



## **Rural Areas and Regional Competitiveness**

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## EXECUTIVE SUMMARY

### Introduction & Background

- EU programmes have become increasingly important sources of rural development funding since the late 1980s. However, the accession of new Member States in 2004 will mean that the arrangements for financing measures to support rural economic development in the future will change considerably. An important new influence on EU policy is the Lisbon Strategy, agreed in March 2000 and 'refreshed' in 2005 — to improve the competitiveness of the EU.
- This study was commissioned by the Local Government Rural Network ([www.localgovernmentruralnetwork.net](http://www.localgovernmentruralnetwork.net)) — a network of rural local authorities involved in economic development — to examine the debate about regional competitiveness and to assess the particular implications for rural areas.

### Competitiveness

- In 1994, the UK Government set out two definitions of competitiveness:
  - For a firm, competitiveness is the ability to produce the right goods and services of the right quality, at the right price, at the right time. It means meeting customers' needs more efficiently and more effectively than other firms do.
  - For a nation, the OECD defines competitiveness as: the degree to which it can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real income of its people over the long term.
- Achieving competitiveness is difficult. The idea is frequently used but is usually only understood in its simplest terms. Competitiveness is relatively straight-forward when applied to a firm. However, among academic economists there is considerable skepticism about whether it can be applied to a nation, region or locality.
- Despite these concerns, the concept of competitiveness features prominently in economic and regional policy both in the UK and the EU. However, when thinking about economic performance in nations, regions and sub-regions leading economic theorists (and the UK Treasury) seem more content to focus on *productivity* than competitiveness.
- In the EU, the competitiveness agenda is framed in terms of the Lisbon Strategy, which set out three main goals: i) an increased employment rate (from 61% in 2000 to 70% in 2010); ii) regional cohesion; and iii) an average economic growth rate of 3%. When progress was reviewed in 2004-5 it was found to be disappointing and the Strategy has been refocused and re-launched. Efforts are now focussed on two main areas — productivity and employment.
- In the UK, the Treasury has come to focus on productivity and the various drivers of productivity. These are: investment; skills; innovation; competition; and enterprise.
- Overall, competitiveness is best seen as a concept that is both broad and fluid. It implies some notion of *relative* economic performance, but is not easily translated to localities. Productivity is a narrower concept, and can be treated in more technical

and calculable terms. For this reason, UK Government departments such as the Treasury seem more comfortable with the concept of productivity and have a relatively sophisticated understanding of its key drivers. There are also signs that productivity is becoming a more important focus within the revised Lisbon Agenda.

### **Rural Areas and Regional Competitiveness**

- Research by Michael Porter and colleagues in the US has examined the issue of competitiveness in US rural regions. The study argued that, internationally, conventional approaches to rural development policy have placed too much focus on agriculture and traditional rural industries with the result that rural and regional policies for economic growth are poorly integrated.
- In England, Defra have commissioned a series of studies of factors affecting productivity in rural areas. Defra's interest is in part driven by its Public Service Agreement target to narrow the productivity gap between the lowest quartile of rural local authority districts and the median. In Scotland and Wales, productivity and competitiveness issues feature less prominently in national policy statements about rural areas and rural development.
- Our consultations with UK rural development specialists on the role of rural areas in regional competitiveness suggested the following.
  - There are a range of ways in which rural areas can actively contribute to regional development and competitiveness, but the prevailing perception among national and regional policy-makers was as rural areas as merely passive recipients of urban-centred development.
  - The varied uses and understandings of the term competitiveness could serve as an opportunity for local authorities, working together, to articulate new interpretations of the concept based on their own experiences.
  - There is a need to make the case for public investment in rural areas in terms of its contribution to competitiveness. Investing funds in an area increasingly has to be on the basis of the case for subsequent economic growth.

### **Research Needs and Conclusions**

- The evidence base informing debates about rural areas and regional competitiveness is improving all the time. However, particular areas where new research may be needed are: economic and logistical issues around rural-urban interdependencies; detailed case studies of the reasons for economic success in local rural areas; and the means of widening labour market participation and raising wage levels.
- A workshop was held to examine the implications of the competitiveness agenda for rural development policy and to inform the next steps to be taken by the Local Government Rural Network. The workshop identified a series of opportunities brought by the competitiveness agenda. These included opportunities to:
  - clarify how rural areas contribute to regional/national development;
  - define competitiveness in terms of focusing on retaining wealth locally;

- highlight the importance of networking and institutions to creating the conditions for economic development;
  - demonstrate the rural dimensions to the knowledge economy;
  - invest in skills training to address low pay;
  - engage in pan-European mutual learning on achieving competitiveness in rural localities; and
  - restructure the rural economy.
- The workshop also highlighted future challenges posed by the competitiveness agenda. These included:
    - the difficulty of planning programmes in an environment where funding schemes are of shorter duration;
    - the continuing confusion over the definition and objectives of the competitiveness agenda;
    - addressing the perception that rural areas are not a source of economic dynamism;
    - uncertainty about levels and sources of EU funding;
    - promoting the idea of balanced territorial development more effectively; and
    - the need to guard against being programme-driven.
  - At the conclusion of the workshop four next steps were identified to respond to the opportunities and challenges of the competitiveness agenda. These were to:
    - be priority-driven, not funding-driven;
    - be solutions-orientated rather than problem-orientated;
    - clarify the changed role of the EU (and the implications of this for lobbying); and
    - develop clear messages on the issues facing rural areas.

## 1. INTRODUCTION

Since the 1980s, European Union funding sources and policy frameworks have been increasingly important in influencing the nature of rural development activities in the UK. This has been primarily a result of the growth of the Structural Funds, particularly between 1989 and 1999, but also because of reforms to the Common Agricultural Policy (CAP) and the introduction of the Rural Development Regulation as the 'second pillar' of the CAP. However, the accession of the 10 new Member States in 2004 is heralding a new era in the financing of the EU, with particular consequences for the distribution of funding to support cohesion and rural development policy for the period 2007-2013. In recent years, rural development policy objectives have come to be couched in terms of contributing to the competitiveness of the EU.

This study has been commissioned by the Local Government Rural Network—a network of rural Local Authorities and agencies across Scotland, England and Wales who seek to influence policy in rural areas. This paper examines the relationship between rural areas and regional competitiveness. EU cohesion policy is being reformulated around the issue of competitiveness or the Lisbon Agenda. Because strengthening the competitiveness of the EU is so central to the Lisbon agenda, important questions arise for those responsible for the development of rural areas about the role of rural areas within the 'competitiveness agenda' around Lisbon. This study therefore has four main objectives:

- To examine the issue of competitiveness, and identify different interpretations of what competitiveness means among different organisations involved in rural and regional development in the EU;
- To consider the relationships between rural areas and the competitiveness of regions within the EU;
- To identify ways in which the positive contribution of rural areas to regional competitiveness might be enhanced;
- To identify implications of the competitiveness agenda for those involved in rural development in the UK.

The following section reviews recent debates about competitiveness among those responsible for economic development and cohesion in the EU and its Member States. Section 3 goes on to examine the relationships between rural areas and regional competitiveness and how the rural contribution might be enhanced. Section 4 sets out conclusions and recommendations.

The analysis in the paper is informed by a desk-based literature review, supplemented with telephone consultations with 12 specialists in the field of rural development across the UK. A draft of the paper formed the basis of a 1-day workshop held in Newcastle in August 2005.

## 2. COMPETITIVENESS

- What is competitiveness?
- What are the working assumptions that surround the concept of competitiveness?
- What definitions are implicit in current debates about regional policy in the EU and UK?

### Introduction: What is Competitiveness?

“Most people who use the term ‘competitiveness’ do so without a second thought”. So wrote Paul Krugman in his 1994 article in *Foreign Affairs* on what he saw as the “dangerous obsession” with competitiveness among western governments.<sup>1</sup> In the decade since, the quest for competitiveness has become more widespread and deep-rooted. In describing “the competitiveness fad”, Michael Kitson and colleagues at Cambridge University argue that competitiveness has been elevated “to the status of a natural law of the modern capitalist economy” yet remains a highly questionable and contested concept among scholars.<sup>2</sup> The current usage of the term is seen as problematic because the concept was originally developed to understand the performance of the **firm**, but has been stretched to apply to the economic performance of a **locality** — whether this be a nation, a region or a sub-region.

Krugman has written that “the competitive metaphor — the image of countries competing with one another in world markets in the same way that corporations do — derives much of its attractiveness from its seeming comprehensibility”.<sup>3</sup> People find the notion of competitiveness a relatively straightforward one to grasp. However, there are widespread concerns among academic economists that this elusive concept has been employed in a naïve and simplistic way. For example, Michael Porter, another prominent scholar in the field of competitiveness based at Harvard University, warned in 1992: “I believe that many policy makers, like many corporate executives, view the sources of true competitiveness within the wrong framework.”<sup>4</sup>

Competitiveness has two basic elements: the technical costs of production and the costs at which goods are sold in external markets. Much of the confusion around competitiveness involves the differences between what is meaningful for a company and what is meaningful when thinking about a national (or regional) economy. In 1994, the UK Government set out two definitions of competitiveness:

For a firm, competitiveness is the ability to produce the right goods and services of the right quality, at the right price, at the right time. It means meeting customers’ needs more efficiently and more effectively than other firms do.

