

Developing a locational policy that fits the context

The idea of developing the economy of a sub-national region is not new. For many, the development of the local economy is seen as an antidote to globalisation. In the context of local economic development (LED) local stakeholders in an emerging region should purposefully work together to prioritise the development of certain kinds of networks, infrastructures or dynamics. In this regard, LED is in general a clear network governance task. If joint strategies are to be developed and progressive alignment reached without wrong compromises, certain

prerequisites for network governance are necessary, such as clearly defined roles, responsibilities and competences of the different stakeholders involved as well as social capital. However, often local stakeholders are not able to form these networks due to low trust between the public and private sectors. In addition, the setting of locational policy by local stakeholders is in itself a function that depends on permission from higher levels of government. Somehow the local policy must also fit, acknowledge or draw on policies and strategies developed at these

other government levels. Locational policy in an environment where hardly any resource allocation or local priorities can be set locally is a very challenging task (see also Article 3: How to introduce LED as an approach to economic change in a country).

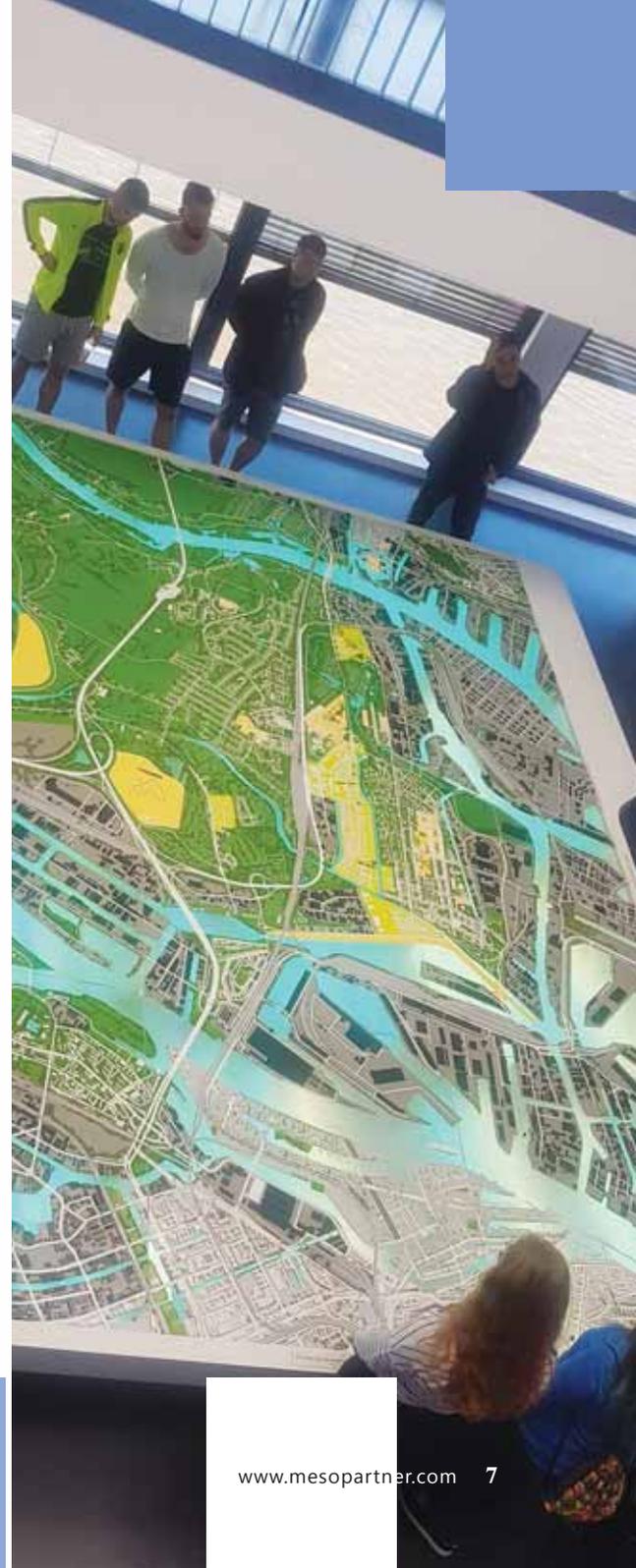
There are different locational policy formats that are all designed to promote coordinated governance structures but use different strategies. Meyer-Stamer (Meyer-Stamer, 2005) summarised three different kinds of locational policy that can be used to shape the dynamics of the local economy.

