

# *Stronger Economies Together*

Strategies for Building New Economic Opportunities

Module Two: Regional Economic Development 101

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## *Views of Economic Development:*

Introductory courses in college seem to be associated with the number 101. More advanced work builds on these foundational courses. Similarly, this module lays the foundation for the important work we have ahead. A shared definition of economic development is essential to the creation of a cohesive regional economic development plan. At the same time, the team should understand the relationship between community development and economic development.

**How do you define community?**

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**How do you define community development?**

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**How do you define economic development?**

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**What do you view as an economic success?**

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**Are economic development and economic growth the same thing?**

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**How does the regional team define economic development?**

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**How does the regional team envision economic success?**

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**Economic development** is a broad term that generally refers to the sustained, concerted effort of [policymakers](#) and [community](#) to promote the [standard of living](#) and [economic health](#) in a specific area. Such effort can involve multiple areas including development of [human capital](#), [critical infrastructure](#), regional [competitiveness](#), [environmental sustainability](#), [social inclusion](#), [health](#), [safety](#), [literacy](#), and other initiatives. Economic development differs from [economic growth](#). Whereas economic development is a [policy intervention](#) endeavor with aims of economic and social well-being of people, economic growth is a phenomenon of [market productivity](#) and rise in [GDP](#). Consequently, as economist [Amartya Sen](#) points out: “economic growth is one aspect of the process of economic development.” <sup>11</sup>

Economic development includes

- Specific Economic Development Strategies
  - Entrepreneurship, Business Start-Ups,
- Microenterprise
  - Business Retention and Expansion
  - Business Recruitment
  - Financial Assistance to Businesses
- Workforce Development
- Telecommunications and E-commerce
- Conservation-Based and Sustainable Development
- Value-Added Processing and Marketing
- Tourism and Main Street Programs

**Community development** includes

- planning services
- servicing self help groups
- running support and social action groups
- building community networks
- participating in inter-agency meetings
- undertaking needs assessment
- increasing people's skills
- resourcing the community to meet needs
- improving quality of life
- defining priorities
- working towards social justice
- empowering individuals and communities.

One task for community leaders is to identify whether their community is ready to support economic development. Leaders, business people, and citizens can evaluate whether the community rates below, meets, or exceed expectations on the following topics:

1. General community characteristics and trends (e.g., income, employment, and population)
2. Organizational structure for integrated planning (e.g., master plans, asset maps)
3. Education and training (e.g., K-12 education, community college and university access, continuing education, technical education, library access)
4. Governance (e.g., participation, communication)
5. Resources for community growth (e.g., government, foundations, ED funding; infrastructure, transportation system)
6. Quality of life (e.g., health, security, recreational, faith-based services)



# *Trends in the Economy and Economic Development:*

## Major Trends in the Global Economy:

Globally, knowledge and innovation are driving economies. International trade provides goods and services that would otherwise be unavailable or unaffordable to many people. Imagine a U.S. business meeting with no coffee! However, the benefits of increased trade come with economic risks arising from natural disasters and financial and political instability around the world as well as competition from low-cost competitors abroad. Regional economic specialization has gained in prominence as a counter-balance to globalization. This section considers how trends in the global economy affect economic development in your region.<sup>1</sup>

**Economic downturn:** The downturn in the U.S. and global economies have shifted how we measure wealth (e.g., a home may no longer be a stable investment in some areas), changed how people view savings (we see an increase in the personal savings rate in the country), and slowed job creation dramatically. At the same time, public funding has declined due to smaller tax rolls, the end of federal stimulus spending, and a changing political landscape. The challenges that some European Union countries are experiencing, the fledgling movement toward democracy in countries like Egypt, high oil and gas prices, and the emergence of China, etc. are all challenging our traditional approaches to economic development.

**The New Economy:** a knowledge and idea-based economy in which innovation, technology, and networking drive job creation across all sectors and raise standards of living. At the same time, an economy characterized by increased risk and constant change.



**Loss of manufacturing jobs and growth in service industry:** If you examine industry in many parts of the world, you'll discover the lifeblood of their economies has historically been manufacturing and agriculture. Increasingly, the growth industry in many countries is now service-related industries.

