

WILL LOCAL ECONOMIC DEVELOPMENT BE A CURE TO GLOBALIZATION?

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Abstract:

The world has never been connected to each other like globalization has made it possible. With its arrival, globalization has brought an excess of innovations with rapid-paced developments in technology and information. This seemingly beneficial economic model however has brought its fair share of issues to share. It has led regions to lose their identity of self in both economic and cultural senses. And with this struggle against globalization in hand, Local Economic Development was brought up as a countermodel to globalization.

This paper will be discussing Globalization and Local Economic Development and go in-depth about their importance in our current state, their advantages, and the challenges they need to overcome illustrated with real-life examples of existing Local Economic Development projects.

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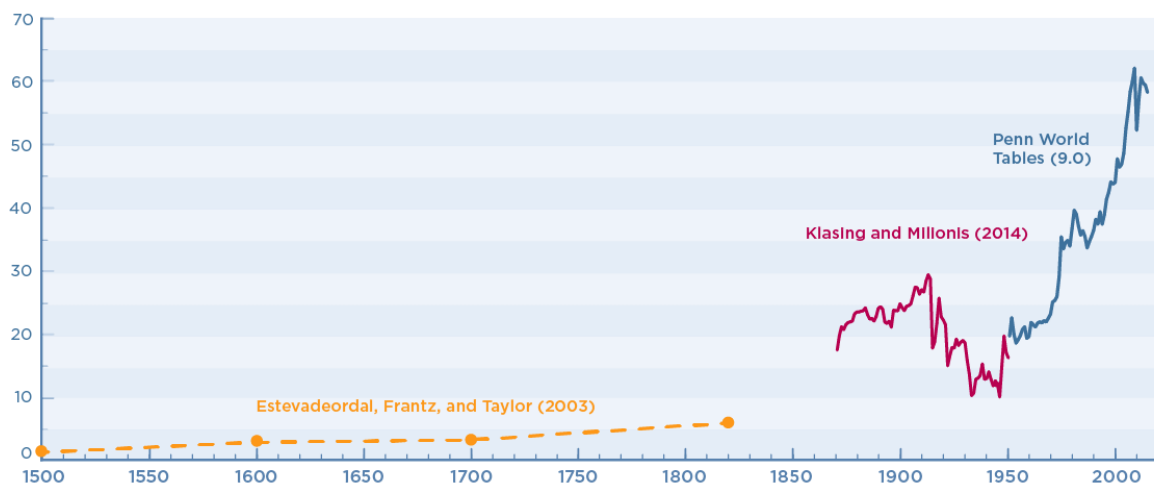
Globalization

A. Definition

Globalization is used to refer to the increasing interconnection of economies¹, cultures, and populations of different countries. This growth might be caused by several conditions, such as the development of technology, cross-border trade in goods and services, or in increasing flows of capital, labor, and information. For a long time, humans used trade in order to increase the odds of their survival, but, especially over the last few decades, the act of trade has grown tremendously. In order to ensure transnational growth continuity, nations have started investing in creating new and developing previous alliances.

Trade has skyrocketed in the past century

World trade as percent of world GDP (1500–2014)



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¹ *What is Globalization?* (2018, October 29). PIIE. <https://www.pii.com/microsites/globalization/what-is-globalization>

² Esteban Ortiz-Ospina, Diana Beltekian and Max Roser (2018) - "Trade and Globalization". Published online at OurWorldInData.org. Retrieved from: '<https://ourworldindata.org/trade-and-globalization>' [Online Resource]

B. Theoretical Background of Globalization

The birth of neoclassical theory in fact lines up with the rise of globalization in the late 19th century. Neoclassical economics focuses on the perspective of hypothetical consumers. According to Neoclassical economists, consumers tend to prefer to maximize personal satisfaction which could be interpreted as a utility. This results in consumers making a decision based on the utility of a product and picking the option with the most utility they can get out of when offered two different products.³

The main idea of neoclassical economic theory is closely related to classical theory. The classical economics theory emphasizes a self-regulating free market with various goods the consumers could freely choose from. Government intervention is deemed unnecessary in classical theory and the market is theorized to balance in time by private competitors. In classical theory, prices of goods are determined by the cost of raw materials, labor, and other expenses faced during production. The classical theory puts the law of supply and demand at high priority. However, a key aspect of neoclassical economics theory that sets itself apart from classical theory⁴ is the fact that the pricing of goods is not limited to the cost of manufacture. According to neoclassical economists, the consumer's perception of the value of a product greatly affects its market price. This enables a cheaper-to-create product to be sold for higher prices if consumers see it fit.

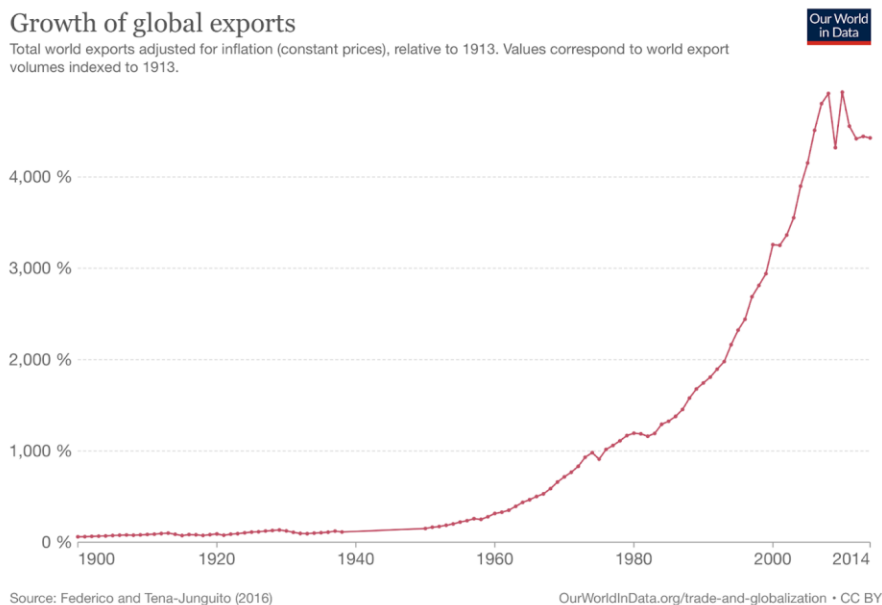
The current economic model followed by numerous countries is tuned to neoclassicism. The nature of globalization heavily relies on neoclassical theory. The core of the theory starts from supply and demand with the added factor of additional prices for items that consumers prefer. Enabling users to pick from different types of products that arrive from thousands of kilometers away promotes consumers to make the choice that satisfies them the most in return engaging them more to consume.

³ "Neoclassical Economics." *Corporate Finance Institute*, corporatefinanceinstitute.com/resources/economics/neoclassical-economics.

⁴ Anthony, Akshit, and AnalyticsSteps. "7 Differences Between Classical and Neoclassical Economics | Analytics Steps." *7 Differences Between Classical and Neoclassical Economics | Analytics Steps*, 12 Nov. 2021, www.analyticssteps.com/blogs/7-differences-between-classical-and-neoclassical-economics.