For a nation, the OECD defines competitiveness as: the degree to which it can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real income of its people over the long term.<sup>5</sup>

<sup>1</sup> Krugman, P. (1994a) Competitiveness – a dangerous obsession, *Foreign Affairs* 73, 28-44.

<sup>2</sup> Kitson, M. *et al* (2004) Regional competitiveness, *Regional Studies* 38, p.991.

<sup>3</sup> Krugman, P. (1994b) The myth of competitiveness, *Foreign Affairs*.

<sup>4</sup> Porter, M. (1992) *Competitive Advantage: Creating and Sustaining Superior Performance*. London: PA Consulting Group, p. 40.

<sup>5</sup> DTI (1994) *Competitiveness: Helping Business to Win*, London: Stationary Office, p.9.

Krugman argues that while competitiveness may be meaningful for a firm, it is quite inappropriate to apply the concept to national economies. National economies are not like corporations, and the idea that a country's economic fortunes are largely determined by its success on world markets is not well-founded. Ultimately, an uncompetitive firm goes out of business, but this is not an option for an economy. Furthermore, while companies generally earn their money from sources outside of themselves, the same is not true for national or regional economies. Indeed, in 2000, exports of goods and services in the UK accounted for less than 30% of national income, while in the US the figure was less than 10%.<sup>6</sup> Krugman's critique goes as follows:

The moral is clear, while competitive problems could arise in principle, as a practical, empirical matter the major nations of the world are not to a significant degree in economic competition with each other. Of course, there is always a rivalry for status and power — countries that grow faster will see their political rank rise. So it is always interesting to compare countries. But asserting that Japanese growth diminishes US status is very different from saying that it reduces the US standard of living — and it is the latter that the rhetoric of competitiveness asserts.<sup>7</sup>

For Krugman national competitiveness is a chimera. If competitiveness has any meaning, it is simply another way of saying productivity, and so the correct focus of attention should really be the search for increases in productivity. (He famously wrote, "productivity isn't everything, but in the long run it is almost everything".<sup>8</sup>) So, why does the notion of competitiveness continue to hold such purchase, despite these serious questions about its utility and underpinning assumptions? Krugman puts it thus:

Tell businessmen that a country is like a corporation writ large, and you give them the comfort of feeling that they already understand the basics. The subtitle of [a] huge best seller, *Head to Head*, is 'The coming economic battle among Japan, Europe and America'. The jacket proclaims that 'the decisive war of the century has begun ... and America may already have decided to lose.' Suppose the subtitle had described the real situation: "The coming struggle in which each big economy will succeed or fail based on its own efforts, pretty much independently of how well the others do.' Would [the author] have sold a tenth as many books?<sup>9</sup>

Michael Porter and his colleagues offer a contrasting analysis of competitiveness, but also conclude that productivity is the key to competitiveness. Porter and Ketals argue that:

Competitiveness remains a concept that is not well understood, despite widespread acceptance of its importance. To understand competitiveness, the starting point must be the sources of a nation's prosperity. A nation's standard of living is determined by the productivity of its economy, which is measured by the value of goods and services produced per unit of the nation's human, capital and natural resources. Productivity depends both on the value of a nation's products and services, measured by the prices they can command in open markets, and the efficiency with which they can be produced. True competitiveness then, is measured by productivity.<sup>10</sup>

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<sup>6</sup> Edmonds, T. (2000) *Regional Competitiveness and the Role of the Knowledge Economy*, House of Commons Library Research Paper 00/73, p.21.

<sup>7</sup> Krugman, P. (1994a) Competitiveness – a dangerous obsession, *Foreign Affairs* 73, p.35.

<sup>8</sup> Krugman, P. (1990) *The Age of Diminished Expectations*. Cambridge MA, MIT Press, p.9.

<sup>9</sup> Krugman, P. op cit p.39.

<sup>10</sup> Porter, M and Ketals, C. (2003) *UK Competitiveness: Moving to the Next Stage*, DTI Economics Paper No. 3, Economic and Social Research Council and Department of Trade and Industry, p.11.

Krugman complains that the debate over competitiveness has been conducted “with no shared basis of mutually agreed facts and mutually understood concepts.” It is simply a matter of “time-honoured fallacies ... being dressed up in new and pretentious rhetoric”.<sup>11</sup> He sets out four caricatures — ‘stock characters’ — in the competitiveness debate with increasingly sophisticated perspectives on competitiveness. These are: the Mercantilist; the Classicist; the Strategist; and the Realist.

- *The Mercantilist* has no problem with the term competitiveness, understands comparative advantage to be the same thing as competitive advantage, and thinks the purpose of trade is to generate exports and so create jobs. Most politicians, journalists and commentators who use the term competitiveness, Krugman argues, are Mercantilists.
- *The Classicist* has a model of trade rooted in the thinking of Ricardo and John Stuart Mill. Classicists see the purpose of trade as being about imports rather than exports. Exports are simply a means to an end — an efficient, if indirect, way of producing an import. The classical model is standard economics, taught in universities across the world.
- *The Strategist*, inspired by the experience of places like Silicon Valley in California, objects to the assumptions about perfect competition implicit in the classical model. In fact, all sorts of market imperfections exist, which create opportunities for active government to exploit. The *Strategist* argues that governments should actively support domestic firms wherever there might be the prospect of winner-takes-all competition for future monopoly profits, or where strong spill-over benefits might accrue to related firms.
- *The Realist* acknowledges that markets are imperfect, but is skeptical about the potential gains from trying to exploit market imperfections. Realists sound a lot like Classicists, but know that the classical model cannot be quite the whole story.

This discussion illustrates some of the difficulties in operationalising the concept of competitiveness. The term is widely employed, but often only superficially understood. Among academic economists there is considerable skepticism, in particular, about whether the concept can appropriately be applied to a nation, region or locality. At the heart of the debate between the ‘strategists’ and the ‘realists’ outlined above by Krugman is the extent to which governments can intervene to help strengthen the prospects for competitiveness among firms in particular places.

Despite these concerns, as we shall see, the concept of competitiveness has become ever more widely invoked as an objective of economic and regional policy both in the UK and the EU. When thinking about economic performance in the context of localities (nations, regions, sub-regions and so on), leading economic theorists (and the UK Treasury) seem more content to focus on productivity than competitiveness.

### **The European Union and the Competitiveness Agenda**

In the European Union, the quest for competitiveness has been enshrined in the so-called Lisbon Agenda. The Lisbon Strategy was agreed at the Lisbon European Council in March 2000. The aim was to make the EU “the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and

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<sup>11</sup> Krugman, P. (1996) Making sense of the competitiveness debate, *Oxford Review of Economic Policy* 12, 17-24.

greater social cohesion".<sup>12</sup> The Lisbon Agenda centres on the analysis that the twin developments of increasing globalisation and a new 'knowledge-based economy' present new challenges to the EU as a whole, which it must actively adapt to. While the economic performance of the EU was diagnosed as relatively strong, five areas of weakness were identified which the Lisbon Agenda was designed to address. These were: unemployment (some 12 million Europeans were out of work in 2000); insufficient labour market participation by women and older workers; the persistence of regional disparities; an underdeveloped services sector, especially internet and telecommunications; and a skills gap in IT.

The Lisbon Strategy set out three main goals:

- i) an increased employment rate (from 61% in 2000 to 70% in 2010);
- ii) regional cohesion; and
- iii) an average economic growth rate of 3%.

The Strategy sought to achieve these goals through a set of measures set out in Box 1.

**Box 1 – Measures to Deliver the Lisbon Agenda**

- promoting IT (through developing skills, building infrastructure, liberalising telecommunications market);
- promoting research and innovation (through encouraging transnational research programmes, tax breaks for R&D in the private sector, assessing research performance, improving telecommunications between researchers, enhancing the mobility of researchers, establishing an EU-wide patent system);
- creating a friendly environment for those starting businesses especially SMEs;
- economic reforms to complete the internal market (liberalisation);
- promoting efficient and integrated financial markets;
- co-ordinating macro-economic policies;
- promoting training and skills for a 'knowledge society';
- promoting employment (by reducing skills gaps, lifelong learning and equal opportunities);
- increasing numbers employed in services;
- implementing welfare reform; and
- promoting social inclusion.

The Strategy has recently been subject to a mid-term review, which was highly critical of its progress. "Aggregate economic growth in the Union remained sluggish underpinned by slow progress in productivity growth, net job formation and in the shift to new activities relating to the knowledge economy and information and communication technologies". The Commission's Regional Policy and Employment DGs have acknowledged "although the poor economic performance has partly been the result of the cyclical slowdowns at world level, more needs to be done to stimulate economic growth in Europe".<sup>13</sup> The key features of the 2005 re-launch of the Lisbon Strategy are set out in Box 2.