**Polarization of work reflecting knowledge, skills and abilities:** Employment and jobs are being polarized with wages reflecting the unique knowledge, skills and abilities of workers. Unskilled production and assembly jobs are becoming scarcer as these functions are performed by machines.

**Outsourcing that divides the value-chain into more productive, interdependent activities:** Many of the business activities traditionally done in-house are now being outsourced. Auto "manufacturers" today are really "assemblers" as they manufacture very few of the components of a car. Instead, most are purchased from other vendors. Even in the non-manufacturing sector, outsourcing can be seen through payroll, human resources, marketing, graphic design, programming, etc.

**Importance of creative/knowledge economies:** If you've read any of the works of Richard Florida over the past few years, then you know he has offered a very compelling argument that the future health of local economies is linked to a community's ability to attract creative and knowledge-based workers or to generate jobs that seek these talented individuals.

**Specialization of regions and communities:** Some have argued that comparative advantage (the idea that every region has a role in global trade) does not hold for sub-national regions lacking the ability to influence currency values, wages, or prices. However, these regions can benefit from competitive advantage associated with rare regional factors and agglomeration economies. Regions and communities are becoming more specialized to take advantage of economies of scale and scope.

*Please refer to Handout One.*

<sup>1</sup> Adapted from the Economic Development Administration's *Know your region, module 1: Collaborate RED framework*. Retrieved from: <http://www.knowyourregion.org/workshop-modules/collaborative-red-framework>.



### **Connections among places with complementary specializations or resources:**

Places are more frequently connecting to other contiguous and non-contiguous places with complementary specializations. Focus is on the industry/businesses that can use the region or community's skilled workforce, resources and assets.

**Expanded growth of entrepreneurs and the self-employed:** Across the world, a growing number of people are starting their own businesses. For example, over the past two decades, the number of self-employed people in rural America has grown by 2 million and now represents over 20 percent of its workforce. Estimates suggest this rate will continue to accelerate over the next decade or more.

### **Trends in Economic Development:**

This section highlights a few trends in economic development. Several of the trends describe traditional approaches to economic development often to as "smoke-stack chasing." This concept is considered out-dated and has a negative connotation as evidenced by the first four trends listed. Of course, economic developers have met the challenges of the New Economy by adopting new skills and a new development paradigm. However, some characteristics of old development practices remain prominent in even new development efforts, as a result of inertia, reporting requirements, public expectations, and other factors.

**Emphasis on Job Creation:** Economic development success is often measured by the number of jobs created. This measure ignores the skill- and wage-levels of the jobs created, as well as full- or part-time status.

**Continued focus on companies rather than industries and people:** Many economic development leaders are still focusing on attracting a major company to their community. It doesn't matter to them what type of company they capture, they just want to get the number of jobs they have attracted to go up. On the other hand, developers may focus on recruiting specific firms that can further strengthen and add value to one of the region's key industrial sectors, especially if in sectors that are likely to enjoy stability or growth over the long term. Of course, picking winning industries and firms is no simple task.

**Loss of private sector leadership:** The loss of small local businesses is accompanied by a loss of local business and civic leaders. Small businesses often have a commitment to the community that may not be a priority among branch managers of large, multi-national firms. Furthermore, regions may experience difficulty in engaging entrepreneurial leaders, who may be focused on other activities.

**Greater scrutiny of public economic development investments:** The debate about the benefits and costs of offering incentives to companies to locate to a state or community remains pretty heated. Do publicly paid incentives for such purposes work? The research seems to be mixed, and with the increasing scrutiny by citizens on how taxpayer monies are used, this is a debate that is likely to rage on for some time.

**Need for talented workforce to be competitive:** Manufacturing in the rural U.S. represents a great example of this point. Years ago, manufacturing plants that located in rural areas were looking for cheap, low-skilled labor. In order to survive in today's



global environment, manufacturing plants have had to raise the skill requirements of their workers and introduce technological innovations.

**Focus on Business Retention and Expansion:** One of the best sources for economic development lies in businesses that are already operating in a region. Helping businesses to make connections related to real property, capital, and local workers and suppliers can keep those businesses from relocating outside the region and can even help them to expand their operations to include additional employees, income, and tax revenues.