C. Characteristics

The principles of globalization have many key advantages in the economic field. Globalization allows more competition in the economic field for businesses to thrive. It allows manufacturers to source raw materials where they are inexpensive and to benefit from cheaper labor costs in developing nations while simultaneously leveraging the technical expertise and experience of the more developed economies. Innately, it increases international trade and contributes to GDP.⁵ Different parts of a product could be made in different regions of the world just to be exported to an assembly center in order to create one product. This circle of importation and exportation becomes the backbone of globalized trade and contributes heavily to GDP.



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Globalization also creates more job opportunities in the world. Many businesses, on the verge of growth, relocate their operation centers where they could operate efficiently. By relocating, they have a positive effect on the national economy and result in a higher standard of living.

⁵ Manolică, Adriana, and Teodora Roman. *GLOBALISATION – ADVANTAGES AND DISADVANTAGES FROM THE PERSPECTIVE OF THE MANUFACTURER*. ceswp.uaic.ro/articles/CESWP2012_IV4_MAN.pdf.

⁶ Source: Federico, Giovanni and Antonio Tena-Junguito (2016 b). 'A tale of two globalizations: gains from trade and openness 1800-2010'. London, Centre for Economic Policy Research. (CEPR WP.11128)

D. History of Globalization's Rise to Popularity

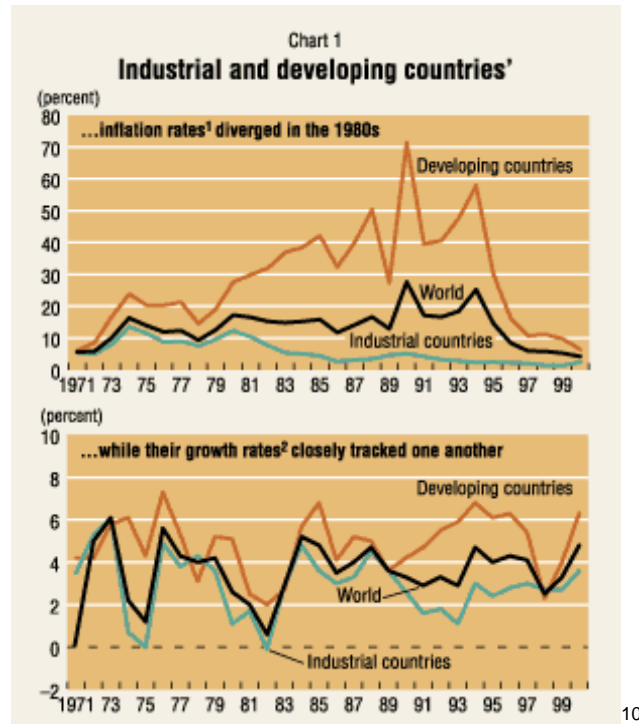
The first wave of globalization started with the Industrial Revolution. Great Britain became more powerful by having many establishments in different parts of the world and by its technological developments such as the steam engine. They transported raw materials and goods needed with steamships and trains and produced the most demanded products. Through that, they pioneered the international market to expand. As a result, the trade rate grew on average %3 per year for a century and global GDP rose from 6% to 14% until just before World War I.⁷ The outbreak of WWI damaged the rise of globalization and this retreat continued until the end of WWII. Countries closed their borders in order to recover the damages of wars. After WWII, countries founded international organizations to develop a free trade environment and let globalization become more popular. In the Bretton Conference in 1944, some economic institutions such as the World Bank and International Monetary Fund were founded in order to support nations' economies.⁸

For the rise of globalization internationally, the most significant time was the 1990s. In 1989, the Soviet Union collapsed and the Cold War ended. After the collapse of the Soviet Union, the West, and East collaborated in the global economy. The term "silent revolution" was used by Michel Camdessus, Managing Director of the IMF at that time, to refer to the changing environment of economics globally in 1989.⁹ The role of the government in the economy was transformed into an indirect role in shaping the economy for creating sustainable growth but has no responsibility for employment or high economic growth according to the IMF. The ascent of this economic model, globalization, helped some countries to lower their inflation rate with the price of a high unemployment rate.

⁷ *A Brief History of Globalization* (2019) *World Economic Forum*. World Economics Forum. Available at: <https://www.weforum.org/agenda/2019/01/how-globalization-4-0-fits-into-the-history-of-globalization/> (Accessed: February 20, 2023).

⁸ *What are the Bretton Woods Institutions?* (2019) *Bretton Woods Project*. Available at: <https://www.brettonwoodsproject.org/2019/01/art-320747/> (Accessed: April 29, 2023).

⁹ Boughton, J.M. (no date) *Finance and development, Finance and Development | F&D*. IMF. Available at: <https://www.imf.org/external/pubs/ft/fandd/2002/03/bought.htm> (Accessed: March 16, 2023).



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With the internet becoming widespread around the globe, communication became much easier. Companies from different parts of the world can cooperate with less effort. It made global integration further accelerate. Thus, new ways of trade such as e-commerce and digital services were born.¹¹

¹⁰ *International Financial Statistics Yearbook* (2001) IMF, <https://data.imf.org/?sk=4c514d48-b6ba-49ed-8ab9-52b0c1a0179b&slid=-1>

¹¹ *A Brief History of Globalization* (2019) *World Economic Forum*. World Economics Forum. Available at: <https://www.weforum.org/agenda/2019/01/how-globalization-4-0-fits-into-the-history-of-globalization/> (Accessed: February 20, 2023).

E. Increasing Criticisms for Globalization

Globalization has allowed numerous countries to prosper and has given a surplus of job opportunities. But the negative impact globalization has on various fronts should not be overlooked. These shortcomings should be understood within the differentiating framework of developed-developing countries

Some developing countries had question marks even before the sharp fall of globalization in 2008. Developed countries can benefit from globalization more than the developing countries which makes them concerned about its consequences in economic inequity. Developed countries have more advantages in industry: they have more production capacity and more labor forces due to the intense immigration, they can reach low-cost raw materials and export the products easily across the globe.¹² Thus, developed countries take advantage of globalization more than the developing countries and it deepens the economic gap between them.

The most important fall down of globalization that made countries realize its negative effects was the financial crisis that occurred in 2008. In 2008, a financial crisis took place in the United States which was about to destroy the international financial system. Financial crisis of 2007-08, also called the subprime mortgage crisis, caused the contraction of liquidity in global financial markets.¹³ This crisis provoked several major companies to fail such as insurance companies, savings and loan associations and investment and commercial banks.¹⁴ After the crisis, it is realized that the free trade of capital is different from the free trade of goods and services because of the decisions based on asymmetric information, agency problems, adverse selection, moral hazard, and incomplete capital markets. ¹⁵Thus, the emerging need for more control of the capital flow is understood. The 2007-08 financial crisis was the first sign of the fall of globalization.

¹² Demir, S. and Koçak, R.D. (2022) "The Analysis of the Rise and Fall of Globalization," *Gazi Akademik Bakış*, 30(15), p. 11. Available at: <https://doi.org/https://dergipark.org.tr/en/download/article-file/2488410>.

