

IRISH REGIONS IN THE SMART ECONOMY

NUI Maynooth

Monday 12 September 2011

Conference Proceedings

Introduction

On Monday 12th September 2011, the Annual Conference of the Regional Studies Association Irish Branch was held. This one day conference considered the roles that different Irish regions may play in the *Smart Economy*, given their strongly varying economic structures and levels of connectivity. The conference was attended by 90 delegates from local and regional authorities, development agencies and academia. This report chronicles the proceedings of that conference. It is divided into four sections, following the conference sessions:

1. Regions for Growth – Keynote
2. Innovation, Knowledge and Regional development
3. Agency perspectives –Indigenous and Exogenous Resources and the Regional Knowledge Economy
4. Urban Centres, Rural Areas and Regional Development



Agenda

10:15 Welcome:

Chris van Egeraat, Chair Regional Studies Association, Irish Branch

Professor Philip Nolan, President NUI Maynooth

10:30 Opening Address: Professor Peter Clinch, Vice-President for Innovation, UCD

Building Ireland's Smart Economy

10:45-11.45 Regions for Growth -Keynote

Joaquim Oliveira Martins, OECD: *The contribution of regions to aggregate growth in OECD countries* (Speaker sponsored by the Geography Department, NUIM):

Jose Enrique Garcilazo, OECD: *Trends and drivers of growth in OECD regions and implications for lagging regions* (Speaker sponsored by NIRSA, NUIM)

11.45-13.00 Innovation, Knowledge and Regional development

Justin Doran, Eoin O'Leary & Declan Jordan, UCC: *Irish innovation policy and regional development*

Jim Walsh NUIM, Vice President Innovation NUI Maynooth: *Higher education and regional development*

Maria Ginnity, Head of Enterprise Policy Forfás: *Title TBC*

13.00-14.00 Lunch

14.00-15.30 Agency perspectives –Indigenous and Exogenous Resources and the Regional Knowledge Economy

John O'Brien, Company Secretary and Head of Corporate Strategy, IDA Ireland: *The Role of FDI in Regional Development*

Tom Hayes, Manager Regional Offices, Enterprise Ireland: *The Export Challenge*

Vincent Cunnane, CEO Shannon Development: *Regional Competitiveness: A New Approach.*

15.30-16.00 Coffee

16.00-17.00 Urban Centres, Rural Areas and Regional Development

Edgar Morgenroth, ESRI: *The importance of urban centres for smart growth*

Kevin Heanue, Teagasc: *Agriculture and regional development*

Summary of Proceedings

WELCOME AND KEYNOTE ADDRESS

Chris van Egeraat, Chair Regional Studies Association, Irish Branch

The conference was opened by Dr. Chris van Egeraat, Chairman of the Regional Studies Association, Irish Branch. He outlined the theme of the day, namely the roles different Irish regions play in the national smart economy. He outlined the current process of economic restructuring from an industrial economy to a knowledge-based based upon a focus on high value added jobs. In Ireland this notion has been captured in the 'Smart Economy' strategy. The question becomes where will the smart jobs be located and what is the role of the different regions. He showed how 76 per cent of the high potential start-ups announced by Enterprise Ireland in the first two quarters of 2011 were located in the Greater Dublin Area, and most of these were concentrated in Dublin City. He also pointed to the concentration of new, greenfield, foreign direct investment projects in larger urban centres. This prompted the question for the day and the purpose for the conference – what is the role of the regions, particularly lagging regions which don't have functioning gateways and hubs.



Philip Nolan, President NUI Maynooth

In his welcome address, Dr. Nolan said that this was a timely conference given that the economic crisis has created a sudden and renewed interest in the 'Smart Economy'. I argued, however, that the 'Smart Economy' policy tools were long term solutions to Ireland's short term problems. The discussion inevitably suffered from short-termism given the immediate weakness of the Irish economy, the complex nature of the relationship between education and society, and the nature of the spatial distribution of third level education. At the time of the Renaissance knowledge production was highly specialized, but now it is very widely distributed, even beyond universities. This creates huge challenges for universities to define and understand their role in a modern economy. Maynooth, he said was a particularly interesting example of this.



