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**Re-conceptualising Regional Economic Development in the
SA context: A Critique of Competitive Theories and
Policies**

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This paper is based on the authors PhD thesis, UCT, 2012. This is a working
draft that should not be cited.

Introduction

- This paper explores re-conceptualising of regional economic development in the South African context through a critique of competitive theories and policies.
- Aims to initiate a dialogue on the components of a conceptual framework that could assist with formulating more appropriate, contextual relevant, robust and inclusive economic development theories and practices.
- Regional development strategies as an effort to implement national development programmes - 'spatial targeting': SDIs; IDZsSEZs
- SA macro-economic policy is fundamentally neo-liberal
- Market-orientated approaches – mainly derived from the global north & informed mainly by competitiveness theories such as comparative and collaborative advantage; agglomeration economics, economic clusters; place as a commodity, land value capture; labour market mismatch; entrepreneurship, etc.

Introduction

- Not resulted in sustained increase in economic growth and even less so, economic development.
- Public sector authorities have followed sub-national economic development policies and strategies without
 - critical consideration of their underlying theoretical assumptions;
 - how these conceptually relate to each other;
 - the degree of internal contradictions,
 - the relevance of geographic scale
 - economic contextual realities of the majority of inhabitants within various regions
 - inherent contradictions are significant contributors to the lack of relevance and effectiveness of these economic policies and strategies.

Introduction

- Draws on the author's PhD thesis grounded within Foucauldian post-structuralism and post-development meta-theories.
- Uncovering the assumptions of the econ. dev approaches advocated in SA critical analysis of these
- Conceptual framework interconnected elements of the state, society, capital and space is advocated.
- Means to extend existing econ. dev. Approaches
- Provides a platform to engage with diverse societies with complex economic histories such as SA.
- Point of departure: primary policy mandate of the state is to stimulate growth and development that is inclusive of the majority of its citizens.
- Critique of regional econ. dev. strategies and associated assumptions

1st Assumption: Economic development policies and strategies respond to SAs and Regions specific actual challenges

- Predominantly primary activities; limited sector diversity, processing and value addition; rural-urban migration, neg. consequences for smaller towns and rural hinterlands;
- Persistent high levels of unemployment; low job creation, low education , skills deficit; widespread poverty, Crime, drug abuse and social deprivation; overreliance on social welfare grants;
- Apartheid land use patterns, shack settlements, urban sprawl ; unsustainable settlement developments; threats to natural environmental resources.
- Aging infrastructure to support and sustain economic growth; regulatory and administrative inefficiencies; excessive red tape; management deficits;
- Racially based investment patterns - skewed beyond the market rationale;
- Most unequal societies in the world; social instability; BEE has failed
- Ineffective leadership rooted in historic discriminatory practices, inequitable access to power and resources, obstacle for long-term cooperative leadership and management partnership to emerge.;

- Inability of pursuing home-grown and context specific economic development policies and strategies
- Assumption that these challenges can be ignored, as the focus of competitiveness is on downtown/CBD areas;
- Impacts on the productive and livelihood capacity of communities and regions
- impacts negatively on the capacity of regions to pursue more inclusive and sustainable growth and development paths within an ever changing global economy.
- assume that measures such as place promotion, entrepreneurship and setting up businesses can be pursued in any context.
- evident that the competitive theories pursued not in response to the context specific economic development challenges prevalent within regions in South Africa.

2nd Assumption: Economic growth and economic development are synonymous.