<sup>12</sup> European Commission, 2000, *Lisbon European Council – Presidency Conclusions*, 23 and 24 March 2000, Lisbon, p.2.

<sup>13</sup> CEC DGs Regional Policy and Employment (2005) *Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007-2013*, 10 May 2005, Brussels, CEC, p.3.

### **Box 2 - The Lisbon Strategy: key elements of the Commission's re-launch**

- Extend and deepen the single market
- Ensure open and competitive markets inside and outside Europe
- Improve and expand EU infrastructure
- Boost investment and improve the tax environment for R&D
- Facilitate innovation, the uptake of ICT and the sustainable use of resources
- Step up promotion of environmental technologies
- Combat youth unemployment
- Gear EU cohesion and structural funds more towards innovation, training and infrastructure
- Improve regulation and cut red-tape

In July 2005, the Commission's DG for Regional Policy published a new set of draft Community Guidelines for how cohesion policy would be more closely aligned with the Lisbon Agenda for growth and employment.<sup>14</sup> Three overarching priorities are identified:

- *Making Europe a more attractive place to invest and work:* expanding and improving infrastructures; improving the environmental contribution to growth and jobs; addressing Europe's intensive use of traditional energy sources and supporting renewable and alternative technologies.
- *Knowledge and innovation for growth:* increasing and improving investment in research and technological development; facilitating innovation and promoting entrepreneurship; developing an information society for all; facilitating access to finance.
- *More and better jobs:* Attracting and retaining more people in employment and modernising social protection systems; improving the adaptability of workers and enterprises and the flexibility of the labour market; increasing investment in human capital through better education and skills; enhancing administrative capacity, maintaining a healthy labour force.

Improving EU competitiveness is a theme which now cuts across all areas of the Commission's work. Since Lisbon, competitiveness has become the guiding economic goal but achieving progress has proved difficult. To drive forward the competitiveness agenda the Commission is now more narrowly focused on what it identified as the two key ingredients of a more competitive Europe – boosting growth and employment rates. The future of regional policy is therefore one in which these ingredients are increasingly prioritized.

### **The UK and the Competitiveness Agenda**

In the UK, the Labour Government first published a White Paper on Competitiveness in 1998 which focused on developing the knowledge economy.<sup>15</sup> The White Paper defined competitiveness as being about matching the best in the world. To achieve this required

<sup>14</sup> Commission of the European Communities DG Regional Policy "Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2000-2013" 6<sup>th</sup> July 2005 [http://europa.eu.int/comm/regional\\_policy/sources/docoffic/2007/osc/index\\_en.htm](http://europa.eu.int/comm/regional_policy/sources/docoffic/2007/osc/index_en.htm)

<sup>15</sup> Indeed, the White Paper was entitled 'Our Competitive Future: Building the Knowledge Economy'.

action in two areas: productivity increases; and encouraging the growth of innovative products and high value added services. The UK's distinctive capabilities were understood to be knowledge, skills and creativity, and competitiveness was cast in international terms.

Since 1998, thinking in the UK Treasury has increasingly focused on the concept of productivity in delivering economic development. A series of reports from the Treasury have examined the drivers of productivity in the UK at different spatial scales (see Box 3).

**Box 3 - HM Treasury Productivity in the UK Series**

HM Treasury (2000) *Productivity in the UK 1: The Evidence and the Government's Approach* (November 2000)

HM Treasury (2001) *Productivity in the UK 2: Progress Towards a Productive Economy* (March 2001)

HM Treasury (2001) *Productivity in the UK 3: The Regional Dimension* (November 2001)

HM Treasury (2003) *Productivity in the UK 4: The Local Dimension* (July 2003)

HM Treasury (2004) *Productivity in the UK 5: Benchmarking UK Productivity Performance* (March 2004)

Sources:[http://www.hm-treasury.gov.uk/documents/enterprise\\_and\\_productivity/ent\\_index.cfm](http://www.hm-treasury.gov.uk/documents/enterprise_and_productivity/ent_index.cfm)

The Treasury's thinking is informed by so-called endogenous growth theory.<sup>16</sup> A central theme of the theory is that new technologies are embodied in new forms of human and physical capital. Investment in physical and human capital raises labour productivity, notably by stimulating innovation. Thus human and physical capital contribute to knowledge capital, which accumulates over time like other factors of production. An important feature of this perspective is that innovative activity is seen as part of the production process itself, where workers engage in learning-by-doing. "Investments in human and physical capital raise the rate of learning-by-doing and consequently the rate of innovation. By this process technological change becomes endogenous"<sup>17</sup>. From a policy perspective an important implication of endogenous growth models are that the growth rate is no longer assumed to be invariant to policy. Moreover, the mechanisms by which the long-run growth rate can be raised are made explicit, allowing governments to formulate approaches to generating economic growth.

Based on extensive and detailed reviews of the academic literature and evidence-base by the Treasury, the UK Government established five priority areas for action – referred to as the five **drivers of productivity growth**. While the detailed conclusions of some studies conflict, the general consensus to emerge from these reviews is that:

- (i) **Investment** in physical capital has long been known as an important determinant of growth, and this is well-established in empirical studies.
- (ii) Improving **skills** and human capital is important in promoting growth, both as an input to production and in technological change. This has been recognised in endogenous growth theory and in empirical studies which compare growth in different countries.

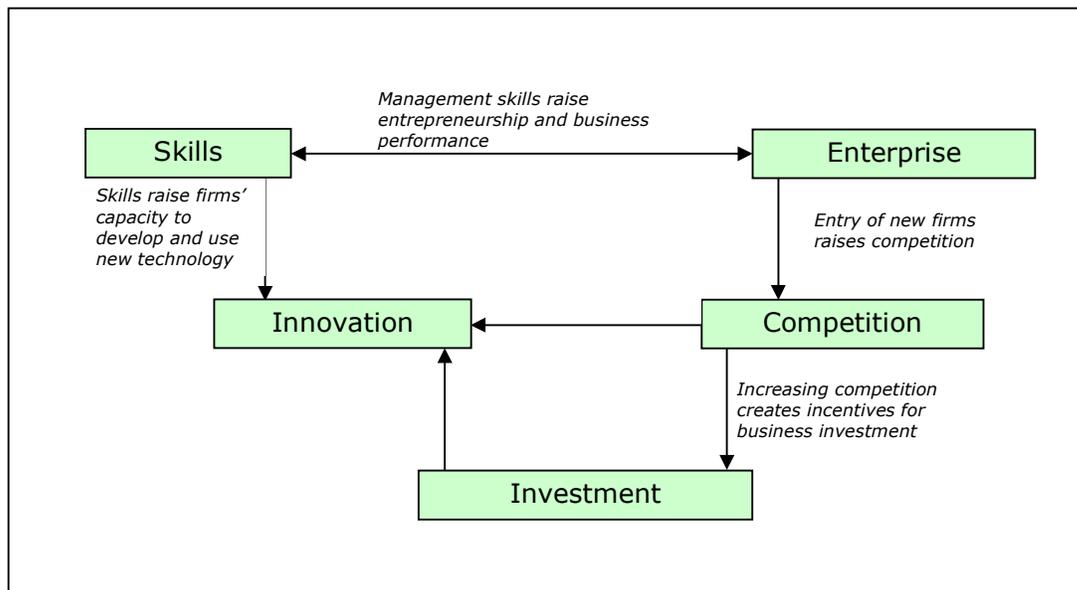
<sup>16</sup> See Aghion, P. and Howitt, P. (1998) *Endogenous Growth Theory*. MIT Press, London. This is also sometimes referred to 'post-classical endogenous growth theory'.

<sup>17</sup> HM Treasury (2000) *Productivity in the UK 1: The Evidence and the Government's Approach* (November 2000) pp.45-6

- (iii) Greater **innovation**, and particularly more R&D, is associated with higher growth. This relationship has been identified in studies in a number of countries.
- (iv) **Competition** is a key component of growth. Indeed, studies suggest that increasing market share and profits, both of which are indicators of market power, have a negative impact on productivity growth.
- (v) **Enterprise** is important to increasing growth, with studies showing that measures of enterprise and entrepreneurship, such as the numbers of people starting a business in a country or the rate at which individuals invest in start-up companies that are not their own, are correlated with growth.

Figure 1 illustrates the way these drivers relate to each other. Subsequent reviews by the Treasury of productivity growth and its drivers have employed this ‘five drivers’ framework to look at productivity in the regions of the UK and at the local level.

Figure 1 – The Treasury’s Five Drivers of Productivity



### The Competitiveness of Regions

It is clear that there are marked differences in the economic performance of nations. However, over the past twenty years, there has been increasing interest in the disparities in economic performance between sub-national territories such as regions. Porter argues that “comparative advantage is created and sustained through a highly localised process.”<sup>18</sup> Analysis has therefore increasingly focused on regional economies, city regions and localities.<sup>19</sup> The question of what makes certain regions more ‘competitive’ than others has spawned detailed empirical work on particular regions such as Silicon Valley in the US and

<sup>18</sup> Porter, M. (1990) *The Competitive Advantage of Nations*, Basingstoke; Macmillan, p.19.  
<sup>19</sup> See, for example: Porter, M. (2003) The economic performance of regions, *Regional Studies* 37, 549-78; Kitson, M., Martin, R. and Tyler, P. (2004) Regional competitiveness: an elusive yet key concept, *Regional Studies* 38, p.991; Turok, I. (2004) Cities, regions and competitiveness, *Regional Studies* 38, 1069-83.

the London and the South East in the UK as well as national and international comparisons of regional economic statistics.

