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Commentary on the rural economy

Racing toward New Frontiers: Helping Regions Compete in the Global Marketplace

Stephan Weiler
Assistant Vice President and Economist
Center for the Study of Rural America

Globalization is an economic reality in the new millennium, and every region on the planet now must adapt to an ever-changing global marketplace. Globalization presents especially difficult challenges for rural areas through fiercer competition in their traditional commodity markets. Yet at the same time, globalization brings these areas fresh opportunities by widening potential markets for their products and services.

Each region is effectively in a race, not with other regions, but with the quickly evolving frontier of the global market itself. Finding and exploiting regional excellence to its best advantage in the global marketplace marks the way to the finish line.

A scorecard by which a region can understand its strengths in this race would be welcomed by all rural communities. A good starting point would be to find a way of evaluating the *competitive capacities* of a particular region. Few measures currently provide such a forward-looking picture.

Traditional economic measures such as job counts are backward-looking and are often based on past strategies and perspectives that ignore the new pressures and opportunities of the global marketplace.

This issue of the *Main Street Economist* considers why forward-looking measures of competitiveness are important and then proposes how such measures might be constructed. Five building blocks of competitive capacity will be explored: workforce, lifestyle, innovation, financial, and informational. Future issues of the *Main Street Economist* will show how communities can use such measures to take better advantage of the global marketplace.

Why are forward-looking measures critical to regional economic success?

The foundations of rural America's economy are changing. The production of commodities based on relatively inexpensive land and labor is no longer the bedrock of the rural economy. American farms continue to thrive in terms of production but now account for only 2% of rural income. Manufacturing has often been seen as the successor to agriculture in rural areas. By 2000, factories jobs accounted for 28% of rural earnings and had substantial additional indirect effects on local economies.

With globalization, however, overseas locations are rapidly becoming more competitive in the production of commodities, whether agricultural or industrial. Much as agriculture faded as an economic foundation for most rural areas during the 20th century, rural factories are now closing at disproportionate rates relative to those in urban areas.

New economic foundations are not widespread throughout the rural landscape, but emerging successes offer lessons for all rural areas. By their nature, rural towns have difficulties adjusting to the quicker evolutions of the global marketplace. Their small size tends to limit the amount of information they can analyze from the outside world and also limits the amount of information that they can provide about themselves.

Yet a variety of rural regions have adopted new development strategies that rely on partnering between formerly isolated places and industries. These strategies explicitly take advantage of the new frontier of opportunity presented by globalization.

Clusters and networks of businesses and people, the same factors that have sparked dynamic and successful urban technology corridors, are leading the charge. For example, the Center's annual conference in 2002 highlighted the case of farm, business, and higher education biopharming clusters in Iowa. A unique business model has been forged between Yakima Valley hop farmers, a regional processor, and the multinational brewing industry. New markets for products and services have been uncovered, finding specialty niches amidst a now greatly expanded spectrum of global markets.

But before rural places can begin to develop regional strategies, they need standard benchmarks to understand their competitive capacities. Current measures cannot provide such understanding. Rural decision-makers and stakeholders regularly receive indications of economic vitality based on job counts, income levels, and population growth. Such backward-looking measures evaluate the past without regard to prospects for the future. Job growth and imigration based on a manufacturing plant that may soon be uncompetitive are not necessarily signals of economic health.

Past performance measures tend to dominate private and public policy goals, possibly to the detriment of a region's longer-term economic vitality. Business recruitment strategies have been the norm in rural areas, as regions woo firms to locate in their areas to increase the number of local jobs. Such wooing typically includes financial incentives. But recent research indicates that such strategies are ineffective in significantly influencing company location decisions and can have substantial hidden community costs (Rogers and Ellis). Furthermore, footloose firms remain footloose and can quickly leave "winning" regions on the losing side after another suitor surfaces.

In contrast, new competitive capacity indicators aim at frontier market opportunities that draw on a region's own attributes. These capacities shape the area's ability, on its own or collaboratively, to respond to new niches in the global marketplace for products and services. Using such indicators, regions could exploit new linkages within their current resources, such as through neglected synergies among businesses, as well as take advantage of new interregional partnerships. Private and public leaders who have looked beyond their own jurisdictional borders in tackling globalization are those most likely to find new regional synergies, increase the size and efficiency of their operations, and reduce their economic isolation.

How can we measure new competitive capacities?

While discovering new niche markets is the goal of most regions, they first must have a set of benchmarks to understand their own capacities to seize such opportunities. Because niches are likely to evolve rapidly, no single niche is likely to remain a region's primary focus for long periods. Niches themselves often flow naturally from a region's own past and present resources and sets of skills. For example, the hydroelectric power sources of the Northwest supported the ship-building plans of a young company named Boeing. Ship-building evolved into plane-building as the era of flight emerged. In rural Georgia, the region's quilt-tufting skills were transformed into carpet-tufting skills. Competitive capacities reflect a region's underlying competencies that can leverage its skills and resources. In this spirit, competitive capacities shape the region's ability to respond to evolutions in the global marketplace in a variety of ways.

