
ECONOMIC DEVELOPMENT OVERVIEW

Background Paper for 2 August Workshop

WHAT IS ECONOMIC DEVELOPMENT?

- ▶ Definitions can be narrow:
 - Increased business and personal income without concern for social or environmental impact.
- ▶ Definitions can be broad with a “whole of community” emphasis:
 - **“Development** entails the enrichment of material, social well-being, which can be measured in the flow of money and goods over time; increases in a jurisdiction's quality and quantity of public goods (such as clean air and water, freedom from crime, better schools, etc.); and access to good jobs (e.g., with wages and benefits sufficient for supporting a family, and opportunities for advancement).
 - **Shared growth** means there is broad distribution of opportunities for meaningful participation in the economy and enjoyment of the benefits of an increased standard of living.
 - **Sustained growth** implies that the above goals are achieved in a manner that does not detract from - but rather enhances - the economy's ability to achieve the same goals in the future.”

Source: “What is Economic Development?”, US Department of Commerce, Economic Development Administration

- ▶ A Local Government New Zealand view:

“Economic development is a process that influences growth and restructuring of an economy to enhance the economic wellbeing of a community. It usually also increases the wealth of people over time. Rather than being a single simple process, economic development typically can be a range of influences that achieve objectives like creating jobs and wealth, and improving the quality of life. It can result from a number of coordinated initiatives that are targeted to expand infrastructure, and increase the volume and/or quality of goods and services produced by the community.”

Source: “Unleashing the Economic Development Potential of Our Communities”
A Guide to Economic Development for Local Authorities prepared for LGNZ

- ▶ Generally covers a wide range of functions involving a number of different actors:
 - Setting the national regulatory, fiscal and environment framework – the context within which economic activity takes place.
 - At the regional level, economic development strategy – the process of creating an optimal framework for development and growth of business activity within a region.
 - At the local level, economic development strategy – concerned both with creating an optimal framework for the development and growth of business activity within a region and with aligning the local authority's own processes and policies in support of that objective.
 - Major project implementation – this will include such things as foreign direct investment, developing access to local/regional sources of equity and debt capital (venture capital), major business relocation undertakings, etc.

- Business development – specifically advice, support and training for small and medium enterprises (SMEs).
 - The process of ensuring that local regulatory and consent granting processes are managed in a “user friendly” way, but without compromising policy objectives. This is very much a matter of local authorities (regional and territorial) ensuring that their internal processes, and the way their staff respond to and think about the needs of business, are supportive.
 - Leadership and advocacy – by business to local, regional and central government, by local government to regional and central, and to other stakeholders.
 - Economic development in a community development sense. Typically, this involves ensuring that people who may want to improve their economic lot but may lack the necessary skills, training or experience, have opportunities to develop these.
- The expression ‘economic development’ always implies public sector (central government, local government) involvement as purposive activity intended to produce defined outcomes (ideally in the framework of a coherent economic development strategy). Conceptually, tourism development support forms part of economic development but, in New Zealand, it is common for local authorities to undertake tourism development and support through separate arrangements or structures from those they use for economic development.

WHY DO WE NEED ECONOMIC DEVELOPMENT?

1. What’s going on – nationally/internationally?

- Globalisation, the ‘instant’ transfer of knowledge, information, and capital via information technology, open markets and increased competition are placing major pressures on all economies – national and regional, developed and underdeveloped.
- Skill thresholds for entry into the labour force, especially well paid work, are rising:

“Just as the term ‘high technology industry’ has lost meaning as advanced technology penetrates every industry, so the term ‘knowledge worker’ will become increasingly obsolete as more and more of the labour force becomes involved in the generation, dissemination, and reception of knowledge. The knowledge-economy will become general.”

Source: Toronto Economic Development Strategy

- As commodity type activities – more routine manufacturing as an example – shift to developing countries, developed countries are consciously shifting economic activity more towards the value added, knowledge based end of the spectrum – where incomes are higher and the competitive threat from lower skilled countries less.

“This more recent phase of economic restructuring has been characterized by a transformation to a knowledge economy. As the more routine manufacturing and mature industry functions relocate to low-cost locations or fall victim to automation and new technologies, it is clear that the future quality of life in advanced economies depends upon upgrading and moving the economy towards a concentration in high value added activities. These activities can occur in any industry – such as clothing design or speciality manufacturing to high order services such as corporate banking. The key is to focus on the high order, innovation based, high productivity activities in each industry. Increasingly, our

economic vitality, and in turn our quality of life, depend upon making a successful transition to a knowledge economy."

Source: *Toronto Economic Development Strategy* [page 9]

2. What's going on – locally/regionally?

- ▶ Location is becoming more important. People locate where they find lifestyle, choice and excellent infrastructure (transport, education, health, arts and culture, recreation, retail).
- ▶ Firms locate where they can recruit/retain talented people:

"We don't want your tax incentives. We don't want your highway interchanges. We don't want more of this physical infrastructure. We will go where the highly skilled people are. Governors, give us more of them."

