

2008 Norfolk Trust Fellowship

Delivering economic success: An international perspective on local government as stewards of local economic resilience

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This report captures our observations and conclusions, and draws on the many stimulating conversations and interviews during our travels. Ultimately the conclusions expressed (and any errors which have arisen) are our own, and do not necessarily reflect the views of those we met, the Norfolk Trust, or our employers. But we hope our conclusions will be of interest to those who, like us, want to contribute to the policy arena on ensuring effective stewardship of resilient local economies.

Executive Summary

This report contains the findings of a study tour in October to December 2008 supported by the Norfolk Charitable Trust. The aim was to develop an international perspective on local government as stewards for local economic resilience, and draw out lessons for the UK.

The study draws on conversations and interviews from six cities across the world – Gdańsk (Poland), Portland (USA), Culiacán (Mexico), Coimbatore (India), Haiphong (Vietnam) and Yokkaichi (Japan) – held at a time of global economic turbulence unprecedented in recent history. It looks more broadly than economic growth, identifying a range of facets that impact on a place's ability to experience positive economic success which is socially inclusive and works within environmental limits, and which can ride the global economic punches. This is summarised in the concept of economic resilience. A key line of exploration is the relative influence of the public, private and social sectors on the economy, and the ways in which they work together in each place.

After introducing the concept of economic resilience and methodology underpinning the study, each location is explored in more detail. Key themes emerge from the desk research and, particularly, the insights drawn from the structured conversations *in situ*.

For Gdańsk these are the importance of **public funding and infrastructure**, including the key role of EU structural funds; **foreign direct investment** – what attracts it and how it is managed; **competition and cooperation** between Gdańsk and neighbouring cities; and the underdeveloped potential for a **social sector** still emerging from the impact of the Communist era.

In Portland the **culture and offer of the city** is a key theme, with the 'second paycheck' of a high quality of life as a strong asset. This is protected by strong **planning policies and the Urban Growth Boundary**, and facilitated by a culture of **participation and cooperation**. Innovative **fiscal policies** are described, and key public sector interventions such as **public transport and the development of Downtown Portland**.

For Culiacán, the **informal economy** and the pernicious influence of the narco-trade is a key part of the context. The strong and organised influence of commercial organisations is evident in the **relationship between government and business**. This is also seen in arrangements for **state level economic development**, which has developed a strategic approach to moving Sinaloa up the value-added chain through developing **inward investment and the sectoral mix**. Culiacán's high level of entrepreneurialism is discussed in a section on **enterprise and skills**.

The peculiar nature of the economy and economic governance in India sets the context for Coimbatore, with vigorous local debate yet a public sector constrained by the huge range of development challenges and a small resource base from taxation due to the prevalence of unorganised labour. **The shape of local government** is changing to cope with growth through a process known as **bifurcation**. Meanwhile a pervasive **social identity and consciousness** is evident in the provision of public goods and services through the commercial or social spheres – just one manifestation of the strong value placed on **knowledge and entrepreneurship** locally.

Haiphong by contrast shows the **clarity of vision** of a strongly centralised system with a very strong state lead, but also the **challenge of delivery** in a developing economy rapidly embracing a market orientation. One dilemma is the political desire for **equity vs. tough choices** that a purely commercial orientation might suggest. Issues of **coordination, cooperation and competition** both horizontally, between neighbouring areas, and vertically, between central and local, are complex and evolving. The **responsiveness of local government on economic development** issues is being addressed through a **public sector reform programme**, and this is appreciated by a commercial sector demonstrating **entrepreneurialism** and growing in confidence about the **business climate** – although challenges such as industrial relations remain.

Yokkaichi demonstrates one route map for **the road to diversification**: with public-private **interventions and government ordinances** playing a key role. **Innovation: “the research and development alchemy of knowledge”** is a key plank of this strategy, with the co-location of R&D facilities with more traditional manufacturing providing greater resilience for the local economy. The strong partnership between the public and private sectors on revitalising Yokkaichi’s petrochemical complex is illustrative of an approach which is **cooperative not competitive**, and one element of a local economic territory where **culture and tradition** not only shape the way that business is done, but also provide new commercial opportunities.

The conclusion redraws the resilience model for each place, reflecting the particular mix of facets in each locality and how they might influence the local economic prospects. While accepting that there is no one recipe for economic resilience, the study draws out some lessons for economic development practice in the UK local government context. These are that a **clear focus on the place** is required: **identify matters** in developing a more differentiated approach to economic development across the UK. **Knowing when to intervene and when to get out of the way** is key, with a call for a context-driven rather than a dogmatic approach, and one which harnesses the different skills of different sectors in contributing to a joint vision in which growth is not the end in itself. **Planning and managing for innovation, creativity and risk** in the social, public and commercial spheres will help UK local economies address the current economic and other challenges, and positively shape the economy of the future. **Acknowledging that resilience involves a range of factors** will ensure sophisticated visions and strategies for economic development, but in all of this the function of **local government practice as a coagulant for resilience** – bringing different organisations together, and empowered to act – will be a critical success factor.

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Chapter 1 – Introduction

This is the report of the 2008 Norfolk Trust Fellowship¹ study tour – a research study to six local authorities in six countries. The work sought to explore and determine the factors which make some places economically strong and resilient to change and others less so. In this, we investigated the critical role that local government as an economic 'steward' plays and that local governance more generally can play. The research work was conducted in a period of unprecedented global economic change (October – December 2008), in which deep-rooted problems in world financial markets had been revealed and a global downturn/recession was beginning to affect local economies.

The economic interdependency of the world meant that all the places we visited were affected by the downturn to some extent. While it was early days in the downturn, this global pressure on the locations meant that we were witnessing at first hand how localities were coping and what their worries, hopes and fears were. In terms of our research it meant that we were required to appreciate the global impacts, but also look beyond this and assess the resilience of local factors and local policy.

In our work, we started from a premise that sound competitive economic performance is important in our society as a driver increasing prosperity, reducing deprivation and for wider well being. Furthermore, to achieve this, it is recognised that the effective stewardship of local place is growing in importance. The speed of international investment and disinvestment via globalisation, the continued population and spatial growth of areas and the ongoing environmental resource constraints means that local places and communities around the world are being constantly challenged and threatened. We therefore believe that it is more important than ever for localities to be managed and stewarded effectively. For us, local government and wider local governance needs to put in place economic policy and have tools, methods and tactics which seek to make the area economically stable, competitive and resilient.

1.1 Thinking through the components of 'economic success'

We start from an understanding of existing policy and practice in relation to growth and development and the role of local government. In this there are relative debates about the importance of place in a globalised world (Clark 2006)² and the move from government to governance (Andrew and Goldsmith, 1998)³, where local government increasingly does not act alone and is a component of a wider partnership in shaping the economic futures of places. Furthermore, there is an academic field dedicated to local government and its role in economic development (notably in a UK context Stewart and Stoker, 1989 and 1995, Boddy, 1982)⁴. However, this study tour, while allowing us to

¹ The Norfolk Fellowship Programme is an annual study tour which has been running since 1994

² Clark, G (2006), *Regional Economic policies and programmes: A review note*, Regional economic policy

³ Andrew, C and Goldsmith, M (1998), *From local government to local governance and beyond?*, International Political Science review, Vol 19, No 2 101-117

⁴ Stewart, J and Stoker, G (1989), *The future of Local Government*, Macmillan. . Also Stewart and Stoker (1995) *Local Government in the 1980s*

Boddy, M (1982), *Local Government and Industrial development*, University of Bristol

be informed by this academic heritage and debate, also provided us with a unique opportunity to forge our own thoughts and not be overly fettered by prevailing thinking.

In attempting to 'think for ourselves' and in situating this work in the context of global economic change and turbulence, we were keen to explore the challenges that local government and places face and the nature of what would be seen as economic success now and in the future. In this it is important to briefly convey our own thinking as regards those key assumed components of success – growth and what we mean by development.

1.1.1 The importance of the global economy

We believe that while global economic connectivity is a condition to success, it is not the only one and it may not even be the most important one in the future. We do not believe that economic success can come solely from a local area being overly dependent on the global economy. Local areas must also look to different scales to their economy, including the very local neighbourhood, as well as local and regional facets of the economy and society. We believe it is this broad scale of economic thinking which would make an area ready to deal with any adversity and similarly positioned to take advantage of any opportunity.

1.1.2 Is growth a pre-requisite for economic success?

Orthodoxy describes economic growth as referring to the increase in a specific measure such as gross domestic product, or per capita income. Locally this means a growth in the wealth of a place. Linked to economic growth is the notion of economic development. If growth is about the measure of progress, development relates to positive consequences of growth in terms of, for example, reduction in poverty rates and improved life expectancy. It is often assumed that the growth will benefit the population, through increases in jobs and material commodities. However, we were mindful that we could not always make this connection due to four key considerations⁵.

- Growth can exacerbate inequality. Many economic systems at present are based on a system of 'trickle-down' whereby it is assumed that the benefits of wealth generation in society will trickle down to everyone in society. However, despite a number of years of economic growth, disparity between rich and poor both within and between places has continued to widen.
- Growth is too much of a focus. Our economic development agenda is driven by a preoccupation with growth of the economy as our ultimate objective. This growth is often viewed as an end in itself rather than a means to an end. Many local and regional bodies are encouraged to compete with each other in order to narrow regional disparities. In practice however this generally does not work as those areas which are successful continue to grow strongly, leaving more unsuccessful places further behind.
- Growth can be environmentally damaging. Growing economies have contributed significantly to climate change through emissions of carbon dioxide into the atmosphere.
- Global economic growth and interdependency makes localities very vulnerable to global economic change.

⁵ Case, KE, and Fair, RC (2006). *Principles of Macroeconomics*, Prentice Hall

Implicit in this work was a belief that local government has a vitally important role contributing to and supporting economic success. In this we were not concerned with growth for growth's sake, instead we were interested in the facets of a comprehensive approach to producing truly resilient economies and sustainable communities⁶.

1.1.3 Economic success relates to a broad range of factors

Therefore, while mindful of the importance of growth and development, we wished to include in our work an appreciation of a broader palette of components which constitute local economic success. We wished to move beyond crude measures, or assumptions around the benefits of growth and trickle-down, and tackle some of the wider aspects to what would constitute economic success now but more importantly in the future. In this we have based our thinking around the concept of economic resilience.

1.2 Introducing local economic resilience

While often used in the context of how the economy responds to human-made and natural disasters (Hill et al 2008, Karstens et al 2006⁷), we believe resilience is useful to apply within this context. We have seen significant turbulence in the global economy and we need to think about how local economic success can deal with social, environmental and economic change better than has hitherto been the case. Economic growth is a means to an end, not an end in itself. Thus in our work we wished to assess economic success on the basis of an area's ability to be 'change ready' and adaptable, ensuring that a locality is flexible and its communities and the environment do not suffer unduly.

We therefore wished to see how the local places we researched were faring in terms of either maximising or failing to reap the fruits of any economic success. This for us would be most important for the future resilience of many places. In this, we were interested in the extent to which local places and local government are capable of riding the global economic punches, working within environmental limits, dealing with external changes, bouncing back quickly, and having high levels of social inclusion. For us this ability was economic resilience.

Hence, for us, a better understanding is needed of how different economic spheres – broadly categorised into social, public and commercial – interact with each other and are mutually-dependent for achieving positive development outcomes. Based on these interdependencies, we believe that a truly holistic approach, but not necessarily the same blend of factors in each area, is needed to achieve prosperous local economies and translate these into a better quality of life for all people living in a locality.

In this we developed a model which could help us conceptualise the nature of resilience. This model, building on existing thinking⁸ allowed us a means to think through the

⁶ Daly, H, and Farley, J (2004), *Ecological Economics: Principles and Applications*, Washington: Island Press

⁷ Hill E, Wial H and Wolman H (2008), *Exploring Regional Economic Resilience*, Working Paper 04, Institute of Urban and Regional Development, University of California.

Karstens, G (2006), *Urban People, Urban Places, Urban Resilience*, Paper delivered at vulnerability on Australian Cities; Towards Sustainability and Security: a Public symposium, Brisbane 5 May 2006.

⁸ CLES (2009) *Rethinking Local economic development: Making places more resilient*

various components of resilience. For us it was a starting point and a way in which our broad thinking on resilience could be shaped. The model for conceptualising the complex working of the local economic territory and the primary influences upon this includes three core and mutually-dependent elements.

1.2.1 Commercial economy where there is stability and growth

This relates to wealth creation of 'private sector' activity. This requires both macro and micro economic stability and is reliant upon elements of both the social and public economy operating effectively, allowing this aspect of the economy to develop. Furthermore, this element does contain the so called 'informal economy' which in many places, while illegal, creates significant ripple effects in terms of wealth and money flow within local areas.

1.2.2 Public economy where there is sound investment in infrastructure

This relates to the development of infrastructure and production of goods and services which are delivered through public taxation systems. This includes not just such infrastructure as roads and rail but also economic support policies, interventions and ordinances. It is also about the capacity of local government to act. When we refer to local government we generally mean at the city level. However, with differing geographical breakdowns of administration and accountability we have also investigated the roles of other spatial entities where relevant.

1.2.3 Strong social economy and community sector

By social economy we refer to economic activity which also has social and non-monetary purposes. While it can involve the transaction of goods and services, these services are not always subject to the price mechanism. As such it also involves volunteering and community activity, and it is where the workforce of an area is nurtured and lives. However, we were interested in where this sector displays innovation, creativity or serves as a basis for launching commercial wealth creation.

Aside from these three core mutually-dependent elements there are also four significant influences upon that economic territory. These are broader forces beyond just local economic factors and their respective ability to act. These are: government; broad economic context; working within environmental limits; and local identity, context, history and culture.

1.2.4 Government

This involves the coordination undertaken by national and regional government to develop economic strategies and ensure there are relationships firstly between the local area and regional and national policy (vertical governance), and secondly between various sectors and actors within the areas (horizontal governance or partnership). It also refers to promoting and encouraging economically positive behaviour and practices within the commercial, public and social economies.

1.2.5 Local identity, context, history and culture

We were interested in how the history and identity of the place fed into its economic success and how the economy was cognisant of and receptive to local place-based characteristics. Understanding the history of place and people is important as it dictates reactions and responses to today's issues.

1.2.6 Working within environmental limits

We believe that economic success must work within environmental limits. We suggest that while many areas of the world are resilient, this may be temporary and fleeting or have been at the expense of local community identity or the environment. Furthermore while locations within an individual area may be resilient, other parts of the same urban area may be less so and suffer from economic, environmental and associated social and community problems.

1.2.7 The broad economic context

The model recognises that there are broad national and global economic forces at work. These forces are increasingly constant throughout the world, though there is some variation in the extent to which national and local economic territories can mediate this context. Arguably this could be down to factors such as size of the nation/locality, or the relative openness of the economy.

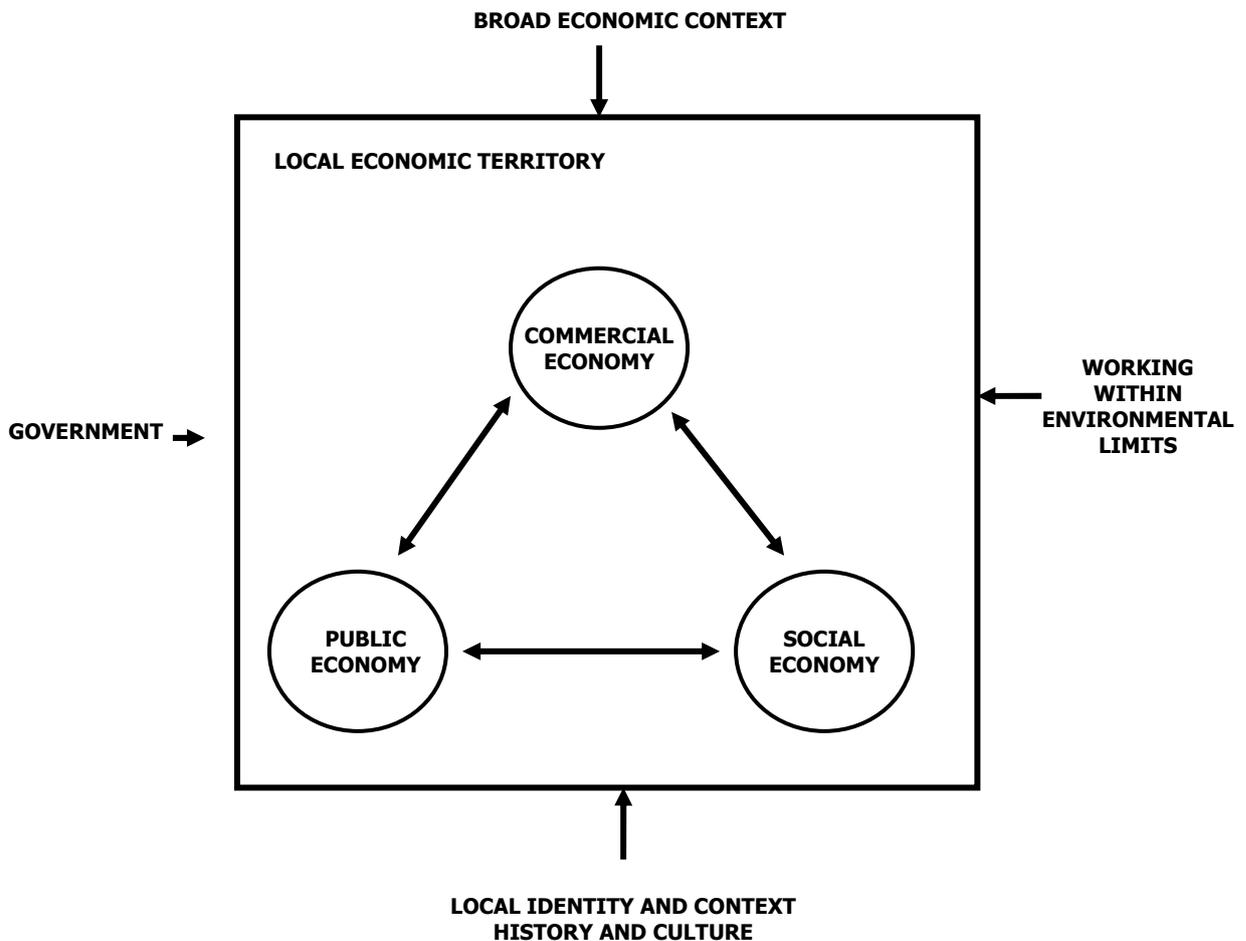


Figure 1 – our resilience model

Our hypothesis, therefore, is that economically resilient places are about a locality which has a bespoke and locally-specific blend of the above factors within its economic territory. We recognise that the ideal blend will vary by context. Nevertheless we surmise that local government must work to consider all of these factors. It is the variation in how areas work with these factors and how variation in context affects the blend which is the core focus for this study.

1.3 Research methodology and objectives

1.3.1 Research questions

We aimed to follow key areas of inquiry, which we used as basis for our research interviews within the localities.

1. What were the general strengths and weaknesses of the local economy as regards the above components?
2. What was the specific role of national/regional policies to support resilience in terms of commercial, public and social economic aspects?
3. What was the role of state and local government strategy, policy and programmes?

1.3.2 Methodology: capturing the pulse of the areas

From the outset we recognised that the Norfolk Fellowship was an unusual and slightly daunting challenge. In this there were perils. We were conscious that on the one hand, given the relatively short time we had in each location, there was a danger that we would merely skim the surface of each place and not manage to get a real insight. On the other hand, we recognised that we could get overly focused in a narrow area and not see the broad picture as regards the core research aims in terms of the extent of local economic success and the role of local government in this. We therefore believed that we needed a methodology which could strike a balance in the time available. A methodology which in short was disciplined in covering the breadth, but also flexible and had ways of gaining at times 'deeper' insights into the locality.

Therefore we developed a research methodology which developed breadth via secondary information, interviews with people and visiting sites and organisations, while giving us depth by using ourselves and the personal experiences we were facing as a research tool in itself, thus hopefully gaining some deeper experiential insight as regards our own perceptions, views and opinions. In this we were actors in the research trip. We were a research method or tool. We were all conscious of trying to get under the skin of what we were being told and what we read. Thus we developed a broad methodology which was designed to tap into what we called 'the pulse of the local area'. This involved the following key aspects:

1. Pre-visit work
 - Criteria for place selection
 - Solid desk work and gathering of background material before we visited each location

- Organising meetings and visits prior to research trip, thus maximising our time when in the locations
2. Work in locations
 - A set of general but not rigid lines of inquiry
 - Pragmatic flexibility in terms of taking up opportunities for meetings and visits when they arose in the locations
 - Opening ourselves up to a range of experiences and situations, which assisted in us developing an experiential insight into the 'local pulse'
 3. Post-visit analysis and write-up

1.3.3 Pre-visit work: selection of locations

In the summer of 2008 we developed basic criteria for selection of the localities for this research. In selecting these criteria, we were aware that we could not just look for success stories, we needed to experience the good, the bad and the ugly as where things were going wrong could tell us just as much as where things were going right. Furthermore, we wanted a range of cultural settings, reflecting the Fellowship Programme's ethos in terms of challenging and developing our UK cultural context and understandings.

We looked at selecting areas which displayed some of the following:

- Had significant or major economic development/growth
- Had addressed or were undergoing significant industrial or organisational change
- Were commented upon as being 'green' or resilient in some way
- Were commented upon as being un-resilient in some way (environmental, social problems, or being dominated by a single economic activity)
- Were seen as having innovative or interesting fiscal and or local government policy
- Were not capital cities or otherwise dominant cities in their country. Many of these have been studied considerably and capital cities or major locations tend to have a natural resilience and working blend of factors.

With these criteria in mind we put together a long list of around 20 cities from which, following additional research and discussion among the fellows, we selected six. These were:

Gdańsk, Poland

Gdańsk is a major Baltic port with a strong historic identity. It is emerging as a post-communist economic force within the Baltic and Poland. As part of the greater 'Tri-City' area, covering Gdańsk, Sopot and Gdynia, Gdańsk is strongly benefiting from the support of the EU Structural Fund investment into Poland.

Portland, Oregon, USA

Portland is the 'green city' of the US. Within the sparsely populated Oregon State, Portland is studied and commented upon by many as a beacon of how to achieve economic growth in an environmentally-sensitive and sustainable way.

Culiacán, Sinaloa, Mexico

Culiacán is the capital of Sinaloa state, and is a huge exporter of agricultural produce. It also has significant high-tech activity which has grown exponentially in recent years fuelled by US investment. It also has an enormous informal drug economy, and is the base for many of the Mexican drug cartels.

Coimbatore, Tamil Nadu, India

Tamil Nadu is the most urbanised state in India and Coimbatore has been called the Manchester of South India due to its extensive and successful textile industry. In the context of a rapidly-growing India, Coimbatore has experienced significant growth in recent years, outstripping local infrastructural supply.

Haiphong, Vietnam

Haiphong in the People's Republic of Vietnam is a strategically important port in South East Asia. It has experienced significant growth and has major development plans.

Yokkaichi, Mie Prefecture, Japan

Yokkaichi is a port city in Mie Prefecture. It has successfully reconstructed its economy and that of the surrounding area from port activities and traditional industries to now host major manufacturing plants of technologically-advanced companies like Mitsubishi and Sharp. It manages to balance this high-tech industry with traditional economic activity.

1.3.4 Background work

Prior to each visit we produced a background report on the location under study so that we would arrive in each place with a basic understanding of its history, economy and administration. This report included basic data and initial thoughts on the location.

1.3.5 Organised meetings

In addition to the desk work the fellows were responsible for organising the research meetings with individuals and organisations (see Appendix 1 for a full list of those we met). The meetings were organised in a variety of ways and varied in each location. Generally it was a blend of arranging our own meetings directly, or using a friendly gatekeeper or organisation who assisted us. For example in India, British Council India helped us to arrange visits, alongside the Indian Association of British Scholars. The meetings we arranged were with a range of people and institutions including:

- Regional government officials/elected representatives
- Local officials/elected representatives
- Private/commercial sector representatives
- Community/NGO representatives

1.3.6 Research visits

Aside from the interviews we sought to visit sites of economic development projects and industrial locations where possible.

1.3.7 Analysis

As outlined above, we broadly adopted a methodology in which there were two main strands. Firstly, we gathered secondary material and views and opinions from the various people we met. This afforded us a description of what was happening as regards the processes and systems. Where different views or opinions were made we did some background work, discussed amongst ourselves and made a judgement as regards the situation. We all very much wished to 'experience' the place as much as we could and relate these experiences to the research topic.

1.3.8 Reporting

We have devised this study in a way which has allowed the unique qualities of the local places to shine through while learning some lessons. Each chapter in this report contains key themes, which we think are important aspects to consider in understanding the location and assessing its resilience. These chapters contain a blend which is concomitant with our methodology, in that they contain breadth via the secondary material and primary work from our visits as well as our own individual thoughts, perceptions and insight into each of the locations. Of course there are some common themes and commonalities across all locations and we have tried to relate these to the resilience model. Therefore we bring this thinking together in the concluding chapter.

Chapter 2 – Gdańsk

2.1 Introduction and background

Gdańsk was the starting point for the Norfolk Fellowship study tour. During our visit to the Pomeranian capital, we were able to gain an understanding of its strong historic identity and the developing role of the Tri-City area – made up of Gdańsk, and neighbouring Gdynia and Sopot – as an economic force within the Baltic. In this chapter, we discuss the key influencing factors that are affecting this development:

- Public funding and infrastructure
- Foreign direct investment
- Competition and cooperation
- Social sector

2.1.1 History and background

A thousand-year history, a location at the crossroads of important commercial and communication routes, an extensive port and mercantile traditions - all this makes Gdańsk a meeting place of many cultures, nationalities and denominations.

The historic old city of Gdańsk had suffered large-scale destruction at the hands of the Soviet Army during World War II. It was rebuilt during the 1950s and 1960s and boosted by heavy investment in the development of its port and three major shipyards. Gdańsk became the major shipping and industrial centre of the Communist People's Republic of Poland.

In 1970, Gdańsk was the scene of anti-regime demonstrations which led to the downfall of Poland's communist leader. Ten years later the Gdańsk Shipyard was the birthplace of the Solidarity trade union movement, whose opposition to the Communist regime led to the end of Communist Party rule in 1989 and sparked a series of protests that successfully overturned the Communist regimes of the former Soviet bloc.

As the capital of the Polish Pomeranian province, Gdańsk is a major political centre in Poland, with many important agencies of the state and local government having their offices there. Although the city's industrial landscape is dominated by shipbuilding, petrochemical and chemical industries, and food processing, the share of high-tech sectors such as electronics, telecommunications, IT engineering, cosmetics and pharmaceuticals is on the rise.



2.1.2 The macro-economic context: how resilient is Poland?

Strong growth has pushed income levels closer to the EU average during the past two years. During this time, Poland has recorded its best economic performance since the 1990s, with growth exceeding 6 per cent. This was also the second best performance among OECD countries, allowing for a significant narrowing of the income gaps vis à vis the average EU and OECD levels. Since Poland joined the European Union in 2004, GDP per capita has moved from 44 per cent to 48 per cent of the pre-2004 enlargement EU average. Furthermore, after nearly a decade of relative stagnation, employment has finally begun to contribute markedly to gains in living standards, rising by some 3 per cent per year. Meanwhile, labour supply has shrunk, despite a still expanding working age population.

Consequently, the result has been a spectacular decline in the unemployment rate, from nearly 18 per cent in 2005 to 8½ per cent in the fourth quarter of 2007. At the same time, productivity gains have slowed from the growth rates recorded in the early 2000s.

The flip side of this strong performance has been increasing demand pressures, further abetted by the ongoing global food and energy price shocks, with all the risks that this pernicious combination entails in terms of a wage price spiral, asset price bubbles and a hard landing further down the road. Thus far, these risks have not materialised to a significant degree, and the spillover effects from the economic slowdown abroad may offset them.

As a country, Poland has low levels of debt and its banks have been historically cautious with lending. The supply of housing remains constrained by the absence of zoning plans and by labour shortages. House prices are not expected to drop significantly, and there is not an expectation that there will be reduced levels of Foreign Direct Investment. Indeed, there is consideration that the global downturn may well be a possible opportunity for the country. As a place with a more stable industrial and manufacturing base it may attract investment from elsewhere in the world and act as an insulator from the financial crisis.

2.1.3 Regional governance

The regional governance of Poland plays a defining role in many of the key aspects of the development of the country.

The 49 regional voivodships, created in 1975, were too small for managing an increasingly competitive economy and for the promotion of an independent development policy⁹. In 1999, these voivodships were replaced by 16 new regions and, for the first time in Poland's history, a form of regional self-government was established. The new regions are involved not merely in central administration but self-government and new responsibilities. Thus they are faced with the need to build their own sources of power and legitimacy based around regional economic and social capital.

This was a new experience for the regions as the communist totalitarian system had been characterised by a highly industrialised economy, central planning and a strongly hierarchical organisation of power. Central planning was, in effect, sectoral planning.

⁹ Sagan, I., 2007, *Regional transformation in post-socialist Poland*, Political Studies of Pecs IV *Regional Decentralization in Central and Eastern Europe*, Pecs, Hungary, pp. 75 – 85

Industry, housing, health care, transport, communication and education were planned separately by the appropriate ministries.

It is generally agreed that in recent decades, regions have been gradually taking over many activities and some spheres of power formerly controlled by the state. A key aspect of the process of gradually weakening the role of the state in contemporary socio-economic processes seems to have been its 'rolling back' from involvement in many social and economic spheres of activity. This process undermines some of the central roles which the nation state – when perceived as a territorial organization of a group of people – traditionally used to play.

The currently ongoing process of political devolution has strengthened the role of regions as economic and self-governing entities¹⁰. Critics emphasize that policy devolution should not be automatically conjoined with the decentralization process because the effect of decentralization depends on the existing hierarchy and structure of the regional system in a particular country.

Each region (or voivodship) is represented by a Marshal with its Marshal's Office and executive powers, while a Voivod is a regional representative of central government. There is an element of tension between the Marshal and the Voivod over the governance of the region. The Marshal's priority is on pushing forward development, whereas the Voivod appears more bureaucratic. While the Voivod is not a political post, it is an appointment of central government and therefore the individuals tend to be politically sympathetic to the government of the day. This enables the Regional ministry to dominate at voivodship level. This fine balancing act required of the Marshal shows tensions prevalent to the Government Offices in the United Kingdom and their relationships between local and central government.

2.2 Public funding and infrastructure

Poland is in the process of implementing a vast programme of building and renovating transport infrastructure, financed through substantial EU and public resources. The EU Structural Funds investment is focused on overcoming chronic lack of financial support for Poland's infrastructure. Yet the use of EU funds is subject to a limited time frame, and the deadline for completing many investments has been further advanced by the forthcoming 2012 European football championship. Despite this, there appears an almost over-reliance on this significant EU financial support for funding and rectifying the infrastructure deficit, and State and local government seem complacent as if the Structural Fund is a panacea to all major publicly funded projects.

The location of the city on the coast has historically been a strength as the port played a key role in the economy. With the decline in shipbuilding, the geographical positioning of Gdańsk now counts against the city due to this infrastructure deficit, especially with the poor road and rail links. The cost to Gdańsk is suggested to be approximately five million złoty per day in loss of opportunity. It's estimated that Gdynia is losing between three to five million złoty per day as a port, through a lack of internal infrastructure and losing its potential competitive advantage.

¹⁰ Amin, A., 1999, *An Institutional Perspective on Regional Economic Development*, International Journal of Urban and Regional Research, 23, 2, 365-378.

So far, public sector finance has supported several large projects in Gdańsk:

- Euro 2012 Championship
- Baltic Filharmonie – concert hall
- European Solidarity Centre: democracy centre
- The A1 Highway linking Warsaw to Gdańsk, which is currently being constructed
- E65 Rail high speed route, under construction, connecting Warsaw with Gdynia
- Attempts to become a future European Capital of Culture
- Proposed replica of Globe Theatre

2.2.1 Pomeranian Development Agency

A key role of the Marshal is the responsibility for EU support. In the case of Pomerania, it has been devolved to the Pomeranian Development Agency – Agencja Rozwoju Pomorza (ARP) – which is funded by the Marshal. This investor assistance service is a private company which works closely with the Marshal's office and has a close relationship with them. Their role is to administer EU funds and offer a free business consultation service e.g. advice on eligibility for subsidies, and is mainly targeted at SMEs and start-up businesses. There is a focus on innovation and research and development, as well as some investment in Business Process Outsourcing.

There is strong cooperation between the Gdańsk Business Service Centre (BSC), run by the City Council and with Tri-City authorities of Gdańsk, Gdynia and Sopot but the BSC has considerably less involvement with areas outside the Tri-City.

The ARP has less of a proactive or strategic role than England's Regional Development Agencies and this is partly down to budgetary limitations. But they do have future strategic plans e.g. they are tendering a prospective consultancy project to provide an in-depth analysis of the economic strengths of the region, and the identification of three specific sectors for prioritisation and promotion. They are also looking to put together an informal economic strategy, and wish to focus on barriers to investment and on these priority sectors.

The EU Structural Funds are intended to strengthen the regions' governance as well as improving infrastructure. These funds were originally allocated to regional administrations, bypassing national government but after concerns over regional capacity and capability, the EU accepted the need for the funds to be administered by central governments. Consequentially, the national government also has a Regional Development Ministry which is the ultimate body in charge of administering EU funds. There appears a fair amount of bureaucracy in the process of administering funding programmes.

The Kujawsko-Pomorskie Regional Operational Programme is the region's first ever large-scale, coordinated, multi-annual and financially stable programme of development measures. The strategic goal is to increase competitiveness of the voivodship and the social, economic and spatial coherence of its area, while respecting the rules of sustainable development.

2.2.2 The Port Authority and ship yards

The Gdańsk economy has historically been dominated by shipbuilding, which is now in decline, and ship repair, which is still doing well. The former was supported with considerable government subsidies and its collapse has hit the local economy.

Poland is now a net importer of coal, whereas it had previously always been an exporter, yet the infrastructure required for importing coal isn't in place. There is an expectation that private investment should help rectify this as Gdańsk has a potential opportunity to be the Baltic hub for coal importing. Yet, without the public sector taking a lead in financially supporting this work and providing a subsidy to enable operations to commence, there is a possibility that this opportunity may be missed.

The Port Authority has about 250 direct employees, and including indirect employment i.e. those for companies working in the port, the total is approximately 3,500. Employment is at a medium pay level and the jobs although not glamorous are fairly secure. Despite the job security it can be difficult to recruit and although this is not currently an issue, an ageing workforce means that it will be in the future. The Port Authority is a Public company, 85 per cent owned by State Treasury. The view of the Port is that it would prefer to be owned by Gdańsk as the city has a better understanding of the Port's specific needs and central government is viewed as too remote, however the law requires the State to be the majority owner.

While local government has been supportive, the Port Authority has been the driving force behind the ideas for the regeneration of the port and is confident that in the near future Gdańsk can become the hub they envisage, as the importance of the immediate hinterland increases.

2.3 Foreign Direct Investment

In the early years of post-Communism, Gdańsk seemed a permissive place for development. With many of the early national leaders hailing from the city, Gdańsk had an international profile but this early promise was not realized and the strength of the Trade Union movement became, to an extent, a liability and deterred some investors.

There are many determinants of FDI. Kuznecovs and Maslovs (2004)¹¹, identified Poland as the most attractive of the eight eastern European EU accession states based upon a broad set of FDI determinants and the country has achieved continually high levels of exports - especially to the EU which comprised 78.7 per cent of exports in 2007.

Poland was recently ranked as one of the top five investment locations in the world and in recent years it has seen more than 15bn euros FDI per annum. Business support for local Polish firms is less well developed. Despite this, the statistics for SME start-ups highlight that entrepreneurship is higher in Gdańsk than in most of Poland. Historically, there have been stronger ties to the locality and family than in many western countries.