Why are standard measures of competitive capacity not already in use? While measures of past performance are often publicly provided, private consultants charge considerable sums for even exploratory reports on a region's future prospects. Such information for any given area has a fixed cost. Yet rural areas, like inner cities, are relatively sparsely populated by both people and firms. Therefore, the average cost of providing such information may be especially high in precisely those areas that have the greatest private and public budget constraints.

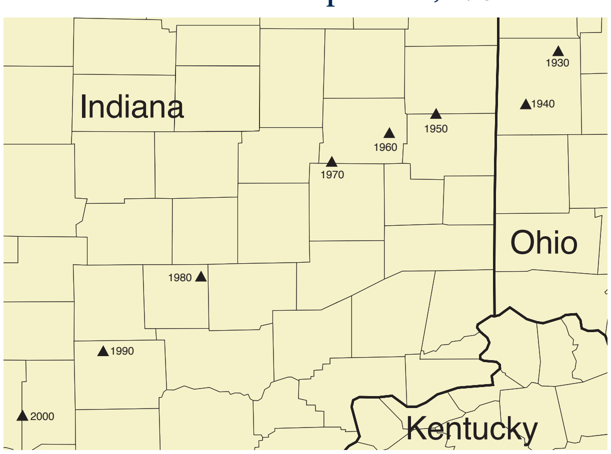
The informational gap in rural areas is in fact a broader problem. Information is critical for private investors to properly assess projects, investments which in turn generate economic growth. Effective use of public resources similarly requires widely available information. Rural areas have especially thin information on local business prospects given the noted sparseness of their markets. This puts them at a disadvantage to thriving urban and suburban markets, irrespective of how promising the local projects might be. This informational imbalance means that traditional markets may fail to properly value rural prospects, constraining their economic growth by reinforcing their economic isolation. The availability of credible, comparable measures of competitive capacity could help level the information playing field.

There are no strict guidelines for creating competitive capacity measures. Still, the new measures must each respect the basic informational needs of private and public decision-makers. The key objective is to understand the competitive capacities of rural areas and possibly broader composite regions. Capacity measures would be particularly valuable if they highlight potentially overlooked competitive opportunities. The indicators should be forward-looking, allowing localities to act on information to assess future economic prospects. The data should be readily available, updated and updatable, and be consistent across places.

A single composite measure of competitive status is attractive, but competitiveness itself is built on distinct foundations—as must its measures. Once these foundations have been constructed, various forms of composite measures could be developed. Five foundations seem especially critical for regional competitiveness, representing workforce, lifestyle, innovation, financial, and informational capacities. Among these five broad categories of competitive capacity measures being explored, each contains several possible forward-looking indicators.

Workforce capacity indicators will outline labor market opportunities that are built on an area's most important asset, its workers. A local labor force's education and skills (human capital) are major factors in firms' location decisions, particularly those with the greatest growth and income prospects. Education effectively opens regions to more information, networks, and markets, given the clear relationship between educational attainment and Internet usage. Human capital also naturally generates entrepreneurs that can provide the basis for a continuously innovative regional economy. Interestingly, rural areas already tend to be naturally entrepreneurial, given their history of farming (perhaps the most broadly entrepreneurial industry of all) alongside the fact that rural enterprises by their nature are almost universally small-scale. An example of a workforce indicator could be the underemployment of educated rural workers. Such information could be used to shape entrepreneurship strategies, possibly in combination with the siting or incubation of niche firms requiring particular sets of skills. Back office operations in the northern Plains are recent examples of such a dynamic.

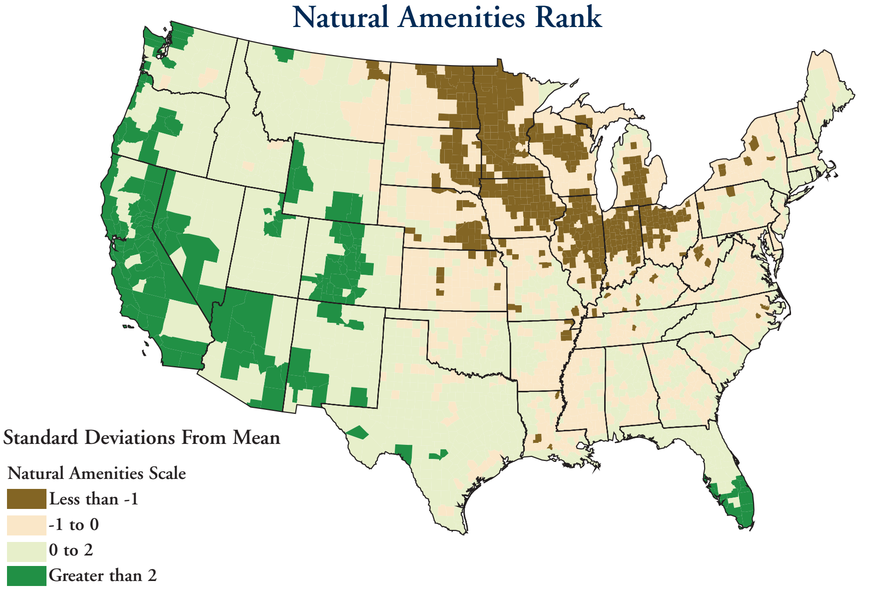
Figure 1
Center Point of U.S. Population, 1930-2000



