

# Building the New Rural Economy

Presentation for the Real Estate Foundation of BC

## *Reversing the Tide* Project

CENTER FOR REGIONAL  
COMPETITIVENESS



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# Mark Drabenstott

## Background

- ❖ **Founding Director** of the Rural Policy Research Institute's (RUPRI) national Center for Regional Competitiveness.
- ❖ **Chairman** of the OECD's Territorial Development Policy Committee, the premier global forum on regional development.
- ❖ **Former Chair** of a US Department of Commerce advisory panel that conducted a major review of federal economic development policy in the US.
- ❖ Spent **25 years in the Federal Reserve System** and led the creation of the Center for the Study of Rural America, the Fed's center for excellence in rural research.

# RUPRI & CRC

- Established in 1990, the Rural Policy Research Institute (RUPRI) provides unbiased analysis and information on the challenges, needs, and opportunities facing rural America. RUPRI's activities encompass research, policy analysis and engagement, dissemination and outreach, and decision support tools.
- The RUPRI Center for Regional Competitiveness (CRC) is one of four RUPRI national centers. The CRC is located in Kansas City and provides the tools and strategies regions need to diagnose and seize their competitive advantages. The CRC is also actively engaged in regional policy analysis, both in the US and globally.

# *Why build a new Rural Economy?*



***Globalization has made regions  
the new “athletes” in the  
global economic race.***

# Globalization has profoundly changed the rules of the game.

- Globalization of markets for goods, services, capital, and currencies...
- Means commodity industries under intense cost pressures.
- Widespread consolidation of activity.....
- Especially in agriculture and manufacturing.

# Rural Areas are Losing Ground



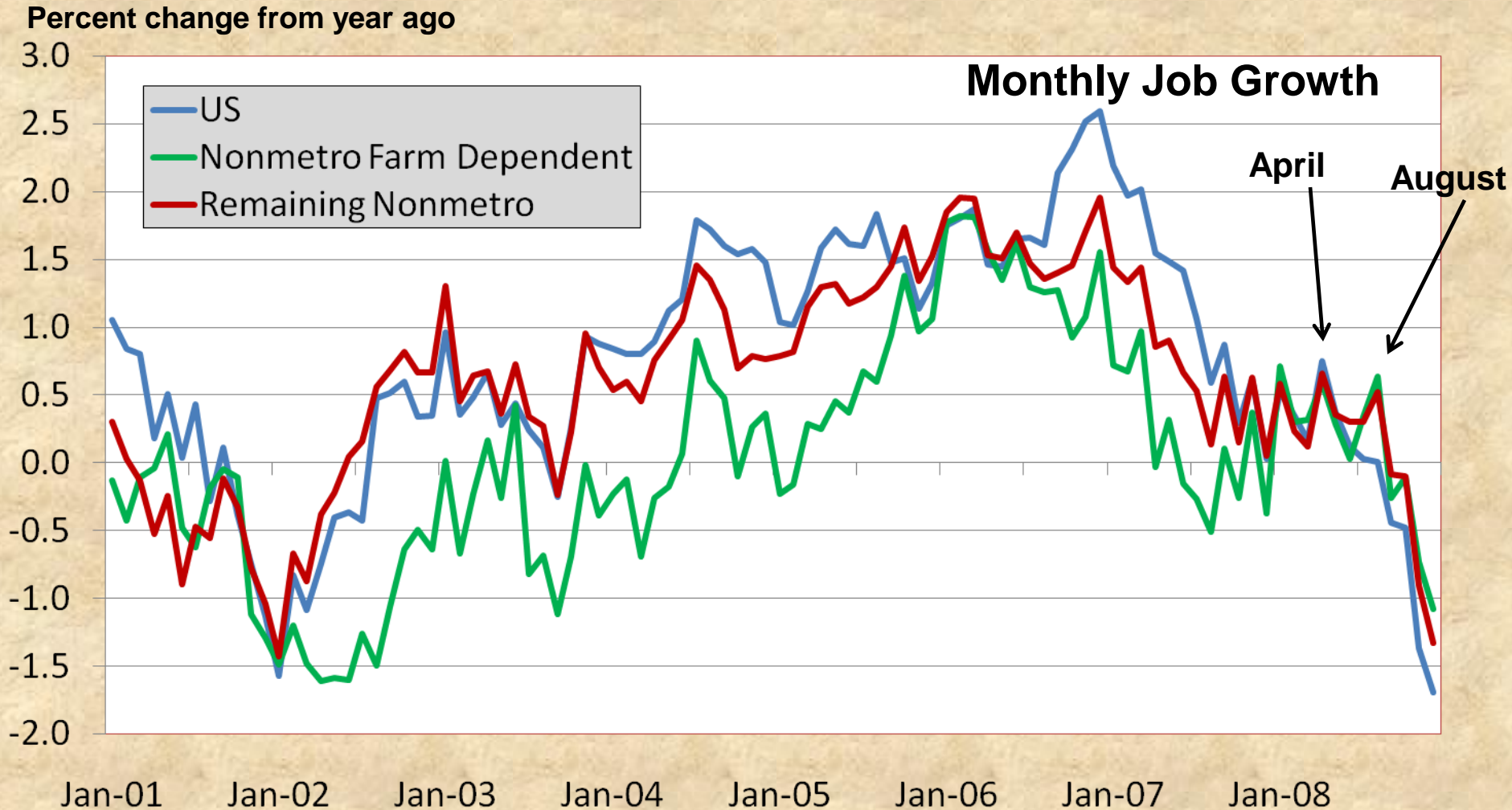
1. Rural regions are lagging further behind in the race for jobs and income.
2. The main hurdles are lack of critical mass and heavy reliance on commodity engines.
3. Meanwhile, *transformative* innovation appears scant.