¹³ Duignan, B. (2023) *Financial Crisis of 2007–08*, *Encyclopædia Britannica*. Encyclopædia Britannica, inc. Available at: <https://www.britannica.com/event/financial-crisis-of-2007-2008> (Accessed: March 14, 2023).

¹⁴ Duignan, B. (2023) *Financial Crisis of 2007–08*, *Encyclopædia Britannica*. Encyclopædia Britannica, inc. Available at: <https://www.britannica.com/event/financial-crisis-of-2007-2008> (Accessed: March 14, 2023).

¹⁵ Demir, S. and Koçak, R.D. (2022) "The Analysis of the Rise and Fall of Globalization," *Gazi Akademik Bakış*, 30(15), p. 11. Available at: <https://doi.org/https://dergipark.org.tr/en/download/article-file/2488410>.

Another important turning point for globalization is the trade war between China and the USA that started in 2018 with the president Donald Trump back then. The USA wanted to preserve its place as the leader of the global economy. China, on the other hand, was a threat to the USA. China had the economic power in its hands, such as the labor force, technology, and capital which play an essential role for the economic development of a country. ¹⁶ These factors led the USA to start a trade war against China by setting protectionist policies such as setting taxation of imported goods. These new policies of the USA damaged its globalized economy.

F. Why Globalization Lost Further Ground with the Pandemic?

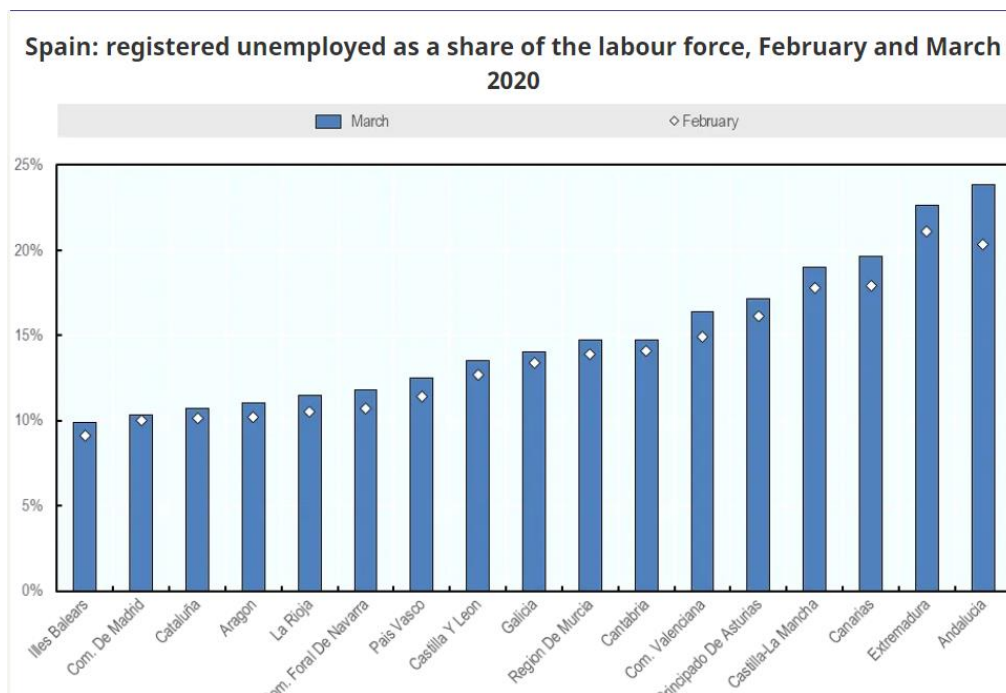
Covid-19 Pandemic was a milestone for the global economy. It had effects on not just health but also on economics. With the pandemic, global supply chains were damaged because of restrictions on transportation, quarantines, and national lockdown. Some of the countries limited access to their country by closing harbors, airports, and railways because of health problems. ¹⁷ These obstacles to transportation affected globalization negatively since some companies and countries were dependent on imports and/or exports. ¹⁸ For example, China has been one of the most critical economies that export products around the globe; and yet China closed its borders because of Covid-19 and global supply chains were affected.

Due to the negative effects of the Covid-19 pandemic, the world economy got into a recession period during 2020-2021. Largely, SME (small and medium enterprises) were effected because of the supply side and financial problems, causing operations to stop. As a result, the unemployment rate augmented all over the world.

¹⁶ Demir, S. and Koçak, R.D. (2022) "The Analysis of the Rise and Fall of Globalization," *Gazi Akademik Bakış*, 30(15), p. 12-13. Available at: <https://doi.org/https://dergipark.org.tr/en/download/article-file/2488410>.

¹⁷ *Covid has decelerated globalization, but not ended it* (2020) *IMD Business School for Management and Leadership Courses*. IMD. Available at: <https://www.imd.org/research-knowledge/articles/covid-has-decelerated-globalization-but-not-ended-it/> (Accessed: March 14, 2023).

¹⁸ *Does Covid-19 Mean the End for Globalization?* (2021) *Forbes*. Forbes Magazine. Available at: <https://www.forbes.com/sites/imperialinsights/2021/01/08/does-covid-19-mean-the-end-for-globalization/?sh=10811da9671e> (Accessed: January 3, 2023).



Note: These figures are based on the number of people registered as unemployed at the public employment service (*Servicio Público de Empleo Estatal*). The labor force refers to the population aged 16 and above.

Source: Spanish Public Employment Service (<https://www.sepe.es/HomeSepe/que-es-el-sepe/estadisticas/datos-avance/paro.html>) and National Statistical Office (<https://www.ine.es/jaxiT3/Datos.htm?t=4204#!tabs-tabla>), both accessed on 7 April 2020.