Source: Carly Fiorina, CEO of Hewlett Packard, speaking to the US National Governors Association (2000)

"One secret of Cedar Rapids' success is the excellence of its educational system and its close collaboration with the business community. The Cedar Rapids area provides new and expanding companies a well-educated pool of workers that can adapt quickly to changing job assignments. The State of Iowa ranks consistently in the top three in the nation in ACT & SAT scores. Scores for Cedar Rapids area high school students rank far above national averages. Area school districts have received numerous state and national awards and recognition for their accomplishments."

Source: *"The First Plan: Workforce Development in the Tri-State Area"*, Hudson Institute, Indianapolis

- ▶ Competition between regions and localities is increasing. Evidence includes:
 - The increased emphasis different local authorities are placing on advertising their district's/region's locational advantages.
 - The emphasis business now places on the quality of different local authorities. Are their processes 'user friendly'? What rates burden will they face? What quality of services do they offer?

3. Why do we need economic development?

- ▶ Average wages in the Western Bay of Plenty are 10% below the New Zealand average wage.
- ▶ If Western Bay of Plenty takes the 'do nothing' approach and other regions are active in economic development, Western Bay of Plenty's relative position could decline further.
- ▶ New Zealand itself has been falling down the OECD (Developed Country) rankings from near top in income per capita in the 1950s to 20th in 1999.
- ▶ Poor economic performance limits our choices – of lifestyles and occupations, but more importantly of social services. We are close to being unable to afford the quality of health care, education, housing and other social services we have come to regard as our birthright.

"Indeed, New Zealand, always the pioneer, looks set to be the first country since the second world war to drop below the threshold of 50% of the average income of the organic core (of OECD member countries), the Argentina of the second half of the 20th century."

Source: Professor Robert Wade (Expatriate New Zealander), London School of Economics, speaking to the Knowledge Wave Conference

- ▶ If we want improved outcomes – higher incomes, more opportunity – then we need consciously designed strategies to build on the Western Bay of Plenty’s strengths. In essence, a ‘preferred future’ would be one with:
 - Higher rather than lower incomes.
 - More rather than less employment.
 - More rather than less satisfying jobs.
 - A wider rather than a narrower choice of recreational, cultural and artistic opportunities.

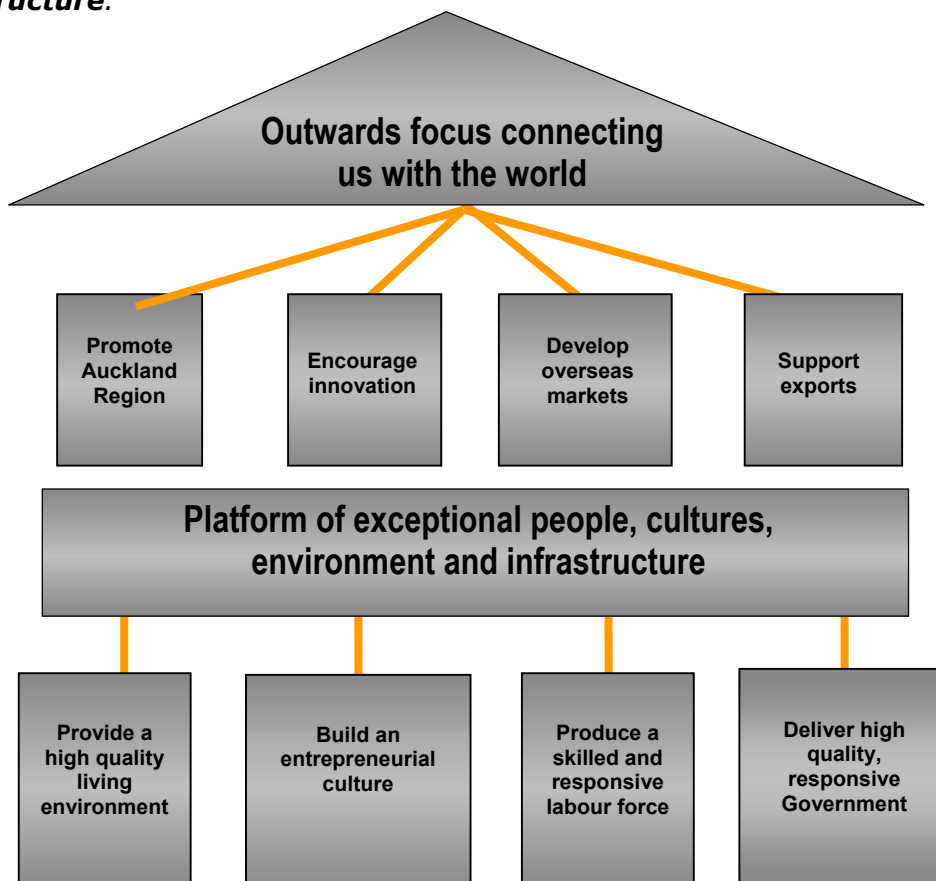
WHAT IS A SUB-REGIONAL ECONOMIC DEVELOPMENT STRATEGY AND WHY DO WE NEED ONE?