Peter Clinch, Vice-President for Innovation, UCD - Opening Address:

Professor Clinch opened by asking whether Ireland had planted the seeds for economic renewal. He argued that this won't come from cost competitiveness. Growth comes from two factors: more inputs, and improved productivity. Ireland ranks strongly in terms of productivity in GDP terms (7th in the OECD), although in GNP terms Ireland remained slightly below the OECD average.



He mentioned his involvement in drafting the *Building Ireland's Smart Economy* document. Productivity, he said, should be at the centre of any medium term plan of the Irish economy. A 'Smart Economy' is a high productivity economy - it's not just about high tech jobs and should include a much broader definition than just the knowledge economy. For example, it should include dairy farmers as well as software engineers and, more generally, it should include both the domestic-facing sector and export sector.

The *Building Ireland's Smart Economy* document was based on a framework of five conditions:

- Restore competitiveness
- Innovation & entrepreneurship
- Low carbon economy
- Investing in public capital
- Public sector productivity

Innovation has a key role in this. In terms of innovation performance, Ireland ranks above the euro zone average. The aim should be for Ireland to be the best place for MNCs and for clusters of SMEs to expand. It is also critical that innovation can diffuse across the economy, for example into retailing. He stressed the importance of Government intervention, and gave examples of how this had helped in Silicon Valley and Israel. He stressed venture capital as an area where the Government could assist. He concluded by saying that to be able to absorb the technology from leaders you have to be close to them – 'clever copy-cats'.

SESSION I: REGIONS FOR GROWTH - KEYNOTE

Joaquim Oliveira Martins, OECD - *The contribution of regions to aggregate growth in OECD countries* (Speaker sponsored by the Geography Department, NUIM).



Dr. Martins opened by stating that the OECD had a growth problem. The productivity gap between the US and EU was very worrying. Following the outbreak of the financial crisis, productivity went up due to mass layoffs. In the EU productivity growth had slowed, due to a much more rigid labour market. One of the main challenges facing many Eurozone countries is the exchange rate problem. Productivity in the traded sector is much higher than in the non-traded sector. However non-traded sector productivity was also very important – the challenge is how to bring this to the level of the region.

Dr. Martins pointed out that in the OECD, rural and intermediate regions make an important contribution to aggregate growth. Many rural and intermediate regions are growing faster than urban ones and large cities account for only one third of aggregate growth.

In relation to policies he said that there were strong arguments for 'place-based' policies and he identified two types:

- Type I policies: urban agglomerations are good for productivity and growth. In the past there was a focus on compensating lagging regions. He argued that this is not effective in the long run because it create dependency. Richer regions are reluctant to continue paying for lagging regions.
- Type II policies: how to promote growth and competitiveness in each region:
 - Use region specific assets – absolute advantage is crucial;
 - Create complementarities – coherent 'joined up' policies;
 - Policies need to relate to functional areas;

Turning to Ireland, Joaquim pointed out that this country has been hit hardest by the crisis as measured by the output gap. Looking at the unemployment challenge across regions, 232,000 jobs are needed in the Southern & Eastern Region alone. While Ireland has one of the most flexible labour markets in Europe, Ireland needs to address the duration of unemployment benefits. Unemployment will not be solved entirely by a cyclical turn-up. He said that Ireland cannot solely rely on economy-wide approaches and needs to introduce regional approaches.

Turning to innovation strategy, he argues for "borderless content of innovation policies". OECD Governments have used a wide range of policies. These need to be streamlined. This highlights the need for much better consultation processes and dialogue which can facilitate the linking-up of efficiency, equity and environmental considerations (or in the OECD terminology: stronger, cleaner and fairer). However, he admitted that this created the problem of complicating policy evaluation.

Jose Enrique Garcilazo, OECD - Trends and drivers of growth in OECD regions and implications for lagging regions (Speaker sponsored by NIRSA, NUIM).



