Governance and Economic Development in a Metropolitan Region

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Abstract

This paper is an extract from a larger report prepared for the Auckland Regional Economic Development Association (AREDA) with the intention of providing an evidence base for the preparation of submissions to the Royal Commission on Auckland's governance. The brief was to look at ways in which governance can both support and enable economic development efforts in the Auckland city-region, and this was done through reference to international writing on economic development and governance, through the examination of three city-regions (Montreal, Toronto and London) which have recently altered their governance structures in an attempt to gain economic development benefits, and through our own understanding of Auckland's development patterns, economic history and current context. What follows is a discussion around some of the contemporary attitudes, thoughts and theory on metropolitan governance and its relationship to economic development. The full report is available from www.ipp.org.nz.

Introduction

A key starting point for this investigation is the consideration of the international context for economic development of city regions. In this respect, the phenomenon of globalisation is acknowledged as an overarching reality. There are a variety of responses to globalisation's forces that localities can follow. This paper argues that the most effective response is to accept that there are major global forces impacting on our economy and society and taking that as given, we must utilise and build on our own strengths and resources to capitalise on opportunities in the global market. This 'glocalisation' approach is characterised by dialogue between local actors, who seek to increase their negotiating strength and pursue reciprocal advantage and common interests between localities and global flows of capital, information and human resources.

In this current international economic environment, city-regions are considered as a key focus for policy and for managing economic development efforts. They are at a meso (between the local and the national) level building partnerships, critical mass and global connections at a scale that can be effective on a global stage. The city-region is a wholly inter-connected functional economy. There are things that need to be done at a regional level and at a sub-regional level but these are not separate; they need to work in unison. Sub-regional economies are also usually the focal point for economic development implementation, recognising and enhancing specialisations, competitive and comparative advantages. Implementation capacity therefore needs to be supported at that local level.

In terms of enabling economic development, key infrastructure and services need to be rationalised and governed according to their functional geography. This may not coincide with political jurisdictions, therefore more flexible and 'fit for purpose' governance arrangements must be sought so that economic development is enabled not constrained. Regional governance plays an instrumental role in providing a regional focus both from above and below, therefore it is not a case of 'top down' *or* 'bottom up', it is a case of top down *and* bottom up.

The New Zealand government has rightly identified Auckland as a key component of its economic development policy. This is a recent phenomenon, as Auckland's relationship with the rest of the country has often been challenging. Key initiatives in the last decade such as the Auckland Regional Economic Development Strategy (AREDS), the Auckland Metropolitan Project, and the formation of the Auckland Economic Development Forum (AREDF), the Government Urban and Economic Development Office (GUEDO), Auckland Plus and AREDA have all stepped up Auckland's relationship with central government with respect to economic development. It is our assessment however, that much more could be done to enhance the quality of their relationships in providing an integrated approach, in building partnerships with other sectors – private, tertiary and NGO - and in putting resources behind economic development implementation.

The Metropolitan Auckland Project highlighted the need for strong leadership, clear role definitions, integrated planning, partnerships and collaboration for economic development to be effective on a regional scale. There have been some successes with partnerships being formed between Auckland Plus and GUEDO and some private sector and tertiary sector engagement in various work-streams in the "Metro" Action Plan. The formation of the Auckland Regional Economic Development Forum has also been a step in the right direction with representation from all sectors. However the forum lacks teeth. The level of effectiveness has been constrained by a lack of [funding] autonomy, empowerment and responsibility and a general unwillingness of central government to devolve decision-"taking" power and resources.

Globalisation and 'Glocalisation': the importance of things 'local'

No economic development strategy today can hope to have success if it does not consider the wider context in which it is operating. Globalisation is the term most used to describe the broadest economic context, and all economic activity today is affected by its processes. Globalisation describes a process where now more than ever in history people are connected. They are connected through trade, employment, increased communications technologies, cultural exchange, sports and migration, to name a few. In his book 'Globalisation and the wealth of nations' (2007), Brian Easton describes graphically how the world, in terms of moving products, services and information, has altered so that the 'distance' – by sea, air, or in communications and information transfer - between people and places has gotten 'smaller'. He identifies five primary principles of globalisation:

Globalisation is the economic integration of economies – regional and national economies.

Globalisation is caused by the falling cost of distance.

Globalisation has exceptionally powerful effects when the reduced costs of distance combine with economies of scale.

Globalisation became important in the early nineteenth century, so the phenomenon is almost two centuries old.

Globalisation is not solely an economic phenomenon in a historical and geographical context. It has political and social consequences. In particular

- it impacts on, but does not eliminate, cultural differences, and
- it reduces, but does not eliminate, the policy discretion of nation-states.

As Easton demonstrates, globalisation is just as important to consider in local economic development as in national development strategies. These five principles demonstrate its importance in our thinking on this issue.

Globalisation processes bring the world into our nation and our lives on an everyday basis. When it was first written about, there were fears that the world would become increasingly homogenised and that social, cultural and economic differences would become increasingly blurred. At the heart of this were fears of the threat it presented to traditional notions of the 'local' and to local communities. As Bressi (2003) notes, local communities have reacted in different ways to this. Some local communities – especially in developing countries - have come to be at the mercy of global pressures and powers, reminiscent of colonial rule. Large multinational corporations and international powers therefore dictate their economic and social life. Other communities have reacted defensively, attempting to resist global pressures by more or less building walls and shutting up shop. Bressi calls this defensive, self-centred localism. Thirdly, local communities have responded with what Bressi terms the 'glocal' approach, which is 'characterized by meeting, negotiation and dialogue between global actors and local actors'(Bressi, 2003, p.6).