Generic locational policy

One straightforward option is a generic locational policy, whose goal is to create favourable business conditions overall, without targeting specific companies or sectors. Generic locational policies can also include certain meso organisations or support programmes targeting clusters or business networks in general but do not relate to specific industries or clusters. Many developing countries are dominated by uncoordinated sectoral policies via different line ministries present at the regional or even local administrative level. A generic approach would provide horizontal support mechanisms in which certain industry networks or clusters could then apply. On the one hand, it reduces the risk that government with a lack of management competence will distort markets through selective policies, and on the other hand, it promotes network-driven approaches.

In practical terms, a generic locational policy may include:

- A systematic effort to assess the consistency, necessity, effectiveness and efficiency of local rules and regulations on which their streamlining is based
- An effort to make local and national rules and regulations more transparent and easier to handle and raise public agencies' awareness of private companies' needs and demands



- The creation of one-stop agencies
- The provision of efficient real estate information systems and locational marketing efforts
- In more advanced stages, the generic approach may also include horizontal promotion programmes not focused on a specific industry. This may require the presence of different meso organisations to collaborate.

The generic locational policy approach is clearly steered by the public sector, often also with a strong role of the national level. This policy type is not easily implemented, particularly with regard to making public meso organisations and government departments more private sector-friendly, which requires a long-term effort.

In the context of generic locational policy, two types of stakeholders must be distinguished:

1) chambers, business associations and other collective actors, and 2) supporting meso organisations, such as training or technology extension. The first stakeholder group can contribute to locational quality simply by doing a good job (i.e. being agile, being in close contact with member firms, and constantly adapting to new challenges). The second stakeholder group, which consists of supporting institutions, must constantly adjust their services and offerings to address local patterns of underperformance.

Strategic locational policy

Strategic locational policy is a major focus of LED, in particular of cluster and local innovation systems promotion. This policy concept does not leave upgrading to the invisible hand of the market but attempts to define specifically where to upgrade. The formulation of a strategic locational policy is the outcome of a decision-making process that involves and defines the tasks and responsibilities of government, firms and





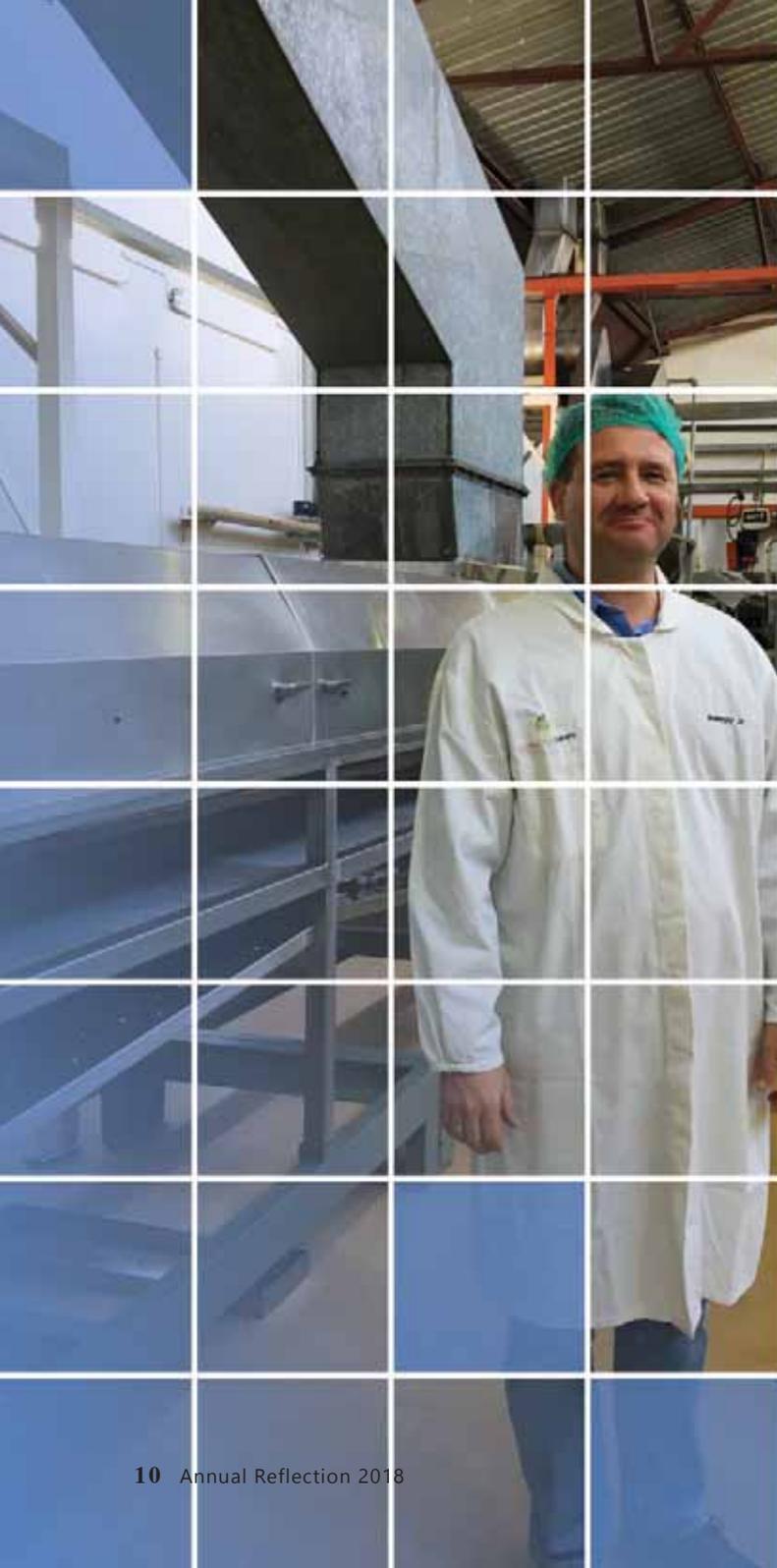
other local stakeholders. Reaching an agreement, however, involves enormous effort in grappling with difficult governance issues.

