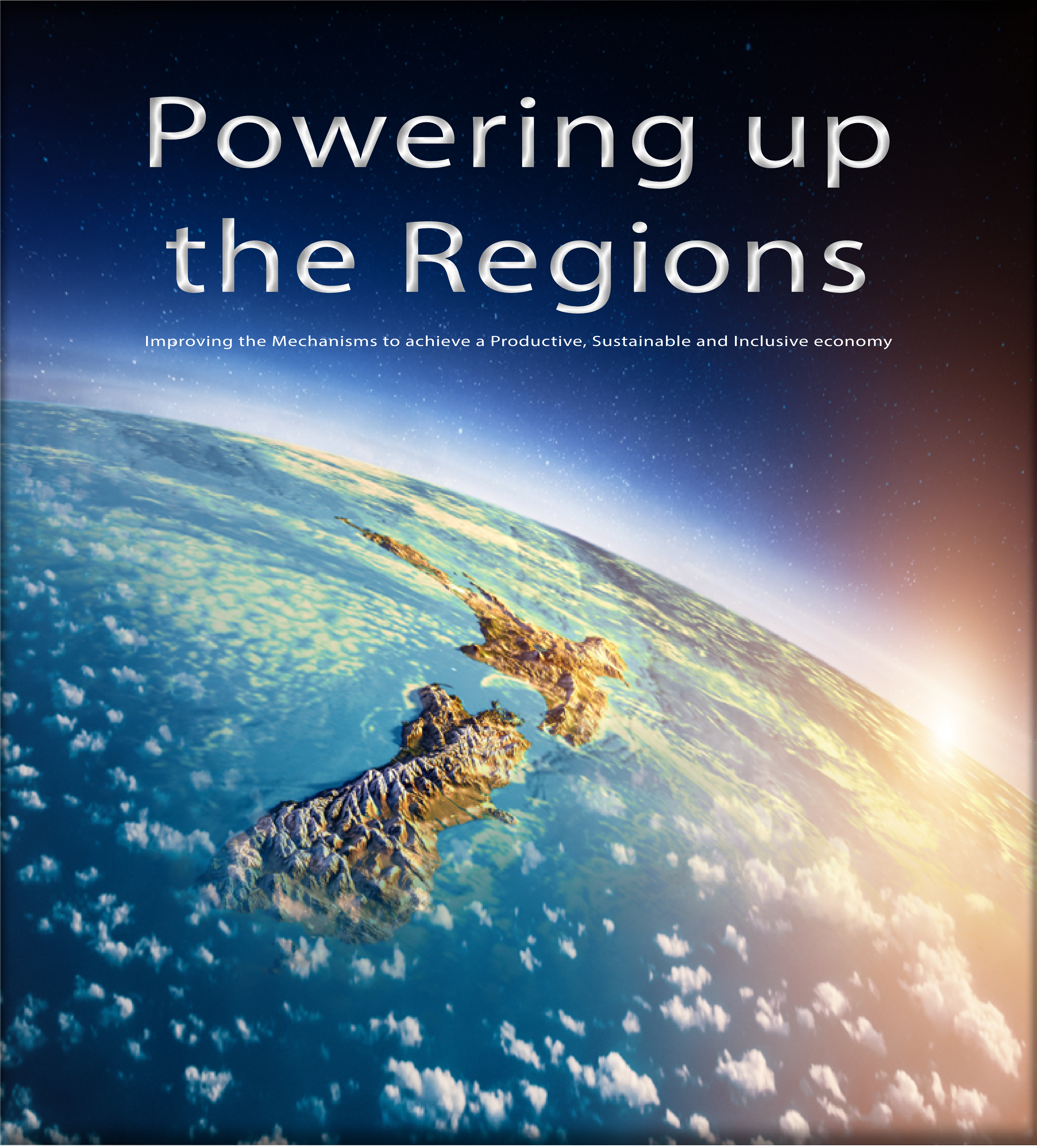
Powering up the Regions

Improving the Mechanisms to achieve a Productive, Sustainable and Inclusive economy



Cities and Regions NZ

Your place is our business

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TABLE OF CONTENTS

Powering up the Regions

Author's Note

David Wilson has been researching, teaching, consulting, advising and doing regional development for over 20 years. He is currently the founder of Cities and Regions Ltd an independent research consultancy set up to provide him the freedom to comment independently and support regional development. He is the immediate past chair and a current director of Economic Development NZ, a member of the Independent Advisory Panel for the Provincial Growth Fund, chair of the Inclusive Growth network Aotearoa and a director of Be.Lab (formerly Be Accessible) a passionate and successful social enterprise dedicated to moving people from disability to possibility. He was CEO of Northland Inc, Northlands Regional Development Agency, from 2013 to March 2019 and prior to that Director of the Institute of Public Policy at AUT where he designed and led the Graduate Diploma in Economic Development and was integral in the Metropolitan Auckland Project that led to Auckland's amalgamation. He holds a BA in psychology and social policy, a Master of Public Policy (1st class Hons) and a PhD in Regional Economic Development. He is a fellow of Economic Development NZ (EDNZ) and in 2018 received the EDNZ Distinguished Service Award.

Quote

"Every now and then we need to think, to take stock, to reflect, to do our homework, and then, act. As a nation we need not be afraid of evaluating our policies and actions, it's how we learn and improve. That's called progress."

EXECUTIVE SUMMARY

Government is taking economic development and regional economic development (RED) seriously. One of the Government's first major policy announcements was the formation of the Provincial Growth Fund (PGF) to encourage less prosperous regions to catch up. It earmarked NZ$ 3Billion to support provincial regions within the context of a series of national policies aimed at addressing climate change and well-being at the same time as increasing productivity, exports, green and high value economic activities.

In September 2019 the Coalition Government released its 30-year Economic Plan aimed at 'transitioning the economy to be more productive, sustainable and inclusive to tackle New Zealand's long-term challenges.' These are not necessarily mutually exclusive goals. However, a transformational agenda such as this requires a deep understanding of the contexts within which interventions are to be made, the outcomes sought, the nature of programmes and investments that are to be made and the mechanisms to enable policy implementation.

We do not have a policy or strategy problem in New Zealand; we have an implementation problem. Well thought out strategies are everywhere, and smart policy makers abound. Our tactical implementation however is incoherent. The mechanisms that enable RED, fundamental to a transformational agenda, are more important than any new policy or strategy.

To deal with the complexity of sometimes divergent goals at a regional level, more attention needs to be paid to strengthening regional institutions. Contemporary best practice in RED brings territory ('place') and economy together. It is not abstract or detached; it is action focused and place based. This requires an integrated whole of government approach in partnership with regional, private and civic actors.

The institutional strengthening required for Regional Economic Development Agencies (REDAs) has long been resisted at a central government level. The power and resourcing imbalance between central government and local/regional institutions is stark and continually undermines trust and cohesiveness.

At the local government level REDA support is variable, precarious and subject to fiscal constraints, other local government priorities and short-term political cycles. As a result, RED delivery is variable and disparate rather than strong, connected and cohesive.

RED needs to be a whole-of-government function with enough subsidiarity in the system to ensure that there is balanced, thoughtful and strategic delivery at the regional level. Increasing the potency of REDAs as mechanisms for the realisation of regional potential and national aspirations is vital.

In New Zealand currently these mechanisms are under-resourced and under-utilised, particularly in those regions where we can least afford them to be.

'Whole-of-government' has in the past largely focused on central government agencies, whereas RED must have regional and local actors heavily involved in leading and implementing RED.

RED entails tailoring generic macro policy to regional needs and opportunities, and it entails experimentation in policy, strategy, funding and programme implementation. In short it requires a new way of working that builds trust and institutional capacity at the regional level in order to implement policy.

Building capacity and capability in the regions will provide the opportunity to realise endogenous potential and to nudge public and private investment towards the right strategic interventions. By strengthening local institutions efficiencies can be gained, effectiveness can be improved, and trust and collaboration can be increased. These are features of an endogenous [02] RED approach which provides a platform for encouraging sustainable economic development and inclusive growth.

Increased productivity can be achieved by taking advantage of market opportunities, by building on regional strengths, by strengthening the enterprise development ecosystem, and by developing smart specialisations and regional innovation. This is the work of capable REDAs.

"WE DO NOT HAVE A POLICY OR STRATEGY PROBLEM IN NZ; WE HAVE AN IMPLEMENTATION PROBLEM"

CONNECTED AND POWERED UP RDA'S

A system of connected Regional Economic Development Agencies need to be either established or powered-up across the country to integrate and coalesce the myriad of government interventions. Regional differences in agencies, capacity and capability need to be addressed in order to gain coherent regionally led work programmes and nationally strategic outcomes. REDAs can provide a nexus for interested parties and partners in RED efforts, but they need to have stronger mandates.

This means replacing the current siloed, top down system of centralised control, complexity, bureaucracy and duplication with subsidiarity, good governance, policy, and operational flexibility and responsiveness. Taking a regional approach would allow central government to provide a national overview, to balance regional needs and opportunities with national priorities, and provide some prudential distance between RED projects and work programmes and government funding. It would also provide regional agencies with the headroom to get on with the job.

A primary consideration for improving RED efforts is the economic geographies we are dealing with; the nature and structure of those economies and the outcomes we seek. This is not an abstract macroeconomic policy undertaking; it needs to be specific, territorially defined, grounded, tailored, integrated and multidisciplinary.

Understanding regional context; the human, natural, physical, economic, social and cultural factors within a region, provides the basis for understanding strengths, weaknesses, threats and opportunities. Overlaying this with a deeper understanding of endogenous factors; the assets, institutions, leadership, innovative, learning and creative capacity, human capital, structure, connections and functions of a regional economy, within a national and global context, provide the bases for action.

RED requires interventions at several levels – a hierarchy of building blocks and interventions from the foundational to the transformative (see Fig 1). Current experience has seen an intensive focus on infrastructure and skills programmes, and while this is appropriate for many disadvantaged communities and regions, they are a bridge to nowhere without developing the economy as well. And, it ignores some vital factors in improving wellbeing through increased prosperity.

The time is right to take RED to the next level by focussing on improving regional economies through enterprise development, innovation and specialisation. This will require well governed, well resourced, capable REDAs.

Figure 1 The Endogenous Economic Development Hierarchy

(Wilson, D. 2018)

An endogenous RED approach supports interventions at each level in an holistic approach. Building hard infrastructure will not deliver, in and of itself, a productive, inclusive and sustainable economy. A lack of infrastructure on the other hand undermines those goals. Addressing environmental sustainability for New Zealand is beyond the reach of regional actors alone, however, encouraging sustainable enterprises can contribute to higher level goals one business, one project, one community and one region at a time.

At each level, other organisations have levers and resources to gain traction that REDAs do not have. However, facilitation, partnering, collaborating, coalescing resources and implementing programmes should be, and in many cases are, second nature to effective REDAs.

International evidence strongly supports institutional strengthening at the regional level to provide the responsiveness, flexibility, relevance, cohesion and implementation required for meaningful development. The lack of strong REDAs is currently a serious weakness in New Zealand's RED efforts.

Addressing productivity, sustainability and inclusiveness together requires strengthened regional governance displaying vertical (up and down tiers of government) and horizontal integration (across actors within the region). This will lead to a more integrated and effective approach and sustainable outcomes.

Market-facing REDAs working in the public interest are fit-for-purpose vehicles for RED. Government needs to trust local players more and provide some headroom for regions to deliver solutions that work for their place, and for New Zealand. This would result in a stronger complement of RED programmes, projects and services and improved results.

RECOMMENDATIONS TO GOVERNMENT

Cities and Regions recommends that government:

1. TAKE A MORE REGIONAL APPROACH TO REALISE REGIONAL POTENTIAL	a) Develop multi-level, multi-actor, fit-for-purpose regional governance arrangements b) Ensure that resources follow governance to provide a network of capable REDAs c) Build capacity and capability at the regional level for RED implementation d) Support increased policy flexibility through place-based approaches and risk sharing
2. TAKE A SYSTEM-WIDE GOVERNMENTAL APPROACH TO IMPROVING REGIONAL ECONOMIC DEVELOPMENT PRACTICE	a) Clearly articulate what Regional Economic Development Agencies can and should be doing b) Increase understanding of regional economic development policy and practice at all levels
3. TAKE A MORE SUBSIDIARY APPROACH TO REGIONAL ECONOMIC DEVELOPMENT FUNDING	a) Move from the Provincial Growth Fund to a Regional Development Fund b) Move from the Provincial Development Unit to a Regional Development Unit c) Catalyse and partner in setting up Regional Investment Funds administered in the regions
4. ENABLE REGIONAL INNOVATION AND SPECIALISATION	a) Increase cluster development and smart specialisation b) Actively invest in innovation and regional specialisation
5. DEVELOP A REALISTIC IMPACT EVALUATION FRAMEWORK	a) Evaluate context, mechanisms and outcomes over time b) Learns from what is (not) working, why and under what circumstances c) Evaluates region by region and nationally

INTRODUCTION

The Provincial Growth Fund is bold and welcomed for regional economic development (RED) efforts in New Zealand. Some regions have fared, and are faring, better than others with multiple factors affecting outcomes. Helping lagging regions catch up is warranted and supported in contemporary regional development policy and practice:

Promoting growth in all regions is economically justified…including geography and place-based factors into the structural policy agenda to increase the growth potential of countries. Beyond the economic rationale however, there is a social one. Helping lagging regions to catch up not only benefits the national economy, but also contributes to a more inclusive and sustainable growth model. It helps to build a fairer society, in which no territories, and people living in them, are left behind. (OECD, 2012, p.16).

For New Zealand, a country rich in resources, with a world class education system and high human capital there is no reason why any person or any region should be left behind. New Zealand ranks highly in safety, political freedom, lack of corruption, openness and ease of doing business.

The fact that New Zealand has fared relatively well through and post the global financial crisis, and further uncertainty in global political economy, is not only down to demand for our commodity exports but also steady macroeconomic and financial management. Having our own currency and a floating exchange rate, for example, have provided the Reserve Bank with relief valves through interest rate adjustments that have enabled long run price stability. This is one of the key advantages of the liberalisation of the New Zealand economy in the 1980s.

However, a higher real exchange rate has affected our international competitiveness, and more importantly New Zealand does not perform well in productivity or productivity growth when compared to OECD partners – we have a productivity paradox. This is partly explained by an historical reliance on commodity production and exports. However, despite a growing diversity in New Zealand's economy and export mix, particularly in tourism and technology, and decades of policy aimed at improving productivity, productivity growth remains stubbornly low. Addressing entrenched low productivity growth, however, requires more than macroeconomic management.

WHY IS PRODUCTIVITY IMPORTANT?

Growth on its own, increases in GDP, can mask a multitude of underlying issues like inequality, pollution and declining productivity, competitiveness and terms of trade. GDP/Capita (productivity) is a measure of individual share of production.

If four million people produce the same as 5 million then the 4 million are likely better off. At the most fundamental level productivity growth, doing more with less, provides the opportunity for higher incomes and greater prosperity. Thus, productivity is correlated to all measures of human flourishing; health, wealth, longevity and happiness (Pinker, 2018).

Increased productivity requires us to think, to try new things, to experiment, to collaborate and to compete. Doing more with less, as a sustainable future requires us to do, compels us to achieve growth through research, technology and innovation, not by simply working harder or longer or using more natural resources that have been the hallmark of New Zealand's productivity gains in the past. Increased productivity also provides the opportunity to spread benefits wider, across industries and occupations, and into households through technology transfer, increased human capital and disposable incomes. Productivity growth is a litmus test for competitiveness and overall economic performance. On this litmus test New Zealand is not doing well, and the government has recognised this.

To increase productivity New Zealand must be world class in a few industry sectors and competitive in many more. We need to be smart and provide products and services that the world values. Our isolation, however, presents us with limitations, not just in logistics, but also in research and development, competitive market access, analysis and knowledge, and access to the skills and talent to build competitive high-value sectors. These limitations can be addressed with smart specialisations that build on inherent assets, strengths and know how. Regional specialisations provide pathways to national and global competitiveness. Strategic RED is the nexus between industry/sector specialisations and regional comparative advantages and these efforts need to be strengthened for New Zealand's sake.

A further conundrum is that New Zealand's neoliberal political economy over the last 35 years has seen it develop significant trade agreements and export markets. Although, it can be argued that our newest major trading partner, China, and others have encouraged a narrower basket of price-taking commodity exports. International competition is strong in ubiquitous technologies and industries with low barriers to entry.

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THE COMMODITY GAP

Trade agreements are a reasonable strategy for a small, isolated, open trade-reliant nation. However, we have lost many (previously protected) highly paid manufacturing jobs to overseas competition and have found it difficult to replace them with other high value exports.

New Zealand's digital, technology and service sectors are growing. These are promising signs, however, our greatest gain in the service sector has been in tourism, which has the lowest productivity of any major industry sector in New Zealand. Productivity is high in digital and technology-based firms and their exports are usually high value as well. However, there is room to improve technology transfer across sectors, into our traditional sectors and across regions. And, there is room to move from simply using ubiquitous digital technologies to developing our own specialised technologies built on our own specialisations.

Unfortunately, diversification has tended to be in our domestic economy and non-tradables rather than in our export mix. This can put us in the unenviable position of what economists call a commodity trap where, in the long run, the value of our imports (importing high value things) outstrips the value of our exports (exporting low value bulky things with high transaction costs). This is not good. The upside is that our smallness, innovativeness, and adaptability places us in a good position to address global challenges at the same time as increasing the value of what we produce. To do this though we need the right mechanisms in place.

Our neoliberal free market tendencies have also seen regions, and populations within those regions, falling behind with widening income gaps and divergent distribution of the benefits of growth such as in health, education and housing. Organisations like the World Bank, IMF, OECD and the EU have struggled in the same general timeframe to understand why some regions are doing better than others under market liberalisation policies. Traditional neo-classical economics should have led, all things being equal, to a convergence of regional economies, whereas the opposite – divergence, has been the experience of many economies, advanced or otherwise. We have been stuck in this bounded rationality for too long.

This has spurred several programmes designed to assist lagging regions and better understand the determinants of growth. One of these is smart specialisation, another is the emergence of endogenous regional development strategies. Strategies designed to build on inherent assets, strengths and particularities.

It is not so much the quality of New Zealand's macroeconomic or financial settings or our diplomatic skill in developing new trade relationships that has led us to this point. It is more to do with the execution of economic development policies. Macroeconomic settings, monetary, financial and fiscal policies only provide the context for what really needs to be done. To improve productivity at the same time as sustainability and inclusiveness requires work at the coal face; one business, one cluster, one industry, one sector, one community and one region at a time. It requires a whole-of-government systemic approach from policy to implementation and back again through feedback loops.

Interventions need to be part of an overall economic plan but nuanced to take advantage of differing economic geographies. In short, a more subsidiary place-based approach.

REDAs have continued to be under-resourced by central government with local and regional governments primarily picking up the tab for the function. Whereas, the lion's share of funding and resources for RED sits with central government agencies and officials. This creates a lack of trust, opportunities for duplication and misalignment, and a top-down siloed approach that can miss or ignore local context, knowledge, experience and other endogenous place-based factors.

The work required of REDAs does not fit neatly within the current core services performed by local and/or regional government, despite re-incorporating the 'four well-beings' into Local government mandates, as they are fiscally challenged at every turn delivering core services and acceding to central government expectations. This has created an environment for the continual review and re-examination of the RED function and a tendency toward gearing REDA activities toward short term local government priorities [1] over long term RED functions and priorities.

