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Why is Local Economic Development so difficult, and what can we do to make it more effective?

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Summary

LED is increasingly being propagated by donor agencies and governments in developing countries. Yet there is only scant evidence that LED has ever been successful anywhere. There are two sets of reasons for the poor performance of LED: inherent reasons and issues related to globalisation. Inherent reasons are (a) a strategy- and planning- instead of action-driven approach to LED, (b) a confusion between community development and LED, (c) an unclear theoretical and conceptual background for LED, and (d) a profound confusion about good practice in terms of governance of LED. Globalisation creates (a) the life-cycle paradox (companies in emerging and growing industries rely mostly on localised factors, but they are the most difficult group to engage in LED), (b) the irony of upgrading in global value chains (the latitude for local collective upgrading efforts tends to diminish as local companies are integrated into chains), and (c) The location and globalisation paradox (mobile companies may be interested in high locational quality, but their propensity to get involved in efforts to create such a quality tends to be limited). LED actors can respond by choosing the appropriate approach to LED. Apart from strategic initiatives there are also the options of a generic locational policy and a reflexive locational policy.

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1 Why local economic development?

Local economic development (LED) is attracting an increasing amount of attention these days, in particular in developing countries and in the donor community; advanced industrialised countries have been doing LED for quite a while, though the profile of LED in OECD countries is changing as well.

Where does the increasing interest in LED come from? It is mostly due to two factors. First, many developing countries are pursuing decentralisation policies, and as part and parcel responsibilities for promotion of economic development are also delegated to provincial and/or local governments. There is a hope that governing may be easier at the local level, and that developmental local government may be feasible, since issues such as low national cohesion and ethnic tensions on the one hand and overburdening of government bodies and increasing differentiation and fragmentation of problems, policies and governmental institutions on the other hand are less of an issue at this level.

Second, many developing countries suffer, for different reasons, from a limited governance and delivery capacity at the national level. The days of centralised industrial policy, as it has been pursued with some success in most newly industrialising countries, are gone – both due to external pressure (based on "The Washington Consensus") and to the weakening of internal governance capacity. Irrespective of the existence of decentralisation policy, local actors start to get involved in economic promotion activities since problems of unemployment and poverty are most urgently felt at the local level.

In this article, I will focus primarily on LED in developing countries. However, an important point of reference are the experiences in industrialised countries. This article is organised as follows. In the rest of this section, I give a brief overview of current approaches to LED. In Section 2, I discuss typical problems of LED initiatives. In Section 3, I assess some implications of globalisation for LED. In Section 4, I present a typology of LED approaches as a way of summarising the argument and showing a way forward.

1.1 The track record of LED in industrialised countries

What is changing with respect to LED in OECD countries? First and foremost, the scope of LED is widening. Traditional LED used to be around three issues: zoning and development of industrial estates, attraction of external investors, and reducing frictions and communication problems between private business and local government. Recently, local governments have become much more pro-active, using instruments such as entrepreneurship promotion, business and technology incubators and cluster promotion. Many locations are approaching economic development in a more strategic manner, trying to shape a specific profile in order to create a local competitive advantage (European Commission 1998, OECD 1999, OECD 2000, OECD 2003).

Second, it is difficult to discern a convergence of practices in different industrialised countries. Certain instruments are becoming fashionable and more widely used, but the basic approaches to LED – Who is in charge? What is the governance structure? What is the scope? What is the overall objective? – continue to diverge, not only between the Anglo-Saxon countries and the European continent but also among European countries (with their quite different histories in terms of devolution of power, federalism, regional policy etc.) (Raines 2000).

In those developing countries where LED has been going on for a number of years, it is difficult to discern stunning success stories; the collection of case studies in Aghón et al. (2001) gives little evidence of the outcome and impact of the initiatives described. And for that matter, even in OECD countries there are not that many LED success stories. One cannot help but wonder: Is the popularity of LED perhaps more due to desperation than to a convincing track record?

Finding an answer to this question is not at all straightforward. Given the long experience and the enormous resources spent on LED in industrialised countries, it is striking how little evidence exists on its impact. Why is that so? I have argued elsewhere (Meyer-Stamer 2000) that it reflects the political economy of economic promotion. Economic promotion is not a scientific exercise, but rather part of the everyday political struggle. Political actors launch economic promotion activities to respond to the problems and demands of their constituency. They are, first and foremost, measured by the resources they can mobilise on the input side. If, say, a steel plant is closed down in a given location, a politician who mobilises several million Euros for compensation measures is a popular hero – irrespective of the effectiveness in the use of these funds. In fact, it is unlikely that this politician has an interest in investigating how effective the funds have been used: unless an evaluation paints an unambiguously positive picture, it provides ammunition for his political opponents.

But is there just the fear that systematic impact assessments might paint a bleak picture, or is it a fact that LED makes little difference? The scant evidence which is available tends to indicate that the latter is the case:

- Regional policy, which is one of the important sources of funding for LED, apparently makes little difference. In fact, in Germany research on the main regional policy programme, the "Gemeinschaftsaufgabe", found that despite substantial efforts the regional disparities increased (Deutscher Bundestag 1999, 26). With respect to European regional policy, the evidence in terms of reducing disparities is at best mixed (Fagerberg & Verspagen 1995, Moucque 2000, Ederveen & Gorter 2002).

- One specific type of LED is cluster promotion, which is very frequently addressed as a territorially based activity. In his research on the evolution of 160 clusters all over the world, Michael Enright (2000) found that, except for education and training activities, government action is irrelevant.

- One of the common instruments of LED used to be enterprise zones, where tax-breaks and regulatory reliefs were offered to lure businesses into deprived urban areas. The success of this approach has been extremely limited (Ladd 1994).

- Another popular LED instrument is the creation of technology incubators. In the German state of Northrhine-Westphalia, between 1984 and 1996 more than DM 1 billion was spent to create more than 50 incubators. An evaluation found that companies inside in incubators fared only little better than a control group, and that the net number of jobs created amounted to approximately 2,000 to 4,000 (Elle et al. 1997).

How should we deal with these sobering findings? What might appear as the obvious conclusion, namely *forget about it*, is no option as long as democratically elected local politicians face the expectation to do something to create jobs and income for their constituency. Another conclusion is to point at methodological problems. Any given LED initiative involves a variety of instruments, and appraising their combined impact on growth and structural change is highly difficult, plus there is always the counterfactual question: What would have happened without them? Maybe they didn't create growth, but perhaps the decline of a given location would have been much steeper without them.

Another conclusion, and in fact a rather straightforward one, is that there is no reason to assume that experiences from OECD countries present us with a model for LED in developing countries. There is not only the usual issue of transferability, which cannot be taken for granted due to differences in institutional structures and other factors. More importantly, if it cannot be proven that LED efforts in OECD countries have made much of a difference, there is no point in trying to transfer these experiences in the first place.

1.2 Variations of approaches to LED in developing countries

Nevertheless, several of the common types of LED approaches which are being pursued in developing countries are explicitly based on experiences in industrialised countries. The dominant approaches to LED by developing country governments and donor agencies are the following:

- Strategic planning of local development is an approach which is widespread in Latin America (Aghón, Alburquerque & Cortés 2001). The problem with this approach is the high cost, the high requirements in terms of planning skills and the bias in favour of elaborate documents and against implementation.

- An approach which is focusing at the work of local economic development agents and the creation of local economic development agencies (LEDAs) is also widespread in Latin America and to some extent in East European transformation countries (ILO, UNOPS, EURADA & Cooperazione Italiana, undated; European Union, undated). It is informed by experience from Mediterranean countries, in particular Italy and Spain, and it is being transferred internationally by agencies such as the ILO. The experience appears to be mixed, in particular with respect to LEDAs which tend to suffer from overburdening and exaggerated expectations.

- Local and provincial, and sometimes also national, governments in many developing countries pursue cluster promotion policies which are based on Michael Porter’s conceptual and advisory work (Fairbanks & Lindsay 1997). Institutions such as the World Bank have been supporting this approach in numerous countries. The experience, again, seems to be mixed as transforming agglomerations of not very competitive producers into highly specialised and competitive "industrial districts" is a daunting task (Altenburg & Meyer-Stamer 1999).