The notion of regional competitiveness (or regional competitive advantage) can be seen as neither macro (national) nor micro-economic (firm-based). This is because regions are neither aggregations of firms or simple, scaled-down versions of nations. The notion of competitiveness takes on a different meaning depending upon the scale at which the term is being applied.<sup>20</sup> Furthermore, the regional level is probably the most difficult and complex level at which to define competitiveness. Competitiveness implies more than the ability to export goods and services, and extends to include a range of material inputs such as housing, infrastructure, communications and social networks.

Regions do compete with each other, particularly in attracting firms and workers, but crucially on the basis of absolute rather than comparative advantage.<sup>21</sup> A region will have absolute competitive advantages if it possesses superior technological, social, infrastructural or institutional assets which benefit firms within the region. These assets are external to individual firms, but help provide them with higher productivity levels than would otherwise be the case.<sup>22</sup>

What is clear, then, is that place matters. Economic growth needs a combination of factors to come together in the same place. These factors include having the right labour force and infrastructure, as well as skilled and knowledgeable people who can make it happen.

Relationships between different economic actors (firms, business organisations and public agencies) are an important ingredient in the success of regions, according to Michael Storper. He uses the concept of 'untraded interdependencies' to refer to those "conventions, informal rules, and habits that coordinate economic actors under conditions of uncertainty". These relationships can be thought of as regionally-specific assets, "a central form of scarcity in contemporary capitalism."<sup>23</sup>

From this perspective, the interaction of people, ideas and knowledge is seen as important in driving the economic growth of a region. Networks of people with know-how are often region-specific, and successful networks mean that others are drawn in. Once a place has a reputation as a thriving centre for a particular industry or service then it becomes a prime place to locate for newcomers who want to communicate with businesses and individuals. The most famous example of this phenomenon is Silicon Valley, a globally recognised centre in the IT industry in California.

This focus on the particular qualities of places, and especially the types of social and economic relationships between firms, individuals, public agencies and other organisations has also stimulated interest in clusters. Clusters are defined as "geographically concentrated groups of companies, suppliers, educational organisations, and other

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<sup>20</sup> Cellini, R. and Soci, A. (2002) Pop competitiveness, *Banca Nazionale del Lavoro, Quarterly Review* 55(220), 71-101 (cited in Kitson *et al.*, 2004).

<sup>21</sup> Camagni, R. (2002) On the concept of territorial competitiveness, *Urban Studies* 39, 2395-2411.

<sup>22</sup> Related terms that get used in the literature are "institutional thickness" and the "associational economy".

<sup>23</sup> M. Storper (1997) *The Regional World: Territorial Development in a Global Economy* (Guildford Press), p.5. See also: Dosi, G. (1984) *Technical Change and Industrial Transformation*. London: Macmillan; Lundvall, B.Å. (1988) 'Innovation as an Interactive Process - from User-Producer Interaction to National Systems of Innovation', in Dosi, G. *et al.* (eds.), *Technology and Economic Theory*, London, Pinter.

institutions in a particular field”.<sup>24</sup> A key ingredient in cluster formation and success is the degree of social embeddedness — the existence of social networks, social capital and institutions that facilitate innovation and economic development.

Porter has analysed the relative economic performance of regions across the US. Central to his examination of economic geographies has been delineation of three types of economic activity. First are **local industries** which service local markets. These are the goods and services which everyone needs in their daily lives. Examples would include basic health services, utilities, retail and construction. Second are **resource dependent industries** which are concerned with the utilization of natural resources. This is a very small part of the economy but serves both local and extra local markets. Of most interest, however, is the third category — **traded industries** — that are not natural resource dependent. These traded industries sell goods and services beyond local markets both nationally and internationally. Examples used are aircraft manufacturing and automobile assembly. In his study of the US context, Porter found that the traded industries were crucial to the competitiveness of regions and wages in this sector were much higher. (The average wage in 2000 was \$45,040 for traded industries compared with \$27,169 for local industries).

The result is an argument for developing the conditions for supporting clusters of traded industries. Through creating environments in which these clusters can flourish the overall performance of the region or locality will be bolstered, supporting the local economy as a whole. However, not only is it important to foster the growth of the traded sector, it is also crucial to examine the wage levels within that sector. Traded industries differ markedly in the wage levels that they support. Hence in the US Porter found that more rural regions had similar ratios of traded to local employment as the metropolitan regions. The difference was that wages in both sectors were lower in non-metropolitan areas impacting on the economic prosperity and hence overall competitiveness of these regions. According to this analysis, economic growth can be maximized by encouraging clusters of high wage traded industries.

## Summary

Overall, competitiveness is best seen as a concept that is broad and fluid. It is open to several different interpretations, and the dominant interpretations of what is meant by competitiveness may even be subject to change over time. Competitiveness implies some notion of *relative* economic performance, but is not easily translated from being applied to individual firms to being applied to different types of localities. Productivity is a narrower concept, and can be treated in more technical and calculable terms. For this reason, UK Government departments such as the Treasury seem more comfortable with the concept of productivity and have a relatively sophisticated understanding of its key drivers. There are also signs that productivity is becoming a more important focus within the revised Lisbon Agenda.

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<sup>24</sup> Porter, M. (with Ketel, C.H.M., Miller, K. and Bryden, R.T.) (2004) *Competitiveness in Rural U.S. Regions: Learning and Research Agenda*, Institute for Strategy and Competitiveness, Harvard Business School. p.4.

### 3. RURAL AREAS AND REGIONAL COMPETITIVENESS

- How do rural areas contribute to regional development?
- How might rural areas' contributions to regional competitiveness be enhanced in different types of rural/regional contexts?
- What sorts of measures are required to realise the growth potential in rural areas in different types of rural/regional contexts?
- What do different models for understanding rural areas' relationships with regional competitiveness mean for the lobbying work of rural local authority networks?

#### The International and European Dimensions

In 2004 Porter *et al.*<sup>25</sup> published an analysis of the competitiveness of rural regions in the US. The study, funded by the US Government's Economic Development Agency, aimed to stimulate new research and generate debate and new thinking on economic policy towards rural regions. (A summary of the study's findings is set out in Appendix I). The rationale for focusing on US rural regions was that poorly performing rural areas cause problems for the US as a whole. *First*, the problem draws in limited government resources to address the consequences of poor economic performance. *Second*, it hampers national productivity levels. *Third*, it represents an inefficient spatial distribution of resources, contributing to congestion in urban centres. *Finally*, it creates demands for interventions that erode the incentives for productive economic activity.

Rural competitiveness (or lack thereof) is argued to be a national problem in the US with national consequences. In a follow up article, Porter's colleague Ketels questions the efficacy of rural development policy in general: "Worldwide policies to improve the economic performance of rural regions are, by and large, not working. This is increasingly the consensus among policy makers across political parties, not only in the United States but also in many other countries around the globe".<sup>26</sup>

Porter's work argues that the lack of a clear strategy for rural development may be a symptom of a larger problem. Economic development in rural regions has often been framed as a task inherently different from economic development more generally. This has created policies and institutions that are not well integrated with regional development activities in metropolitan regions. And it has tied rural regions too strongly to agriculture, both by focusing too much emphasis on this sector and by blaming agriculture for disappointing rural economic performance.

In the EU competitiveness continues to be central to the agenda of the Commission. The importance of competitiveness as an overarching objective is reflected in the recent draft *Community Strategic Guidelines for Cohesion*, with its three priorities (see p.11 above).

From a rural development perspective, we take these guidelines to imply a greater interest in the local dynamics of economic activity and service provision within the hierarchy of settlements in rural areas and rural regions. The interest in development poles and economic clusters also seems to resonate with the interest in the UK in the role of market

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<sup>25</sup> Porter, M. et al. (2004) *Competitiveness in Rural U.S. Regions: Learning and Research Agenda*, Institute for Strategy and Competitiveness, Harvard Business School.

<sup>26</sup> Ketels, C. (2004) Competitiveness in rural regions, *Economic Development America, Summer*

towns and rural service centres as key drivers in local rural economies and as contributors to regional economic systems.