# How is rural America faring?

- **Rural America rode a commodity boom, but has now fallen into steep recession.**
  - *The downturn was delayed a bit in rural areas, but is now tracking the national economy.*
- **Rural areas lag in most measures of competitiveness.**
  - *Rural areas losing share in jobs, income, & population.*
  - *Very few rural regions are on the “leader board.”*

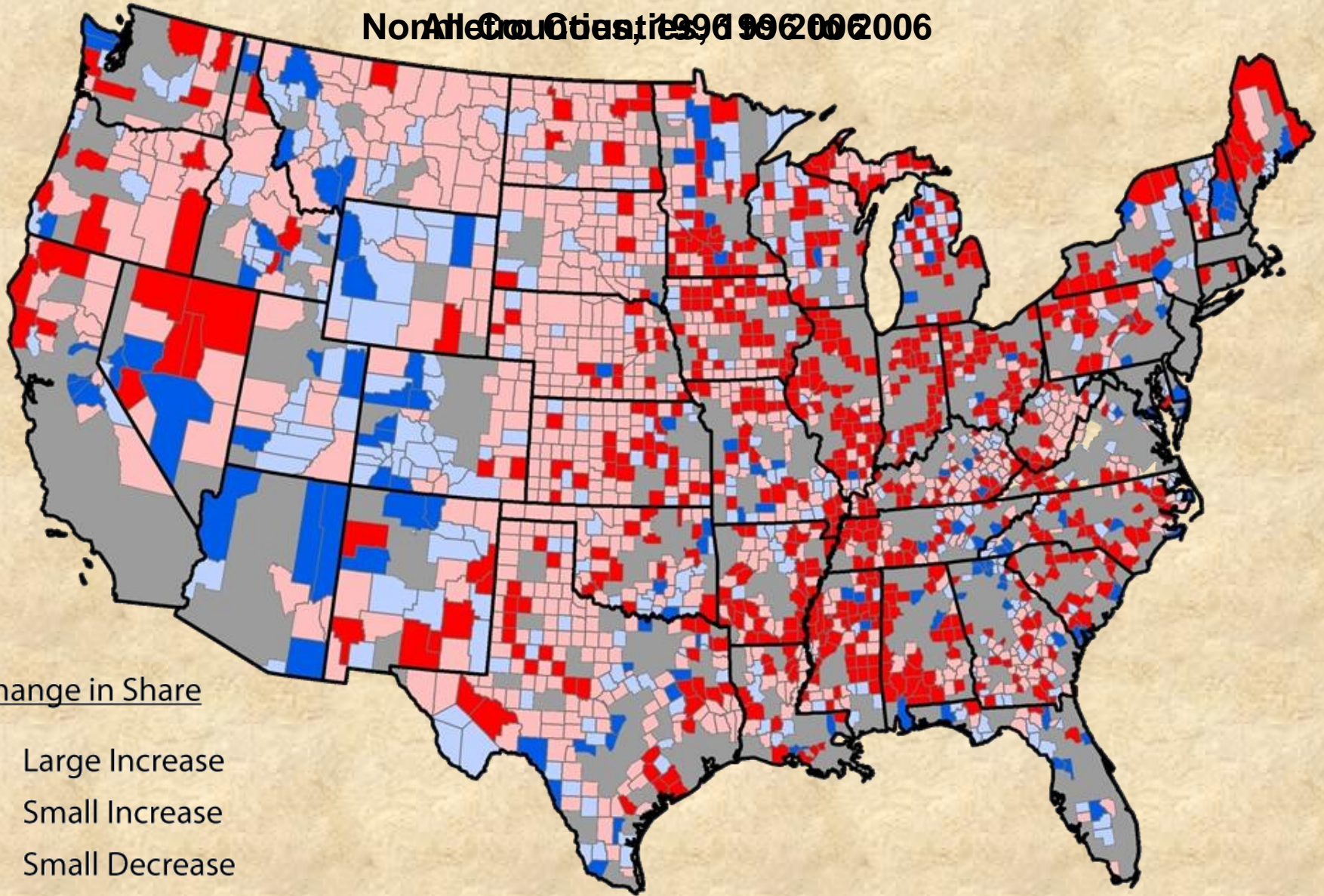