- In some African countries, the Club du Sahel and the OECD are promoting a methodology called ECOLOC to launch LED initiatives (Club du Sahel & OECD 2001). The basic concept involves several months of studies and several subsequent months of consultation and strategy formulation, to be followed by implementation.

- In South Africa, LED is a mandatory task of local government. However, there is no clear concept and no consistent pattern of implementation (Tomlinson 2003).

- Another approach is a bottom-up, pragmatic and immediate action-oriented concept which takes the Participatory Appraisal of Competitive Advantage (PACA®) method as a point of departure (Meyer-Stamer 2003). This approach is increasingly pursued by German technical assistance.

So far there is little evidence that these different approaches have had any major impact. Helmsing (2001) and Llorens, Alburquerque and Castillo (2001) observe that the research on LED in Latin America did not even ask for hard evidence on impact. Tomlinson (2003) finds that LED in South Africa does not make much of a difference. In the following two sections, I will elaborate a number of reasons why doing LED is so difficult.

2 Inherent problems of LED initiatives in developing countries

Why is it that LED is not as successful as one might expect? Based both on my research and my practical experience, I would argue that LED initiatives in developing countries suffer from four typical inherent problems:

- A strategy- and planning-driven approach to LED, driven by local authorities whose capacities are already overstretched.

- A confusion between community development and LED. Any successful LED initiative is based on the involvement of the local community. But LED is about creating favourable conditions for business and alleviating local market failure, whereas community development is about health, housing, education, crime and support for the disadvantaged.

- An unclear theoretical and conceptual background for LED, and a confusion between business and LED. LED initiatives ought to enable private business. They must not substitute for it.

- A profound confusion about good practice in terms of governance of LED: Should there be a dedicated agency? What is the respective role of the public and the private sector? How should they co-ordinate their efforts?

I tend to argue that bottom-up, action-driven participatory approaches are more promising than approaches which presuppose lots of institution- and capacity-building before anything practical happens, and that action-oriented approaches are more promising than approaches which put huge resources in terms of time and money into analysis before any implementation happens. In my view, it is an open question to what extent localities in developing countries can learn, in terms of an effective institutional setting and process management, from the decades-long experience of industrialised countries. It is probably more advisable to learn from earlier experiments in decentralised development promotion, such as the not-too-successful integrated rural development programs.

2.1 LED strategy and local government

Why is it that LED is often conceptualised as a public task that involves planning and strategy?[1] My hypothesis is that there are three reasons for this:

- LED is often driven by government. For government, planning LED activities (possibly even in terms of several-year-plans) fits into the normal frame of mind – this is just the way government operates when it has to do something apart from routine service delivery. The opportunity-driven, flexible way of approaching matters which comes natural for business people is alien to public servants.

- Many LED practitioners have an urban planning background. For them, operationalising their approach to work in terms of planning comes naturally.

- The LED discussion has to some extent been shaped by earlier concepts of strategic development planning, integrated regional rural development planning, strategic industrial policy etc.[2] Actors with a background in either of these fields tend to spend a lot of time formulating strategies and plans, as opposed to implementing practical LED activities.

There is a twofold problem with a planning- and strategy-driven approach to LED. First, it requires very substantial resources in terms of manpower, skills and money. Second, even if a local government can make those resources available, it is difficult to strategise and plan something which is hard to imagine. Let us look at both points in turn.

Planning LED, and in particular planning a multi-year LED strategy, is usually based on a profound analysis of the local economy. Preparing such an analysis is something which requires at least several person-months, if not person-years. As it is unusual that a local government has personnel which is adequately skilled and available, it will usual contract external expertise, typically from the academia or a consultancy firm; even in OECD countries this is common practice. Given that the daily rates of skilled persons in developing countries a not necessarily low, a local government will quickly look at least at a five-digit-amount of US dollars just to prepare a diagnosis of the local economy. On top of that, there is the effort – both in terms of external specialists, who are costly, and of local stakeholders, who have to commit a lot of unpaid time – to turn the diagnosis into an action plan. And in those cases where a plan is

1 For instance, the standard textbook is called "Planning Local Economic Development" (Blakely & Bradshaw 2002) – even though most of its content is about *delivering* LED.

2 In the context of development co-operation, the rise of LED has led to turf-wars in many organisations, with varying outcomes; for instance, in the World Bank and the Inter-American Development Bank, the issue of LED is driven by the Urban Planning and Development departments. This reinforces the strategy-driven approach to LED (see, for instance, Webster & Muller 2000).

formulated, it often involves numerous, not prioritised proposals for action to be taken by local government, which more likely than not is already stretching its resources very thinly.

But how do you plan something you cannot imagine? A local community with many years of experience with LED may find it feasible, and in fact very useful, to engage in an effort to formulate an LED strategy. But since LED is a relatively new topic in most developing countries, local stakeholders will normally not have a very clear idea of what they are talking about and what they are supposed to do; and that is even more so if some local stakeholders refer to experiences from a variety of far-away countries with a completely different history of LED efforts and very different local economic structures and capabilities. Telling newcomers to LED that, before anything else, they have to formulate a strategy is as useful as asking continental Europeans to advise on tactics for a cricket match.

Moreover, there is usually nothing that prepares officials in local government for tasks such as preparing adequate terms of reference for external experts, educating local stakeholders about the issue of LED or moderating and facilitating a stakeholder dialogue. And on top of everything else, local government is already quite busy with all sorts of other activities, such as building and maintaining roads and other infrastructure, as well as providing education, health, housing etc., and in case of doubt LED will get entangled with all those other activities, so that in the end it is about roads, education, health and housing, but not about the local environment for business. This leads us directly to the second problem, the confusion between LED and community development.

2.2 LED and Community Development

The confusion between local economic development and community development is not a unique problem of developing countries. This type of confusion has also created huge problems in industrialised countries, in particular the U.S. Michael Porter (1995) has formulated one of the most scathing critiques of the confused approach to redevelop the decaying inner cities in the U.S., where government was creating all sorts of regulatory and bureaucratic obstacles for business, “while at the same time many programs train people for non-existent jobs in industries with no projected growth” (Porter 1995, 66). In his view, one of the most important aspects of a promising approach to inner city development in the U.S. is a clear distinction between LED and community development – not only in terms of policies but also in terms of organisations that are in charge of each of the two activities.

Despite the fact that the U.S. experience is well documented and might be highly instructive for policy makers in other countries, the confusion between LED and community development is an issue that comes up in every place where local stakeholders start to do something about LED. Let us take the example of South Africa, where LED has been a major political issue for some years. A draft document by the country's Department of Provincial and Local Government states the following in the executive summary:

> “From central government's perspective, the most important objectives for municipal LED are job creation, sustainable urban and rural development, and explicitly pro-poor approaches within a holistic LED strategy. The LED approach promoted in this policy paper is innovative, creative and redistributive. LED is to be broadened and deepened to meeting, first and foremost, the needs of the poor, women, children,

> disabled and people living with HIV/Aids. Within newly-demarcated districts, small towns should be given higher priority."[3]

In other words, in the perspective of this Department LED means bringing together employment policy, urban development policy, rural development policy, social policy, family policy and health policy. The E in LED, i.e. Local *Economic* Development, is marginalised. Yet it is notable that the situation in South Africa is not unique. The confusion between economic development and social development is commonplace.[4] The problem resulting from this confusion tends to be gridlock, that is a constellation where neither economic nor social objectives are met. LED activities tend to have no clear business focus, and as a result they often rely on subsidies, which effectively means that they are not sustainable.

A constructive way of dealing with this confusion is to distinguish between community development and community involvement. There cannot be any doubt that community involvement in the LED process is most desirable, and indeed necessary – not just involvement of the local business community but also other segments of the local society, as the education and academic community and non-governmental organisations must be involved in the overall LED effort. In fact, the more effectively these communities are organised, the better are the pre-conditions for a successful LED process – provided that they understand the distinction between local economic development and other fields of local development.

In other words, LED cannot be separated from the community. But community involvement and community mobilisation are distinct from community development. Community development is effectively part and parcel of social policy. Its objective, target groups and incentives are quite different from those of LED. Community development is about supporting and empowering the weak and disadvantaged, whereas LED is about business and competitiveness.