The competitiveness agenda is also a feature of EU agriculture and rural development policy. The new Rural Development Regulation (covering the 2007-2013 financial perspective) establishes a single fund — the European Agricultural Fund for Rural Development (EAFRD) to finance rural development activities. The Regulation sets out four axes as priorities: improving competitiveness for farming and forestry; environment and countryside; improving quality of life and diversification of the rural economy; and facilitating locally based bottom-up rural development initiatives. Recent Community Strategic Guidelines for Member States on the implementation of the Regulation also prioritise cohesion and integration and emphasise the objectives of the Lisbon Agenda<sup>27</sup>. These guidelines cover the need to effectively translate priorities into programmes, and to ensure complementarity and coherence between instruments. It is perhaps worth noting that complementarity and coherence can be interpreted in two ways — either in a more passive (weaker) or a more active (stronger) sense. In the passive sense, the concern is simply that schemes, plans and programmes do not have conflicting aims and objectives. In the more active sense, different programmes are consciously designed to deliver synergistic benefits. The experience of EU rural development programmes to date has been that complementarity and coherence are generally treated in the more passive way.<sup>28</sup>

### **The UK Dimension**

In the UK, interest in the relationship between rural areas and competitiveness has been stimulated by two processes. The *first* of these is a national/devolved administration level policy concern with levels of economic growth in rural areas. The *second* is the development of pan-regional initiatives such as the *Northern Way Growth Strategy* in the northern three regions of England, which aims to raise the levels of economic growth in the north in order to reduce the productivity gap with London and the South East. We consider these in turn.

#### *National Policy Concerns*

Defra has commissioned a series of studies of drivers of economic development in England's rural areas. These are collected together on the 'Rural Evidence Base' pages of Defra's website.<sup>29</sup> One recent study of the determinants of economic performance in rural areas found that skills had the greatest influence on the productivity of local authority districts while accessibility to urban areas was also an important driver.<sup>30</sup> High percentages of people with limiting long term illnesses were highly significant in depressing productivity.

The study included an analysis of eight case study local authority districts — four relatively well performing and four generally poor performing. It found that those areas performing well had: good access to urban employment centres; an innovative economic base serving both national and global markets; physical environments that provided the basis of a high quality of life; and a strong sense of place identity.

A business survey found that businesses in relatively successful areas had: tended to be run by owner managers resident in district; traded in both local and extra local markets; and had

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<sup>27</sup> *Community Strategic Guidelines for Rural Development 2007 – 13*. 5<sup>th</sup> July 2005

<sup>28</sup> Dwyer, J. Baldock, D., Beaufoy, G., Bennett, H., Lowe, P. & Ward, N. (2002) *Europe's Rural Futures – The Nature of Rural Development II: Rural Development in an Enlarging European Union*, London: Institute for European Environmental Policy.

<sup>29</sup> <http://www.defra.gov.uk/rural/research/default.htm>

<sup>30</sup> Rural and Tourism Research Group and Countryside and Community Research Group, (2004) *The Determinants of relative Economic Performance of Rural Areas*, Defra.

business contacts outside the local area. The study identified eight themes which form the basis of relative economic success in rural areas. These were:

- 1) skills and education a significant driver of performance;
- 2) accessibility and transport significant driver;
- 3) open economy and society – well performing districts draw human capital in, which then networks beyond the locality;
- 4) environmental qualities and planning;
- 5) entrepreneurship and enterprise (business start ups drive up employment rates);
- 6) cultural capacity (need culture of involvement and to avoid fatalism and pessimism);
- 7) marketing and identity (builds commitment to area);
- 8) institutional effectiveness (results in infrastructure but also about a readiness to engage communities and build partnership).

In Scotland, economic development policy is set out in the Scotland-wide 'Framework for Economic Development' (FEDS) first published in 2000 and updated in 2004. The Framework is primarily focused on productivity although competitiveness also features as a key theme. Six key factors contributing to economic growth are identified in the framework. These are: entrepreneurial dynamism; research and development; innovation; education and skills; infrastructure; and efficient management of public sector resources.

Enterprise policy is treated as an area of economic development policy that requires special attention. In 'A Smart, Successful Scotland', published in 2004, the Scottish Executive sets out a strategic direction for the enterprise networks and a strategy on enterprise for Scotland. Fitting within the broader framework of the FEDS 'A Smart, Successful Scotland' also concentrates on productivity.

There is no specific economic development policy or strategy for rural Scotland (although documents such as the Scottish Rural Development Plan and the Structural Funds programming documents have rural economic development dimensions). However, Highlands and Islands Enterprise have produced 'A Smart, Successful Highlands and Islands' which sets out the enterprise strategy for the Highlands and Islands area. Unlike its Scottish-wide counterpart the Highlands and Islands strategy is not as focused on productivity and competitiveness (although both terms are used in the document). Instead, it is more concerned with sustainable and place-based development.

In Wales economic development policy for rural areas is primarily set out in the Welsh Rural Development Plan and other documents relating to the CAP. 'A Winning Wales: The National Economic Development Strategy of the Welsh Assembly Government', published in 2002, gives some coverage to rural development issues but mainly in terms of creating linkages between Wales-wide policy and specific schemes for rural and agricultural development. Competitiveness and productivity receive very little attention in 'A Winning Wales', a basic word search resulting in four and three 'hits' respectively. The Welsh Development Agency has also published 'Supporting Rural Wales: Businesses, Communities and Individuals' which emphasises more specific priorities such as increasing business start up rates and investing in ICT infrastructure.

#### *Pan-regional and Regional Initiatives*

The *Northern Way Growth Strategy* is the furthest advanced of the pan-regional growth strategies. The process of preparing the *Northern Way Growth Strategy* was launched in February 2004 and the Strategy was published in September 2004. The three northern Regional Development Agencies (RDAs) were invited to show how the North could raise its rate of economic growth through the three RDAs and partners working together on a pan-regional basis. Ten priorities aim to improve connectivity and raise levels of

entrepreneurship in the regions, and include measures to raise economic participation and promote key clusters. The Northern Way is organised around the concept of 'city regions', which include the main metropolitan areas plus their neighbouring commuting hinterlands. The city-region focus has prompted a debate about the means by which the *Northern Way* might bring benefits to, and benefit from, businesses and communities located in the rural areas of the North.<sup>31</sup> Within each of the English regions new 'regional rural delivery frameworks' are also being drawn up as part of Defra's modernising rural delivery reforms. It is as yet unclear the extent to which these new frameworks will signal any significant changes in policy priorities for rural development in the English regions.

In summary, there has been an increasing interest in England in the concept of productivity with extensive research in both the Treasury and Defra. This level of interest is not matched in Scotland or Wales where the terms productivity and competitiveness are more sparingly used. In contrast, the notion of the 'city-region' seems to have caught the imagination of many policy-makers in the English regions in particular but also in Scotland. The consequence of this vogue for the 'city region' has been the increasing divergence of approaches in defining and operationalising competitiveness. An important question for those involved in European rural development and cohesion policy issues within local government in this new context is the relative emphasis that might be placed on working collectively at the UK level when regional/national differentiation in approaches within the UK seems to be deepening.

### **Consultee Responses on Rural Areas and Regional Competitiveness**

In this section, we present issues emerging from our consultations with rural development specialists in the UK. During the consultations, we explored the ways that rural development and regional competitiveness issues are understood by specialists and with what implications for future policy and practice.

#### *Rural Areas' Contribution to Regional Development*

Consultees were asked about rural areas' contributions to regions. Responses tended to focus on the following types of contribution.

*Attractive residential locations:* Rural localities were seen as having a particular role to play in attracting relatively highly skilled in-migrants to regions and encouraging existing talent to stay. The residential appeal of rural areas was therefore seen as an important contribution to economic success, even if these newcomers were employed in adjacent metropolitan areas.

*Attractive business locations:* Rural areas were seen to offer particular qualities as locations for many types of businesses. This contribution was seen as growing and with considerable potential for further development as innovations in ICT make an urban location less of a necessity for some types of businesses.

*Attractive places for leisure and recreation:* For more accessible rural areas in particular, the countryside was also seen in terms of its recreational role, a place for urban residents to visit and relax and hence to contribute to their quality of life. Rural areas were seen as providing 'quality environments' that formed regional environmental assets.

*Valuable 'reservoirs' of natural heritage:* Rural areas were seen as valuable environments where biodiversity and natural heritage are safeguarded. Again this contribution was

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<sup>31</sup> For further discussion of the concept of city regions, see the New Local Government Network City Regions Commission (2005) *City Regions: A Discussion Paper*. London: NLGN. <http://www.nlgn.org.uk/nlgn.php>

understood in terms of a broader social conception of 'quality of life', an asset for all and not just one for rural dwellers.

*The economic value of rural economies:* Consultees were also often keen to move away from the notion of rural areas as *merely* contributing to 'quality of life' to stress the economic contribution of rural localities. A consistent message was that rural areas are 'not just playgrounds'. Interviewees were keen to emphasise the role that rural localities played in regional development through the manufacturing and service industries as well as the traditional land based industries.

*The competitiveness agenda and rural areas in decline:* While consultees were able to respond with a range of ideas about how rural areas contribute to regional development, an important caveat was added by several respondents. Competitiveness is conventionally understood in terms of 'going for growth'. However, it was argued that for some areas the objective of rural development policy is merely to sustain jobs, tackle pockets of economic inactivity and build up the infrastructure that would be needed to arrest rural decline. In these conditions, development is cast more as a "survival" agenda rather than a competitiveness agenda where, it was argued, the emphasis should be on maintaining the population and not on the notion of competitiveness contained in the Lisbon Agenda.