The nature of RED work is that it is both a national and regional undertaking. It fits between national and local/community development taking advantage of opportunities within macroeconomic policy settings and exogenous forces. Fundamentally the goal of RED is to diversify and/or strengthen a regional economy, in the public interest, within nationally strategic goals and aspirations. This requires a far more sophisticated and integrated approach than what we currently have.

> “REDAs ARE IN THE BEST POSITION TO FACILITATE PUBLIC PRIVATE PARTNERSHIPS IN THE PUBLIC INTEREST.”

GROWTH ON ITS OWN IS IRRELEVANT

We should not be relying on population growth to create a stronger economy. If you believe that a growing economy will have net positive benefits in and of itself in the long run then the population growth scenario is one way of achieving that. But the jury is out as to the real economic benefits of higher domestic demand for cars, housing, health, education and infrastructure, without concomitant export growth. As our productivity litmus test demonstrates, growth on its own is irrelevant if we are not simultaneously addressing sustainability, prosperity and inclusiveness. We must be highly productive and competitive at some things and competitive in others. To do this we do need to innovate, to deepen our specialisations and strengthen our positions in global value chains, in all regions. Talent follows opportunity.

Why do we need economic development alongside sustainability and inclusiveness? The simple answer is that prosperity is closely correlated to social and environmental performance. Poorer countries, by and large, do not have strong social and environmental institutions or in many cases social justice or good environmental records. The private sector’s idea generation and innovation capacity will play significant roles in addressing climate change and providing opportunities for participation in a new economy. New business models, such as social enterprises, are already demonstrating this. For government, strong consistent signals need to be sent to the private sector and partnerships need to be formed that will address major challenges ahead.

New Zealand has many smaller towns and cities dispersed across a large and diverse geography. It is also one of the most urbanised populations in the OECD. However, many communities are small and somewhat isolated. In some cases, the economic geography differs considerably from political geographies. New Zealand is also like many other small nations in that it has one dominant (by size) city-region; Auckland. It also has significant second tier cities that are growing, particularly those near Auckland. However, the export profile, and expected productivity advantage that you would expect from our leading city-region is poor. Wellington is also poor in this regard. In many cases less prosperous regions have higher export profiles at the same time as significant deprivation. This is simply unacceptable.

This quandary is common across OECD countries where there is an urban - rural divide in fortunes. But this characterisation is too simplistic for New Zealand as, for example, some of the wealthiest communities in New Zealand are rural and some of the poorest are in our major cities. So, not only are there differences in outcomes between regions, there are large variations within regions. These factors contribute to the increasing realisation that regions must be a focus for economic development policy and implementation, governance and operations. Generic macroeconomic policies are not enough.

A significantly more sophisticated approach is needed if we are to achieve the triple helix of sustainable, productive and inclusive economies; one which combines economics with place, has regard for regional economics as well as macro- and micro-economics, and takes advantage of endogenous regional potentials.

CURRENT CONTEXT FOR RED IN NEW ZEALAND

A LACK OF SUBSIDIARITY

At its root subsidiarity is a democratic term. The Collins English dictionary describes subsidiarity as 'a principle of social doctrine that all social bodies exist for the sake of the individual so that what individuals are able to do, society should not take over, and what small societies can do, larger societies should not take over.' In political systems 'the principle of devolving decisions to the lowest practical level is often portrayed, however, Reid (2017, p.18) adds that the principle of subsidiarity means that 'the provision of services and the solution of problems should take place as close to the citizens as practicable as the nature of the relevant process allows subject to allocative efficiency…'

Allocative efficiency means that welfare is delivered in the most efficient way and in a market sense it is where an equilibrium is reached, and production is equal to consumer preferences. In RED the term is used to represent the optimal level at where interventions in the market will have the greatest effect. For example, macroeconomic settings like the Official Cash Rate are best set at a national level, however decisions about which projects and what programmes work best in a region most likely are best made at the regional level. They are, however, not disconnected decisions.

Put simply then subsidiarity is applying efforts and resources to where they can have the greatest effect.

Regional development policies from the 1970s on in New Zealand have swung between a provincial[2] view where the "real economy" exists in "the provinces" and cities like Auckland are perceived as a drain on the economy, and a neoliberal leave it to the market approach. For example, historical attempts at 'throttling Auckland', when it has grown too fast at the expense of the provinces, have been floated in the past as have Auckland being portrayed as the 'powerhouse' of the NZ economy.

Between 2006-2010 a concern for Auckland's lack of a coherent regional approach to economic development, infrastructure deficits and intra-regional disparities were major factors in the amalgamation of the Auckland city-region (Wilson, 2016). This resulted in the formation of Auckland Tourism Events and Economic Development (ATEED) from a series of local EDAs, Tourism Auckland and several functional units, such as events and inward investment, within local government.

ATTEMPTS TO REALISE SUBSIDIARITY

There was a desire to address the lack of subsidiarity in the functions of government, dealing with a region five times the size of the capital. Improved regional governance, it was believed, would allow for fit-for-purpose functional agencies to be developed. Not spending more money but spending it more wisely. Unfortunately, the primary aim of central government, despite a Royal Commission on the Governance of Auckland, was to amalgamate local government.

Increased subsidiarity was never achieved (ibid). The functional differences between what the new Auckland Council does and what central government does did not change. This is particularly evident in things like housing and social development.

THE KEY FOCUS OF THE GOVERNMENT IN RED POLICY IS THE PROVINCES.

What did change was new and amalgamated institutions, CCOs and CCTOs, doing the similar things with concentrated budgets. Auckland Transport (AT) has provided an example of an attempt at greater subsidiarity and multi-level governance, born mainly out of the desire to end the internecine struggle between New Zealand Transport Authority and Auckland Regional Transport Authority; the learnings of which need to be examined. AT aside, the downside of the lack of subsidiarity – central, regional, local – is a very large "local" government with subordinate local boards in a hierarchical top down governmental approach. Any wonder that the public vote with their feet in local body elections; they perceive that local government does not hold the levers to affect meaningful change. Local government in the provinces has wholeheartedly rejected amalgamation.

The key focus of the Labour / New Zealand First coalition government in RED policy is the provinces. This is designed to address inequity in access to key services, infrastructure and unrealised potential in provincial (rural) regions. Six surge regions have been identified for support in those regions outside of the three main cities, Auckland, Wellington and Christchurch eligible.

This is a departure from previous RED policy (2000-2008) where 'city-regions' and rural regions were all eligible for support for regional strategy development and major regional initiatives. Taking all regions from where they were to a strategically better place. Following this period, the National-led government (2008-2017) had little regard, at first, for regional development preferring to concentrate on a macroeconomic approach, fiscal management, a Business Growth Agenda and international trade agreements.

Toward the end of their time in government RED became a priority, with a focus on reducing NEETS (those not in employment, education or training), infrastructure and Regional Action Plans with a strong industry sector approach. In other words; by region by industry sector. Endogenous factors of institutional capacity and capability, local leadership, regional learning, creativity and innovation were absent. And, once again, a lack of attention and support given to the institutions and agencies outside of central government charged with regional economic development.

Regions have different strengths and weaknesses and start development efforts from different platforms but are interdependent and together make up the national economy. Growing Northland's economy, for example, is intimately related to Auckland. Many of the wider effects of Auckland's growth are felt in Northland and Northland provides opportunities to address Auckland's growth.

There are also many mutual opportunities for economic development and the geo-political demarcations are not always helpful. What is of more importance in regional economic development is the economic geographies - local productive systems and functional economic connections. If government were to take an endogenous RED approach, much more effort would need to be put in to building local human capital, institutions, leadership and innovation to diversify and strengthen regional economies.

Internationally economic development practices are moving towards stronger endogenous efforts to create inclusive growth. Centralised generic policy approaches from federal/central governments are inadequate when addressing the specifics of subnational territories and their varying political, human, social, environmental and economic dynamics. Local knowledge, relationships and trust need to be capitalised upon. Thus, a certain amount of devolution needs to occur so that policy flexibility can be achieved to tailor central government policy to local conditions. Funding needs to follow devolution to build local capacity and capability to address local market failures and take advantage of opportunities. Some room for policy experimentation and timely strategic action also needs to occur to support local efforts.

LACK OF SUBSIDIARITY CONFOUNDS POLICY DELIVERY

Currently in New Zealand subsidiarity of this kind is almost absent (Reid, 2017). As a result, central government efforts in the regions often align to departmental mandates and agendas and their related institutional presence in a region. Efforts must be made to have a whole-of-government approach and to collaborate with local governments and regional institutions. As a result, the complexity in governance and decision-making arrangements alone confound policy delivery.

The private sector, meanwhile, is either turned off by this kind of inter-governmental manoeuvring, unclear roles and responsibilities and time consuming heavily compliant processes or they take advantage of the potential for obfuscation, misalignment and duplication by gaming the system. More officials to ameliorate these shortcomings simply reinforces the perception of an overbearing top-down bureaucratic process. All of which is understandable from a prudential risk point of view, but which could be easily addressed with a little more devolution and separation of roles and responsibilities.

In the PGF programme, for example, central government officials develop and hold the criteria for funding, they research, facilitate, develop and initiate projects, support proponents with business case development and feasibility studies, conduct due diligence, confirm, negotiate and propose funding arrangements and attempt to evaluate the entire programme as well as projects within it. Aftercare has been an afterthought and tends to be more about risk than regional success. No doubt we will accede to disaggregated national indicators as our evaluation measures of regional success which are almost completely devoid of attribution and do not measure what has been done.

The role of the PGF Independent Advisory Panel has been important in providing independent advice to reduce the risks associated with so much responsibility falling on the Provincial Development Unit. However, the risks associated with not having clear and separated roles and responsibilities between applicants (and those that have supported the development of investment-ready projects), officials, REDAs, funding decisions, aftercare, monitoring and evaluation are beyond an IAP. The separation of funding from project development and implementation, for example, would reduce the pressure on the PDU significantly and reduce risk for Government. The IAP could then concentrate on evaluating proposals on their merit.

RED policy, funding and decision-making are likewise highly centralised, frustrating local actors with unnecessary hurdles to progress projects that will benefit their region. Local actors are in a far better position to understand local dynamics, what will be transformative to their local economy, have the trust of local stakeholders and have good insight into project proponent's ability to do what they say they will do. They do not come cold to projects and have a good understanding of what is in train and what could cut across other efforts. Central government has insight across all regions and sectors and is in a far better position to consider and provide signals about regional specialisations, for example, that will complement rather than compete with others. It is also in a better position to provide integrated inter-regional and national interventions armed with regional intelligence from a networked REDA organisation like Economic Development New Zealand (EDNZ).

Increased subsidiarity would address role clarity, competitiveness, responsibilities and accountability across the whole system. New Zealand's economic development implementation currently relies heavily on local government funding for Economic Development Agencies and Regional (and District) Tourism Organisations.

In the provinces these organisations are either under-resourced for the task at hand or narrow in their focus. Further, the [R]EDA/RTO ecosystem varies across regions in organisational arrangements, cooperation, capability and capacity. As a result, central government agencies and officials, within their various institutional constraints, do their best to fill the gaps and work with local actors to try and realise regional aspirations. In the end though, they must act on behalf of their employer. This creates strong system inefficiencies due mainly to a lack of subsidiarity and compounded by a distinct lack of RED understanding and capability within all tiers of government.

Promoting strong, sustainable and inclusive RED is more than funding a series of, sometimes unrelated, projects. It is more than building new roads or airports. It is more than providing the (already overcrowded) school-to-work skills programmes for youth. It is all these things but fundamentally it is transforming or improving the structure of a regional economy over the long term to increase prosperity. To do this, long-term programmes of support for businesses, industry, clusters, sectors, R@D, innovation, smart specialisation, investment in hard and soft infrastructure and place-based development need to form part of an integrated RED plan. To implement comprehensive RED strategies requires partnership, building trust and collaboration and strengthening local institutions.
It is a complex long-term game that deserves thoughtful, strategic, connected interventions. An endogenous RED approach provides the principles for a more cohesive joined up approach that reaches across social, environmental and economic development efforts to deliver stainable economic development.

GOVERNMENT'S 30 YEAR PLAN FOR A PRODUCTIVE, SUSTAINABLE AND INCLUSIVE ECONOMY

Government's current focus is on regional economic development in 'the provinces' (rural regions) with the underlying logic of providing extra support to lagging regions in the belief that balanced growth can occur across the country. There is a raft of policy evidence supporting this approach. To achieve a productive, sustainable and inclusive economy (fig.2), however, requires a more integrated and sophisticated approach. RED has something to offer each of these goals.

Figure 2. Economic Plan for a productive sustainable and inclusive economy (NZ Government September 2019

Productivity

Though it's easy to sneer at national income as a shallow and materialistic measure, it correlates with every indicator of human flourishing...Most obviously, GDP per capita correlates with longevity, health and nutrition. Less obviously, it correlates with higher ethical values like peace, freedom, human rights and tolerance. Richer countries, on average, fight fewer wars with each other are more likely to become and stay democratic and have greater respect for human rights... The citizens of richer countries have greater respect for "emancipative" or liberal values such as women's equality, free speech, gay rights, participatory democracy and protection of the environment. Not surprisingly as countries get richer they get happier; more surprisingly as countries get richer they get smarter. (Pinker, (2018, p.96)

New Zealand does not perform well in productivity or productivity growth when compared to OECD partners – we have a productivity paradox. This is partly explained by an historical reliance on commodity production and exports. However, despite a growing diversity in New Zealand's economy and export mix in the last forty years, and decades of policy aimed at improving productivity through increased higher-value and value-added activities, productivity growth remains stubbornly low.

Michael Reddell an economist and ex Reserve Bank analyst is particularly critical of New Zealand's productivity performance. Not surprisingly being a macroeconomist, his analysis is a macroeconomic one. It does however elucidate the knotty policy problem that we face.

Our population has increased almost six fold since 1900. In that time, we've fallen from (roughly) the highest GDP per capita anywhere to somewhere badly trailing the OECD field - and maintaining even that standing only by work [sic] long hours per capita. (Reddell, M. 2019, Oct. 26).

In its recent report to the New Zealand Government the International Monetary Fund revealed that New Zealand has one of the lowest productivity growth rates in the OECD compounded by an overall negative growth rate post the global financial crisis in 2008.

New Zealand has had the lowest productivity growth post the Global Financial Crisis.

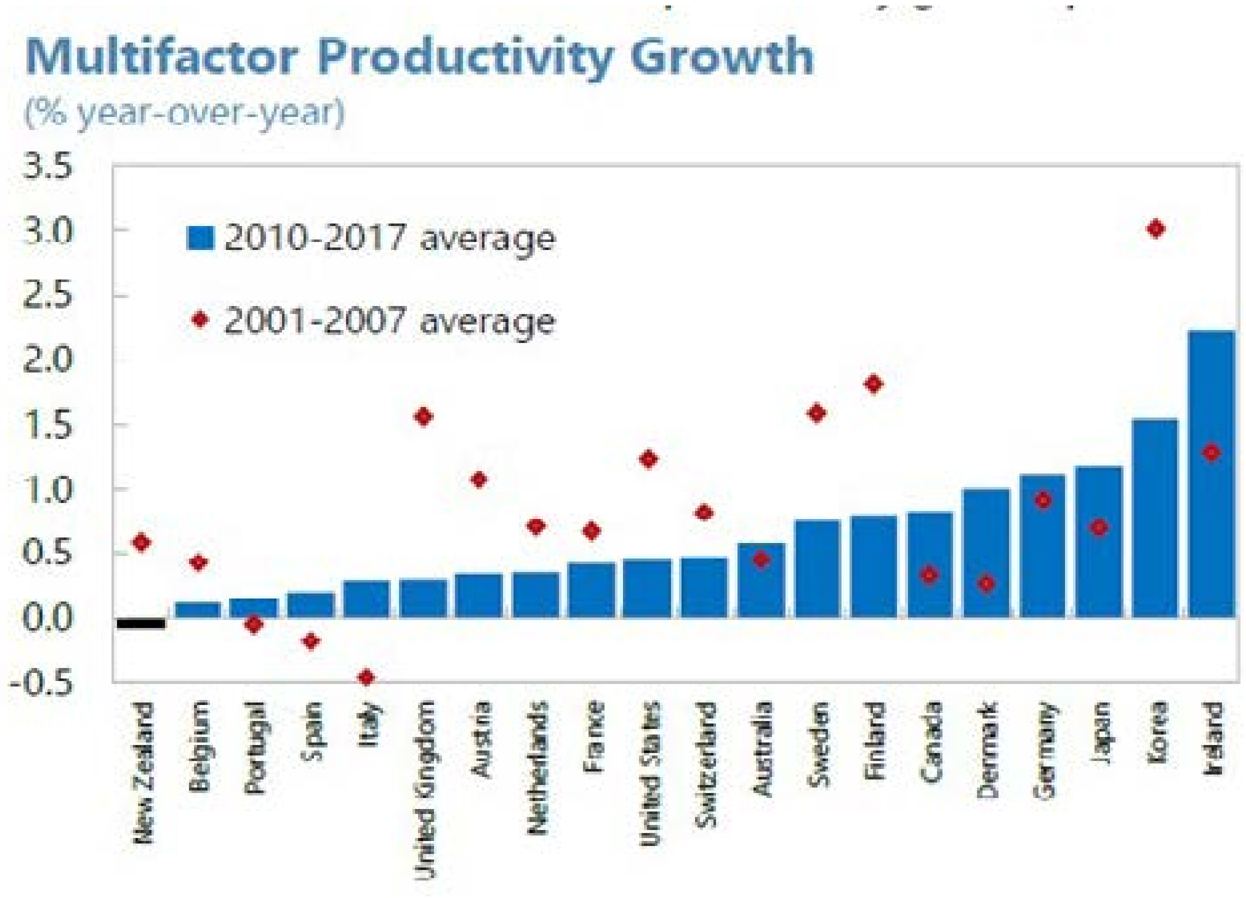


Figure 3. IMF NZ (2019) Article IV Consultation - Press Release and Staff Report

This picture is compounded when we compare New Zealand's multi-factor productivity growth rate to OECD member nations since 1984 post the liberalisation of our economy

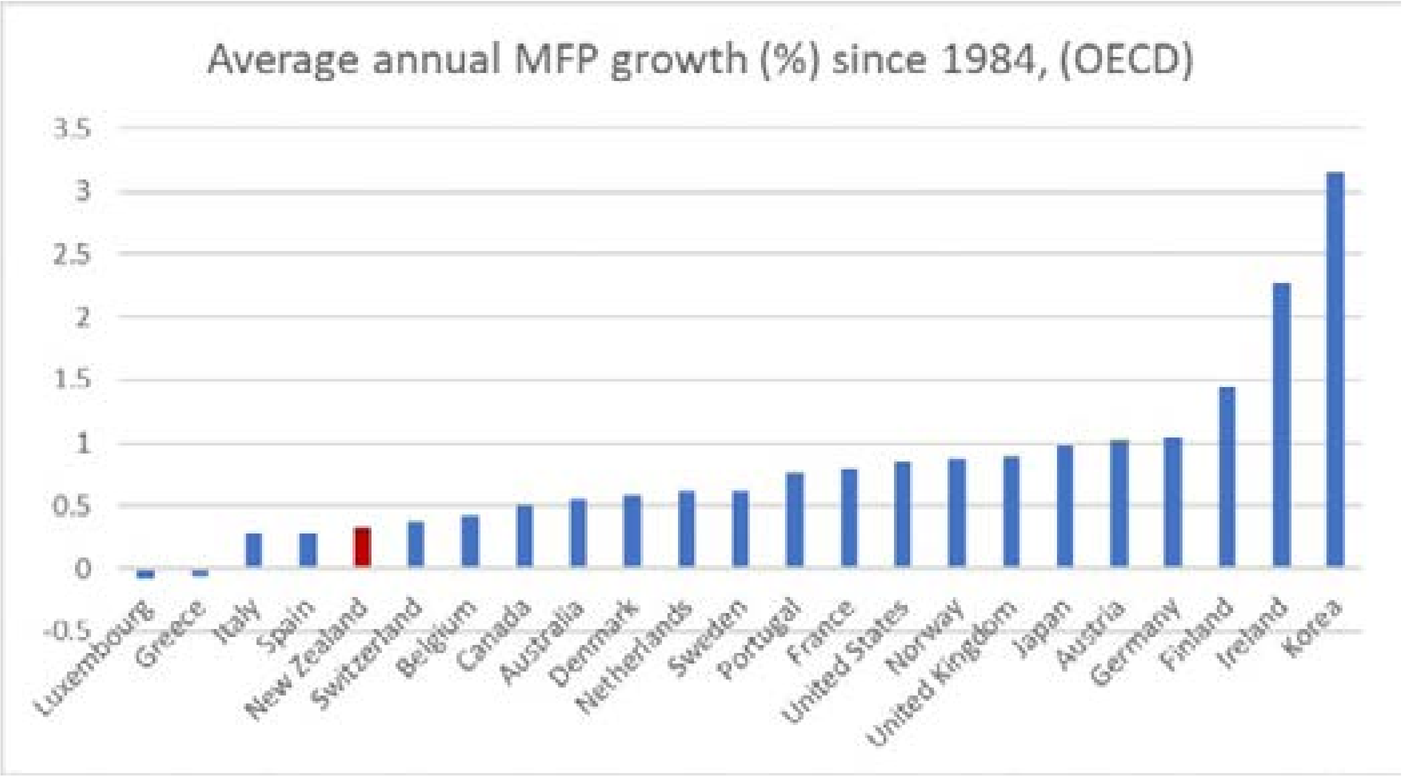


Figure 4 Reddell, M (2019) "Productivity growth (or lack of it)'.