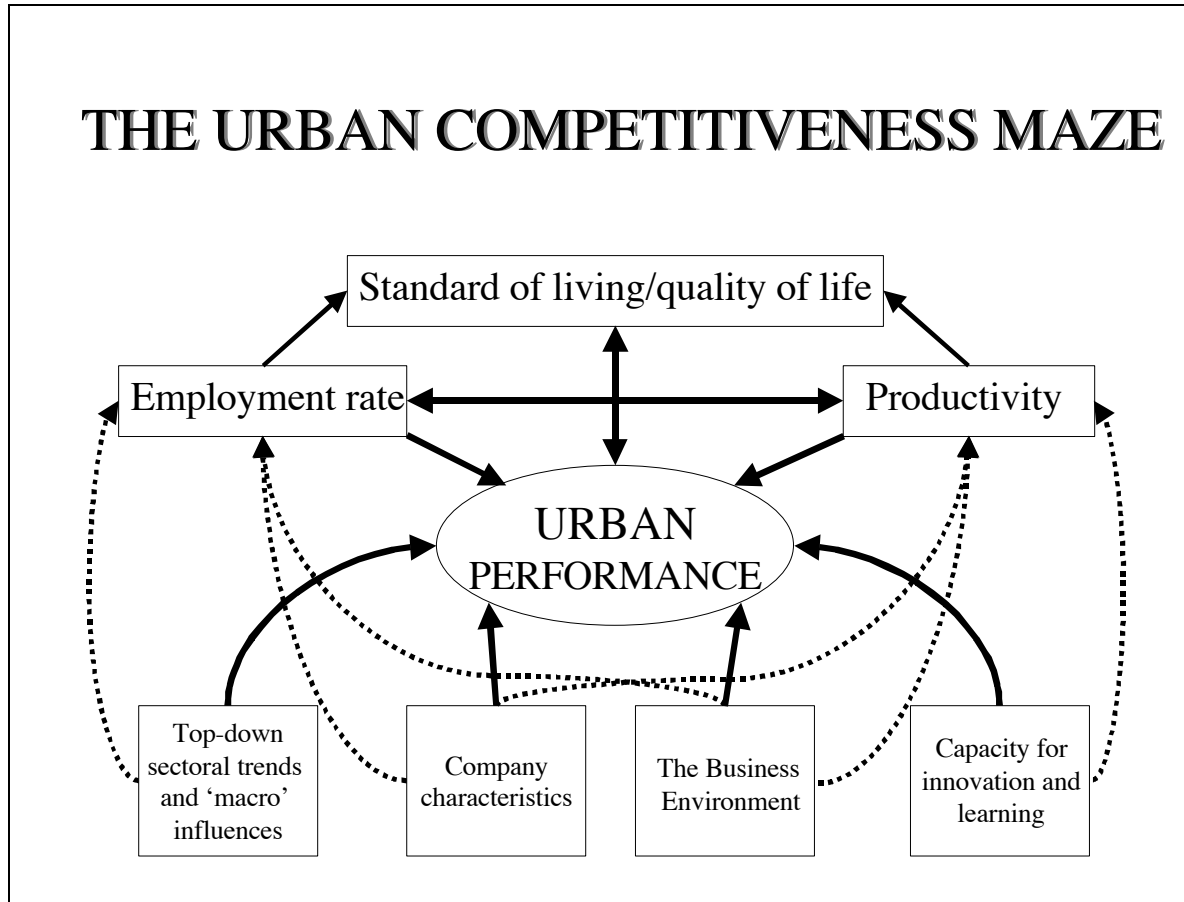
- Economic growth had traditionally been defined as increased total output or income;
- Econ. dev. more broadly described as the sustainable increase in the overall standard of living for individuals within a community.
- Economic growth is one-dimensional, economic development is multi-dimensional
- Development could occur in one location by draining resources from another.
- Issues of growth, quality of life and sustainability to be tackled jointly
- Trickle-down model not accurate, extra-ordinary growth over the past century 'has left enormous gaps in education, infrastructure, health care and environmental protection'

- All capital stocks should be valued for contribution to quality of life and sustainability of development in add. to measuring contribution to economic output and income.
- Bringing new firms and investment to a town, increasing total output and raising the price of land –often labeled ‘economic development
- However, Increasing knowledge; reinvestment in community productivity, economically more sustainable.
- Conventional wisdom: flexible labour markets, low regulation, low taxes, weak unions, low workers’ compensation and low unemployment insurance rates - good for businesses.
- However, low bargaining power of workers often meant low wages, benefits and job security in the community.
- Low salaries : multiplier effect on money spent locally significantly reduced and resulted in less tax revenue per worker to pay for public services

3rd Assumption: Promotion of market orientated policies automatically result in econ. growth & dev.

- Culture of competitiveness, attracting inward investment and entrepreneurship
- UK & USA 1960s and 1970s: Focus on attracting mobile manufacturing, and public resources deployed provision of 'hard' infrastructure such as land and utility services; removal of red tape.
- Mid 1970s', Rising global competition & stagnant world economy: realisation that 'smokestack chasing of footloose industry' not producing promised jobs and creating wealth
- Reagan and Thatcher administrations (1985-1991); Econ. expansion of the global economy epitomised the 'power of the market economies' to generate growth and create jobs.
- However, significant spatial miss-match between where the job growth was occurring and where people were located- lagging rural areas and inner city areas
- No significant evidence exist that state targeting of inward investment can be attributed to generating significant econ. growth and job creation.
- Investment would have occurred in the absence of public intervention.
- Some success in targeted localities- net loss of investment of others.
- Benefits in terms of taxation are generally accrued to HQ in capital cities

THE URBAN COMPETITIVENESS MAZE



Source: Begg, I, 1999.