*A pro-active stance on managing change:* The competitiveness agenda was seen as useful in encouraging local authorities to be outward looking, and to actively manage change. Competitiveness places an emphasis on continual improvement in the performance of businesses and other organisations such as public bodies. It raises the question of how local authorities themselves need to change in order to adapt to both shifts in policy frameworks and in the global economy. Another contribution of rural localities to regional development could therefore *potentially* be in the capacity of the public sector in rural areas to apply competitiveness thinking to their work, to drive an innovative and productive ethos, to be at the forefront of the competitiveness agenda, and even actively shaping how competitiveness as a concept is understood and operationalised, rather than just reacting to it. Local authorities, it was argued, need to learn the language of competitiveness in order to be able to make their case for the contribution of rural areas.

*Making the case for public investment:* The competitiveness agenda raises questions about how the case for public support and investment in rural development is made. Traditionally, support for rural areas has been based on a needs-based argument where government investment is constructed as necessary and open-ended. The competitiveness agenda is taken to imply that the case for support must now rest on what investment can deliver in terms of productivity improvements over the longer term. Putting money into an area or sector has to be on the basis of a convincing case for subsequent growth and development. This raises the challenge of identifying the strengths and potential of rural areas, and concentrating on an asset-based approach to rural development.<sup>32</sup>

### *Models for Understanding the Role of Rural Areas in Regional Competitiveness*

The prevailing model for understanding the role of rural areas in regional competitiveness cast rural areas as relatively insignificant and, at worst, a drag on regional competitiveness.

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<sup>32</sup> This parallels the "Asset-Based Community Development" (ABCD) approach to community development in the US. The Asset-Based Community Development Institute at North Western University, Illinois, is in the vanguard of this movement. [<http://www.northwestern.edu/ipr/abcd/abcdbackground.html>]. The central argument is that the traditional approach to community development and regeneration was "needs driven, while 'capacity-focussed development is asset driven. Key assets are seen to be individuals, associations and institutions. See: J. P. Kretzmann and J. L. McKnight (1993) *Building Communities from the Inside Out: A Path Towards Finding and Mobilizing a Community's Assets*, Evanston, IL: Institute for Policy Research.

The prevailing understanding of rural areas' contribution to regional development was therefore that rural areas have a marginal role to play in economic growth. There was felt to be a lack of appreciation among regional development bodies of the particular types of contributions rural localities could offer. There was also recognition that rural proofing measures were being applied in some cases but it was commonly felt that concepts such as the city-region largely left rural development 'out in the cold'.

Consultees generally felt that rural territories are widely seen as the site of *only* traditional, marginal, land dependent industries with the consequent lack of awareness in regional and national economic strategies that rural localities are sites for business location (across a range of different sectors) and high quality living environments for commuters. This was argued to be a problem of data, being partly due to a lack of information on the rural economy and the dynamic inter-linkages within the regional economy.

Economic strategies across the UK are now promoting the goal of the transition to a knowledge economy envisaged in the Lisbon agenda. There are already high levels of knowledge intensive industry in the south of England and in the major cities of the UK. However, several interviewees made the case that there has been little consideration of the role of a knowledge economy in the remoter rural regions outside the immediate reach of the city-regions (see Hepworth and Pickavance, 2004 and Hepworth *et al.*, 2004). Policy makers have, to date, been less-well informed about the potential of knowledge intensive economic activity for remote areas. Instead these most marginal areas are simply viewed as perpetual 'problems' in economic development terms.

#### *Geographical Differences*

Geographical differences in understandings of rural areas' contributions to regional competitiveness were understood to emanate from two sources. *First* was the economic composition of rural localities. The mix of sectors that are found in rural areas is highly dependent on both past economic geographies and rates of change.

*Second*, the accessibility of the locality was seen as crucially important. Interviewees commonly divided rural areas into 'remote' and 'more accessible'. The contributions of remote areas were argued to be less well understood by central and devolved government. The geography of remoteness and accessibility applies not only at regional scales (the rural areas accessible to specific cities) but in the national context with notable differences between the south of England and the rest of the UK.

#### *Understandings of Competitiveness*

Consultees were asked to reflect on what the new competitiveness agenda might mean for the work of those local authorities interested in rural areas. On the whole the term competitiveness was not well understood by the rural development specialists interviewed. There were wide variations in interpreting what the term meant and the degree of detail in the explanations of institutional understanding.

#### *Common Rural Agendas Among Contrasting Local Conditions*

Rural areas significantly differ from each other in economic structure and social needs. Indeed, infrastructure and investment requirements are highly locally particular, even at the sub local authority level. A key challenge for the Local Government Rural Network network is to be able to articulate common rural development themes and priorities when member authorities come from such contrasting local and regional socio-economic conditions. One common themes might be the need for local flexibility to respond to local conditions. (This

was seen as particularly important in lobbying sub-national and national government). Enhancing understanding of the rural dimensions to regional competitiveness

Several interviewees stressed that rural local government networks are not vocal and visible enough and so are less able to influence regional and national policy. Part of the problem is the perception of what constitutes the 'rural lobby' (with high-profile campaigning bodies seen as too narrowly-focused, traditionalist and oppositional). The case was made that rural local authorities needed to come together to form an alternative and more powerful 'rural voice'.

The role of officers from rural authorities in other networks was also raised. There was a concern that there would be no rural representative on a European network on competitiveness. Local authorities need to work on representation on a broad range of networks and groups not just those with a 'rural' prefix.

*The Strengths and Weaknesses of Rural Areas' Contributions to Regional Competitiveness*

Finally, consultees were asked to reflect on the strengths and weaknesses in rural areas' contributions to regional competitiveness. A brief summary of common responses is presented in the table below.

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• The tourism sector was seen as well-developed</li> <li>• Quality of life</li> <li>• Retention of staff due to quality of life</li> <li>• Great potential to run businesses from rural areas</li> <li>• Ageing society</li> </ul>	<ul style="list-style-type: none"> <li>• The continued cost of transport</li> <li>• Lack the infrastructure for many high value businesses that need high specification business premises and facilities.</li> <li>• Depopulation in certain areas, particularly Scotland.</li> <li>• Ageing society</li> </ul>

## 6. RESEARCH NEEDS, DISCUSSION & CONCLUSIONS

- What are the research and evidence needs for UK rural local authorities interested in the positive contribution rural areas make to regional competitiveness?
- What research and evidence needs exist around the question of rural-urban interdependencies and synergies?
- What should be the next steps in building a positive agenda for rural and regional development?

### Research and Evidence Needs

The evidence base underpinning rural development policy at the England-level is improving. This is in part the result of the work of Defra and its Rural Evidence Centre.<sup>33</sup> However, at the regional level in England, RDAs have to develop evidence bases across their many areas of responsibility, and data on rural economies can sometimes be less sophisticated than would ideally be the case. In particular, there is currently a very limited evidence-base on the economic and logistical aspects of rural-urban relationships, although the availability of the 2001 census Special Workplace Statistics do make new forms of data analysis of, for example, commuting patterns, more practicable. The Office of the Deputy Prime Minister and the Department for Trade and Industry have commissioned several studies of the drivers of economic growth in cities and regions, and the evidence base on city-regions is growing considerably particularly as a result of initiatives such as the *Northern Way*.

From a rural development perspective, one area where the evidence base could usefully be strengthened is in detailed case studies of economically strongly performing local areas to elicit the main factors accounting for economic success and to determine their reproducibility in other contexts. International comparative studies are also useful in highlighting what is distinctive about successful economic development strategies in different settings. It is argued that the Scandinavian countries have better developed knowledge economies in rural regions through the use of ICT. The UK could usefully look to this experience in developing the potential for attracting knowledge intensive workers motivated to locate in rural areas for the quality of life.

Finally, productivity is an important component of competitiveness. One way in which productivity can be improved is by increasing rates of labour participation. A second way is to raise wage levels. There is a need for research to investigate the reasons for non-participation and the kind of interventions that may aid the transition to employment. A second challenge is to research how to effect the shift from low wage to higher value-added local economies.

### Discussion

In order to focus on the specific implications of the competitiveness agenda for the Local Government Rural Network a workshop was held at the University of Newcastle on 10<sup>th</sup> August 2005 to examine the implications of the competitiveness agenda for rural development policy and practice, and particularly for the work of the members of the Local Government Rural Network. The workshop was attended by members of the Network from England and Scotland and by members of the Centre for Rural Economy both from within the

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<sup>33</sup> <http://www.defra.gov.uk/rural/research/default.htm>

project team and beyond.<sup>34</sup> The workshop focussed on the particular opportunities and challenges that the competitiveness agenda posed for those working on rural development in local authorities in the UK and what might be the next steps in addressing these.

By way of introduction, participants were first asked to briefly reflect on how they anticipated the context for their work in rural development would change over the next five years. This was in order to establish a futures-orientated perspective to the subsequent discussions, and to begin to scope the range of issues that might need to be addressed during the day. From the discussion, five main types of issues were highlighted as significant.

