

Building Regional Competitiveness:

Research Highlights and Implications for Rural Regions

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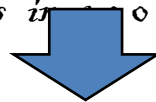
May 21-23, 2008

Agenda

- The Importance of Competitive Rural Regions
- The Global Context for Competitiveness
- A Closer Look at Rural Regions
 - *Performance and Composition*
 - *Evolution of Clusters*
 - *Business Environment and Policy*
 - *Future Challenges*
- Strategic Implications

Rural Regions Hold Great Potential but Have Historically Underperformed

- *80% of land area, 20% of population in the US.*
 - *50% of population worldwide*
- *Rural regions in the US.*
 - *Account for a small and decreasing share of US. employment (14.2% in 2001)*
 - *Have lower levels of economic activity and lower growth rates than metropolitan regions on average*
 - *Have lower average wages (about 70% of urban wages) and gap is increasing*
 - *Have higher rates of poverty (gap is decreasing)*
 - *Produce fewer patents per employee (2.9/10,000 rural employees vs. 8.3/10,000 urban employees in 2001)*



Performance of rural regions is extremely heterogeneous

Effects of Underproductive Rural Regions

- *Spurs rural to urban migration*
 - *More than half of the world's population now lives in urban areas, expected to rise to 60% by 2030*
 - *75/81% in developed countries, 45/56% in developing countries*
 - *Economic opportunities; the most productive workers tend to migrate*
 - *Access to public services and infrastructure*
- *Stresses urban infrastructure and public services*
- *Slows national productivity and prosperity growth*
 - *Suboptimal deployment of resources (human, physical, social)*
 - *Inefficient spatial distribution of economic activity*
- *Spurs demands for interventions that can impede competitiveness*
 - *Inefficient use of scarce public funds for economic development*
- *Threatens cultural heritage*
- *Environmental impact*



The benefits of high and rising rural productivity extend beyond rural regions.

The Porter Report

- *The economic performance of rural regions in the U.S. is **lagging** metropolitan regions, despite the significant efforts to enhance economic developments in these areas*
- *Virtually all observers agree that there is a clear need to **rethink** the economic policy approaches taken to improve competitiveness in rural regions*



- *The Porter report offers a **broad** assessment of rural economic development over the last several decades, including a partial survey of the literature and the analysis of some new data (the Institute's ongoing Cluster Mapping Project)*
 - *Draws on broader research on competitiveness*
 - *Many excellent studies have followed*
- *Intent was to begin a process of **shifting** the approach to economic development in rural regions*

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The Changing Nature of International Competition

Drivers

- *Fewer barriers to trade and investment*
- *Rapidly increasing stock and diffusion of knowledge*
- *Competitiveness upgrading in many countries*

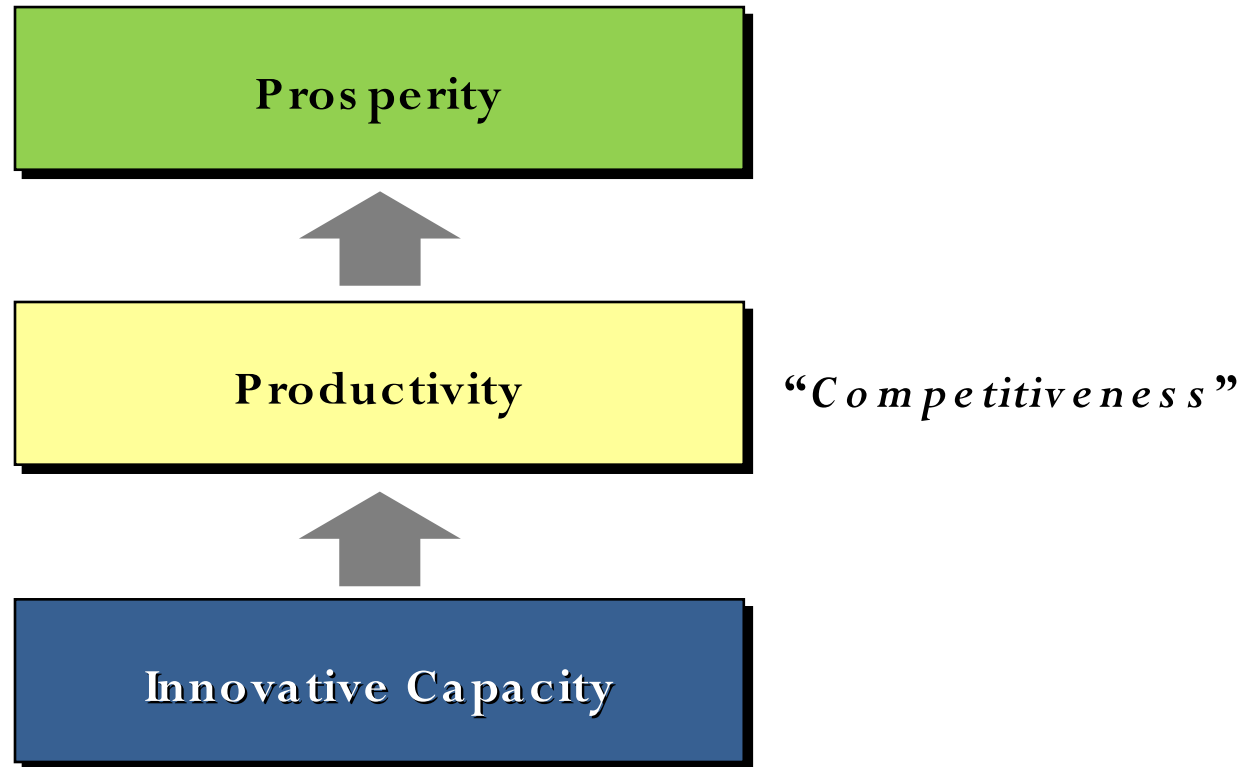
Market reaction

- *Globalization of markets*
- *Globalization of capital investment*
- *Globalization of value chains*
- *Increasing knowledge and skill intensity of competition*
- *Value migrating to the service component of the value chain*



◇ *Improving competitiveness is **increasingly essential** to prosperity creation*

What is Competitiveness?



- *The most important sources of prosperity are **created** not inherited*
- *Productivity does not depend on **what** industries a region competes in, but on **how** it competes*
- *The prosperity of a region depends on the productivity of **all** its industries*
- *Innovation is vital for **long-term increases** in productivity in advanced*

Source: Michael E. Porter, Institute for Strategy and Competitiveness, Harvard Business School

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Measures of Regional Economic Performance

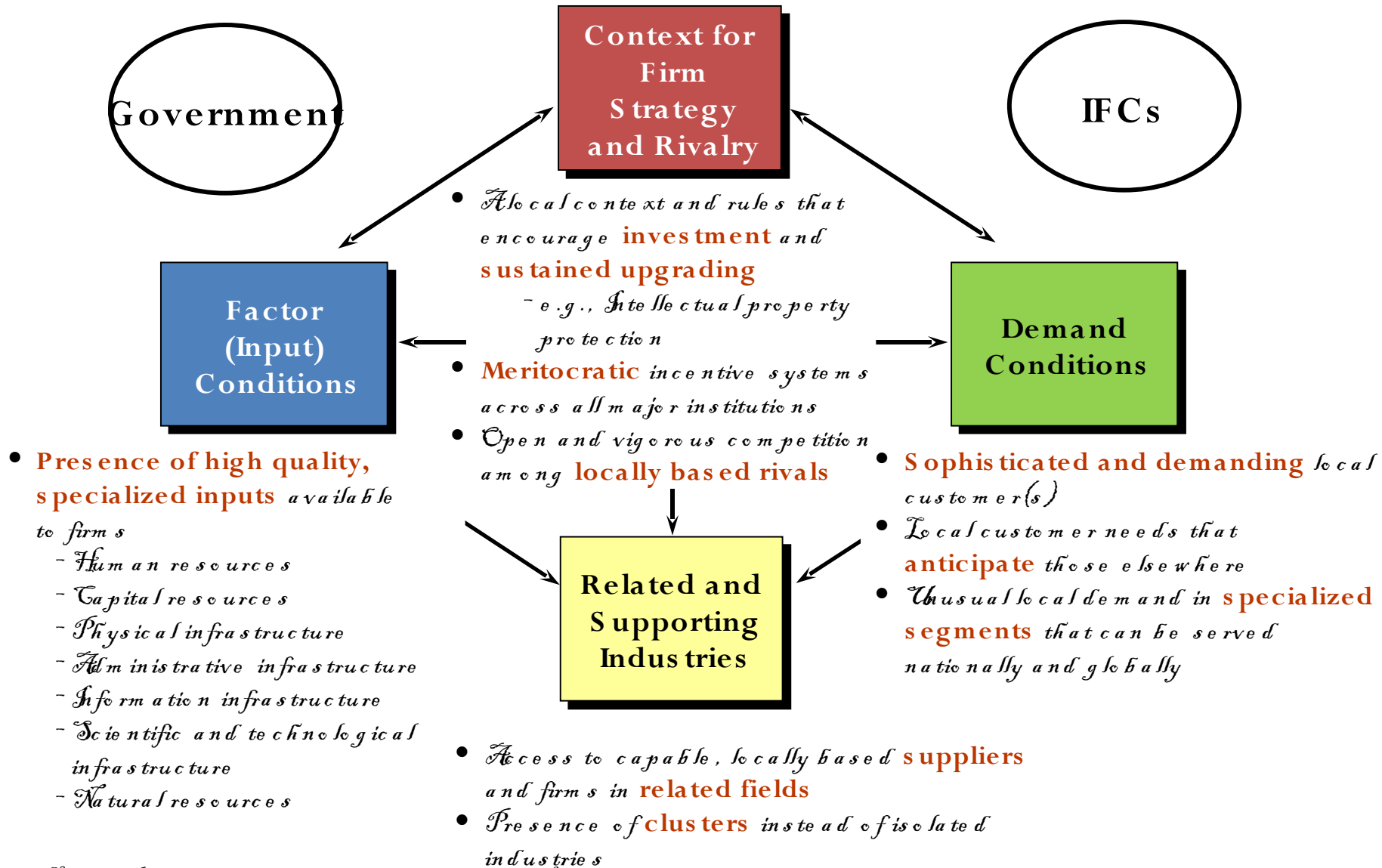
Current Economic Performance

- *Employment / Employment Growth*
- *Workforce participation*
- *Unemployment rate*
- *Average Wages / Average Wage Growth*
- *Cost of Living*
- *Poverty Rate*
- *Gross regional product per employee*
- *Regional export levels / Annual growth in exports*
- *Inward business investment*

Innovation Performance

- ◇ *Patents / Patent Growth*
- ◇ *Venture capital investments*
- ◇ *New Establishments / New Establishment Growth*
- ◇ *Fast growth firms*
- ◇ *Initial public offering proceeds per 1,000 firms*