- Skilled labour attracted from outside the region.
- State advocate these 'market fundamentals' as a means to stimulate investment, economic growth and create business opportunities
- Mandated to promote entrepreneurship and business development, targeting industries and small businesses.
- Underlying assumption that most individuals have the potential and willingness to become entrepreneurs, are keen to start a business and to formalise (not necessary correct)
- Rationale for starting and operating a business not necessarily relate to entrepreneurship, innovation and competitiveness
- Question competitiveness strategies can be automatically transferrable to regional economies in developing countries

4th Assumption contends that the pre-conditions associated with competitive theory are universal and can therefore be applied irrespective of context

- Porter: competitiveness theories are complex and multi-dimensional.
- Successful economically have concentrations of specialized knowledge, support institutions, rival firms, related enterprises and sophisticated customers.
- Proximity leads to special access, closer relationships, better info and powerful incentives to innovate.
- Competitiveness key determinants for sustainability include investments, firm structure and the ability to continuously innovate.
- Porter's diamond & economic clusters further complexity to understanding competitiveness. agglomeration economics and value chain analysis.
- Competitive place theory- place as a commodity - improved and traded - attract mobile investment
- Comparative advantage region or firm's access to specific assets and attributes - 'static advantage'.
- Competitive advantages: combining different resources through the application of skill and knowledge 'dynamic advantage' - engage in production at a lower cost, greater efficiently and delivering better quality products, than another entity.

- Concept of competitiveness part of the language of policy-makers in SA context - one-dimensional manner - superficial and precarious.
- Interpreted as enticing high value, high-tech parks and special economic zones where the potential to become globally competitive.
- Potential of these areas becoming globally competitive is unrealistic.
- May involve public incentives to attract investors (land and reduced taxes and service fees) could redirect resources from other more critical needs
- Danger of simplistic interpretations of elements of competitive theories
- Key Questions:
 - What are the opportunity costs?
 - Could better results be achieved if initiatives aimed at generating sustainable jobs were targeted directly?
 - What would have been the returns of such investment in education or skill training schemes?

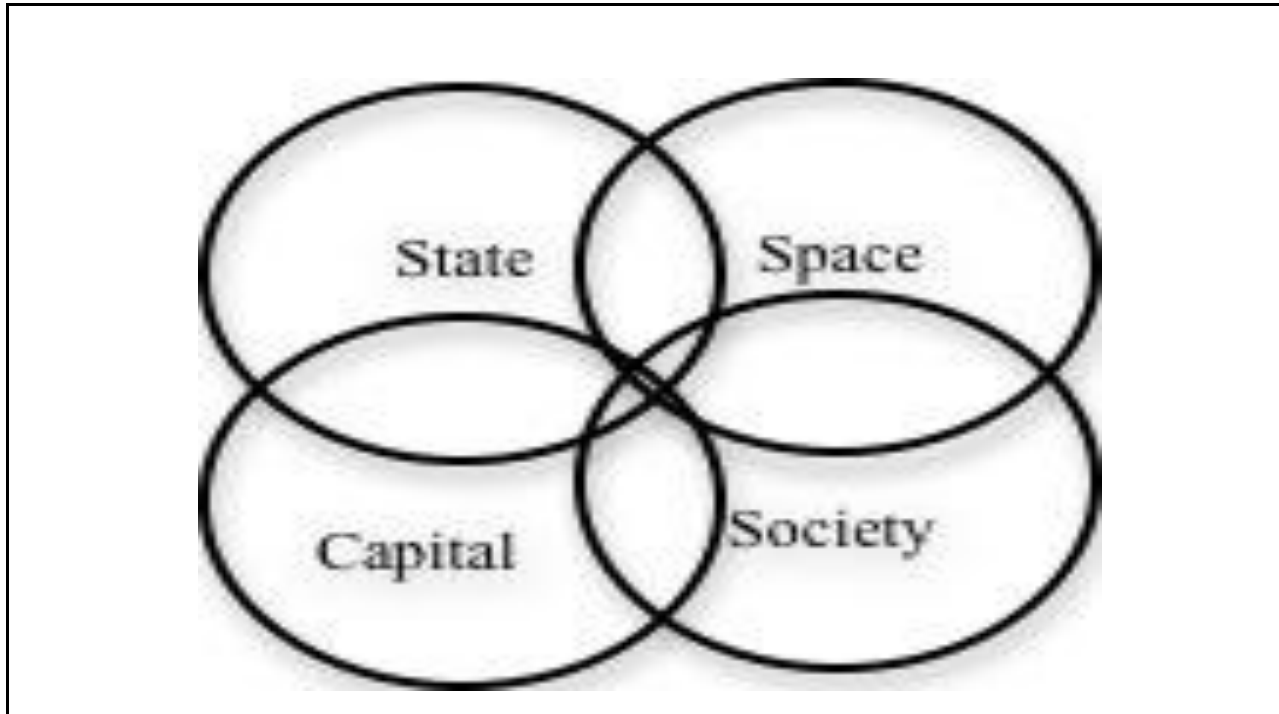
Extension to Economic Development Theory