# The downturn was delayed a bit in rural America, but now is just as steep.









# Change in Share of US Employment Non-Metropolitan Counties, 1996-2006

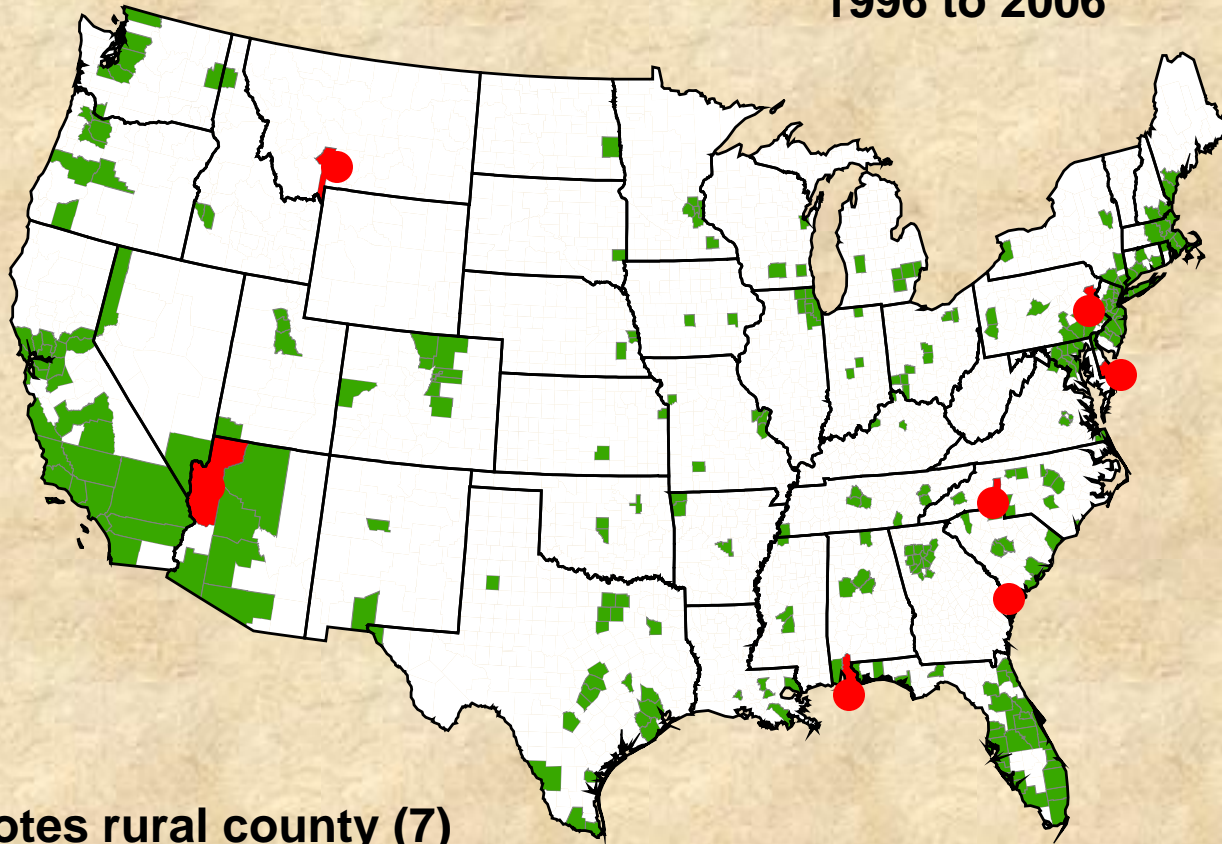


## Change in Share

-  Large Increase
-  Small Increase
-  Small Decrease
-  Large Decrease

# Only a handful of rural counties on the “jobs” leader board ...

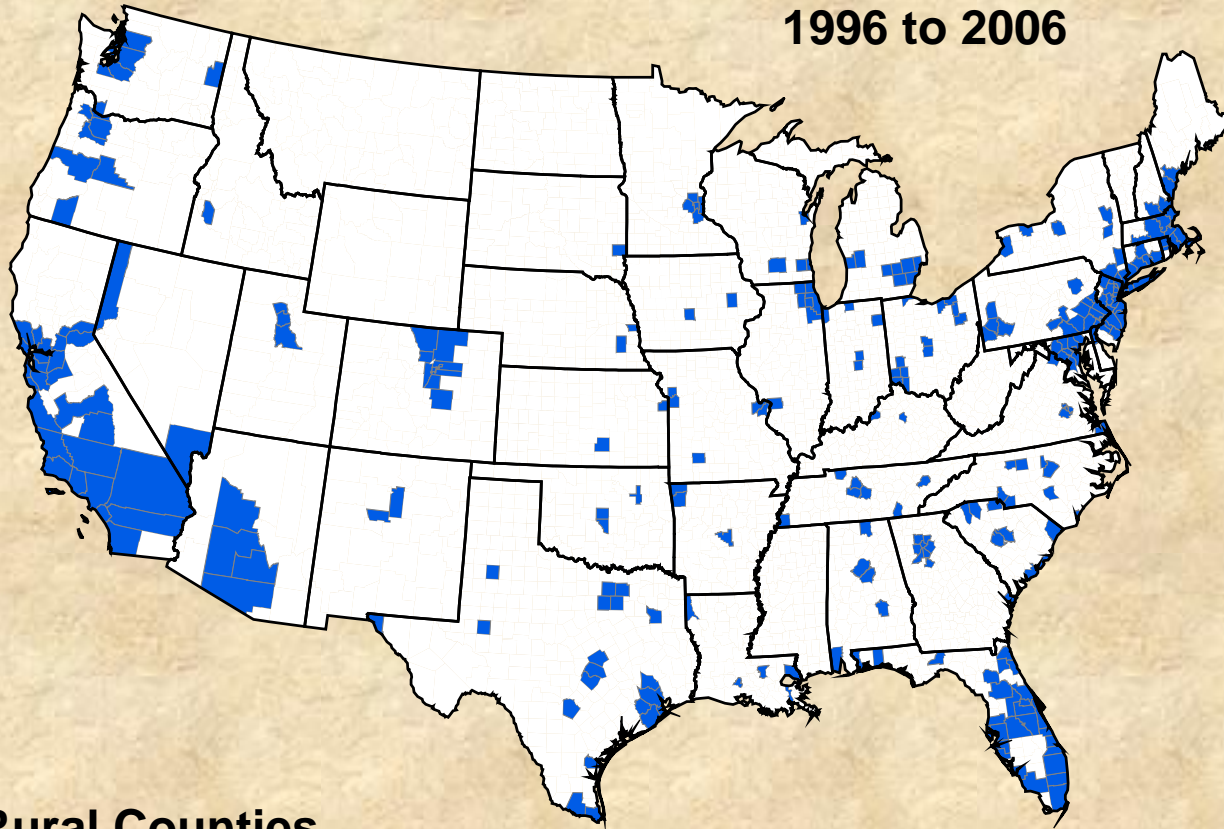
Top Ten Percent (310 Counties) for Job Creation  
1996 to 2006