Evidence suggests that this third response the - rather clumsily worded - process of 'glocalisation' is becoming an equal and concurrent process to globalisation. This is where local communities deal with globalisation by rediscovering local connectedness and culture. As Bressi notes, it is characterised by dialogue between local actors, who seek to increase their negotiating strength, pursue reciprocal advantage and common interests between localities and global flows, and attempt to build common projects in pursuit of the best development opportunities for their communities (Ibid).

Glocalisation is different from localism in that it attempts to describe processes where people affirm their connection to their local communities at the same time as engaging with global processes. As Bressi notes, this phenomenon emerged with force over the past decade:

> Localities (national and sub-national entities in various shapes and forms) have begun to interact increasingly with "flows" of capital, technologies, goods, people, and cultural values generated by global actors. The localities have also increasingly begun to dialogue with each other, to build networks and to set up "horizontal" alliances. Through increasingly dense and complex relationships and agreements among different local subjects (of various types and at various levels: public and private, national and subnational), a process has begun that we could define "horizontal globalization." This is an essential aspect of glocalism… (Bressi, 2003, p.5)

This notion of 'horizontal globalisation' describes the effect of creating networks of association across localities to build social capital and 'institutional thickness'. Social capital, in Robert Putman's words, refers to 'connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them' (Putman, 1994, cited in Mowbray, 2005, p.50). It often takes forms that are difficult to measure, but nevertheless can result in very tangible forms of development. As Cavaye (2005) notes, social capital can be observed working at three different levels within communities; the individual, group and wider community or institutional level – which combined can contribute to networks at the national level (Cavaye, 2005, p. 39). The concept of institutional thickness builds on this, emphasising the need for institutional structures which facilitate the building of social capital.

As Amin and Thrift (1994) have identified, a strong institutional presence, high levels of interaction between organisations, a mutual awareness of common involvement and structures which minimise 'sectionalism' are key ingredients towards this (Amin and Thrift, 1994, cited in Coulson and Ferrario, 2007, p.593). Having social capital and institutional thickness apparent is a sign of a healthy and engaged society. The lack of these differing arrangements may also be a sign of disengagement by the populace; the outward reflection, at its most crude but nonetheless overt level, is a lack of democratic engagement.

There is a multitude of literature on globalisation and its effects on a nation's regions and communities. There is as much divergence of opinion on the benefits of integrated global world trade and free trade agreements, and the 'benefits' that free trade should or does bring to the communities we live and work in. Regardless, there is a general consensus that increased information and communications technologies have allowed businesses, corporations, economies and localities to take advantage of 'real-time' transactions and the exchange of large amounts of information at greater speeds than ever before in our history. The coincident rise in service industries and knowledge exchange has led to many more theories about the rise of the 'knowledge economy' where knowledge is the 'product' and this has more value and is less damaging to the environment than traditional heavy industries. This is the context that Charles Leadbetter describes as basing economies on 'thin air'; where the greatest potential for growth lies in ideas rather than physical productivity (Leadbetter, 2000).

This thinking is at the heart of the New Zealand government's economic transformation agenda. This stipulates that the New Zealand needs to 'move up the value chain', create more 'knowledge intensive' 'high value' businesses and occupations, 'add [knowledge] value' to our base industries and be more 'productive' and 'innovative' to foot it in an increasingly competitive and globalising world [economy](Ministry of Economic Development, 2008). Regional development is an important part of this policy focus, and the Auckland region especially so. This is something Florida (1995) agrees with, as he sees regions becoming more prominent in economic development:

> The shift to knowledge-intensive capitalism goes beyond the particular business and management strategies of individual firms…involving the development of new inputs and a broader infrastructure at the regional level… The nature of this economic transformation makes regions key economic units in the global economy. In essence, globalism and regionalism are part of the same process of economic transformation (Florida, 1995, cited in MacLeod, 2001, p.804).

Unfortunately while terms like knowledge economy, knowledge intensive, high-value, productive and innovative sound correct at least on an intuitive level, the transformation into tangible actions that will deliver on these aspirations has proved to be more challenging. Every single term can be contested. That should not, however, paralyse us. If we accept that certain realities like globalisation, the new/ green economy, and climate change are influencing our context, then we must act. The response in much of the literature (as we shall see below in the discussion on new regionalism) has been to confront global pressures on a regional level. Cities and metropolitan regions become important nodes of scale and scope with which to deal with some of these pressures, as Clark argues:

> The chief 'drivers' of economic regions are well-known larger drivers of change such as globalisation, technology development, freer trade, public sector reform, increased mobility, and the new logistics of trade and exchange. Fundamentally, economic-regions offer a scale and critical mass of resources at the sub-national level, combined with a sufficiently coherent geography to address the interaction with these wider drivers of change (Clark, 2006).

These imperatives have led many metropolitan regions to examine their ability to chart their way and 'manage' the response at a regional level. The alternative is to lose the race to move up the value chain and fail to attract and retain skills and talent – which would likely create 'a low investment/ low return' downward spiral (Clark et al., 2006). It therefore becomes vital to manage key internal and external business relationships, ensure key strategic messages are sent to the private sector about what a region can offer now and in the future, and to build confidence that “the region” is thinking about its role in the national economy and its current and future comparative advantages in an international context. Clear and consistent policy settings, followed up with strategies, programmes and projects that fit with those policies, are desirable to build the necessary environment for private investment that will complement and support public investment and goals.