- SA realities contrast sharply with northern context
- Does not necessary imply new theory or policy, rather reconceptualization and extension to existing approaches
- Focus of such an Approach
 - Comprehend the economic, business, social, environmental and spatial context of particular regions; and
 - Relationships, complexities and nature of political, interactions and networks amongst firms and interests groups at all levels.
- Responsive to the complexities of regions, cities and associated hinterlands; potentials of natural resource base, urban & rural econ.
- Aims to contribute to broader econ. Dev. debates and conversations.
- Respond to assumptions and contradictions, explore ways of engaging realities and respond to geographic, income & social inequalities
- Must engage with this interplay to make sense in a southern context.

Conceptualising State, Capital, Society and Space

- Needs to capture the complexities and dynamics of econ, social and environ forces present in city-regions.
- Application of conceptual development framework - authors PhD
- Involve interlocking elements of capital, state, space & society
- Elements inextricable connected to each other and sets up power contestations embedded in praxis and policy.
- Can provide a means to critique underlying assumptions of regional econ. dev. practices and assist with the formulation and application of approaches that are more relevant, robust, inclusive and responsive to the SA context.

Economic Development Conceptual Elements



Source: Madell, 2012

Conceptualising the Role of the State and its relationship with Society, Capital and Space

- State aims to influence the form and spatial location of econ. activity, capital investments, rate and type of business formation through incentives e.g. grants, rebates, loans, concessions and regulatory measures
- Foucault's discourse: governmentality – recognises multiple and conflicting agencies involved in the notion of the state
- Dean's : governmentality: state complex dimensions, enables multiple forms of engagements.
- State not a monolith; consists of levels and spheres of government, different departments, is subject to social, cultural, historical, political and local influences, and operates in a myriad of ways.
- Complexity of the state creates the opportunity for communities and associated regions to respond to it in diverse, context informed ways.
- Scott: states produced simplified and schematic models of reality in order to control and intervene; resulted in unintended outcomes.

Interpreting the Role of Capital and its relationship with the State, Society and Space

- Role of capital is complex and multi-facet.
- Capital, land, labour and organisation, central to econ. dev.
- Ability to assemble and leverage capital through combining various factors of production, add perceived or real value, encourage free trade and the generation of profit.
- Assumption entrepreneurs have assets that can be used as leverage or collateral to fund the start-up or growth of their business or to access funding from lending agencies for business development and growth.
- Property ownership - a key mechanism to build the asset base of a business or potential entrepreneur.
- Need to re-conceptualise 'capital' and 'asset' as collateral and to increase access to financial resources.

