. By now, the vast majority of developing countries and transitional economies are engaged in processes of decentralization and strengthening their local governance structures. Central government responsibilities have been transferred to local governments but very often without adequate transfer of resources. The need to generate more local revenues has forced the local governments to take more interest in the economic development of their area of jurisdiction and also to fulfill the demands of local people and enterprises. Secondly, changing perceptions on poverty alleviation have made local government more active in pursuing local employment creation. Thirdly, in a number of countries, national or state governments have launched support programs support programs to enable local governments to become more active in local economic development.

#### 3.3.4 Central Government

Another major actor of locality development is central/national government. Central government has an important general influence in the process of locality development. Most importantly through its macro-economic policies, central government defines a macro business environment that needs to be stable and conducive to private investment. Furthermore, it plays a crucial role in creating political stability essential for reducing investment risks. National sector ministries & specialized line agencies provide specialized services and perform regulatory roles in relation to trade and sector specific issues and regulation.

Finally, it is important to note that besides the fore mentioned actors of development locality development can also be influenced by private sectors and non-governmental organizations (NGOs). These two actors can greatly contributes to the development of locality.

### Activity Three

General Instruction: Answer the following questions accordingly

1. Explain the concept of locality development and also outline its changing aspects?
2. Describe the goals of locality development?
3. Mention the major actors of locality development & briefly describe their roles?
4. What are the difference b/n grassroots territorial communities based organizations (CBO's) and 'Self selected' grassroots groups'?
5. What must be done to coordinate the efforts of the different actors of locality development to facilitate the rapid development of local area?

## Summary

In this unit we have elaborated a number of important points. One of such points is the changing context for local economic development. Global changes in the political economy of development, coupled to techno-managerial changes of the new 'geo-economy' have fundamentally altered the conditions for local economic development. At the same time decentralization creates opportunities for local actors to respond and take development in their own hands. Sometimes by design, but largely by default, private and public actors in localities and regions are assuming greater responsibilities for their own development.

This has led to a new generation of local economic development promotion, which is characterized by the following: a) It is multi-actor. Its success depends on its ability to mobilize public, private and non-profit actors; b) it is multi-sector. It refers to public, private and community sectors of the economy, c) It is multi-level. Globalization, both as a competitive threat and as a resource opportunity, forces local initiatives to be framed by an analysis of global changes. Local economic development is increasingly: think internationally, if not globally and act locally.

A distinction was made between three main categories of local economic development initiatives. The first set refers to actions that may be broadly described as community

based economic development. Community based economic development may be applied to both rural and urban settings, though a number of characteristics would necessarily be different. The essence of community economic development is to facilitate household diversifications of economic activity as the principal way to improve livelihood and reduce poverty and vulnerability. A number of complementary lines of action have been put forward. The second category refers to business or enterprise development. This type of initiative is premised on the specialization and overcoming obstacles towards specialization in a market context. The notions of local economic or export base and of the commodity chain that organizes the export base activities are key organizing concepts. A number of the principles of enterprise development policies apply differentially to small, medium and large enterprises. Various components of enterprise development programmes have been elaborated.

The third category refers to locality development and its actors. This is complementary to the previous two and refers to overall planning and management of economic and physical development of the area concerned. Local governments play a central role here, but in contrast to past practices local governments should make an effort to enable other local actors to make their most productive contribution to local development.

We have also discussed that new practices of local economic development contribute to creating new local institutions. The identification, recognition and participation of key stakeholders often culminate in new forms of local economic governance. These may consist of public or private ones, as well as partnerships. In many countries there has been a genuine explosion of differently constituted local economic development agencies, platforms, joint public-private commissions etc, that play a role in coordination, promotion and support. Specialization and localized learning may thus lead to the development of new tailor-made institutions, which in their turn enhance local capabilities. The broadening of the local institutional base is one of the central messages on local economic development.



### **Self-Test Exercise**

General Direction: Try to answer all of the following questions

### Part I. True or False Questions

1. Decentralized planning altered the magnitude and roles of the various actors of LED.
2. The context of local economic development was changed during the mid 1990s.
3. LLED initiatives need to be framed by an analysis of the global changes.
4. Locality development merely contains the export base of an area and the orderly development of the non-basic sector of the local economy.
5. The basic rationality of LED is consistent with the of the 'place prosperity' arguments.