Economic development ‘management’, then, forms an important part of the economic development effort. Territories must manage important relationships and a combination of risk, resources and assets in order to get the best for their own and neighbouring territories. The actors in these relationships may include businesses, business associations, chambers of commerce, development agencies, schools, technical institutes, universities and other training providers, community based organisations and trusts. Out of effective management of these relationships will come opportunities like clustering, building innovation systems, and science parks, so that local governments recognise and realise that they are not the only actors involved in positively shaping the local or regional economy.

Local economic development is not just about managing external forces like globalisation. Equally, if not more important is the need to build on the inherent strengths and capacities within a local economy. This provides paths towards differentiation, specialisation, comparative and competitive advantage. Endogenous development literature rests on this assumption by emphasising economic externalities from increasing returns to scale associated with spatial clustering and specialisation (Porter, 1994; Krugman, 1995) and in releasing endogenous potential within localities. Flexibility in approach is therefore also necessary.

The fact that a history of exogenous models of development have drastically failed in developing countries (see Sen, 1999; OECD, 1999; Bressi, 2003) validates the endogenous approach. A ‘one-size-fits-all’ model of development is doomed to fail in a world where globalisation has brought with it a concurrent shift towards maintaining and rediscovering local connectedness and authenticity. Local attempts at re-claiming some control over global processes in food production, such as farmers markets, and notions of ‘slow foods’ and ‘food miles’ are good examples of how alternative, flexible approaches can provide endogenous development opportunities. As Clark (2006) and Bressi (2003) both observe, local development has consequently become a very different task in the context of globalisation, and often ‘more complex, more challenging, and some ways more dangerous or risky. But they also make an important point; that this also creates a significantly enlarged mandate to invest in local development capacities if the global economy is to be a partner rather than an enemy of local development.

In summary, what this means, for the organisation of economic development efforts within a metropolitan region such as Auckland, is that there are multiple levels which have to be attended to and strong connections that have to be made between and across them. Economic development specialisations and opportunities most often bubble up from ‘below’ – from local contexts (physical, economic, social, and cultural), local economies and specialisations – from those things we do better than everyone (as absolute advantages) and things we do comparatively better than most. Taking advantage of those opportunities may involve a plurality of actors when scaling up, trying to get more collaboration, innovation and entrepreneurship, or organising to engage in world markets. Different skills are required at different levels, and at different times during the life cycle of business and [industry] sectors. It must be a cross-sector effort; not just a public sector effort.

Local capacity is therefore a key ingredient. This is local know-how that is connected and understands wider regional, national and international dynamics and markets. In order to truly transform Auckland's economy the local things matter; the local gems as yet undiscovered or local dynamics that will spur things to happen. This validates Porter's somewhat paradoxical claim that 'the enduring competitive advantages in a global economy lie increasingly in local things – knowledge, relationships, and motivation that distant rivals cannot match.' (Porter, 1998, pp 77-90)

Conceptualising Economic Development

What is economic development?

Economic development is a term much used in policy, academic and business circles, but often without a clear definition or agreement of what is meant by it, or how it might be achieved. The type of integrated approach advocated above requires all actors to have a common understanding of what they are working towards so that there is effective support of the development strategies. In this section, we seek to address this issue by attempting to come to some common understanding of what we mean when we say 'economic development'.

Economic development is a process through which fundamental goals are achieved for society. It is not an end in itself; it is a means through which we achieve 'public good' outcomes. As Jim Anderton often stated during his tenure as New Zealand's Minister of Economic Development, 'you can't have a first-world health system and a third-world economy'. Such a statement assumes a general level of agreement of the goals of economic development, conveys a sense of direction and purpose to developing the economy, and a belief that society has some control over that direction and purpose. It is the sense of purpose that sits at the heart of much of the economic development and governance literature; for example in New Zealand asking:

- How does 'Auckland' [and New Zealand] 'transform' its economy?
- How does Auckland gain comparative and competitive advantages on a world stage?
- How will that benefit New Zealanders?
- And more fundamentally – is this a job for central, regional or local government, business, universities, or the third sector?

Local economic development

There is a plethora of differing views on what local economic development is and how it can be achieved (remembering that in this part of the report Local is used in the broad sense i.e. sub-national). Blakely (1994) describes it thus:

> Local economic development is 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, 2005, p.2).

The OECD emphasises the process as part of local community activity in its definition. It views 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, 1989, 1990, 1993 cited in OECD, 1999).

The US Economic Development Administration focuses more on the wider outcomes of the process, implying that certain measures can be applied:

> …the bottom line of economic development today is about building prosperity and raising the standard of living. Productivity and productivity

> growth are the fundamental drivers of prosperity and innovation is the key driver of productivity. The focus of economic development should be on supporting innovation and increasing prosperity (Economic Development Administration, 2004 cited in Rowe, 2005, p.2).

Local economic development is therefore a process in which certain outcomes are pursued. It is something more, however; there are certain public good outcomes and positive externalities that we are trying to achieve from that process, because otherwise we would simply leave it to the market. Markets respond to dispassionate and often somewhat diffuse stimuli – buy and sell, supply and demand, perception of worth, imperfect information – and markets fail. In the main they fail to deliver public good outcomes, fail to take into consideration wider strategic and societal objectives, fail to be reflexive (i.e., consider what has happened and what should happen) and even fail at times to ensure their own sustainability. Local economic development should therefore go beyond enabling economic activity; it should ensure good outcomes for society.