Dr. Garcilazo outlined some of the salient trends in regional growth. In particular he showed that rural is not synonymous with decline and that a weak trend of convergence was evident. Over the last 15 years, the population density of the fastest growing regions is falling. Agglomeration and convergence forces are both evident in OECD countries. While concentration and agglomeration often leads to higher levels of GDP, signs of inefficiencies (e.g. congestion costs) have also appeared in significant number of metro-regions. Although Ireland is not a densely populated country, the level of economic concentration has been rising. The Dublin and the Mid-West Regions account for 46 per cent of aggregate growth.

Turning to the factors behind regional growth, Garcilazo highlighted the role of human capital and the presence of highly skilled people. Infrastructure alone doesn't, in itself, impact growth. This is only the case when it is combined with the right people. He distinguished different phases. In the beginning it is about capital deepening (e.g. infrastructure) but in next phase it is about the ability of regions to absorb people. Finally it is about innovation.

Dr. Garcilazo highlighted two case studies:

- Case study I: Asturias, a region dominated by coal and mining, managed to close the gap with the rest of Spain and other OECD countries. It built a lot of infrastructure, connecting it to France and Madrid (an airport and sea highway) and it invested in human capital. In terms of leadership and governance Asturias adopted a very consensual approach, reducing the tensions inherent in any significant change programme.
- Case Study II: Brandenburg was faced with a huge change from a closed economy to an open economy. The unification of Germany in 1990 brought huge levels of unemployment to the region. It fostered a culture of dependency, though this was changed in Brandenburg by the creation of 12 regions with financial incentives rewarding those who did best.

Drawing policy lessons from the OECD data, he emphasized the importance of place-based, integrated approaches and creating competition at the local level. He also stressed the importance of efficiently linking different levels of Government and the more general need for institutional quality. Finally he mentioned that there may often be a need for shared financing mechanisms. Regional economies must move away from compensation in the direction of tapping the underutilized resources of the region.

Summarizing the session, Dr. Edgar Morgenroth said that it was not just the best performing regions that drive total aggregate growth, that infrastructure can only play a role were human capital was present, and that the institutional set-up was really important. In the ensuing debate the point was made that there was a high degree of localism in Ireland and an environment of competition at a very local level. The delegates identified a need for an intermediate level of governance which can bring together the complimentary needs of adjoining regions. Dr. Garcilazo added that it is not always possible to change administration units to functional areas, and that often it has to be recognized that there has to be coordination between adjoining regional authorities. Dr. Martins added that the issue of agglomeration is now about soft infrastructure and that the need for agglomeration was not as intense as before. At the same time there were important ways by which agglomeration can provide advantages in the knowledge economy.

SESSION II: INNOVATION, KNOWLEDGE AND REGIONAL DEVELOPMENT

Justin Doran, Eoin O’Leary & Declan Jordan, UCC: *Irish innovation policy and regional development.*



Dr. Eoin O’leary presented the results of collaborative work. He argues that regional policy was driven by the desire to redistribute rather than encourage growth and raised the question whether we should opt for growth over redistribution? He presented the “bungled decentralisation plan” as an example. Distributional coalitions have undermined sovereignty. While there is a lot of rhetoric around the so-called ‘Smart Economy’, this has not been sufficiently scrutinised by academics. He characterized Irish industrial growth as ‘industrialization by invitation’. Very important within this are reputation and demonstration effects, and the reliance on the pipeline of IDA firms. Currently this policy is evolving into one of ‘innovation by invitation’.

The Government aims for an increase in spending on R&D. While spending has increased, it has been driven by the Higher Education sector (HERD). Dr. O’Leary went on to say that the R&D tax credit has successfully eliminated the disincentive related to the low corporation tax rate, though he critiqued the additional support for indigenous industry. He said that the ‘science push’ policy was too focused on Higher Education Institutions (HEIs), and that external interactions with HEIs might have limited effect. His previous research shows that interaction affects the decision to innovate, but not the exploitation of that knowledge for productivity gains.