#### *The balance of emphasis between different policy agendas*

- Some participants envisaged *greater* synergy between regional and rural development and agricultural policy in the coming years. Although there has been a rhetoric of integration between the rural development aspects of the Structural Funds and the second pillar measures of the CAP, it was felt that effective integration has been rather limited to date. The period 2005-10 would bring greater efforts to ensure effective policy integration, and with greater success.
- Other participants anticipated that rural policy from the EU would continue to be heavily focused on agriculture and supporting agriculture. Reform of the Structural Funds would continue along a separate 'track' which would emphasise regional competitiveness. This would be seen as driven by a city-region model and rural development would be marginalised.
- Some participants were optimistic that the integration of rural development policy and community planning initiatives within the UK would improve as Local Strategic Frameworks, for example, became more effectively operationalised. The opportunities to use community planning linked with the expressed hope that endogenous or 'bottom' up' development would be more frequently used as the accepted model of good practice in rural development.
- Some participants envisaged that there would be a decrease in trans-national working throughout the EU. In delivering programmes in the current programming period (1999–2006) local authorities have been able to build strong links with other European regions and use this trans-national experience to inform the development of Structural Funds programmes in their areas. In a context where there are little or no Structural Funds available it was feared that the opportunities for trans-national learning and networking would diminish.
- Other participants anticipated that there would be an increase in trans-national working. As funding for conventional Structural Funds programmes decrease the money available for trans-national partnerships was viewed as becoming a relatively more important source of EU support. If local authorities become involved in the

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<sup>34</sup> The participants at the workshop were: Vinia Abesamis, Herefordshire Partnership; Catherine Aitchison, Lincolnshire County Council; Jane Atterton, Centre for Rural Economy; Stuart Barnett, Northumberland County Council; Bill Brooks, Northumberland County Council; Terry Carroll, Centre for Rural Economy; Victoria Cotesby, Durham County Council; Gillian Dalgetty, Dumfries and Galloway Council; Tony Fitzpatrick, Dumfries and Galloway Council; Ian Hill, Cumbria County Council; Philip Lowe, Centre for Rural Economy; Joan Mitchell, Dumfries and Galloway Council; Gordon Summers, Highlands and Islands Council; Nicola Thompson, Centre for Rural Economy; Neil Ward, Centre for Rural Economy; and Jochen Werres, North Yorkshire County Council.

trans-national programmes the opportunities for inter-regional learning and networking are likely to increase.

- The degree of emphasis placed on sustainable development was thought to be increasing over time so that by 2010 issues of balancing environmental and economic concerns would be even more prominent in the work of rural local authorities.
- The implications of having access to no or few Structural Funds monies raised the question of where funding for rural development would come from. By 2010 it is likely that there will be an increasing reliance on national and devolved government for funding.

#### *Governance structures for rural development*

- Some participants suggested that rural development policy and funding will become increasingly tied to the work of the Regional Development Agencies in England and their counterparts in Scotland and Wales. One implication would be that rural policy would be more strongly aligned with an economic competitiveness agenda, with less emphasis on social and community projects. A second implication would be a reduced role for local authorities in delivering rural development schemes.
- Discussion of the consequences of aligning rural policy with regional/devolved economic development agendas also raised the issue of the treatment of rural affairs/rural development in sub-national strategies, plans and frameworks (for example, Northern Way in the northern regions of England). There was particular concern that the rural areas were marginalised in these strategies and it was feared that this would still be the case by 2010.
- It was predicted that there could be fewer local authorities in England as reform creates a unitary system within the next five years. The need for reform stems from the current lack of clarity on institutional responsibility for rural development policy. At the moment rural development is a 'crowded field' in terms of the number and complexity of organisations involved. By 2010 it was hoped that issues of responsibility would be clearer than at present.
- It was hoped that a new generation of rural development leaders will emerge by 2010. These new leaders are needed to give vision to rural development policy and act as a 'strong voice' able to influence government thinking. The current lack of a strong 'rural lobby' effectively articulating a broad range of rural development concerns to government was viewed as both a current problem and an opportunity for the Local Government Rural Network.

#### *Knowledge and understanding of rural development*

- Improving the knowledge base on rural policy was a persistent underlying theme in the participants' reflections on their aspirations for 2010. The points in this subsection therefore reflect ideas about the areas where understanding and knowledge needs to improve in order to better support the development of rural areas.
- *The rural contribution to regional development:* What rural areas have to contribute to regional development needs to be subject to further in depth debate so that rural areas contributions can be effectively articulated and presented to government.
- *Understanding of how to support 'intangible factors' that drive rural development:* Research commissioned by the EU (the Drivers of Rural Development Project)

investigated the reasons for differential economic performance across rural areas of the EU. This revealed the importance of 'intangible factors' such as governance frameworks, networks and quality of life to the economic performance of rural areas. Better understanding the role of intangible factors is therefore important to improving knowledge of the drivers of rural development and how policy can support these factors.

- *Understanding the role of small towns in rural development:* In particular further research is needed to further investigate the value of extra-local links that develop between businesses in rural centres and the wider regional, national and global economy.
- *Business development in rural areas:* Businesses need to become more aware of the value of what makes rural areas special, unique or different in developing effective marketing strategies.
- *Addressing differential growth rates:* Understanding how to cope with 'two speed economies' in rural areas needs to become more sophisticated. Several participants from local authorities drew attention to the challenges that they faced in meeting the very different developmental needs of geographical communities within their authority area. In two cases this related to historic differences in economic and social structures across a county but in one case the issue was more recent relating to the particular success of one locality relative to the local authority area as a whole.
- *Sparsity:* Understanding of sparsity issues needs to develop so that access to services and transport infrastructure can be improved.
- *Local government working:* A result of declining levels of Structural Funds monies will be that local authorities will have to 'work smarter' in order to attract public sector investment. There will be an increasing imperative to be more innovative in applying for funding as more competition for fewer funds drives up the quality of applications.
- *Research medium to long term effects:* The effects of current schemes and policies become more apparent as the investments made in the 1999–2006 programming period start to demonstrate their medium to long term impacts. A good understanding of the impacts of Structural Funds investment could aid understanding of the points made above.
- *Conceptual development:* It was argued that there is a need to develop clearer concepts of rural development. Part of the reason why rural local authorities and other interested agencies find it hard to challenge the idea of the city-region as model of regional development is that academics and practitioners have not worked together to develop good, clear concepts through which to analyse rural development and its contribution to regional economies.

#### *Wider socio-economic changes*

- It was argued that the age structure of rural population will continue to change and that rural areas will experience the effects of a more ageing population first and more markedly than urban areas. Thus the ageing society will become a more prominent, and even defining, feature of rural areas in the future. Although most commonly seen as a 'problem' to be coped with, an ageing society creates a series of opportunities as well as challenges.

- Some participants envisaged potentially radical changes to the pattern of rural land use in the UK in the years ahead. In particular, the recent reform to the CAP and the introduction of the Single Farm Payment has the potential to profoundly alter the economic conditions for farm business owners and other land managers, with important changes to the structure of land ownership and the intensity with which agricultural land is farmed.
- Other participants mentioned the potential for major transport infrastructure development that could significantly alter the geography of the national 'space economy', and render currently relatively remote areas much more accessible. One example is the 'MagLev' rail technology, recently developed in Shanghai and attracting the UK Government's interest, for which preliminary feasibility studies suggest journey times between London and the major cities of the north of England and Scotland could be cut by almost half.

### *The Opportunities Brought by the Competitiveness Agenda*

Participants were invited to discuss what opportunities might arise as a result of the increasing emphasis of the competitiveness agenda upon rural and regional development. The following emerged as the key potential opportunities.

- A stronger focus on competitiveness presents an opportunity first to clarify what rural areas contribute to regional and national competitiveness and, second, to set out what they can additionally contribute. There is an opportunity to 'sensitise' the institutions responsible for economic development policy on what rural areas have to offer.
- The competitiveness agenda provides an opportunity for LGRN members to define the competitiveness of a locality in terms which more strongly focus on retaining wealth locally. The point was made that the economic system means that profits from enterprises in rural areas often go to the shareholders of national and inter-national enterprises. A key challenge is to maximise the benefits of economic activity so that the proceeds remain in the local/regional economy. Thus, competitiveness is seen to be about supporting the development of more *self-reliant* economies.
- The academic and research literature on successful regions and localities points to the importance of 'intangible' factors in the relative economic performance of rural areas. Therefore, the competitiveness agenda ought to focus greater attention on role of networks and institutions, including local authorities, in contributing to conditions favourable to improved economic development
- There are opportunities to develop the rural dimensions to the knowledge economy. Currently the rural dimension does not feature prominently in analyses of the knowledge economy. However, there is potential to highlight the role that rural localities play in this sector of the economy. The knowledge economy agenda will also focus thinking on the role of universities and research in rural development policy. The relationship between higher education and rural areas is an area of potential future development.
- Jobs in rural localities have often been in low wage industries that have typically offered few opportunities for skills development. The competitiveness agenda as envisaged by the EU will result in substantial amounts of funding for skills. Thus, there may be greater opportunities for rural development organisations to invest in the skills of individuals and businesses to enhance their earning potential.