● Denotes rural county (7)

# None on the “income” leader board ...

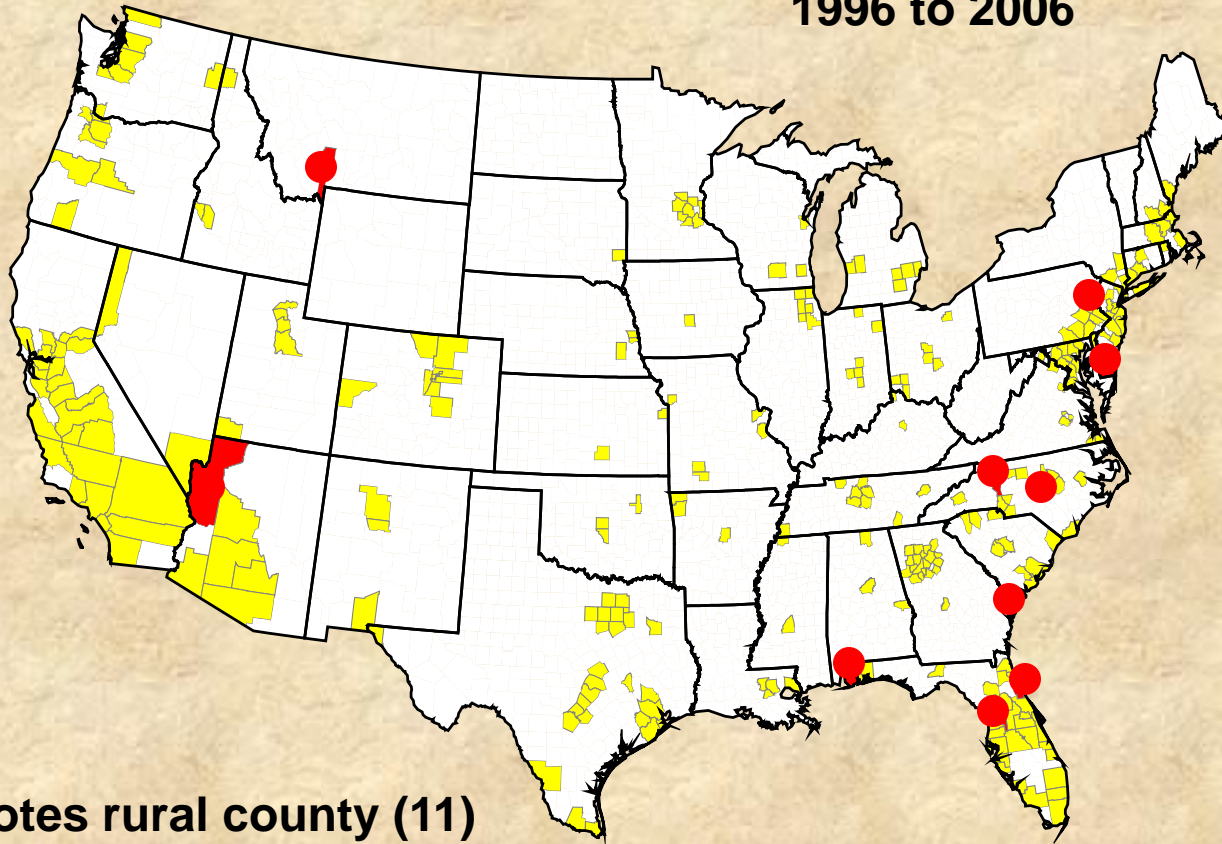
**Top 310 Counties for Income Creation  
1996 to 2006**




**No Rural Counties**

# And a few more show up on the “population” leader board.

## Top 310 Counties for Population Creation 1996 to 2006



 Denotes rural county (11)

# Eye on the Prize



**You cannot afford to maintain the status quo.**

***Rural regions need a new strategy to win.***

# How to build a new Rural Economy

## *Eye on the Prize*



- 1. Why does regional action matter?**
- 2. What works in regional development?**
- 3. What has the Center for Regional Competitiveness learned about rural regional development?**

# Globalization has created a new rural paradigm.

- Globalization's impacts are regional in character.....
- But development is still largely focused on...
  - » **Single places,**
  - » **Single firms, and**
  - » **Single sectors.**

Regions are where globalization comes home ... and frankly many rural regions struggle to compete.

- It now takes ***critical mass*** to compete, and rural counties & communities don't have enough by themselves.
- The field of play has shifted — ***from cost to innovation***. This makes business recruitment a much less effective strategy.



# In the 21<sup>st</sup> century, economic regions matter more than political boundaries

- ***Business Alliances*** – to build market presence and adopt new technologies.
- ***Community collaborations*** – to build critical mass for the venture and pool capital for development.
- ***Public Private Partnerships*** – to maximize returns on public & private investment.....