The market environment provides the context, however, because economic development strategies have to take into account that competitive advantages and markets shift. For businesses and economies to maintain competitiveness they must remain 'tuned in' and responsive to changing market conditions. These are not always apparent to isolated firms, which have to deal with an asymmetry of information, a lack of scale or scope and added transaction costs. For New Zealand firms being part of a small island economy located at the 'bottom of the world' these constraints are even more apparent.

The task in finding suitable governance arrangements for local economic development, then, is one of supporting good process, but also seeking to manage activities in a way that desired broader outcomes can be achieved. Clark describes facilitating economic development as 'fundamentally a change, risk, asset and relationship management activity undertaken within a territorial framework.' (Clark 2002, p.3). In other words, what we are trying to achieve is a process whereby we can shape our economy so that it builds on our strengths, takes advantage of our social, cultural, environmental, and economic particularities, and creates comparative and competitive advantages. This will thus provide prosperity and opportunities in the broader sense for New Zealand citizens.

Dynamics and Politics of Economic Space

One of the key effects of globalisation, especially with the growth in focus on the 'knowledge economy', has been to shake up traditional concepts of economic space. Political boundaries are often out of kilter with the spaces within which economic activity is generated or where it reaches. As Swyngedouw (2000) states, geographical scale has become 'a deeply heterogenous and contested process' (Swyngedouw, 2000, cited in MacLeod, 2001, p.814). The 'local' is in this respect as difficult to define as the 'global'. As MacLeod (2001) notes, scholars have made many attempts to map this 're-territorialisation' of economic activity but defining economic space, especially in relation to political boundaries, remains problematic. This section considers the tensions that arise between economic space and political territory and how they might be addressed for effective economic development governance.

Sub-national economies, and the demands of them - whatever their size and scale - do not always fit neatly with political or administrative boundaries. As economies and economic actors are increasingly exposed to the global forces of competition, the re-territorialisation of political economic activity is a natural response. Nations and regions are grappling with ensuring that their territories are players and not just spectators left behind in development. This highlights the necessity for aligning, or at least addressing, the governance of a sub-national economy with its economic geography.

Consequently, many metropolitan regions have identified the 'metropolitan' or 'city-' region as a functional sub-national economy that requires attention in development. How that region functions in a holistic sense will determine its ability to capitalise on opportunities from both within the region and externally. Within such a broadly territorial definition, economic functions operate at different levels: sub regionally; intra-regionally; and across regions. For example, labour markets within the Auckland city-region operate at all of these levels, with labour moving from the periphery to the CBD, across and between cities within the Auckland region, and sometimes to other regions. Supply chains similarly cross administrative boundaries with little or no regard for political determination.

Governance of economic development consequently becomes an art in collaboration and coordination at the metropolitan and local levels. This is where the definitions of 'local' and 'regional' become somewhat semantic as they are often artificial and suboptimal definitions of economic space. Nevertheless, local and regional specialisations are often clustered within a particular territory. This is evident in Auckland, where for example logistics and manufacturing companies are prevalent in Manukau City in close proximity to Auckland's international airport, and hi-tech companies are clustered on the North Shore.

The marine sector is also a good case in point. Boatbuilding and marine firms cluster around the Waitemata harbour, but are also spread throughout the Auckland region; albeit with differing strengths, scale and scope. In this particular sector links must also be made across regions; with Whangarei (Northland) which has also been identified by the New Zealand government as a development location for the marine sector with a recent $2 million allocation for investment in the marine industry in that area (Hodgson, 2008).

As these brief examples illustrate, the governance of economic development programmes that would support different industry sectors should be different. As Clark (2006) notes, this presents challenges for local economic development, 'because it increases the scope for unintended negative consequences' such as 'substitution, spill-over effects, displacement, and dead weight'. Clark goes on to argue that these factors alone have caused local economic development issues to be strong drivers of, or imperatives for, metropolitan and municipal reform processes. Taking economic geography into account in municipal reform enables more effective relationships to develop between political and economic actors:

> Metropolitan reform processes have also therefore enabled a series of local administrative units to share the costs of the key local economic development infrastructures from which they all benefit. A good example of this is the growing range of Metropolitan Economic Development Organisations where several municipalities will 'club together' with business leadership organisations, utility companies, universities, and others to form a metro-wide economic development agency and programme, recognising the fundamental economic interdependence of all parts of the region (Clark, 2006a, p7).

Economic interdependence and mutually reinforcing activities are increasingly recognised as the key to economic development efforts in a city-region. This has also led to the recognition that new types of institutions, partnerships and 'special purpose vehicles' for economic development are desirable in order to address, and take advantage of, these interrelated dynamics and assets. This means a more inclusive and 'fit for purpose' approach to deciding what is best, strategically, for localities bringing relevant partners to the table when deciding on important strategic issues and utilising expertise from a wider range of options and partners. As Clark reasons, this does not mean disregarding past and existing structures, but acknowledging the changing context and acting accordingly:

> Old enmities between cities and suburbs, or between two neighbouring cities, or between urban and rural areas, have not disappeared, but evidence is starting to show that they are much more economically inter-dependent (mutually reinforcing) than was previously understood. They cannot 'go it alone' but must work across their whole sub-national region to create the tools to 'steward' their business environment, promote new forms of employment, deal with image problems, and tackle the limitations of infrastructure (Ibid).