- The competitiveness agenda implies the need to be aware of the performance of other localities and regions in order to be able to compare, contrast and improve. It, therefore, provides an opportunity to engage in more pan-European collaboration and mutual learning with other well structured, well performing European areas.
- Changes in land use and agricultural policy will provide a series of opportunities to reform the structure of rural economies. The nature of change is still uncertain but it will be important that local authorities pro-actively support change. Specific changes to the CAP, such as the Single Farm Payment, for example, mean that the architecture is there to profoundly re-shape agriculture and how the land resource is used.

### *The Challenges Posed by the Competitiveness Agenda*

Participants were invited to discuss the challenges that might arise as a result of the increasing emphasis of the competitiveness agenda. The following emerged as the key challenges.

- It may become harder to plan programmes of spending over the medium term. This is because funding for rural development will rely on national and sub-national programmes and schemes. Funding from these bodies is conditioned by the constraints of the electoral cycle.
- There are two competing models of competitiveness that are based on different assumptions on what drives economic success. The first is the 'US neo-liberal' model where market liberalization and increasing productivity are emphasised. This model is currently ascendant in the UK. The 'EU social capital' model emphasises maximising employment levels and maintaining a welfare state. This creates confusion over the meaning of the term which provides the potential to set the agenda in terms of rural areas and competitiveness.
- The popular perception of rural areas is that they are not a source of economic dynamism. Challenging this perception will always be an uphill struggle. A sustainable development agenda could be argued to better suit the 'rural case'. It is therefore easier to make a strong case for rural development using a sustainable development agenda than a competitiveness agenda.
- There will continue to be two big EU funding sources: the Common Agriculture Policy and the Structural Funds. Decisions must be made about which fund to target and how to go about this. Will it become more worthwhile to target CAP funds rather than Structural Funds? Will local authorities be able to influence the spending of CAP funds? Competing for either fund will be harder for rural local authorities as they are smaller in scale, have less capacity and they have two strategic possibilities (in terms of funding stream) from which to choose to concentrate effort.
- The prevailing trickle down/trickle out model currently implied by the city-region concept results in urban preference. A city-region model and the competitiveness agenda are too often crudely equated to become about concentrating investment in cities. The challenge for rural local authorities is to either challenge the trickle down model, or to articulate the rural contribution and rural dimension to the city-region concept. Simply rejecting the city-region model is futile. However, it will be possible to accept the concept but highlight the need for 'balanced territorial development' within the model.

- There is a risk of being funding-driven, chasing funds that are programmed because there is a chance to spend this money, rather than being driven by pre-identified priorities. Instead coherent and well articulated arguments about are needed about what the development priorities are for local rural areas and rural regions and how they could be achieved.

## **Conclusions: The Next Steps for the Local Government Rural Network**

It is for the LGRN to devise its own 'action plan' for taking forward its agenda. However, on the basis of the workshop discussions, we can suggest the following four 'directions of travel'.

*Be priority-driven, not funding-driven:* LGRN members should strive to be priority-driven rather than funding-driven. The funding context is likely to change significantly. Chasing funding streams might be suitable in times of increasing allocations to rural development through, for example, the Structural Funds, but this becomes a less appropriate strategy when the overall volume of funding is likely to shrink and, at the same time, more and more areas are making stronger claims on funding. Being priority-driven requires partnership building and partnership working in local areas to analyse needs, problems and, even more importantly, opportunities and priorities for addressing them.

*Be solutions-orientated rather than problem-orientated:* LGRN members have an opportunity to positively articulate how they can assist European, regional and national bodies to solve problems. Sometimes these problems might require sharper definition and interpretation of the 'rural dimension', but this should always be a precursor to proposing solutions. A solutions-orientated approach would involve the LGRN demonstrating that it can help other regional and national bodies "deliver the Lisbon agenda with respect to rural areas". This strategy of working with the competitiveness agenda can be accompanied by warning about the dangers of an overly city-centric city-region model.

*Clarify the changed role of the EU (and the implications for styles of lobbying):* If the EU is no longer going to be a significant source of Structural Funds, what will this mean for how the institutions of the EU are best to be approached on rural development issues? What will be the rationale for continuing to lobby at the EU level? Can LGRN work through the EU to lobby national government on the prioritisation and targeting of funding? There is a related need to consider how to approach national government and devolved institutions as they potentially become relatively more important sources of funding. How best can LGRN work with elected politicians to increase the efficacy of the national level lobbying activities?

*Develop clear messages:* rural development and the issues facing rural areas do sometimes suffer from rather stereotyped ideas. Over-turning stereotypes requires that key messages are clear and concise. Lobbying therefore requires conveying information concisely and effectively — messages must be well-honed.

We have illustrated some of the policy and intellectual drivers which account for the rising interest in the question of competitiveness, and the generally loose understandings of the meaning of the term that circulate in policy and practitioner circles. One of the main difficulties in thinking about competitiveness is the dissonance between large-scale and small-scale issues. At the European level, the competitiveness agenda is primarily about the competitive challenges facing the EU as a whole vis-à-vis the US and Asian economies. At the other extreme, at the very local level, concerns about competitiveness might manifest themselves in the options for setting up a diversified enterprise on a farm. Between these two extremes is a multiplicity of different levels of governance, policy-making and strategy

formation. The vagueness of the concept makes it difficult for those involved in local delivery to comfortably relate to the 'bigger picture'.

It is important to recognize that the competitiveness agenda is essentially a set of rhetorics about economic development. While it is something of a fluid concept, this fluidity also creates opportunities for organizations to develop and articulate specific interpretations of the competitiveness agenda, including what it means for rural development, and to use these to win support and influence people.

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## Appendix I - Competitiveness in Rural US Regions: A Summary of Porter's 2004 Findings

1. Rural regions as a unit of analysis and policy
  - a. Rural regions rise or fall economically based on the *same principles* as other regions; treating them as different runs the risk of concentrating on peripheral issues, not fundamental drivers
  - b. Rural regions, just as metropolitan regions, are a *heterogeneous* group; focusing on the characteristics they share ignores many of the most important factors driving an individual region's performance
  - c. Rural regions are in many cases *tightly linked to nearby metropolitan regions*; approaching rural regions as self-contained economies will obscure and policy choices
2. Economic performance and composition of rural regions
  - a. Rural areas have clearly *underperformed* urban areas in economic performance over the last decade, and have been *disproportionately hard hit* in the recent economic downturn
  - b. However, the perception of rural economic performance has been affected by *negative trends in a few, regionally concentrated clusters*, notably Apparel, Footwear, Textiles.
  - c. Many rural regions have done much better over time.
  - d. Rural regions have *grown employment faster than metro areas in most clusters*, including large and growing clusters.
  - e. The different composition of rural economies in the traded sector of the economy is an important factor in understanding rural economic performance
  - f. There is a lack of systematic evidence about the composition and evolution of rural economies at the cluster and sub-cluster level, and little knowledge about how rural areas relate to nearby urban economies on the level of specific clusters. Research in these subjects is among the most pressing priorities for enhancing policy thinking toward rural areas.
3. Business environments in rural regions
  - a. There are some *common business environment weaknesses* shared by many rural areas, often associated with low population density. These areas have naturally been the overwhelming focus of policy.
  - b. However, many other characteristics of the business environments *vary significantly* among rural regions, and these collectively appear *more important* in explaining rural economic performance.
4. Policy for economic development in rural regions
  - a. Rural economic development must focus on the *unique strengths of each area*, rather than concentrating on ameliorating generic weaknesses. Rural areas will never match urban infrastructure, services, and amenities.
  - b. Viewing regional economies in terms of *clusters* is central to understanding the competitiveness of rural areas and how it can be improved. Each rural area will differ in its cluster composition and in the opportunities created by the cluster strengths in nearby metropolitan areas.
  - c. There are a number of *economic opportunities* available to many rural areas, to varying degrees. These include: Hospitality and tourism, including second homes and retirement homes; Outsourcing of services from labor constrained urban areas; Specialty agriculture focused on serving urban markets, including niche products, fresh produce, feed produced using sustainable methods, and farmers' markets.
5. Policy process
  - a. Traditional rural constituencies and current institutional structures have failed to develop policies that mobilize the potential of rural regions; this is not a result of neglect but of the absence of a consistent strategy based on sound understanding of the economies of rural areas.
  - b. The current institutional framework for rural policy is *fragmented and uncoordinated*, and needs to be radically restructured. Institutional changes will require new thinking by traditional rural constituencies.
  - c. Given the heterogeneity of rural areas, policy for rural areas must be set at the *local and regional level*, not at the state or national level. Federal and state programs must devolve decision-making to communities themselves.
  - d. The appropriate *processes for economic development* for rural areas, and the roles of business, government, colleges and universities and other constituencies, is not well understood.