¹¹ Kuznecovs and Maslovs (2004), *Relative FDI attractiveness of Eight EU Accession States*, Stockholm School of Economics pp. 1-2

An increased throughput of university students is improving the skills base of the area and is recognised as a key determinant to attracting foreign investment. This is arguably a more important factor in attracting investors than proximity to market or size of local market and this advantage should become even greater as transport links improve.

The most common route for prospective inward investors to take is to approach a Foreign Investment Agency. This is coordinated either at a local branch at regional level in the Marshal's office or through the central government route. In Gdańsk this is usually via the Pomeranian Development Agency. The regional branch will then investigate their needs and direct them to the most appropriate locality.

2.3.1 Gdańsk City Council

Of the various bodies operating at local and regional level, the city council of Gdańsk has the most power and influence on economic development and they have a dedicated department – the Business Service Centre. Strategic cooperation and clustering appears to be a low priority, but the Business Service Centre has a role in establishing meetings between similar companies once they start up.

Gdańsk has a municipal strategy and an action plan to 2015. This is a living document, continually updated, and it connects with the regional strategy. The Business Service Centre has a strong focus toward inward investment and business promotion, although they have a small team and resources (1.5m złoty per annum).

There's a strong feeling that Gdańsk is a 'city for developers, not for residents' with the Gdańsk City Council well regarded by businesses. Citizens have a perception of the city authorities supporting developers, who are taking a growing role. There's a view that other community users (e.g. car parking, of which there is a shortage) are being overlooked in favour of more profitable developments, such as the plans for high-rise buildings that are centrally positioned in Gdańsk, which supports the view that local government is seen by some to be primarily focused on inward investors and developers rather than on its residents. A compromise is needed between the interests of investors who are no doubt required for the economic growth of the city and the interest of residents. A stronger civil society may be the way to achieve the balance but that aspect is not strong and concerns remain that the balance won't be achieved in the near future.

As we met with the key players, we sensed defensiveness on the question of who might lose out with regard to investments and redefining of economic focus. The claim that the inward investments are sustainable and are of benefit to all doesn't countenance the idea of, for example de-industrialization causing unemployment. 'Aiming to improve the city' is a blanket statement that we encountered and implies the assumption that therefore everyone can benefit. Of course, there may be an element of reality for their claim of 'success for all' given the current stage of development for the area and backed up by the low unemployment rate. But empirical evidence from elsewhere suggests that the trickle-down approach to economic development is not sustainable. Maybe reflection and a step back from this stance by the authorities and a stressing of the required social measures e.g. re-skilling, to try and help groups who may lose out and to help them to find their place in the emerging market economy will, in time, be needed to rebalance the dividend of this economic success.

2.3.2 Town centre and tourism

The Old Town is now a tourist haven. Although there used to be a good shopping offer, this has dwindled and there are now big new shopping malls in the suburbs. The best shopping opportunities have moved out of the centre to the suburbs, highlighting concerns of pandering to developers' needs at the expense of residents as residential has replaced retail. The Old Town retains significant pockets of poverty, particularly old people living in flats originally allocated under the Communist regime who now don't have accessible facilities and do not appear to be benefiting from the 'success for all' vision.

2.4 Competition and cooperation

The Gdańsk Bay and Tri-City area consisting of Gdańsk, Sopot and Gdynia has a middle ranking economic performance overall, positioned 5th in the country for its success in attracting inward investment. In investment terms, the area is not considered as attractive as Warsaw, due in part to the infrastructure deficit and consequential lack of accessibility.



Yet the relationship and opportunity for mutual benefit between the three cities has a potential that is still to be unlocked. Between the three cities of Gdynia, Gdańsk and Sopot, there are two competing ports, one seaside resort and they are thought of as 'three unique pearls'.

Gdańsk was formerly a member of the Hanseatic League. This was an alliance of trading cities and their guilds that established and maintained trade monopoly along the coast of Northern

Europe, from the Baltic to the North Sea and inland, during the Late Middle Ages and Early Modern period. Building upon this history the New Hansa was established in 1980. It is an international voluntary city union grouping over 200 cities from 16 European states. Its organisational principles were ceremoniously announced in Lübeck in 1981. It was agreed that following the age-old tradition the re-born organisation would again be led by Lübeck. The New Hansa, successor to the old tradition of the Hanseatic League, focuses on inter-city cooperation in culture, social issues and education.

Under the Communist regime there was no elected local government and no urban policy at local level, only administrative duties. The desire to demonstrate and relish independence is part of the problem – no-one wants to be seen to work together too much, mainly as a reaction against former arrangements.

Gdańsk was separated from Poland after World War I and became the Free City of Danzig. This gave Poland problems in accessing sea routes and consequentially, Gdynia was created as a port. Nowadays there is a repetition of function between the two ports and a degree of competition exists between them rather than coordination of activity, which would allow the two to provide complementary functions. The Gdańsk Metropolitan Area (GMA) was established in 2003 to support the strategic coordination

and development of the area, yet despite its creation six years ago, the GMA has not led to the hoped for coordination in this area.

2.4.1 Cooperation: the role of the GMA

Among the sixteen regions of Poland there are also regions which are considered as better or less developed. The Pomeranian region usually sits in 5th position in economic rankings. However, there are big differences inside this region. About 60 per cent of the population of the region live within 29 per cent of the territory of the Gdańsk Metropolitan Area. The GMA covers three major cities of the region – Gdańsk, Gdynia and Sopot, five neighbouring counties around the towns of Puck, Wejherowo, Kartuszy, Pruszcz Gdański and Nowy Dwór Gdański, the town of Tczew with its rural commune and Lębork. Owing to their diversity, the constituent parts of the Gdańsk Metropolitan Area are mutually complementary and form a multifunctional organism. The Gdańsk Metropolitan Council is the integrator of this organism. Major cooperation areas for members of the Council are transportation, passenger transport, marketing and promotion as well as coordination of joint investment projects and other activities relying on EU co-funding. The integration process within the Gdańsk Metropolitan Area with regard to public utilities is well under way. The network of commuter transport has been connected into one whole, there is a single system of urban rail, while water, heat and gas supply have also been integrated.

More formal GMA cooperation is being progressed in the form of the Gdańsk Metropolitan Development Agency (GMDA). This will be a limited liability company, with more flexibility than the municipality. Already in existence is the Gdańsk Metropolitan Forum which is a forum for discussions. The GMDA is not intended to have an over-riding economic strategy and the municipal strategies will still be dominant.

However, there is a difference of opinion between members as to what the function of the Gdańsk Metropolitan Area should be; Gdańsk would like it to be an administrative entity, while Gdynia wants it to be more like a forum for discussion as there's some fear of it being dominated by Gdańsk. There have been arguments about the name too. This isn't a party political argument, as both cities are represented by the same political party. The Gdańsk President appears more cautious about cooperation as it is considered by some parties that Gdańsk should be more generous as the larger partner. It is acknowledged that there is a lack of cooperation, and some friction, but the strategy forces such cooperation, as the GMA requires separate strategies to coincide, although there doesn't seem to be any mechanism to ensure this happens. Such cooperation is vital for some large-scale investment and development.

The Gdańsk city council are keen to encourage inward investment into the GMA as a whole. For example, the city council suggests that the decision of Reuters to locate to Gdynia was a success for the GMA. Because of the level of cooperation that exists within the GMA, there was a realisation that Gdynia's offer was more appropriate and the city council facilitated Reuters' move to what could be considered a competing city.

The Gdańsk City Council has a clear vision for moving away from old heavy industry and manufacturing and there is an appetite for a maritime cluster that builds upon existing heritage, knowledge and capability. Gdańsk in particular would like to develop its Maritime Logistics. Currently Gdynia is seen as the leader in the area, but there is a desire to create a logistics hub and the two cities together would be the strongest in the region.

2.4.2 Competition: relationships with Gdynia

The municipalities don't always 'share' investors between themselves but there are measures in place for dealing with joint investors. However, they do share some financial resources, for example in the construction of a light railway scheme in which the municipality has invested capital into a limited liability company. This capital helps to pull together sufficient funds for the company to get hold of EU Structural Funds, and gives the municipality some say over decisions and coordination.

It seems that each municipality involved is contributing separately and each has a say in their own area – a somewhat fragmented partnership. It is clear that the two cities have big ambitions and each wants their own status symbols.

There still seems to be considerable competition between the municipalities despite the apparent desire for cooperation. Although there are some projects that are jointly managed between Gdańsk and other municipalities, for example transport infrastructure and a sports hall on the Gdańsk/Sopot border, cooperation seems to be the order of the day only when absolutely necessary, e.g. for budgetary reasons.

Throughout our study, we heard claims that Gdańsk is "now winning the port wars" and that Gdynia offers "more reasoned investment" but Gdańsk better opportunities. An alternative view of the Reuters example was also mentioned: Reuters came to Gdańsk to look for a location and chose Gdynia because they thought they were still in part of Gdańsk. In another example of unhelpful competition, Gdynia held an early economic forum, which Gdańsk tried to 'hijack' as a metropolitan-wide event, located in Gdańsk; there was no agreement reached and consequently two similar events were held.

This may or may not be an unbiased account of events but it is a reflection of how the key actors in the two cities view the issues and relationship. Part of the reason for this may be that the social capital of the two cities is very different. Gdynia is a comparatively new city, and retained most of its pre-war population, while Gdańsk didn't. Pre-war, Gdynia was already developing itself as more open and innovative place. Its population attitudes are described as 'American' and focused on knowledge economy. It also has incredibly strong continuity across generations and through this continuity, it managed to retain this as a mindset even throughout the Communist era.

In the transition from Communism to a free market economy, institutions changed and in Gdańsk, that institutional culture was slow to change, whereas Gdynia was quicker in reacting to this new environment.

All of which has led to Gdynia now being more entrepreneurial, the 'bright star' of the area and with it, a recognition as being investor-friendly, even internationally. By comparison, perceptions of Gdańsk are that it is rather slow as an entrepreneurial new system of local government.

2.5 Social sector

The Polish people have long fought for freedom, trust, independence, national identity. A strong civil society movement has helped achieve this and the move to democracy. The relationship between Government and social sector has had a historically strong

basis. While the Solidarność movement once dominated, there has been a reduction in their power and influence. This has created a gap, as if upon achieving their freedom, people have pulled away from organized social movement, yet there is still a mistrust of the State.

However, the concept of the Social economy is a new tradition. It was variously mentioned during our meetings that Poland is a country of 'small islands', 'very individualistic' and the dominant view of the social economy is that it is 'messing with the economy'.

2.5.1 Co-operative movement in Poland

At the turn of the century Poland was split between three empires and the co-operatives began as a coming together of Polish identity. As a key part of national heritage it is important to recognise the co-operative identity which the commercial sector doesn't possess. Co-operatives contribute approximately three per cent of Polish GDP. Pre-1990 this contribution was around 10 per cent and it was a point of pride that co-operatives had an internal democracy even within the Communist regime. 1990 was a major turning point for the co-operatives when the Polish parliament passed a Bill which caused significant loss of assets from co-operatives. Post-1990 there is now an element of mistrust over the need for co-operatives as the concept is seen as harking back to Communist ideals. The reality is mixed – while there may be a mentality of some co-operatives stuck in a pre-EU mindset and a feeling that central government treats co-operatives as Communist-era organizations, there are counter-examples e.g. a co-operative of furniture-makers in Gdynia which supplies to the west and east.

Local authorities often have more of an interest in the tax revenues they receive from co-operatives and don't necessarily appreciate the social benefit element. The 'Business Centre Club', consisting of CEOs of businesses, including co-operatives, exists to act as a middleman between businesses and public sector. Their role is to lobby the authorities over the implications of policy making and the implications for co-operatives.

During our visit to the Związek Lustracyiny Spółdzielni Pracy Co-operative, a self-governing organization of co-operatives, we saw how such organisations are grounded within the communities that they serve and the strength of mutual benefit that exists.

2.5.2 Social economy

Poland has progressed through a transformation of its social, economic and political structures since the fall of communism. The national economy has been growing remarkably: 6.5 per cent GDP growth in 2007; however, national economic statistics do not reflect the social challenges that many Poles face in their daily lives. The unemployment rate remains among the highest in the EU. Vulnerable social groups in particular – such as former employees of collective farms, women over 50 years of age, social minorities, the physically and mentally disabled (who have the lowest employment indicator in the EU) – have limited opportunities to compete in the quickly changing and highly competitive labour market. People in vulnerable social groups do not have the skills to productively participate in economic life, face considerable discrimination from potential employers, and continue to rely predominantly on state aid as a result.

Since Poland's entrance into the European Union, the social economy has begun to be accepted as a practical solution to the problem of unemployment. Social economy

institutions offer creative approaches to maintaining financial self-sufficiency while fulfilling a clearly defined social mission. But Poland's social economy sector has yet to develop its potential and according to the latest information it makes up 3.9 per cent of the labour market in Poland, compared to 8.3 per cent in France, 9 per cent in Ireland, and 7.5 per cent in Finland.

The social economy sector in Poland includes a diverse range of institutions, some emerging from the traditional non-government sector and others more closely associated with the private sector: Over 17 per cent of non-government organizations (NGOs) take advantage of the possibility of running an income-generating business activity. An estimated 16,000 co-operatives currently function in Poland in a variety of domains ranging from housing and medical services to consumer co-operatives, and the sector is rapidly expanding:

- Over 140 social co-operatives have been founded since the 2006 Polish Act on Social Co-operatives was adopted.
- Over 50 Social Integration Centres have been established based on the 2003 Act on Social Employment by Polish NGOs. These welfare centres provide employment for people from socially marginalized groups.
- 50 Employment Activation Units offer transitional employment specifically to the physically and mentally disabled with the goal of helping them re-enter the open labour market.

2.6 Conclusions

With the scale of the EU structural funds that are being directed into Poland during the next few years, any impact of the global downturn that would otherwise be felt is certainly mitigated at the very least. There's a widespread hope that Poland is insulated from the global financial crisis due to the strength of financial support that the country is receiving from the EU. The effect of this infrastructure investment is noticeable and although the full benefit of these improvements will not come on stream for a few years, there is a short-term, positive impact for the construction industry and a wider optimism in the country as a 'happening' place.

While the country is keen to receive the EU structural support, there are concerns over EU demands upon the government to remove state subsidies which have continued to support industries such as the shipyards, which have been a key underpinning of the Polish economy as a production centre. However, there *is* support for EU subsidies for the banking system which may lead to the softening of the EU position on other subsidies in the future. There is a view of that the current economic climate might lead to a softening of the tough EU stance on public sector support to the Gdańsk shipyard.

Many organisations that we met did not appear overly concerned about the global financial crisis. Historically, there have been few bad loans in Poland as the Polish banks have been more cautious and as a late developer of the former Eastern Bloc, Poland has the chance to learn from mistakes and building on the experience of others.

A combination of high levels of FDI, high internal consumption and a relatively strong manufacturing base might offer some insulation against the global recession. Gdańsk stands well placed to take advantage as an attractive place for continuing high levels of FDI. Its geographical location on the Baltic, once the infrastructure deficit has been rectified, is sure to further enhance Gdańsk as a place to do business. It is certainly too

early to confirm whether Gdańsk has found resilience but the economy is on a steep upward curve and there is evidence to suggest that it may be resilient to economic shocks.

But we remain uncertain as to whether these improvements will benefit all with an over-reliance on the trickle-down approach to economic development and an under-developed social economy; it is a matter of concern that this move to a free market economy may widen the socio-economic gap in the country. There are significant disadvantages in terms of the connection between the facets of the economy. An economic policy which is orthodox and traditional as regards inward investment, intra-sub-regional competition and conflicting priorities, combined with under-developed economic governance at relevant scales makes resilient strategy problematic.

Yet, these are issues that can be overcome and further opportunities unlocked. The concept of the Tri-City area is already well understood and with the existence of the GMA, GMDA and the Forum, a limited form of regional economic governance is already in place. Although the tensions between key actors are currently serving as barriers for further development, strong regional leadership and a recognition of the opportunities available may allow the region to move forward together in the future.

Chapter 3 – Portland

3.1 Introduction and background

3.1.1 Background and history

Portland is situated in the state of Oregon, about 80 miles inland from the west coast of the US. The city itself has a population of around 530,000, but is the centre of the larger Portland Metropolitan Area, with a population around four times that size. This area spreads across four counties – Multnomah, Washington and Clackamas Counties in Oregon and Clark County in the state of Washington.

The city was established in the 19th Century. Its location on the Willamette and Columbia Rivers, allowing access to the Pacific Ocean, put it in a position of natural advantage over nearby towns, and it became the predominant port of the Pacific North West until late that century, when construction of a railway connecting Seattle with the rest of the mainland US saw that city take over the position. Portland retains good communications to this day, enjoying easy access to the ocean, major North-South and East-West Interstates (the I-5 and I-84 respectively), international air terminals and major railways, as well as enjoying relatively cheap electricity from hydro-electric power.



Traditional production in and around Portland was based on forestry and agriculture. The timber industry suffered severe decline in the latter part of the last century and is now only a fraction of its peak size. While grain production is still significant in the area, it is relatively low value-added. Nevertheless, Portland remains the largest port for wheat in the US, and the third largest in the world.

By the 1950s, steel production and metal bending were established as major industries in the area, the steel industry for a time being the main employer. In the late 1970s computer component manufacture was established here, and there is now a huge number of high-tech technology companies, leading to the area sometimes being referred to as Silicon Forest. Intel is now the largest employer in the Portland Metropolitan Area. However, the area retains a mix of industry without an identifiable main dependence – for example the city is also the location for both Nike’s headquarters and the regional base for Adidas. This partly goes against the traditional economic theory of playing to strengths, but it means that all its eggs are not in one basket, therefore Portland is arguably less susceptible to specific downturns.

3.1.2 Local government structure

The city is governed by the Portland City Council. The Council comprises the Mayor and four Commissioners, each publicly elected, non-partisan, and serving fixed four-year

terms. There are no restrictions on re-election. This is a city commission government system, with each of the five elected members taking responsibility for a number of the city bureaus that oversee the services and operation of the city, this split of responsibilities being allocated by the Mayor.

Where Portland is unusual in the US is in the operation of a 'Weak Mayor' system. This is one in which the Council has many of the responsibilities that would normally fall to the Mayor, and the Mayor has no deciding vote and no veto. This places the Commissioners and the Mayor on a virtually equal footing. Several times, most recently in 2007, public votes have been taken on proposals by incumbent Mayors to change this system, and they have always been heavily defeated.

The system can make it hard for the Mayor to drive the agenda. If he or she is to do so, then efforts to gain widespread support for policies and build coalitions are vital. The system also places leadership at a premium – a strong personality can overcome many of the limitations of the Weak Mayor system by garnering public and Council support through inspirational leadership. There have been several such figures in recent years – Neil Goldschmidt in the 1970s and Vera Katz in the 1990s and 2000s often being cited. Tom Potter, Mayor from 2005 to 2008, appears to offer a counter-example. Few question his intentions but, lacking as he was a political background, he often failed to inspire sufficient support among his Council and therefore found it hard to drive through policies.

The City of Portland must also interact with the county administrations, whose role is mainly in provision of services and amenities, and with the regional government, Metro. Metro is the only directly elected regional government in the US, but its powers are limited, its main duties being land-use and transport planning, and waste management. Metro takes the lead role in implementing Oregon's land-use and urban growth boundary law, which we discuss further in a later section.

3.1.3 Key themes

In this chapter we examine five themes that we felt were key to understanding Portland, and the role that different local actors play in its success and economic development. These are:

- the culture and offer of the city,
- planning and the Urban Growth Boundary,
- participation and cooperation,
- fiscal policy, and
- public transport and development of Downtown Portland.

3.2 The culture and offer of the city

Portland is largely defined by its particular character. Much of what we learned about the city kept referring back to the context of its 'unique selling point' – the quality of life and accessibility of the countryside, mountains and ocean. While this is true of much of the Pacific North West, Portland combines this proximity to nature with a small-town, community feel that sets it apart from other cities like Seattle.

3.2.1 In-migration

This character registers in many ways. It affects the type of people who are drawn to the city. Rather than bringing in people searching for a quick buck, Portland tends to attract those who value the way of life. These are often professionals who have tired of the corporate rat race, but the city also attracts a large creative class.

The small-town feel of Portland is a result partly of the city's community spirit and partly of the state planning laws, both of which we discuss in more depth in later sections. But it is also reinforced by the type of in-migrants to the area, in a self-fuelling cycle. The city administration is trying to implement the concept of the '20 minute neighbourhood' whereby residents should be able to get anything they need, both in terms of amenities and retail, within a 20 minute walk. This policy is looking to build on the existing feel and create 'small town centres' within the city.

These factors in turn impact on the type of industry located in the city. There is relatively little in the way of big business, certainly compared with many other US cities of a similar size – based on the 2008 list only two Fortune 500 companies, Nike and Precision Castparts, have their headquarters here. At the other end of the scale there is a high incidence of small-scale entrepreneurship. This stems both from community-based shops and services set up by local people, and from professionals that move into the area wanting to start their own businesses.

3.2.2 Environmental concerns

Environmental concerns also feature strongly in Portland, again tying in with the city's underlying character. This is evident in the vocal green lobby and is again reflected in the public sector, with current building regulations already making sure Portland's building stock is fairly green.

An example of a current proposal in the city relating to further improving environmental standards is the 'Feebate' – a fee that must be paid on developments, on which the developer can be eligible for a rebate if certain conditions are met. The intention is that if a company simply meets the basic environmental standard they must pay the fee, if they exceed it by a specified amount the fee is waived and if they exceed it by a larger specified amount they're eligible for a rebate. In this way the city hopes to encourage companies and developments to aim for the highest environmental standards, helping towards the city's efforts to become a leader in sustainability. We heard of mixed reactions in the business community to this scheme with some in favour due to the clear environmental incentives, some developers strongly against it because of the additional costs, with others opposed because they feel the market would start to provide these standards anyway.

Portland has stated policies in terms of social justice and environmental protection and there's a genuine desire to accommodate and respect these issues. The urban naturalist programme was created in the city in the early 1980s arguing the premise that cities need green spaces so that people want to live there, rather than always wanting to leave the city to 'get back to nature'. The incoming Mayor, Sam Adams, has agreed to commit \$55m over the next few years to putting more green spaces in the city – the 'Grey to Green' initiative. Progressive developers understand the benefits of such an approach, in that it helps reinforce the city's attraction. Some developers have even gone as far as helping fund environmental lobby groups, understanding that such a point of view is an

investment in the city's future, keeping physical growth manageable within existing infrastructure capacity.

3.2.3 Impact on the city and its business sector

So, while the city is attractive, green and community-based, is this a good thing for economic development? While all acknowledge that this image is important in attracting good quality people and investment to the city, there is not universal agreement that it is always in Portland's best interest.

The city has no problem attracting talent – the 2006 American Community Survey estimated a net in-migration to the Portland Metropolitan Area of nearly 19,000 adults with a post-secondary degree. This influx of mainly young, well-educated, entrepreneurial people is the envy of many cities. But because many of them are drawn to the city itself, rather than for career reasons, a lot of people move to the area without having a job lined up. People are prepared to accept lower wages, compensated by quality of life – the 'second pay-check'.

There is a big problem with creating suitable jobs for these people. There's a dearth of high-quality, career-path jobs, so the focus may need to be on broadening and deepening supply chain linkages for the significant players in the local labour market (such as the electronics firms) to provide sustainable local employment.

As a result of this situation, a lot of the good people who choose to stay end up setting up their own business, hence significant small-scale entrepreneurship. There is a fair degree of churn in these new businesses, as often the people starting them don't have all the skills necessary in setting up a business. This appears to be an area the city might target for improvement – providing additional guidance to new entrepreneurs which may result in more successful business and better retention of skilled labour.

We heard about the example of Nau – an eco-friendly outdoor clothing company set up in Portland with a strong philosophy of social responsibility. Despite building up a significant buzz, the company struggled to raise additional capital and in May 2008 announced it was ceasing operations. It kept up a web-based presence and has since managed to relaunch, selling its clothes through other stores, but only having been bought up by Horny Toad Inc., a company with a similar philosophy, but based in Illinois.

The level of small-scale entrepreneurship, particularly companies serving the local market, can certainly be a strength, potentially offering resilience against fluctuating demand due to wider macro-economic conditions. However, economic growth would probably be higher if more exports were made beyond Portland, at least in a more usual economic climate. The mentality that many of these entrepreneurs have of neither wanting to work for or to become large firms is fine, but it means that businesses aren't realising their potential.

There are other negative impacts of the lack of large firms based in Portland. As there are fewer super-rich here, this results in lower levels of venture capital. Similarly, without large company headquarters, the city is short of the associated spin-offs that come with them such as sponsorship of cultural events, and corporate involvement in non-profit organisations. The obvious comparison here is Seattle, with ten Fortune 500 company headquarters, including Bill Gates's Microsoft, based in and around the city.

In fact, Portland has something of a split personality. Much of the business sector feels that development has been too restrictive with chances lost to competitor cities. They would like to attract big business, to become like Seattle by 'chasing new-age smoke-stacks'. But plenty of others, particularly the large creative class, want to retain the local, small-firm feel that makes Portland what it is. There's potentially an ideal middle-ground, which would be to attract headquarters in such sectors as sustainable development, renewable energy, software and design. Attaining that position may not be straightforward and not everyone would see it as an ideal. The general groundswell appears to support 'the Portland way', feeling that it's set them apart and has worked well so far.

3.3 Planning and the Urban Growth Boundary

Another dominant factor in the development of Portland over recent decades is the urban growth boundary. Oregon state law, introduced in the early 1970s, requires each city or metropolitan area in the state to have a defined boundary that separates urban land from rural land. The intention of the boundary is to control urban expansion, specifically to protect farmland and forestry in the surrounding area from urban sprawl.

3.3.1 Regional government's responsibility for the Urban Growth Boundary

Metro, the regional government for the Portland Metropolitan area, is responsible for managing the region's urban growth boundary and is required by state law to have a 20-year supply of land for future residential development, providing housing for the full range of needs within the boundary. This analysis must tie in with population and employment projections. Every five years, a review of the land supply is conducted by Metro. If necessary, the boundary can be expanded to meet any additional requirement.

With the introduction of this state-wide land-use planning law came an awareness that it would only work with sufficient non-governmental organisations to effectively police it. We spoke to 1000 Friends of Oregon, an organisation that worked initially as a watchdog. This role has evolved into advocacy and education. Litigation to force cities to comply with the land-use law is a weapon in their armoury which at one stage was used fairly frequently. This still happens but is far less common now.

The law says that farmland and forestry should be the last option for inclusion within an urban growth boundary in the case of its expansion. Challenges to this principle are the most common basis for litigation. There is pressure from various groups on land-use, mostly property developers who'd like to get hold of farmland as it's flat and sparsely populated. However a recent study by Metro supports the policy of re-using existing sites as more cost-effective than developing raw sites.

Reactions to 1000 Friends of Oregon by the various city and county authorities across the state have been varied, and relationships during lobbying or action can be complex. Portland has been very accepting, and therefore often acts as an ally – no litigation has ever been taken by 1000 Friends of Oregon against the City of Portland. Metro's position is more mixed – at times they have acted together, but at other times Metro's decisions are challenged. Relationships with some smaller towns and cities in other parts of the state are more frosty.

The urban growth boundary is a popular measure in Oregon. It is generally felt to have had a positive effect on the economic vitality both of Portland and the rural surrounding areas in a number of ways. As the boundary limits areas for development, there is an incentive to develop and re-develop land in the urban core of the city, and the city has not been over-built. Thus it has prevented the hollowing out of the city centre, a phenomenon seen in cities across the US. There is little in the way of 'grey-field' sites, such as disused malls. And by protecting farmland outside the city the policy has maintained agriculture usage sufficiently close to the city to justify such activities as farmers' markets.

The view is broadly held that Metro fulfils its role reasonably well in relation to the urban growth boundary. We were also told that it does a good job of keeping the technical analysis that feeds into decisions objective and transparent, as well as separate from policy discussions and political debate, which are robust and involve all parties. The city's Citizen's Advisory Committee has the opportunity to challenge Metro's analysis during the decision-making process, and it's the politicians who have to provide the drive for this transparency.



This doesn't always happen in some other parts of the state where political influence can sometimes lead to the inclusion of particular tracts of land.

The introduction of the urban growth boundary law was a pragmatic response to the issue of high property tax and wheat farmers getting charged at the same rate as their industrial near-neighbours. It followed the introduction of farm-tax assessment, which allowed farmland and forestry to be assessed for those specific uses. As land inside the boundary is potentially available for development and is by definition in limited supply its value is higher. As a result, some farmers just outside the boundary would like to see it extended. The lower tax levied through the farm-tax assessment helps to mitigate this desire.

Despite this pressure on land prices, good management of the urban growth boundary policy has ensured the Portland property market has never become super-heated. It was pointed out to us that rises in property prices have been very similar to countless other US cities following the more standard model of urban sprawl.

Environmentally, the urban growth boundary has been a mixed blessing. Its obvious function was to protect farmland and forestry outside the boundary and this has been a great success. But because of land inside the boundary being at a premium, it has also led to some wetlands and green spaces inside the boundary coming under development pressure. Thus it's important that the boundary is a 'managed-growth' tool rather than a 'no-growth' tool. As long as land is used and developed efficiently, then if green spaces are being threatened by development it's good policy to expand the boundary. The authorities are conscious of the potential unintended consequences for areas both inside and outside the boundary, should growth be overly restricted.

In reality, this is felt to have been managed well in Portland. The balance seems to have been about right in expanding the boundary. In 1979, when the city's urban growth boundary was first defined, it enclosed an area of about 235,000 acres. In the three

decades since there have been numerous small expansions but the overall area has only increased by 26,000 acres. This is in the context of a period which has seen impressive population growth – between the censuses of 1980 and 2000, the population of the city itself grew by 44 per cent.

3.3.2 The city government's role in planning

Beneath the regional level, the city's Planning Bureau also has a role to play. Every city in the state must have a comprehensive land-use plan consistent with statewide goals. These goals are set from forecasts which are allocated across the geographical area of the state, although they are used as broad monitoring tool rather than specifically as targets. In the case of Portland City the goals come down through the additional layer of Metro's plan for the wider region. Within this context the city has a role in ensuring land is identified in detail for the 20-year projections of growth and development that feed into the urban growth boundary analysis, and they're always looking to improve the efficiency of land-use to ensure the effective use of that policy.

The Planning Bureau's role involves managing this complex set of governmental relationships, between the city, Metro and the state. The biggest point of friction is generally around the 5-yearly debate on setting the boundary, specifically over designation of environmental and industrial land. At regional level, growth can be managed through expansion at the edges. At city level the boundary means it can only be through development.

A cornerstone of the city's detailed planning policy is land-banking, whereby some land is preserved specifically for industry. This keeps industrial land prices down by maintaining supply. There has rarely been significant pressure to reallocate industrial land, even if some areas are vacant. This is largely because the property market here has never got out of control, so there's less pressure to convert to housing. In reality, the low land prices mean there is usually demand for firms to move into the city, so industrial land is rarely vacant for any significant length of time.

This policy has been effective in preserving the city's industrial base, something in which the city and Metro take great pride. During the 1980s and 1990s, a time which saw US manufacturing jobs fall by around 10 per cent, Portland successfully bucked the trend and enjoyed an increase of more than 15 per cent.

A useful counter-example is provided by Vancouver, Washington – a small city just over the state border, which is considered part of the Portland Metropolitan Area. We were told that some in Vancouver would like it to compete with Portland, as it has many of the same natural advantages. However, as it's not covered by Oregon's planning laws it hasn't applied the same considered restrictions on land-use, with sprawl having been allowed. There's a strong feel that the character of Downtown Portland and the balanced economy that have resulted from careful use of an urban growth boundary give the city a very real advantage over its neighbour.

3.4 Participation and cooperation

The level of interest in local politics and decision-making in Portland, and the degree of public involvement in that process, are impressive. We were told that this is largely

down to the local character – “People in Oregon love to meet”, “Collaboration is part of the Oregon ethic” – and it manifests itself in many facets of public life.

3.4.1 Public involvement in decision making

Formal structures in the city’s policy-making process are set up to be very transparent. For example, there are civic committees and public hearings on a whole range of issues and the public is consulted through open websites or public opinion surveys. Portland has always been fairly willing to try such things, to experiment, to see what works and learn from it, in a way that many places are not. The public is also fairly comfortable with this sort of approach, therefore civic engagement in public processes is a key value here. In fact, in the context of planning we were even told – “planning is a major spectator sport”! This reality can draw out the process of policy-making but it’s a rich part of the way the city works and retains its community spirit. Most people we spoke to were supportive, even amongst those whose working lives were made more complicated as a result – they admitted to occasional exasperation at the process, but understood the positive impact for the city as a whole.

A good example of the collaboration between the city and the public in encouraging civic engagement is given by the Neighbourhood Associations. These are highly localised organisations, essentially NGOs, which represent local views to the city and regional governments. Where they differ from resident associations in many parts of the world is that they are formalised and part-funded by the city government.

The city recognised these community organisations in the early 1970s, but it’s important to note that they were not instigated by the city; there was a long standing tradition of Neighbourhood Associations in many parts of the city prior to that point. The city’s decision formalised the Associations and put in place a structure to support them. There are seven District Coalitions covering the whole city, the boundaries of which are chosen without central directive by the Neighbourhood Associations. These Coalitions are directly funded by a City Hall bureau – the Office of Neighbourhood Involvement (ONI). This funding is partly decided through participatory budgeting– there is a Budget Advisory Committee which comes to a view on priorities for the ONI budget, whose recommendations are usually accepted by ONI leadership. Therefore there is strong civic support when the budget is presented to the Council in public session.

The ONI offers guidance and training to the District Coalitions on such issues as dealing with city bureaucracy, engaging with public consultations, land-use expertise and leadership skills. Some Coalitions are organised in a fairly organic way while others are more structured, with committees on a range of issues. Again, the city doesn’t dictate how they should organise themselves.

Elected Commissioners often engage closely with District Coalitions and Neighbourhood Associations but this does not happen as a matter of course – it’s a choice for individual Commissioners. However the culture of the city is for neighbourhood involvement and most Commissioners tend to engage a lot, understanding the sense of such an approach for their democratic accountability. Therefore Neighbourhood Associations have a strong voice in city affairs, well beyond what the statutory consultation processes would offer them. In fact the involvement of the Associations in the politics of the city appears to provide a good nursery for burgeoning political talent with many of Portland’s senior politicians, including Mayors Bud Clark and Vera Katz, having had an active role in them.

This isn't a perfect system. For example, there are current issues around the demographic make-up of Neighbourhood Associations. They have little representation from ethnic and other minority groups, or groups such as low-income renters, and efforts are now being made by the city to engage more such people. The ONI is now providing funding to, for example, BME and disabled groups to do community development, thus attempting to route activists in these groups through the neighbourhood frameworks.

There's also an emerging issue around muddying the waters between active citizenship and service delivery. For example, does funding a Neighbourhood Association to undertake a consultation on a particular project fundamentally compromise their primary purpose?

A potentially similar system exists to represent local business interests. However, the Business Associations appear to take a more belligerent approach. Efforts have been made in the past to draw these Business Associations under the ONI umbrella, but they have always resisted. This is partly because they don't want to appear to be cosyng up to the city government, and partly a reluctance to abide by the same rules and standards that are a condition of the Neighbourhood Associations' participation. There have been examples of the two types of Association working well together, for example on land-use planning, working together to shape the community. However, these are the exception rather than the rule – often the organisations have very different views and can be mutually antagonistic.