He showed that foreign-owned firms spend, on average, six times more on R&D than indigenous firms. He made three points in relation to the effect of R&D spending and the probability of innovation:

- Intramural returns are very high for Irish owned firms. They are three times more likely to introduce new products.
- Extramural has no significant effect on the probability of innovation in the case of foreign-owned companies. In the case of Irish-owned companies the study finds a positive return, but only in relation to process innovation and organisation innovation.
- Returns of purchase or license of patents are very high for foreign-owned firms, though he questioned the extent to which the domestic economy will benefit.

Jim Walsh NUIM, Vice President Innovation NUI Maynooth: *Higher education and regional development*



Professor Jim Walsh discussed the role of Higher Education in regional development – a very timely topic in the context of the recently adopted

National Strategy for Higher Education (2011). He started by showing that Ireland's innovation index was 'stuck' – it was above the EU average but was not improving. The Higher Education Strategy emphasises mission differentiation and the idea that universities should play a role in supporting regional clusters. This is linked to the National Spatial Strategy. It means an end of the laissez faire in higher education and a move towards 'directed diversity'.

Dublin plays a key role for the country as a whole. It is ranked eighth of 271 cities on the basis of participation in international business and research networks. However other Irish cities are a long way behind. He argued there was no evidence of significant economic impacts of Gateways, as developed in the National Spatial Strategy. This was a missed opportunity.

Professor Walsh then presented some perspectives on the role of Higher Education in regional development. Impact studies showed that there was typically a positive impact on the region of HEIs through employment, expenditure patterns and student consumption. However if one views HEIs as key players in regional innovation ecosystems, then the focus should switch to knowledge spillovers, translation and transfer mechanisms, strategic partnerships, global networking and ultimately the potential for enduring transformations.

He discussed a knowledge typology involving three types of knowledge: analytical, synthetic and symbolic. The highest levels of innovation & added value are obtained when all three are combined. He went on discussing the concepts of the Entrepreneurial University and the Engaged University. The Entrepreneurial University is based on new relationships between academia, industry and government. This is the model which is currently strongly promoted by many governments. The Engaged University focuses on 'formation of the person'. Professor Walsh concluded that the latter model may be more effective in supporting regional development.

He outlined the following challenges for Regional Development Policy & Strategy:

- The issue of geographical scale – how to be globally connected in the new economic order;
- Within Ireland we need to understand spatial aspect of adjustment processes;
- Revising the National Spatial Strategy and support with new rural and urban strategies. In particular the need to address the needs of extensive commuter zones;
- Prepare and implement regional innovation strategies with engagement of HEIs;
- Learn from examples of innovative world class enterprises located outside urban areas.

Maria Ginnity , Head of Enterprise Policy Forfás: *Title: Translating National Policy into Regional implementation*

Maria Ginnity opened by talking about the economic context, and argued that the 'Smart Economy' agenda must extend far beyond the export sector. She then discussed in detail the contrasting outlook for two very different Irish regions – The South West and the Border



She turned first to the South West, a region with a very strong rural base and an extended coastal area. In compositional terms it is a diverse region, contrasting relatively urbanised Cork and Kerry with a less developed urban system. The South West already has the highest GVA per worker after Dublin owing to the pharmaceutical sector in the region. Ginnity said that the average educational level in the South West was very high, and that the region was very attractive to new graduates. It had relatively mature innovation system, and benefitted from having a diverse range of sectors.

By contrast, the Border Region is geographically dispersed and includes three, relatively small, gateways. The region had suffered heavily over the course of the troubles in Northern Ireland. The cross-border dimension creates both opportunities and political challenges.

