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UNDERSTANDING DYNAMICS OF LOCAL AND REGIONAL ECONOMIC DEVELOPMENT IN EMERGING ECONOMIES

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Planning and developingrelevant policies for regions, localities and places have been one of the fundamental issues for politicians, policy makers, academics, researchers and practitioners in the field of local and regional economic development.This task is getting increasingly problematic in the face of rapid global economic change that has now been complicated by the impact of recession and volatility in fuel, energy and mineral costs. In this process, some countries that have been considered less developed are growing very fast in a way that has never been anticipated before.

These counties show great potential to develop and there is a need to understand the regional dimension of growth more than ever. This paper explains the challenges that analysts and researchers experience when they want to translate the processes that shape regional economies into regional policies and programs both at the national and regional levels.

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I. INTRODUCTION

A fundamental question that confronts politicians, policy makers, academics, researchers and practitioners in the regional development field is: how do you plan and develop policies that are relevant to the regions, localities and places in which they are to be applied? This task is increasingly problematic in the face of rapid global economic change that has now been complicated by the impact of recession and volatility in fuel, energy and mineral costs. Since the economy changes very rapidly, some countries that have been considered less developed are growing very fast in a way that has never been anticipated before. These counties show great potential to develop and there is a need to understand the regional dimension of growth more than ever.

Turkey, as an example, is a rapidly growing economy built especially on manufacturing. Productivity is increasing within the national economy and the style of Turkey's economic growth has been likened to that of China and India (Rodrik, 2010). As the GDP levels more than tripled to USD 736 billion in 2010, GDP per capita increased to USD 10,079, from USD 3,500 in the given period (Economic Outlook, 2011). The visible improvements in the Turkish economy have also boosted foreign trade, while exports reached USD 114 billion by the end of 2010 (ibid.). At the same time, Turkey is positioning itself and preparing for entry into the European Union. To meet Turkey's national economic goals it is, therefore, important that regional economic policies should help to support, harness and enhance the economic growth potential of its constituent regional economies. Those economies, at the provincial level, have a range of different starting points, from the most developed in the largest urban centers to the more rural and regional areas.

The global economic environment with which Turkey's regional economic policy must cope is also changing rapidly (Taylor and Ersoy, 2011). Global interdependence is increasing on a massive scale orchestrated through TNC-driven value chains, outsourcing, and evolving styles of value chain management. The 'financialisation' of the corporations driving these chains has seen their focus shifted towards the creation shareholder value, while externalizing the risks of production. Increasingly, they are owners of assets and orchestrators of Intellectual Property Rights (IPR), technology and financial flows from which they can strip profits while externalizing and outsourcing production to contract manufacturers. And they are aided in their operations by financial institutions, especially the so-called "clever" and formalized speculation of hedge funds and financial intermediaries. Turkey's manufacturers, however, tend to operate in the lower ranges of these corporate controlled value chains.

A second major shift in the global financial system parallels corporate sector 'financialisation'. This is the commodification of money. The commodification of money has fuelled rampant consumerism in the triad economies of North America, Europe and Japan. It has encouraged and enabled an exponential growth in the consumer debt of ordinary people in those countries – the debt that fuels the demand running through the value chains of which Turkey's manufacturers are part.

These shifts in the world's developed market economies have been built over the last 30 years on an unswerving belief in neoliberal, Friedmaneque thinking that markets are always correct and always bring balance. Recession and now slow faltering recovery, faltering consumerism, and toxic and tainted money undermine those old certainties that had led Gordon Brown the UK's Prime Minister in the last Labour Government to announce in the years before 2008 the end economic boom and bust.

II. THEORIZING PROCESS

So, how is it possible to understand the processes operating at the regional scale to shape the local and regional economies of different parts of a country like Turkey? First, it is important to recognize that economic processes are difficult, if not impossible, to measure. Economic data only ever portray outcomes – what has happened in the past – and act only as a signpost towards what might happen in the future. It is only through theory that processes can be conjectured, making theory central to the formulation of policies to generate local economic growth (Ersoy and Taylor, 2012). As such, regional economic policies are only as good as the theories that are used in their formulation are relevant to the regions that are being targeted.