3.4.2 Non-governmental organisations

The city and state have a huge number of non-governmental organisations. Here again, we came across an excellent example of the unusual extent to which they work together in the Coalition for a Liveable Future, which unites over 90 organisations and hundreds of individuals to promote healthy and sustainable communities. These organisations include fairly diverse interests, such as social housing and protection of green spaces.

A standard model for government to manage and control NGOs and interest groups is to play them off against each other, to drive a wedge between them leaving them as individuals rather than as a more powerful collective voice. That approach doesn't work in Portland, where the desire to collaborate is strong enough to resist such moves. The strength of the Coalition is such that individuals within it will agree to support causes that run counter to their primary objectives, knowing that reciprocal support will be forthcoming on other issues. This level of trust came through strongly in many of our meetings – as a small city there's an element of everyone knowing each other, and that brings with it an accepted level of trust and accountability to each other.

Similar trading of positions with government is perhaps less uncommon, but it's a mark of the level of cooperation and trust in Portland that it usually works so constructively. One example of this is the South Waterfront development, with high-rise blocks being built on the riverfront. These blocks were accepted by environmental groups in exchange for a commitment to remediate a one-mile stretch of the river bank for environmental purposes.

This level of cooperation is not automatic. A lot of work has been put in to move the relationship between NGOs and local government away from a position of scepticism and even antagonism. The process has been a long one, and they now enjoy a healthy dialogue, albeit still with plenty of disagreement. This transformation has been brought

about partly through continued pressure from the NGOs, but also through development of civic and social infrastructure. For example, it's a frequent occurrence in Portland for a number of individuals representing diverse interests to get together to discuss issues over breakfast or a beer.

3.5 Fiscal policy

3.5.1 Tax revenue

At first sight, the City of Portland has a reasonable amount of fiscal autonomy, with the bulk of receipts coming from local taxes and significant freedom on how those receipts can be spent. The city's tax receipts go into a general fund, which currently totals around \$400m per annum. This general fund can be used for any lawful purpose, with very few restrictions imposed by federal or state law.

The major components of tax revenue come from Property tax, levied on all assessed property; Business income tax; Franchise fees, imposed on users of the city's rights of way such as utility providers; Tax on lodgers at hotels and motels; and a proportionate share of state revenue, mainly taxes on cigarettes and alcohol¹².

Oregon is one of only five states which don't levy a sales tax. This gives Portland a serious competitive advantage, and has resulted in a large concentration of retail particularly along the border with Washington State, where state tax is set at 6.5 per cent. It's notable though that this is largely at the lower end of the market – Downtown Portland is generally considered 'under-retailed'. This is starting to change, as evidenced by Tiffany's and Macy's recognition of the potential gap in the market, with both recently choosing to open stores in the city.

The lack of sales tax is understandably popular with the public. In fact, the option of introducing a sales tax in the state has been put up for public vote nine times and has always been voted down by a large margin. There was also a feel among the people we met that Oregon's lack of a sales tax may insulate the state against the economic downturn, again based on the competitive advantage at the lower end of the retail market.

The tax mix can make city finances difficult – while they have fairly stable receipts they don't have as much flexibility as they might like to control their level, and would relish the extra income a sales tax would bring. While the city has a fairly free rein to impose taxes on business through a Business Licence Tax, they don't have the authority to vary much else. And although they are legally unrestricted on expenditure several sources of revenue, such as sewerage and gas charges, are hypothecated for particular uses. Little funding comes from the federal government and when it does it's mainly for specific project support, such as transportation links.

The majority of spending by the city goes on services. The Police and Fire Departments between them have budgets totalling around \$200m, while spending on the city's parks is around \$60m, although this does not all come from the general fund. Maintenance of transport infrastructure is also very costly. On top of this there is the city's administrative

¹² Further detail on Portland's tax revenues and budgets can be found at <http://www.portlandonline.com/omf/?c=25955>

and legislative budget, as well as some contribution towards education – while public education is the responsibility of the counties, funded by county and state taxes, the city has chosen to contribute some of its budget to education in recognition of its importance for economic development.

3.5.2 Tax Increment Financing

However, there is a further fiscal tool of which the city makes enormous use specifically for regeneration and economic development – Tax Increment Financing (TIF), based on the principle of spending now in anticipation of value later. This is used to finance development in designated Urban Renewal Areas (URAs), with the Portland Development Commission responsible for implementation.

The specific process in Portland operates in the following way. A run-down area in need of regeneration is identified, and designated as a URA. The absolute level of property tax revenue within that area is then capped for a fixed period of time, usually around 30 years. Therefore during this period the city will not receive additional property tax resulting from any growth that the area experiences; rather the extra revenue is re-invested directly in the area.

If development does occur in the area, the city can then borrow against anticipated higher tax revenues in the future, once the freeze on property tax is removed. This borrowing normally takes the form of an issue of 20-year bonds. The funds raised are also invested in the area. This investment may be in the form of improvements to infrastructure or local facilities, or even landmark developments, all of which aims to kick-start regeneration and leverage private investment.

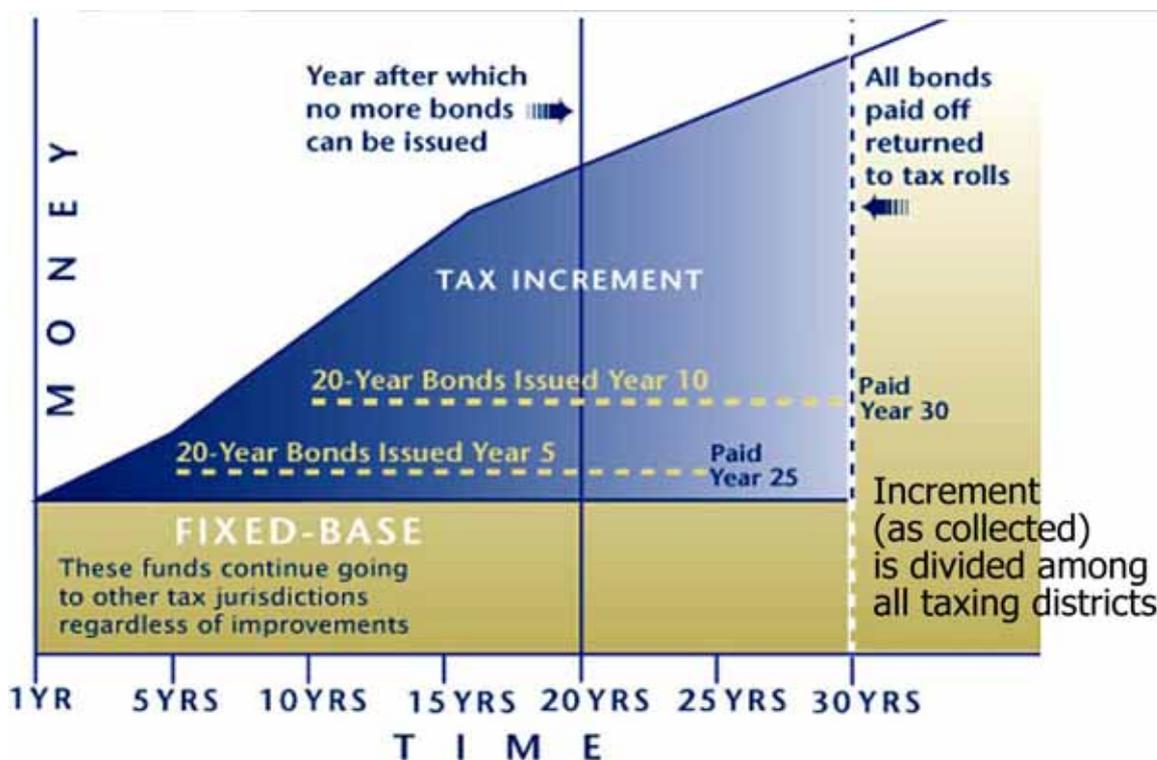


Figure 2 – TIF operation in Portland¹³

¹³ Source: Portland Development Commission

Of course this policy represents a calculated risk; if private development doesn't follow then the numbers will not add up and the loss will have to be borne by the city's finances. However, the success of this instrument in recent years means that such development often occurs even without specific public intervention. This is because once a URA is designated people know investment is likely to follow, therefore property prices usually start to rise immediately.

This approach is not without its tensions. These particularly occur with other public jurisdictions, such as the county or public schools. Such bodies see their short-term revenue limited, and are not direct recipients of the benefits in the interim period. To appease these tensions, the city will often put money into projects that would otherwise come under those jurisdictions.

The Pearl District provides a good example of how URA status and the use of TIF can completely transform an area. This is a former warehouse and industrial area just to the north of Downtown Portland, much of which was derelict, and which suffered from low-level crime. The regeneration converted many of the warehouses into loft apartments, and residential blocks have also been developed on previously vacant land. The resultant increase in population in turn attracted a mix of restaurants, bars, retail outlets and art galleries. While some original residents complain that this process of 'trendifying' has compromised much of what was good about the area, significant efforts were put in to preserving some of its original character.

It's clear then that TIF has been an immensely powerful tool for regeneration and development in Portland. However, most actors acknowledge that the city is over-reliant on this one instrument. TIF is limited to physical works; it can't provide working capital for businesses. And a more pressing concern is the lack of sustainability of the policy – state law limits the percentages of area and property value that can be within URAs. These limits are close to being reached in Portland, with 11 current URAs in operation. Without the capacity to expand the limits, development is likely to be much harder, so the huge challenge facing the city is to find a new mix of funding tools that will allow regeneration to continue.

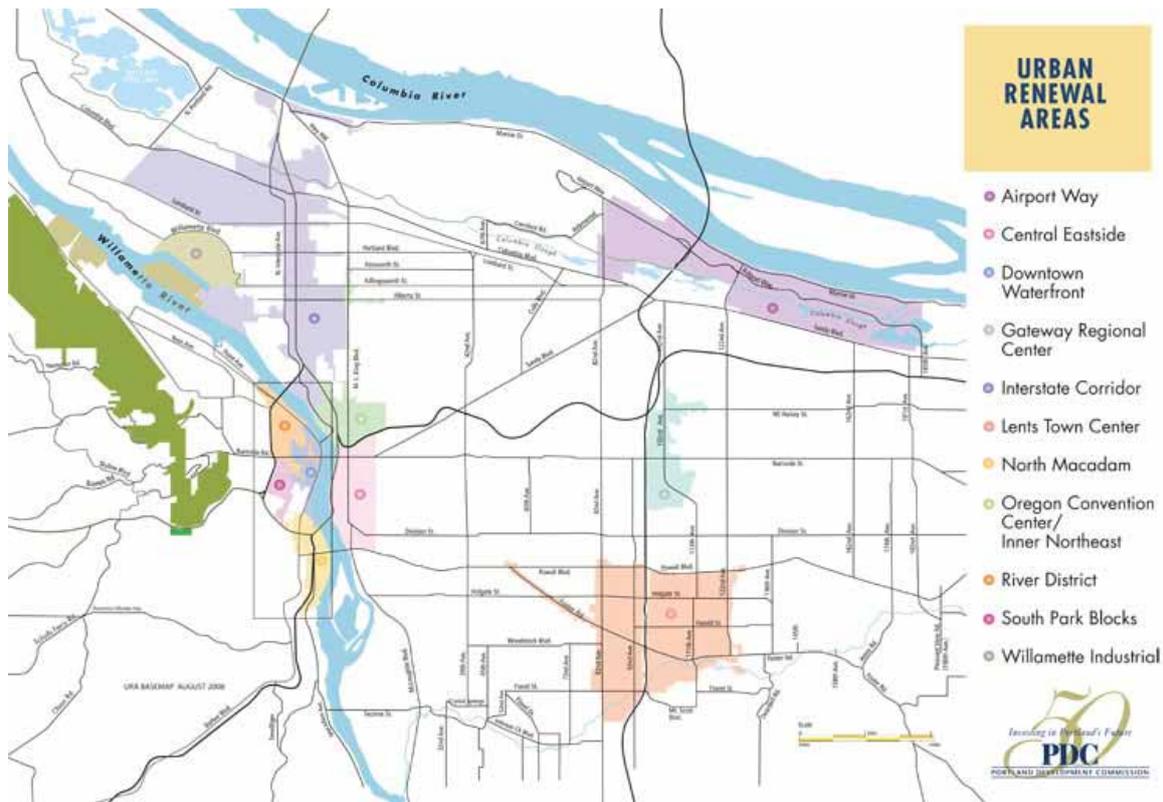


Figure 3 – Portland’s Urban Renewal Areas¹⁴

If more resource could be directed into the general fund in the future, it may be possible to use it for a wider range of economic development instruments. A lot of money will be tied up in TIF for the next fifteen years or more – with current liabilities in TIF bonds of around \$500m, servicing this debt alone takes up a large amount of the city’s finances.

3.6 Public transport and development of Downtown Portland

3.6.1 Revolutionary decisions on transport

In the 1950s and 1960s, Portland was moving in the same direction as most other US cities – the existing streetcar was decommissioned and with private car ownership growing there was a move toward highways linking the city to the suburbs. By the start of the 1970s, the Downtown area was starting to hollow out, becoming simply a working location, and lacking the vitality that comes from being a vibrant residential area, especially outside working hours.

We have already noted the benefits that Tax Increment Financing and the introduction of the urban growth boundary have had for the centre of Portland. But there is another aspect which is worth noting as a key factor in halting this trend. There is, and always has been, a fierce independence in Portland, as well as a civic drive to remain a small city. And civic pressure to get back to small-city ideals was part of the force behind a key decision that led to the revitalisation of the city centre in the 1970s.

¹⁴ Source: Portland Development Commission

This was a revolutionary move, flying in the face of received wisdom at the time. A huge amount of federal funding had been allocated for the construction of the Mount Hood Freeway. The city initially supported this project, which would effectively have bisected South East Portland. However, under then-Mayor Neil Goldschmidt, they were persuaded to reverse that decision and opposed the construction.

The opportunity was available to redirect some of the federal funding to alternative projects, and the Mayor was apparently in favour of investing in bus routes and other localised projects. Local experts recognised that the more far-reaching option of a light rail system has a permanence that allows it to shape the development of an area, and Mayor Goldschmidt was persuaded to pursue that option. Other projects were included in the scheme – the Transit Mall, an intersection of the main corridors of public transport, was built and the number of Downtown parking spaces was capped – which culminated in the construction of the MAX (Metropolitan Area Express) Light Rail, the first section of which was completed in 1986. Key to the success of the project was the Mayor managing to negotiate federal funding for this project of around double the initial amount offered for the cancelled freeway.

Alongside this, the opportunity was taken to go further and reverse some of the earlier road development. Thus in 1974, Harbor Drive, a six-lane freeway which ran along the Downtown section of the Willamette River's west bank, was removed and replaced with the Tom McCall Waterfront Park. This made the river easily accessible and created an area for public use that had previously been lacking from the city centre.

These sorts of decisions start to accumulate and change the mindset of the public, persuading people they can make change. They were certainly intended to shape a more pleasant place, rather than being purely economically-driven. And although this may not have been conscious at the time, they were tremendously beneficial to Portland from an environmental perspective. The perspective in the city is now very much on 'smart growth' – the antithesis of sprawl, creating areas that are walkable, accessible, environmentally sound, and based around people rather than cars, and these decisions along with the imposition of the urban growth boundary very much set that approach in train.

The MAX Light Rail network has been further expanded in the two decades since its first section was opened. It now comprises three lines and links the city centre to Hillsboro and Beaverton to the west, Gresham and the International Airport to the east and the Expo Center to the north. Along with a streetcar running through the city centre and an extensive system of buses, it gives Portland an efficient public transport system that covers much of the Metropolitan Area. Furthermore, all journeys are free in Downtown Portland and a small area beyond – the so-called 'Fareless Square'. This system contributes greatly to the vitality of the city centre and the economic well-being of the area.

The decisions made on transport in the 1970s by Neil Goldschmidt provide an excellent example of how a Mayor with a strong personality can be very effective even under the Weak Mayor system, and were usually the first example given when we discussed that system during our visit. Despite controversy in his personal life it's clear that many Portland residents look back on Goldschmidt as an inspirational and very effective Mayor, although it's worth bearing in mind the context of the very different political landscape at that time, which arguably made it easier for a forceful Mayor to negotiate and drive through decisions.

3.7 Conclusions for economic development

So how much is Portland's success attributable to good fortune and historical accident, and how much to good planning and stewardship by government? It's clear that both elements have played a part, but will the mix be sufficient to see the city ride the storm of the current economic crisis and continue to grow in the future?

3.7.1 The lack of a formal economic development strategy

We've discussed many individual public programmes and policies that have strengthened the city's position. But many of the people we spoke to pointed to the lack of an overall economic development strategy, either for the city or the wider Metropolitan Area. Opinion differed on whether this is necessarily a bad thing. Some felt that growth in Portland has been healthy and therefore why not simply keep doing what they have been doing? The more generally held view though was that such coordinated economic planning would be a step forward for the city. By setting out realistic economic goals based on competitiveness, sustainability and social equity, along with the measures required to deliver them, the city would be better placed to face an uncertain economic future, and therefore more resilient.

Some went so far as to suggest that the city has actually grown complacent, that Portland's image and quality of life have been allowed to act as a surrogate for a development strategy. As a result resources have not been devoted to a consistent set of development priorities. From this perspective, a coordinated strategy is vital.

There was some optimism on the likelihood of such a strategy, for two reasons. Firstly, there was the upcoming arrival of a new Mayor, Sam Adams, who appears to have an appetite for adopting an economic development strategy and is expected to have sufficient leadership drive to deliver it despite the Weak Mayor system. Secondly, there was a recognition that the downturn might force the city's hand – continuing to rely on what's worked in the past may not be sufficient in a time of increased competition. Economic planning can be counter-cyclical – in times of success it doesn't seem necessary. Even further, there was a feel that the downturn could provide a real opportunity to make bold moves in any strategy, although care would have to be taken to prevent short-term reaction, such as quick job creation, dominating over longer-term planning. This may provide a real opportunity to position the city, to highlight and build on its distinctiveness – Portland would not be able to compete on an equal footing with San Francisco or Seattle and this could be a chance to stop trying to do so.

However, this optimism was tempered by a realism regarding the difficulties that would have to be overcome. For any plan to deliver, it would need to be based on an agreement between all parties across the public, commercial and social sectors. Getting such buy-in from all stakeholders is acknowledged as a real challenge, because of the number of competing interests that would have to be brought together. In our view Portland is better placed than most cities to achieve a workable agreement, given its history of cooperation and compromise.

Opinions also differ on the most appropriate spatial level for an economic development strategy. If the Mayor does manage to create the drive for a strategy it would probably be at the city level. However there's a strong argument for the Portland Metropolitan

Area as the right geographical entity. In reality this is unlikely as there's no one body that's well-placed to own a regional economic development vision. The regional government, Metro, doesn't have the jurisdiction or expertise to coordinate economic development, for example they have no experience of attracting or assisting business.

There are examples of direct public sector intervention attracting business. Perhaps the best is the development of the cluster of electronics companies in the area. The kick-start to this cluster was the decision by Siltronic in the late 1970s to locate a silicon wafer production facility here. The company was looking for a west coast location with a supply of clean water and a skilled workforce. Portland was lacking the latter but the city government recognised the opportunity, and worked with the Community Colleges to quickly train people in the required skills. Once this policy succeeded in persuading Siltronic to choose the area, other electronics companies followed, and the arrival of Intel firmly cemented the cluster.

Counter to this is the general reputation the city has as being business-unfriendly, and some would say anti-business. This is in part due to the careful land-use planning policies, and the sometimes lengthy process of public decision-making. But there is also the important factor of high corporate taxes, with Portland levying its own tax on top of the already high level in Oregon. Again, this situation divides opinion, with many applauding the city for refusing to bend over backwards for big business without considering whether it's positive for the city in the longer term.

Ultimately, if an agreed economic development vision is to be delivered, these tensions between public and private will need to be overcome. Despite good cooperation generally, the area where this is weakest is between government and business, with the city's reputation creating a lack of trust between those two sectors. It's evident that many actors have a desire to breach this divide, and the current economic situation may provide the impetus to do so. It is likely to take some time to build trust and allow public and private to work together more effectively in the future, but if that can be achieved, Portland's position looks strong. The city strikes an unusual balance, having achieved growth while retaining a small-town feel, and it is to be hoped that it continues to thrive while maintaining this authenticity.

Chapter 4 – Culiacán

4.1 Introduction and background

Sinaloa State is a fertile plain located in the north-west of Mexico between the mountains of the western Sierra Madre and the Pacific Ocean. It is on paper an ordinary everyday place. It covers 2.9 per cent of the national territory and is divided into 18 municipalities. Its ordinariness is reflected economically, in the fact that the state provides the rest of the Mexico and the US with the humble tomato, pepper and other staple produce. However, what makes Sinaloa move beyond the economic ordinary is that in the last ten years it has significantly stimulated economic growth and exploited its economic potential. In this, it has promoted key sectors in which Sinaloa could stand out in such as food industry, textiles, manufacturing, cinema, tourism, information technology (software development) and commerce. Furthermore, due to the importance of the primary sector, several agro-industrial branches were identified as potential drivers of economic development generating added value to primary products. This has led to economic growth of around 9 per cent a year. Furthermore, what takes Sinaloa, even further from the economic ordinary, is its informal, violent drug economy, which is thought to be worth up to 20 per cent of the local economy.

4.1.1 Culiacán

Sinaloa's state capital, Culiacán, is on paper and visually similarly unremarkable. It is dusty, hot, dominated by the car (said to have the highest proportion of cars per head of population in Mexico) and has around 700,000 people. Also, like many locations in Mexico, Culiacán has grown considerably in the second half of the 20th Century. In 1948, the construction of a dam helped the agriculture industry which in turn helped develop all parts of the city.



Growth has largely been allowed to run without major planning restrictions, and the city looked and felt unplanned and, to our eyes at least, chaotic. From the mid-70s up to the 1990s there was little in the way of large scale development. Virtually all development is concentrated along the Tres Rios corridor and in the centre (the 'Golden Zone') and there is no development of the sub-centres and outlying areas to support all the population. Services, particularly infrastructure, are lacking and there are problems like poor drainage and road maintenance. In short there are 'two Culiacáns' – one of the golden zone and one which isn't.

4.1.2 The research

Our work in Sinaloa and Culiacán was driven by an interest in exploring an ordinary place which had some extraordinary features in terms of its high growth, high levels of investment and an informal economy. It had traditional primary industry but it was diversifying this and trying to add value to it. It was experiencing significant growth and was attracting foreign investment, but a lot of this was unplanned and causing wider problems in terms of outstripping infrastructural capacity. Culiacán has a functioning role

as the state capital, but government seems on paper to play a minor role in the economic success of the locality. Indeed overall we were interested in Culiacán as a place which seemed non-resilient despite success. In short, an ordinary place which through economic success, and associated problems of growth, was perhaps vulnerable. This weakness or vulnerability was of course compounded by Sinaloa and Culiacán being an economy which was significantly driven by the narcotics trade. This activity is never far from the surface and it added a unique and raw lens in which we conducted and viewed our work in Sinaloa. In all the places we researched, elements of the informal economy were evident. However, it was only in Culiacán where the informal economy and its growth played such a role as to be in some instances the dominating economic identity of the locality.

In all of this Culiacán, for us, is a place where we could see economic growth at its rawest. Where traditional economic advantages afforded by natural resources were being developed. Where the local state seemed to just get out of the way and where thoughts on resilience and sustainability were seemingly poor relations to the pursuit of material success. This was the broad subject of our work in Mexico.

4.1.3 Key themes

Here we discuss the following five key themes in relation to the nature of local economic development in Culiacán:

- The informal economy
- Relationship between government and business
- State level economic development
- Inward investment and the sectoral mix
- Enterprise and skills

4.2 The informal economy

When investigating the Mexican economy, the subject of drug trafficking is unavoidable. And it looms even larger in Culiacán and Sinaloa, with several of the main Mexican drug barons being based in the state and significant drug-related violence seen here in recent months. In fact the situation got bad enough that in April 2008 the federal government sent troops into Culiacán to try and control the violence.

While this informal economy was not consciously and deliberately explored by us, it was mentioned by many of the people we met and – for our short time in Sinaloa – we were aware of it as a significant backdrop to our conversations and an implicit factor in everything we discussed.

This situation causes significant social problems and instils fear in the population. It affects the area directly, through such issues as the difficulty of recruiting police officers because of the level of drug-related violence, but also indirectly through the detrimental impact on the city's image. Tourists and investors are both deterred.

Sinaloa has a very high incidence of violence and other 'high-impact crimes', and it is these which dominate public attention, creating the poor image of the region. But the incidence of minor crimes in the state is actually very low. Therefore, paradoxically, the

sort of crime that makes regular life and enterprise problematic for most people is not really an issue here.

Along with drug trafficking come other forms of corruption. For example, Culiacán has a very high level of money laundering. And this leads to the uncomfortable truth that a large amount of investment into the city finds its origin in drug trafficking. Therefore it's something of a paradox that this illegal activity, as well as the obvious negative impacts on the area, is a significant contributor to the successful growth of the city. Money from the narcotics trade is re-circulated in the local economy. In this it gets re-circulated through the purchase of legitimate businesses, such as hotels and restaurants. It is also circulated in the form of banking and providing for investment capital. This is a huge contributor to the economy and significant in that it is liquid and as such a significant multiplier through local shops and services.

With such powerful flows of money comes people power. While it is never something we could directly address, it is fair to surmise that this informal economy can to some extent bypass the local state. The federal government under Felipe Calderón is starting to try and stamp down on corruption across the country, with measures like a tax on large cash dealings in banks. This approach is partly responsible for the recent escalation in violence, with a backlash from those targeted. The Mexican government is faced with a tough choice here – turning a blind eye to the problems, as many recent administrations have, would allow an uncertain peace to reign, the price of which is that corruption is largely unchecked.

We also heard about some of the social and cultural issues caused by the presence of the drug barons. A major problem is the fact that children see that they are the ones with the big houses and nice cars, and naturally aspire to that. They see that such material wealth can come from selling drugs, and so look up to the barons as role models, rather than instilling a work ethic. This can be seen in the relative rarity of students in Sinaloa taking part-time jobs in addition to their studies.

The state has instigated a programme in schools, from kindergarten upwards, to try and address this perception. Pilots are taking place in some of the smaller towns, near the drug barons' ranches. While this is a positive attempt to address the problem, there is some pessimism about the chances of success. What makes it particularly tough is that, as well as getting through directly to young children, it's vital to change the attitude of their parents and other influential adults in their lives, and changing such deep-rooted cultural views will be very difficult.

4.2.1 Normalising the economy

We were impressed by some of the plans to 'normalise the economy' and divert energy and attention from the narcotics trade and the problems it brings. One scheme the city runs is to help former drug addicts with rehabilitation, then try to help them find work. Unsurprisingly there's been some resistance to this – of 80 firms approached only 20 agreed to take part, despite the fact that the city government pays their first 3 months' salary.

Another area they are trying to develop the economy via legitimate means is through tourism. Driven by wider state thinking as regards the coastal towns, it is recognised that Culiacán is not trying to attract major tourism – they understand that they don't have that edge. Therefore their tourism offer is aimed at business tourism, local tourism

and rural tourism, with a simple offer – sports fields, swimming pools, and a new rope slide across the River Tamazula, which bisects the city. This is coupled with attempting to change the image of the city. Culiacán hosts an annual international trade fair on agriculture, covering agri-tech, new crop varieties etc (Expo Agro Sinaloa). Many people come here from abroad to learn from experience in agri-tech. The city government has a plan to provide training and accreditation for approved secure taxi drivers to act as tour guides and there are some monies from federal government for tourist site development works.

However, the scale of the challenge is significant, given Culiacán's reputation and its lack of any significant tourist attractions. In meeting with the tourism lead at the city, we were impressed by his plans, but nevertheless felt that he had a very difficult job, which no matter how much effort he placed upon it, was likely to be underpinned by broader image and identity issues which would undermine his gallant efforts.

4.3 Relationship between government and business

The commercial sector in Culiacán and Sinaloa carries significant sway in the decision-making process. This is partly through formal bodies but also through the attitude of the city and state governments and the contacts that they have with many businessmen. Several times we heard that the city is very business-friendly, although the connotation was not always positive.

We were told that the city government doesn't have a big role in business development, and that 'they don't complicate things' for businesses, leaving them free to operate without much restriction. The city recognises that business growth is in its interest, but it seemed to us that this growth was allowed to run largely unchecked.



Of course many in the commercial sector see this situation as a positive – rather than viewing the public sector as weak they see it as pared down to serve business effectively. Others take a different view, considering the relationship between businessmen and local

government unhealthy with a sense that the wider public interest is not well served. We feel that a stronger role for local government, monitoring and where necessary limiting business activity and interests, would provide a healthier balance for the city.

We were given examples of this view relating to property development and planning. There are planning regulations in place, with fairly detailed land-use planning maps restricting the location of development for different uses. In reality though these regulations have been overlooked for many years, with developers often building wherever they like and the city government turning a blind eye. We were told about construction along the riverside, which lobbying from environmental groups had failed to halt, their position being that the riverside is a natural resource for the city which is being destroyed in the interest of profit. There was a feel from some people that the public

sector bends over backwards to accommodate the developers and business more generally.

Looked at in a more positive way, there is a hedonistic effervescence and entrepreneurial spirit within the economy which is a product of the way the local state works in close tandem with the business sectors. This is not just a public private partnership as we would know it. This is a local state which actively allows business to shape, construct and direct policy and budget priorities. It is dominated by a belief in business growth and the local state getting out of the way of what business does best – spotting markets, satisfying demand and bending economic activity accordingly. This shows just what it means to let commercial and entrepreneurial endeavour grow. However, if we assume part of this spirit of entrepreneurialism is reflected in the burgeoning narcotics industry it was slightly alarming and gave us a real sense of how there always has to be a legal and moral framework for economic success.

4.3.1 Business councils

In Culiacán, there are a number of Business Councils, representing the interests of different business sectors. We were told that they were set up at the instigation of the public sector because it realised its intelligence on the needs of business was lacking. The councils are consulted on and advise on issues of city policy, including budgets. Although they represent the interests of business, this does not preclude them from seeing the bigger development picture – for example, they have sometimes agreed to business tax increases to fund particular schemes.

While most Mexican states have similar bodies the balance of representation is usually more towards the public sector (here the representation is roughly 85 per cent business, 15 per cent public sector – in some states the mix is the other way round).

The balance of power appears to reflect this mix. We heard how the councils have the opportunity to comment on draft city legislation affecting business, and that they will lobby the city for changes if legislation is not likely to work in their interests. Furthermore, if required the councils can escalate this lobbying to their state- or nation-wide umbrella organisations, ramping up the pressure for amendments. And it seems the councils will usually get their way – in the case of continued disagreement the city is likely to bow down to the weight of pressure and the influence of the commercial sector.

The involvement of private organisations in economic development is highly important as they are the chief investors and generators of employment in the state. Moreover, their ability to provide solutions to problems of enterprise in development is crucial, since they demonstrate the correct approach to be adopted by the state in the economic activities concerned. Among the most important business organisations in the state, the following are worth of mention: the National Chamber of the Transforming Industry (CANACINTRA), the National Chamber of Commerce (CANACO), the National Chamber of the Restaurant and Spiced Foods Industry (CANIRAC), the Mexican Employers' Confederation (COPARMEX), the National Chamber of the Fishing Industry (CANAINPESCA), the Sinaloa State Confederation of Agricultural Associations (CAADES), among others. These organisations have now become important sources for decisions on economic development taken by the state government.

4.3.2 'Response Capability': government and economic development

The city government is very limited in its ability to 'do' economic development. Even the resources it does have are heavily dependent on federal and state funds. The approximate breakdown of tax receipts in the city is – 85 per cent federal, 10 per cent state and only 5 per cent local.

As a result, Culiacán in itself does not have a sophisticated economic development plan. While we met the head and various staff of the economic development department, its responsibilities and its actions are small compared with the state. Perhaps ideally, Culiacán should be responsible for its own economic development, but there are systematic problems to this as resources are a problem. As a fall back position the aim appears to be creating alignment through city, state and national levels and developing where possible a 'response capability', i.e. improving the ability of the city to be responsive to business needs. However even this is problematic as there is a lack of continuity in the city authorities. The Mayor changes every three years, and is not allowed to stand for immediate re-election. Up to half of the staff are mayoral appointees and therefore may change as well, leading to loss of corporate memory and know-how.

4.4 State level economic development

4.4.1 CODESIN

One of the most powerful organisations in driving economic development in the state is CODESIN, the Sinaloan Council for Economic Development. This was created in 1996 with the passing of the Investment Promotion Act with the aim of promoting economic development in the state by introducing policies to stimulate investment and employment. There's always been a problem of continuity due to the limited terms of elected officials (three years for the city, six years for the state). Therefore the strategy was always changing. CODESIN aimed to bring some continuity to economic strategy and provide the long-term strategic view needed to push certain projects forward. It works more in tune with economic cycles rather than political ones. The governing committee includes representatives of business councils, municipalities, and outstanding local businessmen. The businessmen are elected through a process of nominations by existing council, with a council vote between the top 10 nominees. Terms are three years, but they can be re-elected (although a maximum of 50 per cent are allowed to stay on).

This model is unique in Mexico and it is seen as easy to attract the most powerful businessmen to participate in CODESIN because it is where the influence is. CODESIN was described to us as a 'sinful marriage' between state government and the strong businessmen who sit on the committees. The latter act as a counterweight to government.

In this way, CODESIN is becoming a plural organisation able to have an impact and propose the best alternatives for the economic development of the state. The great efforts made in recent years by the state government, business community and society, despite national economic stagnation, to ensure that the state shows signs of growth have been reflected in positive results which in a few years will make the state of Sinaloa stronger economically in the national context. The impetus given to Sinaloa to diversify

its economic activity is now acknowledged by various governments, institutions, the business sector and, above all, by wider society.

Governments at each level will have their own political vision, and these won't always match each other or the vision of CODESIN. Although again the views of businesses hold a strong position, there's a balance, because there are strong businessmen as well as strong politicians. Part of CODESIN's role is to bring together of the various interested parties, relevant local actors, to try and reach an agreed way forward.

Of course CODESIN's main (but not only) goal is economic growth – it has to keep its finger on the political pulse too, but needs to be careful not to get too politicised. They also give lots of consideration to social issues – they work with universities and some social groups.

The Council has four defined strategic areas in line with the objectives set out in the Investment Promotion Act:

1. Planning, monitoring and evaluation. Planning and definition of economic development strategies, government monitoring of their implementation and evaluation of their effectiveness.
2. Economic development. Supporting and directing local enterprises towards federal, state, private sector and other development programmes to stimulate new projects by regional entrepreneurs and to retain existing local businesses.
3. Investment promotion. Attracting domestic and foreign investment to Sinaloa and development of projects of regional entrepreneurs.
4. Attractiveness. Stimulating the development of infrastructure, promotion of urban planning and territorial organisation, as well as improving Sinaloans' living standards and the image of Sinaloa, making it a more attractive and competitive place.

The Council's mission is to define a long-term development strategy for Sinaloa and undertake on-going evaluation of the results of its implementation by the authorities concerned, through direct and permanent linkages with the business sector and the state government, giving priority to the creation of more and better jobs in the short and medium term, thus achieving a prosperous Sinaloa with good quality of life through competitiveness and sustainable development.

4.5 Inward investment and the sectoral mix

We heard some disquiet over the efficacy of CODESIN, particularly in the area of encouraging companies to come to the region, perhaps through initiating research and improved marketing. However, there is a related body taking an active role in just that area. The Sinaloa Center for Investment and Trade (CIT) acts as the operational arm for both the Sinaloa government and CODESIN, and was set up in January 2008, co-funded by those bodies. This governance reflects the significant role of the business sector – indeed the CIT board mainly comprises CODESIN and businessmen.

