

KEYS TO REGIONAL ECONOMIC SUCCESS

In recent years, much of the thinking about developing a successful economy at the regional level has focused on the concept of industry clusters.¹ A cluster is defined as “a geographically bounded concentration of similar, related or complementary businesses, with active channels for business transactions, communications and dialogue, that share specialized infrastructure, labor markets and services, and that are faced with common opportunities and threats.”² These concentrations of firms have similar infrastructure, technology, and workforce needs that match the specialized assets a region offers. While initial firms in a cluster typically locate in a region because of its unique advantages such as transportation networks or natural resources, a clustering effect helps develop the pool of skilled laborers, specialized support services, and access to suppliers that help the industry thrive and recruit new firms to the region.

Clustering often gives firms advantages by providing better access to suppliers, customized services such as bankers, accountants, marketing companies, and lawyers who are familiar with an industry, workers who are trained in the specialized skills needed within the industry, and sources of new ideas and innovation that arise through networks of people within the same industry. This access to knowledge and innovation may be the most important advantage of clustering.³

To better understand clusters, consider an important cluster in the mid-Willamette Valley: the nursery industry.⁴ The nursery industry, made up of over 1000 companies that employ over 10,000 people and have annual sales of nearly \$800 million dollars, literally planted itself and grew in Oregon thanks to access to farmland, long growing seasons, and abundant water supplies. However, Oregon’s nursery industry owes some of its considerable success over the last decade to a clustering effect. The presence of more and more nurseries in Oregon helped create a workforce with the skills needed in the industry, from manual semi-skilled labor in fields to nursery management and marketing, created a large pool of skilled professionals such

¹For background on clusters, see the “Cluster of Innovations” report produced by the Council on Competitiveness, available online at www.compete.org/pdf/national_execsummary.pdf. The Oregon Business Plan, available online at www.oregonbusinessplan.org, also discusses clusters in the context of Oregon’s economy.

²National Governor’s Association, “A Governor’s Guide to Cluster-Based Economic Development,” p. 9. Available online at www.eda.gov/ImageCache/EDAPublic/documents/pdfdocs/nga_5fclusters_2epdf/v1/nga_5fclusters.pdf.

³National Governor’s Association, “A Governor’s Guide to Cluster-Based Economic Development,” p. 9. Available online at www.eda.gov/ImageCache/EDAPublic/documents/pdfdocs/nga_5fclusters_2epdf/v1/nga_5fclusters.pdf.

⁴For an analysis of Oregon’s nursery industry cluster, see Joe Cortright and John Provo, “Metropolitan Portland’s Nursery Industry Cluster.” Available online at www.upa.pdx.edu/IMS/currentprojects/ncopdfs/nursery.pdf.

The Oregon Business Plan on Innovation

“Oregon’s economic vitality is propelled by knowledge-based industries, not only electronics, software, and electronic commerce, but also new products and process innovation from manufacturers and service businesses that have long been established. Necessary infrastructure for knowledge-based industries includes critical mass in ideas, research, product and process innovation, market creation, support for business formation, availability of investment capital, and education systems attuned to the needs of a knowledge economy.”

Source: “Stepping Up: A Plan For Growing Quality

as lawyers, accountants, and consultants with specialized knowledge that help firms run a successful business, attracted suppliers, and offered opportunities for cooperation among numerous producers on marketing, transportation of products, quality improvements, and other matters. Thus while good farming opportunities, access to transportation to markets, and sources of innovation such as researchers at Oregon State University laid the foundations for a successful nursery industry, the development of an industry cluster with a critical mass of supporting services has helped the industry thrive.

It is important to note that the economic impact of clusters extends throughout the regional economy, far beyond the site of production. For example, Oregon’s fruit and vegetable farming/processing cluster

supports firms that sell fertilizer and produce irrigation systems, as well as professionals who help them maximize profits. When farmers’ crops are sent to processors, they provide thousands of jobs in canneries, and these food processing facilities support construction firms, equipment makers, electricians, plumbers, truckers, cold storage operations, and dozens of other parts of the economy. Thus farm production supports a huge amount of economic activity off the farm, and without strong farms the local economy would be much worse off.

Education & Innovation

Clusters are typically sectors of the economy in which a region does things better than other areas. These are areas of the economy where innovation and high productivity give the region a competitive advantage over other regions, even those with cheaper labor and other input costs. Consequently, within a cluster access to skilled labor is highly important. Education and job training that make workers more productive and enhance the skills needed within the cluster are critical for it to succeed.

Another important factor required for successful clusters is access to sources of innovation, especially research and development activities.⁵ Firms within a cluster require innovation to develop new products and increase productivity. This is true whether we are talking of a “new economy” firm like a software engineering company or an “old economy” manufacturer.