Determinants of Regional Competitiveness



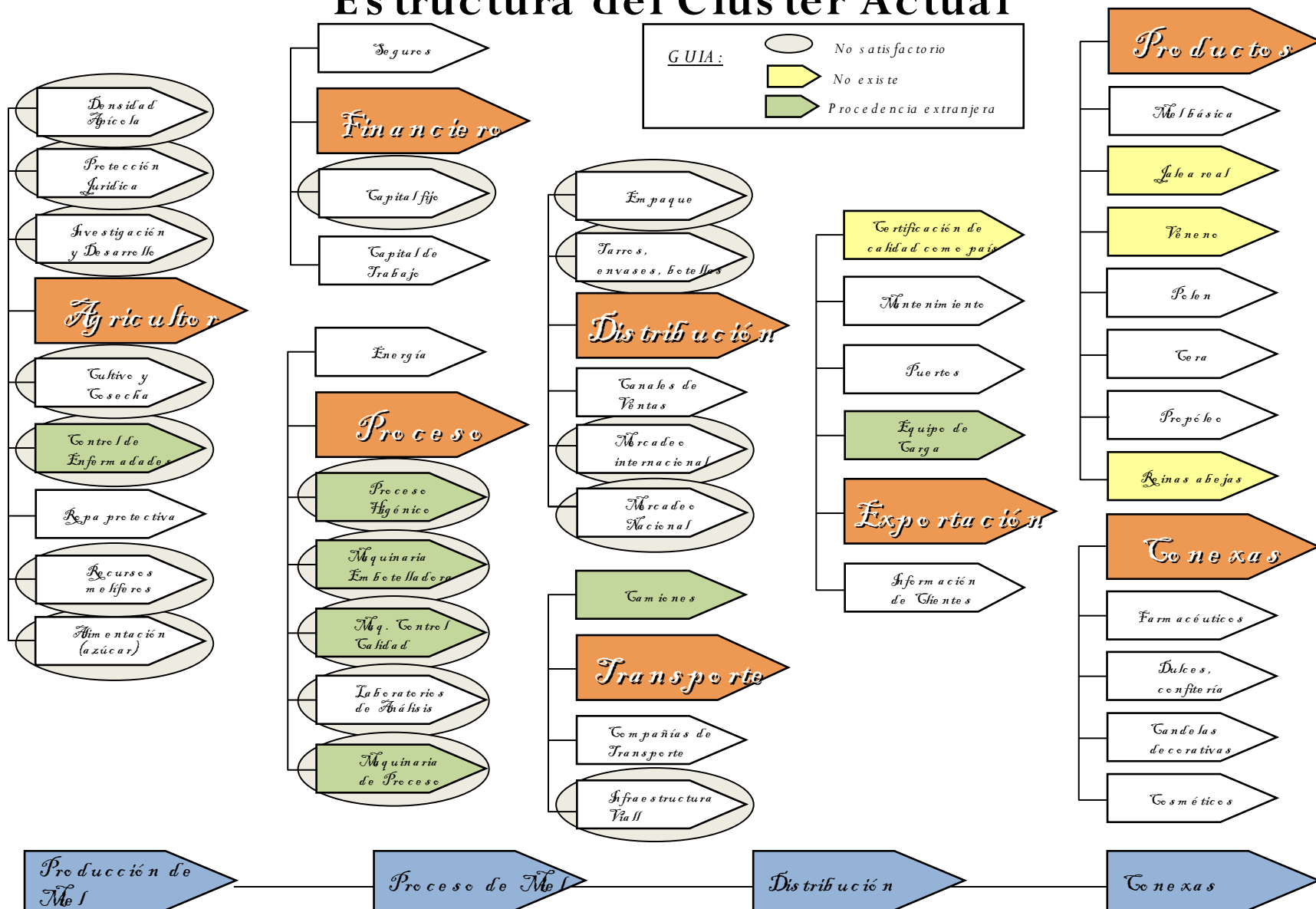
Source: Michael E. Porter, Institute for Strategy and Competitiveness, Harvard Business School

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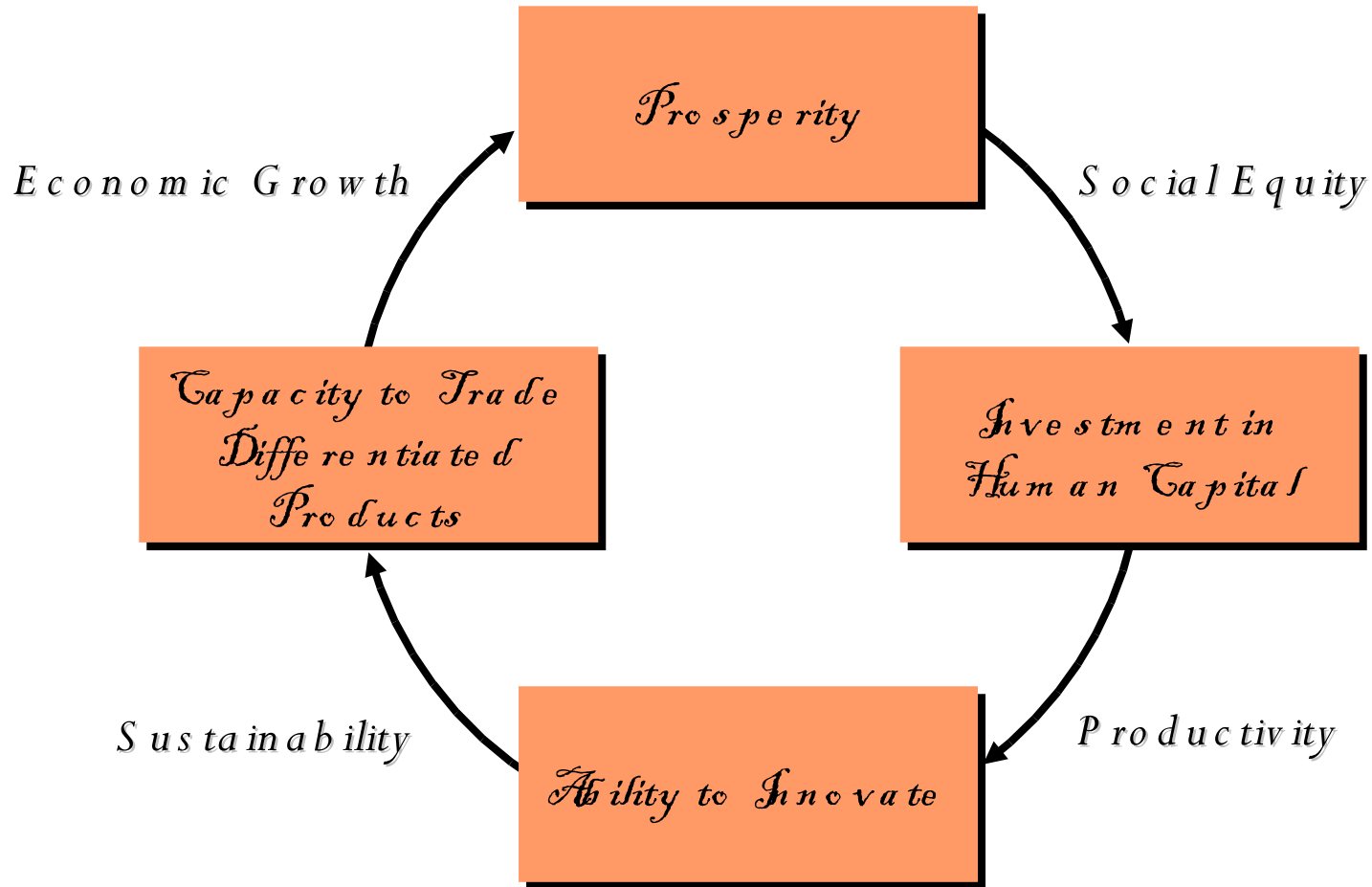
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Impacto de las Opciones Estratégicas en la Plataforma Actual

Estructura del Cluster Actual



Economic Growth through Social Equity



Composition of Regional Economies

United States

	Traded Clusters	Local Clusters	Natural Resource-Driven Industries
Share of Employment	31.6%	67.6%	0.8%
Employment Growth, 1990 to 2001	1.7%	2.8%	-1.0%
Average Wage	\$46,596	\$28,288	\$33,245
Relative Wage	133.8	84.2	99.0
Wage Growth	5.0%	3.6%	1.9%
Relative Productivity	144.1	79.3	140.1
Patents per 10,000 Employees	21.3	1.3	7.0
Number of SIC Industries	590	241	48

Note: 2001 data, except relative productivity which is 1997 data.

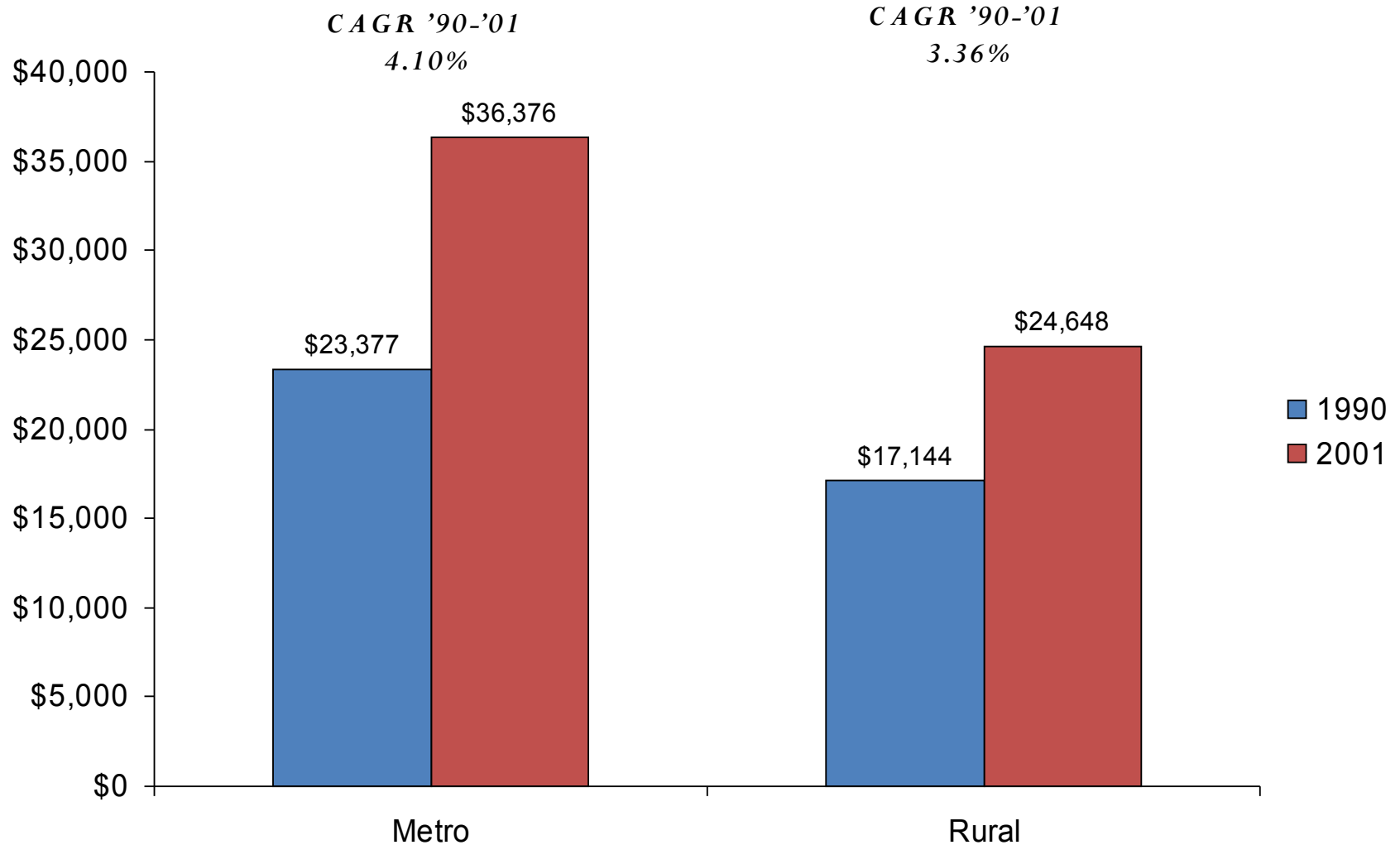
Source: Cluster Mapping Project, Institute for Strategy and Competitive ness, Harvard Business School