CIT's role is in attracting investment and promoting exports. While the state government plays a role in helping small companies start exporting, CIT works on increasing export activity for existing exporters. Prior to its formation, CIT's activities were mainly done by the state government, with a few undertaken by CODESIN. The creation of CIT has allowed more focus within the state as a whole on attracting investment and promoting exports, and freed up CODESIN to focus more on a long-term strategic vision.

To enable strategic economic continuity in a similar way to CODESIN, CIT aims to separate the activities of the state administration from the activities of business. This allows the operation of CIT to be freed from short-term political changes. In an effort to ensure some cogent connection, the Chief Executive of CIT is also a senior official for the Sinaloa state government. This dual role was explored with the present postholder. He felt that this was a very difficult but necessary job, thus ensuring that economic development policy had political weight and buy in. He believed that his role was about operating as the broker and smoothing over the rough elements to this vital relationship between the commercial and the public sectors. He gave us an example of how it can work less well with reference to another Mexican state – Monterrey. There the business community took a big lead (but working alone) and the government is now trying to follow, thus failing to achieve the balance maintained here. In most of Mexico it works the other way round, with government dominating.

4.5.1 Sectoral strategy

CIT recently undertook research to support a strategy for investment base on incubating certain industry sectors, and in this their methodology was influenced by Baja California. In that state, realising that their previous industrial strength – conventional TV production – was becoming outdated technology, they looked ahead to industrial changes and planned for coping with the change. Sinaloa spoke to them and used the same consultant to undertake similar analysis. By undertaking research, including surveys, they analysed the strengths of the state and each region within the state, and aimed to identify activities to promote and activities to incubate. This resulted in three key areas of strategic development.

Firstly, the analysis resulted in a re-focus on the state's strengths and natural advantages. In this the three main urban areas each had particular areas of focus: tourism, fishing, port activities and agriculture in Mazatlán; food production, commerce, IT software, call centres and mining in Culiacán; and industrial, agriculture and fishing in Los Mochis. This situation seems to create less favouritism towards any specific place by and within the state. Coupled with these different strengths they have different sectoral priorities for moving forward. For example, in the north of the state they're looking to move into logistics. They have a specific strength in that Topolobampo is the closest Pacific port to Dallas (which is a hub for the eastern part of the US). Consequently there are plans to improve road and rail infrastructure to exploit this strength.



Figure 4 – map of northern Mexico showing the major road and rail links

Secondly, the work sought to develop a strategy of ‘*más alimentos – más valor*’, or ‘more food – more value’. This is part of a concerted move from the current concentration on low value-added sectors towards high value-added – for example, 60 per cent of Sinaloa’s production is related to food but only 20 per cent of its GDP due to the low value added in the food production sector.

Around 65 per cent of Sinaloa’s agriculture produce is exported to the US. The lower quality produce remains for local sale. However, local officials would like to see this proportion increase still further, and they are not overly concerned about the current downturn. They are relatively bullish, viewing food export as fairly secure, as the US can’t produce enough for itself. Mexican produce is good quality, cheap and popular, particularly among the Latino population. Thus, basic production may provide the area some resilience, but is not enough to push growth as far as the region would like.

Figure 5 below highlights the sectors on which the state plans to concentrate, and the activities required to drive up the value chain. This shows the move from primary production, through intermediate activities to produce associated higher value activity, with related industrial activities colour-coded to show the links between levels.

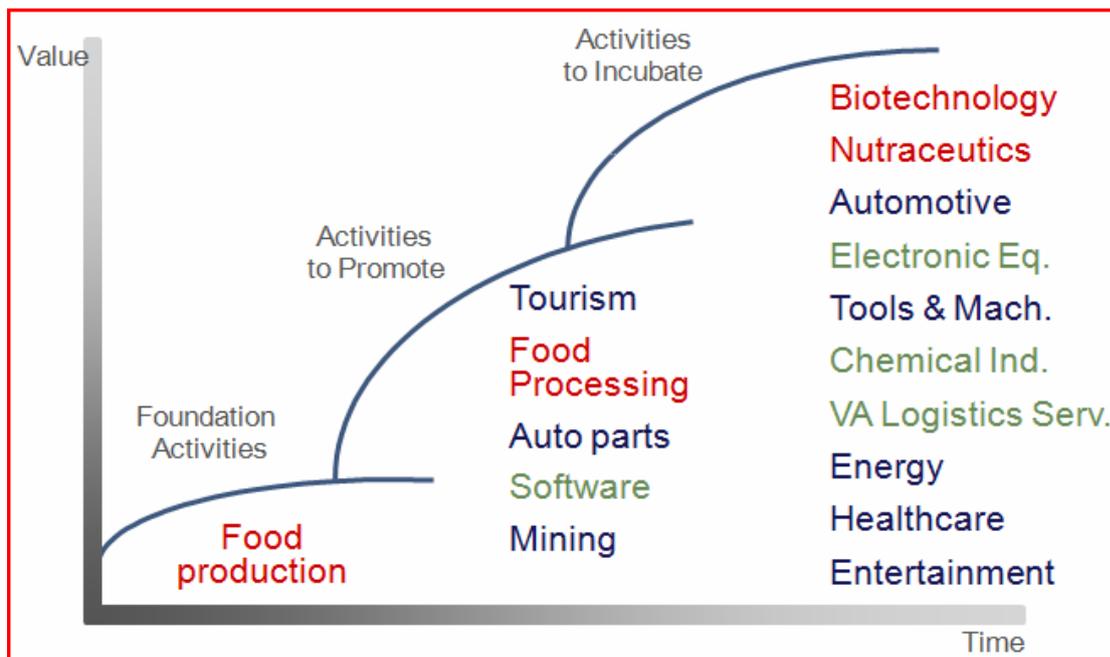


Figure 5 – sectors and activities featuring in Sinaloa CIT's forward strategy

Thirdly, they are seeking to rebrand Sinaloa as an 'Eco-Region'. Consideration of environmental issues was seen by many we spoke to as in its infancy in Sinaloa. While this development of a 'green approach' is laudable, it was criticised by some we met as being unsubstantial and even spurious. It would appear that the Eco-Region concept and green considerations are thin and polarised between agri-business, who wish to see few restrictions on their activity, and 'green' opinion, who wish to curb growth. This situation is exacerbated by poor communication between the various stakeholders and little thought has actually been given by the various actors to the potential economic benefits of conserving the environment. CIT and CODESIN have an important role in improving this, through facilitating a dialogue between business, state and other voices.

This work in investment and improving the sectoral mix has already seen improvements. For example the increase in added value is indicated in the number of graduates choosing to stay within the state in certain sectors (although this is not true across the economy, as we discuss below). For example we were told how four years ago, 40 per cent of IT students in Sinaloa were moving out of the region after graduation. Now this has been reduced to two per cent. This has been done by the state government, working with CODESIN and CIT, creating an industry to retain them – by working from the university onwards a higher value supply chain has been created. In Sinaloa, within the agriculture, technology and food biotechnology fields there are seven research centres with 120 researchers working on well over 200 projects. Furthermore, the state continues to encourage change in the school and university curricula to better match skills to the needs of priority activities.

CIT's stated aim was to double exports and private investment for Sinaloa between 2006 and 2010 and they're currently on track. In the first ten months of 2008 there had been around US\$1,700m of exports. Indeed CIT could demonstrate US\$40m of additional exports directly from their work, and they were aiming for US\$100m by the end of the year. Lots of the exports are in areas that Sinaloa is already strong. For example this has occurred in tourism in Mazatlán.

Currently, about half of private investment in the area comes from within Sinaloa. However, we heard some optimism about the possibility that US investors may start looking for cheaper investment opportunities and turn to Mexico in the current economic climate.

4.6 Enterprise and skills

4.6.1 Entrepreneurialism

Culiacán and Sinaloa are considered to be entrepreneurial. As an OECD report in 2004 noted¹⁵, enterprise and business activities in Sinaloa have grown considerably in recent years, with a 10 per cent increase in the number of registered businesses between 1998 and 2004. At the end of that period, there were over 31,000 enterprises providing employment for over 330,000 workers. Indeed Culiacán was described in that report as 'one of the country's most dynamic cities'. Some people we met felt that Culiacán is "over-run with people trying to do business" but the entrepreneurial spirit demonstrated was not questioned.

The federal government runs a national scheme of micro-credits, offering low interest loans of up to 20,000 pesos to people starting small firms. It's a demand-led scheme, but is targeted at specific areas. The total value claimed in Culiacán was around 7m pesos in the first ten months of 2008, reflecting the large amount of small-scale entrepreneurship in the city.



Sinaloa helps to promote and support new entrepreneurs through Empreser – a franchised organisation run across the state with the ultimate aim of generating wealth for the benefit of the community. It operates as a public-private partnership providing advice and training to entrepreneurs wishing to start up a company. Since its launch in 2006, the Culiacán operation has launched over 200 new businesses.

The city council takes an active role in attempting to match workers with demand for jobs, running an employment agency which attends to the employment needs of local businesses, acting as a broker for vacancies as well as organising job fairs and training. They told us that about 70 per cent of large firms and 30 per cent of small firms in the city are registered with this service. The state also provides a similar service, with a number of private agencies also in the city. The agency got around 3,000 people into work in the first ten months of 2008, and the city enjoys a low unemployment rate of around 4 per cent.

The city's employment agency also takes an encouraging interest in the welfare of disadvantaged groups in the community, which provides a little balance against our overriding impression of business being the main focus. There are programmes providing training for groups such as the disabled, single mothers, housewives and students,

¹⁵ OECD (2004), *Case study of the Mexican state of Sinaloa*, OECD Local Entrepreneurship Review series, OECD

aiming to help them find an active place in the labour market. Federal, state and city all have provision for targeting similar groups, so there's a broad consensus nationally on target groups. However, there is also scope for the city to target specific needs differently, seen in the programme to help recovering addicts which we discussed in the section on the informal economy.

There's also a scheme run by the city with certain industry sectors whereby two weeks of unpaid training is offered, then the city government pays for up to the first three months of the worker's salary. This scheme has a dual purpose – it provides subsidies on wage costs, in an attempt to attract companies to the area, but also addresses unemployment, as the company has to agree to give at least 60 per cent of those employed through the scheme permanent employment.

4.6.2 Skills

In terms of graduate skills there is a mixed picture. Overall, local universities are producing more graduates than there are suitable jobs, so many good graduates leave to find employment elsewhere. This puts greater importance on the need to attract suitable companies in to employ them in the area. However in many areas there are skills shortages, such as in the IT sector, engineering and agriculture.

We heard that part of the problem is the mismatch between the needs of industry and what schools and universities are teaching, but this is compounded by a lack of basic life skills – the students often don't know how to apply what they've learned. When first entering the labour market, often people don't have the basic workforce skills (such as prompt attendance, interview techniques, CV writing). The city and regional governments run a joint programme to try and address this lack of work-readiness – ideally the universities would provide such training themselves but that's not currently happening.

4.7 Conclusion

Sinaloa and Culiacán have an economy which is contrasting. Diversity is good and a prerequisite to resilience, however in our time in Culiacán we felt buffeted by contrasts, a search for how they worked together and uncertainty about how resilient these facets were individually and how they were being played out collectively.

Firstly, there is the official formal economy. In this the place is driven by a hinterland that provides Mexico and the southern US with its tomatoes, peppers and sweetcorn. This is its strength driven by its natural fertile plains. On driving to Mazatlán, the second city of Sinaloa, we travelled down the long coastal strip between the sea and the Sierra Madre mountain range, where we saw endless fertile fields, being farmed by agri-business. Culiacán is the distribution network for this produce and as such contains the services expected of a regional and administrative centre. The strategy of driving up of the economy to higher value products is sound and the industrial development sectors and niches are showing signs of success.

Secondly, this is a city which is driven by a significant informal and narco-economy. This economy not only employs people directly but through the volumes of money being laundered within the state, and is a significant indirect multiplier to the economy. In the short term this is a significant fillip to the local economy and the flows of liquid resources

within it. In terms of resilience, this illegality obviously weakens the economy. The battle against the drug trafficking and money laundering eats up significant resource and is detrimental to the city's image. Therefore, while there may be short term gains, Culiacán's informal economy weakens its resilience in the longer term.

Thirdly, there is a vibrant entrepreneurial spirit within the economy and a laissez-faire approach from the local government. This free rein given to business can be a positive, allowing the private sector to do what it does best and respond to commercial opportunity unhindered by significant bureaucracy. We believe that business is given a little too much freedom here, and that the city is less resilient without the regulatory check of a strong public sector. However the alternative may be worse - with a weak social sector, the strength of commercial interests can be argued itself to act as a check on local politicians, thus preventing some of the more extreme corruption seen in some parts of the country.

Culiacán is a city which is overstretched and 'creaking at the seams', as growth of the informal and formal economy has brought with it migrant workers from other areas. It has become a sprawling, dusty, overcrowded and unplanned place. There are obvious ways in which Culiacán could be more resilient, for example if infrastructure could keep ahead of development, if the environment were better protected, and if the narcotics industry was curbed. However, the forces at play here are very strong and it will require significant work at federal, state and local level, between all sectors, for this to occur.

Chapter 5 – Coimbatore

5.1 Introduction and background

Written in early 2008, the Eleventh Five Year Plan of the state planning commission of the Government of Tamil Nadu states ¹⁶ 'Tamil Nadu has been surging ahead steadily and strongly to become one of the most socially and economically progressive states in the country'. This statement is a reflection of an annual GDP growth rate of 12.1 per cent for this period, making it the third largest economy (2007-2008) among states in India.

While this situation is occurring in Tamil Nadu, it is also occurring in a rapidly changing wider India. India in recent times has gradually opened up its markets through economic policy by reducing government controls on foreign trade and investment. It is now an emerging global economic superpower and it is likely to increase in global economic and political significance as its economy and population grows. However, it faces a number of challenges in terms of the growing inequality, social upheaval and migration it has unleashed. It may be growing, but is it resilient?

Our trip to Tamil Nadu in India took in two days in Chennai, the state capital, and four days in Coimbatore District in the west of the state, bordering Kerala state.

Tamil Nadu is the most industrialised and the most urbanised state in India, with many heavy engineering and manufacturing-based companies centred in and around the suburbs of Chennai (nicknamed 'The Detroit of Asia'). It also has a significant textiles industry which is important for export. Urban areas account for 44 per cent of the



population of the state against a national average of 28 per cent. Thus, unlike many other states in India, the economic resources in Tamil Nadu are quite spread out rather than concentrated in a small industrialised area.

Coimbatore, or Kovai in Tamil, is the third largest city in the state of Tamil Nadu. It is the administrative headquarters of Coimbatore district. Coimbatore is known as the Manchester of South India, due to the number of

cotton mills. Water has historically played a major role in the development of the city, leading to Coimbatore being one of the most industrialized cities in Tamil Nadu. The rich black soil of the region has contributed to Coimbatore's flourishing agriculture industry and it is in fact the successful growth of cotton that served as a foundation for the establishment of its famous textile industry. The first textile mills came as far back as 1888 but there are now over a hundred mills. The result has been a strong economy and a reputation as one of the greatest industrial cities in South India.

We spent a relatively short time here. Furthermore, it was one of the most demanding of all locations, in that the culture, lifestyle, government and society is complex and very

¹⁶ <http://www.tn.gov.in/spc/english/default.htm> - section 1.1.1

different to that which we were familiar. In short, in terms of our research we were buffeted by a range of views, opinions and experiences in a very short time.

5.1.1 The research

Simplistically, it could be argued that economic development in India is easy to discern: an industrious population, growing domestic demand, and an ability to produce things the world needs cheaply – a winning combination? However, questions remain as regards how short-term and fragile this model may be. How resilient is this? And how is this actually worked out in local places, as regards the relationship between local government, business and the people? This was the subject of our work in India, and much more difficult to answer. Nevertheless, the thoughts here represent the key themes which we think were important and cast some light on the research questions.

5.1.2 Key themes

We have picked out four key themes as regards the nature of local economic development in Coimbatore:

- The peculiar nature of the economy and economic governance in India
- The shape of local government: Bifurcation
- Social identity and consciousness
- Knowledge and entrepreneurship

5.2 The peculiar nature of the economy and economic governance in India

To understand economic development and governance in India, it is important to acknowledge two key facets as regards the unusual nature of economic development and governance in India. These facets are important in attempting to understand both the situation in India and how it relates to general lessons for practice in the UK.

Firstly, the Indian process of economic development has been different from the traditional sequence of development. The normal sequence, as undergone by western society, is one where a society moves from agricultural reform to low cost manufacturing and eventually to globally traded services. India seems to have bypassed much of this traditional development path, instead jumping to globally traded services offered by textiles, high-tech and call centre activities.

In this, it could be argued that there is an inbuilt lack of resilience because in 'normal' and accepted patterns of economic development, each step of growth is being predicated upon a solid basis, to which the economy could return if unsuccessful. This is not the case in India. Furthermore, 'normal' processes of economic development are perhaps more sustainable, in that change is incremental and does not involve significant paradigm shifts. Therefore, this peculiar 'quantum leap' in economic development in India means that there are still huge disparities within the country and a huge swathe of population who are detached from the fruits and successes of economic growth. This raises significant questions about local economic resilience, and in thinking through practice means a consideration of steady growth and managing development is a key role for local government.

Secondly, India has a problem of paying for its public goods and services via a strong public economy. This issue is predicated upon the high levels of unorganised labour and the low levels of public taxation. As commented on by Edward Luce (2006), 'to understand the difference between organised and unorganised economy is a key to realising why the economy is so peculiar'¹⁷. Only around 7 per cent of the labour force is employed in organised labour. This means that only around 35 million, out of a working population of 480 million, pay income tax and contribute to the public economy. Indeed of these 35 million, 21 million are employed by the State. Therefore, while economically booming, India still has the vast majority who work within unorganised labour and this makes it in some ways schizophrenic, in terms of having a booming, ultra modern, but small globally connected economy but also a very primitive, traditional and very localised economy. Between these two anachronistic economic development histories, the public economy struggles to provide.

5.2.1 Democratic traditions

India is the world's biggest democracy and in this it faces huge challenges. Competing with the more socially homogenous but less democratic powerhouse of China, it is perhaps at a disadvantage as it cannot mobilise activity, control compliance or find common aims in a way that China, or smaller democracies, can. As a result public policy is vigorous and complex given the range of heterogeneity in terms of society, people and cultures. In our work in Coimbatore we met with various people and also had one large public meeting and audience with various officials, representatives from the municipality of Coimbatore and various components of the civil society. In this we were offered a glimpse of local democratic debate and contestation. We witnessed local vigorous debate, vociferous expression of points and some significant questioning of the efficacy of local democracy. With ourselves caught a little in the cross fire, it was nevertheless apparent that debate is open and the fuel for an energetic democracy – namely openness at least in this setting was thriving. However, in this meeting and subsequently we learnt that the real stuff of politics and contestation within local government is around the perception of where and when the crisis point is. It is more reactive than proactive. In this, it would appear that on many occasions, things need to get bad before the local state actually acts.

Furthermore, sitting alongside this effervescent and reactive democracy are a set of structures and processes inherited from colonial times, which are archaic and labyrinthine.

5.2.2 Role of state and national policy: the governance of growth

State and national government did play and continues to play a broad macro economic contextual role, in shaping economic growth. The stimulus to economic growth success was in part initiated in reforms in 1991. These reforms, while convoluted, lengthy and ongoing saw privatisation and the reduction of competition via the state intervention in agglomerating economic activity. This was especially pertinent in Tamil Nadu as the existing high levels of agglomerated activity through it being the most urbanised state made it a significant beneficiary of these reforms. This top down interventionist role in the 1990s, on the positive side, served to reduce wasteful competition, create economies of scale and streamline commercial decision making, allowing the state to have clarity in terms of industrial activity. On the negative side this has created monolithic growth and

¹⁷ Edward Luce (2006), *In spite of the gods: the strange rise of Modern India*, Abacus, London p49

centralised and concentrated power and growth geographically and socially. This arguably has resulted in exacerbating inequality and narrowing economic growth amongst a small group of individuals.

The state government does have a stronger role and provides limited grants in certain areas. These designated areas are based on various deprivation criteria. Known as Industrially Backward Areas (IBAs), they receive benefits including tax deferment, subsidised electricity, and grants for investments above 1bn rupees (£13.5m). Generally the incentives are not enough to materially affect decisions on investment location. There is also some support for smaller companies and those who employ, for example, higher than a certain percentage of women.

One of the most significant instruments which the state has is via the Tamil Nadu Urban Development Project (TNUDP) and the associated Tamil Nadu Urban Development Fund (TNUDF). The project was developed in 1988 by the state Government of Tamil Nadu and was initially financed by the International Development Agency (IDA) of the World Bank. The successful track record of the Municipal Urban Development Fund (MUDF) encouraged the Government of Tamil Nadu to broaden the scope of the Fund, with a view to attracting private capital into urban infrastructure and facilitate better performing Urban Local Bodies (Municipal Corporations, municipalities and panchayats) to access capital markets.

TNUDF was established on November 29, 1996, as a trust under The Indian Trust Act 1882, for development of urban infrastructure in the state of Tamil Nadu. TNUDF was formed by conversion of the MUDF, with contribution from the Government of Tamil Nadu along with Indian financial institutions, such as ICICI Bank Limited, as well as the World Bank (approx US\$150m), German development bank KfW (approx €65m) and Japanese development organisation JICA (approx US\$100m). TNUDF is the first public-private partnership providing long term debt for civic infrastructure on a non-guarantee model.

The objectives of the fund are to:

- Fund Urban Infrastructure projects, which improve the living standards of the urban population,
- Facilitate private sector participation in infrastructure through joint venture and public-private partnership,
- Operate a complementary window, the Grant Fund, to assist in addressing the problems of the urban poor, and
- Improve the financial management of Urban Local Bodies enabling them to access debt finance from markets.

Funds are brought in by TNUDF and passed on to Urban Local Bodies. The policy direction is set by the state government. Projects are tendered through a competitive bidding process. TNUDF also undertakes fund management of the trust holding these funds, and consultancy.

Initially, the funds were limited and there was some necessary targeting of where funding could be awarded. Now more lines of credit are available so it's more demand-led (there are not currently enough projects applying for the funds they have at their disposal). Centrally the TNUDP provides consultancy support to the municipalities to help develop projects.

However, aside from this, the state has subsequently backed off with very light steer. Indeed, government generally posited to us that any subsequent intervention is then deemed to be unnecessary. Wider benefits are left to trickle down through laissez faire conceptualisations of benefits to wider society.

At the local level, the Municipal Corporation of Coimbatore has no role in economic development, they provide only basic services. The city has very low tax revenue (and no system for issuing municipal bonds), so they depend on the state government for services and central government for infrastructure. However, insufficient state government funds have resulted in the city's basic infrastructure being underdeveloped. In terms of the factor conditions¹⁸ of labour and infrastructure¹⁹, the local state attempts to manage/provide but has not got adequate resources. It is dependent upon state and national resource as well as funds such as the TNUDF.

Many of the people we met were scathing about the quality of the Municipal Corporation more generally, commenting that their accounting systems are very primitive, and that the quality of the officials is poor – not aided by the extent of short secondments from elsewhere therefore a lot of them have little knowledge of the city. In terms of Coimbatore, It was mentioned to us that Coimbatore hasn't had much help from the political class – growth has been down to local entrepreneurs, and exposure to export markets has made the area more resilient. Generally they're happy for the government to keep out of the way and let them get on with it.

The city has a Mayor, Deputy Mayor and several councillors elected by people representing administrative wards, as well as a corporation Commissioner to administer the city headed by the District Collector. District Collectors are officers of the Indian Civil Service (the IAS – Indian Administration Service) and are the most powerful government officials of the wider district. They have a role in handling law and order, tax and other revenue collection, the control of planning permission and the handling of natural and man-made emergencies. A collector was in colonial terms and still is the pre-eminent authority in the local area 'the fulcrum where things evolve', a 'link between the government and the people', and in this the District Collector works with the local politicians to deliver. During our visit we experienced the work of the District Collector and his office first hand and we were surprised by the power which resides in this position, the ability to have a strategic steer over activities. However, while on paper this seems a sound system, we in our work were unconvinced. The means by which decisions are made, and the procedures which surround this position seem a little archaic. In terms of facilities, practice of administering power, we experienced a system which was functional, but unfamiliar to any previous form of democratic or institutional control we had experienced. This is a situation which in our view can be a significant drag on economic resilience and a strong argument against a narrow democracy, with power residing in Mayoral or other individual hands.

In many instances, the position of the District Collector is compromised, as politicians typically have a share in developments. Furthermore, the formal district bureaucracy is 90 per cent politicised with positions auctioned by bureaucrats when they have to depart

¹⁸ Factor conditions are human resources, physical resources, knowledge resources, capital resources and infrastructure. Specialized resources are often specific for an industry and important for its competitiveness. Specific resources can be created to compensate for factor disadvantages

¹⁹ Porter, M.E. (1990) *The Competitive Advantage of Nations*, Free Press, New York, 1990.

their positions due to a change in political control. This of course can result in inertia as many senior officials with abilities and capacity have no longevity in their positions and as a result the bureaucracy has a reduced capacity and ability to act.

A social and commercial sector fuelled by a social consciousness tries to bridge the gaps and lessen some of the negative impacts (as we discuss further below). However, growth is irrepressible and the demands for growth and more growth create a cycle of challenges. Any changes to the processes are mere minor procedural elements to a system which is incapable of halting the forces of economic development. Overall then there is without doubt an effervescence to economic development, assisted by initial agglomeration of the nation and state and then a light steer from local government. This by default does create an ambience, a set of conditions where growth can occur.

5.2.3 Creating an ambience for growth

Some organisations we visited highlighted a notion that public policy and the role of the state was about 'creating the ambience', referring to both an atmosphere for growth as well as basic infrastructural requirements for the commercial sector. Thus the economic growth model is very much about the state 'getting out of the way'. Furthermore, the nature of governance does work significantly toward business, and as such chambers of commerce do have an ongoing relationship. They have committees which regularly report to and work with the local state. It is felt that big business has an important role and has a big say in these discussions. It's implicitly about letting business do their own thing under the crude auspices that economic growth and increasing prosperity are good.

There is a busyness to policy, a desire to be instrumental, a wish to have deeper strategy and plans for strong steerage – perhaps this is the nature of Indian governance. However, the problems of local government make it difficult to implement. Government is under-resourced, bureaucratic and clunky and as a result real action on the ground may not occur. Thus in terms of either the existence or absence of strategy, economic development just gets on and does its thing. It has its own dynamic which drives on regardless.

5.3 The shape of local government: bifurcation

Another key theme in India was the ability to reshape administrative boundaries in relation to changing population and economies. In short, there is flexibility and standard procedures for ensuring an administrative fit to activity within a location. Therefore, a necessary response to extraordinarily high levels of growth is the ability of governance systems and boundaries to change. In this, India appears to have a relatively straightforward process and this allows the flexibility to respond to changing demographics. For India there is a set procedure and it involves less elaborate machinations via local government re-organisation or economic governance mechanisms.

For example work is ongoing for the neighbouring city of Tirupur to break away from Coimbatore as a separate district (which would have a population of around 2.1m) – i.e. a 'bifurcation' of Coimbatore District. This will hopefully happen in early 2009, and will also take in a part of neighbouring Erode District. The move is in response to the growing industry and population in the area. Therefore as a district in their own right they will be better able to meet the needs of the local people and commercial activity. Local elected representatives to the state government initiated the drive to make Tirupur

a Municipal Corporation, and on from that the drive to become a District. There was a petition to the state government, and thereafter a feasibility study.

The process for this has involved public hearings, and ultimately just needs to be approved by the state government. A provisional District Collector is already in place. He claims that there have not been great difficulties with Coimbatore and Erode Districts, and that they just have to accept the decision of the state government

5.4 Social identity and consciousness

As the famous Indian poet and Nobel Prize winner for literature in 1913, Rabindranath Tagore said 'to a western observer our civilisation appears all metaphysics, as to a deaf man, piano playing appears to be mere movements of fingers and no music.'

One of the abiding themes in terms of India is the extent to which the economics of the area is underpinned by a strong social identity and cohesiveness. Following our resilience model outlined in the introductory chapter, it is evident from our experience of Coimbatore that India has a web of agency and social identity, which we explored as a basis to the economic resilience of the area.

In our research in India, we tried to get an understanding of this social identity and cohesiveness. To our western liberal democratic consciousness, we perhaps, in an effort to understand, tried to view this within our UK understandings (and preconceptions) of civil society, identity and community and voluntary sector activity. Therefore, we believe we missed out and were deaf to a full appreciation of this social identity and consciousness in India (we would have needed longer for this to have been developed). However, we are sure that this social identity and way of operating is in Tamil Nadu (and probably the wider India) more important than in the UK, as it underpins the nature of society and local economics in a much stronger way.

What is key is that the manifestation of this social identity and consciousness was directly organised and locally driven by NGO activity. This is rooted from within individuals, families and communities, and as such is embedded into the 'DNA' of how the society operates and communities act. An example of this is the concept of 'fraternity capital' where individuals, after a few years working in a company, may well see the opportunity to start on their own be it from a NGO basis or from an entrepreneurial basis, and are often subsequently backed by friends, family and the wider community.

The benefits of this consciousness in economic terms are threefold. Firstly it serves as a stimulus to the social sector providing public goods and services. These public goods and services are vital infrastructural aspects to successful commercial activity. Secondly it complements local government activity, filling the gaps of a local state, and thirdly it works closely with the commercial sector, imbuing it with social responsibility.

5.4.1 Social sector is a stimulus and provider of public goods and services

In many instances the social sector acts as a significant stimulus and as a provider of public goods and services. Perhaps through the local state either not having the resources or suffering from its overly bureaucratic systems and processes, the social sector has a higher degree of awareness and consciousness as regards the need to get things done. For instance, the Siruthuli Water Project is a project funded by charitable

donations and community work that has renovated the 9 reservoir tanks that feed water to Coimbatore. Siruthuli believe that 'people make a city', and that Coimbatore is an 'entrepreneurial city', and tapping into this the project – started in 2003 – fulfilled a public and economic need for enhancing the water storage capacity of the city. The initial issue was recognised by residents, businesses and government, but the project relied on residents and businesses for funding as government didn't have the resources. They successfully tapped into a 'collective consciousness', galvanising 'people power', for the benefit of providing the most basic resource for residents but also in terms of wealth creation and the activities of business and the textile industries of the region.

Furthermore, the RAAC (Residents' Awareness Association of Coimbatore) aims to get citizens, commerce, property owners etc to contribute to healthy living for all. RAAC has about 400 individual members with direct involvement, and about 120 residence colonies right across the city, each of up to 500 houses, with about 40 per cent of people getting involved in some way. They are proactive in Development Control – adopting a Masterplanning approach. This involves building regulations and rules and rights to information, again providing a social service, but also assisting in developing a framework for economic success.

Some of their projects (e.g. cleaning a government hospital, cleaning up a fish market) should perhaps to our western eye have been the responsibility of the Municipal or District Authorities. However, resource limitations meant this could not be done effectively. RAAC organised the projects initially and then prompted and cajoled the city government to also act. Of course their motivation in doing this was due to a crisis. However, in speaking with them, this is not a source of discord or even a significant problem. It is the mere state of the affairs and a valid activity by the social sector.

5.4.2 'Sustained persuasion': social sector working with and stimulating local government action

In Coimbatore we found a unique network of NGOs, most of them locally-founded, i.e. a social form of entrepreneurship. This network is well-established, and complements the role of government in achieving development.

The public sector recognises the importance of local NGOs, and the concept that grass-roots development should ideally be undertaken by the community. The government is very willing to give funding to education institutions, including to rural areas. Furthermore, the government is giving plenty of help in terms of bank loans to groups such as womens' help groups, rural groups etc, who are looking to provide basic education, shelter, water, sanitation etc. They also broker the relationship with the financial institutions. Furthermore, they will often involve NGOs in policy initiatives. As a result the District and the Municipal Corporation have regular meetings with a group of NGOs. In this as a government representative from Coimbatore stated in reflecting on the challenges which economic growth brings: "India is facing its challenges all at once". As such local government is prioritising infrastructure where it can and letting NGOs undertake social activities. The social sector sees much of their work as being about what they have dubbed as 'sustained persuasion'. They state that the 'silence of the righteous causes the chaos around us'. Thus they do not stay silent but act and cajole and lobby.

Of course this relationship does lead to some tensions and an indication of the power of NGOs in stimulating local government activity is reflected in a sense that on occasion

politicians feel threatened by for example the size of RAAC's membership. RAAC have always avoided taking political sides, and won't endorse candidates. There is a dividing line between representative and participative democracy, with a clear sense of duty and respect on both sides. The NGO sector clearly feels that their direct involvement in representative democracy would perhaps change the nature of the organisation and would alter peoples' perception and their willingness to participate.

In all of this we gathered a sense and a picture of an effervescent social sector, with high levels of activism and consciousness. NGOs motivate people to get involved, and motivate the Municipal Corporation and District to take their responsibilities more seriously.

5.4.3 Social consciousness and the commercial sector

Another key aspect in Coimbatore and its resilience is the related issue of the commercial sector developing the infrastructure required for economic success.

For the social sector perspective, this results in them reaping the benefits from the commercial sector. For example RAAC enjoys support (including some financial support) from businesses with the top 10 per cent of enterprises in Coimbatore all involved, including being involved in funding. Businesses with a representative role in RAAC also give up a lot of their time, on a voluntary basis.

From the other perspective of commercial activity, business has played and continues to play a significant role in the provision of public goods and services. For example, in Chennai when meeting with the Madras Chamber of Commerce and Industry we heard how it had had a long history of initiating many large development projects (e.g. Kolkata-Madras railway, Madras Port). They have also initiated projects/studies to help inform local economic development and give financial support to social projects, such as AIDS projects (Voluntary Health Service). Many members of the Chamber are also trustees of local projects, and all its members have to sign up to the principles of Corporate Social Responsibility.



However how much of this philanthropy is driven by necessity or by a genuine social consciousness? Of course we did see huge inequalities of wealth and aggressive economic development which outstripped natural resources. Indeed in Tirupur (see Cluster section below) we learned that the garment making industry (driven by western Supermarkets), had caused some pollution and degradation of the watercourses in the district. Driven by State legislation they were required to clean up their act and subsequently built a water treatment plant, which purifies effluent from the dyeing process by physical and chemical filtering, and will in the future produce drinking water. In this instance it is clearly an act based on necessity and legislation forcing the hand of the commercial dyeing houses.

However on many other occasions highlighted by RAAC and the Madras Chamber the space between what is 'commercial' and what is 'social' is blurred. It would seem that on

some occasions while business is motivated by profit, it is also motivated by a social consciousness which is very deeply imbued within the way they do business. This relates to the previous collective consciousness point and a kind of embedded Corporate Social Responsibility where high levels of social consciousness penetrates how things are done, which seemed to us to be inherent in Indian culture.

5.4.4 Will this social consciousness endure? Or will economic growth and accompanying modernity result in its loss?

It could easily be thought that this social consciousness and 'public spiritedness' is just a feature of an old society and that the forces of modernity and modern life will squeeze out this consciousness. In our view, however, in India this consciousness is too deep, too embedded in the spirituality of the people to be squeezed out and it will endure, because people wish it so. However it will also endure as long as the government processes are so aged and bureaucratic. Government systems just cannot deal effectively with change, and the massive economic growth that the society is undergoing (indeed it is questionable whether any political process could). As such, aligned to an inbuilt social consciousness is the fact that the people and businesses can comprehend more quickly what needs to happen and respond accordingly. They are ahead of government.