What is only too clear at present is that there is no shortage of theories that specify the processes shaping regional economies. What is just as unclear is which of these theories has any empirical and practical relevance in developing regional economic policies for a country like Turkey.

Currently, there are two sets of theories on local economic growth, all of which have been developed in developed country contexts, though they have been applied far more widely. These two sets of theories are:

(1) the endogenous growth theory of the economists' (sometimes referred to as the 'new economic geography'), and
(2) the institutionalist theories (the new regionalism and embeddedness ideas) of economic geographers, economic sociology and other similar social sciences.

Endogenous growth theory has been labelled 'undersocialised' and stylized caricatures, while institutionalist theories have been labelled 'anti-clarity' (Clark 1998; Krugman, 1991). Such, however, is the rivalry among 'guru' theories.

A. Endogenous Growth Theory

Endogenous regional growth theory seeks explain growth in terms of a set of 'stylized facts' using abstract mathematical reasoning. Firms are seen as rational, profit-seeking maximisers, and it is assumed that reality can be understood through the use of equilibrium-based models (Plummer and Sheppard, 2006). At the heart of the approach is 'endogenous' technological change (including 'social capital' and 'human capital') built on processes of learning-by-doing, knowledge spill-over, and Schumpeterian 'creative destruction' as entrepreneurs invest in knowledge and innovation (see Martin and Sunley, 1998; Jones, 1998).

The models are abstract and difficult to test. However, much of the testing and analysis attempted in this field emphasizes 5 'stylized facts' as determinants of regional economic change:

technological change and innovation;
human capital, embracing research and education;
agglomeration and externalities;
knowledge spillovers, including entrepreneurship and new firm formation; and
sectoral specialization and/or diversification (see Glaeser, 2000).

These 'stylized facts' are difficult to measure, and many proxy variables have been used in studies to date (see Durlauf *et al.*, 2004). However, though these proxy variables might fit, they are, nevertheless, difficult to interpret in a meaningful way in terms of the economic reasoning underlying endogenous growth theory. This is especially true when variable selection is driven by data availability rather than theoretical fit (Durlauf and Quah, 1999).

The lack of reality that limits the usefulness of endogenous growth theory has been highlighted in both the theoretical and empirical research in geography which shows many of the theorised relationships to be simplistic and under theorized. For example, in endogenous regional theory agglomeration is assumed uncritically to be a source of external economies of scale that reduce transaction costs when there is empirical evidence that agglomeration offers *not cheaperproduction*, even in transaction cost terms, but *simply easier production* in purely behavioral terms (Taylor, 1975). Similarly, the presence of knowledge in a place is assumed to lead without problem to spillover from one firm to another. No transmission mechanism is conceptualized while even casual empiricism would suggest that contract law, the legal protection of IPR, and firms' use of inimitability strategies all seek to constrain knowledge spillover. Indeed, these restrictions on knowledge flows have been theorized in the 'inimitability' version of the competencies theory of the firm.

It can be contented that the 'stylized facts' of endogenous regional growth theory need to be unpacked, especially the mechanisms that diffuse the growth impetus of technological change through a regional economic system (Clark, 1998). They present a very limited perspective on the "messy" contingency of the lived economy of places. Outside economics, built on Granovetter's (1985) concept of embeddedness, a range of institutionalist theories of local economic growth have developed that move beyond the anonymity of pure market mechanisms to emphasize and economic life and commercial transactions built on social interconnections. These theories combine to create 'new regionalist' thinking.

B. Institutionalist Theories, New Regionalism and Embeddedness

The concept of embeddedness, that emphasizes the role of social relations in economic transactions, has given rise to a powerful model of local economic growth that draws on a range of complementary literatures on "new industrial spaces", "learning regions", "innovative milieu" and "regional innovation systems", "clusters", and the "creative class" (e.g. MacKinnon, et al., 2002; Braczyk, et al., 1998; Porter, 1998; Storper, 1997; Florida, 2002). Together, these sets of ideas have been labelled as "new regionalism" (Rainnie and Grobbelaar, 2004). They share the basic ideas that market conditions are not the sole determinant of differential regional economic growth. Instead, local economic growth is driven by proximity, repeated inter-firm interaction and knowledge exchange, collaborative long-term buyer-supplier relationships, the creation of social capital (including trust, reciprocity and loyalty), and a supportive tissue of local institutional thickness (see Putnam, 1993; Malmberg and Maskell, 2006; Cumbers, *et al*., 2003; Keeble and Nachum, 2002; Ersoy, 2011).