And to ensure public research fuels regional development.

But political boundaries and culture are persistent problems.

- We celebrate regional geography....
- But we *NEED* regional economic collaboration.

# Today's Economic Development Challenge

***The vigorous pursuit of a region's  
competitive edge in rapidly  
changing global markets.***

Today's downturn  
puts a premium on staying  
focused on the  
long term!



- Which investments today hold the biggest bang for the buck in the long run?
- In a period of tight government budgets, regions that agree on top investment priorities stand a *much* better chance of getting \$\$\$\$.

# Eye on the Prize



1. Why does regional action matter?
2. What works in regional development?
3. What has the Center for Regional Competitiveness learned about Rural Regional Development?

# Rural regions can do better. *How?*

- **Assemble four essential building blocks.**
  - **Competitiveness strategy**
  - **Region-wide partnership**
  - **Regional innovation system**
  - **World-class entrepreneurial climate**

# A New System for Regional Development



# 1. Sound regional strategy

*Your compass for the future.*



Regions must...

- Identify their unique competitive advantage — *founded on their distinct economic assets.*
- Chart a course to seize it.
- Prioritize public investments to leverage it.

***Without a strategy, you will not know what the “ask” is.***



# *Two Key Strategy Principles*



- 1. Must be founded on the region's economic strengths (assets). The era of smokestack chasing is over.**
- 2. Must target industries where the region can build synergies around established or emerging business clusters.**

## 2. Robust regional governance

*Thinking & acting as a region*



- Governance is about how regions think and act *as a region*. It is NOT government.
- A regional roundtable is crucial to crafting sound regional strategies — *the region must own it!*
- This roundtable must engage public, private, nonprofit leaders.
- Who will supply the Round Table?

*Who plays King Arthur?*

### *3. Deliberate investment in regional innovation systems.*



**Much of rural America rests on the laurels of assembly mfg & commodity agriculture.**

- ❖ *We must look much further onto the horizon.*
- ❖ *The key will be deliberately connecting public research with what each region does best.*

### ***3. Deliberate investment in regional innovation.***



**This will require new public *and* private investments in innovation...**

***The real power, though, comes from deliberately linking public investment with your regional strategy.***

## 4. World-class entrepreneurial climate.



**Recruitment must give way to business “gardening.”**

- **Entrepreneurship will be the hallmark of top regional economies in the 21<sup>st</sup> century.**
- **The best entrepreneurial climates will attract the best entrepreneurs—a variation on the Florida “Creative Class” theme.**

## 4. World-class entrepreneurial climate.



Creating this climate will require...

- ❖ A change in culture...from we work for “them” to we work for “us.”
- ❖ Regional e-ship support systems.  
*Systematic in approach and regional in scope.*
- ❖ Creating and providing access to new equity instruments for rural areas.

# Rural regions can do better.

## *How?*

- **Craft a sound strategy to drive concrete actions in the region. This requires:**
  - A region-wide partnership to own it (the *who*).
  - Clear strategic outcomes (the *what*).
  - A robust process to develop it (the *how*).

# The Who



## The Partnership must:

- **Span the economic region.**
- **Bring together public, private, and non-profit leaders.**

*A whole new game:*

*From zero-sum to positive-sum!*



# The Strategic What



## Three critical outcomes:

- **The partnership itself—cannot be overlooked.**
- **Distinct regional competitive advantages.**
- **Priorities for investment in public goods and services, an investment agenda totally aligned with private & nonprofit investments.**

# The How



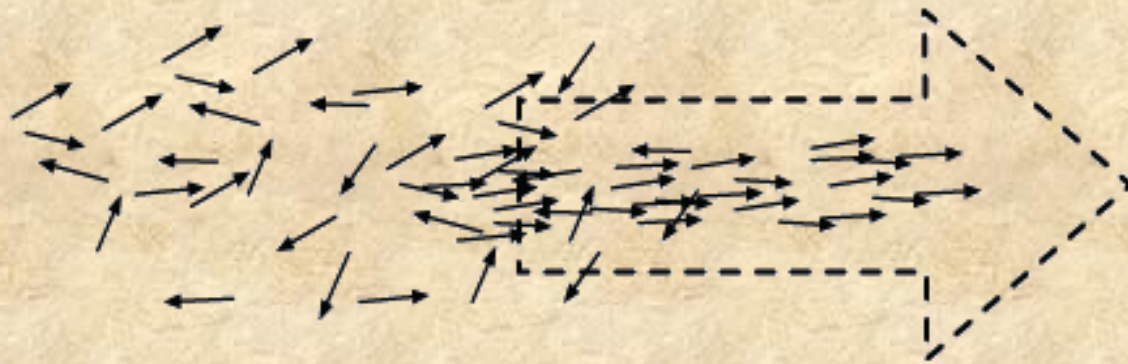
Must weave together three very different processes into one strong cord:

- **Collaboration.**
- **Analysis.**
- **Coaching.**

# The Component Processes for Developing a Regional Strategy

## Collaboration:

The process of pooling knowledge, strengthening frameworks for action, and determining priorities