For now, we can surmise that it is fortunate that Coimbatore/India has this strange mix of collective consciousness and limited government, as it creates a situation which while not ideal is to some extent resilient. In this there is a sequence of action:

1. Economic growth creates new social and environmental problems and challenges.
2. Limited government means these challenges are not fully met or met very slowly.
3. There is now a necessity for action.
4. On-the-ground consciousness picks up on this need and mobilises support and action.
5. They attempt to cajole the state or tap into funds with the state.
6. If they need to act alone they will and are not hampered or fettered by government in acting speedily.

There are gaps, problems and winners and loser in this sequence, but it can and does seem to work.

5.5 Knowledge and entrepreneurship

5.5.1 An innovative and entrepreneurial population

Like the social consciousness discussion above, 'doing it for yourself' and entrepreneurialism are embedded in the 'DNA' of how people view their lives and their economic future. The reasons for entrepreneurialism are well documented and relate to a range of factors (Gavron et al 1998)²⁰. In India it is perhaps poverty and the absence of strong public sector drive that are the main considerations. However, whatever the

²⁰ Gavron, R, Cowling, M, Holtman, G and Westall, A (1998), *The entrepreneurial society*, IPPR.

reasons, it is apparent that entrepreneurialism is a key facet to the economic growth in Coimbatore, Tamil Nadu and the wider India.

Growth in India is not just happenstance but is founded on many years of hard work and fuelled by an irrepressible pride and entrepreneurialism, which continues to drive the economic success of India. In many ways this entrepreneurialism, if kept alive, will on its own make India economically resilient. It will dig deep, innovate and bounce back. There is a culture of working and innovation, fuelled by a desire to make your local area proud (particularly strong here), and economic growth has made the local people proud of Coimbatore.

There's a passion for entrepreneurship here – it becomes something of a family tradition, based on respect for family and listening to parents' advice. Entrepreneurship is also encouraged in colleges and helps in keeping this 'organic' entrepreneurialism modern, relevant and focused on wider domestic and global demand. In this, students are offered guidance on innovation, commercialism and creative products. It is important to reiterate that this entrepreneurialism, innovation and drive is not a preserve of the educated or the wealthy. We found this force in both the rickshaw driver who will innovate in a myriad of ways to get into you into his rickshaw and then try get you to your destination quicker as much as in the textile industrialist who makes jeans for GAP. Indeed as was conveyed to us: "People in Coimbatore have a passion for entrepreneurship – it starts from a young age".

5.5.2 Unfettered thirst for knowledge: private provision of bespoke education and skills

One of the key areas where the commercial sector gets involved is in the provision of specialist educational and training establishments. Driven by the natural entrepreneurialism of the population, there has been an explosion of education institutions in the area.

As a result, these establishments are often quite small and sometimes relate to very specific and niche areas. There are a total of 51 arts and science colleges, and 19 engineering colleges, the majority of whom are private, this in addition to 4 universities and 5 medical colleges. As a whole therefore Coimbatore District, with this excellent academic infrastructure, produces over 20,000 engineering and 28,000 non-engineering graduates every year.

This production of a skilled labour force is fuelled by a sense of an unfettered entrepreneurialism, with a sentiment expressed many times that it is 'second best if you have to go for a job'. This occurs despite what we saw as a paucity of strategic skills plans for the future, which would detail the range of skills required, and then a strategic development plan. This burgeoning of private educational establishments should be viewed as a pure organic growth of knowledge. This thirst for knowledge and self endeavour creates significant location advantages for investors, as there was some commentary which suggested that business would come to Tamil Nadu and Coimbatore because of the training and the pool of skilled labour.

Of course it does create interesting problems in terms of supply of labour and demand driven by economic development. Firstly, the economy and the development of the economy take time to catch up to the labour pool as supply outstrips the available employment in these fields. Secondly, where some economic planning takes place, or

where growth in an existing sector needs new skills, it is seen that there is a mismatch between what the demand is and the supply of labour available. For example growth in automobile manufacturing has created a large demand for a technically-skilled workforce, which in many occasions is not available because there is a lack of supply in this area.

As a means of correcting some of the issues in supply and demand of skills, memoranda of understanding are starting to be developed between some educational institutions and industry. Some training takes place within industry, i.e. industrial placements. There is also some graduate mobility in evidence – Coimbatore is producing good quality graduates, many of whom are then picked up by firms in Bangalore, Delhi etc.

5.5.3 Tirupur: textile cluster

Tamil Nadu does have a significant textile export market and we visited one of the main textile clusters in the state – Tirupur in Coimbatore District. The success story of Tirupur can be mainly attributed to the entrepreneurial skills of the people coupled with hard work. Within two decades the export has grown from less than 100m rupees or £1.35m in 1984 to 10bn rupees or £1.5bn in 2006-07. Tirupur is now the largest exporter of cotton knitwear from the country, accounting for roughly 80 percent of India's cotton knitwear exports. The local exporting companies have grown their businesses without any financial support from government, although recently there is talk of support to counter the effect of exports of the appreciation of the rupee with the possible introduction of cheaper loans.

Tirupur has a full supply chain in textile production – products will typically go through three or four locations during production, before export. Tirupur has around 6,000 factories in total with about 350,000 people directly and 200,000 indirectly employed in the area. Of these factories, 700 undertake dyeing, while 2,500 are knitting factories. Of the knitting factories, about 1,000 are exporters. Tirupur exports to more than 100 countries and most of the major international clothing retailers including Nike, GAP, WalMart and H & M. This still represents only a small share of the global market, so there is plenty of potential to keep growing, although orders for export have come down by about 30 per cent since the onset of the global crisis.

Again there was a view here that, although the public sector doesn't provide much active assistance, industry is content for it to stay out of the way. Here though there were a couple of specific areas in which there was a feeling that local government could do more. There is a hope that with the new Tirupur District will come improvement in the roads, which are still largely in fairly poor condition with little help currently coming from the public sector.

There is also a hope that the state will provide hostels for some of the local workers, particularly for the rural women who comprise a large part of the workforce, along with a feel that the state will provide the more general protection to the industry that's required to protect employment, because that end is important for the government too.

5.6 Conclusions

In conclusion we wish to cover two areas. Firstly our views on economic resilience in Tamil Nadu and Coimbatore and secondly what this broadly tells us about the practice of local economic development in the UK.

The economy of Tamil Nadu has a number of strengths which lend it to being resilient.

Tamil Nadu and Coimbatore invest in human capital. This investment is not the preserve of the state, but is also majorly provided for by the private sector. As a result there are large numbers of highly skilled people, who demand economic opportunities, fuel modernity and progress, and attract further economic investment. This investment in human capital is a significant 'fuel' to the economy and coupled to a relatively youthful population means the productive labour force is very high.

Furthermore, it has a particular strength in that Coimbatore has a collective social consciousness and a strong social economy. This ensures that gaps in state provision which have either not been filled directly by the state or via Tamil Nadu Urban Development Fund are addressed. Commercial activity is socially aware and responsible and has an individual motivation and drive to succeed. This is something which the state benefits from, and as such accommodates.

However, there are also some weaknesses. While we have indicated how the social economy and the commercial economy to some extent fill the gap in terms of investment, some frustration with the state bureaucrats and politicians exists. While there is success and economic growth, there is perhaps a sense that it could be even better, with economic progression being matched by greater and speedier social progression. However, it is felt that the ill-equipped processes of the state serve to fetter further progress and development. Of particular note in this is the time lag in which the state can change the way it operates. While the bifurcation process allows for relatively speedy administrative flexibility, it is evident that in terms of economics and economic governance it is much less flexible. Indeed the lengthy period of reform in terms of state command and control to economic liberalisation is a case in point.

Therefore, in terms of the form of the state, following the new and emerging economic 'function', there is a mismatch. At best, this mismatch may just be a time lag and eventually local government will have a form which matches the new economic reality. At worst, the form will change too slowly or not change at all. As a result it remains anachronistic.

It is evident that the global downturn has seen India increasingly experience fluctuations of prices and costs. Indeed, in Tirupur we heard of a reduction in global sales from its textile industry. In this, given the comparatively recent modernisation of India's economy, it could well be that India may be experiencing new impacts for the economy, which have not been previously felt. This, in terms of experience, may mean that further global impacts will hurt more than in other countries, which have previous experience of recession and downturns.

So what we can learn as regards practice in the UK? While the two countries are very different, the most telling aspects for us are entrepreneurialism, skills, and the investment in the people. We place great faith in the UK on our primary, secondary and tertiary education and indeed some of our research activity is world class. However, the more prosaic, demand-led thirst and hunger for skills and knowledge residing within the people is one which while perhaps fuelled by adversity is extraordinarily impressive. While we have a much superior standard of living, it may be that while preserving and developing the quality of life, we will at the same time need to rekindle this spirit within individuals. For us this will mean looking to develop existing and new educational

systems, which create imaginative relationships between private industry, the state and communities.

Chapter 6 – Haiphong

6.1 Introduction and background

6.1.1 Strategically significant

Haiphong lies on the north east coast of Vietnam, 102km from the capital Hanoi and 200km from the Chinese border crossing, and has been an important port city for several centuries. It is the main gateway to the sea for the entire northern region of Vietnam, and is a 'significant traffic hub for the North and the entire country'²¹. Part of the 'golden triangle' of Hanoi, Haiphong, and Quang Ninh, Haiphong's importance to the economic development of the region and the nation is signified by it being one of only a handful of cities that have the same administrative designation as provinces. This means that central government takes a very close interest and direct role in its development.



6.1.2 Vital statistics²²

The administrative area of Haiphong covers 1,519 km², with a population of over 1.8 million – making it one of the major urban centres in Vietnam. The local labour force comprises around 1 million people, employed in an economy broadly structured around 3 key contributors to GDP: services (51 per cent); construction and industry (37 per cent); and agriculture, forestry and aquaculture (12 per cent). Recent rates of GDP growth have been significant – for example 12.8 per cent in 2007 – and there are high expectations and challenging targets for future growth. Foreign Direct Investment has helped support this growth – to the tune of approximately US\$3.9 billion by 2008. The port also plays a significant role, with annual cargo volumes handled more than doubling in the last four years to 27.3 million tons (in the 11 months to Nov 2008).

6.1.3 Recent growth in an interesting context

We were keen to visit Vietnam as it offered an insight into a very different model of local governance combined with recent very significant economic growth under the *Đổi mới* (renovation) reforms. Policies adopted under *Đổi mới*, such as the virtual decollectivisation of agriculture, reduced restrictions on private enterprise and permission for private enterprises to employ workers directly, elimination of the state's monopoly in foreign trade, removal of most direct price controls and subsidies, provision for foreign participation in banking, and latterly the privatisation of many state owned enterprises, were intended to move the system towards a market economy with socialist direction. Unlike in Eastern Europe, economic reforms have not been accompanied by explicit significant political or social reforms. *Đổi mới* was launched by the Communist Party of

²¹ Adjustment to the Masterplan for Haiphong City to 2020

²² Haiphong Department for Foreign Affairs

Vietnam at the Sixth National Congress in 1986. The reform period has been marked by unprecedented economic success, with economic growth averaging 7 per cent per year in real terms since 1987.²³ Vietnam formally became a member of the World Trade Organisation (WTO) in January 2007, coinciding with the US according permanent normal trade relations status to Vietnam – a major step in the country’s liberalising reform agenda.

Haiphong has played a major part in delivering this significant national growth, with a World Bank Local Economic Development Case Study finding that, in the late 1990s, “the two cities of Ho Chi Minh City and Haiphong are economic powerhouses and produce 70 per cent of the nation’s GDP; both regions are growing almost twice as rapidly as the nation as a whole.”²⁴

6.1.4 Political system in Vietnam

The politics of Vietnam takes place in the framework of a single-party socialist republic. A new state constitution was approved in April 1992, reaffirming the central role of the Communist Party of Vietnam in politics and society, and outlining government reorganisation and increased market reforms in the economy. Though Vietnam remains a one-party state, adherence to ideological orthodoxy has become less important than economic development as a national priority.

The Government is made up of numerous central ministries. On the whole, Vietnam remains strongly centralised. But many provinces, especially those who are financially self-sufficient, seem to have increasing autonomy. Conversely, there are some cities, such as Haiphong, which are more closely controlled by the centre due to their strategic economic importance.

The local authorities in Vietnam are founded at three levels: province, district (numbering around 600) and commune (over 10,000). The authorities at each of these levels are constituted by two bodies: People’s Council and People’s Committee. The former discusses and issues resolutions based on the legislation passed by the National Assembly and the Central Government’s decrees while the latter implements the former’s resolutions.

Civic organisations in Vietnam are limited in number and scope. The mass organisations such as the Fatherland Front, Youth Union and Farmers’ Union can play a representational and outreach role but are not independent of the Party. There are some homegrown NGOs which either fall under an academic umbrella or focus on service provision. They do not carry out advocacy activities. Many Vietnamese NGOs are led by former government officials, who have good contacts but are essentially part of the system. There are some local NGOs, often supported by international NGOs, who are beginning to test the boundaries – but this is likely to be a very gradual and incremental process.

²³ Vietnam Ministry of Foreign Affairs

²⁴ *City Development Options for Haiphong: Charting a Path to the Year 2020*, World Bank 1998

6.1.5 Haiphong's economy

Haiphong's economic strengths are strongly influenced by its location: it is a transport hub (port, road and rail transport access inland, airport). Economic development is closely linked to port development - ship building and related industries are strong, and the economy is export orientated - with services, construction and industry accounting for around 88 per cent of GDP; agriculture, forestry and aquaculture around 12 per cent. It has been growing fast: cargo volumes handled by the port have more than doubled in the last four years and increased by over 30 per cent in 2007.

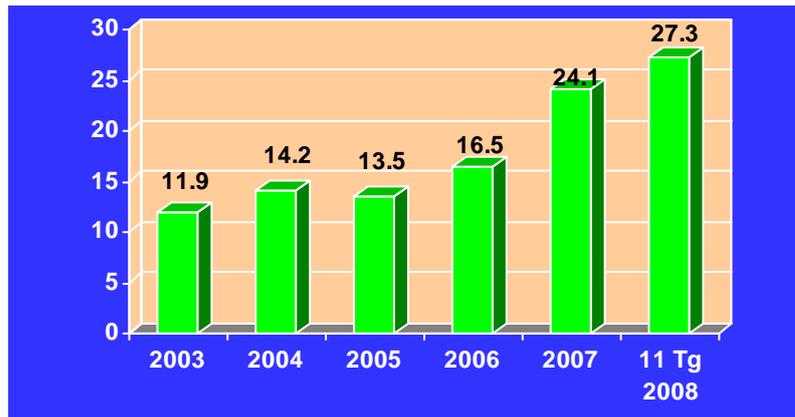


Figure 6 – Cargo Volumes through Haiphong Sea Port (mil. Ton) 2003-2007²⁵

But resilience is not assured: according to the port authority at the time of visiting there was a noticeable reduction in traffic through the port due to the current economic conditions. Quarter 2 of 2008 saw traffic 60 per cent up on the same period in 2007. Quarter 3 of 2008 saw a reduction - still up on the year, but down 30 per cent on the previous quarter.

Other challenges include:

- The scale of infrastructure development still required (roads and power), with the pace lagging behind economic growth and expansion
- Human Resources - both number of people and quality
- Environmental concerns (e.g. shipbuilding and port development v aquaculture)
- creating jobs for rural farmers etc displaced by industrial parks and housing for workers on these parks.

6.1.6 Lost in translation

Officials from the People's Committee of Haiphong were extremely helpful and generous with their time. Even so, we found it challenging as a group to truly understand the intricacies of the power dynamic, and to ascertain what level of autonomy or influence the local level has vis à vis the national apparatus in relation to the economic development of the city region. This may be partly ascribable to Haiphong's status as a centrally controlled municipality within a very different political system to the one familiar

²⁵ Source: Haiphong Port Authority. For more details see <http://www.haiphongport.com.vn/GeneralInfo/StatisticImg.aspx>

to the authors, but also to the complex and evolving nature of central-local relations in contemporary Vietnam.²⁶

In this chapter we examine the key themes we identified from our discussions in Haiphong:

- Clarity of vision and the challenge of delivery
- Equity vs tough choices
- Coordination, cooperation and competition
- Responsiveness of local government on economic development issues – public sector reform programme
- Entrepreneurialism and the business climate

6.2 Clarity of vision and the challenge of delivery

Đổi mới offers a clear national government vision for economic development through liberalisation, with state owned enterprises being partially or wholly privatised and government expressing strong support for the private sector in recent years. The reforms are almost universally recognised as a strong driver behind recent impressive growth and poverty reduction, with the World Bank stating that 30 million people have been lifted out of poverty in just over ten years²⁷.

Locally, Haiphong city officials and stakeholders were also clear on the key components of the general growth vision. Haiphong wants to build on its strengths, but also explore new areas – seeking to develop in shipbuilding, construction materials and steel production but also chemical products and high-tech industrial, to considerably diversify the city's sectoral focus. This should help protect the city from external risks, but will also bring it more into competition with other Vietnamese cities. City departments have some concerns over the environmental impact of economic development – hence the inclusion of high tech as a greener strand on their economic wish list (as well as the help it would have on reducing the vulnerability of the economy). The previous focus had been very much on heavy industry – there's now an acknowledgement that this had perhaps been too narrow.

6.2.1 Haiphong Masterplan

There's a Masterplan in place which guides development and growth; this is a public document and is set as a long-term vision with supporting programmes. The Masterplan has a long term Vision and runs to 2020. It's fairly directive and has legal status once approved – development must stay within it – but it can be responsive to change through the regular reviews. The national planning cycle enables 5-yearly reviews, and in certain circumstances more frequent e.g. mid cycle review points. There is the scope to request alterations during the planning cycle.

²⁶ *Decentralisation In Vietnam – Working Effectively At Provincial And Local Government Level – A Comparative Analysis Of Long An And Quang Ngai Provinces*, Adam Fforde and Associates Pty Ltd for the Australian Agency of International Development, November 2003

²⁷ World Bank website: Vietnam country overview slideshow

| Period | 2006 - 2010 | 2011 - 2020 |
|--------------------------------------|--|--------------------|
| Average GDP Growth rate | 13.2% | 13.7% |
| Average GDP/ person | US\$ 1,900 | US\$ 5,000 |
| Export turnover | US\$ 1.9 - 2 billion | US\$ 6 billion |
| Seaport cargo volume | 25-30m tons | 80-100m tons |
| Total investment capital requirement | VND 500 thousand billion (equivalent to US\$ 33 billion), average increase 14% per year. | |

Table 1 – Haiphong Masterplan - overview²⁸



Figure 7 – Haiphong Spatial Masterplan²⁹

The city's economic development strategy, over 10 or 20 years, is based on analysis of potential, of trends and of comparative advantages. The long term Vision is to turn Haiphong into a modern port city (with good economic growth and living standards) – comparable with cities in China, Thailand and the Philippines – with an economic profile of 97 per cent services/industry and 3 per cent agriculture, compared with the 88-12 split today. Thus concern to balance many of the factors we identify as key for resilience is evident – with the exception of the social sector given the very different conception of non-governmental or non-party activity in the Vietnamese social sphere.

It identifies key investment priorities – including the international gateway deep sea port, upgrading the airport and railway, investment in the urban area, resort development, and investing in education and healthcare facilities.

²⁸ Source: Haiphong People's Committee Department of Foreign Affairs

²⁹ Source: Haiphong People's Committee Department of Foreign Affairs

The city administration was active in the process of deciding the strategy – it hired consulting agencies, and with them consulted with the business community and national government departments. It includes both measures to be taken and targets to be met – the plan includes growth targets by sector or product and programmes on Seaport Development, Urban Development, Infrastructure, and Livelihood. The city government approves the plan and programmes, however both the Vision and the Masterplan must be submitted to central government Ministries and to the Prime Minister for final approval. Many government programmes are then aimed at implementing the Masterplan.

The Masterplan has an impact beyond the city – it affects much of the northern region. There is also a regional economic development Masterplan with which the city one must be consistent (i.e. region first, then city). The region covers eight provinces. Officials claimed there's little competition between these provinces – we explore issues of competition and cooperation later in this chapter.

6.2.2 Delivering the Masterplan: policies and programmes

For the **Infrastructure Development Programme**, a large part of the money comes from central government. Local government also provides some, which is supplemented in some cases by external investment from Overseas Development Aid (**ODA**) or Non-Governmental Organisation (**NGO**) programmes. There are key projects (such as the deep seaport and Highway No 5) which are important for a much larger region than the city.

The **Urban Development Programme** is aimed at looking at where the urban area can expand. It includes initiatives such as Eco-city plans. The Haiphong city region has grown rapidly over the last century – from a population of about 100,000 in 1888 to 1.9m now, and is viewed as a key growth node going forwards.

Industrial Zones and Economic Zones are tools to assist economic development: both eligible for tax incentives, and sometimes subsidised land prices. A local example is Dinh Vu (explored in a later section) and a national example is the controversial Dung Quat oil refinery (see below). IZ status also allows agreement on provision of infrastructure, with the public and private sectors sharing the cost. Zones are designated by national government, with a licence granted after an application is made by the investors. The policy is now also being used more proactively, with a potential development site given the designation to try to attract investment.

In addition to promoting IZs and EZs, the Haiphong Department for Planning and Investment also undertakes **investment promotion** around the various priorities and projects contained in the MasterPlan.

There are some small incentives that can be offered to attract investors, but the People's Committee does not have huge room for manoeuvre. Direct financial assistance or incentives are limited, but measures such as prepared land, labour force training and infrastructure provision can be offered. The People's Committee is looking to ease investment opportunities in the city – e.g. through land clearance and assembly plans – but this can create displacement or affect local farmers. Nonetheless the general view is that growth is positive for the whole population.

They are also seeking to improve the service to the business and investor community and make it easier for them to do business in the city through public administration reform (see later section).

Procurement can also be used to support delivery of the vision: we heard of one major contract related to the port where a key consideration was that all construction would happen in Vietnam, thus creating the supply chain benefits in Haiphong.

6.2.3 Delivering the Masterplan: challenges

So we can see that there is a clear overarching national vision and drive for economic development, and this is well understood and articulated at the local level. Ambitious plans are in place, with a top-down cascade in the planning system emerging (national-regional-local). There are a variety of tools and techniques to help the delivery of policy. All of the feedback we heard identified that Vietnam and Haiphong were moving in the right direction and putting in place key building blocks. But there was also a recurring theme of the challenges in translating these plans into delivery on the ground.

At the national level, Vietnam's financial management is still considered to need some refinement ("either full steam ahead or full reverse"). Inefficiencies in the supply chain mean that domestic demands cannot always be met – which was a key driver behind the inflation experienced earlier in 2008.

The target setting regime similarly needs further development. Locally and nationally, it will be important to develop flexibility in the application of targetry – as we picked up a sense that some targets risked becoming immovable and totemic, which may prove unrealistic in the current global economic climate. Thus for example we heard that the Haiphong People's Committee was meeting in the week of our visit to discuss whether to revise the ambitious 10+ per cent growth targets for the local economy; opinion was divided amongst those we spoke to on whether a downwards revision would be politically palatable.

Locally, the People's Committee is limited in terms of what financial incentives it can offer, and there's also the factor of local investment creating a wider regional 'gain' but with no mechanism to share the financial 'pain'. The passage of cargo creates revenues but again they can't retain all of this locally.

The global economic crisis is also likely to compound delivery challenges in the provision of infrastructure. Infrastructure is a key enabler, and this has therefore been prioritised for investment. But there was widespread recognition that key projects would not go ahead or would have to be scaled back as money became tighter.

The state has explored joint ventures as another way of leveraging in investment – in Haiphong Vinashin, the state owned shipbuilder, has contributed land at subsidised rates to support joint ventures. We heard calls for this involvement to be enhanced, whereby state partners would take a more active role in driving the ventures forward beyond land assembly and provision.

We had feedback that regulatory and other reforms were still new: people are still learning and don't yet know how to implement them properly (e.g. new planning and taxation regimes). Also, Vietnam is fairly risk-averse (with potentially serious professional and personal consequences for officials if something goes wrong) and remains bureaucratic. Inter-departmental cooperation was cited several times as an ongoing

challenge – e.g. land-use planning approval in theory should take about 3 or 4 months but in reality can take 3 to 4 years. However, this is an issue recognised by government (see section on Public Administration Reform below), and any frustration on the part of recipients of ‘un joined up’ government was tempered by a genuine belief that change was possible and progress was being made – as one individual put it “there’s plenty of work to be done on improving efficiency in government, but everyone’s still learning. The younger generation in particular is more open.”

A further challenge is the extent to which marketisation remains a predominantly urban phenomenon. Much of Vietnam remains a largely rural agrarian society and although some building blocks for development are being put in place through, for example, telecoms coverage the level of development in Haiphong – a major urban centre – is atypical. Nonetheless some rural issues still permeate the Haiphong economy; one of their major challenges is creating jobs for rural farmers and communities displaced by industrial parks alongside housing for workers on these parks.

6.3 Equity vs tough choices

A particular challenge for delivery against the vision lies with identifying priority projects and locations in the competition for scarce resources, and – in common with everywhere we visited – balancing economic, environmental and social objectives.

6.3.1 Strategic locations

We heard calls for investment decisions to become even more hard-headed. In a tale of two IZs, some felt that policy was in some cases being applied where there was little or no economic potential or natural advantage to be exploited. For example in the case of Dung Quat, the site of Vietnam’s recently operational first oil refinery, some commentators felt political considerations had trumped economic efficiency in the investment decision – it is located in the poor central region, away from Vietnam’s industrial hubs and offshore oil fields³⁰. This was contrasted with Dinh Vu, the industrial park surrounding the proposed new deepwater port at Haiphong, where the private sector had spotted the potential and lobbied for the IZ designation. If the IZ designation is to be used more proactively by government as is the current trend, then fewer and larger, more strategic, IZ and EZ designations would help improve focus and coordination and reduce the risk of over capacity.



The new port itself seemed also to be the subject of decisions that risked incoherence. As we saw earlier, cargo volume at the city’s ports is growing fast, and Haiphong is in a key location both for northern Vietnam and southern China, due to its proximity to international waters. The authorities are planning expansion and modernisation of the existing port, and also a new deep seaport at Lach Huyen. However there’s an

³⁰ See for example – *Vietnam Opens Refinery, Overcoming Foreign Criticism*, Jason Folkmanis and Nguyen Dieu Tu Uyen, Bloomberg.com 22 Feb 2009

alternative location proposed, at another existing port called Quang Ninh situated further north within the World Heritage site of Ha Long Bay. This was the government's original selection, so there is competition between the two.

Local government and agencies in Haiphong feel that Haiphong is better placed, with better inland transport links, a better, highly-skilled workforce and more urban development than Quang Ninh. It's also closer to international waters than Quang Ninh, and doesn't share the difficulties associated with being located in Ha Long Bay.

6.3.2 Difficult local choices

Similarly to India, rapidly growing areas in Vietnam such as Haiphong are facing all their development challenges at once. The tensions around local trade-offs are well illustrated by transport as a policy area. Transport is recognised as playing a critical role in economic development, and the contribution of transport was key in enabling the initial burst of growth after Vietnam opened its borders in 1986. There's a balance to be struck between meeting immediate demands and planning for future growth, and there's also the spectre of close competitors: for example southern China which has much more advanced infrastructure.

Again the Masterplan is key here: it prioritises investment to make it consistent with growth requirements of the economy. Examples in recent years include the seaport and new network of roads (including Hanoi-Haiphong Highway No 5) to facilitate trade and transport of goods.

Therefore, investment for growth in Haiphong has been guided by national government (given its hands-on role in Haiphong) in conjunction with local government, and it's this combination that decides on investment priorities. For large scale important projects for the region, the final decision is made by national government – due to the level of funding required. For smaller projects (up to US\$1m) the local government level will make the decision e.g. urban and inter-district roads.

Local officials have a clear sense of their transport priorities but funds are insufficient. As the local transport budget needs to be balanced against other priorities (for example education and health) they place importance on attracting additional private or overseas investment for Build, Transfer and Operate projects – but programmes so far have had limited success due to the length of time taken to see a return on the investment. Highway No 5 (with total investment of around US\$1bn) was an exception. It is a Build, Operate and Transfer project with a quicker return, therefore private investors were more interested. Other options for raising finance include bond issues, and bids to e.g. the World Bank for rural roads and public transport where there is not a commercially viable model.

6.3.3 Growth vs. Environmental protection

Growth has been instrumental in poverty reduction in Vietnam, and the imperative for further growth is reinforced by the need to absorb an increasing workforce due to the relatively young population. But this growth has not been without environmental impact. In Haiphong, we saw at first hand how coastal wetlands were being transformed into the Dinh Vu industrial zone, with its zoning to encourage a mix of heavy industries, chemical and petro-chemical industries, light industries, agriculture-related industries, services and warehouses.

There's international pressure to increase the salience of environmental factors in policy making and decisions, and a growing local awareness of the role that the natural environment can play as an economic asset especially with reference to tourism. Only the month before our visit, the government rejected a proposal by South Korean steel maker Posco to build a US\$5 billion steel mill due to fears it would hurt the environment in Vietnam's most popular resort area.

In relation to transport, there are no current plans to restrict car and motorbike use in the city – this transport independence is helping bring people out of poverty, and ownership of material goods is considered an incentive and fair reward for hard work. Officials are aware though that, environmentally, continued growth in private means of transport is unsustainable, hence a plan to expand the bus routes (see section 6.5.6). There's also a public equity policy objective.

6.4 Coordination, cooperation and competition

6.4.1 Regional

In the late 90s, a World Bank report identified that “[t]he economic development of Haiphong must be seen as an opportunity for the economic development of the northern region. At the moment, no institutions exist to manage this interprovincial strategy, so questions of the mechanisms of implementation loom large in any future plan of action.”³¹

A decade on, some tentative steps were being taken to improve regional coordination, but these still seemed fledgling and the dominant model is bilateral relationships between the province (or ‘city designated as province’, such as Haiphong) and the centre.

The National Assembly has passed resolutions on development at the regional level, given its strategic importance, and there has also been the creation of an economic development plan for links with China, called ‘two corridors, one belt’. This recognises Haiphong's importance for links with southern China in particular.

Haiphong is also part of the northern Vietnam ‘golden triangle’ – Hanoi, Haiphong, and Quang Ninh. There's an annual meeting between the Triangle cities and also an annual workshop between the eight northern provinces to coordinate development plans and linkages. These forums involve some sharing of information and discussion of things like international promotion and tourism, but impact is fairly limited. There are issues which need addressing though, for example around the interconnectedness of facilities and infrastructure in the region. Decision-making on issues such as local specialisation within the planning process works with an element of bottom-up as well as top-down, i.e. the national government consults with the local government, but again the relationship is vertical: centre to local, rather than horizontally between localities or provinces.

Interestingly there was some call for more regional coordination and collaboration, with some locally keen to see a regional tier of government, even though this would take some autonomy away from the city.

³¹ *City Development Options for Haiphong: Charting a Path to the Year 2020*, World Bank 1998

6.4.2 Local-national dynamic

The extent of true local autonomy was difficult to determine given the complexities of governance in Vietnam, and the particular situation of Haiphong as a centrally directed city/province of strategic economic importance.

In practical terms though, we heard that relationships between the Haiphong People's Committee and the central Hanoi administration were close (and hence from a stakeholder perspective there was no advantage in trying to play one off against the other!)

It also seemed that the tiers of government were quite permeable, as many up-and-coming national party officials get moved out to senior provincial posts as part of their progression, and the provinces are a powerbase within the party. But the technical competence is still eventually centralised. Capacity at the local government level is also at risk as the roles are now comparatively low paid – graduates are looking elsewhere. Low pay could in theory encourage corruption, which is recognised as an issue that would impair efficient local delivery.

Despite the close relationship between Haiphong and Hanoi, and the circulation of officials, most felt that Hanoi was usually the main priority; for example Haiphong's receipts from its port operation are limited by Hanoi having set up an inland customs point. The Haiphong administration was painted as more passive, reserved, safe – sticking within the rules and not so innovative as Hanoi. However compared to other provincial and local authorities, Haiphong was ahead and progressive, so any judgement was very driven by the frame of reference.

6.4.3 Local governance

The governance picture for economic development is further complicated by the existence of the Maritime Authority of Haiphong. This administration acts as a representative of national government (because Maritime Administration remains centralised by law). They have to consult and work with the local Haiphong departments, but the authority and jurisdiction is clear in maritime law – it rests with the Maritime Administration. The Prime Minister has issued guidance on how Port Authorities can and should work with local People's Committees; if there are disagreements with individual local government departments then they can approach the central People's Committee to intervene. However we heard disagreements are not likely as Haiphong local government fully recognises the importance of the port to economic development.

6.5 Responsiveness of local government on economic development issues – public sector reform programme

The redefinition of central-local government authority relations has been an element of the public administration reform program (PAR), itself endorsed by the Eighth Plenum of the Central Committee (VII Congress) in 1995. The PAR program has focused on the restructuring of the organization of the government bureaucracy, the simplification of

*administrative procedures, the rebuilding of the civil service system, and the restructuring of the public finance system.*³²

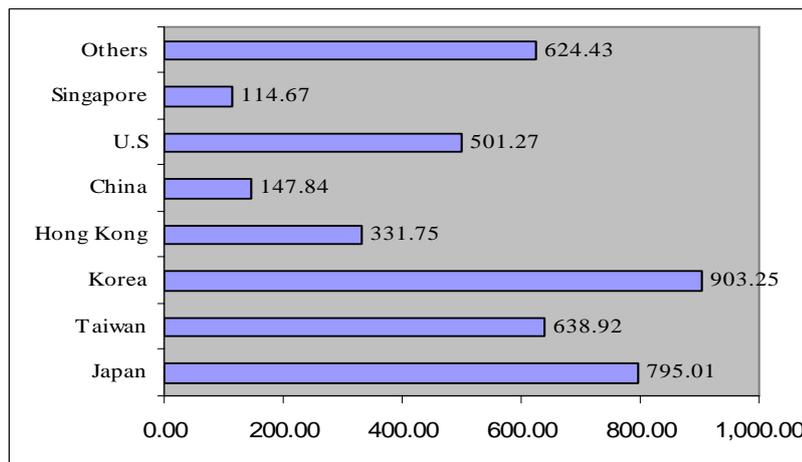
6.5.1 One stop shop

A key local manifestation of the impact of the public administration reform programme is an emerging customer focus in service departments critical to economic development. The administration has created a 'one stop shop' approach for business registration applications. Paperwork takes up to 4 weeks once an application is made; 7-15 days to process but longer if they need to consult central government. The process has been rationalised and simplified: business registration used to require dealing separately with three departments, but has now been rearranged to make it a single point of contact. Hence only one set of documents is required from businesses. They are also pulling in the lower level of administration e.g. District People's Committees where needed.

There are now about 3,000 new business registrations each year in the city – and feedback from the business community is that generally the registration process in local government has been very effectively liberalised. Officials responsible for registration, stamp duties, import/export taxes etc have been co-located and there's a feeling that they are not reluctant to support businesses, as had previously seemed the case. It's also now possible to register businesses from your home address, which encourages micro-entrepreneurship. But inter-departmental coordination still needs improving – e.g. to coordinate environmental and planning permissions for larger developments.

6.5.2 External orientation

The Haiphong Department of Planning and Investment is the first port of call for inward investors – they guide them and help them look for the best location. The most important aspect for inward investors is comprehensive infrastructure, hence why this is prioritised locally. The External Economics Division (with 7 staff) deals with ODA, FDI and NGO projects; international NGOs are mainly from Europe and the US, but with FDI the sources are closer to home.



*Figure 8 – Haiphong FDI 2008, Haiphong has attracted 285 FDI projects from 28 states and territories with total investment capital of approx. USD 3.9 billion*³³

³² *Decentralisation In Vietnam etc* Adam Fforde and Associates Pty Ltd for the Australian Agency of International Development, November 2003

³³ Source: Haiphong Department for Foreign Affairs

The DPI also arranges one or two trade delegations abroad each year, and support key staff to study or gain work experience overseas to build their capacity and capability.