Also concerning, and which is perhaps partly explained by our poor productivity performance, is the declining position of tradables versus non-tradables from the early 2000s. Compounding this, when comparing New Zealand to "similar others" in the OECD, our service sector exports, which tend to be a sign of an advanced economy and offer the opportunity for knowledge intensive and high value exports, are still stubbornly low.

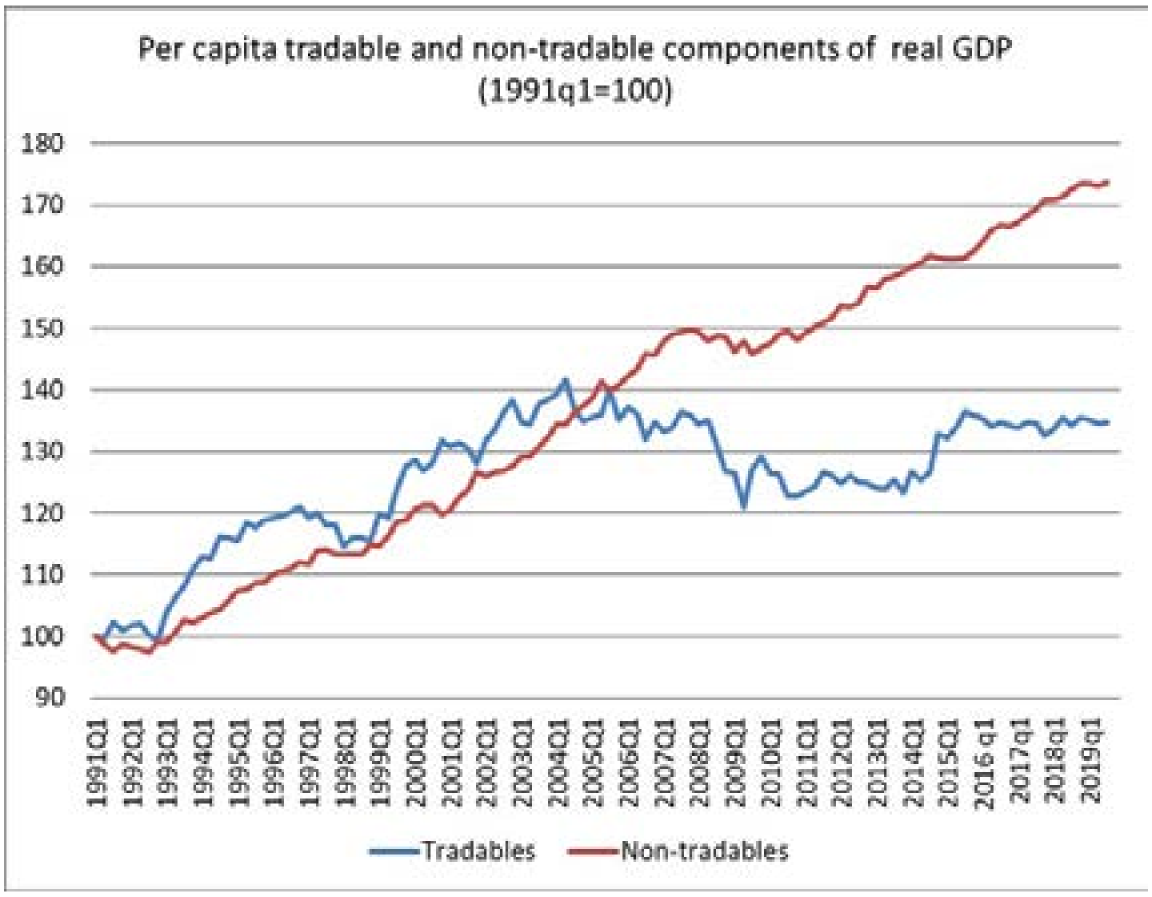


Figure 5 Reddell, M (SEp.20, 2019) 'Tradables and Non-Tradables'

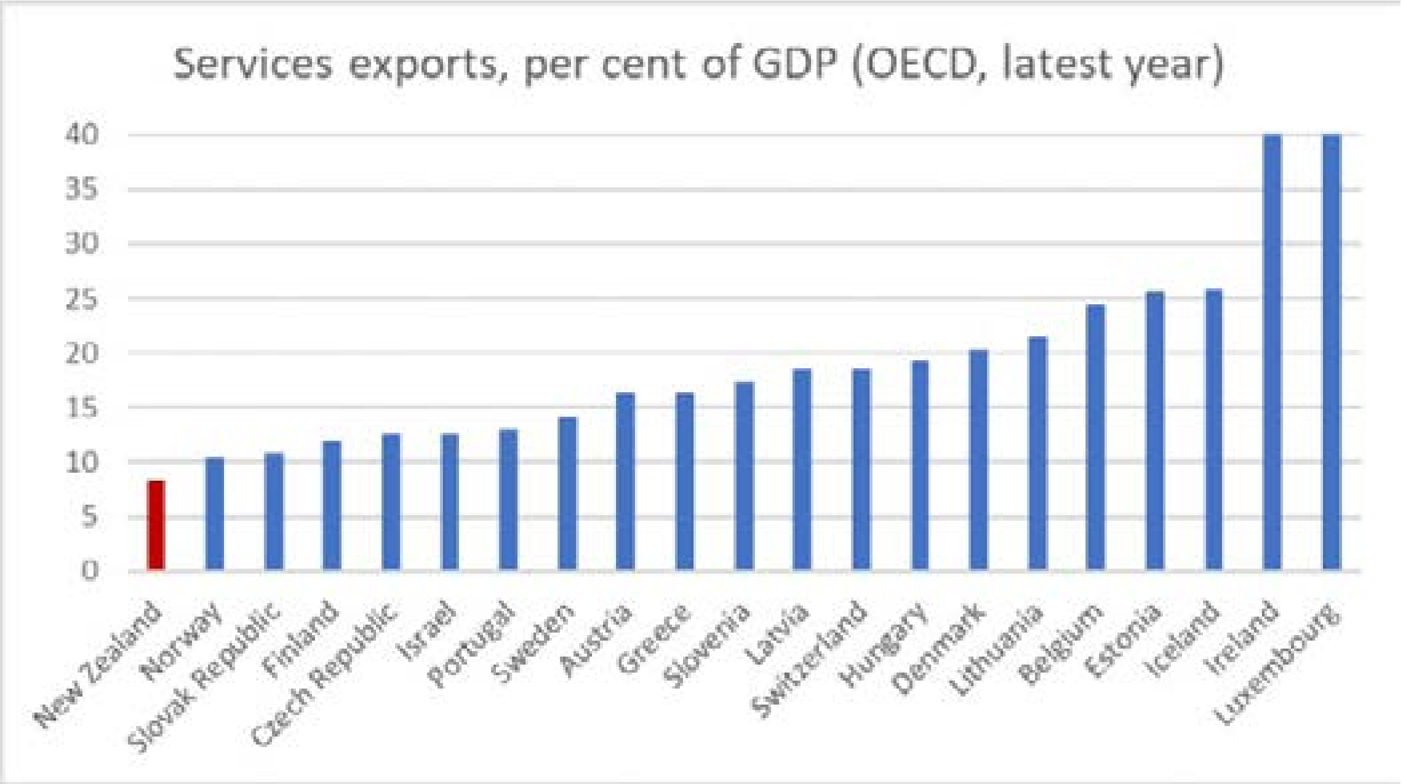


Figure 6 Reddell, M. (Se. 20, 2019) Services Exports in 'Tradables and Non-Tradables'.

Why is productivity important?

At the most fundamental level productivity growth, doing more with less, provides the opportunity for higher incomes and prosperity. Increased productivity requires us to think, to try new things, to experiment, to collaborate and to compete. Doing more with less, as a sustainable future requires us to do, compels us to achieve productivity growth through innovation; not by simply working harder or longer or using more natural resources that has been the hallmark of New Zealand's productivity gains in the past.

Increased productivity also provides the opportunity to spread benefits wider, across industries and occupations, and into households through technology transfer, increased human capital and disposable incomes. Productivity growth is a litmus test for competitiveness and overall economic performance. On this litmus test we are not doing well, and the government has recognised this in its 30-year Economic Plan. But the entrenched position of New Zealand's lacklustre productivity growth is not a new headline. Jawboning governors of the Reserve Bank and well written strategies have not been enough.

To increase productivity New Zealand must be world class in a few industry sectors and competitive in many more. We need to be smart and provide products and services that the world values. Our isolation, however, presents us with limitations, not just in logistics, but also in research and development, competitive market access, analysis and knowledge, and access to the skills and talent to build competitive, high value sectors. These limitations can be addressed with smart specialisations that build on inherent assets, strengths and know how. Regional specialisations provide pathways to national and global competitiveness.

Strategic RED provides the nexus between industry/sector specialisations and regional comparative advantages. These efforts need to be strengthened. Increasing productivity is a long game which needs to be supported by strategic industry, cluster and sector developments. The government can provide signals, and it can fund RED projects, but in the end, New Zealand must bed down its comparative advantages and turn them into world class strategic competitive advantages. This is the work of strong REDAs unlocking government policies and programmes together with private sector innovation and local know-how.

INCLUSIVE GROWTH

Inclusive Growth (or inclusive economies); we're measuring it, we're defining it, we're framing it, we're planning for it. Put simply 'Inclusive growth is economic growth that is distributed fairly across society and creates opportunities for all.' (OECD cited in Inclusive Growth Aotearoa workshop, EDNZ conference Oct, 2019). The inclusive growth movement, like endogenous RED, has also come in response to uneven, inequitable and divergent regional and community outcomes as a result of over thirty years of neoliberal "trickle down" economics.

> 'It is now clear to almost everyone that success in one place, or corner of a place, doesn't automatically spread everywhere else. Prosperity does not 'trickle down' sufficiently to justify giving sustenance to this model of social and economic policy. Simply, social policy cannot keep up with addressing the challenges for those left behind by the old, narrow economic growth regime.' (RSA Inclusive Growth Commission 2017).

Markets are not good mechanisms for distributing public goods where value judgements around the amount we are prepared to pay for some perceived benefit to society is at stake. The amount we are prepared to spend on health, how much we value education or environmental restoration cannot be left to a dispassionate market mechanism. Also, public investment in enabling growth, through infrastructure, research and education for example, should not be underestimated.

Most in the inclusive growth movement and contemporary RED understand these things intimately born out of the lived experiences of people in less developed countries and distressed regions (see endogenous development section below). Endogenous RED can support inclusive growth in several ways including flipping from an economic hunting approach to an economic gardening approach, by growing our own social, environmental and business enterprises locally, looking to make the purchasing power of government, businesses and NGOs work for localities, supporting community wealth creation, and by empowering local actors to address global and macro issues.

Most of all endogenous RED has the potential to increase prosperity that is rooted in the region. One of the key arms of Inclusive Growth is economic gardening; looking to grow endogenous or indigenous enterprises. This is in the sweet spot for REDAs who have enterprise development as one of their key strengths. The combined suite of economic development services, whether supporting innovation or attracting (inward) investment, can be tailored to an inclusive growth agenda. However, it is vital that development agencies are empowered to do that.

SUSTAINABILITY

Kate Raworth has designed a framework for considering economic, social and environmental sustainability together (see Fig. 7). She has encapsulated contemporary issues confronting economic development and what she considers a 'safe space for humanity'. Likewise, much of the inclusive growth literature and experience is geared toward similar ends; distributive and regenerative economies, democratic participation in economic development decisions and empowerment of citizens through mechanisms like participatory and deliberative democracy.

In Fig. 8 Raworth elaborates where, given evidence she can assemble, overshoot is occurring and, therefore, what needs to be addressed. Raworth has encapsulated some of the big issues facing economics, society, democracy and sustainability. At first daunting, but she has promoted distributive and regenerative economies as ways to address global sustainability challenges.

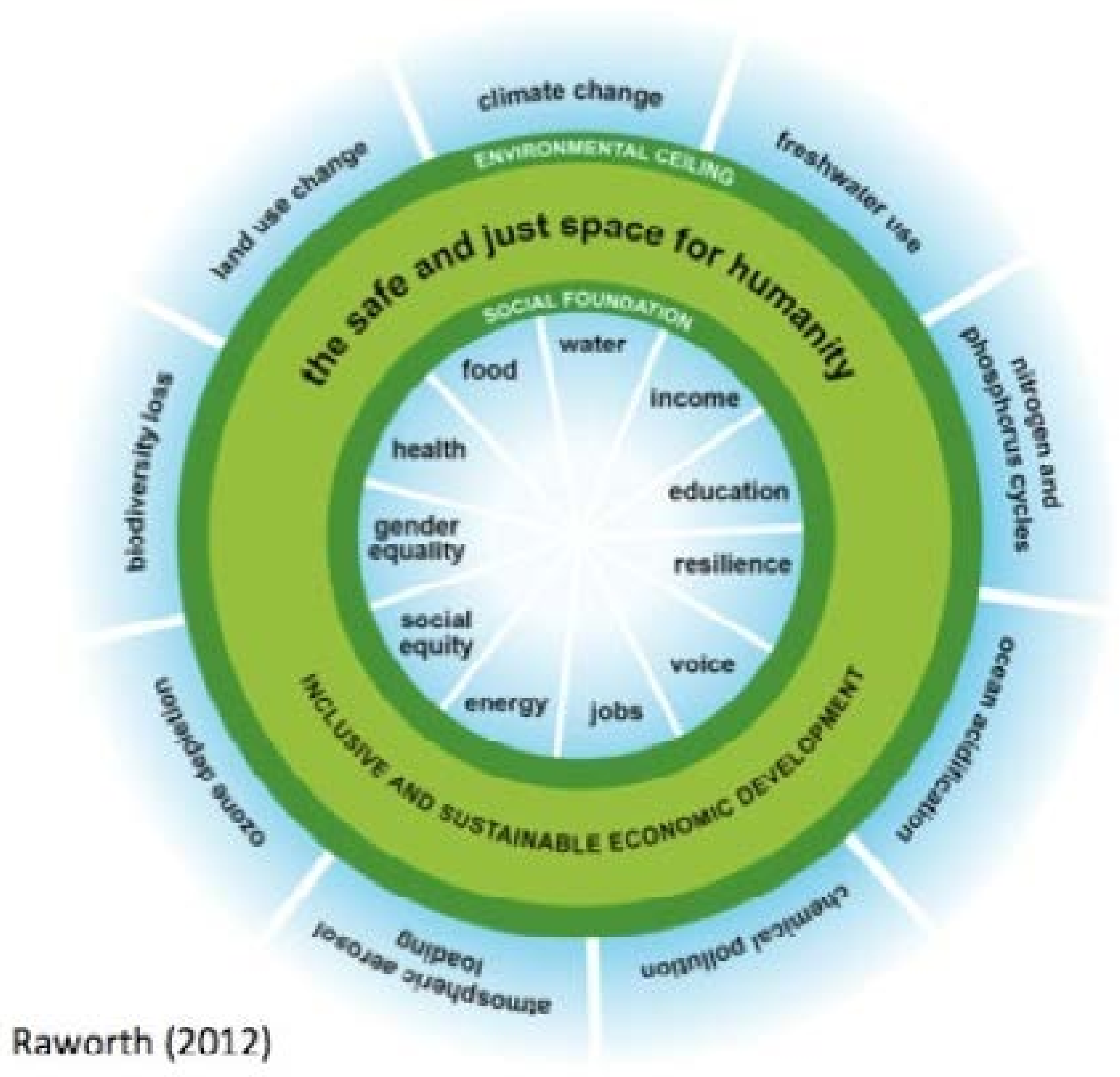
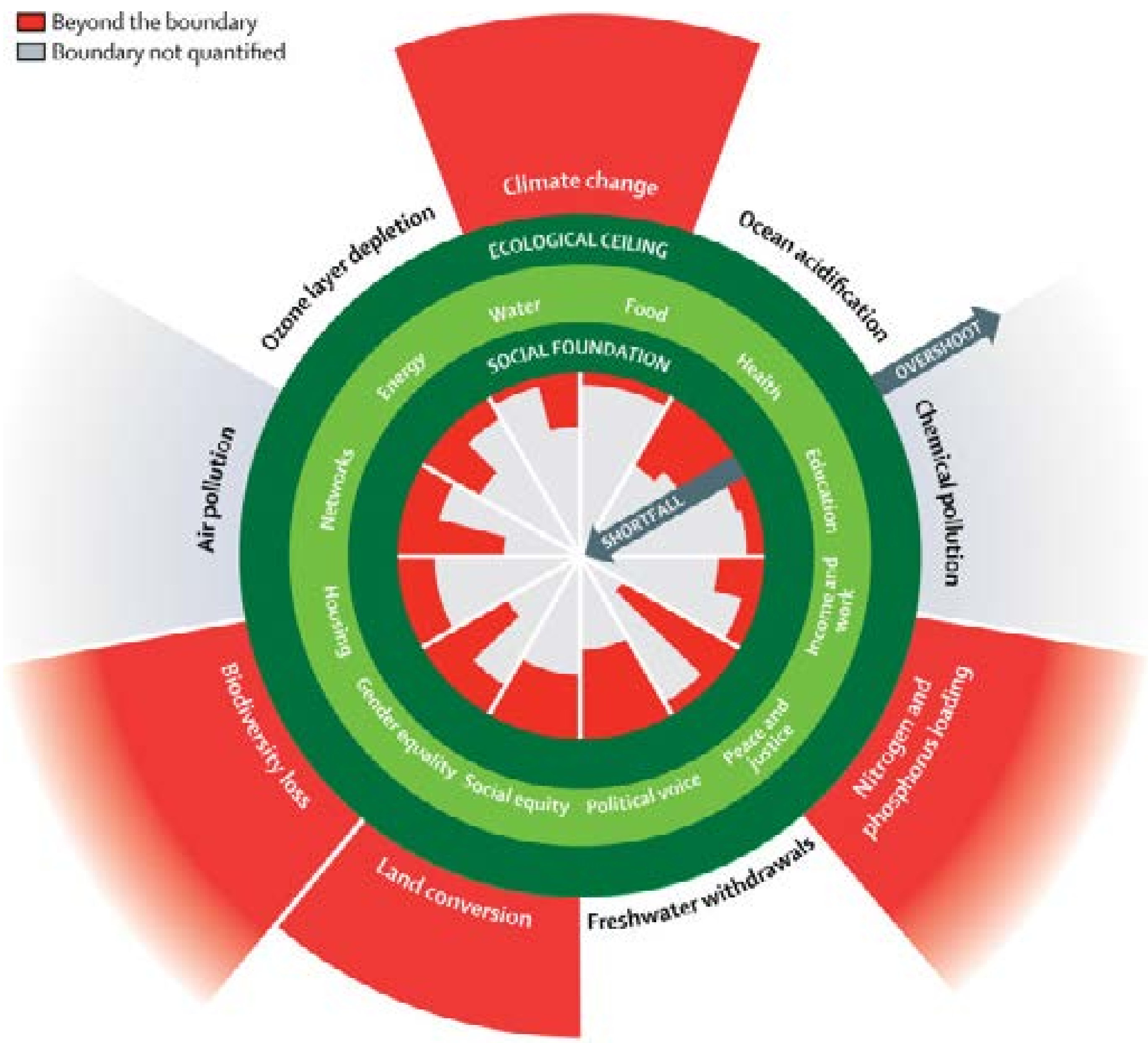


Figure 7. Kate Raworth: A safe and just space for humanity



An endogenous development framework does not ignore exogenous or global forces, on the contrary, looks to take advantage of global value chains and inward investment, albeit toward locally defined goals, and seeks to address global issues locally. It goes beyond framing big issues to implementing local projects, to testing and learning, and from narrow linear growth models to systemic networked ones.