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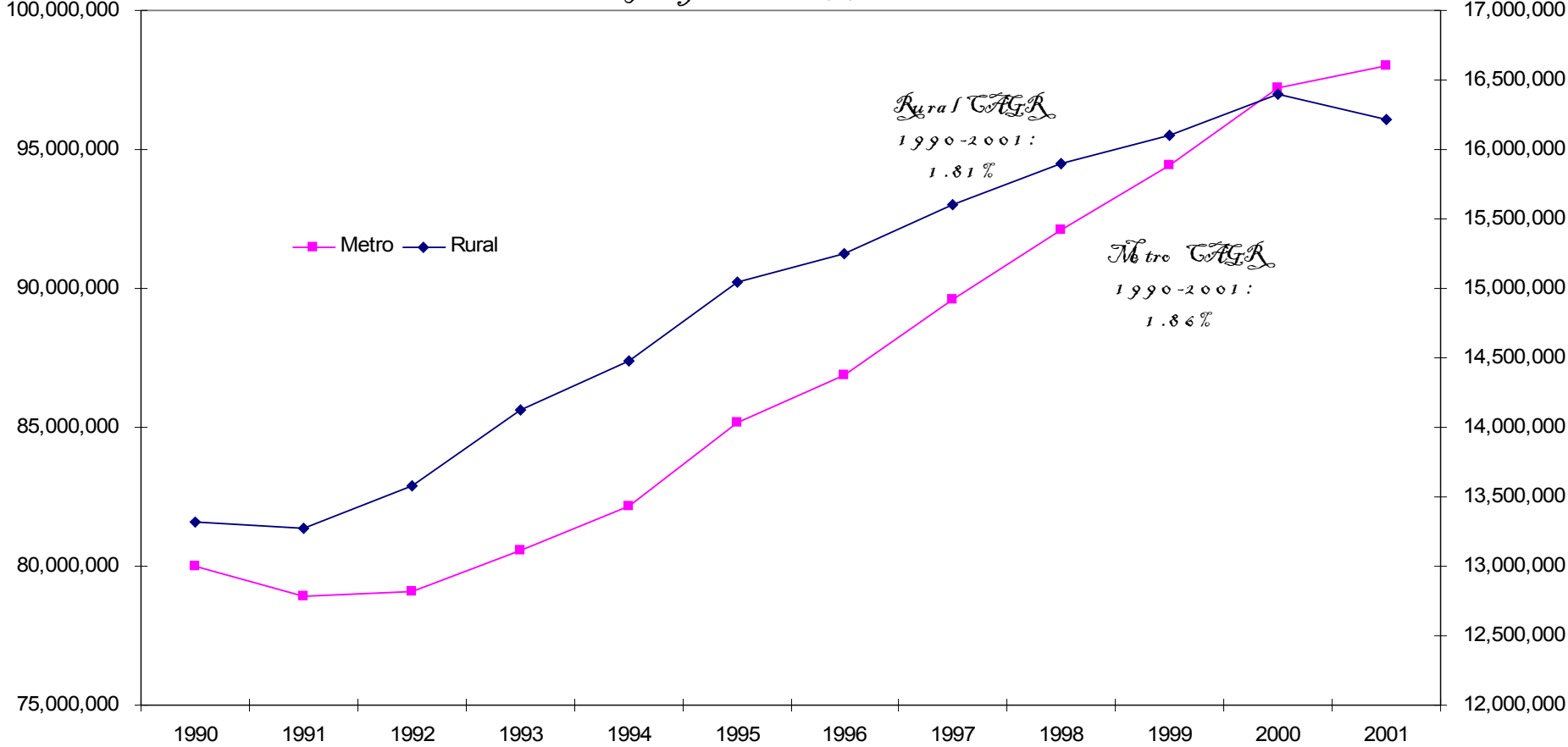
Economic Performance of Rural and Metropolitan Regions

Relative Wage Growth, 1990-2001



Economic Performance of Rural and Metropolitan Regions

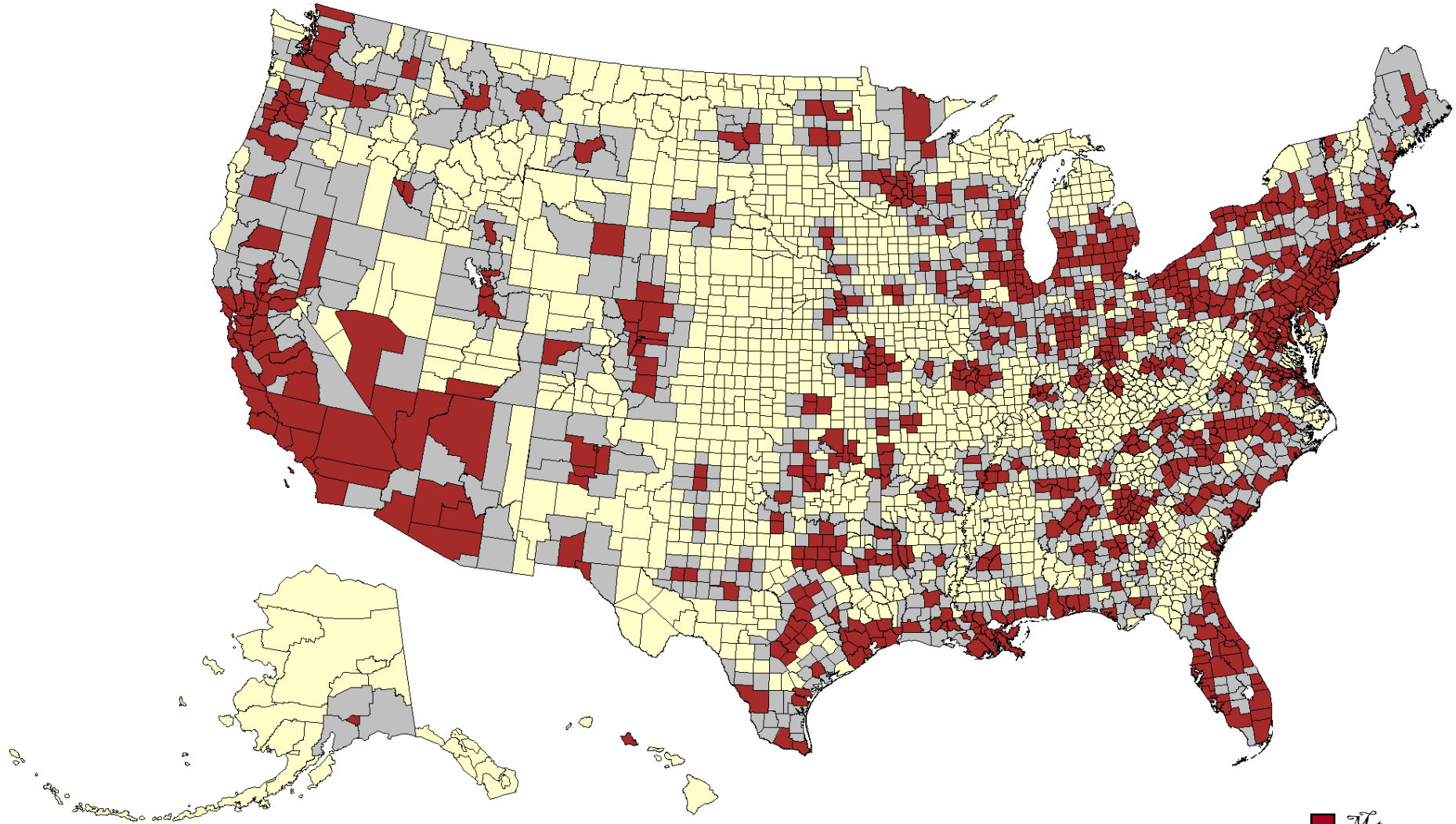
Employment, 1990-2001



◊ *Rural regions in 2001 accounted for 14.2% of national employment, virtually unchanged from 1990*