What has been created is a series of explanatory frameworks building on ideas of:

1. flexible-production, flexible-specialization (Scott & Storper, 1992);
2. clusters and competitive advantage (Porter, 1998);
3. embeddedness model (industrial districts, learning regions, innovative milieu (Maskell et al, 1998);
4. enterprise segmentation (Taylor & Thrift, 1982, 1983); and
5. the creative class (Florida, 2002).

With their emphases on technological change, innovation, enterprise and proximity, they build on the conceptual foundations laid in the earlier theories on growth poles and growth centers (Perroux, 1955; Boudeville, 1966) and product-cycles (Vernon, 1966).

The new regionalism ideas are broad and popular as platforms on which to build regional development policies though they have significant limitations that constrain their explanatory usefulness (see Taylor, 2005). They do not measure economic growth or decline, but simply recognise 'success', and use the idea tautologically to identify 'successful places' from which to draw qualitative inferences on 'success'. Proximity is fetishised as a vital and central element of enterprise generation and the exchange of information, ignoring the inimitability strategies of firms, especially those involved in the development of new technologies. Time is incorporated only implicitly into these frameworks, and the networks within which firms are embedded are seen as more important than the firms themselves (for example, see Yeung, 2005). Quite unrealistically, new knowledge is assumed to translate unproblemmatically into new business ventures, and the unequal power relations between firms together with the brutality of the capitalist profit imperative remain largely unrecognised and left outside the scope of theorising (Christopherson and Clark, 2007). What is more, the whole issue of financing and the supply of funds in regional economies is entirely neglected.

The institutionalist ideas of new regionalism offer, therefore, a different but equally limited caricature of regional economic processes to that offered by endogenous growth theory. They have been accused of being over-theorised with an opacity created by an emphasis on qualitative methodologies that makes it difficult to say what theorised processes promote or retard regional economic growth; what are vital and what are irrelevant.

III. THEORIES TO POLICIES: LOST IN TRANSITION

Given these theoretical assumptions on local and regional economic growth processes, the question arises as to how they can be turned into useable and appropriate regional economic policies? Experience both in the UK and especially in Australia, from the former Federal Office of Local Government (Taylor and Garlick, 1989), shows that this is not an easy and straightforward task because politics frequently gets in the way of economic analysis – not just party politics at the State or national levels but, sometimes more importantly, the bureaucratic politics of government departments and public servants. In this environment, theoretical thinking, no matter how grounded it is in empirical analysis, gets lost in translation. This problem was spelled out in detail in relation to Australia regional policy in the 1980s and 1990s in Taylor (2000) and aspects of UK policy in Taylor (2009) (also see Bryson and Taylor, 2006, 2008).

Two stages can be identified in the translation (and potential distortion) of theoretical thinking into policy. First, *at the level of politicians and policy makers*, translation occurs because they are dealing with real issues in real time. There are political imperative behind the decisions they must make which economic theory cannot address. The politicians and policy makers need ready answers and this makes the 'guru' theories of overseas experts appealing because they come with the intellectual weight and gravitas of the researchers and consultants involved which tends to outweigh the local knowledge and sensitivity of local researchers and consultants. Second, *at the level of local practitioners*, further translation also occurs. Australia evidence shows that local practitioners at the community level are often motivated to define their jobs to show success and to demonstrate engagement with current policy at higher levels of the national bureaucracy. This is hardly surprising as it is these higher level bureaucrats that control the stream of local practitioner work.