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# Chapter Five

## Regional Development Planning

### Introduction

Dear learner, have you ever participated in the preparation of development planning in your locality? If that is so, it is great. Development planning is a combination of two distinct words (development and planning) synchronized into one. Development can be defined as a process of change that enables people to take charge of their own destinies and realize their full potential while planning is setting of objectives to bring about development. Local and regional development planning is an all encompassing and multi-dimensional process that takes place at the local and regional levels. It is a wide-ranging plan which encompasses a broad set of objectives to attain development within a specified period of time.

In this unit you will learn about, the basic concept of planning, Conditions, Strategies or Policies of Successful regional planning, the rationality and approaches to regional planning and the types of regional planning.

### Objectives

Upon successful completion of this unit, you would be able to:

- ◆ Understand the basic concept of planning
- ◆ Identify conditions, strategies or policies of successful regional planning;
- ◆ Analyze the rationality of regional development planning; and
- ◆ Understand the various approaches to regional planning.

### Pre-Test Questions

1. Can you define planning?
2. Why we need regional planning?
3. Do you know the different types of planning?

# Section One: Understanding Regional Planning

## Overview

Planning is a process of organizing national economic and social efforts for the promotion or achievement of clearly defined national development goals. It is a means for attaining social and economic development. Although debate and research efforts continue over the significance of planning, there is widespread recognition of the usefulness of some form of systematic planning for promoting development.

After defining some of the basic concepts related with planning, this section tries to elaborate the rationality of regional planning. Moreover the section further considers the different approaches namely conventional and non conventional approaches to regional planning.

## Objectives

After reading this section, you would be able to:

- ◆ Define basic concepts of planning;
- ◆ Define regional development planning;
- ◆ Describe the basic rationality of regional planning;
- ◆ Explain the different approaches to regional planning;

## 1.1. Definition of Basic Concepts

### ► *Can you define planning? What does it mean?*

Broadly speaking, a plan is a scheme, a design, or a framework of programme of action, work, activities, etc. To plan is meant to formulate a programme of action, or to work out the things that need to be done and often also the methods for doing them. A plan is a programme of action for achieving definite objectives or goals. In this sense, a plan is a policy statement and planning means policy-making. Planning has different meanings. It means (i) forecasting trends, (ii) making the best way to use limited resources, (iii)

identifying problems and restrains and how to overcome them, (iv) avoiding the elements of risk and chance, and (v) reconciling conflicts and contradictions in different activities. Planning is, therefore, a process in which all organs/departments should be engaged, a process where competing demands are ironed out, adjusted and reconciled in as rational a way as possible.

T.T.Thahane defines development planning as a “process of organizing national economic and social efforts for the promotion or achievement of clearly defined national development goals”. In a sense, development planning is a complex process that involves organized efforts of government to achieve specific economic and social goals. Planning encompasses plan formulation, implementation and evaluation, each of which constitutes an important stage in the planning process.

Economic planning may be described as a deliberate governmental attempt to coordinate economic decision making over the long run and to influence direct, and in some cases even control the level and growth of a nation’s principal economic variables (income consumption, employment, investment saving exports imports etc) to achieve a predetermined set of development objectives. An economic plan is simply a specific set of quantitative economic targets of be reached in a given period of time with a stated strategy for achieving those targets. Economic plans may be comprehensive or partial. A comprehensive plan **sets** its targets to cover all major aspects of the national economy. A partial plan covers only a part of the national economy- industry, agriculture, the public sector, the foreign sector, and so forth. Finally, the planning process itself can be described as an exercise in which a government first chooses social objectives then sets various targets and finally organizes a framework for implementing, coordinating and monitoring a development plan.