A sub-regional economic development strategy can be thought of as a mix of a plan and a road map:

- ▶ It sets out for the region where it wants to go in terms of economic development and how it intends to get there.
- ▶ It assigns responsibility for the things that need to be done and allocates (or points to sources of) the resources needed.

Strategies differ from region to region and over time. A good example of what a strategy might cover is the following extract from the final draft of the Auckland Regional Economic Development Strategy:

*“The **strategy framework** is a combination of eight elements which connect the region with the world through an outward focus and improved regional performance on a **platform of exceptional people, cultures, environment and infrastructure.**”*



Source: Auckland Regional Economic Development Strategy

Some International Perspectives on International Development Strategy

"Strategic planning is a method of managing change so that the community and its residents can design the strategies they feel allow them to control their own futures. Planning must (1) lead to a long term commitment; (2) be based on a realistic appraisal of resources and environment; and (3) be based on the involvement of all groups, stakeholders and interests in the community. Planning is a tool for development and must be seen as a means to an end rather than an end in itself. The strategies must be reviewed and revised periodically to ensure they complement development efforts and to identify economic changes and potential new development opportunities."

Source: Strategic Planning – based on the strategic planning model developed by the University of Guelph for Employment and Immigration Canada for use with Community Futures Committees

"Economic development cannot truly be local. A community's economy is greatly influenced by the larger region of which it is a part. Communities that participate in broader, regional strategies will be more effective than those that try to go it alone. Especially in rural areas, where resources are often stretched to the limit, the effectiveness of development efforts can be maximised when they are taken in collaboration with partners within the same region."

Source: *"Economic Development: Principles for High Performance Strategies"*
Office of Community Development, US Department of Agriculture

Benefit to Local Government and the Community

When local government and the local communities working together are successful and achieve growth and economic development, some of the benefits include:

- ▶ More viable businesses as activity in the local economy increases, and many local businesses expand.
- ▶ Increased employment for people locally.
- ▶ Increased property values and an expanded rating base gives more money for infrastructure and services
- ▶ A more pleasant living and working environment encourages people to stay.

Thus, economic development can be viewed as a "virtuous cycle" that can maintain or increase a region's population base, create jobs, raise household and business income and improve local authorities' ability to provide goods and services.

Source: *"Unleashing the Economic Development Potential of Our Communities"*
A Guide to Economic Development for Local Authorities prepared for LGNZ

THE ROLE OF LOCAL GOVERNMENT

- ▶ Increasingly, economic development is centred around cities and city-regions – whether large (Toronto) or small (Cedar Rapids). The city (Tauranga) or the city-region (Tauranga plus Western Bay of Plenty) as focus emphasises the role of local government. So does research on the characteristics of successful cities:

"What characteristics must cities have, then, if they hope to be competitive in the increasingly networked global system? Three factors—a strong, advanced economy, a high quality of life, and efficient infrastructure—are often presented as key characteristics of cities that are successful the global system. A city strong in these three areas can attract and retain "higher quality" businesses and workers, and ultimately is a place where people want to live and where businesses wish to locate."

Source: *"Urban Nation, Federal State: Rethinking Relationships"*, a Western Cities project discussion paper, Canada West Foundation.

*"It falls to local government to take a **facilitative and supportive lead role** on behalf of its ratepayers to ensure that the region has the capacity to compete in the 21st Century economy."*

Source: Canterbury Development Corporation:
CDC's Current Role in Economic Development

"There has been a general shift of certain policies from the national to sub-national levels of decision making in many countries A number of commentators have argued that it is the regional (or more local) level which offers the greatest prospect for devising governance structures able to facilitate and foster the transition to the new patterns of knowledge based economic activity."

Source: *"Cities and Regions in the New Learning Economy"*,
Organisations for Economic Cooperation and Development

"In virtually every other competitor city, problems have been addressed based on concerted actions of alliances that actively involve not just the public sector but the private and volunteer sectors."

Source: *Toronto Economic Development Strategy* [page 20]

► The following possible roles are adapted from *"Local Economic Development Practice in the USA"*, a report from a SOLGM financed study tour:

- Providing positive regional/local economic leadership and vision.
- Ensuring a positive overall regional/local economic environment for business development.
- Ensuring that local government elected members, staff and the community are well educated/informed about the importance of regional/local economic development.
- Providing or ensuring the provision of the appropriate infrastructures (water, roading, sewerage, land, telecommunications, etc) for economic development.
- Provision of integrated land use, economic development, infrastructural and other planning.
- Providing business friendly council planning, development and other procedures and processes.
- Maintaining a high local "quality of life" for citizens and businesses (includes quality of environment, education, health, recreation, arts and culture).
- Provision of appropriate funding and incentives for economic and business development.
- Facilitating local and regional coordination and collaboration on economic development efforts. (Note: A particular priority for local government under the new Local Government Bill with its emphasis on community outcomes and priorities.)
- If involved in actual service delivery, a particular focus on small business development. (In New Zealand, typically a role of Industry New Zealand contracted BIZ providers.)