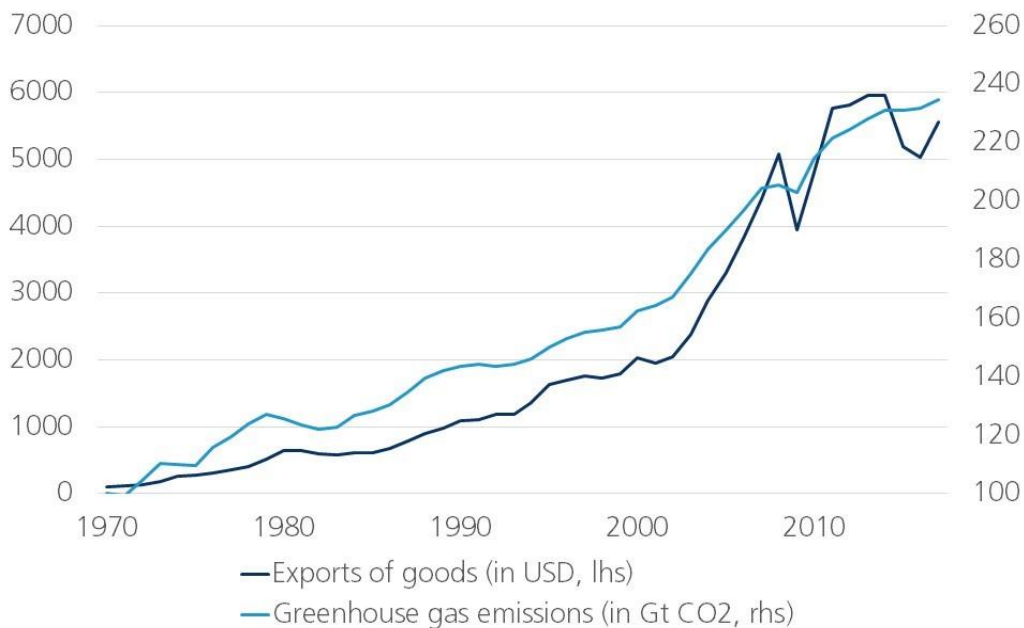
When globalization failed with the pandemic, local economic models gained more attention since they can respond to each region’s problems individually. Nationwide macroeconomic policies may affect every region differently; since every region has a unique economic performance. Target-oriented economic solutions can easily be produced by local governments. Also, small and medium-sized enterprises (SMEs), which account for two-thirds of employment in OECD countries have been more vulnerable to the disruptions in the supply chain, , reduced customer demand, lockdowns , and barriers to finance. Local governments have a greater chance of supporting SMEs via enabling access to financial support and on-job training programs and mentoring systems¹⁹, which all have direct impact on the unemployment rate.

¹⁹ *From pandemic to recovery: Local Employment and Economic Development - OECD* (2020). OECD. Available at: <https://www.oecd.org/coronavirus/policy-responses/from-pandemic-to-recovery-local-employment-and-economic-development-879d2913/> (Accessed: January 2, 2023).

G. Shortcomings of Globalization

Discussions on globalization have risen recently based on environmental, social, and economic shortcomings:

Export is the backbone of globalization and its main selling point; and yet global trade also creates its biggest caveat environmentally: Exporting goods to lands farther from the distributors is bound to require the usage of excessive amounts of fuel. Thousands of ships and aircraft that contribute to transporting goods across borders also contribute to the rise in greenhouse gas emissions.²⁰ Since the 1970's, the increase in greenhouse gas emissions has risen along with the increase in exported goods.²¹



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²⁰ Nosov, A., and N. Zhdanova. *GLOBALIZATION: ITS ADVANTAGES AND DISADVANTAGES*. Donetsk Institute of Inter-Regional Academy of Personnel Management, eztuir.ztu.edu.ua/bitstream/handle/123456789/1152/164.pdf?sequence=1. Accessed 29 Apr. 2023.

²¹ "Globalisation: Also Part of the Solution to Climate Change." *Globalisation: Also Part of the Solution to Climate Change*, www.kbc.com/en/economics/publications/globalisation-also-part-of-the-solution-to-climate-change.html.

²² "Globalisation: Also Part of the Solution to Climate Change." *Globalisation: Also Part of the Solution to Climate Change*, www.kbc.com/en/economics/publications/globalisation-also-part-of-the-solution-to-climate-change.html.

With the ever-increasing emphasis on production, negligence on environmental issues has risen. Pollution and the overuse of raw materials make up a large chunk of the problem globalization puts on the table. Burning of all the fossil fuel needed to support the colossal trades has taken a huge toll on the environment with the increase in water, air, and soil pollution as well as the detrimental contribution to global warming.²³ All of these have damaged a fair amount of global diversity. Since 1970 the biodiversity of species around the globe has dropped by 69%. (figure)

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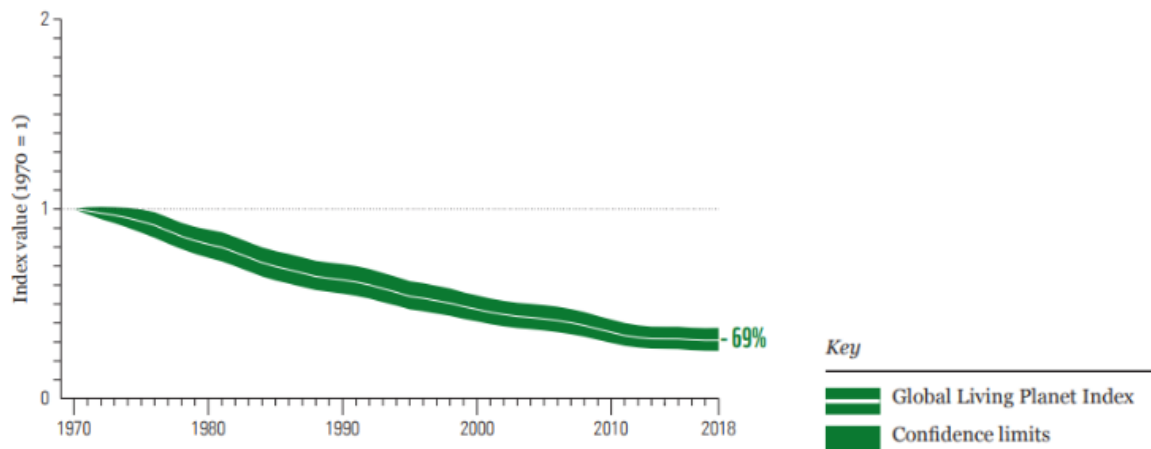


Figure 3:²⁵ The global living Planet Index (1970 to 2018) The average change in relative abundance of 31,821 populations, representing 5,230 species monitored across the globe was a decline of 69%. The white line shows the index values and the shaded areas represent the statistical certainty surrounding the trend (95% statistical certainty, range 63% to 75%).

Source: WWF/ZSL (2022)

Another important issue, is the social inequalities that technological progress creates: The progress of technology and technological industry contributes much in widening the gap of inequality within cities. With its rise, many jobs risk being replaced by artificial intelligence or by smart vending machines. As proven by the statistics, many more domains will be affected in the near future by it and this will cause major inequality and income issues between populations. While some will continue working and gaining money some others will be left without a job and no income. This will accentuate the inequality of purchasing power within citizens in every society.