Apart from this, it is crucial to understand that LED is part of a larger venture, namely local development. One way of conceptualising local development is by distinguishing three core activities, namely economic development, social development and development of the physical infrastructure. What makes the particular distinction between economic and social development so difficult is the fact that it is not as easy to allocate activities to one of the two fields as one might expect. The following matrix illustrates this point.

The matrix emphasises two points. First, the distinction between economic development and social development is less straightforward than one might expect. Second, distinguishing between the two issues must not lead to a discussion of the either/or variety. Both economically- and socially-driven approaches to local development are highly important.

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3 "Local Economic Development Policy Paper: Refocusing Development on the Poor", February 2002.

4 It is also a type of confusion which is not limited to developing countries. There are not only the experiences of the U.S. mentioned before. In Germany, there is constant confusion between economic and social policy objectives in active labour market policy – and the outcome are, for instance, employment and skills development projects which directly compete with private business in activities such as landscaping and brownfield rehabilitation.

Table 1: Economic vs. social policy, business vs. employment promotion

	Business promotion	Employment promotion
Economic policy	SME promotion Promotion of entrepreneurship Investment promotion	Skills development Reskilling and ongoing training Labour market information systems
Social policy	Support for “informal sector” (subsistence-oriented micro-enterprise)	Unemployment benefits Food for work

Source: Meyer-Stamer (2001)

2.3 LED for business or LED instead of business?

What is a good LED project? This question is bound to raise a variety of different responses in different countries and settings. In some places, LED practitioners would point at the successful acquisition of an external investor, or at the informal meetings for local business start-ups which are organised at regular intervals, or at a major real estate development where a substantial amount of public investment has leveraged an even more substantial amount of private investment. In other places, LED practitioners would point at a group of vegetable producers, made up of formerly unemployed, unskilled persons, or at a small local bakery which has been set up with government money and is employing persons who would not stand a chance in the formal labour market.

From a purely economics perspective, LED is only justified to the extent that it remedies market failure. From this angle, there are usually numerous opportunities. A typical problem is the lack of visibility of new businesses, which is basically a scale problem – if the business wasn't new and small, it would be able to afford costly advertising, but as long as it is small, its resources are limited, and thus there is the risk of a vicious circle. Another typical problem is the lack of access to capital – a start-up business with no track record and little collateral hardly qualifies for credit from commercial banks. In many places, LED targets such problems – by organising informal get-togethers, formal events or fairs to stimulate business contacts and networking, and perhaps by organising a business angel scheme.

But what about the vegetable producers and the bakery? This type of project is not rare in LED initiatives, but it can hardly be justified in terms of remedying market failure. Basically, it is a quick fix: As policy-makers are under pressure to present visible results quickly, they run this kind of project instead of addressing the underlying problems, such as inadequate supply of skills formation opportunities or barriers to entry for strictly business-oriented start-ups. The problem with such projects is that they often are more destructive than creative. They do not necessarily create viable businesses; in fact, it is not rare that the issue of sustainability is not even considered. But they usually create unfair competition for commercial producers of vegetables and bakery products, and in the worst case they ruin those producers – which is something local politicians perhaps do not care too much about, but which is clearly detrimental to the overall objective of LED, namely to stimulate conomic dynamism. Ironically, this leads us back to the issue of strategic planning: if there is too much strategizing and planning, and too little visible results of LED efforts, politicians will tend to promote not-too-sensible projects.

2.4 The role of public and private sector in LED

Regarding the governance of LED, there does not seem to be a first-best model. A model pursued in several European countries circles around the creation of a dedicated LED agency, and organisations such as the ILO and UNOPS are trying to transfer this model to developing countries. However, it is not clear whether this model has been successful in Europe, and in a developing country context there are good arguments to doubt its effectiveness: Either the institutional structure at the local level is little developed, in which case a newly-created LED agency will tend to be overwhelmed by the variety of tasks it is expected to fulfil; or there is already a structure with a number of different organisations pursuing LED activities in an uncoordinated way, which will tend to perceive an LED agency as a competitor rather than a welcome co-ordinator. In any case, setting up an LED agency before starting to do LED clearly violates the form-follows-function principle. ILO's approach, for instance, refers to the Italian experience. But research shows that LED agencies in Northern Italy do not follow a single model. Their diverse profiles reflect the very different local conditions which shaped their emergence and evolution (Pietrobelli and Rabelloti 2002).

Another problem with this kind of approach is the fact that it is inherently technocratic. It completely neglects the fact that LED not only involves polity and policy, but also politics. There is not only the problem of petty politics, which, as every practitioner can tell, is often one of the most important obstacles to successful LED activities. There is also the problem of finding a governance structure for LED that is both effective and legitimate. This raises three issues: First, what is the division of functions between the legislative and the executive branch, and which part of the executive branch ought to be involved? Second, which non-governmental actors ought to be involved in the governance of LED? Third, how can government and non-government be connected?

Regarding the first issue, it must be noted that the body of literature on LED mostly neglects the politics of local development efforts. It has a strong bias towards the executive branch and a rational, systematic process of policy formulation and implementation; it thus reflects the view of many practitioners who tend to perceive the legislative branch, i.e. local politicians, as a nuisance. This view, however, neglects one of the main reasons why LED exists in the first place: local politicians have to deliver economic development to create jobs and income for their constituency. For this reason, local politicians are key actors in any LED effort. Their aspirations and activities do not necessarily make an LED initiative easier. What is not rare in the literature is a romantic view which circles around concepts such as dialogue, consensus and roundtables. Occasionally, this may happen. However, the real world is one of contradicting concepts and conflicting viewpoints. This also applies to LED, and this is where politicians come into play. When it comes to defining overall objectives for an LED initiative, democratically elected local politicians play a key role. Persuading them not only to try to channel resources to their clientele but also to look at the bigger picture is one of the major tasks of other actors, including LED officers in the executive branch. But it should be quite obvious that LED cannot be left to the executive branch alone.

Regarding the second issue, a couple of problems tend to arise. The first question is: Is there a legitimate voice of the private sector? One might expect that business associations or chambers play this role. But business associations and chambers in developing countries often are little more than clubs of businesspeople, with little in terms of professional capabilities and services for member companies (Moore & Hamalai 1993, Müller-Glodde 1993, Doner & Schneider 1999). Such chambers and other business associations are hardly reliable, competent partners in LED initiatives: they have little to offer in terms of resources, and their representatives cannot rely on their members to comply with the commitments they agree upon.

The second question is: Which other non-governmental actors want to play a role in LED? Some parts of the local community will usually be part of an LED initiative, for instance education institutions. However, things get tricky the moment higher levels of government earmark financial resources for LED, since from that moment on each and every group has a strong incentive to label its demands as LED proposals. This usually leads to a complete loss of focus for LED and an ineffectiveness of an LED initiative.

Regarding the third issue, i.e. the relationship between government and non-government, there is a substantial body of literature which argues that LED ought to involve public-private partnership (PPP) (Birnstiel 1995, Blakely & Bradshaw 2002). At first glance, this seems to be a sensible suggestion. However, a closer look reveals that things are actually quite difficult. For a start, the term means quite different things in the U.S. and in continental Europe. In the U.S., it is mostly about the private sector taking over tasks which traditionally have been ascribed to the public sector. In continental Europe, PPP is rather a model where the private sector takes a minority share in activities which have traditionally been pursued by government alone. In developing countries, PPP is a rather unusual model, except in the traditional incarnation of public and private agents conspiring to embezzle taxpayer money.

Moreover, PPP requires that both the public and the private sector meet certain requirements. The public sector must have an interest in economic development, a basic idea of business principles and a non-paternalist view of private businesses. Meeting these criteria is not easy. More often than not, government officials have no own business experience. There is also the problem that in many development countries government officials and business people, in particular in micro and small businesses, have completely different class backgrounds, which makes communication difficult. Regarding the role of the private sector in PPP, the problems with business associations I mentioned above apply.

2.5 Interim conclusion: Strategy and LED

In the business management discussion, it has already been argued a long time ago that having a strategy does not necessarily mean having a written strategy document (Mintzberg 1987, 1994, Porter 1996). This kind of reasoning never really made it across to the economic development discussion. Most of the LED manuals which are currently available introduce LED as a strategy- and planning-driven activity, as opposed to something which is opportunity- and action-driven. Strategy still tends to be connotated to an exercise involving numerous consultants and researchers, a large number of stakeholder workshops and a huge printed volume.