Experience with LED projects in developing countries demonstrates that in practical terms the strategic locational policy approach is often dominated by the public sector, in which businesses and other stakeholders are merely consulted. Based on administrative logic, the result of such processes is often development plans with a less dynamic implementation orientation. Economic infrastructure development, such as setting up technology institutions or incubators, follows a planning approach rather than an exploratory and network-driven approach. From a strategic locational policy perspective, the priority

would be to build specialised or focused meso organisations that give local enterprises and the region a competitive advantage. It could also be focused on leveraging comparative strengths, such as the presence of a local university.

Reflexive locational policy

Reflexive locational policy lies conceptually between generic and strategic locational policy. It is the policy approach nearest to a network governance perspective such as those that exist in many developed countries. It involves the organisation of a collective reflection effort of tendencies and structural change in industries, clusters and value chains relevant to the location. Unlike strategic



locational policy, it does not involve negotiating a joint strategy and action plan with a clear definition of responsibilities between various actors. Rather it provides a basis for decentralised strategy formulation within companies and government agencies.

The effort is aimed at gathering intelligence that would not otherwise surface through decentralised actors, and an organised reflection exercise based on seminars, workshops and presentations involving government actors, business representatives and researchers.

Regarding practical activities based on the reflection exercise, government focuses on generic locational activities. However, it can achieve greater effectiveness and efficiency since its action is based on better information. Companies pursue individual strategies, but their internal strategy formulation process is likewise based on improved information. In general, this coordination process also implies an alignment with concrete requirements to improve the competitiveness of the location or industry and refers to common responsibilities. Instead of designing a development strategy overall, the reflexive policy approach rather takes a more exploratory and learning-oriented view.

From our perspective, finding ways to move locations from a generic to a strategic locational policy is critical for LED. We often encounter meso organisations in locations that are controlled from the national level and that are unable to respond or adjust their offerings to changing local

requirements without coordination between different layers of government. In most cases, national departments will only heed the call for a more responsive local meso organisation if they can see the evidence of a broad and credible strategic locational policy emerging from the bottom up that also adds value to national strategies. Once this is in place, it is possible for a more resilient reflexive strategy to emerge, as it hinges on trust between meso organisations and other role players, as well as confidence in the capabilities of other stakeholders to be effective, adaptive and responsible.

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