- Broadening understanding of 'collateral' - within specific cultural, historical, social and political contexts.
- Recognising widely accepted, durable and transferable assets within specific communities and include informal business activity operating at regional scale (e.g. transportation, livestock, agri-processing and production systems, firm networks, micro-finance and banking systems, etc.).
- Need to increase access and assistance to business premises for local and emerging businesses. providing land at affordable costs, utility services and rebates in cases where econ. growth and dev. could be localised.
- Would most probably not be considered in the context where more 'higher order' strategies, e.g attracting foreign investment or securing a well-known brand in a given locality regarded as more desirable.
- Conceptualisation and mobilised of capital should be considered within the context of political and power relations.
- Critical need for localised and regional case study research

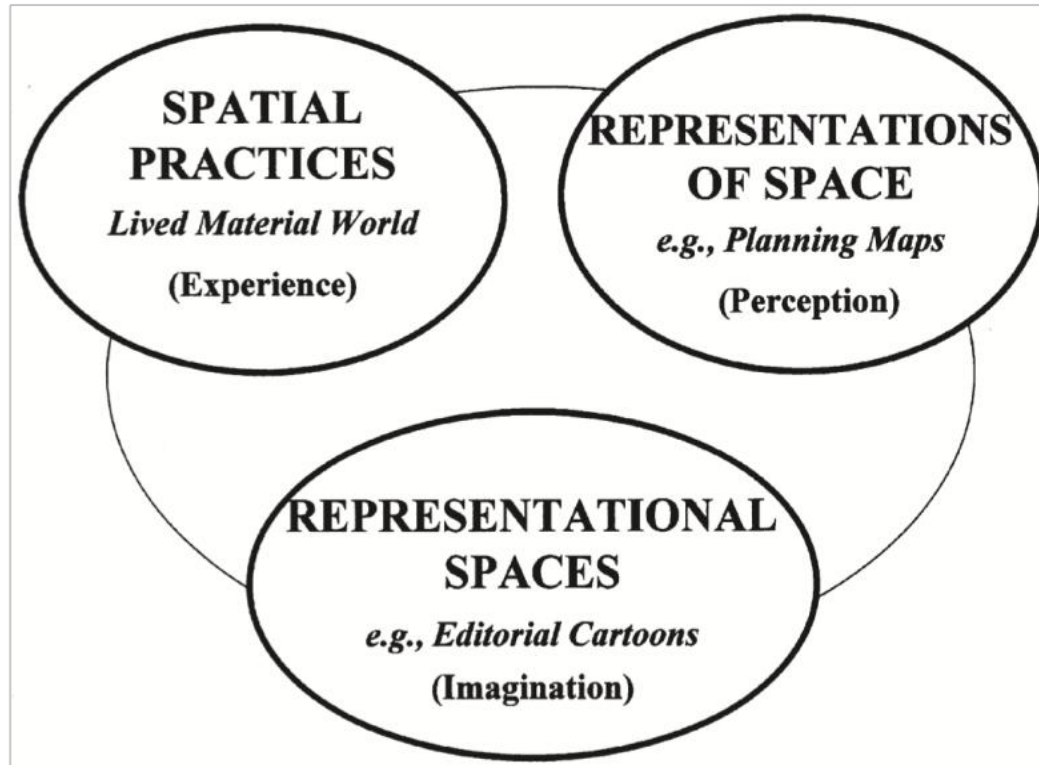
Role of Society and its relationship with the State, Capital and Space

- Econ. relationship between the society and state: those entering or increasing participation the economy - employment or business dev.
- Corbridge et al. differentiated perceptions of the state, businesses vulnerable people, government officials in different departments, or wider development community.
- Governmentalisation involves further extension of powers to those who professed expertise over the private body or the public body and that these persons claimed the privileges of insight, foresight and even hindsight.
- Notion of 'patronage democracy' - access to state resources controlled by the ruling elite acting in an unrestricted manner.
- Foucault: 'power is a set of relations which are dispersed throughout society, rather than being located within a particular institution such as the State or the government'
- State, private and community role players are multi-facet- creates the opportunity for innovative, incisive, crafty and creative approaches – aim to find context specific solutions.

Understanding the Role of Space in the Context of the State, Society and Capital

- Lefebvre's conceptual triad Fig 3)
 - Representations of Space (the abstract space of economist, planners and bureaucrats, constructed through discourse) – Conceived Space
 - Representational Space (the space of the imagination through which life is directly lived, e.g. work of artists, photographers, filmmakers and poets) – Perceived Space
 - Spatial Practices (the everyday routines and experiences that 'secrete' their own social space) – Lived Space

Three moments in the production of space



Source: Lefebvre in McCann, 1999:172.