The reason why businesses often prefer not to have a very elaborate written strategy is that they have to survive in competitive markets, and this normally requires flexibility and quick adjustment to changing challenges and opportunities. Government, on the other hand, does not have to compete (or at least thinks that it does not have to, until it recognises that investment and jobs are going elsewhere), and unlike business it is not opportunity- but problem-, lobby- and pressure-driven. But LED is supposed to be about *economic* development, and after the fall of the Berlin Wall hardly anybody will challenge the statement that economic development is essentially based on business entrepreneurship. So even if LED is driven by government, it had better not follow the standard procedures of government action. In other words, in the context of LED, strategy ought to have a different meaning than, say, in the context of a poverty alleviation strategy.

So what should be the concept of strategy applied in the context of LED? Mintzberg (1987) distinguishes five different concepts of strategy:

1. Strategy as plan: consciously intended course of action (made in advance, developed consciously and purposefully)

2. Strategy as ploy: maneuver intended to outwit an opponent or competitor

3. Strategy as pattern: strategy as consistency of behavior, whether or not intended (gradually the successful approaches merge into a pattern of actions that becomes our strategy)

4. Strategy as position: strategy is a means of locating an organization in a competitive market or environment (this strategy involves looking out to find a niche within an environment)

5. Strategy as perspective: strategy as an ingrained way of perceiving the world (culture, vision, character, ideology; the perspective must be shared, must carefully consider the collective mind: individuals united by common thinking or behaviour)

I would argue that, particularly in an early phase of LED, concept No. 3 is most appropriate. During the early phase, the crucial point is to do LED, typically by implementing small, practical projects which immediately improve the environment and opportunities for business, rather than to strategise, since the latter is about as useful as discussing the shape and colour of a heffalump. Only after local actors have, through the implementation of practical activities, learnt what LED is all about, the other concepts of strategy become relevant.

Another way of defining the meaning of strategy at the early stages of LED might relate to the systemic competitiveness concept (Esser, Hillebrand, Messner and Meyer-Stamer 1995, Meyer-Stamer 2001). With this concept, we argue that the factors determining successful industrial development can be found at four different analytical levels: the micro-level of companies and markets, the meso-level of specific policies and specialised business support organisations, the macro-level of generic economic framework conditions, and the meta-level with slow variables such as the basic economic model, a society's capacity to learn and to adjust, collective memory, and the social status of entrepreneurship. From this perspective, strategy- and planning-driven LED is mostly focusing the micro- and meso-level. It is about selecting business sectors to be preferentially promoted, and about targeting specific sectors through the creation of dedicated meso-institutions. Opportunity-driven LED, on the other hand, would not bother with this type of micro-management. It would rather address macro- and meta-level factors: remove unnecessary regulatory obstacles, streamline licensing procedures, create a setting which encourages entrepreneurship, and negotiate a consensus about the necessity of doing LED among local stakeholders.

Let us briefly look at the last point, the consensus. It is important to create a consensus among local actors that there should be some type of LED, but it is not necessarily important to create consensus about the *how* of doing LED – in fact, it is preferable not to try to create that kind of consensus. At the early stages, LED as such is a radical innovation – something local stakeholders have never done before. But then it is not rare to observe that LED initiatives try to launch early on project proposals which are very inventive, but also difficult to understand and to implement; in particular this applies LED projects which are driven by external consultants. Doing so means to add a second layer of radical innovation; it is like putting someone who has driven a bicycle for all his life into a Ferrari, rather than a Volkswagen, in his first driving lesson. Given the fact that most people find it difficult to cope with any kind of radical innovation, it is not wise to suggest too much radical innovation at once – this reduces the chances of success.

This creates a direct connection to the PACA approach. It acknowledges that one radical innovation, namely launching LED, is enough, and that the initial LED activities should be modest in order not to overwhelm local actors. Moreover, it suggests to run LED like a business, and not like a politico-bureaucratic activity: flexibly, looking for opportunities, seeking a quick return on investment. This is, in fact, one prerequisite to raise the private sector's interest in LED. Private businesses will not be particularly interested in an LED initiative which appears to consist mostly of meetings and does not render visible results. But even if LED generates quick, tangible benefits for companies, there is no guarantee that they will get actively involved. Ironically, this has to do with some specific aspects of globalisation. Let us look at this in the next section.

3 Paradoxes and ironies of LED

It is often argued that the increasing globalisation of economic activities creates a pressure to launch LED initiatives (e.g. Vázquez-Barquero 2002). Corporations put increasing demands on the quality of locational factors, and an increasing number of locations is competing for investment. Further locations find themselves at the fringes of the globalisation process, gaining little if any benefits, and hope to reap more benefits from local efforts to get more involved with the global economy.

At the same time, it is important to note that LED initiatives, in particular in those places where local companies have a certain degree of mobility, are confronted with typical paradoxes and ironies.

- The life-cycle paradox: Companies in emerging and growing industries rely to a much greater extent on localised factors, in particular those which have to be created through collective action or by government, than companies in mature and declining industries. At the same time, companies in emerging and growing industries tend to be little organised, which makes them difficult partners for LED initiatives.

- The irony of upgrading in global value chains: A typical objective of LED in developing countries is to facilitate upgrading of local companies so that they can become part of global value chains. When this actually happens, the latitude for local collective upgrading efforts tends to diminish as the lead companies in global value chains take over the role of governing upgrading.

- The location and globalisation paradox: Even though mobile companies may be interested in high locational quality, their propensity to get involved in efforts to create such a quality tends to be limited, in particular in the case of branch plants of multi-location companies. Successful LED initiatives tend to be based on strong local networking and trust among local stakeholders; frequently rotating chief executives of branch plants rarely fit into this pattern. More importantly, they tend to find the ratio between the cost of understanding local governance networks and getting involved in time-consuming negotiation and co-ordination processes and the potential benefit in terms of locational upgrading unfavourable. They rather go for sponsoring activities, which have a clear benefit in terms of visibility and prestige and usually a relatively limited, and usually only pecuniary, cost.

3.1 Territorial upgrading and the life cycle paradox

The implications of the industrial life-cycle on location have been addressed both from a practitioner's and from a researcher's point of view. Table 2 gives a practitioner's view. Its basic message is simple and straightforward: In the early phase of the life-cycle, companies rely on a sophisticated environment. In the later phases, they move to locations where production factors, in particular real estate and labour, are cheap.

Table 2: Requirements on locations across the industry life-cycle

Start-up phase	Growth phase	Maturity phase	Decline phase
Highly skilled workers Knowledge infrastructure Proximity to customers	Proximity to market (up- and downstream) Specialised workers Highly skilled workers Real estate	Cheap workers Low location cost Proximity to market	Cheap workers Low location cost Little regulatory cost

Source: Pieper (1994), p 32

Interestingly, the practitioner's view, which is mostly based on experience and inductive reasoning, is confirmed by more systematic research that addresses the issue of locational quality from an innovation economics perspective. This is summarised in Table 3.

What does this mean in terms of upgrading, both for companies and for locations? In terms of locations, the answer seems to be simple and, to some extent, discouraging. There is a lot that can, and indeed should, be done to support the emergence of new industries. Yet, there is little that can be done, in particular on the part of 'old' locations, with respect to mature

Table 3: A neo-Schumpeterian model of industrial development

Stage of industry Parameter	Innovative	Competitive	Oligopolistic	Decline
Localisation pattern	Close to existing pools of high-skilled labour/ founders residence	Firms are attracted to least cost sites (labour, land, taxes, etc.)	If early: relocation is retarded because market strategies are better implemented from old centres. If late: reorganisation of industry to less unionised labour	Close down operations in old industrial regions. Modernised plants in new regions.
Importance of proximity	Agglomeration economies are high. Attraction point: innovative centres.	Proximity to competitors/ colleagues less important. Proximity to producers of equipment of some importance	Firms operate on larger in- and output markets. Internal division of labour and level of information rises.	Low
Growth	High growth rates. Employers from established firms form spin-off firms	High. Minimum optimal scale increases and spin-off becomes rare.	Low. Markets are increasingly organised and negotiated.	Negative
Technological development	Product innovations have primacy. In many cases production equipment is modified by the user	Products are standardised. Process development aimed at economies of scale.	Product differentiation (fashion) and process development dominates	Product development suppressed by short term profit dispositions. Process developments are rare.