Empowering regions to address global challenges is a pragmatic exercise as it can operate at a level where actions and progress are observable, and where different domains of knowledge come together to address complex and stubborn issues. The silos of economics, social development, sustainability and inclusiveness fuse at a local level. This belies narrow departmentalised policies and confronts inflexible funding regimes. It demands a more joined up approach that requires innovative thinking in government alongside non-government, civic and private sector innovation. It also requires a degree of institutional innovation that can meet the changing demands and dynamics of regions.

What is Regional Economic Development and how should we be approaching it?

Economic development differs from economic growth. Whereas economic development aims to improve the economic and social well-being of people, economic growth is a measure of the growth in market activity. As Nobel prize-winner Amartya Sen (1999, 2003) points out: 'economic growth is one aspect of the process of economic development.'

The three words in the phrase 'regional economic development' represent a territorial/geographic component (regional), functional components of the 'economic' (generating prosperity) and development (improvement) that benefits people. RED operates within wider national and global contexts (vertical integration), but connected to local areas, communities of interest, stakeholders, businesses and productive systems (horizontal integration).

Functionally RED operates at a 'meso' level, that is, between the local and the national or the local and the international, and between macro- and micro-economics. Regional economics and regional science require blending disciplines such as geography, politics, environmental studies, sociology and economics. Global issues that have local implications such as climate change, the future of work, aging populations and inclusiveness must be considered and are at the frontier of RED policy and practice. The practice of RED is evolving with strong academic, policy and practice pedigrees. The desire to enact policy at a regional level is also part of a global movement in understanding the interaction between subnational territories, their environments, economies, cultures and societies, and national interests.

Economic development can also be thought of as the qualitative improvement in the structure of the economy towards certain strategic goals, such as building comparative, competitive and collaborative advantages, resilience and sustainability. Such goals can involve multiple areas for development including human capital, skills, infrastructure, industry and business development, entrepreneurship and innovation, research and development, and investment. It can also involve improving the 'soft infrastructure' that supports development, such as improving trust, partnerships, collaboration, social and cultural capital, and the institutions that support all the above.

"The desire to enact policy at a regional level is also part of a global movement in understanding the interaction between subnational territories, their environments, economies, cultures and societies, and national interests. "

Regions that may have once relied on central government for economic policy to guide economic activity now find that the levers employed by central governments - subsidies, tariffs, trade agreements, monetary and fiscal policies – are constantly watched and lobbied by other nations and are becoming less effective in supporting RED efforts. Preferential trade agreements, for example, are only as effective as New Zealand's ability to trade. Increasing specialisations, strengthening our position in global value chains, foreign investment and the competition for skills and talent cut across national boundaries and has local effects. For a small isolated trading nation like New Zealand, dealing with trading partners that often have cities and regions with economies larger than New Zealand's entire GDP, this presents some challenges. It presents challenges around scale and scope, logistics, investment and competitiveness to name a few.

For regional economies to maintain or increase competitiveness, they must remain responsive to changing market conditions. These are not always apparent to firms who deal with information asymmetries, let alone regions with differing economies in scale and scope, differing governance and institutional capacity, differing transaction costs and trade barriers and differing human, natural and physical resources.

For New Zealand firms these constraints are even more apparent than for many of their competitors with much larger domestic and proximate international markets (Easton, 1997; Conway, 1999, Dalziel and Lattimore, 2004; Rowe 2005; Dalziel and Saunders, 2014). The same applies to regions with clusters of exporting firms involved in various parts of global value chains (Schöllman and Nischalke, 2005).

If you accept that diversified regional economies are fundamental to sustainable economic development, then planning and engagement at the regional level is fundamental. The question then arises; what does the practice of regional economic development entail? In RED, a territorial element is introduced to economics where the focus is at a meso-level, functionally between micro- and macro-economics, and territorially between local and national levels. Bottom-up forces (firm/industry/local/community ED aspirations) and top down (national-level) macroeconomic policies and strategies intersect and clash, or, with the right mechanisms in place, are orchestrated to regional and national advantage.

RED has become increasingly important as nations recognise the importance of regional economies to national economies in a globalising world. A territorial dimension, on the one hand, allows for observable phenomena with significant scale and scope, and on the other can cut across functional relationships that are inherent in markets, industry sectors and clusters of business activity. This dynamic is apparent when functional economic regions and place-based factors are considered together:

> At one time regions were protected from outside competition, and to some extent, their economies could be manipulated by national governments. But that ability has been overwhelmingly compromised as the economic rationalism pursued by many national governments left many cities and regions to fend for themselves. Many cities and regions have looked to higher levels of government for support and resources to provide economic direction and investment to stimulate economic development. Unfortunately, many cities and regions have failed to understand that globalisation has left those higher levels of governments relatively weak when it comes to using their inherent power to apply economic and policy mechanisms to enhance the competitiveness of regional economies. (Stimson, Stough and Nijkamp, 2011, p.7).

There are scale and scope differences that influence what is possible at a regional level. Local in this context aligns more with micro-level theory and actions (aimed at businesses) and regional tends to align more with meso-level theories and actions (including the above but extending to clusters, industries, sectors, innovation systems and place-based factors).

Scale is a confounding variable that is not well handled in macroeconomic theory. Due to definitional confusion in the international literature, Beer (2003, 2009) simply uses the terms local and regional interchangeably as both denote a territorial basis to analysis and action. The interpretation in this paper is regional (sub-national territories) which include (sub-regional) local areas. For the rest of this section, the reader can interpret regional and local interchangeably.

> Blakely (1994) described local economic development as process-oriented:
> …That is, it is a process involving the formation of new institutions, the development of alternative industries, the improvement of the capacity of existing employers to produce better products, the identification of new markets, the transfer of knowledge, and the nurturing of new firms and enterprises. (Blakely, 1994, cited in Rowe, 2004, p.2).

Professor Xavier Greffe had a more bottom-up approach emphasising that the process needs to be part of local community activity. Greffe viewed the relational and institutional aspects of a community as the precursor to, or basis for, development. Therefore, he viewed local economic development as:

... a wide-ranging concept that can best be seen as a process through which a certain number of institutions and/or local people mobilise themselves in a given locality in order to create, reinforce and stabilise activities using as best as possible the resources of the territory. (Greffe cited in OECD, 1999, p.6).

Continuing from Greffe's view of the importance of bottom-up processes and strengthening local institutions, Vázquez-Barquero (2010) considered that endogenous development processes are the main concern of local and regional development. He argued that an evolutionary, as well as institutional approach, is needed; one that goes beyond traditional neo-classical and macroeconomic constructs for understanding regional growth and development.

He considered:

...development as a territorial process of growth and structural change in which the local actors and communities are committed... [and] that this approach is an interpretation capable of analysing the on-going dynamic and economic changes and is a valid instrument for action in a context of continuous economic, organisational, technological, political, and institutional change (p. vi).

Endogenous RED, therefore, is a process in which local actors are committed to certain economic development outcomes, pursued on a territorial basis, utilising the knowledge and resources available to that territory.

There are differences between macro- and meso- economic theory and practice, and between national economic policies and actions and those taken at a city or regional level. As such there are differences between the solutions with some arguing that it is the job of lower tiers of government and development agencies to implement national strategies and policies, and alignment and coordination are key to implementing policy. Others would determine that there are different regional (territorial) dynamics that require attention and that these should drive national and regional efforts (Clark, 2005; Clark et al., 2006; Vázquez-Barquero, 2010; Stimson, Stough and Nijkamp 2011, Dalziel and Saunders, 2005, 2014; Wilson, 2016, Pike et al, 2017).

These differing views can be polarising when trying to achieve a concerted and strategic approach at a regional level. However, combining the evolution of RED theory with macroeconomic theory has the potential to inform economic development theory and practice at both levels. Macroeconomic theories utilise functional abstract constructs such as capital, labour, prices, markets, productivity, income, growth, employment, unemployment and comparative advantage. Regional economics, on the other hand, must deal with territorial dynamics; geographical, economic, human and institutional, that together provide different factors for development. This is not an easy alliance, as the constructs, theories, sources of evidence and assumptions differ considerably between disciplines.

New Growth Theory (NGT) and New Economic Geography (NEG) are examples of a fusion between economics and geography. They are interdisciplinary approaches to understanding the relevance of macroeconomic concepts at different spatial and functional scales. For example, some writers have questioned the relative importance of comparative advantage in regional development given the absence of, and the undifferentiated effect of, macroeconomic levers like monetary control, interest rates and exchange rates.[3] Moreover macroeconomic theories and frameworks do not adequately explain why some regions do better than others, and why, sometimes, there is no convergence among regions.[4]

Also, important regional factors like institutional thickness, learning, flexibility, sector specialisations, clustering effects, knowledge exchange and regional innovation can be place-specific and heterogeneous. Geographers and other social scientists have also contributed to RED theories by exploring the dynamics of "place" and "space"; the notion that there is something about the human dynamics in a place that explain RED better than abstract macroeconomic theories.

Thus, uncovering the territorial context and the underlying reasons for growth are both important factors to consider in RED.

Data and analysis, therefore, need to be assembled at more appropriate spatial and functional levels using concepts, theories, constructs and notions appropriate to the task. As Capello and Nijkamp (2009, p.1) point out 'Regional development is not only an efficiency issue in economic policy, it is also an equity issue due to the fact that economic development normally exhibits a significant degree of spatial variability.'

Thus '…[T]he study of socio-economic processes and inequalities at meso and regional levels positions regions at the core place of policy action and hence warrants intensive conceptual and applied research efforts.'

Economists have also considered the dynamics of space (place, territory) and many economic theories are the basis for contemporary regional economic policy and action. The exploration of spatial dynamics can be attributed to the works of a number of scholars who have attempted to understand the interrelated dynamics of territory and economy. For example, Schumpeter explored industrial dynamics allowing new entrepreneurs to initiate and take advantage of creative destruction. [5] He proposed that entrepreneurs see opportunities arise out of a business context through interaction with other workers, firms and entrepreneurs, thus learning what is possible and what is not, by observing market failures and opportunities within the workplace.

Myrdal's 'cumulative causation theory' (1957) proposed that the right combination of factors within an industry and a region will cause that industry to gain a competitive advantage. Better exchange of knowledge, technology and processes happen between and within firms thus causing a cumulative growth effect as constant learning, and the advances in technology and productive processes, set one group of businesses on a path of growth whereas those separated by distance and less interaction are disadvantaged. Proximity, therefore, creates a self-reinforcing and cumulative growth effect that otherwise might not have happened.

Perroux's (1955) 'growth poles' are similar to Myrdal in that there is a cumulative effect caused by the dynamics of a place. But, according to Perroux, that place is often anchored by a significant producer, or producers, that have a competitive advantage and create forward and backward linkages that cause the growth of industry sectors around them.

Porter's (1990, 1998) cluster theory described the dynamics of not only industry-specific relationships but the functional relationships and networks that are created by ideas or market opportunities thus forming a group of market-related firms. The cluster concept is different from the traditional notion of an industry sector in that a cluster would include all of those needed to meet a certain market need. For example, a wine cluster would include those involved in the marketing, bottle manufacture, label printing, grape growing, wine making, and competitors, with the idea that this set of relationships together will give the combined group a competitive advantage over another group of less well-organised firms in another place. Whereas, Schumpeter, Myrdal and Perroux were observing positive externalities from competition, Porter's primary focus was how to gain collaborative advantages.

Other literature includes a recent resurgence of agglomeration theories, Florida's creative classes, [regional] innovation systems and endogenous sources of innovation, knowledge spill-overs and 'learning regions.' Antonio Vázquez-Barquero (2010) proposed that new forms of territorially based economic development policies are emerging that go beyond the older neoclassical prescriptions emphasising gaining a more in-depth understanding of the dynamics of a region:

Contemporary RED literature attempts to interpret the endogenous factors that underpin regional growth. In these respects, endogenous development or endogenous growth theories stemming mainly from Romer (1986), Lucas (1988) and Krugman (1991, 1995, 1996) are further developed in a regional development context by a vast number of writers (Vazquez-Barquero 2006, 2009, 2010; Capello and Nijkamp 2009; Stimson, Stough and Nijkamp 2011; Wilson 2016; Pike et al, 2017; OECD 2018).

These developments hold much promise in RED from the interaction of functional economic concepts with scale factors, spatial determinants of growth and innovation, and path-dependent and context-specific factors. Highly nuanced and complex regional science and econometric models that have been developed attempt to capture and define notions such as creativity, leadership, institutional capacity, knowledge and innovation, however, these notions resist definition and are often context specific.

Yet, these intangible factors are increasingly recognised as the factors that determine RED outcomes in lagging regions where path dependencies may hinder development and diversification.

The neo-liberal economic rationalist approach, Beer (2009) argued, has the potential to keep theory and practice apart, and even diverging further, if academics persist with reductionist theoretical models of development that have come mainly from macroeconomic theories:

Academics and economic development professionals need to work together to identify priorities and then undertake the investigations necessary to produce a much stronger knowledge base on effective local and regional development. Inaction in this area would see practitioners and researchers drift further apart and contribute to the continuing weakness of this sector.' (Beer in Rowe (ed.) 2009, p.85).

Not only is there a misalignment between academics, economists and practitioners there is a divide between central government policy makers and practitioners. A more pragmatic endogenous approach to RED is required. Endogenous development and RED intersect in a desire to mobilise local resources for development when traditional neoclassical forms of economic development at a macroeconomic level are missing in action.

As Massey (1984) put it endogenous development is 'based on the assumption that each local community has been historically shaped by the relations and interests of its social groups, the construction of its own identity, and its own culture which distinguishes it from other communities' (cited in Vázquez-Barquero, 2010, p.57). An endogenous development approach seeks to understand the relationships, patterns and networks that underpin development, whereas much of contemporary RED practice works within established national frameworks and strategies to implement national economic development policies.

In New Zealand vertical and horizontal integration and fit-for-purpose governance at a regional level for the purpose of contemporary RED practice have not been evident (Wilson et al., 2006; Froy and Giguère, 2010; Lambert, 2011). The implementation of the Provincial Growth Fund is no different.

ENDOGENOUS DEVELOPMENT: DEVELOPING FROM WITHIN

The Collins Compact English Dictionary describes 'endogenous' as; "adj Biol: developing or originating from within", describing processes that originate or develop from within an organism or system. Economics has borrowed this term to describe phenomena or processes that originate or develop from within a productive system. Endogenous economic development, therefore, is highly sensitive to context and the forces, patterns and conditions that give rise to development. Endogenous development concepts have been used to inform development and RED theories and practices which has led to a stronger synthesis of endogenous development with RED.

Endogenous development in a broader development context, outside of RED, focuses more directly on human development and utilising different forms of local knowledge and resources as a basis for development. In this context development may be interpreted by a community as regarding health, education or sustainability outcomes rather than, or as well as, economic outcomes. For example, no growth and environmental restoration may be endogenous development pathways for communities that feel they have had little gain from exogenous forms of development imposed upon them.

Endogenous development includes notions of empowerment, local ownership and control of productive systems, sustainability and socio-economic development. These are prevalent in sociological interpretations, rural studies and third world development literature. [6]A criticism of endogenous development is that it tends to be ideal-typical and promotes romantic notions of self-determination that deny the realities of exogenous/external influences such as economic globalisation, technology, communications and logistics.

Three main streams of endogenous development literature are summarised below. The first and second streams are drawn from third world and rural contexts. The third concentrates on endogenous development concepts that have informed neo-classical economics. These take the reader on a logic trail to endogenous RED in the next section.

The first stream of literature stems from development literature in the third world. This literature can be sociological and anthropological as well as economical in its interpretations of development, where the emphasis is on notions of equity, power, empowerment, and [dis]enfranchisement in reaction to exogenous forms of development, for example aid programmes.

Many of the concepts in this literature stem from utilising traditional and local knowledge to solve development problems. These may include advancing health outcomes, encouraging sustainable development and the ownership of local resources, encouraging the return to diversity in biosystems and food production, economic, environmental and social justice and cultural autonomy. All of these concepts or strategies sit against a backdrop of powerful multi-national companies and international aid organisations with mainly exogenous forms of development and structural reforms in return for financing development.

Endogenous development theories in a third world context are less empirically developed often using inductive theorising and ex-post observations with limited generalisability due to the evidence being very context-specific and coming from the lived experiences of development agents and locals. This is perhaps self-evident as the frameworks, concepts and interventions are inherently generic, and the experiences are often a result of development happening to communities rather than with, for or by communities.

In other words, specific contexts and circumstances have given rise to a reaction to imposed forms of development with case studies and anthropological studies being the predominant forms of evidence. An inductive approach to gathering evidence, therefore, is deemed more appropriate, and deductive reasoning from grand economic theories is deemed remote, abstract and inappropriate. Even "endogenous development theory" as advanced in regional development literature, with notions of leadership, innovation, creativity and institutional capacity, may seem somewhat abstract and ideologically purist in a village without clean drinking water, basic infrastructure, health and educational services, or when communities are at the mercy of despots and enmeshed in national, tribal, religious or political turmoil. In these cases, emancipation and human development are the endogenous development priorities rather than abstract economic constructs.