## 1.2. Conditions, Strategies or Policies of Successful Planning

A plan should not be a list of programmes; it should have cohesion and consistency. It should have physical, financial, sectoral, spatial, and financial balancing. It should have a consistency with the past, present and future. A good plan is prepared through the process of bottom up rather than imposed from above, yet it is not a charter of demand. Resources inventories are taken and the optimum rates of raising those resources and exploiting them are worked out. Accordingly, the programmes are so formulated that they fit well with the manpower balance sheet of the regions and activities. Human, material and financial resources have to be put in a matching position. Targets have to be realistic not ritualistic repletion of the last failed targets.

## 1.3 Definition of Regional Planning

Dear learner, we have said that region is the sub-national unit. Hence, regional planning cannot over-ride the national planning. It is aprioristic to specific regional ends. Location of functions, facilities and projects in a region and running them well to achieve the goals and objectives of the region is regional planning but it should not clash with the national planning and objectives. Nevertheless, one big problem with regional planning is that the funds come from the national or state level sources because the region cannot raise them all. It requires higher level benevolence. Regional planning is not uniform in the matter of programs and projects but the objective is the same—to develop the region according to its *endowments of the area*. Regional planning has to achieve the national goal also as they are perceived in a region of planning, the national obligations are not discarded. Cohesiveness in planning requires centralized planning /programming but vitality in achievements requires decentralization and regionalization.

### 1.3.1 Rationality for Regional Development Planning

#### ► *What is the rationality of regional development planning?*

Regional development planning is a recent phenomenon which has been necessitated to deal with regional development disparity and to bring the socioeconomic development of a region based on national development objectives and priorities. It has distinct features. At

national level regional development planning deals with not only with alleviating regional development planning but also at reducing regional disparities in development. At the regional level regional planning deals with identifying development problems, identifying potential resources of a region, setting objectives of development attempts of efforts and trying to change sectorial structure of the regional economy.

Therefore, the concept of regional planning basically relies in the optimization of efficient resources use, redressing, of development inequalities, among regions and the effective decentralization of power to the local community. There are several rational for undertaking regional development planning.

***Regional planning as a means of coordinating sectorial activities***

Development planning is a multidisciplinary activity involving many different sectorial activities. This suggests the need for regional planning of specifically inter-regional planning because regional planning involves planning a region of geographical areas as a whole including all sectorial activities. Thus, it provides a means for coordinating the planning activities of the many different functional agencies operating in the region (Conyers, 1985).

***Regional planning as means of implementing national plans.*** The roles of regional planning were recognized as the decentralization to regional and local levels allows officials to disaggregate and toiler development plans and programmes to the needs of heterogonous regions and groups. In the national planning there is now recognition that national planning should take in to account the problems of interregional allocation and means. Regional disaggregation is viewed as one important element of national, economic & social plans and regional policies as important instruments in the efficient implementation of national policies.

***Regional Planning as a means of Facilitating Participation:*** nowadays, the need for sort of participation in development planning has gained a widespread acceptance. Participation is advocated for two main reasons. Firstly, participation of stakeholders is seen as a means of improving the quality and relevance of plans and as a means of facilitating their implementation including the contribution of local resources and labour. Secondly, it is an

important component of democratic society and essential requirements for the wellbeing of the community and individual. Regional planning and particularly intra-regional planning can facilitate participation because it is undertaken at spatial level which is closer to the people and so it is easier to involve them in the planning process.

### **1.3.2 Approaches to Regional Planning**

Conyers (1990) identified seven different approaches to regional planning. Some of these approaches are regarded as conventional regional planning (like regional economic planning, regional disaggregation of national plans, regional land use plans and natural resources planning & others as non-conventional regional planning. This includes integrated development planning, regional administrative planning and community planning.

**1. Regional Economic Planning:** this deals with the spatial aspects of national development. It involves examining the spatial patterns of development between regions and either predicting the impact of existing policies and programs on these patterns or formulating corrective policies or programs designed to change them. Corrective measures involve changing the distribution of resources (public and private) between regions or putting spatial efforts to develop previously underutilized resources within a particular region or combination of the two.

**2. Regional Disaggregation of National Plans:**

It is close to regional development planning because it also emerged from national development planning and is dominated by economists. But it has emerged as a response to concerns about spatial patterns and inequalities but due to the need to disaggregate national plans in order to facilitate their implementation. This includes not only disaggregation but also aggregation of plans.