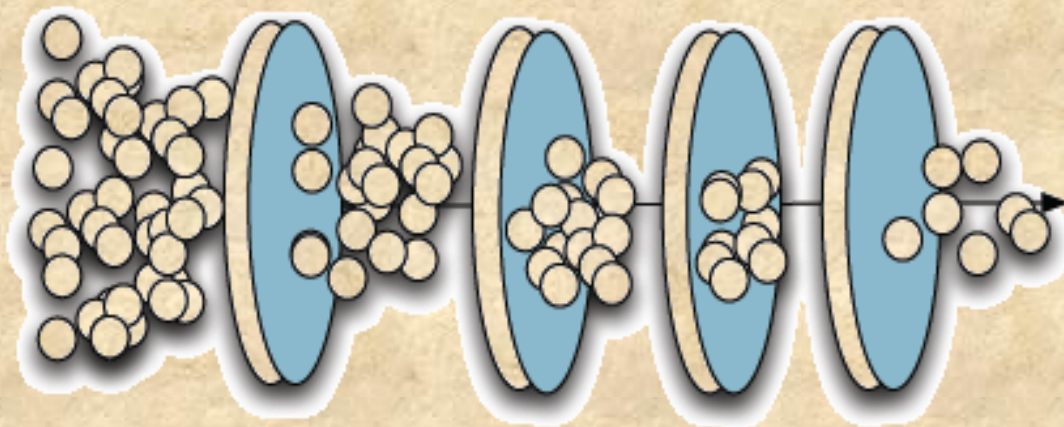
## Coaching:

The process of directing, instructing and training the partners to develop and implement a strategic action plan



## Analysis:

The process of identifying, evaluating and winnowing opportunities



## Investment Phases:

Discovery → Strategy → Evaluation

# A toolkit for regional economic analysis

Tool	Outputs	Inputs	Benefits	Limitations
<b>Structural Economic Analysis</b>	Industries of specialization	Employment data	Identifies areas of economic strength compared with the nation	Ignores income effects and which opportunities will raise that bar.
<b>Establishment Cluster Analysis</b>	Key constellations of business firms in the region	Census business data	See patterns of established and emerging business strength	Looks backward, not forward. More static than dynamic.
<b>Occupational Cluster Analysis</b>	Key constellations of workforce skills in the region	Occupational Information Network - O*NET, Census Bureau	See patterns of labor skills, especially valuable in charting economic transformations	Looks backward, not forward. More static than dynamic.
<b>Innovation Indices</b>	Measures of innovation for the region	Various	Benchmarks the region's ability to innovate against the nation	These are proxies, and innovation is difficult to capture.

# What needs must be met to compete?

*Findings from three competitiveness projects in rural America*

- ***Regional scale:*** counties or communities lack critical mass—and some opportunities only emerge at regional scale.
- ***Decision capacity & tools:*** skills & tools still mostly attuned to the 20<sup>th</sup> century development model.
- ***Regional governance:*** an art form, and in very short supply.
- ***External support:*** catalysts play a huge role in sparking the new rural paradigm. Put another way, spontaneous regions are rare.