**Need for economic developers with new skills in marketing and networking:** If the “old way” is no longer an effective development strategy, developers will need to network with complementary regions and firms and market their region based on local capitals (human, natural, financial, etc.) rather than low taxes and wages. They will spend less time as salespersons and more time as facilitators conducting market research and linking potential economic partners. Fortunately, a number of professional associations and education agencies provide training in these new skills. Modules Five and Six also address the market research component.

**How are these—or other—global economy and economic development trends evident within this region?**

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### Potential Implications of these Trends:

**Innovation is critical:** What trends require thinking and doing things in new ways?

**Regionalism matters:** How would working regionally vs. working as individual counties affect success based on these trends?

**Process matters:** How would these trends impact the process we might choose to achieve economic growth?

**Efforts must consider both regional assets and obstacles:** What would be some of the important regional elements to consider in face of these trends?

**Success requires capacity, buy-in and legitimacy:** What would it really take for all of our separate counties/communities to work together to capitalize on these trends as a region?

**Mindsets must be aligned to the new realities:** How can a common understanding of these trends help move this regional group forward?

**Economic development and workforce development must be linked:** What do these trends say to you about linking all of the related sectors – business, education, etc.?

### *Changing Goals and Strategies in Economic Development:*

The economic development community is both responding to and initiating these changing trends. Local economic developers even in small, rural places are addressing many of the same trends and challenges faced by larger cities, states, and even nations, despite having fewer resources. But economic development is no longer the sole purview of economic development corporations (EDCs) and local governments. One successful strategy in today’s development environment is the formation of bold partnerships across governments, organizations, businesses, and regions. This section discusses the changing nature of economic development. What goals and strategies are employed within your region? What strategies support *regional* development?

### Three Waves of Economic Development:

Component	First Wave	Second Wave	Third Wave
<b>Goal</b>	<i>Industrial Recruiting:</i> Attract outside businesses	<i>Cost Competition:</i> Retain and expand existing businesses	<i>Regional Competitiveness:</i> Enhance regional resources to promote regional collaboration and clusters
<b>Strategies</b>	Provision of financial incentives Building of industrial parks	Reduction of taxes Deregulation Industry consolidation and cost cutting (i.e., lean manufacturing)	Entrepreneurship Regional collaboration Identification and development of regional clusters and import substitution activities
<b>Keys to Success</b>	Offer government funds for subsidies and tax breaks Develop an industrial infrastructure	Develop training programs Strengthen the health of existing firms Provide social and physical resources	Build on unique regional assets (such as human capital, amenities, creative economy, innovation) Focus on leadership development Develop/maintain quality environment Bridge economic and community development

### Successful Places in...

Old Economic Development	New Economic Development
Touted a cheap place to do business	Are rich in ideas and talent
Focused on attracting companies	Attract educated people
Fostered a cost-conscious physical environment	Provide physical and cultural amenities
Had a competitive advantage in some resource or skill	Have organizations and individuals with the ability to learn and adapt
Had government-led economic development	Embrace bold partnerships among business, government and nonprofit sectors

### A Few Economic Development Strategies:

- Industrial recruitment & attraction
- Business retention & expansion
- Small business development
- Entrepreneurship/business incubators
- Micro-enterprise development
- Downtown revitalization
- Workforce development & training
- Economic gardening
- Economic/occupational clusters
- Information technology infrastructure
- Building on local assets (tourism, recreation, physical and/or cultural amenities)
- Attracting creative & educated people
- Value-added agricultural enterprises
- Others?

Which strategies are you pursuing?

## *Defining a Region:*

We have discussed local economic development strategies because these are the ones with which we are typically most familiar, the ones we have observed first hand in our own communities or counties. Now we want to shift gears and discuss regional economic development – a topic that is usually less familiar to local governments, community leaders or residents in your region.

A region is simply a geographic area that is similar on some dimension, such as physical geography, ecology, economic characteristics, social characteristics, etc. A set of regions constitute areas that are similar within but different between. For example, one region could be dominated by agriculture while another region could reflect a strong concentration of health-related firms. While each region has a certain amount of commonality internally, when you compare one region to the other one, they are quite different.