**3. Regional Land Use Plans:** this type of planning concerned with a detail design of a layout of land use. It is also called physical planning or urban and regional planning, town and country planning. It began as an adjunct of architecture and incorporated elements of social sciences such as geography. Initially this arose through realization that urban areas cannot be planned in isolation from the surrounding region. Hence,

city-region and urban and urban and regional planning emerged. The approach is dominated by spatial aspects of planning but it has some overlap with regional economic planning and the latter is usually taken as an extension of regional land use plan particularly in developed since national development is not long developed

4. **Natural Resource Planning:** a regional approach to natural resources planning is adopted because The distribution of natural resources is such that one can generally identify natural resources regions each of which can and should be planned as a whole; Moreover, there are usually a number of different and often conflicting ways in which natural resources can be utilized and this require a multi-purpose or integrated approach to planning with natural resources regions. River basin planning is the earlier forms of natural resources planning. But other resources such as mountain region, semi- arid region, and mineral region can also be planned by focusing on resources.

#### 5. **Integrated Rural Development Planning (IRDP)**

Integrated rural development planning is one of the non-conventional approaches to rural development which emerged in response to the need for a multidisciplinary approach to rural development problems and connected with the poorest sectors of the rural population. In many countries these concerns resulted in the identification of selected regions with rural development problems or potentials within which technical and financial resources could be concentrated.

6. **Regional Administrative Planning.** This approach to regional planning leads to be regarded as administration rather than planning and it is in fact emerged as an extension of public administration or development administration rather than as a branch of planning.
7. **Community planning:** this refers to planning at a very local level usually in association with some sort of community development activity.

#### Activity

*Answer the following questions accordingly*

1. What is regional planning?

2. What are the main purposes of regional planning?
3. Mention the conventional and non-conventional approaches to regional planning and explain their differences.

## 1.4 Classification of Planning

Plans can be classified based on time horizon (strategic planning); depending on operation field (sectorial plan) & depending on special differences (national, regional or local planning).

### 1.4.1 Strategic Planning

#### ► *What is strategic planning? What are the major elements of this planning?*

Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy, including its capital and people. Various business analysis techniques can be used in strategic planning, including SWOT analysis (Strengths, Weaknesses, Opportunities & Threats ), PEST analysis (Political, Economic, Social, and Technological), STEER analysis (Socio-cultural, Technological, Economic, Ecological, and Regulatory factors), and EPISTEL (Environment, Political, Informatics, Social, Technological, Economic and Legal).

Strategic planning is the formal consideration of an organization's future course. All strategic planning deals with at least one of three key questions: "What do we do?" "For whom do we do it?" and "How do we excel?" In business strategic planning, the third question is better phrased "How can we beat or avoid competition?" In many organizations, this is viewed as a process for determining where an organization is going over the next year or more -typically 3 to 5 years, although some extend their vision to 20 years.

In order to determine where it is going, the organization needs to know exactly where it stands, then determine where it wants to go and how it will get there. The resulting document is called the "strategic plan." It is also true that strategic planning may be a tool for effectively plotting the direction of a company; however, strategic planning itself cannot

foretell exactly how the market will evolve and what issues will surface in the coming days in order to plan your organizational strategy. Therefore, 'strategic plan' have to be a cornerstone strategy for an organization to survive the turbulent business climate.

### Vision statements, Mission statements and values

**Vision:** Defines the desired or intended future state of an organization or enterprise in terms of its fundamental objective and/or strategic direction. Vision is a long term view, sometimes describing how the organization would like the world in which it operates to be. For example a charity working with the poor might have a vision statement which read "A world without poverty"

**Mission:** Defines the fundamental purpose of an organization or an enterprise, succinctly describing why it exists and what it does to achieve its Vision. It is sometimes used to set out a 'picture' of the organization in the future. A vision statement provides inspiration, the basis for all the organization's planning. It could answer the question: "Where do we want to go?"

**Values:** Beliefs that are shared among the stakeholders of an organization. Values drive an organization's culture and priorities.