Source: Gelsing (1992), p 128

and declining industries. But also 'new' locations, such as greenfield sites in developing countries that cater to relocated plants in mature industries, do not have many options in terms of locational policy. The practitioner's viewpoint is straightforward: minimise costs of infrastructure, real estate, labour and skills development. This is exactly what has been happening in locations that were successful in attracting greenfield investments in mature industries (Kanter 1995).

What about the experience of companies in mature industries that become involved in elaborate locational policy efforts? An example would be the involvement of Volkswagen in locational development and upgrading in the region around its main facility, Wolfsburg. This, however, is a somewhat special case. The company started as a state enterprise, and state government is still an important minority shareholder. This creates a form of shareholder pressure that is different from the usual pressure that primarily addresses financial returns.

One would expect, therefore, that at least locations with emerging or growing industries are favourable places for locational policy. However, this expectation is based on an analysis which looks at economic factors; the scenario changes if we introduce political factors. This leads us to the question appropriate governance patterns for locational policy. Basically, there are two options: hierarchy and networks. Hierarchy is the traditional pattern of public governance. Government formulates and implements a policy after a certain amount of fact-finding and interaction with special interest groups. This may be an adequate pattern for areas such as environmental policy, where government should take care of the common good and protect its citizens. However, it is not an adequate pattern when it comes to activities such as industrial policy (at the national level) and locational policy (at the local level). The argument put forward by neo-liberal economists, namely that there is no reason to assume that government co-ordination is superior to market co-ordination when it comes to business promotion, is convincing. However, this does not mean that government has to limit itself to facilitating markets, since there are cases where market failure is persistent (Meyer-Stamer 2001). Experience in industrialised countries shows that government actors are involved in policy networks which also include various non-governmental actors, and which may be quite effective in formulating and implementing sectoral policy (Messner 1997). Policy networks are rarely designed and created intentionally. Instead, they emerge as a spontaneous response to governance requirements, for example market failures which block rapid adjustment processes in old industrial regions.

So why is the involvement of policy networks problematic in locational policy? The problem is that functioning policy networks involve collective actors, rather than a large number of individuals or companies. Effective policy networks for locational policy require effective business organisations. This is where the difficulty arises and it is related to the industrial life-cycle. Entrepreneurs in emerging industries feel little pressure to organise themselves and look for political support. Similarly, industries and firms that are growing rapidly do not feel the need to fight for their interests. They are so busy managing rapid growth that they do not have time for such activities. As a result, there is no immediate logic for collective action under such circumstances. Although policy makers may strive to support such industries in order to defend common interests they are still faced with the difficulty of establishing adequate communication links with new firms because they have not (yet) organised themselves.

At the same time, old industries tend to be well organised for the simple reason that there is a logic of collective action, namely to lobby for defensive measures to slow down the adjustment process. Therefore, for government policy makers it is easy to tap into policy networks with mature and declining industries. However, as I have argued above, this kind of industry is not very interested in locational policy.

This is the life-cycle paradox of locational policy: industries which might be interested in locational policy are unlikely to be well organised, therefore, it is difficult to establish the policy networks required for policy formulation. Old industries are well organised, but they are not interested in locational policy.

3.2 Value chains and the irony of upgrading

One of the objectives of LED is to improve the competitiveness of local companies so that they can expand their market nationally and internationally. The majority of companies are not supplying commodities to anonymous markets, but rather feed into well-structured value chains (Humphrey & Schmitz 2000, Kaplinsky 2000). Accordingly, promoting the integration of local companies into national and international value chains becomes a core objective for LED.

When we look at the interaction between locations and value chains, it is important to note that there are basically two different constellations: locations may or may not be an important issue for those co-ordinating a given value chain. Increasingly, the co-ordinators of value chains are global buyers, that systematically scan the globe for potential suppliers. If the location is not yet a priority for the buyer then the conditions for locational policy are fairly reasonable. This is a typical scenario in many emerging locations in developing countries (the argument developed in this section is less relevant for industrialised countries). A great deal of SME promotion is based on this scenario. The objective here is to increase the competence of local firms in terms of production, quality, technology, human resources and financial management, so that they can manufacture products of acceptable quality at competitive prices in the hope that they may attract recognition from global buyers. ISO 9000 seems to play an important role in this respect as it indicates to global buyers that a local firm has the potential to become a supplier (Quadros 2002, Nadvi and Wältring 2002).

Prior to detection from global buyers, upgrading means learning within local markets or elsewhere to improve competitiveness in order to be noticed by value chain scouts. Government may take an important role, for instance pursuing a carrot-and-stick approach, i.e. both pushing and pressuring firms whilst supporting them, including dedicated efforts to raise their profile (missions abroad, presence at fairs, joint marketing etc.).

What are the consequences of raising their profile and attracting orders? The most likely and immediate consequence is rapid growth. Managing rapid growth is extremely time consuming for firms. As a result, there is little time for interaction with government or other players which are not directly related to day-to-day business. If orders keep coming in, there is also little urgency for collective action. Constellations like this have been observed in the early growth phases of the footwear cluster in Sinos Valley, Brazil (Bazan and Schmitz 1997), and the furniture cluster in São Bento do Sul, Brazil (Meyer-Stamer 1998).

Another important aspect is that once they have raised their profile, the chain governor (i.e. usually a global buyer) is unlikely to expect local government to play an active role in day-to-day management. Instead, they expect government to remove obstacles that stand in the way of day-to-day business (red tape, deficient infrastructure). For the chain governor, shaping the chain is a crucial element of their effort to create a competitive advantage, and it is unlikely that they would want to share their concepts and strategies with other players, particularly not with local governments in the places where suppliers are located. The chain governor becomes the main source of information, training, advice etc. Local suppliers prioritise communication with their new big customer. Government officials find themselves increasingly isolated from the communication loop, relying on second-hand information on the evolution of the chain.

But what about private governance, and local collective action within the business community in particular? For local companies, becoming part of a global value chain may imply four different scenarios:

a) Product and process upgrading. Often this mainly concerns running to stand still: It implies joint upgrading with other participants in the value chain, but it does not imply a change in position in the value chain. This is a challenging task that involves only a limited risk. It is in everybody's interest including the global buyer, who is also interested in fundamental activities, to improve locational quality, such as infrastructure and vocational training institutions.

b) Strategic functional upgrading. This entails taking over functions previously handled by other companies, usually from other locations within the same value chain. This is a riskier option, as the to-be-replaced competitors will probably fight back. Global buyers may be expected to tolerate this (as long it does not threaten their own core competence), as fierce rivalry between locations strengthens their bargaining position vis-à-vis each of them.

c) Improve their competitiveness in order to move to a different value chain. In a given sector, there are various value chains that cater for different segments of the consumer market. As long as margins are higher in more sophisticated or in differentiated markets, it may be tempting to switch from one value chain to another that serves higher-margin markets. This involves the risk of falling between a rock and a hard place; the old buyer may anticipate this and move to a different source, whereas the prospective new buyer might fail to close the deal.

d) Attempting to take over the value chain or trying to take the main power position in the value chain. This is clearly the most challenging option. It may be viable in cases where the buyers power position is limited; the ceramic tile industry is case in point (Meyer-Stamer, Maggi and Seibel 2001).

What is the role of private sector collective action in these different scenarios? In all four cases, there are strong incentives against collective action. In the case of scenario A, one might argue for a positive-sum game which might persuade firms to go for collective efforts to upgrade, particularly in a situation where all the firms in the location are suffering from superior competition from another location. For example, the case of the Sinos Valley (Brazil) footwear cluster vs. producers in China (Schmitz 1995). However, it is more likely that firms will think in terms of a zero-sum game, i.e. a firm perceives the loss of local competitors as its own gain. This is particularly likely in places where collective action has suffered from early export growth.