Effects of Proximity to Urban Centers

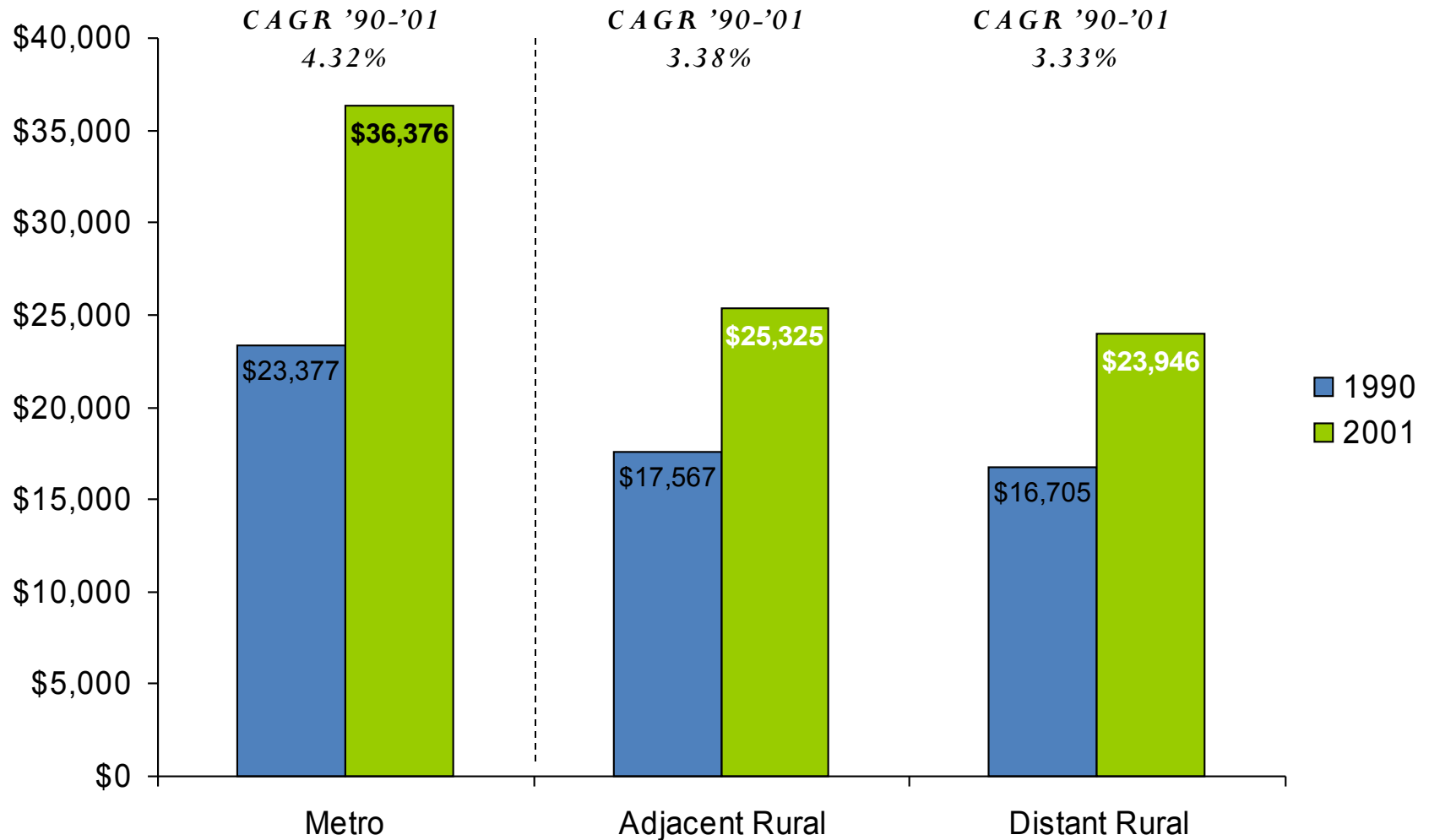
Metro, Adjacent and Distant Counties



- *Metro*
- *Adjacent*
- *Distant*

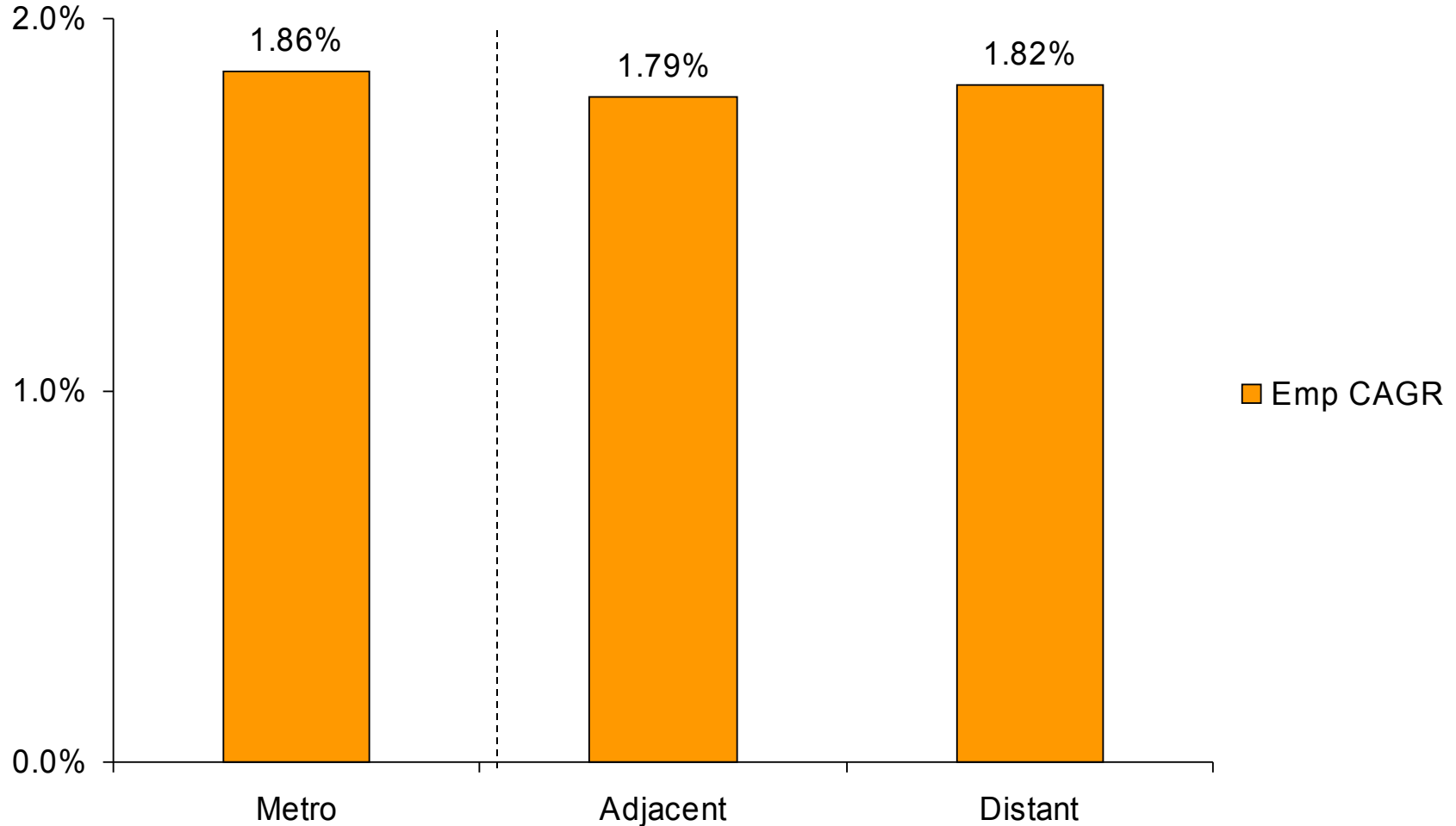
Relative Wage Growth 1990-2001

Adjacent and Distant Rural Regions



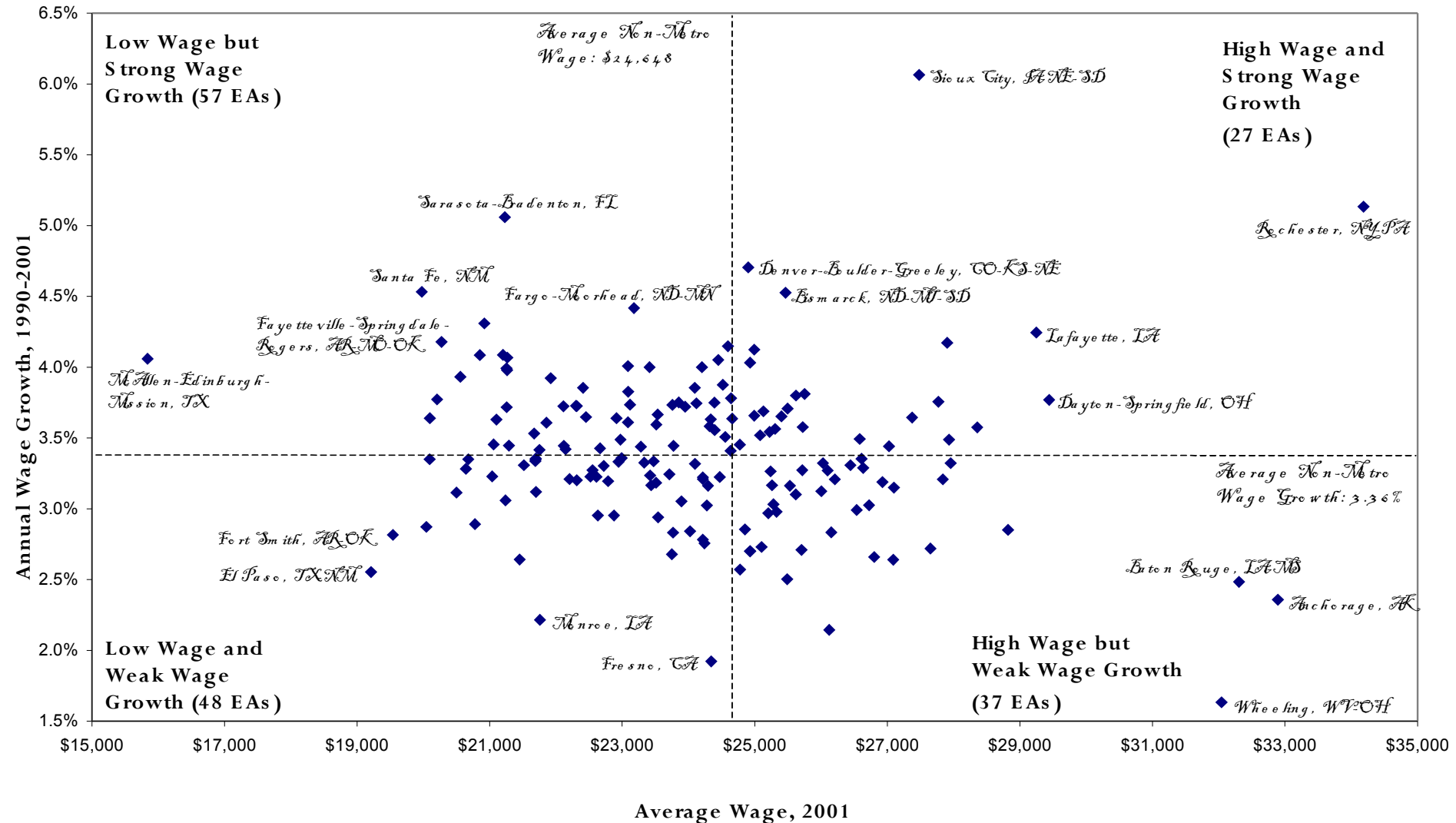
Economic Performance of Rural and Metropolitan Regions

Relative Employment Growth, 1990-2001



The Performance of Rural Regions

Rural Portions of Economic Areas



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Composition of Regional Economies