In this context the focus and tools for economic development, and the governance arrangements to support that focus, have changed. In recent history there have been waves of approaches to economic development, as illustrated by Table 1 below:

Table 1: Three waves of local economic development

Wave	Focus	Tools
First: 1960's to early 1980's	• Mobile manufacturing investment, especially • the attraction of foreign direct investment. • Hard infrastructure investment.	• Large grants • Subsidised loans usually aimed at inward investing manufacturers. • Tax breaks. • Subsidised hard infrastructure investment. • Expensive "low road" industrial recruitment techniques.
Second: 1980's to mid 1990's	• The retention and growing of existing local businesses. • Still with an emphasis on inward investment attraction, but usually this was becoming more… • targeted to specific sectors or from… • certain geographic areas.	• Direct payments to individual businesses. • Business incubators/workspace. • Advice and training for small and medium-sized firms. • Technical support. • Business start-up support. • Some hard and soft infrastructure investment
Third: Late 1990's onwards	• Soft infrastructure investments. • Public/private partnerships. • Networking and leveraging of private sector investments for the public good. • Highly targeted inward investment attraction to add to the competitive advantages of local areas	• Developing a holistic strategy aimed at growing local firms. • Providing a competitive local investment climate. • Supporting and encouraging networking and collaboration. • Encouraging business clusters. • Encouraging workforce development and education. • Closely targeting inward investment to support cluster growth. • Supporting quality of life improvements.

Source: World Bank (2004) Local Economic Development: A Primer - Developing and Implementing Local Economic Development Strategies and Action Plans. A knowledge Product of Cities of Change, October, Washington, DC., cited in 'Local Governance and the Drivers of Growth' OECD (2005).

Table 1 above illustrates some of the shifts in terms of the practice of economic development that have coincided with, or resulted from, different economic pressures and competitive realities over the past half century. There is now far more recognition that localities, and administrations within those localities, can steer investment towards strategic objectives for their territory rather than welcoming just any investment. They also see that they can work with their own economy to build on its unique strengths and with partners to achieve common goals, mitigate market failure, and facilitate and encourage collaboration in order to build critical mass. This does not mean that practice and or thinking has wholly moved; past strains are still very prevalent in contemporary practice. There has been, however, a definite shift to regionally- and locally-based economic development approaches. These approaches do not deny the need for sound macro-economic policy, it is more that they work within a macro-economic context but take action where there is more chance of engineering or re-engineering the economy to give effect to greater sustainability, competitiveness and resilience.

New Regionalism

Regionalism is not new in New Zealand. In the early part of colonial history regional authorities were far more powerful than any notion or form of central government. In New Zealand regional approaches to economic development have experienced their own development patterns akin to the trends illustrated in Table 1 above. The first wave corresponds to the Muldoon years when New Zealand was following a Keynesian macro-economic approach and 'Think Big' was the policy framework. 'Think Big' was intended to provide New Zealand with large and sustainable industries, and much of the focus was on infrastructure development and enablers for industry (such as Manapouri power station, Marsden Point Oil refinery, Tiwai point Aluminium smelter). This was a period where central government policy dictated what was possible within New Zealand, with a managed exchange rate, import restrictions, tariffs and subsidies. Industries were often put where government thought they should go based on providing "employment opportunities" or next to natural resources. This was often done with little consideration of the local business environment. The tools for developing those industries were also similar to those described above, with tax breaks and incentives being offered.

Development agencies arose mainly in the late 1980s and early 1990s when New Zealand had massive unemployment and large closures, or threatened closures, in its manufacturing sector particularly in, but by no means limited to, Auckland. This occurred as New Zealand's macro-economic settings took on a particularly strong neo-classical orthodox path in the 80s. New Zealand became very quickly an open and unprotected market. This context largely dictated (and many would say created) the work programme. Agencies like Enterprise Waitakere, Enterprise Manukau and the Christchurch Development Corporation, for example, initially concentrated on resolving unemployment by moving people to self employment or other jobs through up-skilling or retraining. Business development became crucial as formerly protected industries and businesses were laying off or closing. Within that context globalisation became far more real for New Zealanders as many of our businesses became uncompetitive on a global scale (notwithstanding the fact that in many cases our businesses were competing with import barriers and subsidies in other countries). These roles have subsequently changed; today these same agencies play a key role in developing human capital and attracting skills in a currently tight labour market (albeit changing again at present with a global credit crisis impacting and creating a new round of closures).

The notion of new regionalism arises from the observations around globalisation and its effects on regional economies; with often quite localised effects, for example when a large employer becomes uncompetitive and shifts its manufacturing base offshore resulting in large redundancies. The study of regions then has shifted into new territory. Whereas in post war Europe [and New Zealand] the focus was on reconstruction and transfers (utilising mainly public sector and macroeconomic tools) in managed and protected national economies, the focus today is working within territories to build on comparative advantages in order to compete globally in an increasingly connected and free trade environment.

These shifts are more than a result of macroeconomic policy however. Regions are increasingly recognised as focal points for policy and action as they represent functional economies where the dynamics of social and economic life are concentrated and where environmental effects of human activity are more or less immediately apparent. The business environment (supply chains, available capital, human capital, logistical advantages, ease of doing business) becomes a crucial component where business will flourish or otherwise. Therefore regions are competing with regions, rather than nations competing with nations, as they represent economies of a scale where specialisations, industry clusters and comparative advantages are more obvious and where the "management" of a region becomes an essential tool in competing for investment and talent.

Allan Wallis (2002) describes six contrasting characteristics that distinguish new regionalism from old regionalism. These include changes in emphasis from government to governance; structure to process; closed to open boundaries; coordination to collaboration; accountability to trust; power to empowerment. These essentially contributed to a change in focus from a system of hierarchy (which seeks to dominate production and distribution) to network-based systems which accommodate different tasks and exhibits flexible capacity.