In the case of scenarios B to D, collective action is even less likely. It is highly unlikely that in a given location all company decision-makers will display the same level of risk-friendliness;

probably the most important risk is to be abandoned by current buyers. If the degree of risk-friendliness diverges, one might expect that some decision-makers would find all of these scenarios plausible, whereas many others would not. One would expect that particularly risk-friendly, strategically oriented firms would go for one of these options, thus creating a split among business executives within the location.

What is the role of government in these different scenarios? Basically, it would try not to stand in the way (i.e. reduce transaction costs) and to excel in the provision of basic and advanced factors. The case study of Halder (2002) on the surgical instruments cluster in Tuttlingen, Germany, illustrates this point. It seems improbable that government can play a major role, in particular with respect to scenarios B to D. It is unlikely that government has the in-depth, up-to-date knowledge that is necessary to assess the viability of these scenarios. The most likely contribution of government may be to contract a specialised consultancy firm to support local businesses and associations in their decision-making process.

So, this is the irony of upgrading and entry into value chains: Government can play a very important role in locational policy by helping local firms become so competitive that they are sub-contracted by global buyers. However, as the firms get involved in the value chain, the options in terms of governments role in locational policy declines substantially, and it can be expected that collective action in the private sector will suffer as well.

3.3 The location paradox

This section addresses the implications of the globalisation of companies for locational policy. The globalisation of companies may occur by a local company establishing branch plants, taking over companies in other countries, or the takeover of local companies by foreign investors. I argue that locational policy makers are confronted with a paradox: Globalising companies are increasingly demanding when it comes to locational quality, but they show a declining propensity to get actively involved in locational policy.

Increasing demands in terms of locational quality apply to various locational factors: high quality and low cost infrastructure, swift execution of licensing and permit processes, low tax burden, substantial effort in workers' training, etc. Companies discussed in this section sell a large part of their output elsewhere. This section does not address local companies such as developers or utilities which will often take a very active role in locational policy. For these companies, locational upgrading is a key element of their business strategy which aims at keeping and attracting customers. This discussion on the relationship between location and competitiveness focuses on industrial manufacturers and service firms that are supplying global markets.

The declining propensity of companies, in particular large, multi-location companies, to get involved in locational policy has been documented in a number of case studies (Heying 1997, Dörre 1999). Yet, why would one expect that such companies to become involved in these activities in the first place? This suggestion is based on inductive reasoning: Despite globalisation, companies are not usually footloose, and they do not pick locations randomly. Space and location continue to be relevant for globalised manufacturing and service companies (Porter 2000). Companies seek specific locational qualities. This implies that companies have an interest in the creation and improvement of locational qualities, therefore, they may be willing to take an active role in this respect.

Let us now take a closer look at the connection between company and location. Companies are located in a given place for four possible reasons:

a) historical accidents (i.e. because they were founded there or because they acquired a firm which happened to be located there);

b) they are seeking proximity to other firms. A typical example would be an IT company that sets up an affiliate in Silicon Valley;

c) they strive to build up a presence in proximity to dynamic markets; or,

d) they are seeking other locational factors, such as natural resources or cheap labour. For example, Renschler (1995) gives a detailed account of the criteria Daimler-Benz applied when it scanned possible locations for its SUV factory in the U.S.

These motives do not necessarily mean that a company deliberately contributes to the improvement of locational quality. In particular, cases B to D are more about receiving benefits but they do not contribute towards them. Instead, companies will often contribute inadvertently to locational quality improvements, i.e. while enhancing their own competitiveness they create positive externalities. Conversely, one of the main obstacles to getting companies involved in a locational strategy is the problem of free-riding, i.e. companies assume that collective action renders too little outcome which they can appropriate for themselves and too much externality which benefits local competitors.

There are two types of location where one would expect this problem to be less relevant:

- hub-and-spoke-clusters (Markusen 1996), which are essentially dominated by one company (e.g. Toyota City or Wolfsburg), where the 'hub' company can control the external effects; or,

- very cohesive clusters, where free-riding is minimised through social control. However, this phenomenon is becoming rare as local firms in cohesive clusters get involved in international value chains, and external firms enter into local clusters to benefit from specific locational qualities (Grabher 1993). Strong cluster cohesion is probably more closely related to the life cycle of companies and their industry rather than to location.[5]

This is not to say that companies do not do anything to the benefit of their location. What they usually opt for is sponsoring – of museums, theatres, other cultural events, sports, etc. For a large corporation, sponsoring has an unbeatable cost-benefit-ratio, i.e. the cost is usually relatively low, whereas the visibility is high, and, moreover, the company can point at such sponsoring activities whenever somebody criticises it for lack of local involvement. Furthermore, the cost-benefit-ratio is much more predictable than in cases where companies become involved in locational policy. Understanding the structure of local policy networks,

5 This is an important point made by Bazan and Schmitz (1997).

and participating in them, will involve substantial input in terms of time (i.e. high transaction and opportunity costs), whereas the visibility of the outcome is unpredictable. How is a company that is driven by the rationale of shareholder value maximisation supposed to justify this kind of involvement? This logic becomes even more convincing if one considers that companies tend to run operations in many different locations, and that they are likely to have an exit option that may be particularly attractive in the case of simple screwdriver operations.

4 Conclusion: A typology of LED approaches

Given the various obstacles and limitations elaborated before, what are the options for local economic development? In this section, I present a typology of LED approaches which gives some indication as to what may be promising ways to promote local economic development.

4.1 Generic locational policy

The most straightforward option for LED is to go for a generic locational policy. The goal of generic locational policy is to create favourable overall conditions for business, without specifically targeting companies or sectors. This is something like the functional equivalent to operational effectiveness within companies. And yet it is something which is often highly appreciated by companies, and may, for some time and to some extent, i.e. as long as other locations are too disorganised to do the same, create a locational advantage.

Government action for locational policy nowadays is often, explicitly or implicitly, based on Porterian concepts, in particular the development of specialised factors. But it happens that highly competitive firms are beyond that.[6] They focus on a value chain-oriented strategy (e.g. ceramic tiles, see Meyer-Stamer, Maggi and Seibel 2001) and strategic positioning in restructuring/merging markets (e.g. surgical instruments, see Halder 2002). They take the availability of specialised factors for granted, and if they encounter any deficiencies in that respect they will often prefer to buy them somewhere rather than going for a locational policy effort with the unfavourable cost-benefit-ration explained above.

This does not imply a passive role of government. Quite the contrary, local government may develop a business-friendly disposition, and think in all sorts of contexts about ways to make the life of business easier. This reflects real changes, including the decreasing latitude for locational policy due to pressure within value chains and the behaviour of companies with extra-local headquarters. Plus, it addresses one of firms' main concerns: to remove government-induced obstacles, in particular in terms of clumsy and complicated licensing and permit processes. And yet generic locational policy is not just another incarnation of the neo-liberal orthodoxy, as it may include a number of pro-active initiatives.

In practical terms, a generic locational policy may include the following elements:

- a systematic effort to assess the consistency, necessity, effectiveness and efficiency of local rules and regulations, and based on that a streamlining of them;

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6 Apart from that, a number of case studies found it difficult to verify Porter's emphasis on diamond-related factors as the basis of competitiveness; see Davies and Ellis (2000) for an overview.

Table 4: Customer orientation of public agencies in NRW

	Local governments: agree fully or partially	Companies: agree fully or partially
Easily accessible	98 %	56 %
Courteous and customer-oriented	99 %	43 %
Forms and correspondence easy to understand	86 %	40 %
Competent advice	98 %	36 %
Understanding of business' concerns	98 %	30 %
Adequate explanation of decisions	93 %	27 %
Sufficient explanation of delays	94 %	23 %
Timely information on delays	90 %	20 %

Source: Kommunal- und Unternehmensbefragung der Mittelstands-Offensive NRW move. Unternehmen und Kommunen - Zwischenbilanz einer schwierigen Beziehung (undated, approx. 2001)

- an effort to make local and national rules and regulations more transparent and easy to handle, and to make public agencies more aware of the necessities and demands of private companies;
- the creation of first-stop or one-stop agencies;
- the provision of efficient real estate information systems;
- locational marketing efforts.