### Purposes of Regions:

- Units of analysis for tracking trends (For example, we can track regions that share a common population feature, such as high concentrations of retirees.)
- Areas that help capture various kinds of economies of scale (such as an automobile industry cluster)
- Units relevant for planning or policy application (such as a water management district or regional planning districts)



### Why a Regional Approach?:

In Module One, we highlighted USDA Secretary Tom Vilsack’s statement about the increasing need for communities and counties to work together regionally in order to remain economically healthy in the future:

*“I have reached the conclusion that we must overhaul our approach to economic development in rural America. The framework of the new effort recognizes that the rural economy of tomorrow will be a regional economy. No one community will prosper in isolation.”*

Another simple and straightforward way to demonstrate the value of a regional approach is to highlight what the Council of Competitiveness noted in its 2010 document, ‘Collaborate: Leading Regional Innovation Clusters.’ The report says regionalism helps promote the three Cs: Conversation, Connection and Capacity.

**Conversation:** Helps promote discussions among public and private sector leaders and local residents, builds regional awareness, and focuses on consensus-building with an eye toward the future. One of the major challenges of regional economic development is coordinating local jurisdictions that have little history of working together. A key benefit of regional development is that it requires local governments, local economic development organizations, business leaders, education leaders, residents, and others to talk – to have a conversation that focuses on the future of the region. The intent is to build awareness of the possibilities that exist when a region works together.

**Connection:** Regionalism is often described as a “contact sport” that requires personal interactions at every stage of the game. When businesses consider coming to a region, they may want to look for a well-trained workforce, innovative job training centers, quality health care, decent schools, good infrastructure (such as broadband), adequate financial services, and more. A smaller community or county would be hard pressed to have the full



slate of resources these businesses need unless they can creatively weave together the different people, groups, resources, and services at the regional level. Pursuing personal connections to assemble the needed expertise and resources is critical. In fact, SET helps groups build these types of connections as a regional team.

**Capacity:** Helps leverage key assets; it weaves the system of support needed to create and attract businesses. Pursuing a regional approach helps develop a mindset – a culture – in which your team begins to think like a region. You work to leverage the unique assets of different communities – their businesses, institutions, labor force, facilities, and services – in ways that bring new economic opportunities and benefits to the entire region.”

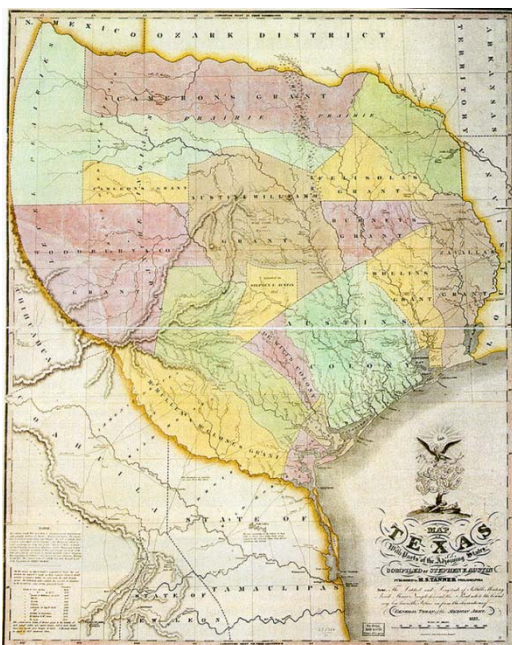
### Types of regions:

Type of region	Examples
Functional	Watersheds
Economic	Labor markets
Political	Congressional and legislative districts
Administrative	School districts, water management districts, county boundaries
Data	Metropolitan areas, commuting patterns, retirees, Latino/Hispanic population, shopping areas, census tracts
“Issue”	Persistent poverty areas, high crime areas

A variety of region types are used locally. The table above provides examples of regions types. All of these are valid regions, yet each functions quite differently. Thus, deciding on the type of region you want as the focus is very important in determining what your intended goals as a regional team are likely to be.

The definition of a region may need to be modified for different goals or purposes. For example, it makes sense to define a watershed region differently than a school district. But the strategies needed to grow two industries may also require different definitions of the region. A single definitive region seldom exists for any locality.