6.5.3 Public-private sector relationships

Occasionally there can be stalemates between commercial interests and local authorities, e.g. over land-use, or if there's a conflict of interest. We heard from Haiphong businesses who invest significant time and energy into developing good relationships with local authorities (the People's Committee and the Port Authority) as this helped mutual understanding and hence the achievement of business objectives. Courtesy visits are important, as are opportunities to get local dignitaries involved with business Corporate Social Responsibility (CSR) activities (for example presenting training awards or involvement with charitable events). The CSR activities can also help establish and reinforce a business' brand. The dialogue with the People's Committee is also worth investing in for businesses as customer complaints might get taken to the city government, so they want the administration to know that they are a serious undertaking. There's a trend for some businesses to recruit managers who have experience working for the People's Committee to help build that relationship.

As one interviewee summarised: "local customs and practices count". Trust is the cornerstone of business relationships. And trust is not automatic: as well as developing trust through investment of time and effort in building the relationship it can also be built through the private sector delivering against agreed targets in government contracts.

The People's Committee are increasingly keen to reciprocate, to ensure that companies who are seen as good contributors to the city's economy feel nurtured and supported. There are joint working groups being established with business representatives to receive and address problems from the business community, for example tax issues, customs. These will involve national representation as necessary, depending on the issue in question.

6.5.4 Listening to business

Some mentioned that there can be an issue of 'face' – government can be unwilling to rescind unhelpful decisions as they will lose face. But there is evidence of a more open approach emerging. A recent example involved the Departments of Transport and Public Security amending a regulation which would have prevented lorries from travelling on Highway No 5, following representations from local businesses on the commercial impact of the decision. This was important nationally as well as locally given Haiphong's importance as a major centre for transport of goods and services.

Another example involved large steel and shipbuilding operations in Haiphong facing great difficulty with the introduction of an export tax. Government was about to levy a 10 per cent additional tax, but responded following collective representation from the Vietnam Steel Association, local manufacturers, the Chamber of Commerce and Enterprise Associations. They illustrated the adverse impact on the sector, built bridges with the national ministries and banks, and argued successfully for the tax to be lifted.

6.5.5 Leadership matters

There was positive feedback for the Haiphong administration as compared with other more provincial localities: the size of a city seems to make a difference in terms of its external orientation. Some have a leadership who are less open to liberalisation and external (i.e. not state owned) companies. Perceptions of need for reform vary, and local leadership styles can impact. Although Haiphong was not in the same league as Hanoi in terms of administrative innovation, it was generally considered to be receptive to proactive overtures and initiatives from businesses. And it was acknowledged that Hanoi, as the seat of government and location for NGO HQs and foreign delegations, was a unique case.

There is appetite for ever greater engagement with the senior leadership of the Haiphong People's Committee from the business sector, who are keen to build on the dialogue and fora already in place.

So the relationship works on two levels: functional (meetings to ensure correct licences, and increasingly to feed back/solve problems etc) and symbolic (courtesy visits, sponsoring events).

6.5.6 Liberalisation of state owned enterprises

Some monopolies still exist, e.g. in energy, and certain state owned enterprises figure large in Haiphong's economic mix – such as Vinashin the shipbuilder. But the picture now is very different from the recent past which would have seen local departments of the People's Committee running many state-owned enterprises directly.

Looking at transport as a case study, there are only a couple of public transport companies left in the city – the Road and Bridge Management Company, and the Ferry Company. The others have been privatised. The transport department still manages licences for the bus company (although not the train operator). There are echoes of the difficulties faced by UK local government in relation to provision of public transport: the city administration want to provide many more bus routes (as currently only about 10 per cent of transport demand is catered for by the buses). And even the planned extension to 37 routes will still be insufficient to meet demand. However as public transport makes losses rather than profits, the expansion plan relies on a change of policy from government – to permit privately-run bus services, but operating with a public subsidy.

6.5.7 Cultural barriers to influencing public services

Issues of 'face' can also influence feedback mechanisms. For example the local government training budget is held by the Department for Home Affairs, which funds training for public officials, and the Department of Labour funds vocational training schools. Business organisations identify skills shortages in Haiphong, for example senior finance skills, accounting, leadership, and legal knowhow. The feedback we heard was that the technical schools have a very rigid curriculum, the quality is not great, and they don't really address the needs of business. However it can be hard for businesses to influence the curriculum because culturally it's still difficult for them to speak honestly in a formal forum. Intermediary organisations such as the Vietnam Chamber of Commerce and Industry (VCCI – see section 6.6.1) try to address this by visiting businesses more informally and then representing their needs to the Department of Labour in discussions about the curriculum. Local government still only has limited resources, but long term there is hope that there should be scope to improve this training provision. There's also

the development of a mixed economy in terms of provision, with business organisations such as the VCCI and the Young Entrepreneurs Association running and/or procuring their own training.

6.6 Entrepreneurialism and the business climate

We were struck by the ubiquitous signs of entrepreneurialism in Haiphong, from the numerous street vendors and trend to have the ground floor of the narrow, tall dwellings as a commercial space, to impressive local young entrepreneurs creating jobs and engaging with government to help shape policy.

6.6.1 The Vietnam Chamber of Commerce and Industry

The VCCI is a key part of the governance of economic development locally and nationally, and has been driven by commerce and the public sector in tandem. The national VCCI was established in 1963. The main drive behind it came from Ho Chi Minh's central government. There are currently eight local branches of the VCCI, of which Haiphong is one. It also services the surrounding provinces. In the early days (of both the national and the Haiphong bodies) there was little resource and few members. For Haiphong, in the years immediately following establishment in 1992, they ran a small number of training courses and had only modest plans for expansion. The organisation and operation have expanded to respond to business needs and also due to the vision of the central VCCI.

The establishment of the VCCI in Haiphong was at the instigation of local businesses, but strongly endorsed by local government. It was also driven by government policy (private companies were being established, corporate law was introduced, the state was part-privatising. The role of the People's Committee was moving from managing State Owned Enterprises to interfacing with a more autonomous commercial sector.

The last ten years have also seen expansion and extension due to the vision of the VCCI. Since 2000 they've gained on average over 100 additional members each year. They now offer hundreds of training courses each year. Initially courses were just in financial management and HR, but they now go much wider. Training courses with the highest demand are Financial management and Accounting (especially for managers and directors), HR, and Taxation. There's also a fair amount of demand in International economic integration, and Trading services.

Additional functions of the VCCI include trade and investment promotion, linking the business community to local government, and representing employers for example on industrial relations problems – which can be a significant issue in Vietnam. The VCCI works closely with local authorities to try and prevent strikes. In the event of strikes taking place, they'll take on a mediation/reconciliation role.

6.6.2 Importance of SMEs

Small and Medium sized Enterprises (SMEs) – those with fewer than 200 employees – are increasingly important to the Haiphong economy, and have driven growth in Vietnam. There's a perception that local government recognises entrepreneurship as a key foundation of the economy. SMEs make up 90 per cent of businesses in Haiphong, and contribute 30 per cent of GDP. They represent 80 per cent of the VCCI's 1600-strong

membership. So although the VCCI statute specifies that it should represent the full range of business size, from household businesses to multi-nationals, in practice they have a strong emphasis on SMEs and micro-enterprises, who don't have the resource or expertise themselves so have a greater need for the VCCI's services. Supporting SMEs can be of great benefit to the local economy as they become established businesses.



State owned enterprises (SOEs) comprise most of the rest of contributions to GDP – they have more capital, but are less dynamic. There's sometimes a perception that SOEs get the lion's share of government support, which doesn't give them any incentive to become more efficient. As is true the world over, there can be an element of politics in public or part-public enterprises – a kind of anti-meritocracy in senior posts. There's a big element of party involvement in all parts of the economy.

6.6.3 Local government support for businesses and intermediary organisations

Earlier in this chapter we detailed how local government can incentivise investment to a limited extent, and how it is reshaping its services through the one-stop-shop to remove administrative barriers to growth. There are also grants available from local and national government for private enterprise, but they're channelled through individual departments (Planning and Investment; Science and Technology; Labour) – thus generally funding for programmes which benefit the private sector rather than necessarily specific payment of grants to individual companies.

In terms of intermediary organisations, the VCCI is largely self-financed and financially-independent, with their income coming from membership fees. They work with a limited resource, so it's difficult to meet all needs. National and local government provides them a small amount of funding (around 3-5 per cent of their funding). They used to get funding from international sources, but that's now reduced, and hence they would welcome further support from local government. They too are part of the trend of recruiting staff with direct experience of working in the local administration to help improve their knowledge and capacity to engage.

There are also other business intermediary organisations, such as the Young Entrepreneurs Association (YEA). This organisation is the local branch of the Vietnam Young Entrepreneurs Association and sits under the Youth Union of Vietnam mass organisation. Although they are technically part of the party structure (as is VCCI) they do not receive any government subsidy, although they do receive (and appreciate) strong support from local Government for their conferences and activities. The YEA also engage with local government to lobby for policy changes.

The YEA represents young entrepreneurs (members are usually under 45), whose businesses also tend to be fairly young. They have around 300 members, mostly SMEs, of which about 220 take an active role. Members overall are a mix of state-owned, privatised and family-run. Most members are also members of VCCI. They are

financially self-sufficient, taking a small membership fee from members, and receive some donations. They've also formed a joint-stock company with representatives from four sectoral groups they represent (industrial production, commerce, construction and services). This enables them to employ 5 support staff. The association gives some charitable donations, and some members are engaged with CSR activities – for example supporting local needy communities and offering employment opportunities for disabled people. We heard the view expressed that this social role was absolutely part of the role of enterprise in society. An interesting phenomenon was the local application of a South Korean model of a social enterprise, employing disabled people alongside able bodied colleagues to manufacture industrial gloves. A transnational social enterprise franchise in action!

There are pros and cons to being a more established part of the economic development governance (VCCI) as opposed to a slightly more arms length approach (YEA). VCCI may find it easier to get full access to Government departments, whereas YEA seems to have a greater independence – but will have to work harder to get access or members. But both are positive about the relationship with local government, while acknowledging that there are always further improvements that can be made.

6.6.4 A tripartite approach to industrial relations

We heard that often businesses in Vietnam suffer from a low quality of Human Resource management, and this can manifest in industrial relations problems. VCCI Haiphong has requested additional government funding to address this shortfall in HR expertise.

Haiphong, with its strength in textile and footwear industries, has a vulnerability as these industries are labour-intensive and generally the workers tend to be unskilled with low educational attainment. This can lead to misunderstandings and conflicts between employers and workers (often because the latter don't have a full understanding of their rights and obligations).

Government has acted to address some of the policy issues: there used to be separate laws relating to foreign and domestic investment which didn't help clarity. The wages could differ depending on the source of investment (with foreign generally paying more than domestic), and there's also a wage differential between urban and rural businesses. There are still separate laws depending on public/private ownership – the State-Owned Enterprise Law and Non-state Enterprise Law – and therefore businesses in each category are treated differently and have differing status.

Industrial Relations disputes have already caused significant problems in Vietnam, and some felt it had already impeded growth of businesses in Haiphong. Vietnam's Industrial Relations Law is still very new – 2005. It's not entirely consistent with Corporate Law, although it is consistent with international standards and regulations. The Industrial Relations Law names three interested parties – Department of Labour, VCCI (representing employers) and the Confederation of Labour (representing employees).

6.6.5 Business sentiment

At the time of visiting there was a recognition that the global economic turbulence would create risks and uncertainty for Vietnam and Haiphong. Nonetheless the overall impression was one of optimism and of a desire to continue down the path that *Đổi mới* has been charting.

There was a sense that government (and local government in those areas where it has locus), were making the policy changes that needed to happen, and that people had witnessed positive outcomes as a result. For example Vietnam had been hit by high inflation in recent years, and the government introduced a suite of eight measures to address this and support the business community (e.g. interest rate adjustments, import/export duty). Inflation now seems to be under control.

Business representatives also identified the opportunities in the global economic crisis and were not simply seeking a state-led solution, highlighting that enterprises also need to work to save themselves as well as just relying on financial support from government. In other words, businesses need to respond by adjusting strategy or changing lines of business (they recognise that this may also be a potential opportunity to innovate). Small businesses can be more responsive in this way than large ones – we heard of one example of a business involved in importing cars, which changed direction entirely when the customs environment changed and now invests in golf courses! However many of Haiphong's small businesses are still young and fragile, vulnerable to competition and not yet strong brands.

6.7 Conclusions for economic development

Given its size and strategic assets, the economic development of Haiphong will continue to play a major part in determining Vietnam's economic story – a story that during recent years has been so startlingly successful in many ways.

And although there are some that cast doubt on the extent to which the changes have happened from correct and implemented policy as opposed to social change within a benign economic context³⁴, a recurring theme from our interviews was that the national and local authorities were on the right track – with plenty more to be done, but heading in the right direction.

Securing the right decisions for Haiphong – especially in relation to the deep sea port – will provide the underpinning for the next chapter in the city's economic development. Continuing to take tough decisions and robust prioritisation will be critical; identifying and supporting competitive advantage and being strategic with the deployment of policy tools such as IZs, thereby avoiding the risk of over-capacity.

A strongly centralised system enables a clear vision to be articulated and cascaded with relative ease, but needs to guard against targets and plans being too rigid. Horizontal relationships can be overshadowed by strong vertical centre-locality relations, which doesn't help when trying to find the 'right' economic geography for coordinating plans, sharing good practice and, eventually perhaps, taking decisions.

Balancing strong central direction with the room for localities such as Haiphong to innovate could help in crafting an economic development approach which maximises the competitive advantage of different places.

³⁴ See for example Fforde, *Instability, the causes of development success and the need for strategic rethinking*, 2005

Reinforcing proficiency at policy implementation is also key – the well-received one-stop-shop for business registration provides a useful model and guiding ‘customer focus’ values. Capacity and capability at the local level will be important determinants of successful policy implementation and delivery – and the relative reduction in the attractiveness of careers in local government that may come from the emerging wage differentials is therefore of concern.

Haiphong’s skills base is also a key ingredient: many young people leave to study, but hitherto they have mostly come back. Ensuring that the economic opportunities remain for them in Haiphong will be key to developing the higher added value industries which are starting to figure in the city’s economic development plans. And ensuring that local skills provision is responsive to business requirements requires further work.

Local leadership matters – this can shape the extent of external orientation of the local administration, and businesses notice the difference (and value relationships where these are established). Recognising and nurturing enterprise creates the climate for growth, while acknowledging the trade-offs and balancing factors in pursuing any growth path – such as environmental and social impacts. Supporting and engaging with strong intermediaries helps better policy development and communication.

The optimism, flexibility and social vein evident in the enterprise culture are strengths, and the willingness to recognise that the economy and political landscape are still in transition leads to a certain pragmatism. But local government should not use this as an excuse for slowing down further reforms.

Chapter 7 – Yokkaichi

7.1 Introduction and background

7.1.1 A strategic location

Japan was the finishing point for the Norfolk Fellowship study tour. The focal point of our study was Yokkaichi, in Mie Prefecture – a port city that has successfully transformed and reconstructed its economy. The city had recognised the need to move away from traditional port activity and heavy industry, and has acquired high technology and a knowledge economy focus. After three days in Yokkaichi, we ended with a day in Kyoto studying how the city drives economic growth while respecting the strong cultural and historical elements in the city.

Mie prefecture is centrally located on the south coast of Japan and covers an area approximately 170 km by 80 km. It is variously considered to belong to either the Chubu Region, based around Nagoya, or the Kinki Region, based around Osaka.

Yokkaichi, with a population of just over 300,000, is a city that has historically focused on its port area. The port was established as early as the 16th Century and developed considerably during the late 19th century. The main traditional trade items for Yokkaichi were seed oil, the local Banko pottery, and tea, but now it has developed into a modern industrial port handling cars, textiles, chemicals, tea and cement.

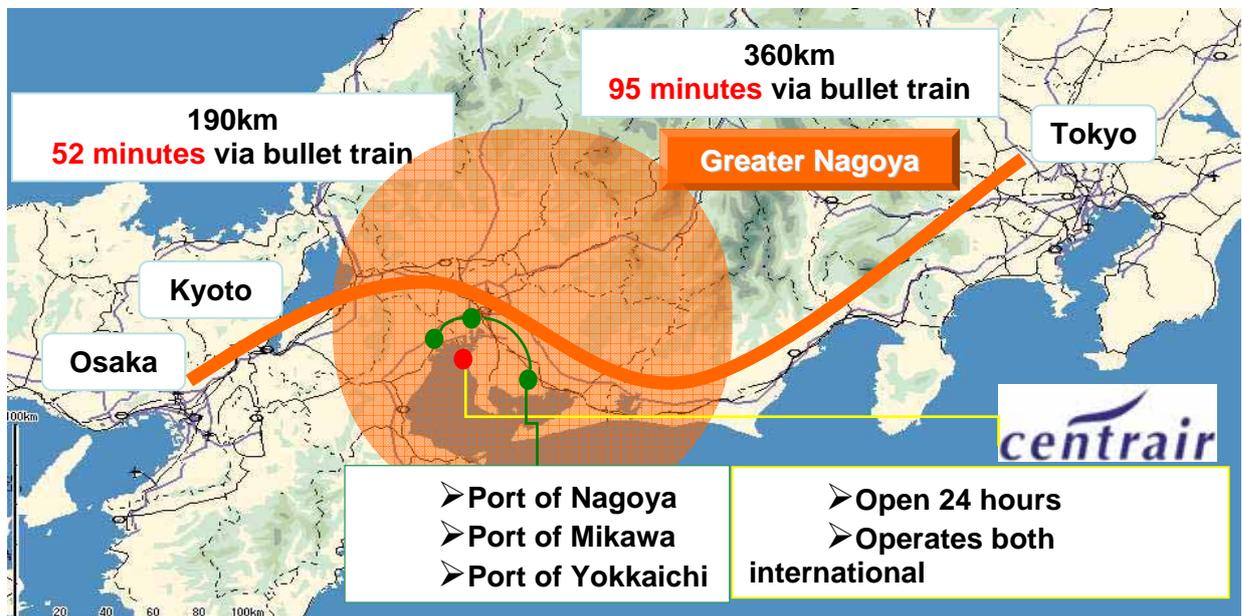


Figure 9 – Yokkaichi – a key strategic location

7.1.2 Japanese Local Government

Prefectures and municipalities vary widely in terms of population and area. Japan's 47 prefectures range in population from Tokyo Metropolis with more than 12 million, to Tottori Prefecture with 600,000.

The number of prefectures has remained unchanged since the system was adopted during the Meiji Period (1868-1912). Prefectural areas are based on the local administrative units instituted under ancient statutes during the 8th century. However, there are those today who hold the view that the sizes of the prefectures should be reviewed to match changes in the economic reality brought about by Japan's post-World War II economic growth. The Local Government System Research Council was established as one of the Prime Minister's advisory councils to discuss the pros and cons of a regional system of government (*doshu-sei*).

The number of municipalities has steadily decreased as a result of improvements to their local economy through the widening their fiscal base. Many towns and villages merged between 1953 and 1961 following the central government's introduction of legislation promoting municipal mergers in accordance with the Law of Promotion of Merger of Towns and Villages, and the number of municipalities fell to one-third of the previous high of some 10,000. This led to improvements in their administrative and financial capabilities, and helped to promote the growth of local autonomy and the urbanisation that followed, as Japan entered its boom years. From then on, mergers took place according to the realities and requirements of municipalities, and also following the enactment of the Law Concerning Special Measures for the Merger of Municipalities in 1965. Recently, central government created a new initiative to encourage mergers of local governments in an effort to promote decentralization, calling it the Great Merger of the Heisei Era. As a result, the number of municipalities is expected to be reduced further.

Over time, the scale of municipalities has grown in tandem with the increasing complexity of daily life, and as basic units of local government, they have always remained close to the people. Nevertheless, the complexities of daily life are not confined to the boundaries of a single municipality. So, municipalities have responded by forming larger administrative units of government and pursuing joint action on common issues.

Local authorities in Japan are fully empowered by the Local Autonomy Law to perform the unique functions and services that constitute the very purpose of their existence. The division of responsibility between the central and local government was clarified by making local government responsible for a wide range of roles implemented independently and comprehensively in regional administration, while making central government responsible for functions concerning Japan's existence as a nation in international society. The development of local government in Japan over the last fifty years has arguably left the sector with the capability and capacity to provide strong local leadership.

7.1.3 Yokkaichi's modern economic development

This leadership role, described above, has been evident in Mie and Yokkaichi. There is now considerable industry in the northern part of the prefecture, including manufacturing of machinery and heavy chemicals. The central area is based around more advanced industries including such as semiconductor and liquid crystal display manufacturing as part of an explicit 'crystal valley' project.

In Yokkaichi economic development has been strongly influenced by the petrochemical complex, created in the 1950s. During the 1960s, the sulphur oxide emissions from local chemical plants caused ill health for much of the city's population. In fact one of Japan's

major pollution diseases – Yokkaichi Asthma – takes its name from the city for this reason.

Since that time, serious measures have been put in place to clean up Yokkaichi's industry with a high degree of success. More recently there have been new challenges – responding to a decline in the traditional businesses associated with the petrochemical complex, and emerging competition from China and India. The response has been to seek to further diversify the economic base by building in innovation through attracting research and development functions, thereby increasing efficiency and competitive advantage. In both the clean-up and the diversification, local government has played a prominent role.

In this chapter, we discuss the key influencing factors that we drew from our conversations in Yokkaichi that are affecting its recent economic development:

- The road to diversification: interventions and government ordinances
- Innovation: the research and development alchemy of knowledge
- Cooperative not competitive
- Culture and tradition

7.2 The road to diversification: interventions and government ordinances

The close relationship between government, business and the social economy is exemplified in the support provided to business by local government and its interventions in the economy. In recognising the need to diversify Yokkaichi's economic base and particularly the Port area, local government played a key role in helping to reshape the city's economy. Yokkaichi Port, pre- and post-war, was one of the most important ports in Japan. Now, in cooperation with Nagoya, it's still a very important facility for the national economy. The city has successfully tackled air pollution and changed its industrial focus. Whereas previously the industry came under legal challenge for causing environmental damage, the city responded by continuing to grow industry, but tackling public nuisance and environmental concerns as a priority. As an example of the success, there is now a thriving population of fireflies (a symbol of the city) right next to one of the main industrial areas.

7.2.1 Revitalisation of the Waterfront Industrial Area

After years of gradual decline, 2001 showed a considerable reduction in activity in port and petrochemical complex activity. Given that Yokkaichi Port and the petrochemical complex were still pillars of industrial activity and regional employment, the effect that this decay had on the regional economy was very large. The complex had supported Yokkaichi as an industrial stronghold for many years, and was a fundamental component of the region's economy.

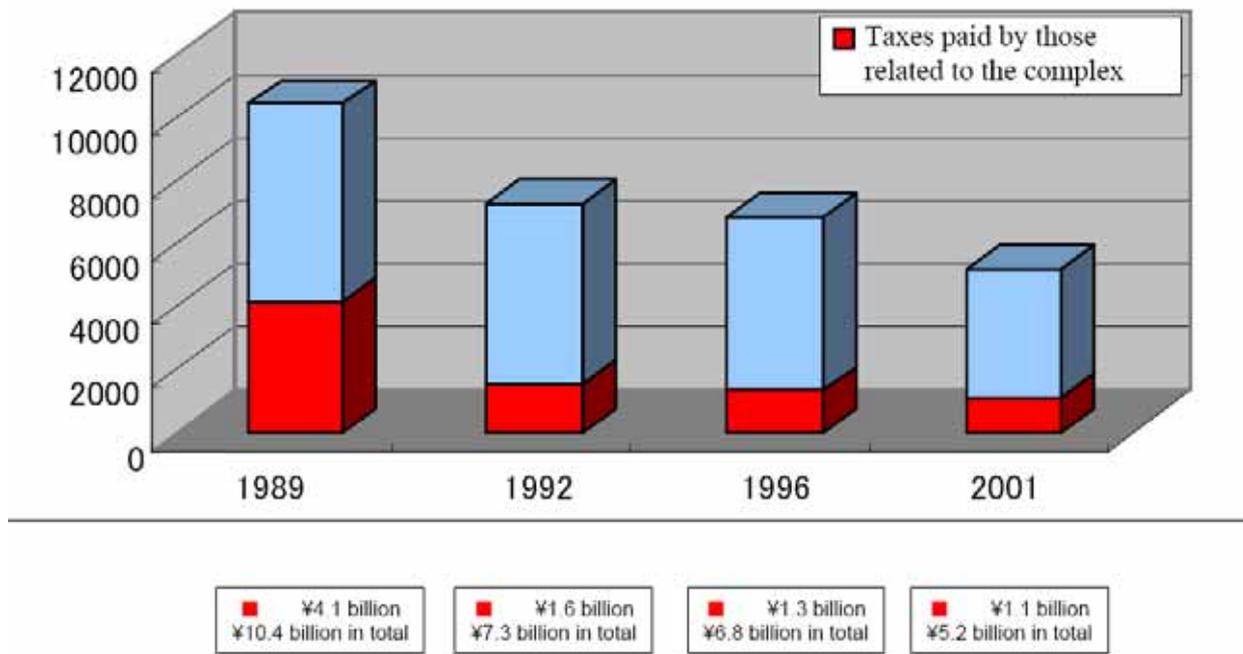


Figure 10 – City taxes paid by local companies in the petrochemical complex in Yokkaichi City (million yen)³⁵

In 2001, the city's tax revenue movement showed such decline that the revenue collected from businesses related to the petrochemical complex shrank by nearly a quarter. The reality was showing that this thick economic pillar was beginning to falter.

In order to rectify this situation, Yokkaichi began to create policies to diversify away from traditional heavy industry and manufacturing. Up until that point, industrial policies didn't differentiate between the national versus local, rural versus urban.

All policies for large business were created on a national level and the cities' responsibilities lay in making policies to support small to medium sized businesses. However, when the regions were faced with this kind of difficult economic situation, when tax revenues had shrunk and when there had to be more employment support, expectations arose that cities should make their own individual policy.

Yokkaichi's new policy protected the industrial 'cavity' left by the withdrawal and closure of industrial businesses. It has also delivered support money to businesses within the city that make new capital investments and seeks to support existing businesses. As a result, in the past eight years, it has assisted 46 companies and 105 businesses, totalling 520 million yen.

In 2001 the Yokkaichi City Waterfront Industrial Area Revitalization Program began which included not just the city, but also Mie Prefecture and a national organization called the 'Central Economy Industry Board'. The Yokkaichi Port Authority, the Yokkaichi local authority as well as ten waterfront companies worked together to revitalize the waterfront industrial area, with the complex at the core. In doing so, this cluster of

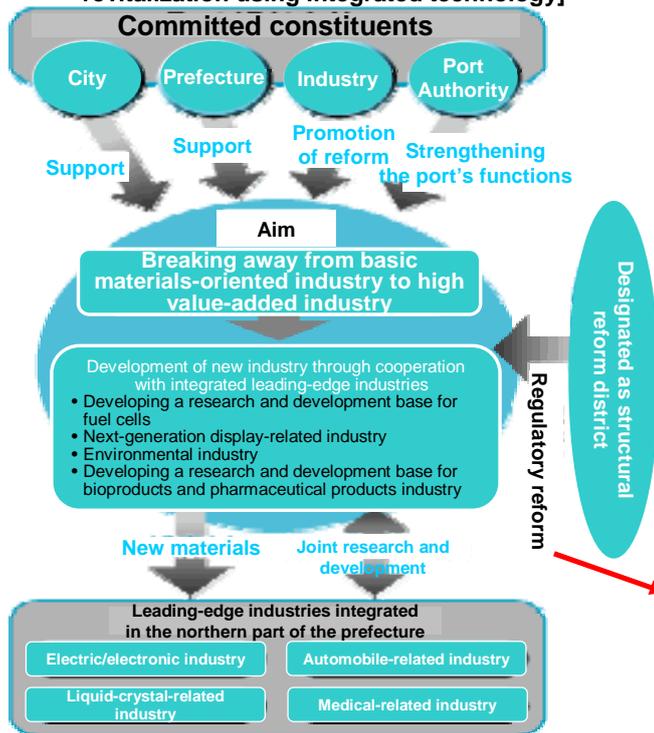
³⁵ Source: Yokkaichi Port Authority

business and government created a place of concentrated discussion. The focus of the plan was to:

- protect against the hollowing out ('cavitation') of the waterfront industrial area
- alleviate the traffic congestion in the area
- create an easy-use port, and
- allow more effective use of industry used water

Special district for industrial revitalization using integrated technology

[Flow of the scheme for the special district for industrial revitalization using integrated technology]



- Breaking away from basic materials-oriented industry to high value-added industry
- Development of new industry through cooperation with integrated leading-edge industries
- Collaboration between the prefecture, the city, the port authority and industry

Special Measures
Abolishment of charges for overtime customs procedures, and Improvement in the customs clearance system following the extension of the office hours, and the like.

Figure 11 – Industrial revitalisation schematic³⁶

In 2002 the New Designated Structural Reform plan was created. This plan was targeted at the petrochemical industries in Yokkaichi, moving from a chemical or base material production to high value-added chemical material production. The plan also supported the creation of new industries by conglomerating existing industries already established in the city, such as automobile, electronic goods and electricity, and developing the technology e.g. fuel cells or next generation LCD displays.

After this plan was approved, the first special area was conceived. In doing so, there was a revision of the regulations concerning the agglomeration of hydrogen fuel cells and on the ease of use of Yokkaichi Port which involved passing a law on the fire regulations covering the Port.

The economic target and outcomes for this plan were to have had approximately 70 billion yen of capital research investment funds injected by the end of a 5 year period,

³⁶ Source: Yokkaichi Port Authority

with an economic ripple effect equivalent to 30 billion yen and 1,800 new jobs created. All these targets were considerably exceeded.

In order to further facilitate the movement of industry to high value-added production and the creation of new industries, it was recognised that research and development facilities were necessary. To support this, Yokkaichi approved the creation of a special 'district' within the city and developed a private research incentive plan. As a result, 4.9 billion yen of private capital was invested in research and development facilities and a further 10 billion yen investment is due to be received.

The Yokkaichi waterfront industrial area is the oldest such complex in Japan and is now considered a microcosm for the country of the issues faced in moving from a raw material production movement to a knowledge-based industrial structure.

Looking forwards, Yokkaichi sees the next challenge as reducing the costs of production, responding to competition from China and India. The response lies in further technological innovation in order to increase productive efficiency, and their plan has two key prongs:

- tax breaks and grants to those companies making efforts on innovation (e.g. if the Chief Researcher lives and works in Yokkaichi, the company is eligible for a grant of 1m yen)
- to invite successful and innovative firms to relocate to Yokkaichi, with an offer of economic assistance.

The financial support for this comes from city, prefecture and national governments, and it's starting to take effect. From the business perspective, the move towards a research and development (R&D) focus described above was also a response to competition from Taiwan and China. Local government was also supportive of this move and provided some incentives as the direction ties in well with the city strategy of knowledge-intensive production. Yokkaichi takes the view that a research facility provides a lot more stability for the area than a production facility alone as production can easily be moved elsewhere. This is much less the case with an R&D establishment and therefore offers greater resilience against the macro-economic climate.

Yokkaichi continues to focus upon the recruitment of researchers, scientists, and skilled technicians to the city and, through this clustering, it facilitates discussions and knowledge exchange, and consequently supports the creation of new innovation.

7.2.2 Sharp

During our time in Yokkaichi we paid a visit to the Sharp factory in the nearby city of Kameyama. This city is also in Mie Prefecture, and is considerably smaller than Yokkaichi, with a population of around 50,000.



Figure 12 – Sharp in Kameyama

Aware that Sharp was seeking to build a factory that would produce next generation liquid crystal display televisions, regional and city government from Mie and Kameyama worked with Sharp to bring the operation to fruition. This required local government to have a deep understanding of Sharp's requirements and ongoing support through to the start up of the factory.

In effect, there were three reasons behind Sharp's location in Kameyama:

- the 'Crystal Triangle', i.e. Kameyama's position in relation to Sharp's other two facilities in the area;
- the financial assistance on offer from local government;
- the 'one stop shop' approach. Mie streamlined the application process to simplify the bureaucracy e.g. arranging infrastructure such as the gas supply required by the factory and work to improve transport links.

Sharp already had an LCD research centre at Tenri, in Nara Prefecture. Their first large-scale production facility was in Mie, but at Taki-cho (Taki town, further south in the prefecture). Kameyama happened to be located at the point where the roads from these two sites meet, therefore when Sharp were looking to construct a second production site, that was a good place to go for, creating a 'Crystal Triangle'.

Mie is unusual in providing large subsidies to companies locating in the area but this support is more than just financial - Mie also worked in tandem with some of Sharp's supply firms to ensure the coordination of upstream and downstream supply chain. There was already some skilled labour in the area but this was insufficient for Sharp's needs, so the company played a big role in training local people. With the natural strengths in the co-location of raw material and final product production, many parts of the supply chain can work together.

Sharp received nine billion yen from Mie and almost five billion yen from Kameyama to attract them to the area. Although there aren't any formal restrictions from national government on using grants in this manner, Mie had to pass an ordinance through the prefecture's assembly to allow them to use the money in this way. The money came from Mie's reserves, but they moved quickly (taking about a year in total) to make sure they could take advantage of the opportunity of attracting Sharp and recognising this as an 'invest to save' proposition whereby a new, high technology factory will contribute

significantly to the local economy. According to the Industrial Investment Promotion Office of Mie Prefecture, the collection of corporation tax following the Sharp investment almost doubled from 3.3 billion yen in 2004 to 6.6 billion yen in 2006; the local tax collected by the city council increased significantly from 7.2 billion yen in 2003 to 12.9 billion yen in 2007.

7.3 Innovation: the research and development alchemy of knowledge

Japanese industry is not in a position to compete on a price proposition with much of South East Asia, but the country's move towards an R&D focus was an explicit decision to compete with the likes of Taiwan and China. Local government has been supportive of this move with a strong thread running through national and local economic strategies. In particular, they provide incentives for this move to knowledge-intensive production e.g. the city can incentivise firms to move towards green technologies such as Lithium-ion batteries through cooperation with integrated cutting-edge industries, and this gives them a different competitive edge.

Accumulation of R&D is a key factor. The concept of 'knowledge integration' is a reality in Mie Prefecture but this reinvention of the industrial structure was reliant to a degree on the buoyancy of the existing business in the area – petrochemical, automotive and others.

7.3.1 AMIC

The Advanced Materials Innovation Centre (AMIC) was created in March 2008 with the support of Mie Prefecture. AMIC is a cutting edge research and development facility that receives support from businesses and government. The purpose of AMIC is to help industry become more knowledge-based with the intention of bringing together many different engineers and researchers to share knowledge. AMIC serves to provide an institutional setting in which new materials and ideas around the use of these materials – such as liquid crystals – can be combined with manufacturing technology to produce new products. AMIC undertakes R&D, and creates a fusion; between small and large companies, upstream and downstream processes, and is designed to improve cooperation and benefits for all involved.

The financial support for the Centre came from the national government (50 per cent), and from Mie and Yokkaichi (both 25 per cent). Local government's role in the development of AMIC was both to fund the initial development of the centre and to recognise the importance of letting the education sector make the decisions as they have the specialist knowledge and knowhow. It is recognised that local government has an important responsibility to attract national funding, which is available because of the benefit to the whole country of increased R&D.

The Subsidy System Board decides on subsidies paid to particular projects, with ten university professors delegated the authority to make funding decisions. Although the Board allocates Mie and Yokkaichi's money, it's based in Tokyo as it is linked to national funding, e.g. matching funds with universities drawn down from central government.