There are of course detractors, as Lovering (1999) notes:

> The dogma that 'regions are resurgent' as a result of global transformations implied by the growth of 'informational economies' has almost reached the point of an orthodoxy. But like the fashion for postfordism which preceded it, this represents the triumph of fashion and the influence of academic authority figures over social science. Treating these claims as accounts of the key causal influences on real regional development in general has led the New Regionalists to overlook far more important influences on the economic dynamics of many, and probably most, real world regions (Lovering, 1999, p.386).

Lovering is doubtful that the current trend in utilising the region as a unit of observation and policy focus is warranted. He is particularly concerned with random or confounding variables in establishing whether actions through government agencies at the regional level can actually be observed to play any causal role in substantive economic gain. This is a common observation but one that is in itself subjective. It is also fair to say that the knowledge in this area has moved substantially on from even eight years ago to the point where various tools such as intervention logic[4] in parallel with measuring process and outputs (i.e. measure what can be measured and establish the logic for interventions acknowledging that those interventions will have limited but nonetheless important effects). In other words, it is a given that there are a multitude of co-related, co-causal and confounding effects but that should not prevent us from determining

[4] Work that the Institute of Public Policy, AUT and Mckinlay Douglas Ltd have done is available on the performance measurement of EDAs utilising intervention logic and relational contracting. See also the 'Proving it' website http://www.provingit.org.nz

actions that will influence our future. The balance of the argument then rests on whether the region is an economic unit and whether it is the site for economic interventions.

Urbanisation in both developing and developed countries, with resultant disparities between newcomers and established residents, and the strains on the infrastructure to absorb new populations, has also been a driving force for a focus on the management of metropolitan and urban regions. Not only is there pressure on metropolitan areas to manage the dynamics of urbanisation, but there are also pressures to deal with rapid flows in technology, information, labour and investment that form part of the globalisation phenomenon. In the face of these pressures, nation-states have to rethink the management of their cities. Not only is a re-conceptualisation of regional economies and their importance needed, there is the related recognition by central governments that in order for that to happen there needs to be changes in the institutional arrangements, in up-skilling and up-scaling of local governments capability and capacity, a re-drawing of political boundaries to fall more into line with the 'functional' region and local economies, a shift to more cross-sectoral arrangements in the governance of complex issues and a recognition that political boundaries alone do not define the many functional relationships inherent in regional economy, therefore demanding more flexible arrangements in the governance of those functions.

Once the need for a regional approach has been established, for whatever reason, then some outcomes for re-engineering can be expected. Among these is a reorganisation of local government structures for perceived efficiency or economic gains. Also however, built around notions of better [non state or cross-sectoral] institutions to provide better democratic and economic structures, inviting in various participants to participate in decision making and 'decision-taking' (the notion that the decision can be implemented once made). This will also lead to new partnerships and behaviours that build social capital and knowledge capital that lead to better decisions. It also escapes the 'bounded rationality' (the notion that you only know what you know and that your day to day context and interactions shapes your thoughts) - that can beset public institutions stuck in old forms of hierarchical power and control relationships.

The City-Region as a 'Functional Region'

In a city-regional context then, what does it take to keep the city-region functioning well or make it function better? The move to join some of these 'dots' back up again has been at the core of new regionalism: the notion of sustainable development; more recent practices in economic development (and it must be remembered that economic development and social development are completely intertwined and the functioning of local and/or regional economies has a direct effect on both); and an increased recognition that a lack of social cohesion will undermine any efforts at portraying a healthy, democratic, society and economy.

As mentioned above different functions within a region often do not align, complicating the task. For example, water catchment areas and the supply of clean drinking water, and therefore the arrangements around how water is supplied to a metropolitan area, is likely to be different in function and form from regional economic development; and may be different again when considering optimal traffic solutions. At the same time, traffic decisions made in isolation (in the sense of 'get me from A to B in the quickest possible time') are often not helpful if the flow of people, goods and services are not also taken into account (ie how the economic geographies work). This also illustrates that economic functions and transport functions are not independent decisions. Nonetheless, the efficient and effective functioning of the metropolitan region is an imperative. New institutional 'fit-for-purpose' arrangements are being considered in many metropolitan regions around the world. In Canada, for example, Translink in Vancouver, the Greater Toronto Marketing Alliance (GTMA) and the London Development Agency seek to meet some of these challenges.

These types of changes impose some real challenges to central government agencies and traditional governance arrangements, and their various geographical determinations, which fall between, override, or do not coincide with re-conceptualised geopolitical and economic spaces. They are nonetheless vitally important to economic development as, for example, the governance of important infrastructure and regional resources frame what is possible. Therefore a single 'functional region' is impossible to achieve. It is more realistic to accept that many different functions have different geographies and arrange governance and management and operations accordingly.

A functional region, then, optimises efficiency and at the same time prioritises strategic [economic] development initiatives that create an upward spiral of confidence and investment. This means that governance arrangements need to be more 'fit for purpose' allowing for new and more flexible arrangements/institutions as the job demands and differing spheres of influence according to the job at hand.