**Strategy:** Strategy narrowly defined, means "the art of the general" (from Greek strategies). It is a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there.

Organizations sometimes summarize goals and objectives into a mission statement and/or a vision statement. Others begin with a vision and mission and use them to formulate goals and objectives. While the existence of a shared mission is extremely useful, many strategy specialists question the requirement for a written mission statement. However, there are many models of strategic planning that start with mission statements, so it is useful to examine them here.

A Mission statement tells you the fundamental purpose of the organization. It defines the customer and the critical processes. It informs you of the desired level of performance.

A Vision statement outlines what the organization wants to be, or how it wants the world in which it operates to be. It concentrates on the future. It is a source of inspiration. It provides

clear decision-making criteria. An advantage of having a statement is that it creates value for those who get exposed to the statement, and those prospects are managers, employees and sometimes even customers. Statements create a sense of direction and opportunity. They both are an essential part of the strategy-making process.

Many people mistake vision statement for mission statement, and sometimes one is simply used as a longer term version of the other. The Vision should describe why it is important to achieve the mission. A vision statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades if crafted well. A Mission statement is more specific to what the enterprise can achieve it. Vision should describe what will be achieved in the wider sphere if the organization and others are successful in achieving their individual missions.

A mission statement can resemble a vision statement in a few companies, but that can be a grave mistake. It can confuse people. The mission statement can galvanize the people to achieve defined objectives, even if they are stretch objectives, provided it can be elucidated in SMART (Specific, Measurable, Achievable, Relevant and Time-bound) terms. A mission statement provides a path to realize the vision in line with its values. These statements have a direct bearing on the bottom line and success of the organization. Dear learner,

► ***Which comes first? The mission statement or the vision statement?***

That depends. If you have a new start up business, new program or plan to re engineer your current services, then the vision will guide the mission statement and the rest of the strategic plan. If you have an established business where the mission is established, then many times, the mission guides the vision statement and the rest of the strategic plan. Either way, you need to know your fundamental purpose - the mission, your current situation in terms of internal resources and capabilities (strengths and/or weaknesses) and external conditions (opportunities and/or threats), and where you want to go - the vision for the future. It's important that you keep the end or desired result in sight from the start.

**Features of an effective vision statement include:**

- ✎ Clarity and lack of ambiguity
- ✎ Vivid and clear picture

- ✎ Description of a bright future
- ✎ Memorable and engaging wording
- ✎ Realistic aspirations and
- ✎ Alignment with organizational values and culture.

In general, to become really effective, an organizational vision statement must (the theory states) become assimilated into the organization's culture. Leaders have the responsibility of communicating the vision regularly, creating narratives that illustrate the vision, and acting as role-models by embodying the vision, creating short-term objectives compatible with the vision, and encouraging others to craft their own personal vision compatible with the organization's overall vision. In addition, mission statements need to be subjected to an internal assessment and an external assessment.

The internal assessment should focus on how members inside the organization interpret their mission statement. The external assessment- which includes all of the businesses stakeholders is valuable since it offers a different perspective. These discrepancies between these two assessments can give insight on the organization's mission statement effectiveness.

Another approach to defining Vision and Mission is to pose two questions. Firstly, "What aspirations does the organization have for the world in which it operates and has some influence over?", and following on from this, "What can (and /or does) the organization do or contribute to fulfill those aspirations?" The succinct answer to the first question provides the basis of the vision Statement. The answer to the second question determines the mission statement.

#### **1.4.2 Object or Sectoral Plan**

##### **► *What is sectorial plan? Can you define it?***

A plan that deals with some specific aspect or sector of the coastal zone is called an Examples include plans for the management of natural resources (fish, recreation, mineral), coastal protection construction, landscape conservation and plans for business development such as tourism. There are also integrated plans of coastal zone management that are

intended to coordinate strategies of development of various sectors or to combine different approaches towards resolving conflicts arising from multifunctional use of the coastal zone.

Nowadays integrated plans are widespread and are used when it is necessary to coordinate different factors relevant to coastal zone management within the framework of a joint decision-making process. These plans are developed in response to a number of management problems, the most usual being the conflicts between different stakeholders, that cannot be settled by simple object plans. These conflicts often arise from differences in social, environmental and economic points of view. There are various methods of settling these conflicts zoning, political and legal methods. In many cases the most effective option is an integrated plan of coastal zone development.