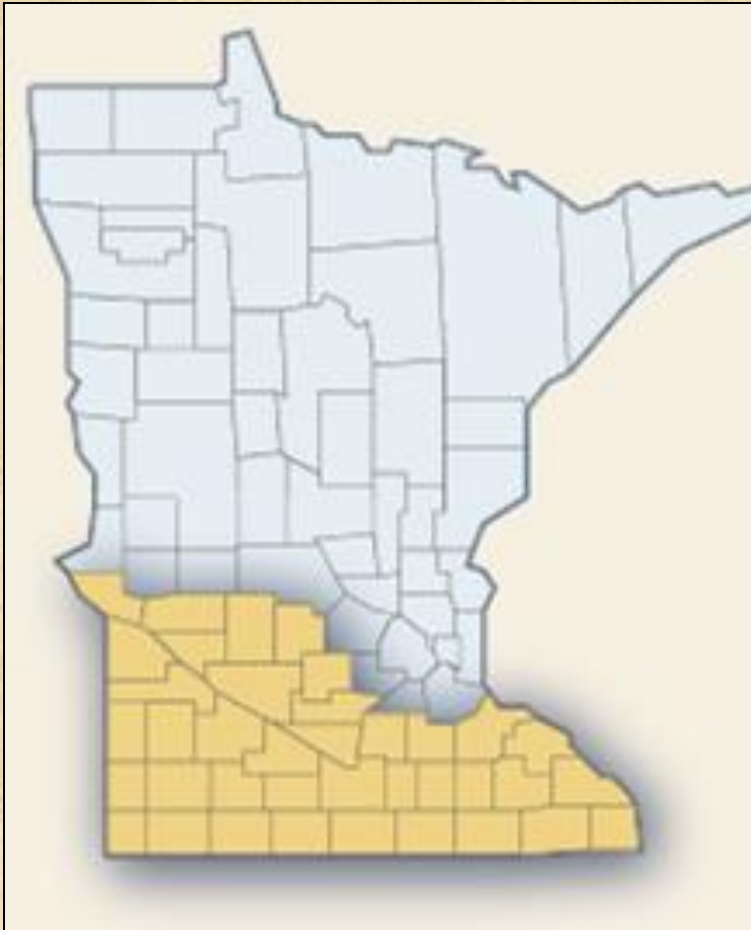


# *Western Alabama, Eastern Mississippi (WAEM) Project*



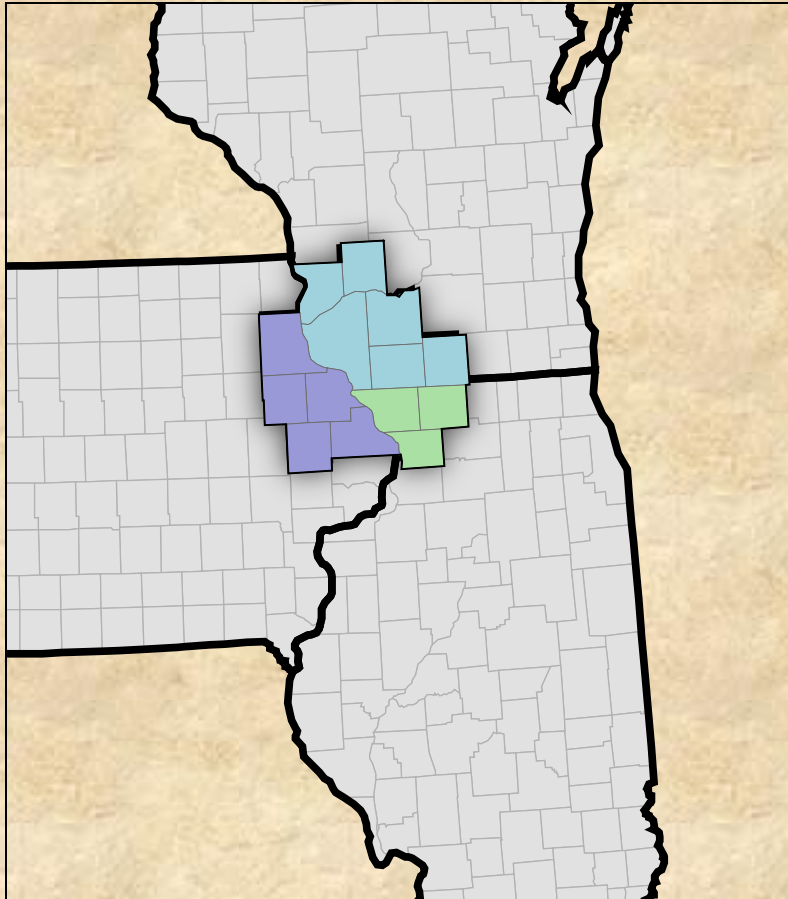
- **37 counties. 1.027 million people**
- **Largely rural region with an emerging manufacturing base ringed by several automotive assemblers.**
- **US Economic Development Agency (EDA), first-generation WIRED grant region.**
- **Funded by EDA and led by 1 non-profit institution and 8 community colleges.**

# *Southern Minnesota Competitiveness Project*



- **38 counties. 987,552 people**
- **Ag-intensive, strong manufacturing base rural region, with world-renowned medical research facilities in the Mayo clinic and Hormel Institute.**
- **Self-funded project led by 12 partners from the private sector, led by a financial institution and two philanthropic funds.**

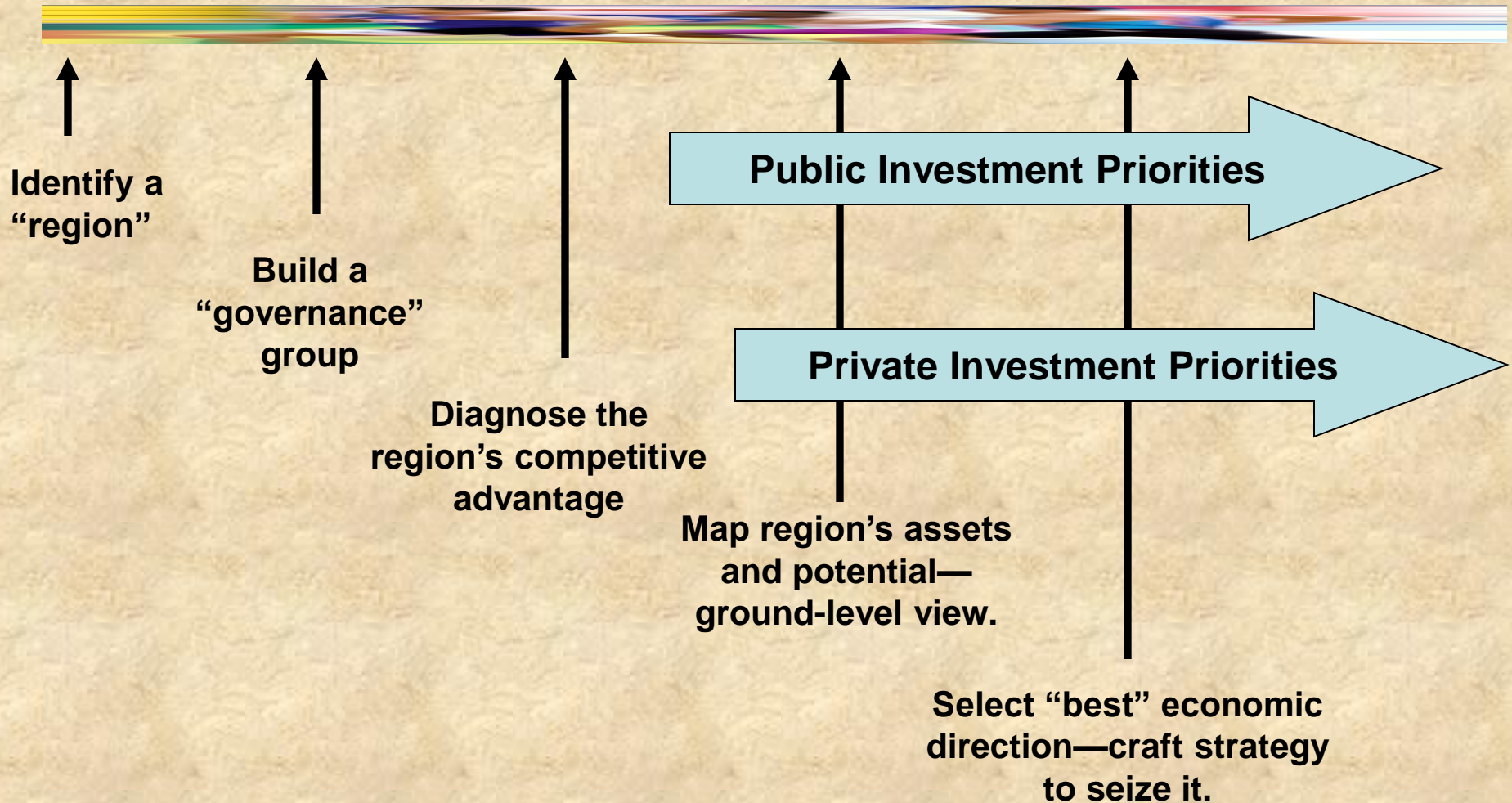
# *RiverLands Economic Advantage Partnership Project*