SESSION III: AGENCY PERSPECTIVES – INDIGENOUS AND EXOGENOUS RESOURCES AND THE REGIONAL KNOWLEDGE ECONOMY

John O'Brien, Company Secretary and Head of Corporate Strategy, IDA Ireland: *The Role of FDI in Regional Development*



John O'Brien outlined the critical role played by Foreign Direct Investment in the development of the Irish economy. IDA supported firms account for around €110bn of exports. He pointed out that the overall distribution of employment in foreign-owned firms is not that different from that of the national labour force, underlining the IDA's success in promoting regional development. The IDA's aim is that fifty per cent of new investments will take place outside Dublin and Cork.

O'Brien also stressed the importance of retaining existing jobs, and that a lot of effort was made by the IDA to this end. Existing jobs are well distributed with specialised clusters in different regions. IDA's priority is to engage with existing firms, ensuring that they develop the product they are producing in Ireland, thereby improving their competitiveness.

In terms of future development, Ireland is not likely to attract low-skilled, labour intensive projects. Ireland used to attract mid-size firms, such as German auto part manufacturers. Much of that business has shifted to Eastern Europe. The competitive strengths of Ireland include a reasonably developed scientific R&D base, the low corporation tax rate, the track record of companies already here and factors specific to some industries or locations (e.g. the Tyndall institute in UCC)

O'Brien also said that many investors want to invest in 'metro regions' such as Dublin, and will not countenance going to other locations. He said that Ireland must develop other regions to a level at which they become sufficiently attractive and can attract that type of investment. The diminution of aids planned for 2013 will further reduce the IDA's ability to use grants for influencing location decisions.

Tom Hayes, Manager Regional Offices, Enterprise Ireland: *The Export Challenge*

Tom Hayes presentation set out the role of Enterprise Ireland (EI) to partner with entrepreneurs, Irish businesses, the research system and the investment community to increase exports, employment and prosperity. EI now has an active client base of around 3,500 companies of various types, including high potential start-ups, established SMEs and MNCs. These firms account for employment of 137,241, and spend €19bn locally.



Of course the financial crisis has posed immense challenges to Irish firms, in particular the impact of the strength of the Euro to Sterling, difficulties firms are having with respect to access to finance, and in particular the impact of the construction meltdown and its impact on related sectors e.g. engineering. EI has responded to this challenge, particularly through the *Enterprise Stabilisation Fund* and the *Employment Subsidy Scheme* which supported 635 companies. Domestic and International Mentor Panels have been expanded, while additional resources have been made available for growth sectors.

Looking forward, the growth prospects for Ireland's main trading partners have become more uncertain. As a small open economy, the sequencing of recovery in Ireland can be categorised into 5 phases, namely export recovery, investment pick up, employment increases, consumption resumes and finally taxes increase. In terms of the current juncture, the Irish economy appears to be between the first two steps. Tom Hayes said that as a country Ireland had forgotten the extent of its past successes, and that many of Ireland fundamental strengths remain.

Vincent Cunnane, CEO Shannon Development: *Regional Competitiveness: A New Approach.*

Dr. Cunnane pointed out that Ireland is a small region on an international basis and that Dublin is still the dominant economic force. Gross Value Added (GVA) was 120 per cent bigger in Dublin than the regions and unemployment was relatively low - 12.5 compared to 17.2 per cent in the South East.



He argued this pointed to a need to get regions growing and to effectively mobilise all regions in the country. There should be recognition that regional

growth is important, and that economic policy based on the redistribution model was not sustainable.

The direction the Government takes in reforming the various agencies is extremely important. He pointed out that local development agencies were market facing. This is at odds with the central mission of local authorities, which are citizen facing. He argued that county and city enterprise boards, leader programmes and so forth should be brought together at a regional level.

Dr. Cunnane dealt with the question why Shannon is unique in Ireland as the only region with a regional development agency. He argued that the relevant question should be why the other regions did not have such an agency. He outlined the many ways by which Shannon Development delivers strategic integration. He concluded by saying that Ireland has shown itself to be very good at vertical integration, but agreed with the OECD analysis which showed that regional development is about more effective horizontal integration.