Rural vs. Metro Regions

Traded Clusters

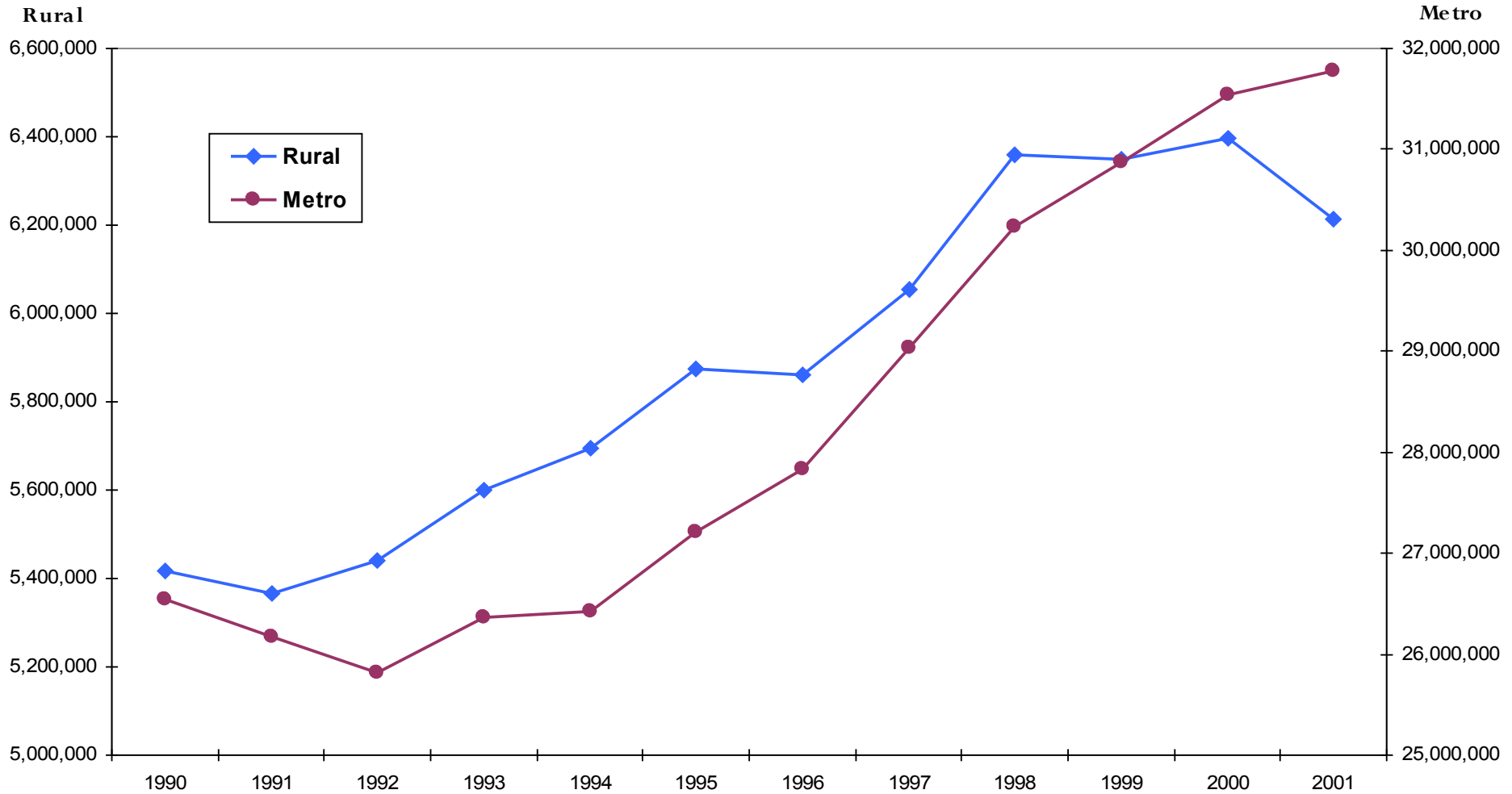
Local Clusters

Natural Resource-Driven Industries

Indicator	Rural	Metro	Rural	Metro	Rural	Metro
Share of Employment	32.6%	32.5%	64.2%	67.1%	3.2%	0.4%
Employment Growth, 1990 to 2001	1.2%	1.7%	2.8%	2.6%	(0.5)%	(2.1)%
Average Wage	\$26,481	\$50,746	\$19,401	\$29,126	\$33,186	\$37,260
Wage Growth	4.0%	5.3%	3.5%	3.8%	2.4%	3.4%
Establishment Formation	3.5%	4.0%	2.0%	2.1%	(0.2)%	(0.3)%
Patents per 10,000 Employees	7.8	22.5	0.5	1.4	1.0	14.5
Number of SIC Industries	590	590	241	241	48	48

Annual Traded Employment Levels, 1990-2001

Metro vs. Rural Areas



The Role of Clusters in Rural Regions

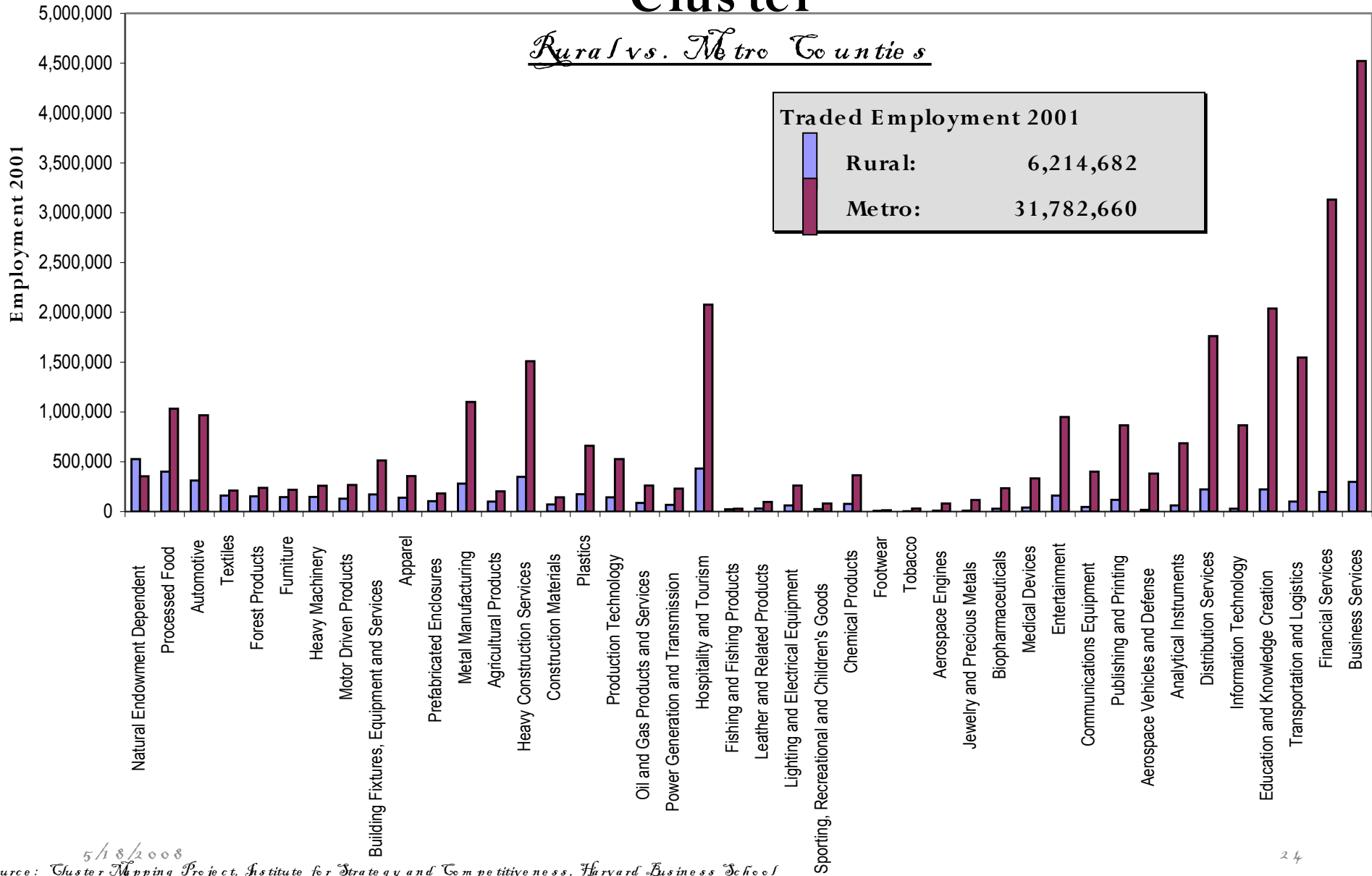
- Clusters are **evident** in rural regions as well as in metropolitan regions and generate equivalent **economic benefits**

Case study examples:

- *Gibbs and Bernat find economic benefits of strong rural clusters*
 - *A worker in a rural-cluster firm tends to earn 13% more on average than a worker in a non-cluster firm*
 - *Clustering creates higher productivity due to faster information flows, higher skill accumulation, and higher wages.*
 - *Realizing the benefits depends on the community's ability to attract and sustain a cluster*
- *Henry, Barkley, and Zhang find benefits of clustering in the TVA region*
 - *A positive association exists between clustering and rural income change*
 - *Diversification and balanced growth strategies are needed that tailor specific promotion policies to specific industries*