- 14 counties. 460,676 people
- Largely rural region, deep industrial and farming roots, with an emerging business services sector in Dubuque, IA.
- Eight partners led by a regional utility, one university, and partial funding from EDA.



# *A Regional Strategy Process*



# Step 1: Identify the Region



- **What is the most logical economic region?**
- **What is the “commuter shed”? “Retail shed”?**
- **Is there compelling geography?**
- **Who plays well together in the same sand box?**
- **Are there historical/cultural factors to consider?**
- **Is there a business cluster to unite the region?**

# Step 2: Build Regional Governance



- **Who are the regional “champions”?**
- **Who can provide aegis for the roundtable?**
- **Which public officials will engage?**
- **Which private sector leaders will engage?**
- **Which foundations or non-profits can supply glue?**
- **Can a university/college bolster the effort?**

# Step 3: Diagnose Competitive Advantage

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- What are the key economic trends in the region?
- How's the region doing against its peers?
- What is learned from leaders/laggards in the region?
- What are the region's existing & emerging clusters?
- What are the various impacts of economic options?

# Step 4: Map the Region's Economic Assets



- **What are the region's distinct assets?**
- **Are there "unexploited" assets?**
- **What would it take to unlock their potential?**
- **What are the region's biggest economic barriers?**

# Step 5: Craft the Region's Strategy



- Present menu of “near-term” & “long-term” economic options.
- Identify consensus options.
- Prioritize public investments and leverage the “ask” with the governance group.
- Prioritize near-term development steps.
- Prioritize long-term development steps.
- Launch action steps.
- Monitor progress against plan and evaluate progress.

# Eye on the Prize



1. Why does regional action matter?
2. What works in regional development?
3. **What has the Center for Regional Competitiveness learned about Rural Regional Development?**

# What has CRC learned about the rural regional development process?

1. Regional strategies are not natural acts. The inertia behind single community/single county development is strong and persistent. Most practitioners still believe that recruiting will solve their problem, although that is changing slowly.
2. There is huge opportunity for public agencies to be the catalyst in forging regional strategies. Put another way, the demand is high, especially relative to the supply.
3. Regional development is one part regional governance (*art*) and one part regional analysis (*science*). Neither can stand alone. *In the end, however, the art trumps the science.*



# What has CRC learned about the regional development process?



## There are two keys to success:

1. Facilitation of the governance and analysis of the critical issues must be closely linked and coordinated for both to succeed. *(Embed the analysis in the dialogue, and embed findings from the dialogue in the analysis.)*
2. Timing is everything. The region starts out wanting a development “solution” immediately. However, they will ultimately value a process with a logical sequence of steps, each building on the one before. We serve regions best by supplying the right tool at the right time.

# What has CRC learned about the regional development process?



## Implications for Development Practitioners

1. A systematic regional approach is crucial—with a skilled coach.
2. The regional strategy process AND regional partnership both take time and a lot of patience. Be prepared to remind your stakeholders of this over and over.
3. The “art” and “science” must be linked. They must proceed hand-in-hand.
4. Managing expectations across stakeholders is crucial to success, and takes a lot more time than expected.

# Community Development & Economic Development – *At Odds?*

- Community development is the forerunner to economic development.
- *But job 1 in community development must be crafting a strong competitiveness strategy for the region.*
- In many cases, that means investing in a region's leaders first.

# What can Governments do?

1. Help regions form in an organic way.
  - **Better information on economic linkages and common ground.**
  - **The key is to facilitate, *not* dictate.**
  - **Create incentives for regions to overcome jurisdictional lines.**
  - ***Bottom-up, not top-down.***

# What can Governments do?

2. Give regions the tools and processes they need to diagnose competitive advantage.

There are enormous economies of scale in developing:

- Analytical tools
- Regional governance guidelines
- Strategy process protocols

# What can Governments do?

## 3. Require that regions set priorities for investments in public goods.

This is a huge need in the current environment of global economic downturn & fiscal stimulus.

- Regions do not know their “ask.”
- There is great power in aligning public investment with each region’s competitive advantage...
- And aligning with private & philanthropic funding.

# **RUPRI**

## ***Center for Regional Competitiveness***

***WORLD-CLASS REGIONAL STRATEGIES FOR THE GLOBAL ECONOMIC RACE***

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**We are actively seeking rural regions in which to extend our analysis, and welcome discussions with any candidate regions.**

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COMPETITIVENESS**

