6 Regional Clusters: What We Know and What We Should Know

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Interest in regional clusters and their role in economic development has grown substantially over the last several years among academics, economic development professionals, and firm managers. The main reasons have been the increased intensity of interregional and international competition in the world economy, the apparent shortcomings of traditional regional development models and policies, and the emergence of successful clusters of firms and industries in many nations around the world. One result has been a proliferation of cluster-based economic development policies. Another has been a veritable explosion of literature on regional clusters and regional clustering. In this paper, I will highlight some of the results of research on regional clusters, identify some of the gaps in our present knowledge of the clustering phenomenon, and suggest an agenda for further research. The particular set issues covered is idiosyncratic rather than exhaustive, reflecting my own research interests and drawing on results, preliminary results, and stylized facts that have emerged in my own research as well as the literature. The purpose is to summarize at least a portion of what we know about regional clusters and to suggest areas for future investigation.

6.1 The Nature and Prominence of Regional Clusters

One reason for the enormous interest in (subnational)\(^1\) regional clustering is the simple fact that “they are there”. Several authors have pointed out that the leading companies in many industries are located in the same nation, region, or even city.\(^2\) Regional clustering is found in virtually every advanced economy and increasingly in developing countries as well.\(^3\) Regional clusters can be found in an enormous range of industries. They are found in the well-known high technology ag-

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\(^1\) In this paper, “region” will be used in the sense of subnational regions, regions within nations, rather than supranational regions, regions that encompass several nations, except where clearly specified otherwise.


\(^3\) Humphrey and Schmitz (1996)
glomerations, such as Silicon Valley, Route 128, the M4 area, and Tokyo, and lesser-known high technology centers, such as Austin, Ottawa, North Sydney, Minneapolis, and Hsinchu. They are found in industries that require high levels of craftsmanship, such as the Venetian glass industry, the medical instruments industry in Pakistan, the Genevan luxury watch industry, and the Japanese cutlery industry. They are found in traditional, low technology industries, such as the clusters in footwear, garments, toys, and plastic products in South China and Korea; as well as higher value added segments of the same industries elsewhere. They are found in the fashion industries centered on Paris, Milan, and New York as well as in the creative industries of Los Angeles, Bollywood, and London. They are found in large scale manufacturing industries, such as the aerospace industries of the United States, France, and the United Kingdom; the auto industries of Japan, Germany, and Sweden; and the electronics industries of Japan, Taiwan, and the United States. They are found in the process industries in chemicals (Gulf Coast, Rhineland, and Singapore) and metals (the Ruhr, Bolivar State in Venezuela, and Quebec). They are found in knowledge-intensive professional and financial service centers of New York, London, Tokyo, and Hong Kong. They are even found in industries in which location would seem not to matter, such as telemarketing in Omaha, call centers in Sydney, data entry in Manila, and software in Bangalore. The fact that even such “placeless” activities have shown tendencies to cluster indicates the strength of the phenomenon.4

Recent work has highlighted the importance of regional clustering to the economic development process.5 Historical investigation, in fact, suggests that economies tend to develop through the emergence of regional clusters. In many economies, an industry emerges, perhaps around some particular natural resource, market need, or local skill.6 As the industry develops, new firms in the industry are founded. Soon suppliers emerge to provide inputs and services. New industries are formed through spillovers and transferred knowledge. Downstream industries develop to take advantage of supplies and inputs, and so on. This is not to say that the regional clustering phenomenon is present in all industries or even most industries (in fact the geographic profile of different industries varies widely), but that it is an important part of the economic landscape.7 This view has been given support by work that has shown that regions within the United States that have developed positions in particular clusters have seen their economies grow at significantly higher rates than other regions8 and work that has shown that firms in clusters in Italy have tended to perform better than similar firms outside of the clusters.9

The numerous examples of regional clustering provide evidence that even as competition and economic activity globalize, that competitive advantage can be localized. Of course, the apparent economic paradox is really no paradox at all.

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4 Enright (2000a)
5 Enright (1996) and UNCTAD (1998)
7 Enright (1993b), Krugman (1991), and Sforzi (1992)
9 Fabiani et al. (undated)