The interdependence between city-region spaces and economies

Greg Clark argues for better integration and collaboration, and the need to recognise and take advantage of different scales and interdependencies between local economies. This of course has many levels, including local, regional national, local to global, global to local, and between and across regions nationally and internationally. A key question in pursuing economic development is where to organise efforts, and at what level. Increasingly it is recognised that the organising effort – in a city-region context - is at the city-region level. It is strategic, and of a scale that is recognised and competitive in a global context. However, as mentioned above, the coordination of effort, and collaboration between agencies, is crucial. As Clark notes:

> … initiatives at a meso-level between local and national are necessary to help bring otherwise disparate efforts closer together, and make best use of resources and assets … co-ordination and collaboration is required vertically between different spheres of government, horizontally between neighbouring municipalities, and between urban and rural initiatives, and organisationally between public, private, and NGO sectors. (Clark, 2006b, p2)

As city-regions begin to grapple with these complexities, central governments cannot afford time to constantly update or reorganise structures to suit, and structures are never going to be optimal in a functional sense for everything. Therefore collaboration and flexibility, and a change of behaviour towards interdependency and away from parochialism and hierarchy are needed. Simply changing the structure of local governments may only serve to shift boundaries rather than improve collaboration.

Incentives to collaborate and to provide more flexible and fit-for-purpose governance arrangements may play a more effective part, and the scenario where an agency is adept in horizontal and vertical integration is realised. As Clark notes, collaboration needs to be sought through flexible and reflexive approaches:

> The goal is to organise the efforts of governments, at all scales, around securing outcomes for places (poverty reduction, job creation, good services, and external investment) not simply around making narrow and institutionalised inputs. It is a key aspect of these approaches that outcomes matter more than inputs and that flexibility is critical to achieving outcomes through collaboration. (Ibid).

Policy implementation in a city-region becomes an art in collaboration, flexibility, building local governance capability and reflexivity into the system *and* in providing resources that allow for, and promote, the actual implementation of policy.

City-regions and governance for economic development

One of the key reasons cited for getting metropolitan governance right is the need for city-regions to remain competitive. This is a contentious notion that has scholars divided. Krugman, for example, sees that cities and regions grow often because of 'historical accidents' or a group of unrelated factors coming together that releases new opportunities or ideas. He uses Silicon Valley as a case in point, arguing that it, '…like most such agglomerations … owes its existence to small historical accidents that, occurring at the right time, set in motion a cumulative process of self-reinforcing growth' (Krugman, 1997, p.239). Porter, on the other hand, sees more determination and design in taking advantage of such agglomerations or clusters. They appear to agree, however, that the role of government should be providing the core essentials of quality urban living. To paraphrase; the best thing a government can do in that scenario is provide a fair and equitable regulatory environment, then get out of the way!

Endogenous growth theory, which has its roots in neoclassical theory, acknowledges that positive externalities can happen from increasing returns associated with spatial clustering and specialisation. The essential thesis is that clusters bring about the need for skilled labour and promote technological innovations, thereby offering key elements in growth and competitiveness. Krugman (1997) argues that it is the economic geography and firm relationships that are the fundamental drivers of growth rather than political arrangements. New regionalists see the region as a space where some of the advantages of scale and scope can play out and that the public sector is part of the economy helping to shape what is possible.

Regardless of the theoretical underpinnings, contemporary economic development thought and action lies in the notion that people, communities and therefore regions can have some control over their destiny and some determination in shaping their economy ("the market" is a human construction and therefore it is possible to influence it). They enable this through dealing, negotiating and taking advantage of global forces at the local level, and by releasing endogenous potential and taking advantage of local/regional specialisations that, have or have the potential to, provide economic opportunities for their constituents.

The competitiveness agenda may be somewhat forced onto central and regional governments as globalisation processes dictate. This re-definition of regions as competitive units with resources and assets at their disposal operating in a global context has forced meso-level [regional/urban/metropolitan/city–regional] governance onto the agenda. The imperative and raison d'être comes from a desire to 'not be left behind' in the global market for talent and investment. This global competitiveness drive also forces a re-examination of how cites function and whether the city "works well". New institutional arrangements that address the governance of a 'functional' region are being attempted. So while efficiency and effectiveness arguments continue to dominate discourse for determining local 'government' there is also a correlated sentiment which says; the public sector alone cannot address all the market failures and inefficiencies in the operation of a city-region and its economy on its own, therefore there is a pressing need for better 'governance'. Local and regional governments, stuck in an argument that centres on who controls what in various tiers of government, misinterpret the task at hand. Key NGOs, businesses and business organisations, industries and clusters can play a key role in competitiveness, raising productivity and joining with the public sector in investing in their combined future – as it is in all their interests to do so.

Translated to the New Zealand context, this means that if a city-region such as Auckland is to be competitive in a global market for talent and investment it needs flexible and cross sectoral governance arrangements in economic development. It also needs to address major infrastructure constraints and make the city-region function better through those arrangements.

The new imperatives for city-regional governance place added emphasis on cooperation and collaboration, providing "investment opportunities", and on forming new partnerships and institutions that address specific tasks or issues. This recognises that government in its varying forms cannot deal with all of the complexities and dynamics of running and improving a city-region. It must include other sectors in working on the complex and knotty problems that face society and the economy.

The public sector's role in economic development can be problematic, especially because it must work with and for the private sector. These two sectors work to the beat of different drums; different objectives and agendas and with very different deliberation and decision-making processes. The private sector follows market-led processes that demand quick decisions and decisive action, while the public sector, in meeting democratic and regulatory constraints, must at times slow processes down to get fair and equitable outcomes.

Economic Development Agencies (EDAs) operate as the cog between the public and private sectors, and play a particular role in bringing the two together to address market failures or build capacity in the local economy. They also play a role in forming new partnerships and institutions that bridge sectors (whether public, private or third sector) to take on particular developments.