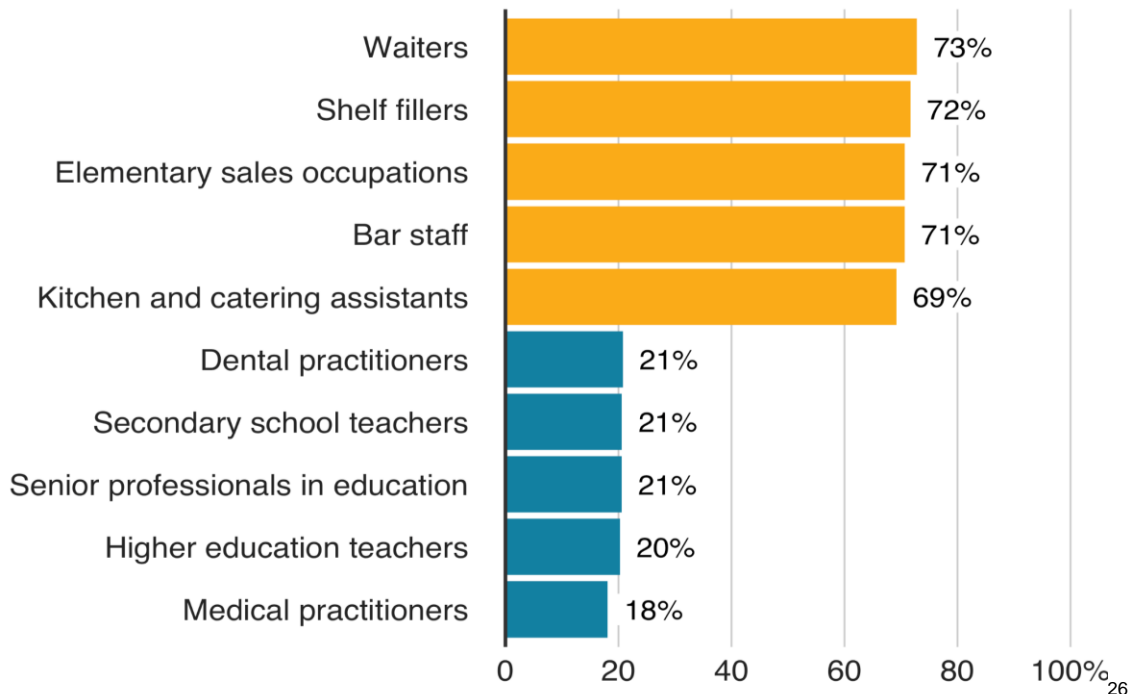
²³ "How Does Globalization Affect Environmental Justice? | Ben Crump Law, PLLC." *Ben Crump*, bencrump.com/environmental-justice-lawyer/how-does-globalization-affect-environmental-justice.

²⁴ Citation WWF (2022) Living Planet Report 2022 – Building a naturepositive society. Almond, R.E.A., Grooten, M., Juffe Bignoli, D. & Petersen, T. (Eds). WWF, Gland, Switzerland.

²⁵ WWF (2022) *Living Planet Report 2022 – Building a Naturepositive Society*. Almond, R.E.A., Grooten, M., Juffe Bignoli, D. and Petersen, T. (Eds). WWF, Gland, Switzerland. https://wwflpr.awsassets.panda.org/downloads/lpr_2022_full_report_1.pdf

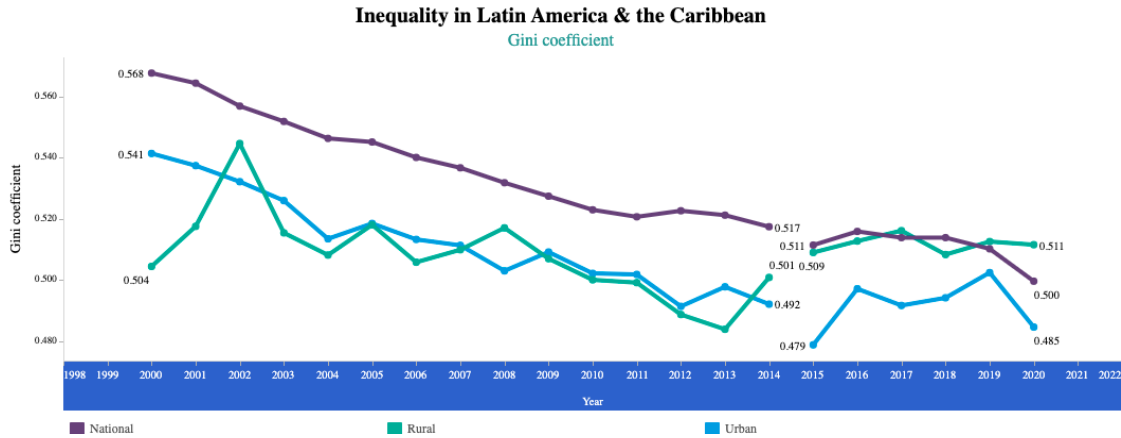
Jobs at risk from automation

Highest and lowest probability

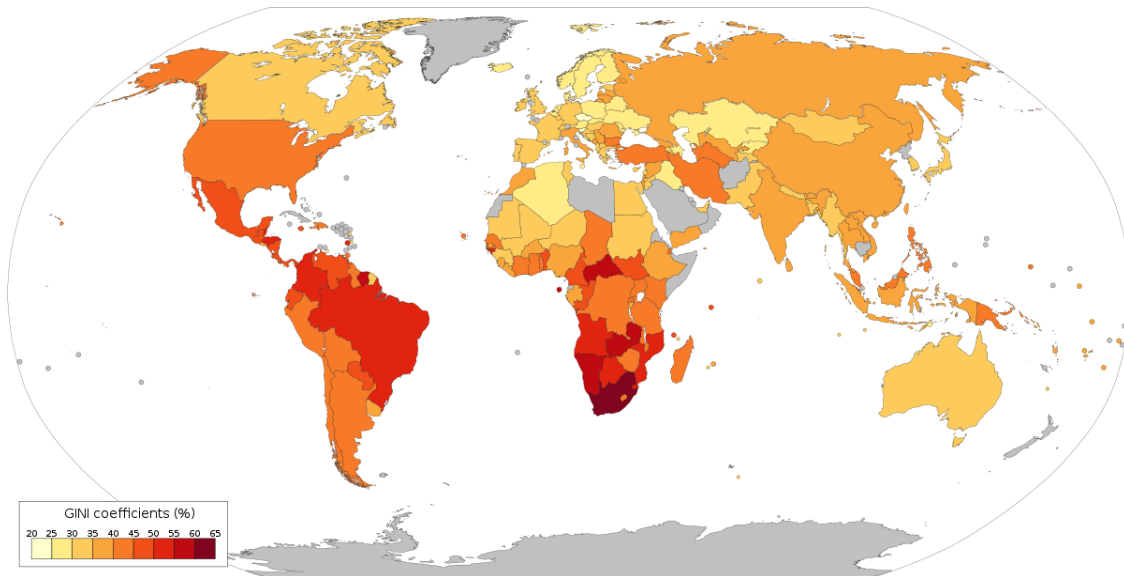


Where tax policies are not established, globalization can highly increase wage inequality within a country. If all of the amounts of money gained by globalization are being versed into one city's economy the income inequality increases in that nation. It is important that the money is being split carefully in an urban city's economy as well as a rural one so that they can and their GDP both benefit from it. As shown in the graphic below, Latin America and the Caribbeans are highly marked by income inequality. There is a big difference between the rural and the urban side. While the urban side's Gini coefficient fluctuates over the years, especially after 2019 the rural side's is decreasing rapidly, which widens the gap of inequality.