It is not as if these things were easily implemented from one day to the next. In particular, making public agencies more private sector-friendly involves a protracted effort. For instance, in the state of Northrhine-Westphalia, Germany, local public authorities have been working on this for many years. However, their self-assessment differs substantially from the perception of private firms (Table 4).

What is the role of other stakeholders in the context of generic locational policy? Essentially, it is important to distinguish between two types of stakeholders here. First, there are Chambers, business associations and other collective actors. They can contribute to locational quality by simply doing a good job, i.e. to be agile, in close contact with member firms and constantly adjusting to new challenges. For instance, in the case of a Chamber it means providing efficient, good quality and constantly updated real services to its member firms, and pursuing effective lobbying.

Second, there are supporting institutions, e.g. in training, ongoing and re-training, technology extension, etc. They have to compete on markets. Preferably, these would be real markets, where the customer pays, e.g. training courses or R&D projects commissioned by firms. But often it will be distorted markets, where a substantial part of the price of the service is paid by a third party, usually government (e.g. as part of employability or technology and innovation programmes).

A more active, but still generic, element of locational policy comes to mind when introducing the issue of local markets. It is frequent to observe market failure at the local level. This is particularly notable in the case of the labour market, which is highly segmented and suffers from serious information problems. For instance, small and medium-sized firms tend not to have explicit human resources planning, including training of employees. This is creating serious problems for local training providers, who can neither count on a defined medium-term perspective of training demands of SMEs nor customise training courses for job seekers in a way that fits with real demands of employers. The result is what Schönfeld (1998) calls “invented demand” or “researched needs”, which need to be distinguished from “articulated demand”. *Invented demand* refers to training providers who simply guess what the demand in the market may be. *Researched needs* refers to assessments of companies’ problems and necessities, usually conducted by third parties (university researchers, consultants), which tend to be “objective” needs which are not necessarily the same as the “subjective” needs a given businessperson would be willing to spend money on. *Articulated demand*, on the other side, refers to a pattern where direct communication is established between training providers, companies and possibly third parties such as governmental employment agencies. The idea is not to plan the evolution of the local labour market, but rather to reduce information asymmetries and to make the local labour market work more effectively.

The same rationale of trying to make markets work better applies for other markets as well. One typical example would be the organisation of formal or quasi-informal events for business contacts to stimulate supply relationships between local firms. Formalised supplier fairs may serve the same purpose, but often at a lower cost-effectiveness-ratio. Another typical example would be to organise local consumer fairs, so that consumers get aware of products and services that are locally produced.

A variety of generic locational policy is the “entrepreneurial city” approach[7] which Wilson (1995) describes as an exercise where “the local growth coalition works with the local public sector to market the city to increasingly footloose land developers, businesses and consumers”. It involves public-private partnership, but on the private side it mostly includes local developers and utilities. The idea is not so much to turn a city into what Marx would have called “ideeller Gesamtkapitalist”, i.e. an actor which aggregates all business interests, but rather to make a city a business-friendly place.

4.2 Strategic locational policy

Strategic locational policy is a major focus of the cluster discussion (e.g. Knorringa and Meyer-Stamer 1998), and also of the local innovation system discussion (Braczyk, Cooke & Heidenreich 1998). The idea of strategic locational policy is not to leave upgrading to the invisible hand of the market, but to try to define specifically where to upgrade, i.e. agree on a direction

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7 See, for instance, Center for Civic Innovation (1999) for the “practitioner’s guide” and Hall and Hubbard (1998) for some reflection.

and a goal. The formulation of a strategic locational policy is the outcome of a process which involves government, firms and other local stakeholders. At the end, there is a decision which defines tasks and responsibilities. Getting there, though, involves an enormous effort and very difficult governance issues.

An ironic way to define strategic locational policy would be this: It is a consolation for those academics who find it hard to accept the demise of strategic industrial policy, who are still mourning the end of the glorious days of the Race to the Moon, the Airbus, and the VLSI Programme, and who think that a functional equivalent is necessary. Just like in the case of industrial policy, there is a landscape which is not exclusively littered with ruins but also a few beautiful constructions, i.e. vibrant locations which owe their dynamism to a relevant degree to the strategic behaviour of local stakeholders.

But this is not a fair way of dealing with strategic locational policy. It is not just a creative interpretation of reality by researchers, even though one may come across cases of "fuzzy concepts and scanty evidence" (Markusen 1999). There seems to be an – albeit limited – number of cases where strategic locational policy is actually happening,[8] though there seems to be hardly evidence that it actually works (Buss 1999).

One might construct two different scenarios to explain why strategic locational policy sometimes occurs. The first would go like this: A local community has a long tradition of collective action and strong social capital. It never went through disruptive external shocks, positive or negative, which erode social capital.[9] It has a consistent history of strong economic performance which can be linked to collective action to constantly improve the locational quality. For stakeholders in a location like this, strategic locational policy might be business as usual.

The second scenario would go like this: It happens because a local community is going through a deep, disruptive process of radical structural change, for instance due to the closure of the largest local employer or the decline of the locally dominating industry. Strategic locational policy is the only alternative to economic decadence and social decay. This has been a motive for strategic locational policy in several parts of the Ruhr Valley in Germany (Maggi 2000) and in many different places in Latin America (Aghón, Alburquerque and Cortés 2001).

It is difficult to plausibly suggest other constellations. Why would a local community where the economy is thriving as a result of decentral, market-based activities and efficient delivery of routine support activities of government, business associations and business support organisations go for a massive collective effort to improve locational conditions? This may be the kind of suggestion academics would make, but from the consultant's perspective it is obvious that this is not the place where many hours can be billed, as in the real world of locations the rule goes *The good is the enemy of the better*, and not the other way around.

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8 In the case of Germany, locations such as the city of Dortmund and the Aachen region would probably qualify (Meyer-Stamer 2000). In the case of the UK, one might think of Wales (Cooke 1998). In the U.S., Pittsburgh may be an example (Parks 1999). In Brazil, the Greater ABC region would be a candidate (Cocco, Silva & Sperotto 2001, Klink 2001).

9 The latter happened in the case analysed by Bazan and Schmitz (1997), namely small communities in the footwear cluster in Sinos Valley, Brazil, where traditional social capital decreased rapidly during the phase of the easy export boom, i.e. a positive external shock.

How does this reasoning fit with the life-cycle argument elaborated above? The second scenario describes either locations where dominating industries are moving from maturity to decline, and where stimulating emerging industries appears as the only promising option, or locations which have not gone through industrial development so far. The first scenario is less obviously linked to the life-cycle, but there is a link, and it is very important. As a matter of fact, most industries are segmented when it comes to the industrial life-cycle. Take, for instance, the computer industry. Some parts of the industry have already gone through the entire life-cycle, such as the manufacturing of mini-computers. Companies which did not manage the transition to PCs or services were wiped out or taken over; the big names (DEC, Data General, Wang, Norsk Data, Nixdorf) are all gone. Several of these firms were clustered in the east of the U.S., along Route 128 (Saxenian 1994), so that the decline of the industry also implied regional decline. So to say that a given location has a strong base in the computer industry does not a priori tell the observer whether this is a base in an emerging, growing, mature or declining industry. This leads us back to the first argument: there are locations where local firms manage to stay on the emerging and growing side all the time, by constantly coming up with innovations, and where the local milieu stimulates the creation of new businesses which reinforce this pattern. This appears to be one explanation why several industrial districts in Italy are still thriving (Belussi 1999), even though the relative importance of collective action to strengthen the locational quality is not clear; in any case, the relevance of governmental business promotion agencies seems to decrease (Whitford 2001).

It is important to note that there is also something like a surrogate strategic locational policy, where diagnostic, planning and implementation is driven by local government due to a preoccupation with the long-term economic health of the location. However, this will often lead to ineffective locational policy, as it is unlikely to meet with the real problems and options of the private sector, even if smart young people from McKinsey or Arthur D Little run around to interview private firms. It may lead to improved communication and co-ordination within the government sector, which often is highly fragmented. But then again, it may turn into an exercise where mostly government representatives meet other government representatives and even less time is left for direct contact with businesses. To some extent, this seems to have been a major feature of the so-called Regional Conferences, i.e. regional-level stakeholder fora involving mostly government representatives in 15 regions of Northrhine-Westphalia, Germany (Kremer 1999, Potratz 1999).