The intention of AMIC is to bring together many different engineers and researchers to share knowledge. Against a background of industrial closures and redundancies, and

increasing competition from China and India, AMIC was set up to work in conjunction with the high-end producers. In an ongoing move towards higher value-added and knowledge-based production and away from raw materials production, AMIC are developing innovative new approaches in advanced materials.

AMIC provides a physical location where representatives of companies can co-locate as well as just a forum for them to meet. It also brings together companies of different sizes and from different parts of the supply chain to make patent use more efficient as they broker the sale of unused parts of patents to allow others to use them. It encourages cooperation in environmental technologies. It also brings university and public research institutes together with business.

7.3.2 Crystal Valley Project

Mie has a specific strategy for attracting companies – the Crystal Valley Project (CVP). This is a strategic plan to move to a knowledge-intensive industrial structure. As well as attracting Sharp to locate, the CVP has led to a huge boost for the local economy and it continues to attract many developments which are, consequently, leading to the creation of high technology clusters.

AMIC is a part of the project. Another is the International Center for Environmental Technology Transfer (ICETT). This aims to improve the environment in developing countries alongside continuing economic growth, i.e. using and sharing the experience gained from cleaning up the air in Yokkaichi. In recognising that the success of AMIC relies upon agglomeration and not as a standalone operation, Mie are seeking international links for the innovative SMEs operating in the area and Mie is looking to combine the efforts of AMIC and ICETT in the future.

The importance of translating this research into manufacturing production is recognised, so Mie and Yokkaichi are keen to develop research centres in conjunction with factories. The Tsukuba Science City, just outside Tokyo, is one of the world's largest coordinated attempts to accelerate the rate of and improve the quality of scientific discovery is supported by nearly half of Japan's public research and development budget, but the government prohibits factories there (except pharmaceuticals). However, in Yokkaichi they have the opportunity to achieve that balance. Their sectoral priorities are petrochemicals (located near Toyota in a neighbouring prefecture) and fuel cells.

A great illustration of what this means in practice is Sharp's cutting edge LCD TV production and assembly facility in Kameyama city. Established five years ago, with incentivisation from local government as described in section 7.2.2, the plant applies the very latest technology to supply televisions for domestic and international markets. A net consequence of this economic development is a population increase of 10,000 and the revitalisation of the city which has allowed a focus on higher, value added industry. It has also increased the job opportunities in the supply chain, as well as increasing the tax base for the local authorities. The plant is also aiming to minimise its environmental impact and has the world's largest building-based solar array installed in a building on the factory roof. Sharp at Kameyama now contributes around 1 billion yen per annum to GDP into an area that was previously essentially a commuter town for Yokkaichi and Suzuka.

At Mitsubishi Chemicals, a strong focus on R&D and innovation, including some joint work with the automotive industry, has been developed since their Naphtha Cracker Plant (a plant that uses a 'cracking process' to produce ethylene from naphtha) in

Yokkaichi closed down in 2001. A third of Mitsubishi's research engineers in Japan are now based in Yokkaichi on a site that has been reinvented as a base for product development and innovation. Alongside the state of the art factory, Mitsubishi Chemical has an impressive range of products in development and innovations emanating from its industry, such as an electric car fuelled by Lithium Ion cells.

7.4 Cooperative not competitive

The revitalisation of the Yokkaichi waterfront area within the Greater Nagoya area and the location of the Sharp plant described above are useful illustrations of the (generally) cooperative and collaborative approach to economic development that we witnessed.

On the port revitalisation, the collaboration saw different levels of government (national, prefecture, city, and port authority – itself a joint creature) work together with key businesses, banks and the Yokkaichi Chamber of Commerce, to implement a successful diversification and regeneration strategy. Much of the reaction from individual participants, especially businesses, was initially sceptical – “What can you actually do?”. The City authorities convinced them by pointing out the extent of involvement planned, including the involvement of representatives at the wider geographical level. The group then met once a month – after their initial reluctance the private sector got more involved once they saw their concerns being considered seriously.



The Port Authority itself is an illustration of cooperation in action - it's jointly managed between the prefecture and the city council. The President is the Governor of Mie and the Vice-President is the Mayor of Yokkaichi.

Yokkaichi's port is smaller than Nagoya's but was able to cope with international transactions eight years before Nagoya – Yokkaichi had a more dependable management system in place, so could develop that way more quickly; the business-government relationship in Yokkaichi has always been close, and people were working hard to retain that; and a big company representing Japan internationally was based here and so created the commercial demand.

However, we heard that the relationship with Nagoya is now cooperative and complementary rather than competitive. There are three main port groupings on Japan's south coast – Tokyo/Yokohama, Osaka/Kobe and Nagoya/Yokkaichi, and so cooperation between the two ports is seen as vital to allow them to compete effectively against the other major groupings.

The two ports have complementary strengths. Yokkaichi leads on energy, and is more advanced than Nagoya for this (80 per cent of the imports here are in energy). There's a pipeline under construction to link Yokkaichi port to Shiga Prefecture, being built in collaboration between two energy companies.

Nagoya is stronger on containers (it serves a larger population, therefore there's a bigger demand for goods, and it's way ahead of Yokkaichi on this front – although 80 per cent of Yokkaichi's exports comprise cars and containers). Nagoya also has stronger relations with the US and Europe.

In relation to Sharp, although the decision to locate at Kameyama meant that the investment did not go to Tenri (in Nara Prefecture – where Sharp already had a research centre), the Nara authorities were reasonably supportive of the move by the company to locate production in Mie. Nara is a highly historic and traditional location, and as such production facilities were not a strong fit with their economic vision. There was a general sense that the global economic crisis might require prefectures which had previously competed to now work even more constructively together – including a greater salience of groupings such as the Greater Nagoya economic block.

The AMIC model, of university professors having delegated authority for decisions on funding part-provided by local government, is an interesting example of collaboration across sectors and with experts external to the local government system. And of course the centre itself is designed to encourage collaboration and cooperation between engineers and researchers in materials technology.

In Kyoto, the genesis of the Manga museum (see section 7.5.3 below) was initiated by a residents group, the city authorities and local university, creating a domestic and international tourist attraction as well as centre of expertise in the art form.

7.4.1 A nascent third sector

The residents group in Kyoto is an example of social organisation which was relatively unusual in Japan. Although reportedly developing fast, the social economy did not feature as a major component of our interviews in Japan or as part of the economic development mix. The concept of a third sector is a fairly recent phenomenon in a country without a religious tradition of philanthropy and with a strong tradition of bureaucratic control. The Law to Promote Specified Nonprofit Activities or the NPO Act was enacted in March 1998 and went into effect that December. This was a key development because the new law made it possible for citizens and voluntary groups to be granted status as a Non Profit Organisation corporation (NPO hojin).

One example we did see was the 'One Day Chef' social enterprise, which provided the catering function within the Banko ware museum and gallery in Yokkaichi. The restaurant with a small kitchen area is rented by the social entrepreneur, who then offers the opportunity to local people to run the kitchen for a day. Many local housewives participate. Takings cover the cost of the rent and ingredients, and any profits are split between the enterprise and the 'one day chefs'. Again cooperation is evident – mainly it is groups of friends who will take on the running of the restaurant for the day.



The concept has been franchised – 22 other restaurants are operating on this model in 13 prefectures. Once they've trained, 'one day chefs' can work in any of the

establishments. But although five alumni of the scheme have started their own restaurants, the primary motivation for the entrepreneur is to support community interactions, not to provide training or pathways to work. Price points for the meal are deliberately pitched quite high, to avoid local professional catering businesses feeling that there's unfair competition or that they are being undercut.

Interactions with local government are predominantly around licensing and health and safety – and although some state aid has been provided through a small national grant and city council support for refurbishing the restaurant, what would really make an additional difference would be the opportunity to apply the model to other catering venues within local government control e.g. community centres.

7.5 Culture and tradition

As in a number of locations we visited as part of our research, it is important to acknowledge the role that identity and culture plays in economic resilience. This was especially true for Japan. By identity and culture we are referring to traditions, local identity, practices and general ways of doing things, which imbue the operation of the economy. For us, this cultural milieu in Japan was a strong force in the economy, ranging from the everyday conduct of personnel engaged in economic activities, to the weaving of culture and identity into the very fabric of local economic strategy and economic facets of success.

7.5.1 Custom and practice

It is a truism, but Japan is a very polite society. In this there is a tradition and formality in business meetings. The swapping of business cards and the respectful bowing, are an intrinsic part of doing business. In our time in Japan, we found this practice initially strange and time consuming, but by the time we left, we recognised the importance of (and even came to enjoy) this relatively small, but important aspect of how Japan does business. For us it appeared to be a cog in the wheel of commercial activity, in that it allows high levels of mutual respect to be initially instigated, and thus places business relations on a solid footing from the outset, with respect following through in subsequent business relations. This can at times be a hindrance to initial openness, spontaneous creativity and sharing of information. However, once respect is established, the honour and respect for cooperation and mutual work can be developed, as indicated in institutions and practice such as AMIC.

7.5.2 Historical identity

In Japan, and in both Yokkaichi and Kyoto, there is a respect for the local identity of the place, and a belief that this creates a context which is good for the economy, in terms of a tourist economy (in the case of Kyoto) and as a place which is attractive to potential employees or investors.

A case in point is in Kyoto, where a strong historical identity is fused with new cultural traditions to create, not unlike Portland in the US, a place which is seen as one of the most liveable within Japan. There's been a general move in Japan of corporate headquarters to Tokyo. This has been much less the case for Kyoto. Companies that start here tend to stay here, and therefore are attracted to the area as a place to live and do business and as a result develop an awareness of the cultural importance of the area.

Kyoto also plans for this, and is assisted by having many historic temples and palaces. Kyoto has had a good approach to conserving the local landscape and environment, i.e. respecting the unique nature of the city. For example, there's a limit on height of buildings. Businesses understand that this is an important aspect of the locality and ultimately will be of benefit to them. Most sizeable Japanese cities are aiming to become a mini-Tokyo. Kyoto is not and there appears to be a better balance to industry in Kyoto. For example Tokyo has a much more commercialised culture, so there is more about sales promotion. Kyoto has more creativity and thus it respects the role of identity in this.

Kyoto also seeks to improve its cultural offer. It achieves this through a range of cultural activities and through the development of contemporary cultural facilities such as the Manga Museum, a museum for modern Japanese story books, housed in an old school, and developed through a combination of community working with the university and the city authorities. The development of the Museum was instigated by the local community who identified with the school and, working with the Seiko University, they worked hard to sell the idea of the museum to the city.

7.5.3 Commercialisation of culture

However, in terms of how this relates to the economy, it does go beyond just creating a context. In Kyoto, it is felt that the museum for this modern tradition and a world-wide signifier of an aspect of Japanese culture has potential as being the basis of an 'industry' in a commercial sense. In this there are ongoing discussions with the University in developing artists, and as a basis for research into Manga (and possibly to develop the art-form further). It is recognised that the production of Manga takes a lot of input and there are a number of potential commercial spin-offs, beyond just the production of the books. Thus they are starting to develop an industry where the combination of individual businesses, public support and strong social sentiment are involved in creating Manga and developing Manga skills. This is a potential cluster development and is supported with a commercial return, through new Manga activity and products.

Within this it is no surprise therefore that real commercial activity can be lured to and flourish in Kyoto. For example it is the home of Nintendo, a company whose games are as much known for the quality of their art and design as for their cutting edge software and hardware engineering.

7.5.4 Traditional gender roles

The strong influence of tradition also seemed apparent in terms of the gender balance across the groups with whom we met. Although not by any means a scientific sample, it was notable that those in positions of authority, whether politicians, officials or executives in the commercial sphere, were almost invariably men. Women were in evidence, but generally in supporting roles e.g. interpreting or hospitality. Of all of the locations we visited, it was in Japan where this was the most pronounced – and this also added to the impression that tradition and hierarchy are an important part of doing business in Japan.

7.6 Conclusion

Throughout our tour, we continually heard how all these levels seek to work with the locational advantages to drive the local economy. Yokkaichi's experienced Mayor has a vision for bringing research establishments to the city to complement its strong manufacturing base. Mie Prefecture is proactive in attracting investment, and initiatives such as the 'Crystal Valley' concept illustrate their desire to diversify beyond traditional manufacturing to shift to a knowledge intensive industrial structure.

There is firm belief for the need of research centres but also a recognition that R&D in itself isn't the solution and that it isn't sufficient just to focus on knowledge and research. And there is still a need to make things – for research and manufacturing to come together, with factories co-located with research centres, not just production but the creation of new products.

AMIC is a typical example of providing a physical location where representatives of companies can co-locate, as well as just a forum for them to meet. There are considerable benefits to bringing together companies of different sizes and from different parts of the supply chain to make patent use more efficient e.g. brokering the sale of unused parts of patents to allow others to use them. This encourages cooperation in environmental technologies.

There is also a strong focus on attracting the Global headquarters of major businesses as it has been recognised that in an economic downturn, they are the most resilient. Accompanying this is, a focus on R&D, as again, there is an added resilience due to R&D facilities being costly and therefore tending to stay when production diminishes. This is best summed up by the Mayor of Yokkaichi:

"The four responses to economic downturn:

- He who makes new efforts gets reduced taxes*
- those who make new effort – invite to Yokkaichi*
- those that come – reward with special economic assistance*
- researchers will receive special money – for each chief researcher = 1m yen"*

In neighbouring prefectures, the federal government has focused on building colleges and universities to attract knowledge. Of course education is important in facilitating the drive for innovation and growth. However, there's a need to focus on manufacturing as well as research, bringing university and public research institutes together with business.

What is striking is the level of autonomy that Japanese local government seems to have compared with the United Kingdom. The development of local government appears to have been on a continuum of capacity and capability, as well as having a confident and mature relationship with central government. The system of governance appears to work well when there's a strong Mayor as leader and a competent set of officials. However, with a weak Mayor, there appears to be a potential risk of a break in the continuity as good staff could be replaced with political appointees in order to push through an agenda. Although this doesn't seem to happen in reality, there did not appear to be any constitutional safeguards to mitigate this risk. The fact that it works without such safeguards may again be down to the Japanese culture of cooperation.

There is strategic thinking in Mie on how to deal with the global economic crisis but there is a recognition that there's little Mie can do on its own and that it's more about what

Japan can do. This may require prefectures, which have sometimes competed, to start working constructively together and it's likely that the Greater Nagoya economic block will take more prominence in the future.

Cooperation and consensus are important veins running through Yokkaichi and Kyoto's economic development. Instances such as the joint funding from different levels of the state to attract cornerstone investments such as Sharp; collaborative working with businesses on the waterfront revitalisation strategy; seeking economic complementarity with neighbouring prefectures or ports; and initiatives to encourage commercial cooperation such as AMIC; these are the norm. The social sector does not tend to be a key player (yet) in this cooperation, but this is due to a very particular set of circumstances and the sector is growing fast.

There is a problem in that the cultural offer and the pull of a big city means that Mie is competing with Tokyo, and consequently it's hard to attract high quality people away from Tokyo. This context makes the efforts of Yokkaichi and Mie to turn around the city's fortunes even more impressive. It's easier to change the industrial structure than cultural and societal aspects and one way to address this might be to play down the importance of prefectures, and stress the opportunities that exist in the Greater Nagoya area.

Chapter 8 – Conclusion: toward resilient local government practice in the UK

8.1 Our objectives

In a period of unprecedented economic change, this work sought to explore and analyse the factors which make some places economically strong and resilient to change and others less so. In this, we investigated the critical role of local government as economic 'stewards' and the impact of governance for a location.

In the preceding six chapters we have dealt with each location we visited in turn. The purpose of this was to provide an insight into what we saw as the unique qualities of each place. In each chapter we identified the key themes which we saw as important aspects to consider in assessing the resilience of that location. By resilience we are referring to the extent to which local places and local government are capable of riding the global economic punches, working within environmental limits, dealing with external changes, bouncing back quickly, and having high levels of social inclusion.

In this concluding chapter, we firstly return to the theme of resilience more overtly and consider the balance of factors identified in our model as described in the introductory chapter, producing a version of the model for each location. Secondly, we finish by discussing lessons learnt and what this means for local government, economic success and resilience in the UK. In this we will introduce five key themes which are important aspects of local government practice. These themes are worthy of further exploration and appear to have the potential to make local economies and local places more resilient.

8.2 Is there a recipe for resilience?

An important caveat to this section is that these conclusions are to some extent impressionistic and should not be seen as fully comprehensive or definitive. This is not a positivist science in which we can ascribe with certainty the resilience of each place we researched.³⁷ Furthermore, our research took place during a period of economic turbulence unprecedented in recent times. When we were in Poland in early October 2008, stock markets across the world were suffering record falls as the financial crisis started to take shape. The true potential for the crisis in the banking sector to have much wider impacts was only just starting to impinge on popular consciousness. By the time we reached Japan in December 2008, the US economy was officially in recession, but still the scale and nature of the impact on our chosen locations was by no means certain. There were some economic signals – for example drops in exports for Coimbatore or reduction in cargo volumes through Haiphong port – but the full ramifications, and indeed the development of new strategies locally to deal with them, were not yet worked through.

As highlighted in the introduction, we were mindful of the importance of commercial wealth creation. However we equally recognised that there is a broader palette of

³⁷ In the preliminary work and reading we undertook, followed by the research study and subsequent analysis, we believe we have a fair of understanding of each location. However, for this to be fully verified, longer and more indepth investigation would need to be undertaken.

components which constitute local economic success. Hence we were keen to base our thinking around the concept of economic resilience. We wished to assess economic success on the basis of an area's ability to be resilient and 'change ready', to be adaptable, thus ensuring that a locality is flexible and its communities and the environment do not suffer unduly.

We developed a model which could help us conceptualise the nature of resilience. This model was built on existing thinking³⁸ and allowed us a means to think through the various components of resilience. The model for conceptualising the complex working of the local economic territory and the primary influences upon this includes three core and mutually-dependent elements – the public, commercial and social economies. These core elements relate to their respective input into the local economy as well as their capacity to act as a sector.

Our hypothesis, therefore, is that economically resilient places have a bespoke and locally-specific blend of the above factors within their economic territory. We recognise that the blend would vary by context, however we surmise that local government must work to consider all of these factors and a degree of balance must exist between them. It is this variation in how areas work with these factors and how variation in context affects the blend which is the core focus for this study.

8.3 Our assessment of each location

Here we look at each place in turn in relation to our model. For each location, we highlight our assessment of the balance of elements in the model. To read the diagram and interpret our considerations accurately there are four important aspects:

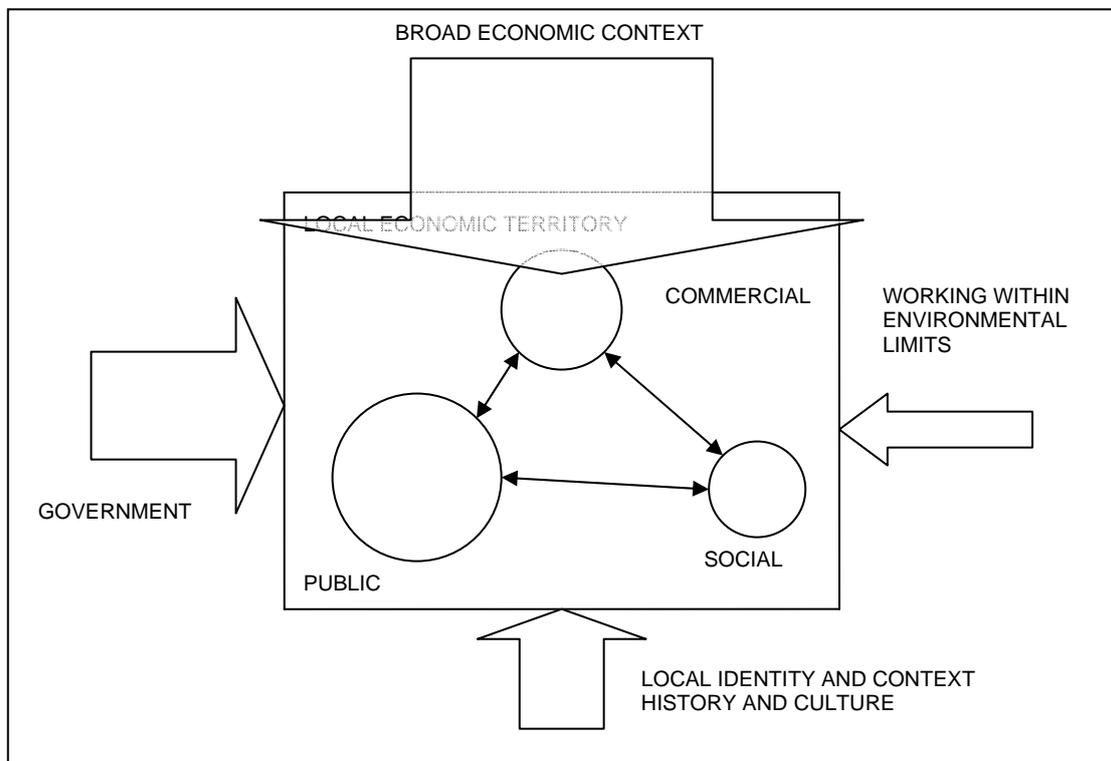
- **A snapshot.** This is a judgement call from our research work, based on our background work, research visits and further reading. Thus it reflects a moment in time. While some areas may be described as, for example 'reasonably resilient', this is our judgement of the economy and the place at that time – before the full scale of the recession was known. However, we point out where there may be issues as regards resilience in the longer term, which may in due course give cause for concern.
- **Arrows and Circles.** The arrows of 'Government', 'Working within environmental limits', 'Local identity and context, history and culture' and 'Broad economic context', reflect the external influences upon the economic territory. These are the contextual factors which affect the operation of the local economy and are of course subject to flux and change. Any change would require the locality to respond accordingly. The circles represent the various aspects of the economy within the economic territory and the capacity of those aspects to respond to changes.
- **The size of arrows and circles.** The size of each component represents our judgement on the prominence of those components in that location. However, this is only the relative size of each component compared to the other aspects *within each location*, not the absolute size. Therefore, for example while the public economy may be large in one location – indicating that it has a strong

³⁸ CLES (2009) *Rethinking Local economic development: Making places more resilient*

influence on the local economic territory – this should only be read as a strength relative to other facets of the economy in that location. The 'Broad economic context' arrow is large and dominant throughout the diagrams, reflecting the seismic shocks to the global financial system.

- The balance between the elements.** Resilience is not just about creating equality and balance across all facets, with all aspects having equal size. Each place is too different, with comparative strengths in specific aspects of the economy, for this to be a goal. Instead we are suggesting that these aspects need to relate to each other in effective ways. Therefore it is possible to be resilient with, for example, a relatively large commercial economy (in terms of jobs, investment, active commercial bodies and contribution to local GDP) and a small public economy. However, the relationship between these two is vital as contextual factors change. For example, a change in the broad economic context via a global downturn will result in a drop in global commercial trade. As a result the public and the social economy will be need to respond accordingly, to ensure the economic territory can be resilient to this change (investing in the future, providing jobs, stimulus packages etc). Therefore, if the public economy is at present small, there should be a local awareness of this situation and an acknowledgment that this is a potential weakness in how resilient that locality may be.

8.3.1 Gdańsk



Although in time of crisis it is difficult to find optimistic news about the economy, up until now Gdańsk appears to be defending itself well. This is confirmed by the reports of

international economic institutions and the continuing strength of economic indicators such as GDP growth. The positive image of Poland plays an important role in taking business decisions, and the continuing high levels of inward investment – both FDI and the EU Structural Funds – have left the country as a ‘pillar of stability’ for the entire central and eastern European region, which has suffered from major capital flight during the global credit crunch.

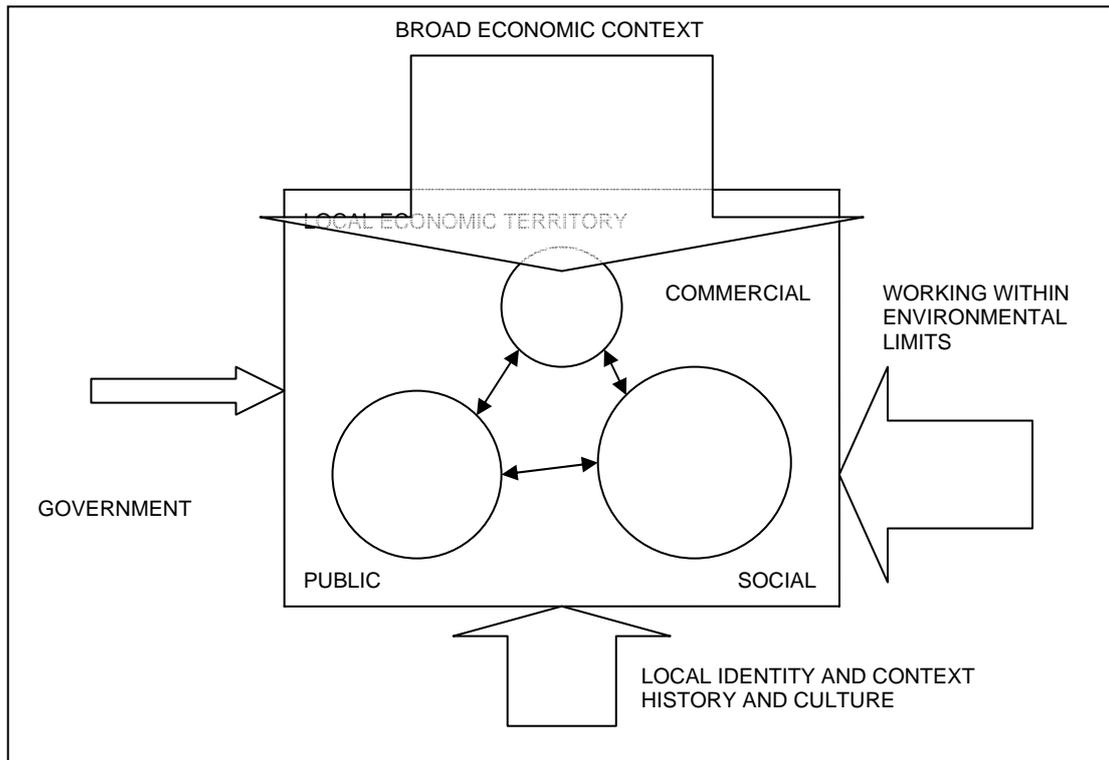
Poland has a large public economy, and this is reflected in Gdańsk. This is in part due to the scale of the EU Structural Fund support that is now being directed into the country. The billions of euros of infrastructure investment have certainly limited any impact of the global downturn that would otherwise have been felt, although it is arguable that the country is too dependent on this support in mitigating against the downturn.

Despite having a deep understanding of the co-operative movement and being the birthplace of Solidarność, the concept of a social sector as an actor in a free market economy is a new tradition in Gdańsk. There remains an over-reliance on the trickle-down approach to economic development and an under-developed social economy.

A combination of high levels of FDI, high internal consumption and a relatively strong manufacturing base leave Gdańsk’s commercial economy in a robust position. This continuing strength might offer some insulation against the global recession and leaves Gdańsk well-positioned.

Poland has succeeded in integrating into the global economic market just in time to feel the shudders as the major world economies fall into recession. But so far the country appears to be holding up to the stress test of the global slow-down and we believe that Gdańsk, particularly as a result of EU funding, demonstrates good resilience. Yet within the wider Gdańsk Bay and Tri-City area (comprising Gdańsk, Sopot and Gdynia) there remain competing interests. Despite a strong desire for more formal cooperation and mutual benefit throughout the Gdańsk Metropolitan Area, there remains an unlocked opportunity, and further cooperation between the three sectors in the area might go some way toward realising their potential.

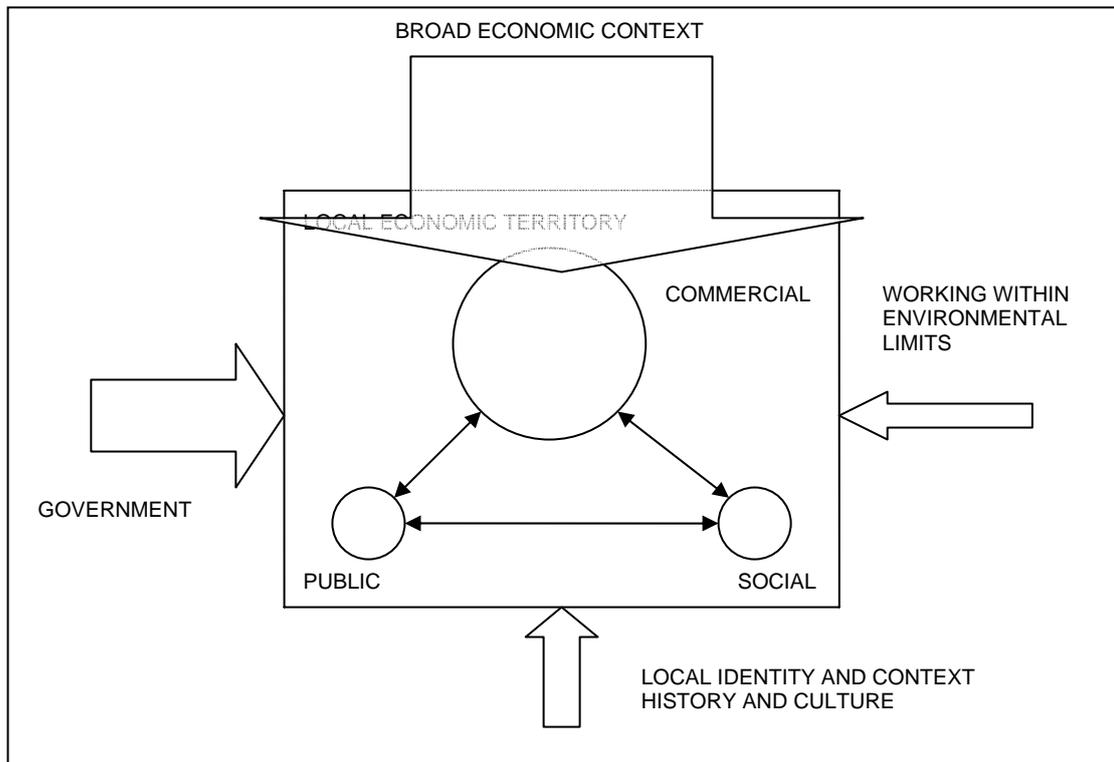
8.3.2 Portland



Portland is perhaps the most balanced of all the places we visited, in the context of our resilience model. The public sector is a key driver of economic development in two key ways – through the Urban Growth Boundary, preventing the sprawl seen in much of the US and requiring considered land-use planning, and with the extensive use of Tax Increment Financing, through the Portland Development Commission, to drive regeneration in the city. Civic engagement is a strong feature of the city, through a formalised network of Neighbourhood Associations, through constructive social activism, and through the genuinely open and public nature of the decision-making process. Some view the city as business-unfriendly, due to high corporate taxes and restrictive planning laws. However, there is a thriving creative sector, balanced with an element of more traditional industry. Members of all sectors work hard to retain the small-town feel of Portland and, as a result, the city manages to retain an authenticity respected by much of its economic activity.

We felt that Portland was probably the most resilient of all the cities on this tour. Its careful apportioning of land to different uses through implementation of the planning laws have prevented the spiralling land and property prices seen in much of the United States, and this is likely to provide the city with a degree of continuity through difficult times. The understanding demonstrated by the public sector and other players of the need to maintain a community focus, in terms of both character and markets, should also stand the city in good stead faced with the current global downturn. The biggest test of the Portland's resilience will be whether these factors are enough to keep the city on an even keel without a formal agreed economic development strategy.

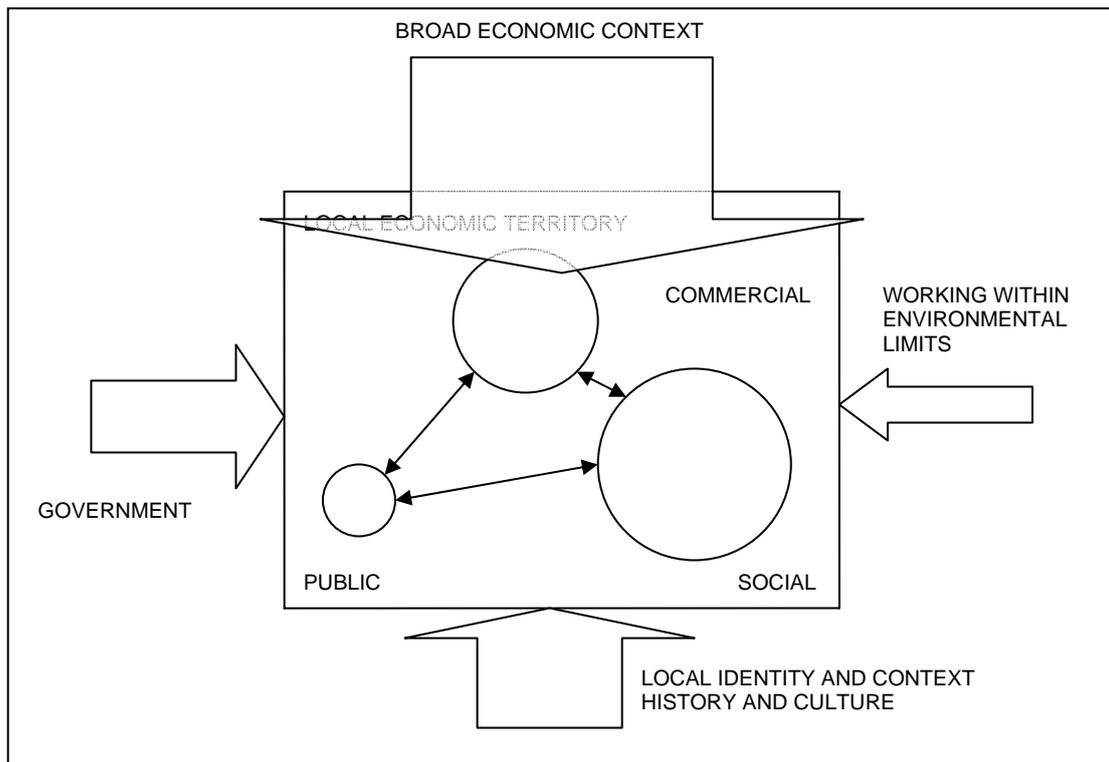
8.3.3 Culiacán



Culiacán has achieved impressive growth in recent years, but we were unconvinced that this growth was benefiting the whole population, for example those parts of the city outside the development corridor remain in some disrepair. In our view it is a place that appears to lack balance between the sectors. The development activities of local government are minimal, and the commercial sector has a very powerful influence on what does take place. This situation is reinforced by the lack of continuity in the public sector. We met individuals who impressed us with their views on the need to give something back to the area on a social level, so that the benefits of commercial growth are felt more widely. However, with little in the way of a formalised social sector, the summation of such actions is unlikely to be sufficient – there is little to place a systematic check on the interests of business. At the state level, the public sector does have a greater involvement in the strategic development of the economy and a well-considered strategy may help address the situation. However, business representation is again strong in that process.

This imbalance leads to a local economy which in our view is not all that resilient. It appears to us that even with continued growth, the dominance of the commercial sector means that disparities would be unlikely to be addressed adequately. The lack of resilience is only exacerbated by the serious security issues facing the city due to the informal economy. The high levels of food exports to the US, and the plans to attract significant inward investment are factors that could weaken the local economy in the face of the current global economic crisis.