Composition of Employment by Traded Cluster

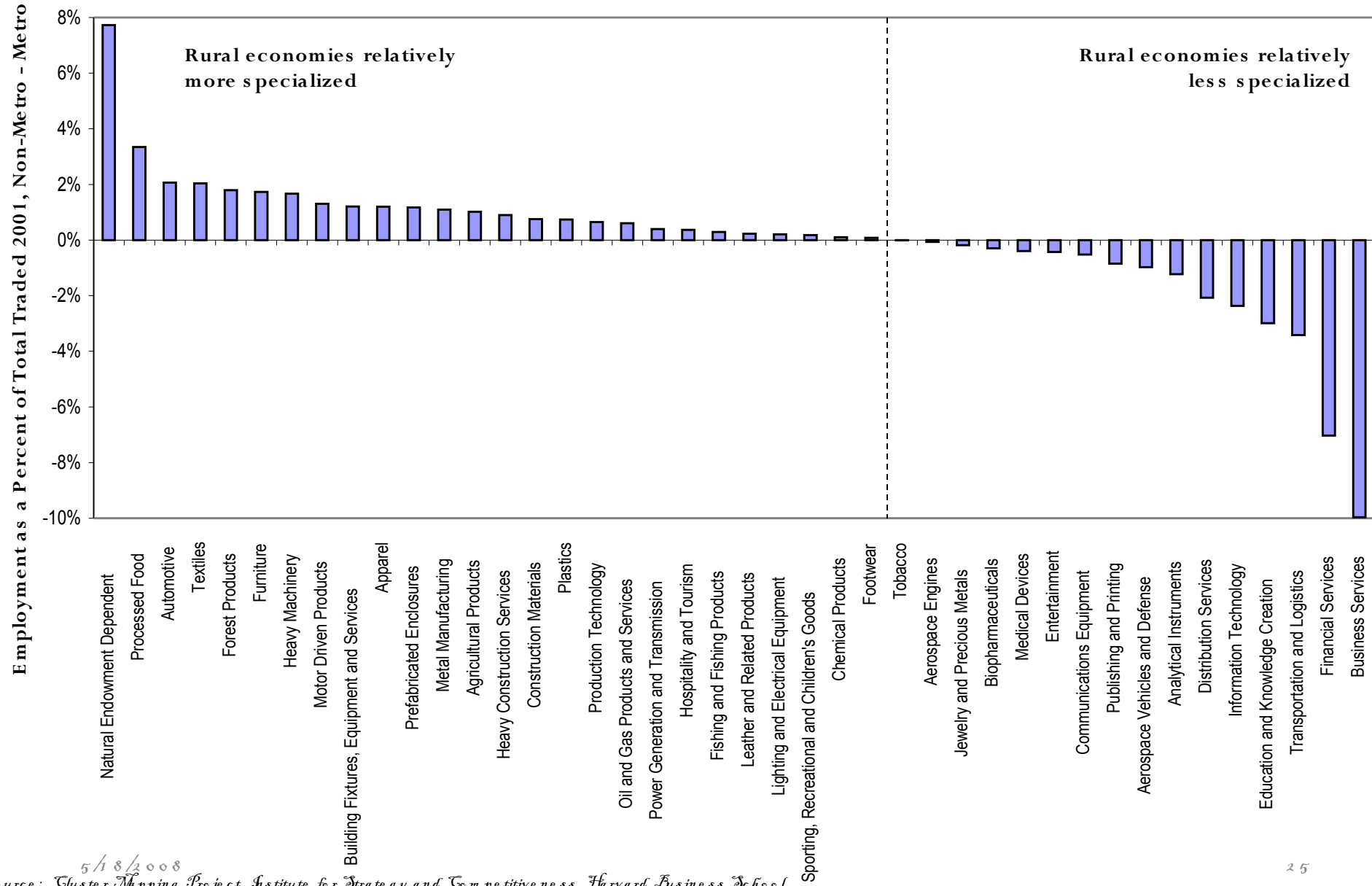
Rural vs. Metro Counties



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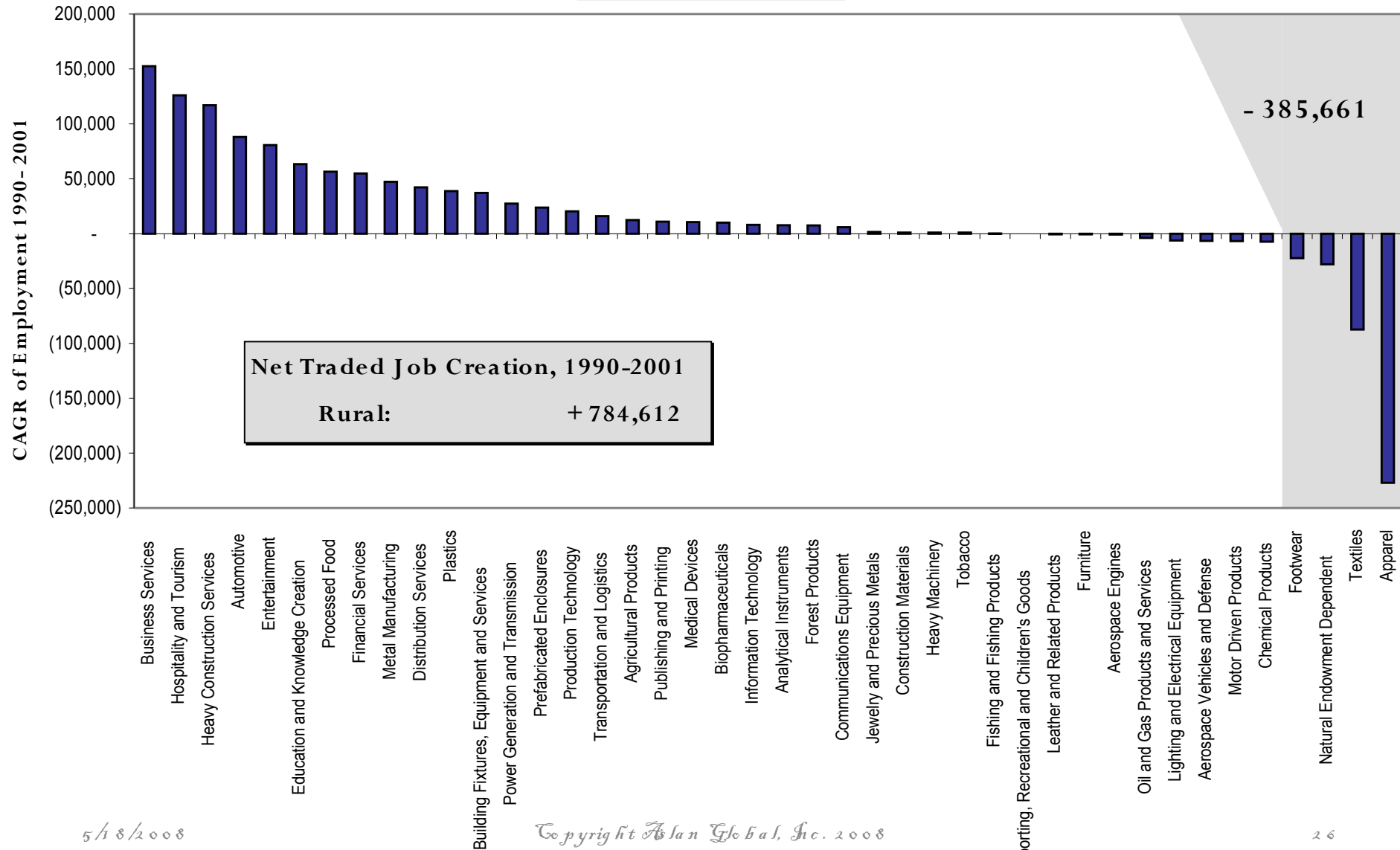
Composition of Employment by Traded Cluster

Relative Specialization of Rural vs. Metro Counties



Job Creation by Traded Cluster, 1990-2001

Rural Counties



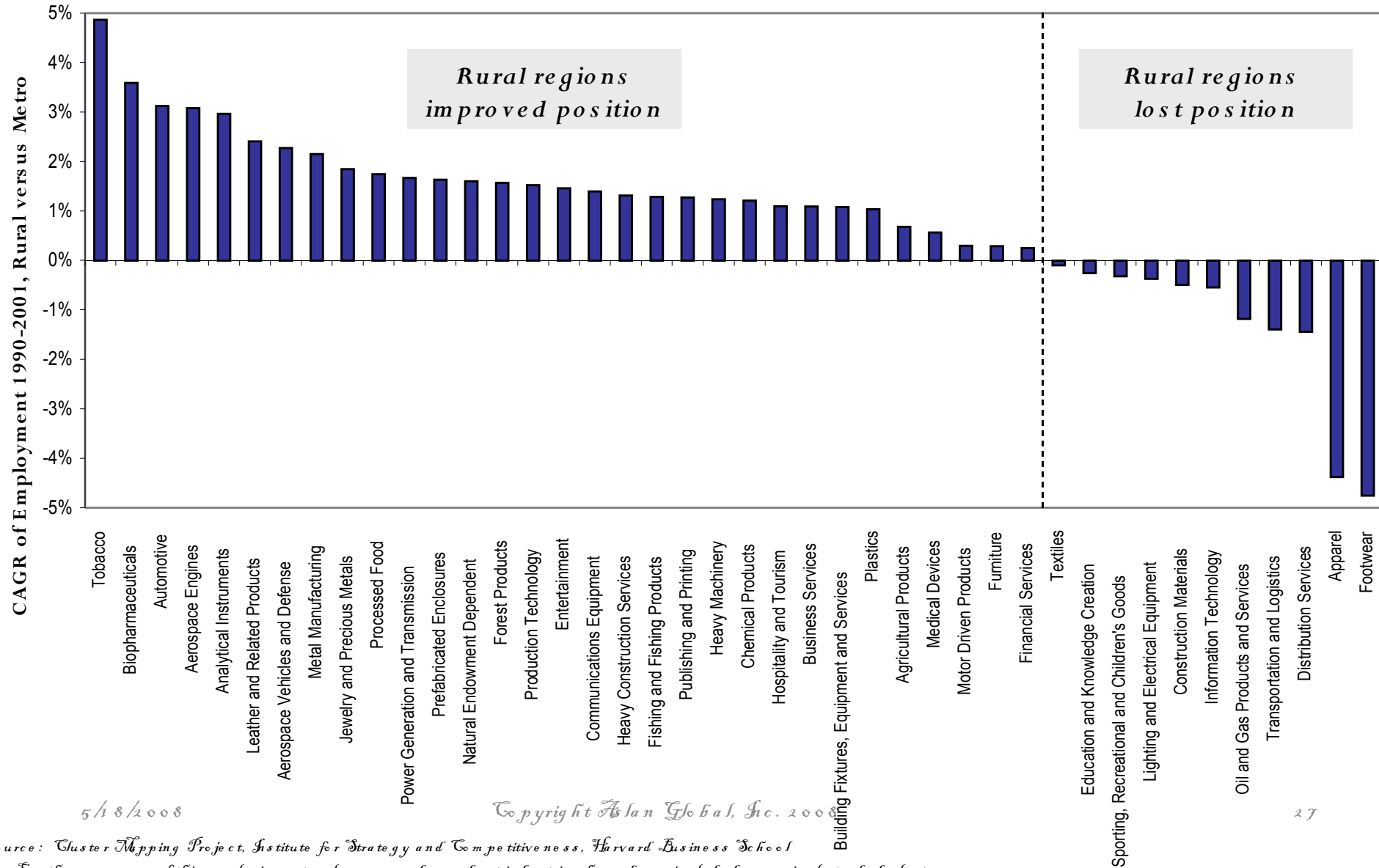
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Growth in Employment by Traded Cluster

Rural vs. Metro Counties



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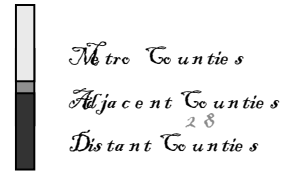
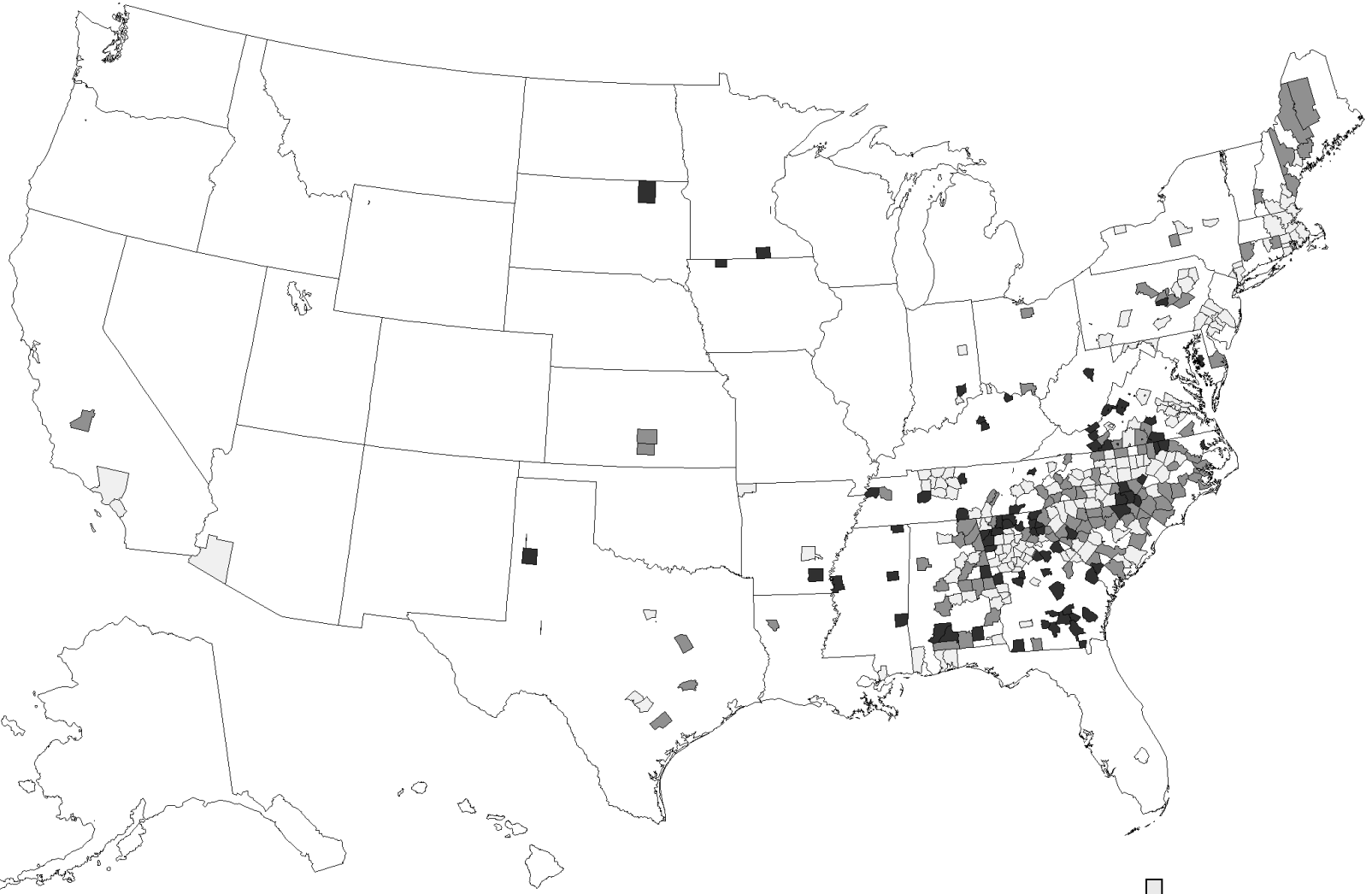
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Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

Note: For the purposes of this analysis, natural-resource dependent industries have been included as a single traded cluster.