SESSION IV: URBAN CENTRES, RURAL AREAS AND REGIONAL DEVELOPMENT

Edgar Morgenroth, ESRI: *The importance of urban centres for smart growth*

Professor Morgenroth opened by stressing the importance of urban centres a point that was already emphasised by Adam Smith. He presented evidence of convergence on the basis of some key indicators, though other indicators pointed to divergence.



He explained why urban centres are important. Higher densities are better for growth. The actual location matters, with benefits being contained within a 10 kilometer radius. However there is also the potential problem of excess primacy – One excessively large urban centre can impede growth. Other than Dublin, Ireland’s cities seem very small, not unlike the situation in Austria.

Turning to the ‘Smart Economy’ theme, he said that urban centres and innovation were linked as informal, face to face, contact between potential innovators was important. Innovation per capita is positively related to density of employment, with medium-size cities performing best. Only 37 electoral districts in Ireland had a comparable jobs density. 24 of these are in Dublin. Professor Morgenroth went on to discuss diversity and growth, and showed that greater economic diversity increases growth.

He concluded by saying that growth in Ireland is likely to follow the same underlying principles as elsewhere – it will be predominantly urban. Ireland has a poor urban structure – relatively low urbanisation and relatively small cities. An urban centred spatial development strategy needs to be implemented.

Kevin Heanue, Teagasc: *Agriculture and regional development*

Dr. Kevin Heanue stressed the importance of the agri-food sector. This is the largest indigenous sector accounting for 170,000 jobs, 50 per cent of indigenous exports and 30 per cent of total net exports. Every €100 exports adds €50 to GNP compared to €20 in the case of pharma and ICT. The agri-food sector is also a large contributor to regional and rural employment and income. Dr. Heanue showed that there has already been a movement up the value chain in recent years. For example, Infant Milk Formula (IMF) now accounts for 16 per cent of global exports. However the sector is characterised by a low level of R&D spending (0.2% to 0.3% of sales) and a high incidence of SMEs.



The drivers for the future include global population growth, income growth in developing countries, dietary changes (more meat, dairy and value-added food products) and increased demand for food with health and wellness attributes in developed countries. There is also an increasing consumer preference for locally produced food. He stressed the importance of planning for the post-quota regime.

The presentation then focussed on the innovation profile at two points in the dairy value chain: farmers (supply efficiency) and final goods producers (interface with world markets). At the farm level, dairy farmers should focus on grass-based production, the use of innovation in genetics (better animals) and financial management.

DISCUSSION AND CLOSING

Delegates highlighted the constraints of EU policy, and argued that incentives to farmers should be set to meet global objectives such as food security issues, climate change and the profile of demand because (Middle class growth in Asia).

Following a question from the floor regarding the optimal size of the regions, Dr. Morgenroth argued that NUTS 2 is nuts and not meaningful in any sense. Jim Walsh said that there are too many NUTS 3 regions and that four or five maybe optimal.

A discussion on regional Governance followed, with a delegate questioning whether it would be possible to get effective regional policy. Dr. Morgenroth said that the issue of regional development needs to move beyond the Department of the Environment. Other departments have not been playing a role. He was afraid that a failure of the merging of the local authorities in Limerick may halt the process of further mergers.

Professor Jim Walsh added that Strategic Governance was lacking and that Government and Management were being confused. He said that cultures were driven by compliance, not performance. He said that regions needed to have a high-level strategy, with councillors having oversight on performance. However, professionals should 'run the show'. One delegate pointed out that Ireland had a national government consisting of local personalities, always looking over their shoulders to see how decisions will translate locally.

Professor Morgenroth closed the conference, in particular by thanking Chris Van Egeraat for organising it, NUI Maynooth for hosting the conference and for all the chairs for overseeing the sessions. He said that feedback would be welcome.

The discussion continues at the on-line discussion forum:

<http://irelandafternama.wordpress.com/2011/09/14/oecd-highlights-need-for-joined-up-government-to-promote-regional-growth/>

Copies of the presentation can be accessed at:

<http://www.regional-studies-assoc.ac.uk/international-networks/rsair-presentations.asp>