The second stream of literature stems mainly from observations of regional disparities and divergence in developed economies at odds with macroeconomic convergence theories. Much of this critique comes from sociological interpretations of development in rural regions looking at issues of:

- [In]equity
- Inter-regional disparities
- Intra-regional disparities
- The rural/urban divide; particularly relevant when a city's rural hinterland becomes relatively less productive – at least in the traditional sense of rural production - and there is pressure to change land-use policies and practices
- The changing nature of rural economies in a post-Fordist paradigm, and
- A questioning of neoclassical convergence theory due to differing contexts, assets and resources in rural areas. [7]

Globalisation has also played a part in this literature where notions of connectedness, self-determination, devolution, capacity building, strong local governance, social capital and cultural integrity (or cultural capital) are regarded as playing major roles in how rural regions address wider global forces of change in, for example, labour and capital mobility. This literature has a strong stream of interpretation that rural regions are lagging cities as a result of urbanisation. The literature provides a critique of the increasing focus on cities and the "knowledge economy" at the expense of productive rural areas with their focus on the "real economy".

Frank Vanclay (2011), in a sociological perspective of endogenous development in rural regions, makes the point that the purpose of endogenous rural development is primarily sustainability, not regional economic growth. Endogenous rural development literature has self-determination and local control over productive systems and resources as predominant themes. Vanclay proposed a set of values associated with endogenous rural development (expanding on Slee (1994) and Bowler (1999)) that provides a framework for viewing endogenous development as social and economic constructs with the utilisation and preservation of local resources being a local determination. Those values were:

- a goal to create diversified, resilient and sustainable local economies;
- local determination of development options;
- local control over the development process;
- retention of benefits locally;
- Utilisation of locally available resources (natural, human and cultural);
- valorisation of "the local" and "place", especially what is locally unique or special, and respect for local values;
- awareness of the rural as being post-productivist, that is, being a site of consumption as well as a site of production;
- appreciation of multi-functionality.

He goes on to explain that 'multi-functionality' refers to the production of both market and non-market goods 'such as environmental protection, landscape management, preservation of biodiversity and habitat protection, ecosystem services, carbon sinks, maintenance of cultural heritage, employment and livelihoods for rural people, and food security' (pp 60-61). These values involve a mix of global issues and local action to provide a framework for determining endogenous development in rural regions.

THE LEADER APPROACH

One of the most compelling examples of this type of approach is the LEADER programme of the OECD used to advance local development in rural regions. LEADER was conceived as 'an integrated and endogenous approach to rural development.' Running from 1991 to 2006 LEADER had seven components or principles, in its approach:

- Area-based
- Bottom-up – encouraging participatory decision-making
- Partnership – utilising a LAG (Local Action Group) to bring local institutions and groups together to enable focus on local development projects.
- Innovation – promoting innovative local solutions to development issues
- Integration – ensuring actions and programmes are linked to other strategies and actions and across sectors
- Networking and cooperation – through the dissemination of information and learning and transfer of good practice and innovative ideas between areas
- Local financing and management – a subsidiarity principle whereby decision-making, financing and management were devolved to the LAGs whenever it was thought institutional capacity was strong enough (otherwise capacity building was encouraged as part of the process). (Vanclay, 2011, p. 63).

An observation is that area-based partnership, innovation, [horizontal] integration, networking, cooperation and subsidiarity are principles that also apply to endogenous RED. Therefore, an endogenous RED approach is one that stems from within the region, accounting for and addressing exogenous factors and market forces rather than strictly a bottom-up approach.

Gralton and Vanclay, (2006, 2009) assessed that the LEADER programme and endogenous rural development 'has far greater potential to be sustainable than, typically, do exogenous forms of development' and that the benefits extended 'far beyond what is normally considered by traditional economic indicators or measured as "growth".' These included:

- Increased pride in where people lived
- Increased sense of being part of a community
- Increased interest in participating in community activities
- Increased social networks (social capital)
- An increased sense of place. (Vanclay, 2008 cited in Vanclay, 2011, p.66).

However, despite the evidence supporting endogenous rural development in the LEADER programme, it is primarily a development 'philosophy' at the local level that can support the integration of endogenous and exogenous forms of development towards sustainable regional development (ibid). Vanclay proposed that the multi-functionality was a desire to move from mono-cultural approaches to heterogeneity in agriculture (from single crop industrialisation to ecosystem diversity) providing for the long-term health of local ecosystems.

This critique is also evident in development literature of the third world, where the relative merits of both endogenous and exogenous forms of development can be debated, and where there are no clear lines of demarcation. As van der Ploeg (2011) explained endogenous and exogenous development are not mutually exclusive pathways, they are intertwined in a region's development. They are, however, useful frameworks for establishing where the benefits accrue and are essentially a 'heuristic device' that can aid in assessing development pathways and trajectories (van der Ploeg et al. 2000, cited in Vanclay, 2011, p. 60). For example, heterogeneity in agriculture is '…a multidimensional phenomenon' that can analyse at least part of the diversity through the 'degree of autonomy or dependency' (ibid).

So, whether development is more endogenous or exogenous is not to be defined in ideal-typical terms, as endogenous development is not exclusively based on local resources, nor is exogenous development only defined as encompassing external elements, such as foreign investment. 'What empirical research indicates is that both contain a specific balance between "internal" and "external" elements'; the unravelling of which is determined, for analytical and development purposes, by where the benefits of the utilisation of local resources fall, how development is framed and whether resources, endogenous or exogenous, "fit" with local expectations of the outcomes of development:

> ...What turns out to be decisive is that, in the case of exogenous development patterns, it is the outside or external elements that compose the conceptual model from which the eventual utility of local resources is judged. If the latter "fit" with the former, they are integrated according to the rationale of the already established model. If not, they will increasingly be considered as outdated, worthless and/or as a "hindrance" to change. In endogenous development patterns, on the other hand, a different balance is to be encountered. It is the local resources, as combined and developed in local styles of farming that figure as the starting point as well as the yardstick for the evaluation of the eventual utility of "external" elements. If the latter may be used to strengthen both the specificity and the vitality of local farming styles, they will be internalised... If no "fit" can be created, the external elements will remain what they are, that is, "outside" elements.' (van der Ploeg, 2011, pp. 3,4).

In the case of endogenous economic development, the same principles can apply. Exogenous forms of development can be judged by their utility to endogenous forms of development. In the case of inward investment, for example, investment can be judged as to how it supports the strategic development of the local economy.

An observation is that area-based partnership, innovation, [horizontal] integration, networking, cooperation and subsidiarity are principles that also apply to endogenous RED. Therefore, an endogenous RED approach is one that stems from within the region, accounting for and addressing exogenous factors and market forces rather than strictly a bottom-up approach.

Gralton and Vanclay, (2006, 2009) assessed that the LEADER programme and endogenous rural development 'has far greater potential to be sustainable than, typically, do exogenous forms of development' and that the benefits extended 'far beyond what is normally considered by traditional economic indicators or measured as "growth".' These included:

- Increased pride in where people lived
- Increased sense of being part of a community
- Increased interest in participating in community activities
- Increased social networks (social capital)
- An increased sense of place. (Vanclay, 2008 cited in Vanclay, 2011, p.66).

ENDOGENOUS RED: REALISING REGIONAL POTENTIAL

Notions of endogenous development in developed nations have tended to be thought of through an economistic lens, such as endogenous growth theory or new growth theory. However, there are examples of endogenous development being part of the array of tactics and strategies used in developed nations, that go beyond the neoclassical economic roots of endogenous growth theory, looking to build on endogenous resources. Much of this approach is evident in territorial or 'place-based' approaches. For example 'new economic geography' and 'new regionalism' seek to interpret the dynamics of networks and relationships in a place and how they are manifest through evolutionary and institutional factors to produce regional growth and development (Vázquez-Barquero, 2010; OECD, 2010a; Taylor and Plummer, 2011; Stimson, Stough and Nijkamp, 2011; McCann and Ortega-Argilés, 2013; Wilson, 2016).

Endogenous RED is territorially based. It places more emphasis on human capital, capital accumulation, the forces and evolution of development, and the institutional capacity in a 'place' that guides development. It is more cognisant of knowledge and learning, innovation, networks and relationships that provide the glue, connectivity and bases for development.

Thus, the conditions that have given rise to endogenous development thought and actions in RED have come from disciplines other than economics. The constant invention and re-invention of RED practices have moved beyond neoclassical and or neoliberal economics proposed by Romer (1986, 1990), and Solow (1956, 1994, 2000), to a new interpretation and understanding of regional growth and development. Stimson and Stough put it this way:

> Over the past two decades or so the emphasis in regional economic development theory shifted from exogenous to endogenous factors. Traditional regional economic development approaches were erected on neoclassical economic growth theory, based largely on the Solow growth model (1956, 2000). New approaches while recognising that development is framed by exogenous factors recognises a much more significant role for endogenous forces. In this context a suite of models and arguments that broadly convey the new growth theory are directed towards endogenous factors and processes (see for example Johansson, Karlsson and Stough, 2001). Those factors are seen as fundamental drivers of regional economic development arising from the resource endowments and knowledge base of a region. Endogenous factors include entrepreneurship, innovation, the adoption of new technologies, leadership, institutional capacity and capability, and learning. (Stimson and Stough in Rowe (ed.) 2009, p.169).

A neoclassical view of economic growth would contend that markets tend towards equilibrium. For example, the unencumbered operation of currency exchange across national borders would see, all things being equal, regional convergence, settled and realistic exchange rates, and the true value of currencies and regional exports. Self-equilibrating markets would settle at the true market rate for currencies (price for currencies). Therefore, investment will flow to those economies where labour and capital costs are low (the cost of production is low) aiding in the development of less developed regions. In a neo-classical economic world, those cost differentials should eventually equalise, as economies develop, providing diminishing returns on investment. If investment provides diminishing returns, then new markets will be created as the result of exogenous factors and firms can adopt, internalise and take advantage of new technology. Most of the factors of production in the neoclassical view are tangible and measurable lending themselves to econometric models of growth.

New growth theory (NGT) proposes that economic growth is more dependent on internal production processes than simply exogenous factors like available natural resources, capital, machinery, labour or new technology. It places more emphasis on entrepreneurship and innovation, and on advances in technology and knowledge; including both tacit knowledge (knowledge gained by workers through their experience of productive processes) and new knowledge (research and development) leading to increased productivity. Thus, an increase in human capital becomes critical to increasing innovation, which in turn can increase productivity.

Endogenous Growth Theory (EGT) proposes that many of the processes that cause growth are 'endogenous' to the local productive system or firm. These include factors that neo-classical theory largely discounts, or has little emphasis on, such as increases in human capital, skills, technology and innovation advances at the firm level. EGT also proposes that there can be increasing returns to scale from capital investment in productive systems (through learning, management and efficiency gains, not just capital equipment) and human capital (investment in skills and knowledge). EGT also includes innovation, entrepreneurship, firm dynamics and human capital as endogenous processes, unlike neoclassical theories that view innovation as an exogenous process. Both NGT and EGT focus on bounded productive systems.

Endogenous RED, building on NGT and EGT, tries to attend to other dynamics associated with path-dependency, institutional and evolutionary economics such as institutions, networks and milieu effects (geographic and place effects), social capital, leadership, learning and creativity. These soft factors provide the context for RED. Thus, economic development is the result of forces not explicitly included in the production function (McCann, 2011). Endogenous RED, therefore, synthesises economic constructs with geographic and place-based factors.

Endogenous RED requires different disciplines to uncover the various dynamics of RED ranging on a continuum of positivist to constructionist, with different forms of evidence and different bases for theoretical construction (Hertz, 2009 in Stimson, Stough and Nijkamp, 2011, p.8). Most often the Endogenous RED factors under observation are analysed in a reductionist [economistic] form or with inadequate definitions or theoretical constructs. For example, Taylor and Plummer (2011) building on a study in vocational and educational training in regional development, discuss the 'stylized facts' of economic theories that form the basis of much of the endogenous growth literature contrasted with the 'contingency' of new regionalism with mainly qualitative evidence gathered through fine-grained case studies – an observation of practice.

Taylor and Plummer proposed that the way forward is to 'blend the economism of 'endogenous [growth] theory', and its "extensive" research strategy, with the social constructionism of 'new regionalism' and its "intensive" research strategy.' This is because:

...both endogenous regional theory and geography's 'new regionalism' are caricatures of functioning regional economies, both of which posit processes that are necessary to developing an understanding of economic change at the regional scale, but neither of which offers sufficient explanation on its own.' (Taylor and Plummer in Stimson, Stough and Nijkamp, 2011, p.41).

Essentially then an endogenous RED approach is one that moves beyond the reductionism and 'stylised' facts of neoclassical economics to a wider understanding of the conditions and contexts that give rise to RED (Vázquez-Barquero, 2010). An endogenous RED approach, therefore, has the potential to provide a complete picture of the factors and conditions that give rise to regional economic development. Where, for example, place-based social, human and cultural capital are considered, related benefits may accrue such as reducing inequality, increasing pride and a sense of belonging, and improving the long-term health and functioning of the regional economy. Where the role of soft factors like leadership, social and cultural capital, institutional strength, innovation, creativity, knowledge and learning can be better understood regions have more factors that they can influence, unlike, for example, exogenous factors expressed through national or international policies (McCann and Ortega-Argilés, 2013; OECD, 2013).

What is clear is that understanding the context within which RED takes place is critical. As is an understanding that the mechanisms for RED need to be strengthened so that work at all levels can be undertaken. Interventions can then be formulated to address both hard and soft factors, wider economic systems and exogenous forces to formulate, catalyse and initiate local opportunities for development.

A top-down centrally driven homogenous approach is inadequate on several levels, but most importantly it is inadequate in supporting regions to develop using local knowledge, resources and connections. This requires increased capacity and capability at the regional level, there is no substitute for this. Therefore, strong partnerships between national and regional/local governments and institutions is desirable to account for, and take advantage of, local knowledge and resources at the same time as developing higher level strategies and policies that consider wider contexts, macroeconomic settings and exogenous forces.

The risks associated with a centralised approach include misunderstanding or misinterpreting what is possible and viable, misaligned policies, clumsy overly bureaucratic processes, duplication and/or wasted efforts, the wrong priorities gaining acceptance, opportunity costs, investment in projects or programmes that are not grounded in regional contexts and therefore do not deliver their intended outcomes. A lack of follow up and project aftercare, monitoring and evaluation, policy feedback and a system open to being politically gamed; by playing one institution of against another or going around regional plans and priorities, are serious concerns for probity and outcomes.

An endogenous RED approach in New Zealand would require greater subsidiarity, particularly in the implementation of regional and national strategies, than is currently apparent.

Endogenous RED is the sustained, concerted actions of policy makers, economic development agents and communities to lift the overall wellbeing, economic and environmental health of a specific territory. Lifting the prosperity of a nation, business by business, community by community, region by region.

Stough (et al., 2011) posited that while macroeconomic theory has been dominant in regional policy and planning, there has been a gradual evolution from theories based on comparative and competitive advantage towards notions of collaborative advantage. Also, a concurrent shift towards multi-sector integrated planning and strategy necessary to deliver regional competitiveness, on the one hand, and sustainable development on the other (see Figure 9 below). Building collaborative advantage and utilising multi-sector integrated planning has significant ramifications for regional governance as the potential conflict between these two concepts, competitiveness and sustainability, is amplified in cities and

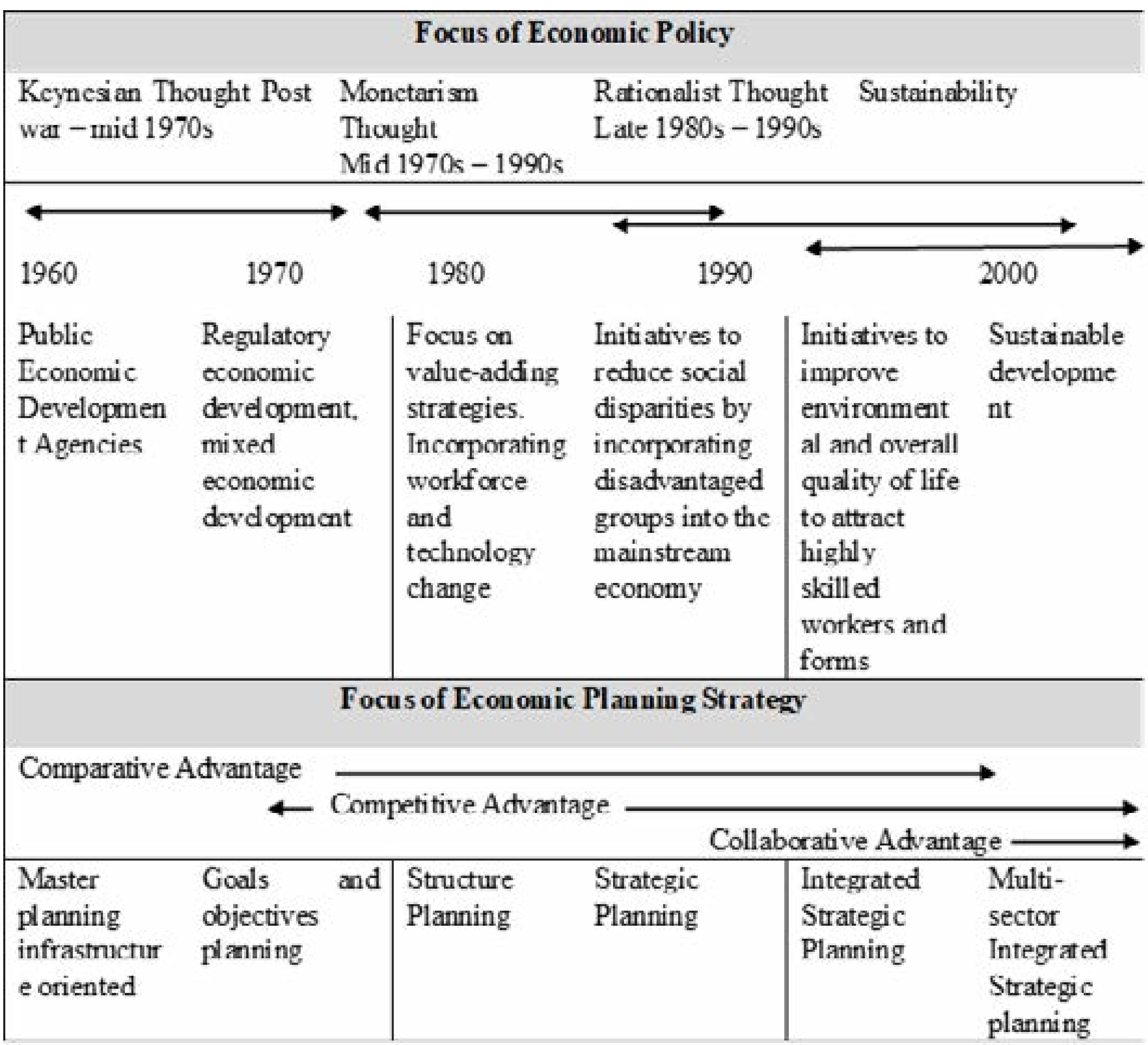


Fig 9: Changing Focus for Economic Development Policy, Planning and Strategy (Stough, Stimson and Nijkamp(2006) cited in Kourtit, NijKamp and Stough 2011, p.5).

A city-region is one of a number of terms used to describe differing contexts for regional development. Others include rural regions where the economic activity is primarily rural production and populations tend to be less concentrated, polycentric regions where there are a number of concentrated economic nodes or urban areas, and metropolitan regions where cities seemingly merge to form a larger metropolitan area.

Realities vary. For example, Northland has a dominant city, but also has several significant towns, spread out communities across a largely primary sector production base. However, Whangārei has a strong secondary industry sector that is increasingly not only servicing Northland but exporting its services to Auckland and beyond. Therefore, the description of rural/provincial region is inadequate; it is obviously not that simple and other very important factors, such as the structure of the regional economy and its geographical and functional reach.