Lifestyle capacity indicators will incorporate amenities and their interrelationship, such as proximity to interstates and good fishing, which shape an area's attractiveness to both firms and workers. For a region to succeed, a talented workforce must be both attracted and retained. Amenities are a key factor, as underscored by the southwestern shift of the U.S. population toward more plentiful natural amenities Figures 1 and 2. While many rural areas do not have the automatic advantages of California's coastline or Colorado's mountains to attract skilled and educated people, smaller-scale natural amenities such as parklands, trails, and waterways are also important to a region's attractiveness.

Many people consider the lack of congestion, low crime, good schools, neighborliness, and other features of rural areas as attractive social amenities. Rural areas can supplement these traditional social amenities with arts, culture, and history unique to their locality. Artistic hamlets from northern California and New Mexico to New England are striking examples of this approach. Few single localities can offer sufficient attractive characteristics on their own. However, broader regions could

Figure 2
Natural Amenities Rank



Source: USDA, Economic Research Service

provide compelling combinations of amenities across a variety of categories to attract and keep talented people. For example, proximity to both parklands and an airport is likely to be an amenity to many. Metro areas near productive agricultural land provide potential local markets for high-value niche food products.

Innovation capacity indicators will evaluate innovative activity and investment that determine a region's ability to invent and reinvent its role in the global marketplace. These measures clarify the role of economic creativity of a region while also revealing the market's valuation of that role. Patents, public and private research and development, as well as the value added by local entrepreneurs help express the level of regional innovation. Regions with high-value entrepreneurs or high levels of economic creativity could be new core areas for surrounding rural areas to provide support services. Colorado's high country is home to many high-value entrepreneurs, with considerable spillover benefits to the local community. This example also suggests the potential importance of interactions between competitive capacities, such as lifestyle and innovation.

Household, business, banking, and governmental ***financial*** capacity indicators (i.e., assets, income, and expenditures) will be assessed to better understand a region's ability to invest in new economic activities. For example, significant household equity suggests useful local sources for entrepreneurial capital. Availability of venture capital and business lending could be similarly leveraged.

This category of capacity indicators can also highlight opportunities to better exploit local spending patterns. Many rural areas face considerable retail leakage, as household retail purchases far exceeds retail sales by local shops. Opportunities for local niche stores might stop some of this leakage. Inner city areas from Harlem to Oakland have benefited from similar capacity indicators to motivate the opening of new shops and thus retain local spending.

Finally, ***informational*** capacity indicators will consider the informational constraints of the local market and thus underscore the likelihood of overlooked opportunities. Sparser residence and business activity indicates there is less information on rural areas for potential investors, possibly dissuading them from pursuing productive local projects. These areas would directly benefit from the full range of competitive capacity indicators. Specific informational indicators could also evaluate the informational "thinness" of the local market, which in turn could help prioritize public and nonprofit resources. Public sector and university support of value-added agricultural initiatives linking rural producers and urban markets, such as was noted for the Iowa biopharming industry, often are assessed on such criteria.

What's next?

Upcoming issues of the *Main Street Economist* will further develop these new measures of regional competitiveness. Each issue in the series will explore a particular indicator, which may ultimately be combined in composite measures designed to help regions gauge their competencies as new market prospects evolve. Geographic Information Systems mapping tools will help analyze the indicators so that places can better understand their competitive capacities. The Center will also sponsor workshops with business and banking groups, universities, and the public and nonprofit sectors to improve the conceptual framing and the availability of data for the new measures.

Once sets of capacity measures are complete, they should help guide private and public funds and programs to opportunities that might previously have been overlooked. In particular, new and evolving regional partnerships can use this information to shape their efforts. Forging these partnerships may be as big a challenge as exploring the new economic frontiers. But the collaborative process of inventing new regions today should enhance their chances in the race for success in tomorrow's global economy.

Reference

Rogers, Cynthia, and Stephen Ellis. 2000. "Local Economic Development as a Prisoners' Dilemma: The Role of Business Climate." Review of Regional Studies, vol. 30, no. 3, pp. 315-30.