⁵The Oregon Business Plan puts expanding Oregon’s capacity for innovation as one of its highest priority. See the OBP white paper on innovation at www.oregonbusinessplan.org/pdf/2-Innovation%20WP%201-31-03.pdf.

Consider how important skilled workers and innovation are to an industry as old as agriculture. Oregon's farmers remain amazingly productive and internationally competitive, despite farm labor and supply costs that are higher than most other parts of the globe. While other regions throughout the world can often produce crops cheaper, Oregon farmers can produce them better. The key to this continued competitiveness is access to highly skilled agricultural professionals coming out of institutions such as Oregon State University, as well as agricultural research done by OSU that has pioneered new plant varieties and helped farmers understand how to maximize crop yields through proper management of fertilizer, pesticides, and water. Without our state's continued investment in education and research that create skilled workers and fosters innovation, our farmers would cease being competitive in increasingly globalized commodity markets.

Strategies

Particularly important clusters are those in traded sector industries that sell most of their services or products outside the region. Traded sector firms bring new money into a region, creating higher-wage jobs and supporting local businesses that supply and service these firms and their employees. For example, while a clothing retailer recycles money within a region without adding value to its products or creating new wealth, a manufacturer creates a product that adds to the region's wealth when it is sold out-of-state. While most jobs in a community are in non-traded sector industries, traded sector firms are the foundation of the economy.

Traded sector clusters are important for economic development strategies because they provide a guide for how a region can focus its economic development efforts for maximum effect.

Creating and Implementing an Effective Regional Economic Development Strategy

Regions often encounter a common set of pitfalls: Because no single nationwide policy will be entirely appropriate for every region, policy setting at the regional level is especially important.

Regions need to overcome transition points in the development of their economies: Regional leaders encounter transitional challenges as they develop their economies. Addressing these challenges should be targets of regional economic development strategies.

Broad-based collaboration is needed for development strategies to succeed: Successful regional economies benefit from the contributions of a wide array of organizations. Organizing for action entails arriving at consensus and creating the capacity for regions to implement development strategies.

A shared economic vision helps elicit broad support and coordinate activities: To achieve good coordination among many diverse groups, a shared vision of common objectives and methods is vital.

Strong leadership is a necessary part of any successful economic development strategy: Strong leadership committed to regional economic development is needed to ensure that companies, knowledge centers, governments, and collaborative institutions contribute to their full potential.

An overarching organization for economic development helps coordinate and routinize the process: A formal organizational structure and process for working on economic issues helps maintain a consensus behind an economic strategy through periods of economic and political change.

Source: "Clusters of Innovation: Regional Foundations of U.S. Competitiveness, Executive Summary," p. xvi-xvii. Available online at www.compete.org/pdf/national_execsummary.pdf.

Expanding Existing Clusters. Regions can maximize their economic development potential by focusing on expanding existing clusters. New firms within a strong existing cluster can be attracted by proximity to suppliers, a workforce with the necessary skills, access to research institutions, and opportunities for doing business with existing firms. Firms can also be recruited to fill gaps a region identifies within a cluster, such as a supplier for existing firms.

Developing Clusters From Existing Firms. Regions can also work to build clusters out of an incipient pre-cluster grouping of firms. While a group of related firms do not necessarily make a cluster, recognizing their interconnectedness and the possibility of forming a cluster can offer the opportunity for actively recruiting additional firms that can fill out the group and form a full-fledged cluster.

Shoring up Existing Clusters. In cases where a cluster that forms an important part of a region's economy faces difficulties, a region can also focus on retaining existing firms. Such is the case with the Salem area's food processing cluster, where efforts must be made to keep existing firms from following their predecessors in going out of business or leaving the area.

Implications for the Salem Area

This discussion of pathways to regional economic success can help frame thinking of how to grow the Salem area's economy and offer a strategy for economic development. Because of the potential of traded sector firms to bring money into the region by selling goods and services outside the Mid-Valley, the region should focus its efforts on retaining, expanding, and recruiting firms in traded sectors of the economy, particularly in existing or emerging clusters.

While this plan does not seek to make a comprehensive survey of the region's important clusters or devise strategies to improve their health, the proposals it contains are designed to help key regional clusters, particularly agriculture, food processing, and manufacturing. For example, the transportation section is key to firms in all of these clusters because they depend on moving goods within and outside the region. The agriculture proposals focus on ways to help food processors and farmers, and the efforts to lower wastewater rate increases is key to retaining food processors, in addition to helping many manufacturers. The proposals on education and workforce development would help manufacturers build a skilled labor pool, while stable low-cost energy supplies are crucial for energy-intensive manufacturing, and a supply of buildable land helps attract and expand manufacturing firms.