National governments and international agencies have realised that all regions are not the same; that the economy is made up of spatially differentiated industry, clusters and sectors, and different regions have different resources; human, natural and physical, that provide the basis for development. A dilemma for higher tiers of government is the amount of devolution needed and the allocation of state funding for regional development. In this respect, national governments are increasingly favouring regional competitiveness and sustainability through decentralisation (OECD, 2010).

The World Bank (2004) observed three waves of strategies and actions in local/regional economic development since the 1960's (see Table 1) broadly reflecting a move from exogenous development strategies to endogenous development. Stough, Stimson and Nijkamp (2006) observed a shift towards collaborative advantage and integrated planning within an endogenous approach. Both saw a concurrent shift in focus from trying to gain competitive advantages for territories through hard infrastructure investment, subsidies, grants and tax breaks, to finding collaborative advantages by building on the inherent and developed strengths and the assets of a region. Finding investment, therefore, becomes an exercise in supporting the strategic development pathways of the region and enterprise development emphasises supporting your own businesses to grow rather than pitching for large employers to re-locate - the latter strategy variously being described as a race to the bottom (through competitive subsidies and incentives) and unguided or non-strategic inward investment ("chasing smokestacks for jobs").

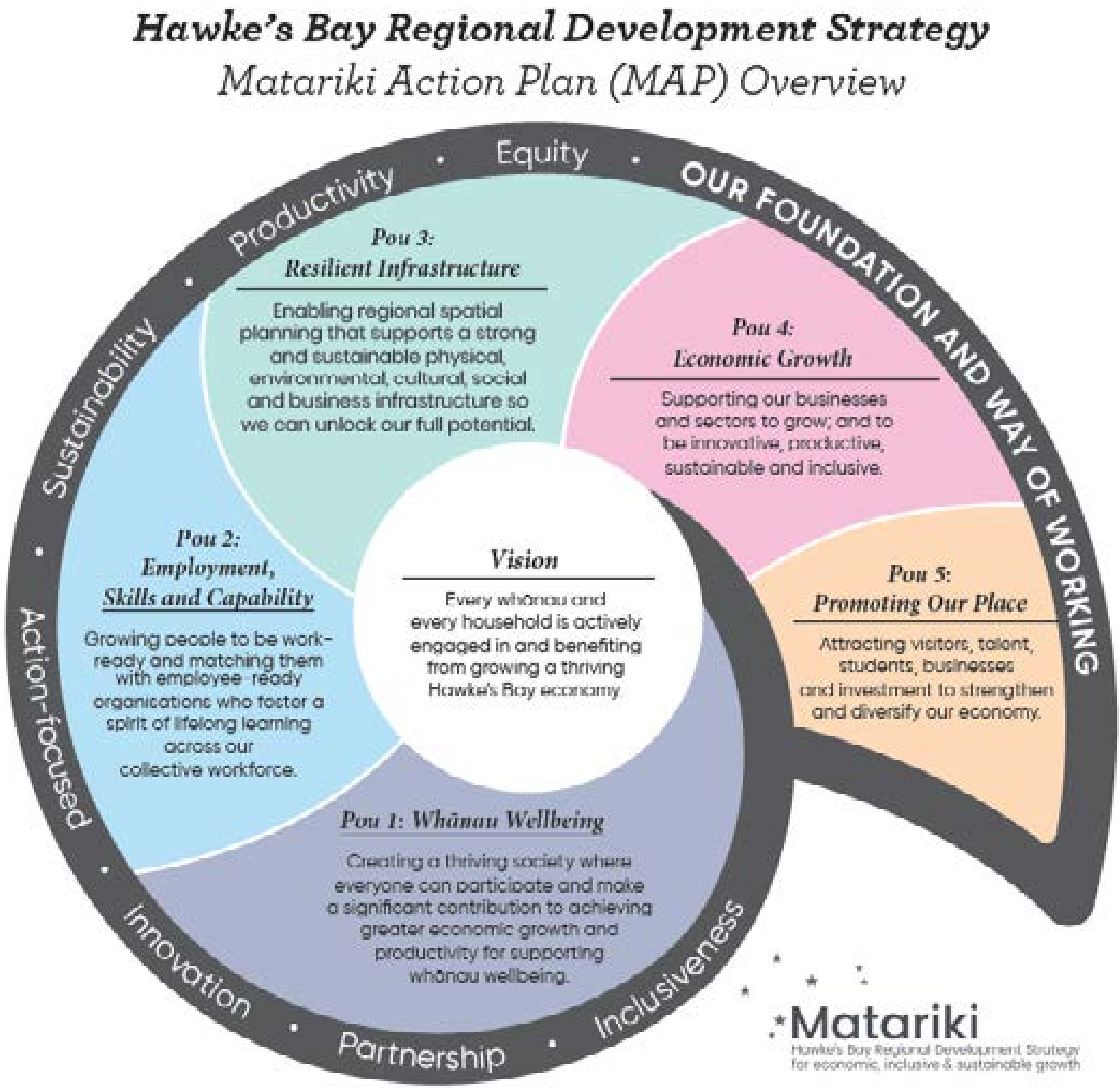
The Hawkes Bay Matariki regional development strategy attempted to provide an integrated socio-economic strategy. The subsequent Matariki Action Plan, facilitated by Business Hawkes Bay, is an example of an endogenous development approach and integrated planning in its five pillars (Fig. 3).

However, the organisation that facilitated the Matariki Action Plan, Business Hawkes Bay is seriously under-resourced. This is common across New Zealand, where the thinking, strategy and planning is sound, but the implementation of the plan is undermined (see Appendix 1 Business Hawkes Bay case study). Huge efforts to work together across multiple agencies and domains, stakeholders and partners must be made. Someone must do the portfolio and programme management, and someone must implement the economic development parts of the plan. This is the work of a REDA.

INNOVATION

More recently regional scientists have been exploring how endogenous processes and local know-how interact with firm, cluster or industry sector technologies, learning and innovation. This literature looks at innovation and growth in all regions whether metropolitan, city, rural, knowledge or industry-based, diversified or specialised, lagging or otherwise.

Post the GFC (in 2008), and concerns for rural and lagging regions, a regional growth agenda was being explored that included looking at ways to promote innovation and growth in regions through 'smart specialisation'. Smart specialisation 'spread quickly and was adopted in the EU 2020 Agenda with its objectives of smart, sustainable and inclusive growth' (OECD, 2013, p.11). paths to innovation and diversification (McCann & Ortega-Argilés, 2015). This stream of literature also has a rich history in economics, geography and regional science.



This approach emanated from evolutionary and institutional economics, economic geography and regional science endeavouring to understand spatial and functional determinants of innovation and growth. Concepts such as technological relatedness, related variety and smart specialisation gained favour in OECD and EU policy settings. The literature suggested 'that "related variety" - which refers to economic diversification offered by combining localised know-how and assets into new innovations that are related to existing areas of strength - leads to the best economic returns' (Frenken et al. 2007; Boshma et al. 2012 cited in OECD, 2013 p.28).

Previous innovation and RED literature had posited that knowledge assets, density of firms, sectors and institutions, and the opportunity for innovation through proximity and tacit knowledge exchange gave cities with diverse economies an innovative advantage over rural and less diversified regions (OECD 2013). Thus, related variety and smart specialisation could be applied to those regions with less diversified economies, but strong specialisations, provided.

Cooke (2014, p. 458) described three phases of the evolution of Regional Innovation Systems (RISs) that underpin RED. First, a rather Eurocentric, static, manufacturing-led approach supporting connectivity by building knowledge assets like science, technology or innovation parks. Second, supporting entrepreneurship by managing knowledge flows between endogenously produced knowledge and the exploitation (commercialisation) of that knowledge within a region. Third an evolutionary economics approach, incorporating complexity theory, that seeks to promote adaptive systems and co-evolution for the emergence of innovation from the re-combination (or re-configuration) of knowledge assets as well as looking for gaps or "holes" between clusters and sector-cluster innovative potentials. This last conceptualisation has recently gained more acceptance where connections can be made between sectors to create new areas of innovation and value creation, for example, big data and analytics applied to agriculture.

SYNTHESIS: ENDOGENOUS RED SUPPORTING PROSPERITY, INCLUSIVENESS AND SUSTAINABILITY

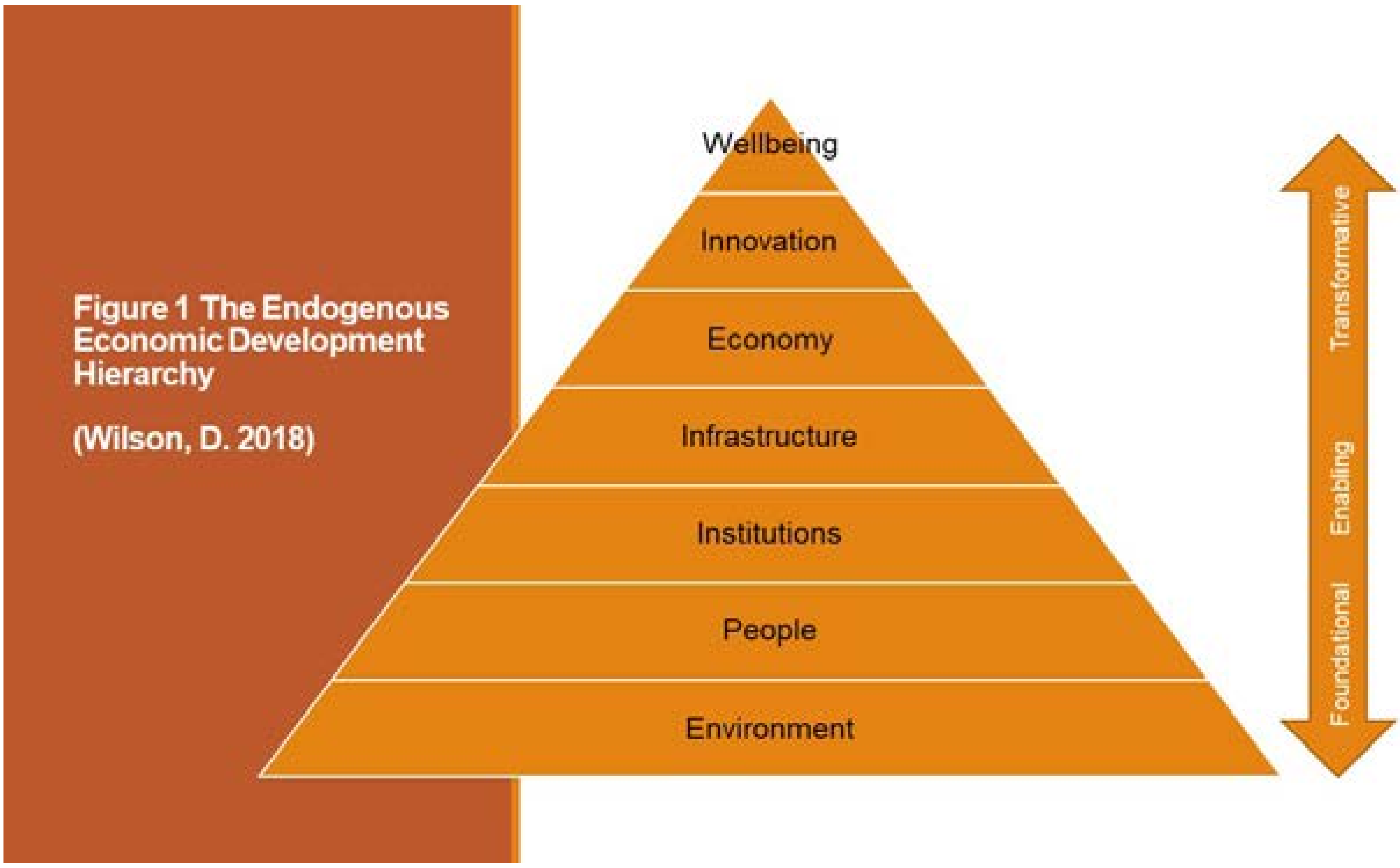


Figure 11: The Endogenous Economic Development Hierarchy (Wiulson 2018)

Expanding on figure 11, figure 12 below outlines many of the factors that endogenous RED efforts can consider and address at various levels of the hierarchy. The bulk of RED efforts centre on the regional economy with contemporary practice supporting addressing factors highlighted in the model. However, all the other layers in the hierarchy are interdependent and there are activities that a REDA can support in an overall holistic regional development effort. For example, environmental enterprises that support employment, provide revenue and address environmental issues are obviously within the skill set of a REDA to support. Likewise, social enterprises.

Destination management efforts, in support of tourism, developing new locally owned products, and providing infrastructure that supports and provides visitors with exceptional experiences is also within an REDA's skill set. Innovation through the establishment of regional innovation systems, and so on. Currently, however, the ability to provide an holistic approach such as this is severely limited. Severely limited by regional capacity more than capability, and by a lack of subsidiarity in RED governance, funding and operations.

ENDOGENOUS RED HIERARCHY FACTORS

Figure 12: Endogenous Regional Economic Development Hierarchy Factors

MAKING IT HAPPEN; INSTITUTIONAL INNOVATION FOR RED

"Developing economies require strong governance and institutions." Helen Clark EDNZ Inclusive Growth Conference, Marlborough, Nov. 2019

The political economy of a region should promote partnerships between tiers of government (particularly in coordinating policies and programmes), between the public and private sectors to induce the right kind of investment and development, and between the state and the third sector in promoting social cohesion and addressing negative externalities. Moving from predominantly central government macroeconomic policies and processes to strengthened regional institutional arrangements provides new pathways to addressing complex and stubborn issues:

Multi-level governance approaches involving national, regional and local governments as well as third-party stakeholders (e.g. private actors and non-profit organisations – NPOs) have increased in importance, compared to previous approaches dominated by central government. (OECD, 2010a, p.14).

The task of finding suitable governance arrangements for RED, then, is one of supporting good process but also seeking to manage activities in a way that the desired broader outcomes can be achieved. Greg Clark described facilitating economic development as 'fundamentally a change, risk, asset and relationship management activity undertaken within a territorial framework' (Clark 2002, p.3). Therefore, the institutional capacity of a region is important to manage change and risk amid global market dynamics and to take advantage of local knowledge, assets, resources and opportunities in the support of meaningful development.

Pike et al (2017) describe how both horizontal and vertical integration can work by bringing a wider set of views and expertise to bear on RED efforts:

Within multi-actor and multi-level systems of government and governance, institutions provide a local and regional voice vertically in dealing with supranational and national structures and horizontally in coordinating and mobilising other local and regional actors in the public, private and civic sectors. (Pike et al, 2017, p.174)

Unfortunately, this kind of approach is almost non-existent in New Zealand despite tremendous efforts at gaining increased subsidiarity and a significant regional development policy in the PGF offering an opportunity to support strengthening regional institutions.

Figures thirteen and fourteen below demonstrate how a multi-level and multi-actor approach to governance for RED differs considerably from current arrangements in Northland. Figure Thirteen attempts to summarise the main actors in RED decision making, reporting and governance as they stand. It by no means covers the variety of actors involved in PGF applications, for example, but it does demonstrate the vast array of relationships to be managed, the significant amount of trust that must be built to accept that agencies will make transparent decisions in the best interests of the region, and the complexity of portfolio management.

At least this is better than when there was little central government interest in RED, but we can do a lot better. The intervention of a collaborative Working Group (a soft institutional approach), for example, has helped in promoting the sharing of information and collaborating on projects. It has also provided an opportunity for more integrated project planning and reducing duplication in the projects within the Te Taitokerau Northland Economic Action Plan (TTNEAP). There has been a lot learned as a result. However, the complex interrelationships require an inordinate amount of work in portfolio and project management and communications, and agencies act on their own behalf with their own agendas in parallel to working group efforts, and in parallel with the REDA Northland Inc.

The legitimacy of the TTNEAP Advisory Group has also been challenged (as a non-elected group in one respect and as illegitimate governors of Northland Inc) and many project proponents have simply pushed their agenda with the Senior Regional Official (SRO), government department or political leader as they see fit. In some cases, trying to game the system by playing off one channel against another or simply asking until they get the right answer. Local government set up their own PGF working group to promote their projects working alongside the TTNEAP working Group, applying directly to the PGF with or without the blessing of the working group.

Central government agencies in the region set up their own group "Team Northland" to try and coordinate central government interventions and others simply ignored the Working Group and TTNEAP or sought to gain acceptance onto the TTNEAP for legitimacy (it's in the Plan!) after the fact when applying to the PGF.

These behaviours are not uncommon when soft institutional approaches such as these are developed. Central governments are often complicit in these types of arrangements to retain direct control of policy interventions with the appearance of partnership (Pike et al., 2017). This is clear in the parallel stream of red central government arrangements intervening directly with their own decision-making channels.

Governance of Northland Inc has been complicated inordinately by these new institutional arrangements required by central government alongside a raft of new central government advisors and agencies with renewed interest in RED. The TTNEAP Advisory Panel advises, and to some extent governs, the TTNEAP Working Group. Northland Inc has its own board, elected by its primary funder the Northland Regional Council, and three Territorial Authorities to report to. It also supports and provides the secretariat to the TTNEAP Advisory Panel and chairs the working group. That is before the myriad of Iwi, civic, business and central government relationships that need to be negotiated are considered. Governance of Northland Inc has no formal relationship with the TTNEAP Advisory Panel. The Senior Regional Official (who has funding authority many times the scale of Northland Inc's investment funding and OPEX), and a myriad of new regional development advisors across central government agencies who change regularly and often have no experience in RED, adds complexity in coordinating RED efforts. A Northland Inc employee once quipped that 'looking after the TTNEAP was a bit like air traffic control, except that the pilots fly where they like.'

All these dynamics are not surprising when such a large programme of work has needed to progress swiftly and prudently. However, this does not mean that RED governance and operations should continue in this fashion; it does mean it can and should be improved.

The blue boxes denote local government organisations, Northland Inc and regional programmes and project activities, purple denote a soft attempt at multi-level and multi-actor governance of TTNEAP, and red denotes central government institutions working in the region; without listing all of the government ministries and departments related to and working in RED. Solid lines denote formal relationships, dotted lines denote informal relationships.