As local and regional economies, clusters and industry sectors do not fit neatly with political boundaries, and as even with the best intentions political re-arrangements will still not address all of the possible market dynamics, economic development agencies/units/organisations, local, regional and central government and business organisations have to work together to be able to shape the future of those economies. This is where EDAs can play a vital role in identifying the economic geographies, providing a scenario for the locality or region, identifying projects, facilitating buy-in, and providing investment opportunities to both the public and private sectors, and in brokering partnerships to achieve strategic goals. Local and regional governments in particular are often compromised when trying to play this role as they are encumbered (and rightly so) with other legal, political and democratic mandates.

Central government sets national and to a large extent regional policy in economic development. Central government also has agencies engaging in market processes, however it does not (and should not) have the capacity to understand all the relationships and connections in local economies. That is the job of an EDA. When designing policies and programmes local actors should therefore be included in the design of policies and the implementation of programmes, as they are the ones with the most in-depth knowledge of what is possible and what is not (and if they don't they are remiss) in a local economy.

As we noted in section one, Brian Easton identified five primary principles of globalisation. The fifth is worth highlighting again:

> Globalisation is not solely an economic phenomenon in a historical and geographical context. It has political and social consequences. In particular it impacts on, but does not eliminate, cultural differences, and it reduces, but does not eliminate, the policy discretion of nation-states (Easton, 2007, p.2).

With a focus now on devolution, subsidiarity, regionalism, competitiveness and the need for better cooperation and collaboration, the 'the city –region' needs far more attention in terms of policy and governance. What Easton is saying above is that although there are new foci around city and regional units of policy and action, and globalisation is driving this movement, it does not eliminate the need for national policy. Rather, it ‘reduces the policy discretion’ of nation-states. In other words more local/regional actors need to be engaged in the development of local/regional policy. A branch-arm of central government will simply not suffice. The modus operandi of central government agencies (especially in economic development policy) therefore needs to be one of partnership, just as local and regional agencies need buy-in from, and partnership with, central government. It is no longer a case of top-down or bottom-up; it is a case of top-down *and* bottom-up at a regional level.

Conclusion

International models of [economic development] governance are useful for helping shape new ideas about local economic development. However these observations have to be tempered by an understanding of the importance of understanding context. In China, India, Europe or the United States a ‘region’ can have a population and productive capacity far greater than our whole country; let alone a region in the New Zealand understanding of the term. This makes it all the more important to both specialise and create critical mass at a City-region level. It is difficult to simply transfer economic development programmes or models of government when scale and scope and context are so different, let alone human and structural elements. We can, however, learn from the experience of others, and adapt or modify those examples to the New Zealand context.

Deciding upon governance arrangements for transport, electricity, sewerage, water services etc are important. But they are simply enablers in an economic development sense; they enable the city-region and economy to function better. The real task is to ensure those services are delivered in the most efficient and effective way. That may mean scaling up in some cases, it may mean sharing and centralising resources and expertise in some areas or it may mean granting regional decision-taking power in others. What is important is that the form of the governance arrangements should be fit-for-purpose and follow the function, rather than the other way around.

Infrastructure and services should not be the *raison d’être* for changes to political structures in Auckland or any other jurisdiction. Moving towards better governance rather than better government will achieve better results. Infrastructure and services should underpin a well functioning city-region therefore the raison d’etre for changing political boundaries or structures should rest on improving the lives and opportunities for the people who live and work in the metropolitan area.

Although local government once thought their role ‘was to register the making of Auckland, not to shape it’ (Bush, 1980, p.6), the reverse is now true. Governance arrangements for Auckland are at an important juncture. Having a history as the key trading centre for the region and nation, becoming the city with the largest population and economy in the country, having been through waves of ad hoc investment in an overall pattern of under investment, moving from regionalism to centralism, hearing messages around devolution and subsidiarity with little substance behind them; it is now time to recognise that the governance arrangements for Auckland are vital for New Zealand. Auckland needs to be given more head room to develop. Better governance will be followed by a better functioning city-region and greater investor confidence.

Economic development provides the means by which we can attain a better standard of living. It should be our pre-eminent concern as regions where poverty and inequality exist alongside wealth and exclusion are doomed to fail in a tragic way. A city-region such as Auckland, which has a history of fragmented development, where the flows of immigrants have been expected to ‘fit right in’ with no real thought given to successful integration, where essentially there is a series of loosely connected 'cities' and communities that have come about from a lack of planning as much as short term pragmatic solutions, and where attempts have been made to 'rectify' the parochialism problem through amalgamation, there is no room for broad-sweeping 'one-size-fits-all' models or solutions. Thought must be given to addressing disparities, increasing wealth, opportunity, connectivity and democracy. A 'Super-city' or 'Lord Mayor' will not solve Auckland's problems. More important priorities are regional decision-taking power, incentives for increased collaboration, role specification and thought about how the city-region can function better.

Governance for economic development at a city-region level will need people who can understand and articulate the role that a well functioning city-region can play in local lives as well as in providing benefits to the nation, and in the role it can play in an international context. Having a scenario for its future development and determining how Auckland will achieve that scenario will take leadership. This does not just mean political leadership, but also cross-sectoral leadership, collaboration, and flexible, adaptable and 'fit for purpose' forms of governance. How Auckland performs in an economic sense, how it looks, how it feels, whether it attracts talent, and how it 'functions', are all considerations that both local and foreign investors will use when making investment decisions. They are also factors that will determine the well-being of future generations of Aucklanders and New Zealanders. 'If Auckland is not our first global city, there won't be a second.' (Easton, 2006).

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