²⁶ Automation could replace 1.5 million jobs, says ONS. (2019, March 25). *Bbc.Com*. Retrieved January 13, 2023, from <https://www.bbc.com/news/business-47691078>



Whilst during the 20th century the global average per capita was increasing, there were many differences between rich, developed, and underdeveloped countries. Nowadays globalization promotes and causes this gap to widen. The distribution of wealth between citizens and countries has become more unequal than at any other time. Another shortcoming of globalization is that it promotes wage inequalities, and causes huge differences in living standards among citizens. Income inequalities can be illustrated by the measure invented by the sociologist and statistician Corrado Gini, called Gini Ratio, which is a statistical dispersion intended to represent the wealth inequality within a nation, or around the globe. As the GINI coefficient illustrates with the output of GDP the income inequalities that globalization is provoking are huge. Whilst in some rich and developed countries the GINI coefficient can be elevated as high as 60%, in underdeveloped countries it sees a low of 30% or less.



In addition, globalization supports bigger companies rather than smaller businesses. It offers bigger ones to find lower-cost ways to produce their products and expand even more. It also increases global competition, which drives prices down and creates a large variety of choices for customers. Globalization is very beneficial for bigger companies' growth. On the other hand, it does not benefit smaller ones in any way and even leads to their decline. Smaller businesses compete in bigger arenas, where they cannot survive, and eventually have to stop operating their smaller businesses.

LOCAL ECONOMIC DEVELOPMENT (LED)

A. Definition of Local Economic Development

Local Economic Development (LED) is an economic system in which local governments, local businesses, and non-governmental organizations work collaboratively to improve the economy of a specific geographic area, such as a city, town, or region. This system aims to build up the economical structure in the local area to create better conditions for economic growth and employment. LED is often driven by partnerships between public and private sector actors, and can involve a range of stakeholders such as government agencies, business associations, community groups, and educational institutions. It is essential for LED to focus on the natural resources and labor force of a local area in order to develop unique solutions for that particular area. Every region has its own geography, resources, and workforce. And these regions harbor their own unique problems. LED's approach to this issue is to find a unique solution to the problems a region could have through what the region itself offers instead of consulting policies used in lands thousands of kilometers away from the region. That means contrary to globalization, which produces the same solutions for different regions, LED has unique solutions for each local area.

B. The Core Theory in Local Economic Development Policies

Endogenous theory is a key component to better understand the significance of local economic development in terms of economic growth, as the theoretical support of the policy greatly backs its reliability.

In the first part of the paper, globalization's relation to neoclassical and classical economics policies was explained. Both the neoclassical and classical growth theory relies heavily on natural and limited resources. Local Economic Development (LED), however, follows an entirely different policy of endogenous growth theory²⁸.

Contrary to the classical theory, the endogenous growth theory focuses on human resources instead of natural resources. Endogenous growth theory supports the investment in human capital²⁹, which refers to the knowledge, skill sets, and experience workers have in an economy. The endogenous theory supports that a more educated workforce with better skill sets and knowledge will lead to a more productive workforce correlating the growth to increase. By following the endogenous growth theory, the government invests in the private sector and encourages new entrepreneurship to create new businesses for more job opportunities, which is an essential part of LED outcomes.

²⁸ Howitt, Peter. "Endogenous Growth Theory." *Endogenous Growth Theory* | SpringerLink, https://doi.org/10.1057/9780230280823_10.

²⁹ "Human Capital | Economics." *Encyclopedia Britannica*, www.britannica.com/topic/human-capital.

On the other hand, the exogenous growth theory determines economic growth by looking at external factors such as production, returns of capital, saving rates, and technological variables. The exogenous theory and the endogenous theory are the main conflicts between neoclassical and Keynesian models. Since the exogenous growth model is an external process, it is determined by other outside factors and cannot be directed. And the main argument pioneered by Solow (1956) of the exogenous growth model is that “productivity growth can only be explained through direct investment and population growth only.”³⁰ Against this claim, endogenous growth theorists claim that “capital investment, if modeled correctly, can also³¹ exhibit increasing returns to scale if capital is used for innovative purposes, such as investment in innovative and intellectual capital”³²

C. History of Local Economic Development

Before diving into the theoretical background of local economic development (LED), it would be best to get familiar with its history and roots. It sprouted in the 1960s to promote economic self-sufficiency and entrepreneurship in disadvantaged areas. This was around the time when many developed countries were in fact experiencing job losses due to global competition and technological change. Nevertheless, local communities and governments realized that they must be more active in promoting economic development, instead of relying exclusively on national policies and the national government. In the United States, the federal governments played a significant role in promoting LED. “During the 1950s, 1960s, and 1970s, Congress authorized programs and appropriated funding for several urban redevelopment/urban renewal, regional planning, and related programs that targeted economically distressed areas.”³³

The establishment of various agencies like the U.S. Economic Development Administration (EDA) and the Community Development Block Grant (CDBG) program played an important role in providing funding and technical assistance to local governments and

³⁰ Chirwa, Themba G., and Nicholas Odhiambo. *Exogenous and Endogenous Growth Models: A Critical Review*. www.researchgate.net/publication/330118548_Exogenous_and_Endogenous_Growth_Models_a_Critical_Review.

³² (Growth Models a critical review / Frankel 1962; Romer 1986; Grossman and Helpman 1991; Aghion and Howitt 1992; Stokey 1995)“
https://www.researchgate.net/publication/330118548_Exogenous_and_Endogenous_Growth_Models_a_Critical_Review

³³ Federal Resources for State and Local Economic Development. (2021, December 22). In *Congressional Research Service*. Retrieved May 24, 2023, from <https://sgp.fas.org/crs/misc/R46683.pdf>

community organizations for LED initiatives. Just like in the US, many LED initiatives were supported by national and regional governments within the European Union as well. The emergence of LED in the 1970s was an important indicator of the need for local support and communities started approaching the challenges of economic decline with LED in the face of globalization.³⁴

The 1980s followed with more increased interest in LED. Entrepreneurship's importance became apparent around this time and this led to LED focusing on policies and programs that supported small and medium-sized enterprises (SMEs). We also saw the emergence of local economic development agencies (LEDAs). These institutions have the goal of bringing together community leaders with governments and businesses to utilize local resources to the maximum.

The following decades up until this point saw a steady increase in LED initiatives. With the ever-growing emphasis on SMEs and governmental funding allowed them to further sprout.

"Smart Specialisation" is an approach that combines industrial, educational, and innovation policies to prioritize identifying a country or region's strengths and make knowledge-based investments accordingly to these areas.³⁵ Concentrating the resources on a certain domain allows for more effective investment. To ensure that these regions are identified, regions go through a careful analysis of the existing capabilities, assets, competencies, and competitive advantages. The Organisation for Economic Co-operation and Development, (OECD), has been important for providing political space for Smart Specialisation.³⁶

Smart Specialization Strategies, also known as S3, has played a critical role in promoting LED projects in developed and developing countries.³⁷ The European Union (EU) also pioneered the development of Smart Specialisation Strategies. The European Commission's Cohesion Policy aims to reduce differences and ensure a balanced development between regions, and ensure growth across Europe.³⁸ In 2011 The Smart Specialisation Platform (S3P) was established as a guide for regional policy makers.