The complexity is unnecessary and as Jessop (1997 cited in Pike et al 2017, p.180) points out 'This involves the complex art of steering multiple agencies…' requiring high levels of trust to be developed and risks around bringing 'operationally autonomous' and 'loosely linked' organisations together. This 'soft' form of governance has been criticised for central government tokenism and 'partnerships often exclude the very groups at which they are targeted.' (Geddes 2001 cited in pike et al 2017, p.181)

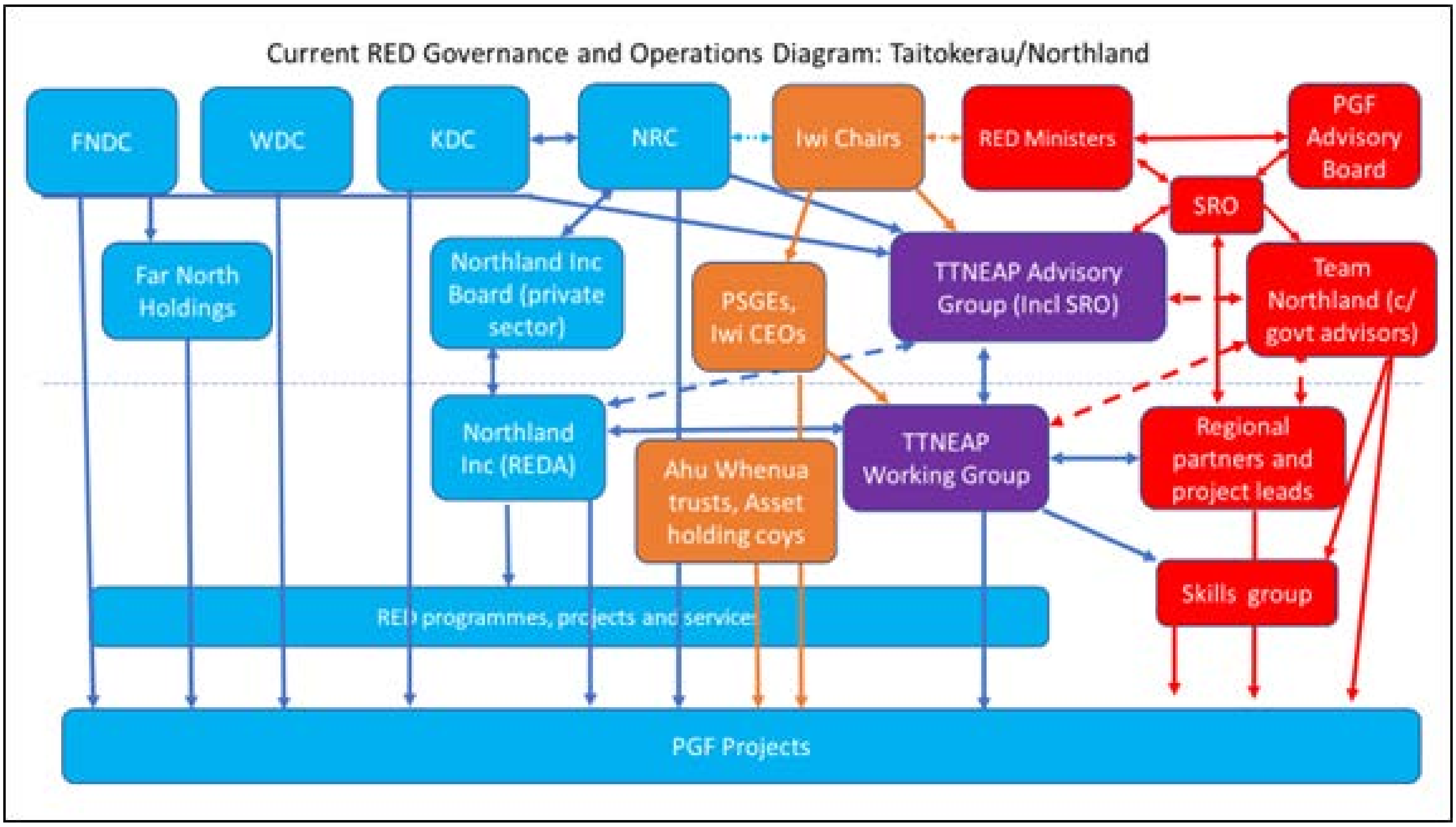


FIGURE 13: RED GOVERNANCE AND OPERATIONS IN TE TAITOKERAU/NORTHLAND

Evidence is mounting that more formal institutional arrangements in RED increase the chance of considered, relevant, cohesive and strategic interventions being funded and implemented and reduces the opportunity for rent-seeking behaviour. They also increase trust and collaboration as respective parties see evidence of partnership and collaboration in the institutional arrangements.

The introduction to chapter four 'Institutions, Governance and Government' in Pike et al's (2017) book 'Local and Regional Development' sums up contemporary RED thinking with regards to strengthening institutions at the regional level:

> '…recent contributions to the debate on institutions share a concern with the constructive action of the state and other institutions, including local and regional governments and other public, private and civic actors, in shaping patterns of development at the sub-national scale. Political and administrative decentralisation – in a variety of forms and at a range of spatial scales – is one of the most important global trends in government and governance and represents, in part, a search for improved development outcomes. For local and regional development, these literatures have influenced profoundly the current interest in "place-based" approaches to territorial development, which rest on the claim that effective institutions make significant contributions to the process of local and regional development because of their importance in the interpretation and mediation of broader economic contexts, by the way they shape and coordinate incentives for investment and enterprise, and their mobilisation of stakeholders around development agendas locally and regionally. Increasingly, across the globe, local and regional development is shaped by systems of multi-level government and governance encompassing multiple actors and multiple geographical scales and relational networks.' (Pike et al, 2017, p. 172)

Following these principles Figure 14 is a picture of how governance and relationships could be simplified and made more efficient and effective through multi-level fit-for-purpose governance arrangements and more trust in regional actors. A shift to more formal arrangements in governance that reduces the chance for tokenism, mistrust, duplication and isolated decisions and improves transparency and accountability.

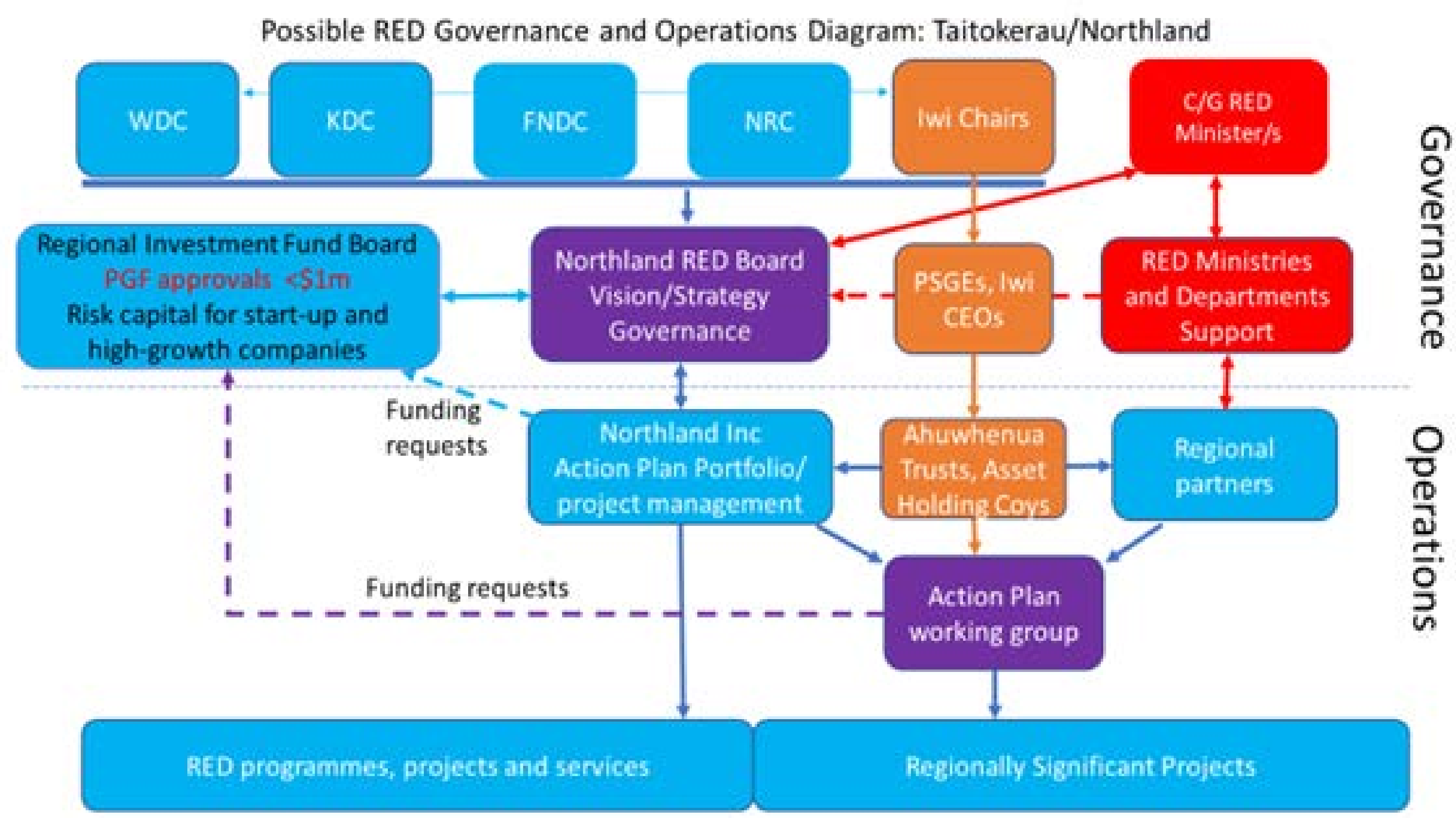


Figure 14: A subsidiary approach to RED governance and Operations in Te Taitokerau/Northland

Two examples of improved efficiency, effectiveness, timeliness and relevancy through a more subsidiary approach could be:

1. Set up "Regional Investment Funds" (RIFs) where decisions could be made to:

a. support entrepreneurs, micro, small, social, environmental, start-up and high growth enterprises with debt finance that fits with regional goals,
b. support feasibility and business case development for projects of regional and national significance
c. partner with local proponents for RED projects at say less than $1million per transaction within an annual cap. This would provide central government with levers to support some regions more than others dependent on 'catch up' criteria.

2. Improve the enterprise ecosystem by devolving programme implementation (Regional Business Partnership and Callaghan Innovation) to the REDA and funding decisions to the RIF. This would allow REDAs to pull together a comprehensive ecosystem for business development including finance, R&D and advice in one place.

The world has moved on. Old forms of centralised governance are no longer adequate to address complex knotty issues at a regional level. New Zealand would do well in the next round of RED implementation to move:

- From top down governance and operational structures to multi-level multi-actor governance arrangements for REDAs
- From a complex array of agencies and departments with many front doors to one regional front door
- From centralised funding and resources and an array of related funding programmes intervening directly in regions to REDAs triaging and providing access to RED services, programmes and funding.

RECOMMENDATIONS

Considering global macro and exogenous forces affecting New Zealand now and into the future, and considering government's economic plan and experience with a large regional development intervention in the form of the PGF, it is time to power up the regions to deliver on plans and aspirations at the local and regional levels. Increased prosperity is at the heart of inclusive growth and sustainability. Poor nations do not perform well on social and environmental justice. Innovation provides humanity pathways forward. Institutional innovation and subsidiarity provide the right mechanisms to facilitate change. Central Government partnering in substance with regional actors provides the platform for regional well-being. Therefore, recommendations for increased efficiency and effectiveness in RED are:

1 TAKE A REGIONAL APPROACH TO REALISE REGIONAL POTENTIAL

Endogenous development brings with it notions of self-determination and local problem solving. It places emphasis on local ecosystems and productive systems, value production, specialisation and capitalising on local knowledge, resources and assets. It shifts emphasis from chasing smokestacks to growing our own enterprises, from chasing any investment to investment that supports strategic regional aspirations. An endogenous RED approach requires local leadership alongside collaboration; it increases buy in. Endogenous RED is not simply a bottom-up approach it recognises external, national and global contexts and challenges and seeks to address them locally. To achieve these things, however, local institutions need to be strengthened and responsibility apportioned from higher levels of government building trust, leadership, learning, creativity and innovation – the soft factors that underpin the conditions for growth. This is comprehensive and meaningful, grounded in the realities of a place.

a) Develop multi-level, multi-actor, fit for purpose regional governance arrangements

The World Bank described 'development agencies as; (1) having their own legal structure; (2) being functionally autonomous; (3) not-for-profit; and (4) often multi-stakeholder in their board composition.' (cited in Clark et al., 2010, p.31). Since that time a more nuanced approach to governance has evolved.

The Maxim Institute (2018) in their paper 'Taking the Right Risks; Working Together to Revitalise our Regions' stated that 'neither top-down or bottom-up solutions are sufficient on their own' and that '…it is clear that heavily centralised governance is likely to lead to poorer regional development decision-making' and 'the problems associated with simple bottom-up governance, including a lack of access to: broader information; allies; funding; and; wider strategic regional development thinking. Bottom-up processes can be just as isolated or siloed as central government processes, both suffering from potential tunnel vision and path dependence.' (P. 28).

The optimal solution is where both vertical and horizontal linkages can be taken advantage of. For example, on the government side vertical integration between tiers of government can;

- reduce duplication of effort,
- increase focus and strategic alignment,
- increase export opportunities, in-market access and internationalisation, and
- the ability to fund agreed interventions.

Horizontal integration can;

- incorporate local knowledge across regional stakeholders and institutions
- increase collaboration between and within regions, sectors and local productive systems
- increase innovation, specialisation and development opportunities.

In this way, knowledge gaps at both the regional and national levels can be ameliorated reducing information asymmetries, duplication and development risks and increasing the opportunity for successful RED projects and programmes.

b) Ensure that resources follow governance

The principle of subsidiarity, outlined above, means that resources should follow the ability to intervene in the most effective way. In regions where resources are scarce, and local governments find it difficult on small rate-payer bases to fund RED it 'demonstrates the need for a multi-level governance structure that is empowered to make funding decisions that overcome central government political inertia and imbue multi-level governance arrangements with fiscal authority. For example, that even within New Zealand the way that regions are still required to access central funding via Wellington processes undermines the bottom up process of the Regional Growth Programme and the goals of the Provincial Growth Fund.' (Maxim Institute, 2018, p. 29).

c) Build capacity and capability at the regional level for RED implementation

RED depends on subsidiary efforts to improve functional economies - businesses, markets, sectors, productive systems, value chains, innovation, human capital etc - in economic geographies (territories). As RED deals with the interplay between territories (regions) and economies (functional and transactional relationships) it requires wider governance expertise than [local] government, even though the act of improving the economy needs to be in the public interest. Regions are small enough to provide transparent tailored interventions with observable outcomes and large enough in economic terms to matter; nationally and internationally. In short, they provide the optimal level at which to meaningfully intervene in the economy. Thus, under the principles of subsidiarity, the institutions, policy focus, implementation, monitoring and feedback mechanisms for RED should also operate at a regional level. Dedicated REDAs with strengthened capacity and capability are central to increasing prosperity in a sustainable and inclusive way.

d) Support increased policy flexibility and risk sharing

REDAs need to have a strong action orientation, with a preference to bring projects to life and deliver meaningful programmes and interventions for their region and communities. REDAs fail when they do not have a scenario for the economy that is easily portrayed to stakeholders and fail to implement programmes and projects that align with that scenario. Local players are usually well versed and have a deep understanding of the constraints and opportunities in their regions and do not want to have endless strategy sessions to produce well written, but intangible, policy documents or strategies.

The market usually moves faster than public sector strategy development anyway. Public sector policy and strategy, therefore, while providing context and direction, are not the REDA's primary concern. Feedback into policy, strategy, and the implementation of policies, however, are primary concerns; as are being flexible, opportunistic, market-led, 'learning from doing' and having some discretion to adjust to market conditions in a timely manner. This requires good governance and more trust from funders amid strong strategic guidelines. In other words, give agencies some headroom to deliver on clearly defined outcomes, rather than constantly reporting on process and output measures.

Having REDAs that are at arms-length from government as separate legal entities provides some autonomy, increases transparency and reduces the chance for conflicts of interest. It also increases the chance of entering into commercially sensitive discussions and laying the ground for Public Private Partnerships and projects where there is both private sector gain and public good. The legal status of REDAs does, however, deserve some consideration moving forward, as Council Controlled Organisations may not be the optimal arrangement for powered up REDAs. This needs to be balanced against providing opportunities for policy feedback loops for public sector management and governance, new institutional arrangements with vertical and horizontal governance and new funding arrangements.

2 TAKE A SYSTEM-WIDE APPROACH TO IMPROVING RED

The fundamental premise here is that to deliver on governments aspirational goals of a productive, sustainable and inclusive economy more attention needs to be paid to RED policy implementation. RED implementation can best be orchestrated and delivered by REDAs. But this cannot be done in isolation as RED demands a system-wide approach that is vertically and horizontally integrated. One that is inclusive of the private sector, government, treaty partners, communities and the civic sector.

This is necessary because of the multifaceted nature of RED and the need for:

- coherence between national, regional and local ED goals and plans
- multi-level fit-for-purpose governance and operations
- resources to be placed at the appropriate and most effective level
- agencies, strategies, programmes and projects that align more to business, project and investment timeframes than political cycles
- bespoke regional strategies and action plans
- strategy and policy feedback mechanisms
- policy and implementation flexibility
- partnership between national and regional/ local agencies
- partnership between regional agencies and Iwi/Māori development agencies such as post settlement governance entities, ahu whenua trusts, runanga and asset holding companies
- connection to the private sector with market facing REDAs that work in the public interest
- risk sharing and role clarity

to enable risk sharing there needs to be stronger role clarity and greater understanding of RED policy and practice.

a) Clearly articulate what REDA's can and should do

In New Zealand experience has grown in what EDAs do and how they add value. This has been broadly in line with international best practice but tailored to institutional contexts. Some common elements appear to support the evolution of REDAs and how they add value internationally such as:

- A mechanism for organising and implementing economic development projects
- Being a catalyst for projects/programmes operating in-between and with the public and private sectors and local stakeholders.
- Being business like, flexible, entrepreneurial and responsive.
- Providing specialist economic development services
- Building/encouraging an environment for economic growth and development
- Promotional; outward-/investor-/visitor-/ market-facing
- Leveraging local and inward investment for local projects.
- Addressing a special area or territory.
- Being relatively unencumbered by other public-sector missions and mandates yet able to make transparent decisions about resource allocations in the public interest.
- Operating from a legal and/or fiscal status that provides independence, integrity and accountability - an honest broker that can do what's right for the territory
- Partnering, collaborating, facilitating, leading from the front and/or leading from behind
- Able to plan, form, coalesce, catalyse or organise development efforts with multiple partners
- Share and take on risks and costs (public/ public, public/private partnerships, brokering deals and ED projects, project management) that include or insulate other agencies and organisations

WHAT EDAs DO:

- Monitor and provide commentary on the local economy within a scenario for the region
- Strategic Planning for ED
- Business attraction, retention and expansion
- Enterprise development services; building an ecosystem of support from idea to SME and large business needs
- finance (angels, venture finance, start-up, micro), capability support, R&D, networking and collaboration
- Build competitive advantage through industry/sector/cluster strategies, action plans and projects
- Build innovation systems that underpin/ create and embed specialisations
- Infrastructure development,
- land and property [re-] development
- Workforce, skills and talent development and attraction
- Fund management and business/economic development investment
- Technology, creativity, and innovation promotion
- Inward Investment facilitation
- Major project/programme promotion/ management
- Territorial Promotion and Marketing, Destination marketing and Destination management
- Capacity building and technical assistance (e.g. sector strategies, incubators, accelerators innovation and export assistance)
- Cross border co-operation

THE MOST COMMON REASONS EDAS FAIL ARE THROUGH A LACK OF:

- Role clarity and legitimacy
- Institutional recognition
- Financial and human resources
- A relevant mission/strategy that flows from regional/territorial priorities/strategies
- Quality partnerships,
- Connection to demand-side drivers and opportunities (industry and the market)
- Investment in training

The following is an extract from Stevenson (2017) 'Evaluating Venture Southland' in relation to international best practice:

'A rich international literature clearly indicates the critical, diverse and evolving roles which Development Agencies can play in assisting the social and economic development of areas under their jurisdiction.

- Operating through appropriate governance arrangements and partnerships which bridge the public and private sectors is common practice.
- Adopting a holistic approach to development, which spans themes ranging from promotion of regional competitiveness and unique assets and attractions, to economic development, tourism promotion, and community development and improving the overall quality of life.
- Guiding foci and objectives include the promotion of sustainability, quality of life, human development, support for large and small firms, entrepreneurship, training, innovation, infrastructure and land are common practice.
- Interventions employ a range of economic instruments and support measures, and target a wide range of economic sectors, including the tourism sector.
- Economic and community development often go hand in hand, with many agencies having a defined focus on struggling areas.' (p.17).

b) Clearly articulate what Central and local government can and should do

Government in various forms funds the lion's share of economic development activity. In some cases, the private sector is supporting local agency efforts through funding and memberships and in many cases through governance. Some thought needs to go into playing to respective strengths of all levels of government, while at the same time allowing for greater subsidiarity and operational effectiveness. A capable REDA should be able to play to those strengths through good partnership and facilitation skills. As central government holds the largest allocation of funds, is most often the funder of [regional] economic development activity and sets high level national and international policy goals it has prudential and fiduciary roles in allocating funds efficiently. However, a degree of devolution could be achieved for allocative efficiency that would not threaten the central role of government in its responsibly for allocating public expenditure.