Integrated planning is now the most widespread approach to settlement of complicated and conflict situations. Integrated planning creates structures or management systems that focus the efforts of different stakeholders to achieve common goals relevant to the whole territory. Different levels of responsibility and understanding of the diverse problems of the coastal zone can be linked together in integrated planning through the reconciliation of different positions. Information exchange, common training and education programs contribute to strengthening of integration mechanisms.

Integration can be vertical (uniting different administrative levels) and horizontal (uniting different sectors), or a combination of both. It is very important to ensure that the structure of integrated planning not only determines the priorities of coastal zone development, but also controls the process of implementation of plans and management instructions.

### 1.4.3 Territorial classification of plans (depending on special differences)

Plans are usually classified on the basis of the territory covered. There are four or five levels of planning: international, national, regional and local (sometimes a sub-local level is included).

Summary of Territorial Classifications of Plans	
Level of planning (scale)	Role of a plan
<b>International</b>	<ul style="list-style-type: none"><li>✎ Solve trans-boundary problems</li><li>✎ Goal definition</li></ul>
<b>National</b>	<ul style="list-style-type: none"><li>✎ Administrative procedures</li><li>✎ Setting national ideals and principles</li><li>✎ Focus on priorities</li></ul>
<b>Regional</b>	<ul style="list-style-type: none"><li>✎ Putting international and national goals into a regional context</li><li>✎ Aggregation of local problems and needs to formulate national and international priorities and programs</li></ul>
<b>Local</b>	<ul style="list-style-type: none"><li>✎ Involving the local population in the decision- making process</li></ul>
<b>Sub-local</b>	<ul style="list-style-type: none"><li>✎ Management of certain problems</li><li>✎ Implementation of the results of higher-level plans</li></ul>

### Activity

Answer the following questions accordingly

1. What are the different types of planning and their purposes?
2. Briefly discuss the rationality of regional planning using example?
3. Discuss the various approaches to regional planning?
4. What are the differences between mission statement and vision statement?

### Summary

Dear students, the last chapter of the course concerned with the issues of regional planning.

So far we have elaborated that regional development planning is a recent phenomenon which has been necessitated to deal with regional development disparity and to bring the socioeconomic development of a region based on national development objectives and priorities. At the regional level regional planning deals with identifying development problems, identifying potential resources of a region, setting objectives of development attempts of efforts and trying to change sectorial structure of the regional economy. It basically relies in the optimization of efficient resources use, redressing, of development inequalities, among regions and the effective decentralization of power to the local community.

We have seen that regional plan should have cohesion and consistency. It should have physical, financial, sectoral, spatial, and financial balancing and have a consistency with the past, present and future. A good plan is prepared through the process of bottom up rather than imposed from above.

Development planning is a multidisciplinary activity involving many different sectorial activities. This suggests the need for regional planning of specifically inter-regional planning because regional planning involves planning a region of geographical areas as a whole including all sectorial activities. Thus, it provides a means for coordinating the planning activities of the many different functional agencies operating in the region. Regional planning also used as means of implementing national plans and Facilitating Participation.

You have also learned that there are different approaches to regional planning. Some of these approaches are regarded as conventional regional planning which includes regional economic planning, regional disaggregation of national plans, regional land use plans and natural resources planning. The other approaches to regional planning are classified as non-conventional regional planning approach. This includes integrated development planning, regional administrative planning and community planning.

### Self-Test Exercise

Part I: matching items

***Match the items under Colman 'A' with appropriate definitions under Colman B***

Column 'A'

Column 'B'

- |                           |  |
|---------------------------|--|
| 1. International planning | A. Involving the local population in the decision making process |
| 2. National planning      | B. Management of certain problems at the very grass root         |
| 3. Regional planning      | C. Setting national ideals and principles                        |
| 4. Local planning         | D. Is the aggregation of local problems                          |
| 5. Sub- local planning    | E. Solve trans-boundary problems                                 |