³⁴ Lawhorn, J.M. (2021) *Federal Resources for State and Local Economic Development*. Congressional Research Service. Available at: <https://sgp.fas.org/crs/misc/R46683.pdf> (Accessed: March 12, 2023).

³⁵ "Smart Specialisation." *OECD*, www.oecd.org/sti/inno/smartspecialisation.htm.

³⁶ "Glossary:Organisation for Economic Co-operation and Development (OECD) - Statistics Explained." *Glossary:Organisation for Economic Co-operation and Development (OECD) - Statistics Explained*, [ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Organisation_for_Economic_Co-operation_and_Development_\(OECD\)](http://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Organisation_for_Economic_Co-operation_and_Development_(OECD)).

³⁷ "What Is Smart Specialisation - Smart Specialisation Platform." *Smart Specialisation Platform*, s3platform.jrc.ec.europa.eu.

³⁸ "Smart Specialisation." *EU Science Hub*, joint-research-centre.ec.europa.eu/scientific-activities-z/smart-specialisation_en.

Based on the Barca report in 2009, a “place-based approach” for the reform of EU cohesion policy has been suggested.³⁹ This approach utilizes many aspects of endogenous regional development from above. The place-neutral concepts like neoclassical fail to benefit from the region’s location. At the same time, place-based strategies are said to utilize region-specific characteristics, market failures, and institutional barriers that could challenge the development.⁴⁰

D. Advantages of LED

Although globalization has speeded up the global growth rates and wealth accumulation in some countries, it has created its own unique problems. This led economists and policymakers to think about local economic development policies as a counter thesis model in order to find solutions to the problems that globalization caused.

- With globalization, the production capacity has arisen and the usage of fossil fuels has increased because of the development of supply chains that are needed to export raw materials or import productions around the globe. As explained in the previous section in detail, this led to an increase in pollution and the environmental problems became more visible. Contrary to globalization, LED focuses on the natural resources that the local area has and forms a development strategy regarding that natural resources rather than exporting raw materials from other countries. By that, it certainly reduces the water and air pollution that the global supply chains cause. Also, local authorities that are involved in local economic development projects provide a wide range of policies and plans for better use of natural resources and territories. They provide physical infrastructures such as water supply, and waste management in order to secure the environment and promote public health and environmental sustainability.⁴¹
- Globalization enabled the spread of knowledge and technology among other countries. It helped countries to access information and knowledge easier. Also, it allowed international competition to rise for adopting new technological developments and innovations. This encouraged companies to further develop their knowledge and innovative skills but also created a knowledge-based economy. In LED, innovation also plays a key role in economic development. Because of this,

³⁹ Tödtling, F. (2020). Endogenous Regional Development. In Audrey Kobayashi (Ed.), *International Encyclopedia of Human Geography 2nd edition* Elsevier. <https://research.wu.ac.at/en/publications/endogenous-regional-development-14>

⁴⁰ Tödtling, F. (2020). Endogenous Regional Development. In Audrey Kobayashi (Ed.), *International Encyclopedia of Human Geography 2nd edition* Elsevier. <https://research.wu.ac.at/en/publications/endogenous-regional-development-1>

⁴¹ *The Geography of Innovation: Local Hotspots and Global Innovation Networks*. (n.d.). The Geography of Innovation: Local Hotspots and Global Innovation Networks. <https://doi.org/10.34667/tind.40536>

local economic development practitioners and local authorities are emphasizing a new economical approach that focuses on highly-skilled labor, advanced production practices, creativity, and knowledge production⁴². According to Phan, Cleave and Arku, local innovation doesn't need to create something new but can be also practiced as creative business ideas and opportunities.⁴³ By identifying ideas, analyzing the needs and local resources, and collaborating with external partners, innovative business ideas privatized for that local area can be constituted.

- Due to scale economics, globalization favors bigger companies, at the cost of smaller companies most of the time. LED policies, on the other hand, are designed to promote local SMEs. The arguments supporting globalization on its impact on employment rates and GDP contribution could very well be made for LED policies through SMEs. And possibly, SMEs could end up covering where globalization has fallen off. The existence of SMEs and the competition between them to further improve their brand, product, and quality prevents big companies from owning the market. This in return enables consumers to have more options while making a purchase. Increase in SMEs results in less need for importing goods. The decrease in exports and imports would end up becoming a great support to reduce greenhouse gas emissions and benefit heavily the fight against the climate change. SMEs funded by LED projects cater to region-specific advantages and aim to negate region-specific issues. This enables SMEs to innovate technologies that benefit from their geography. And playing to their local strengths enables SMEs to innovate in more environmentally friendly ways. It's important to remember that these SMEs are led by locals who are already familiar with their local surrounding; and they would by nature want the best for their community and its environment. Another disadvantage of globalization is that economic strategies are determined by considering macro-scale needs. Nevertheless, these macro-scale strategies won't be suitable for SMEs as they mostly affect large firms. Since SMEs have an important role in creating employment opportunities and economic development and their needs differ from large firms, policymakers should develop privatized strategies that will help SMEs improve their knowledge of innovation, reduce their financing costs and risks and optimize their capital environment⁴⁴. As LED focuses on local businesses rather than large firms, strategies that are unique for SMEs of each region can be developed.

⁴² 4th World Forum of Local Economic Development. (2017, October 17). *Local Economic Development as a means to achieve equality, equity and cohesion within the Sustainable Development Goals localization framework*. Retrieved August 17, 2023, from https://www.local2030.org/events/131/Concept%20notes_4th%20world%20forum.pdf

⁴³ Phan, S., Cleave, E., & Arku, G. (2020). *Innovation within the Context of Local Economic Development and Planning: Perspectives of City Practitioners*. *Urban Planning*, 5(3), 364-377. doi:<https://doi.org/10.17645/up.v5i3.3100>

⁴⁴ Jia, Caiyan, et al. "Does the Nation Innovation System in China Support the Sustainability of Small and Medium Enterprises (SMEs) Innovation?" *MDPI*, 24 Mar. 2020, <https://doi.org/10.3390/su12062562>.

- With the rise of globalization, knowledge-based economies gain importance. Innovation, technology, and information become important economic tools. This led some sectors to be neglected, such as tourism, craftsmanship and agriculture. Tourism is an important source of income for local areas. It improves local economic development by creating job opportunities and developing infrastructures like new roads, airports, schools, and hospitals. Local restaurants, stores, and other small and local businesses benefit from tourism for good and improve their income. It also has positive impacts on other sectors which are agriculture, education, health, and craftsmanship. Craftsmanship goes hand in hand with tourism since tourism promotes craftsmanship by introducing crafts to tourists and helps to sell produced handicrafts. Craftsmanship has a direct positive effect on employment in rural areas and it creates new links between companies and the development of local trade.⁴⁵ As tourism and craftsmanship are important for the economic development of a local place, the trend of the information-based economy which is created by globalization harms, for sure, its economic development.
- Globalization allows for centralization in that policymakers determine the economic policies by looking at the average needs of a country and overlooking regional differences. Local economic development aims to boost the local economy through special policies and projects designed for a particular local area. Thus, the special needs of that local area will be fulfilled and it will improve the economic development. Also, since local economic development focuses on the potential and resources of a local area, it also allows for the improvement of the collaboration between local people. It supports locals to come together for a local economic development project and this led the community to benefit both economically and individually. Shortly, LED means more than just economic growth. It is promoting participation and local dialogue, connecting people and their resources for better employment and a higher quality of life for society⁴⁶

E. Shortcomings of LED

Although LED brings solutions for some of the problems brought by globalization, it also has shortcomings due to its unclear theoretical and conceptual background:

⁴⁵ "Crafts as a Key Factor in Local Development: Bibliometric Analysis." *Crafts as a Key Factor in Local Development: Bibliometric Analysis - ScienceDirect*, 16 Jan. 2023, <https://doi.org/10.1016/j.heliyon.2023.e13039>.