The *politician/policy maker mistranslation* of real world processes has been only too evident in the West Midlands region in the UK. It has been shown Bryson and Taylor (2006, 2008, Taylor, 2009) that over a 50 year period, the spatial dimensions of regional policy as they have been used to frame policy in this region, have rarely been in tune with the processes shaping the spatial aspects of its economic growth. In the 1950s and 1960s, spatial policy aimed to concentrate public housing growth into corridors radiating from the Birmingham and Black Country Conurbation. These corridors were separated by green wedges in an effort to improve the living environment of the people moving to dwellings in these new public housing corridors. Grand as these plans were, they never matched with reality. As policy was being developed, society was changing. Affluence was increasing, and with it, increasing levels of home ownership. As a consequence, more housing was built in the planned green wedges than in the corridors designated to take it.

Later, in the 1990s and early 2000s, regional policy in the West Midlands, promulgated by the now abolished regional development agency (RDA), Advantage West Midlands (AWM), again mirrored national policy, favoring cluster ideas and current thinking on the knowledge economy. Great effort went into identifying and designating 'clusters' of one sort or another, both real and imaginary. And the spatial element of the policy framework sought to confine new and high technology industry growth to the western, Black Country, half of the Birmingham and Black Country Conurbation, this being the part of this urban-industrial complex that had been most seriously undermined by the national Thatcherite economic policies of the 1980s that had favored banking and finance, and business and professional services over traditional engineering and manufacturing. Laudable as this approach to regional planning was, and built as it was on 'guru' thinking especially on clusters, it bore no relationship to the realities of spatial economic growth in the West Midlands region. As a Bryson and Taylor's (2006) major research report on the region for the West Midlands Regional Observatory (WMRO) showed, the fastest growth of new and high technology industry, was occurring in the West Midlands region, not in the Conurbation itself, but in a surrounding belt up to 20 kilometers distant from it. In the same belt, business and professional service employment and businesses were also growing. This was a radical disconnect between policy and regional economic processes, but one that is not uncommon. Clearly, regional policy practitioners and formulators need to be better informed on the economic processes shaping their own regional economies. At the same time, it can be argued that economic analysts need to understand the regional policy processes as much as the regional economic processes that they theorize.

IV. THE PRACTICE OF REGIONAL DEVELOPMENT: DOES IT HAPPEN ON THE GROUND?

The *local community/local practitioner mistranslation* of real world processes is, from the evidence available, quite different again. Too frequently, it would appear, local communities and in some regards local development practice are not fully engaged with any understanding either of local economic processes or with the realities of policy. As was recognized over 20 years ago, in Australia there is a tendency for local communities to react to local economic problems from the perspective of, "**We** have an economic problem, what are **you** going to do about it" (Taylor and Garlick, 1989). From the perspective of the local economic development practitioners, it is also important to recognize that there is a tendency for them to be motivated to define their jobs to show success and engagement with current policy thinking. There is a tendency, therefore, for terms like 'clusters', 'networks' and 'creatives' to be used in ways that theorists did not intend them to be used. As a consequence, the terminologies of theories are absorbed into standardized schedules of local development practitioners and consultants.

Drawing on Australian experience, gathered through the Country Centers Program of the late 1980s (see the detailed discussion in Taylor and Garlick, 1989) and more recent research using facilitated workshops and focus groups involving local community leaders (Garlick *et al*., 2007), a number of significant and quite different issues emerge for regional development at the local community/practitioner level.

Workshops with community leaders in Australia revealed five quite revealing and common attitudes in Australian regional communities. First, they seemed unable to appreciate their integration into a global economy involving the growing power of rapidly industrializing states and shifting patterns of trade. Second, there was an optimistic naivety about the way corporations with operations in their local communities would be loyal to them, notwithstanding the body of findings that would suggest otherwise that has been developed in the past 30 years. Third, these regional communities lacked local strategic thinking and were particularly enamoured of the quick-fix, 'guru' solutions offered to them by consultants. Fourth, once a community had a plan it became transfixed by it. It was enough to have a plan. Implementing it was unnecessary. Finally, having a plan raised led local communities to forget past failure and to see only a super-optimistic future: an attitude that might be labelled, *the optimism of the immediate*.