8.3.4 Coimbatore

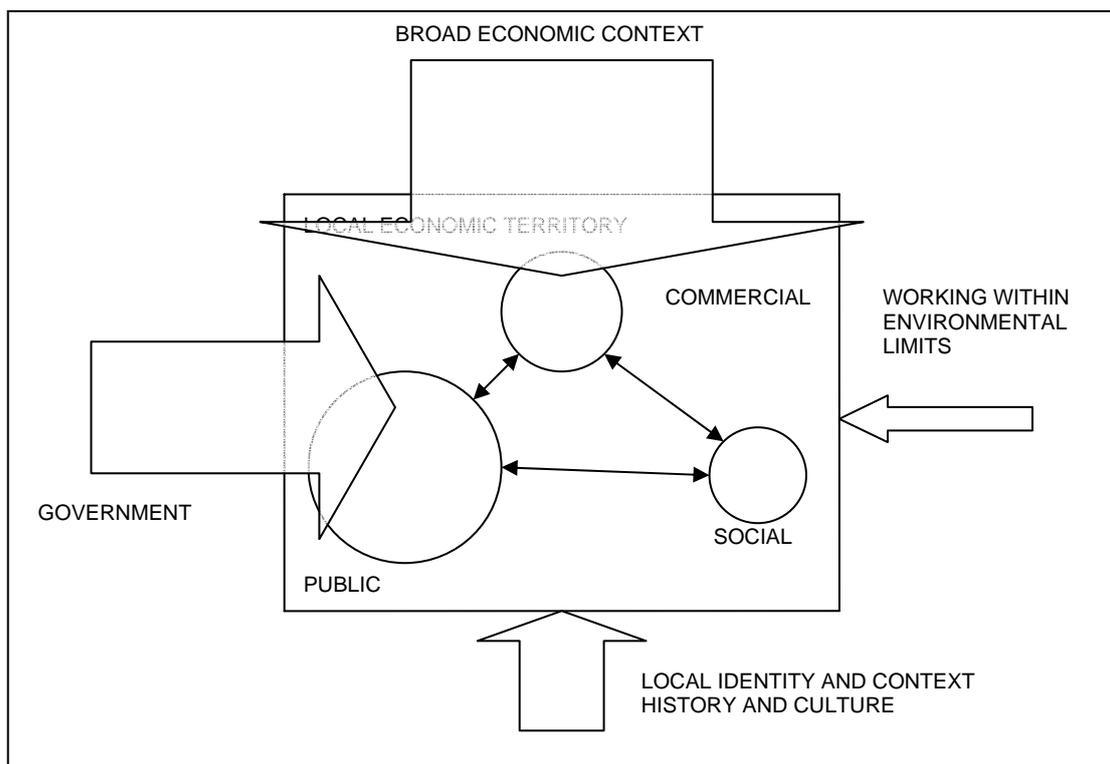


In Coimbatore the social sector plays a key role. It imbues the activities of the commercial sector and significantly influences the actions of the public sector. Partly fuelled by the absence of strong state intervention, it delivers services and influences the way the commercial economy does its work, ensuring on occasion that there are social aims to economic success. This in our view is a very important driver for the economy. It is organic, part of the nature of the place, and as such is an irrepressible force and resilient to shocks and changes. The commercial economy in Coimbatore is strong. This is fuelled by an entrepreneurial culture and versatile workforce with low labour costs. As such it has a competitive advantage in textiles and a large domestic economy, which partly insulates it against any downturn in global demand. The public economy, especially the local public economy is weak. While initiatives such as the Tamil Nadu Urban Development Fund serve to bridge the gaps in public infrastructural resources, they are not key players in the economic resilience of Coimbatore. It is fortunate that this weakness is compensated by a strong social economy. Local identity, context, history and culture still make their influence felt to an extent on the economy of Coimbatore, but modernisation is changing rapidly the make-up of Coimbatore and Tamil Nadu society generally. We see it as vital that a key factor in Coimbatore – the social sector – is not weakened by a loss of local identity and identification with place.

The nature of Indian society means that its broad environmental impact has traditionally been less than that of western economies. While there is large industry, there are comparatively more small-scale, labour-intensive industries, which have less impact on the environment in terms of carbon footprint. However, on a more localised level the environmental impact is significant and will grow. Industry is not always working within local environmental limits and problems over natural resources such as water and continued pollution of waterways pose a risk to the future viability of the economy.

We believe the strong influence of the social economy and the role of the particular Indian and Coimbatore identity make Coimbatore resilient in the short to medium term. However, as modernisation continues apace, the issue may be that the retention of the identity and history of the place, especially the organic entrepreneurial culture. This maturing means that ongoing development of Coimbatore needs to nurture and protect this unique facet of the economy. In this we feel the public economy should play a much greater role for the continuing resilience of the city.

8.3.5 Haiphong

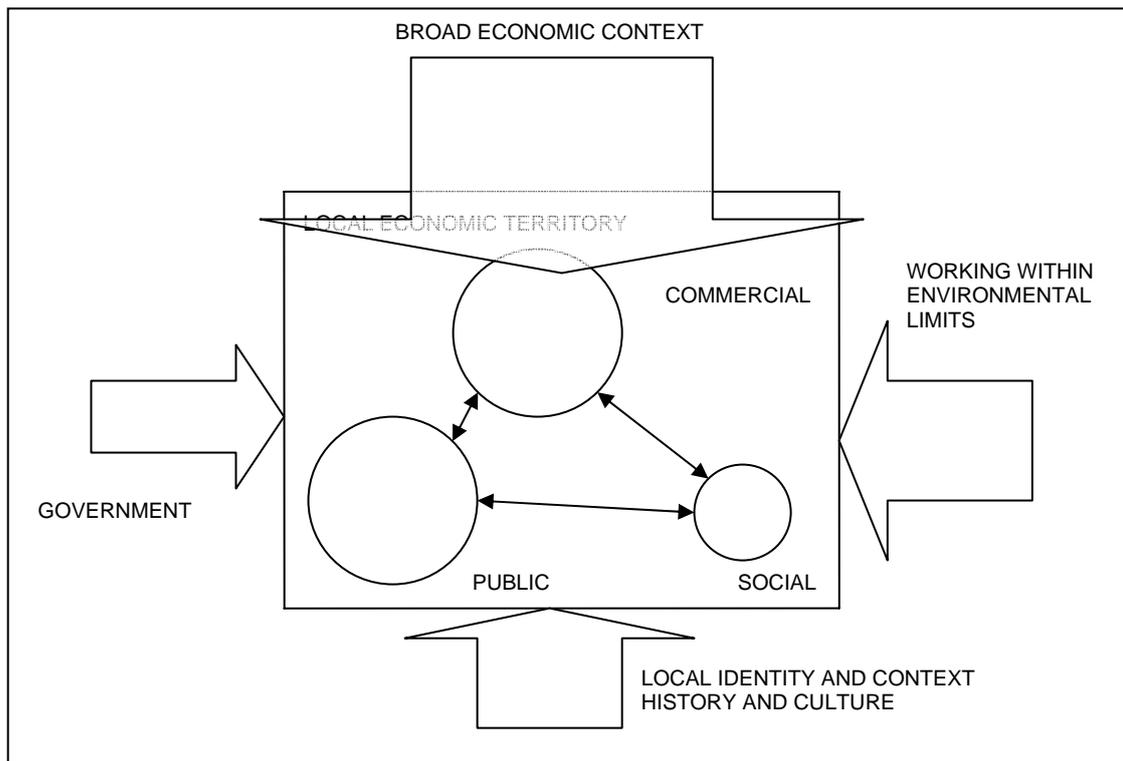


In Haiphong the resilience picture reflects the pivotal position of the state, with national and local government playing a large role in driving economic development. Given its position as a centrally directed city/province, the national state role impinges significantly into the local economic territory and the level of autonomy and freedom to innovate was difficult to ascertain. As in Yokkaichi a social sector along the lines seen in the UK does not really exist, but there appears to be a strong social vein in the growing commercial sector. There are also other forms of informal social support networks and more formalised mass organisations which blur the boundary between social and state sectors. The commercial sector itself was demonstrating rapidly growing levels of entrepreneurship and confidence to engage with policy development – albeit from a very low base. Although Haiphong’s economic development is linked strongly to its local identity and context as a key strategic port, we also heard of risks to the cultivation of this economic advantage through the potential over-application of economic development tools such as Industrial Zone designation. Environmental considerations, while starting to become more prominent, seem of less relative importance locally in the face of an

imperative for growth stemming from the need to reduce poverty and absorb a young and growing workforce.

We believe the strong direction given by government and the freedoms now emerging for the commercial sector make Haiphong reasonably resilient. As the free market economy matures, we feel this resilience could be enhanced by the development of a stronger social sector, which would help to ensure growth takes account of the needs of all parts of society.

8.3.6 Yokkaichi



The balance of elements for Yokkaichi reflects the fact that the city has little in the way of a formal social sector but, in common with the rest of Japan, it does have a wider, societal, collective culture. Tradition, identity and culture all have a strong influence on the local economic territory, but Yokkaichi shows that their effect needn't be stifling.

Cooperation and consensus are also important veins running through Yokkaichi's economic development. The public and private economies are both prominent. Instances such as the joint funding from different levels of the state to attract cornerstone investments, collaborative working with businesses, seeking economic complementarity with neighbouring prefectures or ports, and initiatives to encourage commercial cooperation illustrate the strong joint working within and between these sectors. With the aid of government ordinances, industry and commerce has sought to re-invent itself during the last decade with an emphasis on the knowledge economy, working with the locational advantages to drive the local economy and combining R&D with environmentally-focused manufacturing. This has enhanced the city's performance

in relation to environmental needs, from a previously low base given the pollution problems of previous decades.

Despite these activities, the broad economic context and the strength of competing markets in neighbouring South East Asia creates a fragility for the resilience of Yokkaichi in the short term. Yet the city continues with confidence to focus on what it believes to be the appropriate, longer-term direction – the development of innovative and advanced industries – and this innate belief inspires a feeling that Yokkaichi is successfully repositioning itself to achieve a sustainable resilience.

8.4 Local government, economic success and resilience in the UK

In this section we draw out the learning for local government practice in the UK from across our study tour. Here we elaborate on the key themes and concepts which we think are of particular relevance to the UK. As outlined in the introduction there is no shortage of prescriptions as to the role of local government in delivering economic success in the UK. However, the work we have undertaken is different, in that for us it is not about just success in terms of growth, but wider resilience. This is about economic success but is also about the ability of local government to make an area 'change ready' and adaptable, thus ensuring that a locality is flexible, and that its communities and the environment do not suffer unduly as growth occurs.

8.4.1 Focus on the place: identity matters

Shaped by national and/or local orthodoxies, central government practice and a national performance framework, it is often lamented in some quarters that local government economic development practice is largely homogeneous throughout the UK despite the heterogeneity of place. As a result it is arguable that the local economies of our places have also become standardised as each location is developing broadly similar investment offers and is driven by national processes that have similar focus and similar ranges of economic activity. This is reflected in many economic strategies displaying comparable lines of thought and sharing similar priorities. For us, in terms of local government practice, we believe this is not optimising resilience and while it is a concern for individual localities (as there is competition for similar types of investment and markets) it is also unhelpful for the UK as a whole, in that the flourishing of local nuance and identity could assist in developing local creativity and innovative approaches to economic development.

Standardised and stereotypical patterns of inward investment are aspatial; they have no bonded attachment to a place unless they identify securely with the place and its culture and identity. While perhaps effective in the short term, these approaches over the long term risk inbuilt failings as the initial investment and the resultant industry may be prone to relocation as labour costs and conditions become more favourable elsewhere. Furthermore, the citizens of a locality are more likely to be sympathetic to, and support and galvanise around, economic planning which seeks to tap into a historic tradition or reflect the nature of that place in some way.

Therefore a key aspect of the resilience model is the local identity and how it relates to the economic spheres. It would seem from all of the places we visited that an important facet of success was a strong correlation between the economic activity and the particular characteristics of that place. This relationship to place operates on many levels:

1. Physical location. Some factors are a historical physical and/or locational strength and an obvious focus. This may be a port such as in Gdańsk, Portland, Haiphong and Yokkaichi.
2. Cultural identity. Some places have a strong cultural identity. This can present an attractive offer for business investment and creative individuals. Examples include Portland and the culture of 'being green' and Gdańsk, with its strong historic identity and quality of life 'offer' with beaches and forests nearby.
3. People identity. There may be a characteristic which means the people and their attitude to economic success are a key driver, such as the pervasive social consciousness in Coimbatore or the widespread spirit of entrepreneurialism in Culiacán.

The key role for local government practice is to understand this identity, the pulse of a place and the organic nature of what makes that place tick economically, now and in the future. In short local government needs to look inside itself, to pick up on the nature of that place and build an economy around it.

This respect of identity in local economic practice can mean that elements of the commercial, social and public economy can share a sense of purpose. It means that various economic activities will have common inputs and shared outcomes. For example the success in Yokkaichi is forged from an appreciation that the local state, working with the Port Authority and the commercial high-tech industries, can rally and coalesce around a shared endeavour of making Yokkaichi as a place stronger, while respecting the strong traditions and identity of the city.

The notion for example in Portland that "planning is a spectator sport" reflects how the identity of place and the need to protect, nurture and grow an identity is embedded in the way it operates. As such economic development and planning are not abstract and generic, they are bespoke and intrinsic to the nature of that place. Local government which has a finely tuned appreciation of place and seeks to build economic development around this understanding is, in our view, more resilient. The so called 'creative class', part of the reason for Portland's economic success, is wedded to the culture and identity of the city. This culture is the reason why a large part of the populace moved there and the reason why they stay there. Portland is seen as a place where 'lifestyle is theatre'. Consequently, creative people are attracted to it and subsequently wish to take part in place-shaping themselves, to match their own aspirations within the prevailing parameters of the city's identity. Even in Sinaloa, where there are other factors which make it less resilient than Portland, there is a state recognition of the unique identities of Culiacán and the other cities within the state. Despite the issues with drug trafficking and related crime in this part of Mexico, there is in our view a state-wide strength in this approach.

We acknowledge that prioritisation of identity and building on this economically is a difficult process. For example, in Gdańsk, any development of the historic ports needs to be achieved at the same time as a development of the tourist offer afforded by its historic core.

What then does local government need to do once it has taken the pulse of its 'place'? Clearly the general theories of economic success are important, but practice needs to start by providing a sound place-specific rationale to development.

8.4.2 Knowing when to intervene and when to get out of the way

Our work, and the debates we had amongst ourselves as Norfolk Fellows, served to disrupt some of our previous individual notions of the relative benefits of laissez-faire, non-interventionist practice against more instrumental interventionist practice. For us local government practice which always wishes to get out of the way and let the economy flow free is unlikely to be resilient. At the other extreme, practice which is driven by an interventionist approach which always mistrusts markets is similarly unlikely to breed resilience. Economic heavy-handedness can not only scare off investors, but can also restrict innovation, risk-taking and creativity.

Of course 'getting out of the way' may produce growth, but this growth may not be related to the nature of that place or to the benefit of the population and as such is not in our view resilient. An economy needs an element of steerage if it is to be successful, even if the steerage is light. Resilience for us needs to be forged and managed to some extent.

In our research work we saw a spectrum of practice, and in all of this we now believe that this is not a question of general ideology or dogma, but is much more about developing practice fit for that place – one which intrinsically knows when it needs to intervene and when it shouldn't.

Achieving this 'natural responsiveness' is not straightforward. Furthermore there is, or at least has been, a general orthodoxy within UK local economic development practice which, aside from regeneration funding, has been very much driven by an economic liberalism that has tended to reject heavy intervention as being 'bad', when it may on occasion have been required. For us, the practice of local economic development needs to ignore ideology and pursue activity which works to generate resilience as its prime driver.

This practice requires a sophisticated understanding of what markets and heavy instrumental intervention do well and what they do badly. This will vary by place, but there are three key principles which we believe are vital in deciding when there is a need to intervene and when there is not.

Setting the context can suffice. Economic success can occur through the effective setting of a context in which economic activity can flourish. In this we believe part of the role of local government is to create the conditions for success and then leave well alone. Like planting seed in well-tilled and fertilised soil, local government practice may be, at some times and in some locations, more about condition setting, letting the activity grow and then perhaps ensuring success is reaped widely thereafter. An important aspect of this context-setting is that it is deployed as an active policy, perhaps temporarily. We saw many examples of inaction and a belief that practice should just get out of the way. In Coimbatore and particularly in Culiacán this was the dominant principle, with some negative effects as the benefits or otherwise of the principle were perhaps poorly monitored, bar a belief that growth would be good. However, in Yokkaichi and Portland there was more of a direct policy of getting out of the way, as a method for stimulating the market. It may appear a subtle distinction, but we believe that a conscious policy of inaction with a defined purpose is preferable to inaction as a principle.

Economic growth is a means to an end *not* an end in itself. There must be ways to ensure that growth has an end which breeds future success and benefits the wider

population in terms of quality of life. It is important that, if the market fails to reinvest the fruits of its success of its own accord, the state should intervene and develop mechanisms by which the fruits of that growth can be reinvested, either in other economic activity, infrastructure, the population or the environment. Government interventions and mechanisms such as Tax Increment Financing in Portland and direct legislation in Coimbatore via the forced investment in water treatment works have a vital role to play. An understanding of why one is doing economic growth and a recognition that growth in itself is good but not enough in terms of resilience should ensure that there is a solid basis for decisions about when to intervene or not.

No one sector has all the skills. Each element of the economy, be it the commercial, public or social, has its own dynamic and components. In this there is no single 'silver bullet' which can ensure success and resilience. Local government practice needs to recognise what it knows and what it does not know, and work with individuals and organisations more expert in certain fields. For example, if in Coimbatore the local state has no knowledge of the skills required in industry and has no experience of setting up a technological skills college, then it is best that industry does this for them. This is coupled with the willingness of industry to do so as part of the place's cultural identity. Similarly, if industry has a poor appreciation of the importance of city regional activities and wider agglomeration, then it is best that the Tri-City of Gdańsk, Sopot and Gdynia does that thinking for industry. In another example, if the local state does not have the knowledge around advanced materials, but has the resources to assist, then it is best to join forces with universities and industry to develop the sector accordingly as with AMIC in Yokkaichi. Or where an economy is transforming itself, as in Haiphong, then joint ventures between state-owned enterprises and commercial companies can help.

We believe an awareness of these three factors, which inform as to when local government should intervene and when it should not, is of great importance.

8.4.3 Plan and manage for creativity, innovation and risk

We feel that local government practice needs to be imbued with a belief that key to a resilient local economy are high levels of innovation and a preparedness to take calculated risks. It was Joseph Schumpeter who argued that recession and economic downturns provide an opportunity for innovation and economic growth by unleashing a process of 'creative destruction'³⁹. In this, periods of economic turbulence have been associated with the growth of new technologies and ways of doing things – as in the spread of mass production during the wars. We believe resilience also requires a continual process of creating opportunity out of adversity and always thinking about innovating for the future.

In the UK we believe there is significant need for local government practice to embrace creativity and innovation, to bring about greater economic resilience in the future⁴⁰. The current recession is for local government practice an opportunity to innovate and develop new strategic and structural interventions. This need as outlined in our introduction is driven by the problems surrounding growth, but in addition we would add:

- The rise of the Asian economies, which offer new markets, competitors and partners,

³⁹ Schumpeter, J.R (1943), *Capitalism, Socialism and democracy*, New York, Harper and Row.

⁴⁰ DIUS (2008), *Innovation Nation*, HMSO, London

- New technologies,
- The need for a low carbon future
- Ongoing social and demographic challenges, such as an aging population.

In the UK, we believe that economic innovation in local government practice is under-developed. As Mulgan (2007)⁴¹ highlights, the UK has very few budgets dedicated to innovation in local government, there are too many silos, too many regulations that inhibit local risk-taking and discretion and too little reward for such behaviours.

Given recent economic turbulence it is likely that the UK will need to innovate across a broad spectrum of economic activity as it looks to reduce the dominance of financial services. This will include local government in terms of how it can assist in forging local economic innovation.

During our visits, we witnessed and experienced innovation, creativity and risk-taking in three main ways:

Social innovation. In Coimbatore we saw significant levels of social innovation through the social sector being allowed to innovate and develop activity. In this instance the social sector, often aligned with the commercial sector, filled the gap between local needs and what the public sector was resourced and able to provide, by designing innovative solutions e.g. in terms of water storage, street and hospital cleaning, and other aspects of public infrastructure and service provision.

Industrial innovation. In Yokkaichi there is significant innovation and risk-taking in how business is done, through reshaping industrial activity to higher value activity. In this the synergy achieved through knowledge (universities and industrial research), industrial production methods and distribution generates significant local creative value. For Yokkaichi, innovation is not an add-on, but is embedded in industrial practice.

Public sector innovation. In Portland the number of potential instruments with which to achieve innovation is myriad. Local government practice seems to have levels of innovation which surpass that which we have in the UK. We witnessed a range of innovative mechanisms and ideas in formative stages, the thinking on how best to push for 'greener' buildings and become a leader in sustainability being one example. Others, such as the calculated risk in their extensive use of Tax Increment Financing are designed to pay for vital public goods and services and broadly to ensure a successful economy.

8.4.4 Acknowledge that resilience involves a range of aspects

These are challenging times for economic development practice in the UK. The economic downturn has introduced a plethora of serious and deep-rooted problems for many people. This, linked with the reduction in public budgets (due to efficiency savings and reduced incomes via taxes and fees) and the necessity of responding to climate change, makes the task facing public services even more difficult.

However, it is not enough in our view to respond by simply adopting similar strategies and approaches as has often been the case. Hitherto this has been overly focused on economic development policy improving the image of a place, and creating the

⁴¹ Mulgan, G (2007) *Ready or Not? Taking innovation in the public sector seriously*, NESTA

infrastructure, in terms of skills as well as transport, which will create the conditions for attracting national and international investment.

We need a rethink as regards the approaches and attitudes towards economic development if future economies and communities are to be resilient. Strategies that adhere to a traditional characterisation of local economic development are not likely to be compatible with current economic challenges, the like of which many local authorities have never experienced. A new vision needs to be cultivated that no longer focuses on traditional methods and (solely) growth-centric aims, but considers new and emerging markets, new relationships between different scales of governance and with local people, and new tools and mechanisms to get the most out of public spend and projects.

We would recommend that all aspects of our model be considered, to avoid social and public economic facets being separated from local economic thinking.

In the UK we have long advocated the role of partnership in local economic development. Partnership is embedded in the way we do things. However, hitherto in the local economic development field the situation can often be characterised by a concentration on local economic partnership which has been about creating the conditions for private investment. For us it is clear that resilience requires local government practice to consider all aspects of resilience and how they connect together. We cannot rely on serendipity to achieve this; it actually needs to be thought through and planned.

For example, all the locations we studied displayed some elements of resilience as described above. However, it was really only in Portland and to a lesser extent Yokkaichi where we saw a conscious effort by local government to make extensive connections between commercial, public and social economies within environmental limits. Of course this is not always an equal relationship and this is not necessarily what is required. What it did though was recognise the important role that all sectors played and fully explored the connections between these facets.

8.4.5 Local government practice as a coagulant for resilience

In trying to describe the role that local government practice should play, we have come up with the notion of practice acting as a coagulant. By this we mean that it should, in terms of resilience, act as the glue or the fixer – bringing the components of resilience together. Taking on board previous points, this is not about local government doing everything, rather it is about it operating in a way which brings other aspects of social, commercial and wider society together with the aim of creating resilience.

In our work, we believe we have seen elements of this coagulator role in all areas, to various extents, with different sectors taking on the role in different situations. However it was telling that the most compelling narratives about a place's economic present and future tended to be when the coagulator role was taken by local government, as it could provide the balance and overview.

This coagulant role involves a recognition of three key factors:

- **Bringing local authorities together.** For example, the efforts of the three local authorities of Gdańsk, Gdynia and Sopot, in bringing together the burgeoning Gdańsk Metropolitan Area, has the potential to strengthen the economic planning and thinking of the region by drawing together all players.

- **Working with local industry.** For example, the city authorities in Yokkaichi combined with industry to diversify and bring higher value-added activity to an industrial city. Similarly, the City Council in Portland can act as the conductor in relation to the cacophony of voices who, while certainly not all singing from the same song sheet, develop enough of a common tune to shape Portland's strong identity.
- **Local power to act.** There has been much debate in recent times in the UK about decentralisation, devolution, localism and community empowerment⁴². The examples we found most striking of local government acting as a successful coagulant – Portland and Yokkaichi – are also those which arguably have the greatest level of power devolved to local government. We were also struck by powerful examples of action from other sectors – where power was devolved from or shared by local government or where other sectors had more proactively engaged in the local economic territory where the coagulator role of local government was less well developed. Examples of a local government lead include the use of Tax Increment Financing through the Portland Development Commission and the work of the Yokkaichi City Waterfront Industrial Area Revitalization Program, while Sinaloa's CODESIN offers an example of leadership through the commercial sector, and there are many examples in Coimbatore of resident and business mobilisation for social aims.

8.5 Concluding remarks

Our experiences and findings in this study and all the examples we have seen of devolution and empowerment – whether at the town hall level or beyond – should help us in the UK as we ask a key searching question of our own arrangements. To what extent would UK local government have the scope to adapt some of the ideas we came across on our tour?

True economic strength and resilience in the future will surely arise through global economic trade, but it will also need to be more real and accessible to people through the development of strong local economies, which involves the production and consumption of local goods and services. This will cut down our carbon footprint and serve as a better bulwark against future global economic change. For us local economic strength is contingent upon that locality 'appealing' to the global economy. However while the global economy means it is easier to transcend space, an understanding of the differences between places becomes even more important. It is clear that the particular character of individual countries, regions and localities interacts with the larger scale general processes of global change to produce quite specific outcomes. To effectively recognise the role of local place in the global economy, the practice of local government arguably matters more than ever.

Localism is about the economic as well as the democratic. Localism should never be just about structures, it is also about practice and an ongoing search for the best ways to shape local economic destinies. We feel that a more bespoke, tailored and differentiated

⁴² NLGN (2005), *Localism in action*, NLGN, London; CLG (2008), *Communities in control: Real people, real power*, White Paper, HMSO, London; Gough, R (2009), *With a little help from our friends: International lessons for English Local Government*, LOCALIS/LGA, London

local economic strategy offers a better chance for our local economies to cope. This should be more salient now than ever, as we start to think about what sort of economy we want to see following the current upheaval.

It has been a privilege for our team to gain insight and inspiration from such varied places and people during this study. It has been enlightening and reassuring to know that communities the world over are subject to the same issues and are conducting similar debates as our own. Of course all places are different, and success comes in many forms, but there is a salient shared theme and shared aim: to ride global economic forces and make their place a success.

Appendix 1 – The people and organisations we met during our tour

Poland (6-10 October 2008)

Anna Dabrowska, Agencja Rozwoju Pomorza SA
Sangeeta Ahuja, British Embassy Warsaw
Przemyslaw Rot, City Hall of Gdańsk - Mayor's Office
Mariusz Wisniewski, City Hall of Gdańsk
Andrzej Kanthak, Honorary British Consuls
Wieslaw Chojnacki, Polskie Zrzeszenie Inzynierow
Beata Dombrowska, Zaklad Utylizacyjny
Bogdan Dombrowski, Pomorskie Stowarzyszenie Gmin Wiejskich
Julian Franciszek Skelnik, Port of Gdańsk Authority SA
Krzysztof Anzelewicz, Port of Gdańsk Authority SA
dr hab Iwona Sagan, Recourse Research & Education Centre for Urban Socio-Economic Development
Kuba Wygnanski, Social Enterprise Poland
Adam Wojciechowski, Związek Lustracyjny Spoldzielni Pracy Delegatura Regionalna
Elzbieta Gistel, Interpreter

USA (27-31 October 2008)

Mary Kyle McCurdy, 1000 Friends of Oregon
Gil Kelley, City of Portland Bureau of Planning
Joseph Zehnder, City of Portland Bureau of Planning
Robert E. Clay, City of Portland Bureau of Planning
Steve Kountz, City of Portland Bureau of Planning
Brian Hoop, City of Portland, Oregon
Kenneth L. Rust, City of Portland, Oregon - Office of Management and Finance
Eric Johansen, City of Portland, Oregon - Office of Management and Finance
Stan Curtis, ibm plm Open Innovation Council
Joe Cortright, Impresa Inc
Amanda Lowthian, Oregon Economic & Community Development Department
Amy Keiter, Oregon Economic & Community Development Department
Michael W. Anderson, Oregon Economic & Community Development Department
Bernie Bottomly, Portland Business Alliance
Erin Flynn, Portland Development Commission
Lew Bowers, Portland Development Commission
Peter Englander, Portland Development Commission
Ethan P. Seltzer, Portland State University

Mexico (3-6 November 2008)

Lic Jose Luis Aispuro Calderon, CANACO
Efrain Resendiz Patino, Center for Investment and Trade, Sinaloa
German Rivera Carlon, Center for Investment and Trade, Sinaloa
C.P.C. Samuel Campos Velarde, COPARMEX
Lic Jose Luis Hernandez Magallon, CODESIN
Lic. Hector Aguerrebere Beltran, CODESIN
Agustin Coppel Luken, Coppel
Ginia Pena, Empreser
Dr. Jose Lauro Melendrez Parra, Farmacon Medicines
Ajejandro De La Rocha, H. Ayuntamiento de Culiacán
Ing. Jesus Octavio Higuera Duran, H. Ayuntamiento de Culiacán

Lic. Rafael Rodriguez Castanos, H. Ayuntamiento de Culiacán
Chuy Valdes, elected member to Sinaloa Government
Mdu. Arg. Melchor Peiro Guerrero, Universidad Autonoma de Sinaloa, Facultad de
Arquitectura
Dr Alonso Bajo, Universidad Autonoma de Sinaloa, Instituto de Investigaciones
Economicas y Sociales
Miguel Angel Alarcon Borboa, Interpreter

India (1-5 December 2008)

Rakesh Suraj, Associated Chambers of Commerce and Industry of India
P. M. Belliappa, Association of British Scholars, Chennai
A. J. Solomon, British Council
Rajesh Lakhoni, Chennai Municipal Corporation
D Bala Sundaram, Coimbatore Capital Ltd
K. Ilango, Coimbatore District Small Industries Association
S. Prabhakaran, Doshion Veolia Water Solutions
Mahendra Ramdas, Indian Chamber of Commerce & Industry, Coimbatore
U. K. Ananthapadmanabhan, Kovai Medical Centre & Hospital
Mervyn Jussy, Locus Communications Pvt. Ltd
D.K. Srivastava, Madras School of Economics
Dr. Brinda Viswanathan, Madras School of Economics
Dr. C. Bhujanga Rao, Madras School of Economics
Jayakumar Ramdass, Mahendra Pumps Pvt. Ltd
K.M. Pugezhendhi, Mahindra Water Utilities Ltd
S.M. Sujatha Rani, New Tirupur Area Development Corporation Ltd
New Tirupur Area Development Corporation Ltd
Anand Ethirajalu, Project Green Hands, ISHA Foundation
Marie Rischmann, Project Green Hands, ISHA Foundation
C. Raviselvan, Residents Awareness Association of Coimbatore
R. Raveendran, Residents Awareness Association of Coimbatore
R.R. Balasundharam, Residents Awareness Association of Coimbatore
R. Rudarshan, Spendour Medicare Technologies
T. Jayanth, Sri City Special Economic Zone
Srihari Balakrishnan, Sri Kannapiran Mills Ltd
A Jayaraman, Tamil Nadu Urban Development Fund
K. Phanindra Reddy, Tamil Nadu Urban Development Fund
V. S. Palaniappan, The Hindu Newspaper
R. Subramanian, The Madras Chamber of Commerce and Industry
S. Sakthivel, Tirupur Exporters' Association
B. A. Matheswaran, Tirupur Murugampalayam Common Effluent Treatment Company Ltd
Dr. Sudhir Raja Ravindran, Attorney Solicitor
NV Sreejaya

Vietnam (8-12 December 2008)

Mark Kent, British Ambassador
Pham Thi Thu Trang, British Embassy
Carlos Nascimento, Dinh Vu Industrial Zone
Do Anh Son, Dinh Vu Industrial Zone
Vu Giao Long, Haiphong Youth Enterprise Association
Dan Duc Hiep, Haiphong Department of Planning and Investment
Hoang Thi Lien, Haiphong Department of Planning and Investment
Dam Xuan Luy, Haiphong Transport and Urban Public Works Service

Tran Van Doi, Haiphong Transport and Urban Public Works Service
Trinh Van Truc, Haiphong Transport and Urban Public Works Service
Nguyen Chu Giang, Maritime Administration of Haiphong
Mr Pham Huu Thu, Peoples' Committee of Haiphong City, Department of Foreign Affairs
Nguyen Thi Bich Dung, Peoples' Committee of Haiphong City, Department of Foreign Affairs
Phung Duy Minh, Prudential Vietnam Assurance plc
Anna Yashiyeva, The Monobuoy Company
Phi Van Duc, Vietnam Chamber of Commerce and Industry, Haiphong Branch
Tran Thi Kim Lien, Vietnam Chamber of Commerce and Industry, Haiphong Branch
Phan Van Quyet, Interpreter

Japan (15-19 December 2008)

Motyasu Kokubo, Advanced Material Innovation Centre
Yoichi Takahashi, Advanced Material Innovation Centre
Etsuko Murata, City of Kyoto
Motoki Yamazaki, City of Kyoto Deputy Mayor
Shoichi Miyata, City of Yokkaichi Deputy Mayor
Tetsuo Inoue, City of Yokkaichi Mayor
Kiyoshi Minami, Dept. of Agriculture, Fisheries, Commerce & Industry, Mie Prefectural Government
Tanaka Mikiya, Industrial Investment Promotion Division, Mie Prefectural Government
Takuma Mochii, Yokkaichi City - Commerce, Industry, Agriculture & Fisheries Dept
Mr. Kensetsu, Kameyama City
Mr. Sangyou, Kameyama City
Ryota Tanaka, Kameyama City Mayor
Hideki Miyata, Kyoto City Board of Education
Mr. Shirahase, Kyoto International Manga Museum
Toshio Kosaka, Kyoto International Manga Museum
Hiroshi Akasaka, Kyoto Seika University
Masaharu Sekiguchi, Kyoto Seika University
Mitsuru Katagiri, Kyoto Seika University
Hiroyuki Fujita, Board of Education, City of Kyoto
Yoichi Takahashi, Mie Industry & Enterprise Support Centre
Shoichi Saito, Mie Prefecture Federation of Chambers of Commerce & Industry
Kenji Ebata, Mie Prefectural Government
Mr. Matsuda, Mie Industry & Enterprise Support Centre
Mitsubishi Chemical
One Day Chef Programme, Yokkaichi
Sharp
Natsuki Yamashiro, Yokkaichi Chamber of Commerce & Industry
Shohei Nasu, Yokkaichi Chamber of Commerce & Industry
Hidetoshi Harada, Yokkaichi City - Commerce, Industry, Agriculture & Fisheries Dept
Hisaaki Watanabe, Yokkaichi City - Commerce, Industry, Agriculture & Fisheries Dept
Yutaka Hattori, Yokkaichi City - Commerce, Industry, Agriculture & Fisheries Dept
Yoko Kimura, Yokkaichi City Board of Education
Mr. Hattori, Yokkaichi City Council
Nobuo Fujii, Yokkaichi Port Authority
Nanno Munemura, Yokkaichi University
Prof. Dr. Yuzuru Takeshita, Yokkaichi University, Faculty of Policy Management
Mr. Koraboya
Sean McKelvey, Interpreter

Appendix 2 – Exchange rates

In this report, we often use references to the local currency. To aid interpretation, below are the approximate exchange rates to pounds sterling, in October 2008.

Euro

£1.00 = €1.25

Polish złoty

£1.00 = 4.30 zł

US dollar

£1.00 = \$1.75

Mexican peso

£1.00 = Mex\$ 20

Indian rupee

£1.00 = Rs. 85

Vietnamese dong

£1.00 = 30,000 đ

Japanese yen

£1.00 = ¥190