The key is to find areas that share interests, goals, and assets. Look beyond traditional boundaries, such as county lines. Sometimes, partnering with groups outside of adjacent counties or even out of state may offer greater opportunities for economic development and growth.



**Start with what makes sense!**

*Please refer to Handout Four.*

## *Key Features of Successful Regions:*

### **A New Game Plan:**

In our discussion of the three waves of economic development, we noted that the THIRD WAVE deals with regional competitiveness. Mark Drabenstott has identified three key elements of a new game plan – a plan that focuses on regional development:

**Build regional critical mass:** The era of developing a single community or county (parish) is over. Instead, building a critical mass is essential if you want to achieve any degree of success. This is similar to the Connection and Capacity themes identified by the Council on Competitiveness.

**Prioritize investments in public goods and services:** It is important to determine each region's unique competitive advantage in the global marketplace and then to invest in those public goods and services that can help maintain and strengthen that regional competitive edge. Making targeted investments in public goods and services will pay important dividends to the region. This relates to the Council on Competitiveness's Conversation theme.

**Spur innovation to transform a region's economy:** The region's ability to compete will require creating an environment where innovation is encouraged and supported. Examine the resources existing in your region (such as universities/ colleges, community colleges, technical schools, business incubators) that serve as important seeds of innovation and ideas.

### **Seven Policy Principles:**

Drabenstott highlights seven important policy principles that countries around the world are now embracing in their quest to create competitive rural regions.

**Seize regional competitive advantage:** You must pool local knowledge on distinct regional assets and then identify the best competitive advantage based on the region's resources, strengths and locations.

**Invest in transportation and telecommunications infrastructure:** Transportation infrastructure remains important to rural areas. Explore ways to link rural regions and their associated business clusters with vibrant innovation networks located in urban areas as a way to spur rural innovation using both your region's transportation and telecommunication infrastructures.

**Adopt technologies that strengthen competitive advantage:** A broad range of technologies will be critical in giving rural regions an edge in competing globally against regions that have much lower labor costs.

**Strengthen rural labor markets and boost worker skills:** Rural regions must train their workers for a whole new generation of jobs.

**Foster better collaboration across jurisdictional lines in rural regions:** Individual local governments must replace competition with cooperation, which is not an easy task.

**Restructure agriculture by increasing value-added business activities:** Traditional agriculture focuses on commodity production. The new agriculture aims to capture value

in a far broader range of business activities, including regionally branded high-value foods, alternative forms of energy, and livable landscapes, sometimes referred to as multifunctional agriculture.

**Improve the delivery of public services in rural areas:** The shift to regional economic development carries with it the need to rethink and align the delivery of public services. This encompasses issues such as telemedicine and

distance learning, which enable rural areas to tap state-of-the-art services at the lowest possible cost, enhancing their ability to compete economically.

### Characteristics of Successful Regions:

**Leaders that recognize the new realities of economic development:** those that understand that economic development strategies of the past are not likely to be successful in the future

**Collaboration across the region:** organizations with a history of working together across geographic boundaries and jurisdictions

**A global view:** an understanding that the bigger picture of global trends will impact the economic development of the region

**An understanding of current strengths and weaknesses:** a clear, realistic understanding of both the assets and barriers the region possesses

**Flexibility and adaptability:** a willingness to shift the course appropriately to respond to new opportunities or challenges

**The capacity to respond; a structure to support activities:** the resources, networks, and infrastructure that allow development to take place

**A comprehensive view of development:** an interest in improving the quality of life for all residents and focusing development that is sustainable economically, environmentally, and socially

**A mechanism for continuously searching for opportunities:** entrepreneurial leaders to help the region identify trends, assets, and challenges and stay a step ahead

**A way to evaluate impact:** metrics built into goals

**How important are these characteristics? Are any missing?**

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**Which of these are already strong characteristics in the region?**

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**Which ones may need focused attention to grow?**

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## *Preparing for Module Three:*

- Theme: “Building a Strong Regional Team”
- Consider who has been missing from the discussion up to this point
- Invite them to the next SET meeting
- Register for the SET forum at <http://set.srdc.msstate.edu/forum> if you have not already done so



## *Resources:*

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