In the PGF, for example, a key role for Central government to play could be allocating funding for large projects (say over NZ$ 1million) and devolving, with appropriate caps, funding for projects under $1m to be governed regionally with commensurate targets and performance indicators. Project initiation, feasibility and business case development for larger projects could easily be handled by regional actors with advice and support from central government officials about national priorities and national and international contexts for regional development.

c) Increase understanding of RED policy and practice at all levels

A modern conceptualisation of regional economic development is lacking consistency across various forms of government. Central government to a large degree still makes RED decisions in an old and inadequate macroeconomic paradigm. Contemporary issues in RED are multi-dimensional, contingent and interrelated. This demands multi-disciplinary approaches and understanding and more attention to complexity and systems theory than macroeconomics. However differing views of RED policy and practice are rife in sections of society. There is still a gulf between central government conceptualisations of RED, local government conceptualisations, policy and practice. These need to come together and more effort needs to be made in understanding regional economic development theory, policy and practice and the connection between them. The EDNZ World of Learning, funded by the PGF, is a good start, but common language, goals and objectives needs to reach across all actors.

3 TAKE A SUBSIDIARY APPROACH TO RED FUNDING

The current arrangement for allocating development funding largely sits with a small group of central government Senior Regional Officials (SROs) with, among other duties, delegated authority for up to $1million per transaction for regional development feasibility studies, business cases and projects. The connection between SRO decisions, Independent Advisory Panel recommendations on larger projects, and regional partner priorities is tenuous; requiring huge effort from SROs to understand context, to communicate at all levels and to ensure strategic alignment. Regional stakeholders do not know what others are doing, who SROs have been talking to, what decisions have been taken (usually finding out after the fact), or how decisions affect plans and projects in-train. This opens real opportunities for proponents to try and game the system and to go around local decision-makers. This function could be easily devolved to the region through a Regional Investment Fund (RIF) increasing transparency, strategic alignment, efficiency and effectiveness whilst shortening decision times.

Regions mostly do not have dedicated risk funding to support start-up, innovative and high growth enterprises, women and entrepreneurs. A similar fund to successful microfinance schemes in developing nations could address the very thin capital markets for these sectors. A RIF for each region, with established invested capital, could be set up to be a self-funding loan fund to support women and entrepreneurs and early stage businesses.

Both interventions could be handled regionally, through a fit-for-purpose investment board, removing bureaucracy, shortening decision times, facilitating investment-ready projects and supporting local entrepreneurs.

a) From the Provincial Growth Fund to the Regional Development Fund

Shifting the focus from provincial and lagging regions to all regions would help in terms of inclusiveness as many disadvantaged communities exist in cities and economic geographies do not neatly align with political geographies. New criteria could target disadvantaged communities in all regions, particularly as some city-region communities have populations equal to rural regions and/or are rural in nature. Support for inter-regional projects and programmes, and sector, cross-sector and cross-region collaboration could also be increased, as often the city-regions have education and innovation assets that need to be better utilised to support innovation and R&D in building regional specialisations.

b) From the Provincial Development Unit (PDU) to the Regional Development Unit (RDU)

This would help to pivot the focus of the PDU towards system-wide considerations and prudential oversight. Regional welfare (deciding which regions need more support than others and in what ways), innovation systems, information asymmetries, governance, building regional capacity and capability and strengthening RED are all crucial roles for an RDU.

c) Catalyse and partner in setting up Regional Investment Funds

RIFs should provide a basis and lever to negotiate with regions about the size and strategic purpose of the fund and offer the opportunity to partner with regions. Thus, strengthening vertical integration and subsidiarity, collaboration, efficiency, relevancy and timeliness.

4 ENABLE REGIONAL INNOVATION AND SPECIALISATION

RED interventions in regional economies have been hard won, there is a distinct lack of institutional strengthening in the regions, and innovation – largely led by Callaghan Innovation – has been city- and tech-centric, and firm-focused within selected industries. It is another example of a siloed government intervention doing its own thing and intervening directly where it sees fit. Cluster effects and territorial dynamics (such as regional differences in national industries) are absent as are regional specialisations and real support to underpin regional development opportunities.

a) Increase cluster development and smart specialisation

As argued in this paper increasing productivity and global competitiveness through cluster development and smart specialisation is crucial to strengthening regional economies. This requires focusing in on domains of regional comparative advantage and opportunities to develop competitive advantage. It also means moving from a reliance on commodities and low value/high cost tourism to high-value and value-added activities. Doing this, however, is not based on building a business park and trying to attract businesses or by providing ubiquitous technologies such as broadband to all. These things are helpful, but a smart specialisation (or deep specialisation) must be built on global competitive opportunities, strong related and competitive private sector players, regional innovations systems and differentiated technologies supporting the sector, skills training, talent and investment attraction. There is no reason why there can't be technology transfer across sectors and across regions, but we need something to transfer.

b) Actively invest in regional innovation and specialisation

Under a neoliberal economic approach government should remain outside of markets and markets should be the key mechanisms for setting prices and distribution. The private sector is innovative and creates new products and services for us all. Unfortunately, 'externalities' like pollution and inequality were not accounted for in this paradigm and government funded research was regarded as an 'exogenous' input. This is a mythical and unrealistic model. The public sector owns assets, operates in markets, spends money, sets macroeconomic and financial policies, funds education and R&D, provides work insurance and social welfare, health, housing and so on that all support the operation of markets and the economy.

The economy is there to provide prosperity. Government is a major player in the economy. This does not mean that government needs to squeeze out the private sector in efficient markets, it does mean that government can play active roles in markets where there is market failure and/or with negative externalities, markets that deliver public goods, ubiquitous technologies like broadband, infrastructure, and it can provide leadership and vision for future technological development and the shape and structure of the economy that we believe will deliver the prosperity we desire.

Cognac, Champagne, Camembert and Limoges are not just products, they are places. Places that have built their comparative advantages into globally competitive specialisations. Territorial dynamics matter. New Zealand's recent rear-guard action to try and protect manuka honey is an example of a lesson not yet learnt. Leaving it to the market left us in danger of losing our competitive advantage. A developed "Manuka" cluster or regional innovation system would have had the bio-active properties defined, research underway into technology and IP transfer into new domains, products and services underway and the place-branding (with associated cultural IP and values) in place long before the "me-too's" got a foothold. Under these circumstances the manuka factor would have been attached to the plant, the name, its cultural value, rongoa properties and the place that all these things come together. Not, as has developed, an argument over whether similar and related plant varieties have the same bio-active ingredient, and therefore can claim to be producing manuka honey (or any other products that may develop). This is as much government failure as market failure.

Government has recently provided a tax subsidy to private sector R&D. This, like broadband, is a good idea but is likely to have undifferentiated effects. It is an old neo-liberal "leave it to the market" approach that asks the taxpayer to support private enterprise in return for the promise of new jobs and increased productivity.

The subsidy will go to individual firms who are able to take advantage of it, it will not differentiate between what is nationally or regionally strategic and it will not build system or domain strength or deep specialisations. That requires a systems approach. It could, however, form part of a group of interventions that are targeted to regional specialisations.

Contemporary innovation research points to building networks of researchers, businesses and government to support innovation and smart specialisations. This is more than building an "innovation park" (hard infrastructure) and hoping businesses and research organisations will come and collaborate (old model). It is designing and supporting the networks, collaborations, partners (soft infrastructure) and projects in specific domains that underpin innovation and specialisation. This will bring hard infrastructure (if needed) to life. The Auckland Innovation Park, which received significant government support, does not exist for these reasons. 'Build it and they will come' does not necessarily mean they will come. There must be a reason to come. Scientists, researchers, innovators and entrepreneurs are not interested in a flash new building, that is just a bonus. They are interested in creating new products and services that benefit humanity and in working with others that are aligned to their areas of interest. Creating an innovative culture that supports differentiated technologies and specialisations that address global issues and enter global markets is the job of a REDA. Build this and they will come.

5 DEVELOP A REALISTIC IMPACT EVALUATION FRAMEWORK

A realistic impact evaluation framework would evaluate each region individually and then as an overall system of RED implementation.

At a regional level it would consider the context, mechanisms employed, and outcomes achieved over a realistic timeframe. This would allow for different institutional and regional contexts to be assessed alongside programmes and projects implemented and their outcomes. In so doing regions can be assessed individually as well as part of the overall national system for RED and national programmes and projects can be assessed for regional variation. Answering questions like; why has this worked here and not there? what works, why and in what circumstances?

At a national level a systematic, pragmatic, outcome-oriented evaluative approach could assess at several related levels; programmes and projects, mechanisms (the strategic interventions being employed), institutions, regions and outcomes that form part of National RED effort. This should be part of the institutional strengthening and learning-by-doing approach in next level RED that replaces what commonly happens with new policy programmes; KPI and goal setting after the fact with attribution being confounded and unclear.

CONCLUSION

New Zealand has relatively sound macroeconomic, fiscal and financial management and as a result relative price stability and GDP growth. It is rich in resources, with a world class education system and high human capital. New Zealand ranks highly internationally in safety, political freedom, lack of corruption, openness and ease of doing business. Despite these favourable settings productivity growth remains stubbornly low and well behind our OECD partners. Alongside this the tradables sector has lost ground against non-tradables this century and services and value-added export growth still fall well behind similar OECD countries. This paints a picture of a slowly declining competitive position internationally, an over-reliance on price-taking commodities, and, relative to other OECD countries, decreasing prosperity. Numerical growth in GDP, based on immigration, building houses and the domestic construction sector mask these underlying problems.

A small isolated economy, such as New Zealand's, cannot afford for these trends to continue in the long run. The situation calls for a deepening of our specialisations, increased value-added exports, products and services and stronger participation and positioning in global value chains. Better coordination and collaboration within and across regions is the best way to achieve these goals.

New Zealand does not have a policy or strategy problem in RED, in fact previous incarnations of RED had similarly had good policy settings and strategy development. The problem is more in a commitment to implementation and in strengthening local institutions to implement policy than in intelligence. New Zealand is also trying to address global and macro forces such as climate change, global political economy, sustainability and inclusiveness. Likewise, however, the institutions to address some of these major issues in an integrated way at a regional and local level are very thin and disparate. This is a system failure that undermines genuine efforts to address global issues.

Taking a more endogenous approach to RED efforts and providing for greater subsidiarity in policy implementation will empower government efforts to increase productivity, sustainability and inclusiveness. The PGF has kick-started catch-up for lagging regions and provided focus on the productive economy. It is a great start to RED efforts in New Zealand and has laid a strong platform for future efforts. The trick for New Zealand will be to use this platform wisely and to move towards greater sophistication in our RED efforts and to understand the interrelationship between regions better. Central Government can play significant roles in strengthening infrastructure and connectivity, in signalling RED and R&D priorities for regions and the nation. It must however give the regions, and the regional institutions within them, some headroom to support those efforts with work on the ground.

New Zealand has the chance to be at the forefront of RED policy and practice internationally. The PGF has set us on a path to achieve this but has highlighted deficiencies in our RED ecosystem. An honest appraisal of the strengths and weaknesses of this bold programme of work also highlights that these deficiencies can be addressed in the next iteration of RED policy and practice.

APPENDIX 1. BUSINESS HAWKES BAY CASE STUDY

Working hard to advance economic and inclusive growth in Hawke's Bay, is regional development agency, Business Hawke's Bay (BHB).

BHB was established in 2011 within the Hawke's Bay Chamber of Commerce, and in 2013 separated from the Chamber to become an independent incorporated society with its own board of volunteer directors drawn from leading Hawke's Bay organisations. BHB is business-led with funding and sponsorship received from all five of the region's councils; strategic, commercial and support partners from the business community; and central Government through the Provincial Growth Fund.

Supporting the growth of Hawke's Bay's economy and also contributing as a lead agency on the economic development objectives of Matariki Hawke's Bay's regional development strategy for economic and social growth (Matariki HBRDS), BHB's key functions can be grouped into three main areas; attract, build and connect.

Attract activities, centre on "promoting our place"(aligned with Pillar 5 of Matariki HBRDS). Attracting investment, businesses and talented people to the region, and profiling Hawke's Bay as a place that not only offers a great lifestyle but is also a place that's full of opportunity; where creativity and innovation are woven into the fabric of the community, a great place to live and do business as well as visit. The BHB team undertake attraction activities and also convene the Think Hawke's Bay collective, a collaborative - of local councils, Hawke's Bay Tourism, Napier Port, Hawke's Bay Airport and BHB - working on wider regional initiatives and projects.

Build or "economic gardening" (aligned with Pillar 4 of Matariki HBRDS) activities are all about building the capacity and capability of businesses already operating in Hawke's Bay, so that they can grow. BHB has strategically partnered with other agencies and providers to build a strong start-up and early stage ecosystem and support for high growth businesses that create higher value jobs through innovation as central to regional economic performance. Encouraging businesses to promote innovation, productivity and agility to give Hawke's Bay the greatest chance of creating more jobs, higher skill levels and higher paying jobs. The build area focuses also on sector specialisation and development with key areas of focus (in addition to start-up and early stage businesses) being food, beverage and agribusiness (Land to Brand); IT, digital, hort-

Connect activities are about forming strong networks and meaningful connections so that businesses can access the right help, the first time. BHB has strong relationships across the region with councils, the business community and Government departments and can help local or relocating businesses to make the important connections they need for success.

Through the Hawke's Bay Business Hub, (a key initiative of BHB, and a region-wide resource for the business community) BHB activates ongoing engagement with the business community and has created a co-working space that's home to more than 15 business support agencies. Together, BHB and the 15 members of the Business Hub collaborate to provide businesses with the connections and assistance they need to catalyse growth.

Connect is also about the Programme Management of Matariki Hawke's Bay Regional Development Strategy (HBRDS) for economic and inclusive growth – connecting the region, agencies, iwi, local and central government and business to support and activate the delivery of the Matariki Action Plan (MAP). Funding from the Provincial Growth Fund enables this new portfolio of work.

Our way of working

BHB's work and engagement with stakeholders and the community is guided by the following principles:

- Inclusiveness
- Sustainability
- Partnership
- Innovation
- Equity
- Action

BHB performance and funding

In 2018 BHB successfully negotiated a single Service Level Agreement (SLA), combining key regional deliverables across all five councils of Hawke's Bay. Current funding was established in 2013 and has not increased over this time, despite BHB significantly expanding its activities and delivery to the community.

BHB is performing well and meeting a clear regional need. However, with an ever-expanding brief stemming from the vision to demonstrate to stakeholders what's possible with a truly regional approach, combined with funding and people constraints, BHB's current position is unsustainable.

Along with business as usual activity covering BHB priorities in the Attract, Build and Connect areas, there are additional responsibilities stemming from managing the portfolio of activity across Matariki HBRDS and also delivering as the lead regional agency for the Matariki Action Plan (MAP) economic pillars four and five. This delivery of these pillars will require a significant increase in funding of at least an additional $1.2million if the projects and programme of work are to be delivered in a timely manner for regional benefit as outlined in the vision of HBRDS.

Based on current funding BHB does not have the capacity to continue to over-deliver over the long term. Only the CE and Hub Concierge are full-time employees; other team members work part-time to give breadth of coverage, always with a delicate balance to providing depth of engagement. The team are very committed to delivering quality, relevant and valuable outcomes, however continued delivery and growth is trading on the goodwill of team members, particularly the CE, giving many hours to fulfil projects in an unsustainably funded operating model. The team have the capability to deliver but not the capacity with very lean budgets and resources for people, external support and operational delivery.

BHB future state

Regional development is difficult and complex; there are many stakeholders and many participants. It is a real strength in Hawke's Bay that there are so many organisations engaged in Matariki HBRDS. Hawke's Bay is well ahead of many other regions of New Zealand in that we already have a regional development strategy (Matariki HBRDS) that sets out regional economic development and social inclusion priorities and measures of success.

Experts say for regional development to be optimised, there needs to be a central organising vehicle to deliver to regional aspirations. Hawke's Bay appears to be among a number of regions in New Zealand without such an agency.

The architecture for regional development is now in place with the MAP for Matariki HBRDS, but without the co-ordination, oversight and leadership that comes from having a central agency fully funded and mandated to lead our regional development, leverage synergies, reduce gaps, duplication and clutter and specifically be the lead agency for the delivery of the Matariki HBRDS economic pillars (4 & 5) it is difficult to see that any momentum can be gained and sustained.

A review of regional achievement over the past three years, clearly shows that projects and actions that were well resourced and funded moved ahead significantly. If no additional funding is made available for delivery of the economic pillars then outcomes of the refreshed Matariki HBRDS Action Plan (2019) will continue to be fragmented and under-funded.

Hawke's Bay needs a single "front door" for the region, that has a region-wide focus and is geographically neutral (working for and across all TLAs, with business, Māori and central government). Business Hawke's Bay has the proven capability to be that central organising vehicle for Hawke's Bay, but not the capacity. Greater capacity will enable:

- Greater regional co-ordination and communication, leveraging initiatives across the region
- More effective and co-ordinated use of budgets
- Greater collaboration with other regions, reducing intra-region competition
- "Closing of the gaps" and "reduced duplication" and
- Increased efficiency and effectiveness
- Better networks and connections, with a stronger regional voice

With the recognition and support from stakeholders, together with appropriate funding, relationships and networks that enable greater success for Hawke's Bay, BHB can be that entity.

While it's true that the Hawke's Bay economy is currently thriving, regional leaders may not feel driven to make change or invest in regional development. Being more organised and better funded for delivery will put us in a stronger position in the years ahead as the cycle of economic growth wanes and long-term goals of inclusiveness and environmental protection need to be incorporated into economic development efforts. Now is the time to invest in Hawke's Bay's future with the establishment of a regional development agency that puts us on a level playing field with other regions.

Endnotes

1 See Hutchings and Garland (2019) for primary research into the challenges and opportunities for RED in NZ

2 Those regions outside the main cities

3 See for example Button in Stimson, Stough and Nijkamp (2011) and Capello and Fratesi (2013).

4 A neoclassical proposition is that, all things being equal, regions will tend towards equilibrium as low factor cost regions will attract industry taking advantage of low factor costs (rents, subsidies, wages). Once they employ low cost labour they will eventually drive up productivity and wages creating a levelling effect across regions.

5 Creative destruction is a term used to describe the continual process of renewal that takes place within an industry or sector of the economy. Entrepreneurs take advantage of on the job learning in larger firms when those firms are unable to, or refuse to, create new products or services allowing entrepreneurs to take advantage of that opportunity. Or entrepreneurs replace older products and services (and the firms that produce them) with new or better technology or ideas thus creating a 'creative destruction' of redundant or out-moded technology and firms.

6 See for example Vanclay (2011) 'Endogenous Rural Development from a Sociological Perspective' in Stimson et al (2011) Endogenous Regional Development: Perspectives, Measurement and Empirical Investigation, or case studies in endogenous development in a third world context from www.Compassnet.org

7 See for example Slee (1994), Bowler (1999), Gralton and Vanclay (2006, 2009) Vancla (2011)

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