Textile Employment

Leading Counties



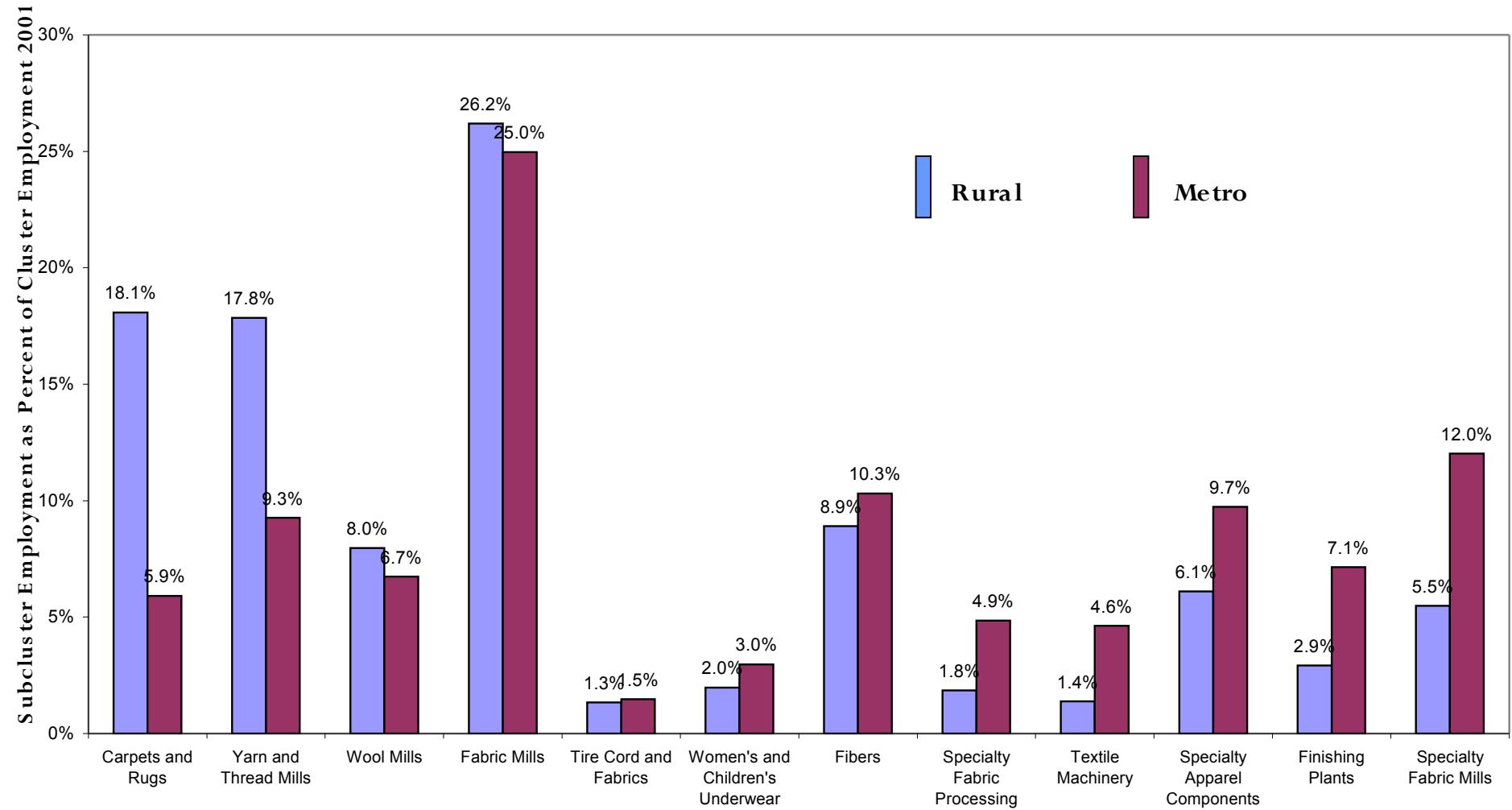
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Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

