7 Globalization, Regional Economic Policy and Research

Edward Feser

Department of Urban and Regional Planning, University of Illinois at Urbana-Champaign, Champaign, Illinois USA

7.1 Introduction

While the case for increasing the degree of integration in the world economy is strong (e.g., Sen 1999; Irwin 2002; Bhagwati 2004), it is based on the notion of net benefits. Workers, industries and places absorb trade-related gains and losses differently and must adjust to greater or lesser degrees to the liberalizing international economic environment. Because of the high degree of industrial specialization and concentration in the space economy, some states and regions’ potential losses are greater than their gains, at least in the short- to medium-run. While the losses seem eminently visible—evidenced in bankruptcies, closed factories, and unemployment lines—the benefits are typically diffuse. It still the case that net gains are not a fait accompli, despite a high degree of confidence in the net positives of trade within mainstream economics (Samuelson 2004). Moreover, core-periphery and cumulative causation theories and findings suggest that there are circumstances in which opening regions to import competition can exacerbate regional income inequalities (Venables 1998; Fujita and Hu 2001; Meardon 2001; Hu 2002; Mansori 2003). The differential regional impacts of globalization are therefore important and need to be fully understood, along with the aggregate economic benefits. Also requiring careful thought is what local strategies, if any, are necessary to maximize the benefits of globalization for regional businesses and workers. In a globalizing world of scarce public sector resources, what is the appropriate subnational economic policy response?

1 Bradford, Grieco and Hufbauer (2005) estimates the income gains to the U.S. economy of 50 years of post-WWII economic liberalization at $2,800 to $5,000 per head in 2003.
2 Studies showing that a reduction of trade barriers leads to a deconcentration of economic activity—and therefore potential reduction in regional inequalities—include Hanson (1998), Sánchez-Reaza and Rodríguez-Pose (2002), and Pernia and Quising (2003).
The volume of literature on modern trends in globalization is already enormous. Yet, the question of what globalization means for economic policy making at the subnational scale has received comparatively little systematic attention. Perhaps that is because decisions about desirable levels of economic integration are made at the national level. Yet, regions within nations face most of the practical challenges of adjusting to the new economic order. Note that one needs to distinguish between scholarship that focuses on the regional impacts of globalization and that which concerns appropriate regional-level policy responses. The former literature is extensive, incorporating work on topics such as the influence of globalization on regional inequality (noted above), the impact of free trade agreements on local communities (Glasmieier and Conroy 1994), the implications of foreign direct investment for regional growth (Glickman and Woodward 1988; Head et al. 1995), and the rise of multinationals and their roles in competitive regional clusters (Ivarsson 1999). Systematic work on regional policy implications, by contrast, is limited and frequently indirect, emphasizing how regional growth is increasingly a function of international linkages without consideration of whether that implies any significant and necessary change in local development policy options or priorities. An open economy is nothing new to regions, after all, and perhaps the current set of policy frameworks and evaluation methods are adequate for regional scale strategic planning and policy making as global economic integration proceeds. If that were the case, planners and policy makers’ tasks would be easier. They could concentrate on doing better what they have been doing already rather than changing approaches altogether.

To wit, this paper considers two questions. First, are there any unique implications of growing global economic integration for development planning and policy making at the regional level? The focus is on the United States context although some of the more general findings are relevant to other highly industrialized countries with active local and regional economic development institutions. Related issues include whether globalization is appreciably different today than it used to be and whether it means anything more, from the perspective of a given region, than heightened competition for its resident industries and related challenges of more rapid macro-regional structural change and adjustment. Second, what kinds of spatial empirical research and model building would be most valuable to regional policy makers faced with designing programs and making specific allocative investment decisions in the face of growing economic integration? Putting on the shoes of a regional policy maker, what kinds of problems should regional scientists pursue?

### 7.2 Today’s Globalization

The global economy becomes more integrated with relative increases in the international exchange of goods, services, money, investment, labor, and technology. Such exchanges are realized in foreign trade, multinational direct foreign investment, movements of short-term portfolio funds, technology embodied in human