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Understanding Local Industrial Growth: From Theories to Pragmatic Local Policies

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Introduction

- Increasing need to understand local development processes and the dynamics of regional economic change under conditions of globalisation, recession and rapid change.
- This is especially important for Turkey;
 1. a rapidly growing economy, especially manufacturing,
 2. increasing productivity, and
 3. with a style of growth likened to that of China and India (Rodrik, 2010)
- And that global economic arena is changing rapidly:
 1. global interdependence on a massive scale orchestrated through TNC-driven value chains;
 2. the commodification of money;
 3. rampant consumerism in triad States;
 4. the financialisation of TNCs;
 5. the formalisation of speculation

Theorising Process

- How do we understand the processes operating at the regional scale that shape different parts of a country like Turkey?
- **Processes are difficult, if not impossible, to measure. Outcomes are what economic data portray.**

It is through theory that we conjecture process

- Two current sets of theories
 - (1) Endogenous growth theory of the 'New Economic Geography'
 - (2) Institutional theories (The New Regionalism & Embeddedness ideas)
- The 'undersocialised' versus 'anti-clarity'
Stylised caricatures – 'guru' theory

Endogenous Growth Theory

- A theoretical approach based a very limited number of variables that are considered capable of explaining the convergence or divergence of regional economies over time.
- The variables include:
 1. technological change and innovation;
 2. human capital (embracing research and education);
 3. agglomeration and externalities;
 4. knowledge spillovers (widened to embrace entrepreneurship and new firm formation); and
 5. sectoral specialization/diversification.

Institutionalist Theories of Local Economic Growth

1. Growth pole and growth centre theory (Perroux, 1955).
2. The product-cycle model (Vernon, 1966).
3. Flexible-production, flexible-specialisation (Scott & Storper, 1992).
4. Competitive advantage (Porter, 1990).
5. Embeddedness model (industrial districts, learning regions, innovative milieu (Maskell et al, 1998).
6. Enterprise segmentation (Taylor & Thrift, 1982, 1983).
7. The creative class (Florida, 1995)

Drivers of Local Economic Growth

1. Technological leadership at the enterprise level
2. Knowledge creation and spillover and access to information
3. Local integration of small firms (external economies of scale and behavioural externalities)
4. Infrastructure support and institutional thickness**
5. The local human resource base (skills and education)
6. The power of large corporations **
7. Local demand in relation to the extent of inter-regional trade**
8. Local sectoral specialisation

Modelling Regional Growth - Australia

So, how significant are these 'drivers' in the real world? The Australian example.

- General to specific modelling strategy
- Shifting unemployment relativities used as an index of growth
- Data for 1984 to 1992 (now extended to 2002)
- 94 region base developed for this form of analysis

Modelling Results for Australia

- The four drivers of the *flexible specialisation* model gave the best explanation of patterns of local economic growth
- **BUT** the four drivers *did not act as the theory suggested*:
 - *Human resource base enhanced growth as expected*
 - *Institutional thickness restricted and did not enhance growth*
 - *Technological leadership a minor driver of local growth*
 - *Local integration also a minor driver of local growth*
- Three drivers enhanced local economic growth in the Australian context but none was individually sufficient to create that growth

Interpreting the Modelling Results

- Moving beyond the modelling exercise, there appear to be two processes that are the essential drivers of local economic growth in Australia:
 1. **Local human resources, and**
 2. **Enterprise culture (technology plus the local integration of firms)**
- Looked at sequentially, these processes are *two stages of a knowledge creating value chain*

Modelling Turkey's Regional Economic Growth: Early Evidence

- Tentative early results from PhD analysis

Five significant drivers of regional economic growth:

1. *Knowledge create & access to information (RESTRICTS GROWTH)*
2. *Local integration of small firms (? incipient enterprise culture)*
3. *Institutional thickness, infrastructure support*
4. *Local human resource base (human capital)*
5. *Accessibility to intermediate markets (manufacturing & production)*

- The results are not definitive but match none of the theories!
- They suggest a distinctive form of **production-based growth** built on: (1) **linked manufacturing**, (2) **local human capital**, (3) **Local institutional support**, and (3) **access to intermediate goods markets**.

From Theory to Policy: Lost in Translation

How do you turn these empirical insights into useable regional economic policies?

Two stages of translation (distortion):

Politicians and policy makers – *dealing with real issues in real time – political imperatives – need ready answers so impose ‘guru’ theory ideas*

Example from the West Midlands, UK

Local Practitioners – *motivated to define their jobs to show success and engagement with current policy – deal with ill-informed local communities*

Australian example

Conclusion: is local facilitation an answer?

Local facilitation has been argued for in Australia:

- Local community forums – not consultant-led
- Local facilitator schemes – not consultant-led
- Local business service support
- Fast track business review structures
- Local venture capital provision
- Local business forums
- Enhanced links between universities and the business community