This is not to suggest that these communities were living in a world of unreality. Many were aware of their loss of skilled people (human capital) to larger urban centers.Lack of dynamism was recognized in some regions, as was the loss of human capital to major metropolitan centers – though this exodus was seen as normal. Key industries were seen as not generating business spin-outs, and regional planning was seen as disorganized. The local education provision was seen as out of tune with the development of local entrepreneurship capacities, and consultants were seen by some as pushers or 'winner' strategic formulae rather than building on unique local capacities and abilities (Garlick *et al*., 2007).

V. CONCLUSION: IS LOCAL FACILITATION AN ANSWER?

In this paper we have argued that the theorizes through which analysts and researchers engage with the processes that shape regional economies translate with difficulty into regional economic policies and programs at the national level not only because the theories themselves are partial but because they are all too frequently promulgated by 'gurus' concerned for the primacy of their own thinking. That translation is made more difficult by politicians and policy makers who must cope with the realities of economies that are in a constant state of 'becoming', and the vagueness of theories that allows them to be shaped to meet any political goal or distorted at the local level to accommodate local bureaucratic goals. At the same time, local communities are often, from the evidence available, only partially aware of the potentials and weaknesses of their own local economies and communities and the problems facing them.

Too often, regional economic policy is imposed centrally in national economies, with the UK's approach to regional development being a case in point. It can be argued, however, that what is needed at the local and regional levels to promote and encourage appropriate economic growth that contributes positively to the national economic effort is *facilitation* rather than *centralized direction*. Such local facilitation has been argued for in Australia based on the Country Centers Program of the 1980s. It would be built on seven pillars.

Local community forums that draw together local politicians, bureaucrats, community leaders, local business people, local enterprise support groups and institutions, finance and legal and other commercial interests, community groups and educationalists. Broadly based, they would not be consultant-led as there is evidence to suggest that this thwarts local commitment and initiative;

Local facilitator schemes based on individual facilitators, but not consultant-led, who seek to foster local economic initiatives by introducing potential ventures and existing entrepreneurs and social entrepreneurs to sources of advice on enterprise, trade and sources of venture capital for example, and to government departments at all levels. They are not providers of finance but

people who facilitate the entry of local business people into national and regional networks of support and advice;
Local business service support to ease new ventures through the vulnerable early years of start-up and expansion/diversification;
Fast track business review structures to remove costly indecision and bureaucratic delays that can impede local enterprise and entrepreneurial activity;
*Local venture capital provision*that can ease new ventures into being without the need to have to deal with the different ways of doing business in terms of raising finance that are commonly experienced in large cities and metropolitan centers;
*Local business forums*that act as support structures for newly established business ventures – an important element of what has been called institutional thickness; and
Enhanced links between universities and the business community that can generate knowledge and information flows, enhance new enterprise development, and extend and reinforce the human capital provision of a region or place.
However, great caution needs to be exercised in building enterprise facilitation on these seven pillars, especially when a particularly successful economic venture appears.

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RAZUMIJEVANJE DINAMIKE LOKALNOG I REGIONALNOG RAZVOJA

Sažetak: Rad tvrdi da političari, kreatori politike, akademici, istraživači i praktičari u sferi lokalnog i regionalnog razvoja moraju preispitati dinamiku lokalnog i regionalnog razvoja. Ekonomija se rapidno mijenja, zemlje koje su smatrane manje razvijenima imaju ubrzani rast na način koji nitko nije mogao predvidjeti. Te zemlje pokazuju ogroman potencijal za razvoj te više nego ikad postoji potreba za razumijevanjem regionalne dimenzije rasta. Ipak, globalizacija i brze promjene događaja u svjetskim razmjerima postavljaju niz izazova pred političare, kreatore politike, akademike, istraživače i praktičare u sferi lokalnog i regionalnog razvoja. U radu se raspravlja o tim izazovima i tvrdi se da bi se trebali sagledati interaktivno a ne pojedinačno. Ra stimulira debatu koja je potrebna kako bi lokalni i regionalni razvoj ostali relevantni.

Ključne riječi: ekonomski rast, regionalna politika