Textile Employment by Sub-cluster

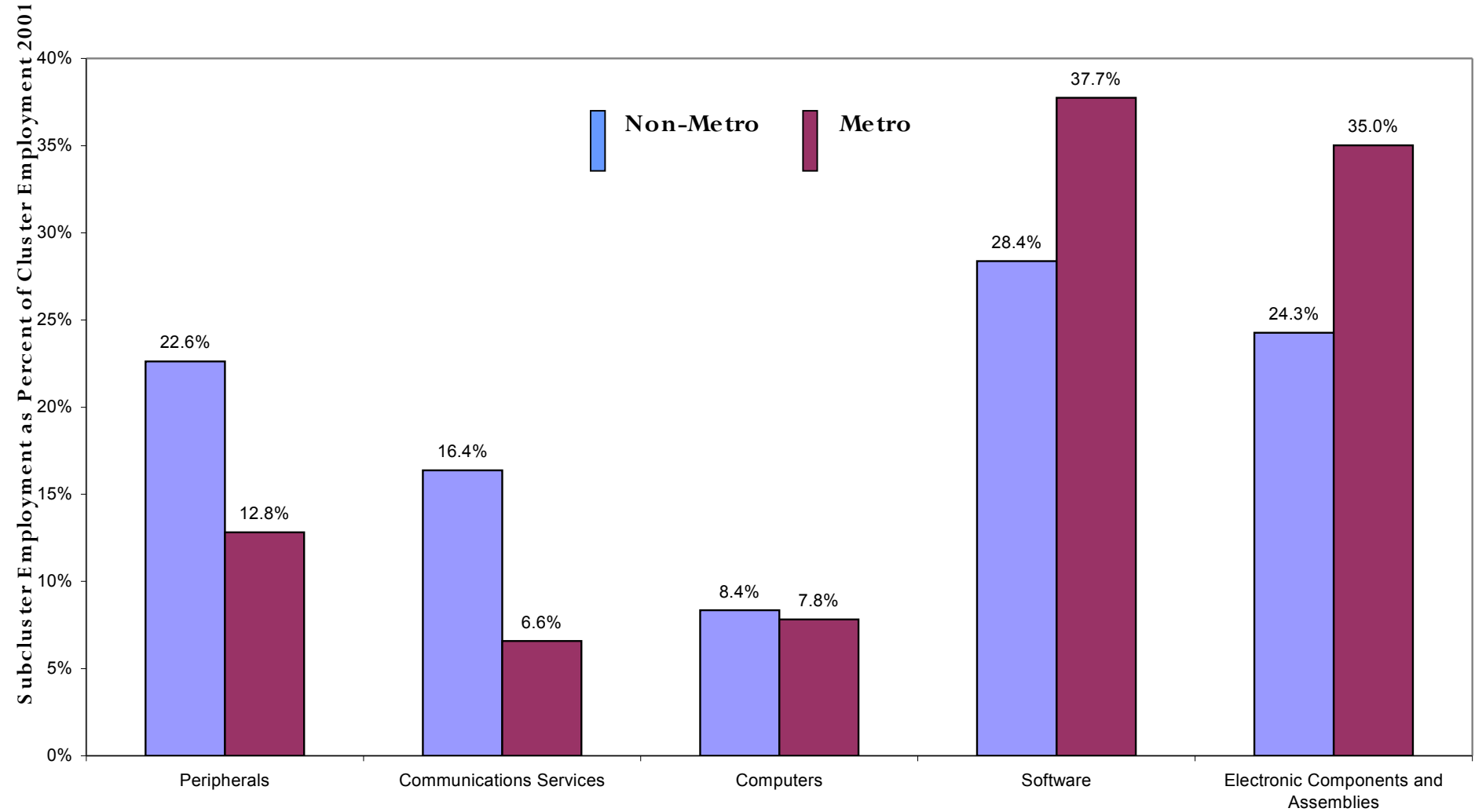
Rural versus Metropolitan Regions



Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

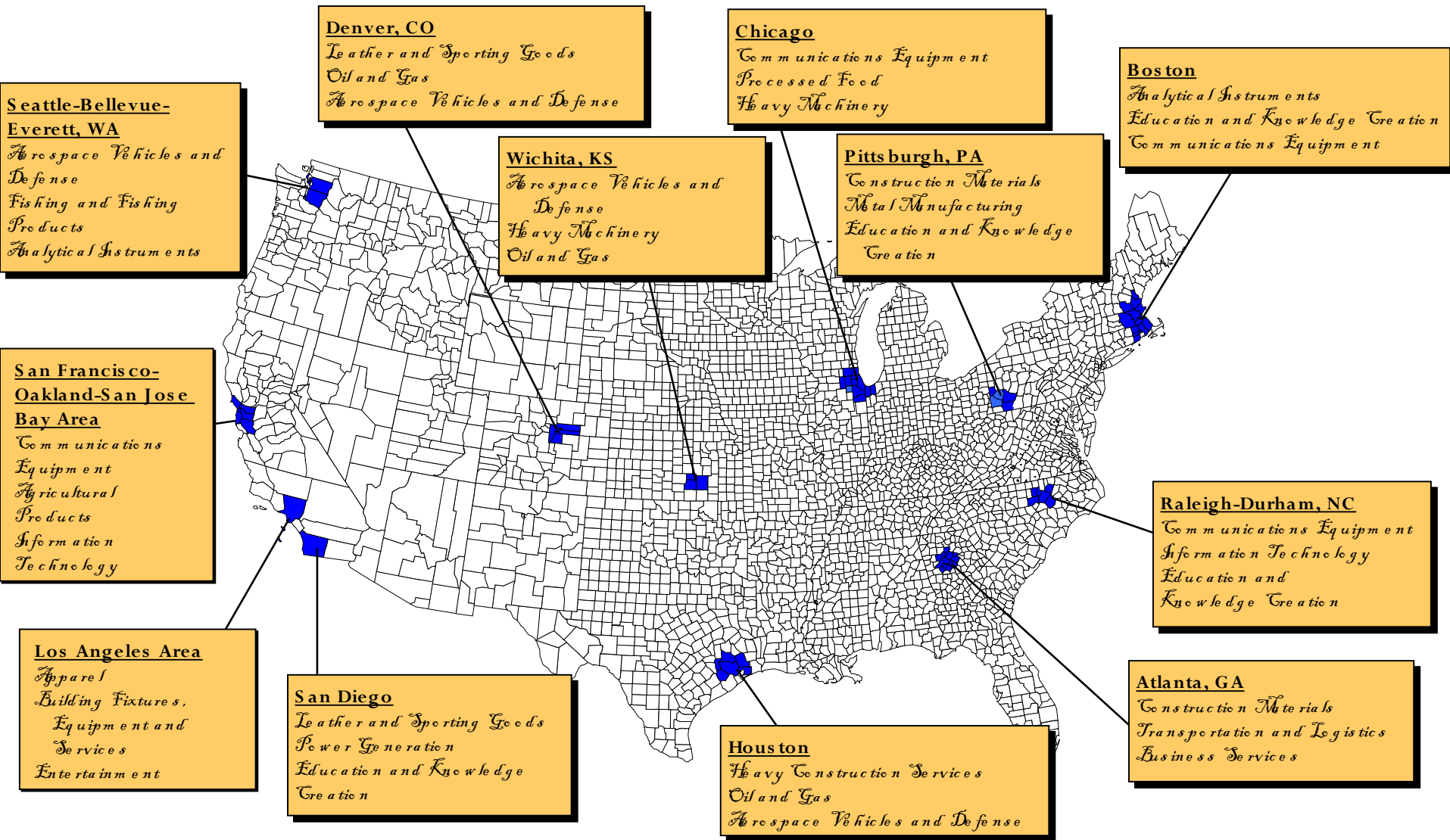
IT Employment by Sub-cluster

Rural versus Metropolitan Regions



Specialization of Regional Economies

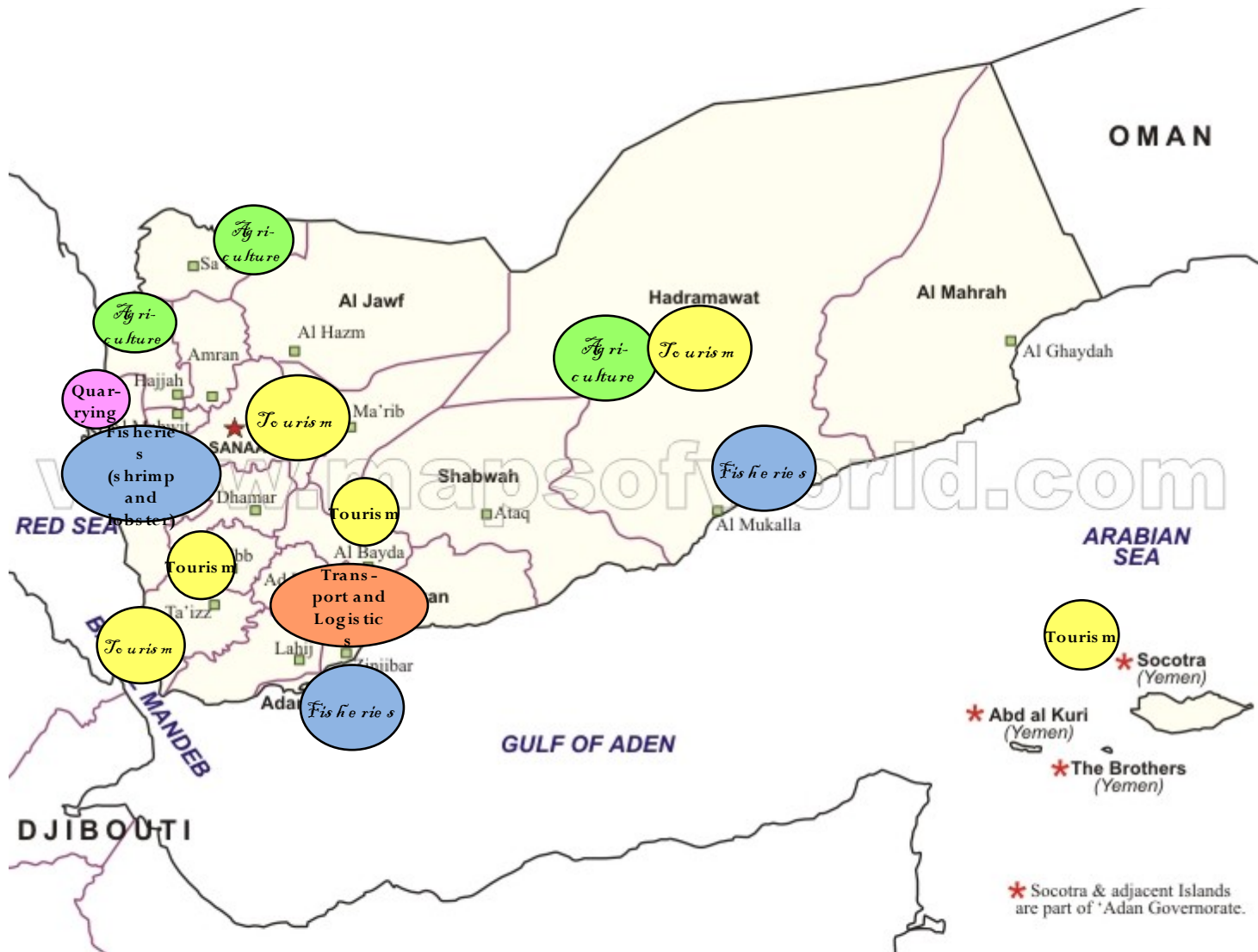
Select U.S. Geographic Areas



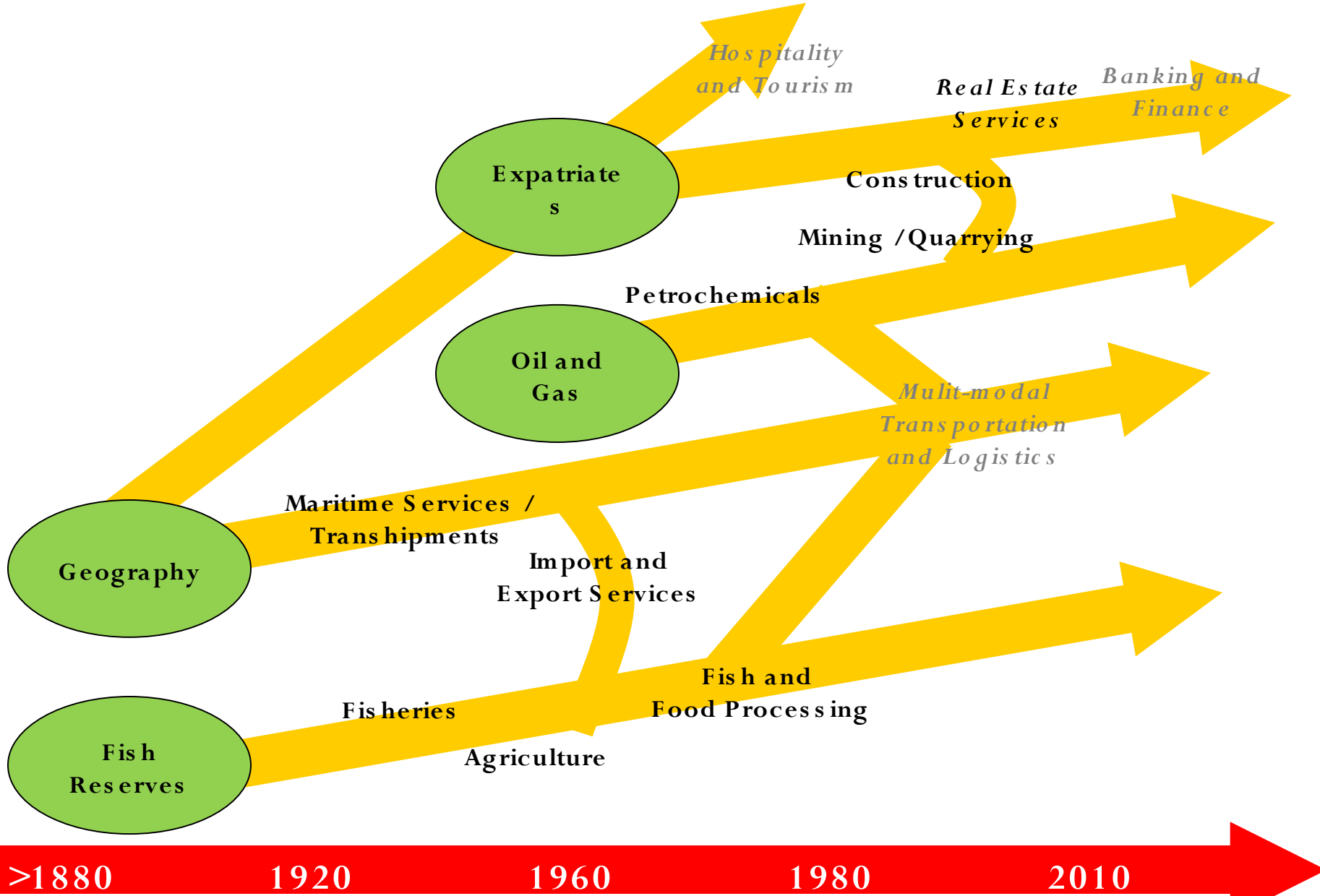
Note: Clusters listed are the three highest ranking clusters in terms of share of national employment

Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

Regional Clusters in Yemen



The Ongoing Evolution of Mukallah's Clusters



Source: Adapted from Michael E. Porter, Institute for Strategy and Competitiveness, Harvard University
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Policy for Economic Development in Rural Regions

The Need for a New Model

- *Rural economic development should focus on the **unique** strengths of each area, rather than concentrating on ameliorating generic weaknesses*
 - *Rural areas will never match urban infrastructure, services, and amenities*
- *The appropriate economic unit for strategy purposes must include not only rural areas but also **adjacent urban centers***
- *Rural economic development should **address and harness the efficient spatial distribution** of economic activity rather than attempt to replicate urban economies*
- ***A single** national rural policy is unlikely to be meaningful and successful*
- *Each community should bear **responsibility** for its economic success, not the federal government*
- *The federal and state governments need to provide rural regions with the necessary **tools and financing mechanisms** to develop and execute an effective strategy*
 - *Strategic planning methodology and benchmarking information*
 - *Programs and matching funds to enable communities to pursue improvements (e.g., connectivity, education, transport planning, etc.)*

Institutional Structures for Rural Economic Development

- *Past institutional structures have largely **failed** to develop policies that mobilize the potential of rural regions*
- *The current institutional framework for rural policy is **fragmented** and **uncoordinated**, and needs to be radically restructured*
 - *The focus of rural policy institutions around agriculture is particularly counterproductive*
- *The creation of rural-specific institutions runs the risk of further **isolating** rural areas rather than integrating them into regional economies. Existing institutions must have a charter that includes strategic planning involving adjacent urban areas*
- *Appropriate processes for economic development for rural areas, and must include prominent **roles** for business, colleges and universities, and other constituencies, in addition to **government***

Creating and Implementing a Regional Economic Strategy

- *A shared **economic vision** helps elicit broad support and coordinate activities*
- *Strong **leadership** is a necessary part of any successful economic development strategy*
- *Rigorous **strategic analysis** is an important early step in implementing a regional strategy*
- *Broad-based **collaboration** among institutions and constituencies is needed for development strategies to succeed*
- *An overarching **organization** for economic development helps coordinate and routinize the process*
- *A **cluster-based approach** is essential to engage the private sector*

Toward A Rwandan Economic Strategy

What is Unique about Rwanda?

- *Corruption-free*
- *Stable with social progress*
- *Secure*
- *Clean*
- *Responsive*
- *Unique climate and growing conditions*
- *Central location on the African continent*
- *Growing position in tea, coffee, tourism*
- *Opportunity to lead the region in ICT and services*

Some Implications

- *Rwanda must accelerate improvement of skills and business infrastructure, improve the ease of doing business, and transform Kigali*
- *Rwanda should seize the opportunity to transform agriculture*
- *Rwanda is unlikely to be competitive in exporting bulky goods with low value-to-weight*
- *Air freight and services exports nullify Rwanda's logistical disadvantages*
- *Rwanda must create a positive image for economic and social development*



"Switzerland of Africa"