- Space is continually produced and reproduced, for example by the media, and by the state and residents (e.g imagery, place marketing, etc)
- Planners and middle-class tendency to reproduced exclusionary, abstract public spaces in the city.
 - City as ‘single, happy community where everyone works together for a common future’ - safe’,
 - Experiences and images from the black community aof a segregated city, of social and physical barriers defining the ‘differentiated experiences, perceptions and imaginations of the city by diverse residents.
- Exclusionary downtown spaces; public spaces’ increasingly becoming exclusionary and ‘safe’ for capital:
- Power of the state to reshape the physical spaces of cities

Theoretical Propositions

- Translation of assumptions identified and critiqued, into theoretical propositions (An approach developed by Flyvbjerg, 1998)
- Linked to the components of the conceptual framework: space, capital, society and space
- **Proposition One:** Economic development policies and strategies must respond to SA's actual development challenges and context specific problems
- **Proposition Two:** Economic development must be pursued concurrently with economic growth.
- **Proposition Three:** Market-orientated policies such as fostering a culture of competitiveness, attracting inward investment and entrepreneurship must be promoted in a manner that is contextual responsive and results in economic growth and development.
- **Proposition Four:** The preconditions associated with competitiveness theories must be contextualise within the South African context

Policy Propositions

- Resolve inherent contradictions: State emphasis on market driven economic growth vs Rhetoric of economic inclusion.
- State to be more explicit about desired economic development outcomes
- Economic, business and firm data providing insights into the workings of capital, the state, space and society – to be more readily available and evaluated and assessed in meaningful ways
- Quality of life and sustainability, are interdependent and should be pursued simultaneously.
- Permanent and decent employment opportunities.
- Specifying conditions for inward investment, for example, requirements for multi-national firm to up-skill local labour, source local materials, etc.
- Mobilisation of local regional resources and used more productively.
- Interventions in response relevant regional challenges and opportunities.

Policy Propositions

- Developed economies: Entrepreneur: Characteristics: personal drive, management experience and affiliation to certain ethnic or cultural groups.
- Transitional economies: 'Craftsman' & 'proprietorship' : Characteristics of collectivist and individualist societies - more relevance to SA.
- Recognizing innovation in informal economic activities
- Need to uncover localized way of conducting businesses and growing the economy.
- If depth knowledge of specialisation, support institutions, rival firms, related enterprises, customers, etc. required; *before* competitive place theory is pursued for a given region.

Policy Propositions

- Importance of space been given little attention in economic theory
- Lefebvre's conceptualisation can be transferred to the econ. dev. practices.
- 'Representations of Space- Abstract Conceived Space'
 - By economic development practitioners: recognises that economic growth and economic development are not synonymous.
 - City region as a platform informed by market forces and constructed through discourse such as entrepreneurship, competitive advantage and comparative advantage; should also include notions of quality of life, proprietorship, craftsmanship and environmental sustainability.
- 'Representational Space – Perceived Space'
 - City as place of inclusion for those who have a specific conceptualisation of the city; inclusion of informal and other non-mainstream activities

Policy Propositions

- ‘Spatial Practices – Lived Space’
 - Formal, ‘mainstream’ economic activities and associated labour force extend to include emerging, micro and informal economic activities (the lived spaces).
 - Widened to include the ontology of spatial integration, integration and sustainable livelihoods.
 - Interventions could include influencing the direction of growth, shaping patterns of capital investment, working toward making these places more inclusive, representative and enabling for all levels and spheres of economic activity.

Conclusions

- Economic theories and policies should be internally plausible, consistent, relevant and reliable for diverse regions
- Suggest that appropriate economic development theory must be based on understanding of the state, capital, society and space.
- Propositions not exhaustive and should be regarded as initial steps in extending existing economic development theories.
- Approach shows that possible to critique, reconstruct and extend existing theories that are more appropriate and responsive to the contextual realities of local regions.
- Propositions must be critical of the assumptions of current economic theory dealing with competitiveness, reject universalism, negotiate complexities and acknowledge economic activity is intertwined with local cultural, social and political processes

Conclusions

- Propositions need to recognise the reality of modernity and the 'transformed version' of neoliberalism
- State actively needs to encourage and resource substantive and qualitative research in order to uncover and develop the understanding of regions and then cautiously respond through appropriate policy.
- Policy need to respond to nationally determined development values such as economic empowerment, transformation, poverty eradication, social equity and equality
- Appropriate policy responses require extensive review, analysis and evaluation of the appropriate values, empirical research and theoretical constructs.
- Will provide the basis for more appropriate assumptions and associated interventions.