Why is effective strategic locational policy, based on a broad alliance, such a difficult venture, and why does it occur not very often? Apart from the reasons mentioned in the earlier sections, it is important to note two further points. First, there are problems of network governance. The formulation of a strategic locational policy would involve a huge policy network, and the usual paradoxes and dilemmas of network governance would apply, in particular

- a decision-making blockade due to build-up of veto positions, inter alia related to power asymmetries;
- structurally conservative action orientation; trend toward agreement on the “smallest common denominator;” functional and cognitive blockade; collective conservatism;
- unresolved tension between too weak and too strong ties;

- problems in defining distributive criteria;
- intended externalisation of costs at the expense of the network environment, or unintended externalisation due to exaggerated inward orientation of network actors (Messner 1997).

These problems of network governance can be exacerbated if administrative boundaries are not congruent with the boundaries of economically functional spaces (Cheshire 2001).

Second, there is yet another reason why local firms may hesitate to get involved in locational policy, in particular if it involves locational marketing and investment promotion. The resistance of local firms to attracting external investment which Tendler (2001) observed in Brazil's Northeast is not a peculiar feature of that region, nor is the motivation behind it, namely the expectation that external investors would drive the wage rate up. Neither is this a new phenomenon. When GM and Ford wanted to set-up factories in the Ruhr Valley more than 40 years ago, they met with fierce resistance by the established companies in old industries. GM succeeded basically because the city mayor of Bochum kept the whole project a secret, and Ford failed because it could not get hold of the necessary real estate which was owned by the old industries (Gaigalat & Kania 2000).

So strategic locational policy is rather an unlikely occurrence. But this does not necessarily mean that generic locational policy is the only option left. I suggest that there is also the option of reflexive locational policy.[10]

4.3 Reflexive locational policy

Reflexive locational policy is located in between generic and strategic locational policy. It involves the organisation of a collective reflection effort on tendencies and structural change in the industries, clusters and value chains which are relevant for the location. Unlike strategic locational policy, it does not involve negotiation of a joint strategy and action plan with a clear definition of responsibilities for various actors. It rather provides a basis for decentral strategy formulation inside companies and government agencies. This variety of locational policy is something we have observed in the ceramic tile cluster of Castellón, Spain (Meyer-Stamer, Maggi & Seibel 2001).

The justification for reflexive locational policy lies in the existence of dynamic uncertainty. Camagni (1991, 218) introduced two types of dynamic uncertainty:

- "dynamic uncertainty coming from the so-called 'C-D gap' (competence-decision gap); uncertainty regards, in this case, the impossibility of precisely assessing the outcomes of – alternative actions, even in presence of full and free information on past events, due to the complexity of the decision problems themselves and inherently imperfect foresight. The probability of choosing a wrong or inferior technology is therefore large;

10 This relates to the concept of reflexivity as formulated by Giddens (1984, 3): "... it is useful to speak of reflexivity as grounded in the continuous monitoring of action which human beings display and expect others to display".

- dynamic uncertainty coming from a 'control gap'; the outcomes of present actions depend in fact on the dynamic interaction among independent decisions of many actors, on which the firm has by definition a minimum control".

Camagni argues that the "local milieu" plays a very important role in firms' effort to deal with dynamic uncertainty, "through a collective and socialized process allowing cost reductions and enhancing the effectiveness of the dynamic decision-making process of local firms" (ibid., 223). However, one may argue that globalisation, structural change and accelerated technological change overwhelm the individual analytical capabilities of numerous local actors and their informal communication. On top of the learning processes and exchange of information which characterise a local milieu, an organised analytical effort becomes necessary. This effort may be organised, individually or jointly, by local government, business associations, lead firms, universities or research institutes. It may have an academic bias, if it strongly relies on university researchers, or a demand-generation bias, if it strongly relies on consultancy firms. But in any case, it is based on a deliberate effort to gather intelligence which would not come about spontaneously, through the effort of decentral actors, and on an organised reflection exercise based on seminars, workshops and presentations and involving government actors, business representatives and researchers.

Regarding practical activities based on the reflection exercise, government focuses at generic locational activities, but it can achieve a better level of effectiveness and efficiency since its action is based on improved information. Companies pursue individual strategies, but their internal strategy formulation process is likewise based on improved information.

What do you actually do if you want to go for reflexive locational policy? There are two options. One of them is an ironic one: You start a strategic locational policy initiative, but then stakeholders cannot even agree on a problem definition, let alone on a shared goal and practical proposals to achieve that goal. But until you get to the point that everybody understands that this strategic locational policy initiative is stillborn, there will be a lot of discussions, possibly also a large amount of research, and all this will provide local decision-makers in companies and institutions with additional information so that the quality of their respective in-house decision-making may improve.

The other option is to sell a reflexive locational policy effort as what it is, i.e. try to convince local stakeholders to spend some time in seminars, workshops and presentations. Which of the two options is the more promising one? In fact, this is a tricky question. There is a certain probability that many local stakeholders find the proposal of an explicit reflexive locational policy initiative not very convincing, in particular as the "product" is not tangible and fuzzy. The advantage of a strategic locational policy initiative is that it aims at a tangible product, namely a formulated strategy which is written down in a document, even if the process never reaches this point. Therefore, it is crucial to design reflexive locational policy in a way which convinces local players, in particular companies, that the cost (particularly the opportunity cost) of the effort will be low, whereas the benefit will be reasonably high. This, again, is probably linked to the question of who is organising reflexive locational policy. The bank which assumed this role in the case of Castellón is perhaps a more convincing actor than a public agency.

5 Final remark: LED and learning

Starting local economic development initiatives is no easy task. More often than not, it involves overcoming political, organisational and societal fragmentation. LED is, most of all, development. Unlike administration, development, if understood as a deliberate effort, is an activity which suffers if it is based on excessive specialisation and division of functions. But division of functions tends to be deeply entrenched. In a typical LED project, it is quite likely that persons with a background in, say, business management, skills development and urban planning have to collaborate. Each of them has gone through a specific training, each has a specific perspective, and each speaks a specific jargon which is not necessarily comprehensible to a person with a different disciplinary background. Accordingly, doing LED implies learning at more than just one level: It is not only about instruments, but also about interdisciplinary work. Moreover, it is about collaboration between government and non-government. It is also about making the public sector more business-oriented and business-minded. Learning all this at the same time is quite a challenge.

Why is it then that LED initiatives tend to be overambitious, i.e. addressing multiple and/or highly complex projects which cannot be realised within a short period of time? It probably has to do with some of the role models of LED – grand projects such as the revitalisation of the London Docklands, the restructuring of Barcelona or the conversion of the Ruhr Area. What observers often miss is the fact that these grand projects evolved over an extensive period of time. For instance, in the Ruhr the management of local and regional economic development started in the 1960s, as the coal industry started to decline. Comprehensive development initiatives, such as the ten-year IBA Emscher Park programme, built on policy experience, political experience and institutional structures which had been built over several decades (Dussel Peters 2000).

As LED starts in developing countries, the existence of these role models creates a paradoxical problem for local actors (as well as foreign donors and national governments who want to roll out LED programmes). The very moment local actors start to do some research on LED experiences elsewhere, they come across grand projects. If they try to launch similar projects, they are likely to fail, since they have not yet gone through the cumulative learning and institution building processes which are the basis of LED in locations which decades of experience in the field. But if they try to start with some modest LED activity, they are facing criticism for precisely that reason – from local actors who are aware of grand projects elsewhere and who are lacking the patience to tolerate a local cumulative learning process.

The PACA concept is designed to solve this dilemma (Meyer-Stamer 2003). It introduces LED in a business way, looking at quick gains. But it does so in the context of a process concept of LED, i.e. conceptualising LED as a cumulative learning process which takes local actors over time from simple to complex and ambitious projects. In this way, the more ambitious local stakeholders can accept the simple, quick-return LED activities as a stepping stone to realising their ambitions. PACA is an adequate tool for both generic and reflexive locational policy. But it can even be applied in the context of strategic locational policy, in particular as a tool to appraise ongoing LED activities and to assist local actors in moving towards a joint problem definition.

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