⁴⁶ "Local Economic Development (LED)." *Local Economic Development (LED)*, 14 Feb. 2011, www.ilo.org/empent/areas/WCMS_093862/lang--en/index.htm.

LED is commonly practiced by local authorities as a temporary solution that has no benefit for sustainable economic growth.⁴⁷ It is commonly practiced as a way to improve community development and fill the social gaps in the society. For example, founding a shop with women employees that aims to support women in the work environment can be a great solution for community development. But if this shop does not make a profit and instead needs to be funded every month in order to continue to run, it cannot be said that this shop helps LED.

Another problem that LED faces is that the local authorities approach LED as a strategy and planning-driven method instead of an applying-driven method. Since the governments are heavily involved in LED programs, it is normal for them to do planning instead of implementing LED projects and programs cannot go further than being a strategy. Also, the confusion between LED and community development creates a misunderstanding of the concept of LED. LED is about developing favorable conditions for businesses regarding the economic resources of a particular area and improving economic growth whereas community development is about investing in the improvement of health, housing, and education of the community to develop a better life for society.

In order to better understand both the shortcoming and advantages of LED, the below section summarizes two case studies strategically developed by LED policies:

Local entrepreneurship ecosystem and emerging industries: Case study of Pomorskie, Poland⁴⁸

Pomorskie is a province located in Europe, northern Poland. The region encompasses former provinces of Gdansk, Elblag and Slupsk. The province has a rich cultural heritage; a historic city with masterpieces. The province is approximately 20 000 km² and has a total population of 2 337 769 people.

The region had been experiencing economic stagnation and high levels of unemployment for many years throughout 1990's. Moreover, the region was also facing challenges related to infrastructure (mostly in terms of transportation and energy).

In 2019, LED initiatives offered a range of support and services to help stimulate economic growth and development in the region, the government of Pomorskie voivodeship worked closely with local stakeholders in order to achieve their goals. The regional government

⁴⁷ Meyer-Stamer, Jörg. "Why Is Local Economic Development so Difficult, and What Can We Do to Make It More Effective?" *Mesopartner*, www.mesopartner.com/fileadmin/media_center/Working_papers/mp-wp04_01.pdf.

⁴⁸ *Local entrepreneurship ecosystems and emerging industries: Case study of Pomorskie, Poland | READ online.* (n.d.). [oecd-ilibrary.org. https://read.oecd-ilibrary.org/industry-and-services/local-entrepreneurship-ecosystems-and-emerging-industries_8fd63992-en#page15](https://read.oecd-ilibrary.org/industry-and-services/local-entrepreneurship-ecosystems-and-emerging-industries_8fd63992-en#page15)

had been actively involved with regional stakeholders in developing a regional smart strategy, to help target and prioritize a research and innovation policy through a smart specialization program. The Region also made use of smart specialization, which is an innovation policy concept that aims to boost regional enterprise innovation, contributing to growth and prosperity by helping and enabling regions to focus on their strengths⁴⁹.

Initially the strategy focused on four specializations; port and logistics strategy (maritime), interactive technologies (ICT), eco-effective technologies and medical technologies (aging associated technologies). Innovative start-ups, scale-ups and innovation in existing enterprises played a key role in the development of these smart specializations.

Native enterprises needed to be more involved in the local entrepreneurship ecosystem in order for the strategy to work. Although Pomorskie had attracted 12 000 new jobs in inward foreign direct investment (FDI) since 2011 and hosted a considerable number of important Polish firms, they were helping Pomorskie to live up to the expectations of growth and in establishing a local entrepreneurship ecosystem. Primarily, the research and development of these large firms in the province remained below what the region could support. In addition, these large firms did not encourage their employees to create new businesses in any market. And finally, once again these firms were not very open to new or modern ideas; they have been adopting inter-organizational collaborations models infrequently.

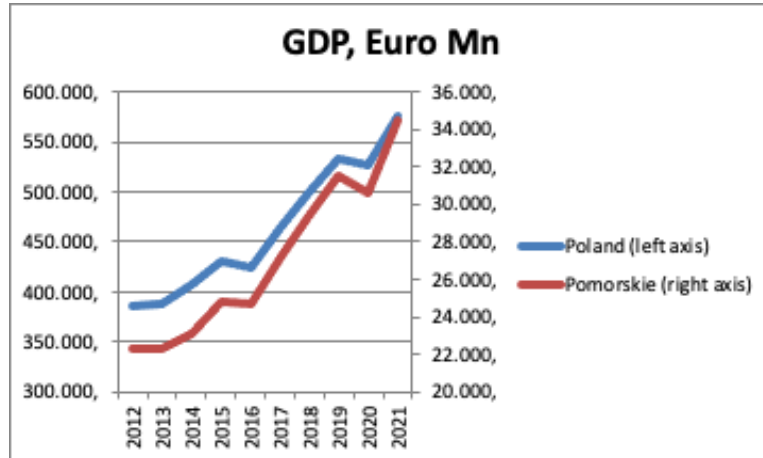
An adapted policy helped the Pomorskie region to build up Smart Specialization. Maritime specialization focused primarily on the shift from a traditional way of shipbuilding into a higher-valued activity counting ships, yachts and wind farms. The main idea was to prompt development by the use of local skills and knowledge. Networking with strong local knowledge and strong labor mobility further helped the development.

Local strengths were also in use in this strategy; many start-ups specialist university departments were contributing to research and were training a pool of skilled employees/managers. The specialization could be quick to support the regional economy with the correct conditions (through provision of specialist IT services to the other smart specializations). The specialization of energy technologies was developing largely through 'industry emergence' including the bringing in of new activities from abroad. A pathway of 'upgrading industry' 'renewal' and 'modernisation' was followed by the medical technologies specialization. The Medical University of Gdansk (MUG) was a key actor. However, once again, local knowledge networking was relatively weak in the region for this specialization. Also, there were very few start-ups that could be useful in the region, compared to other regions with leading biotechnology regions.

LED initiatives in Pomorskie have had several positive outcomes; job creation, increasing growth in the economy, improved infrastructure, enhanced collaboration. With a

⁴⁹ *Smart Specialisation*. (n.d.). Smart Specialisation - DETE. <https://enterprise.gov.ie/en/what-we-do/innovation-research-development/smart-specialisation/smart-specialisation.html>

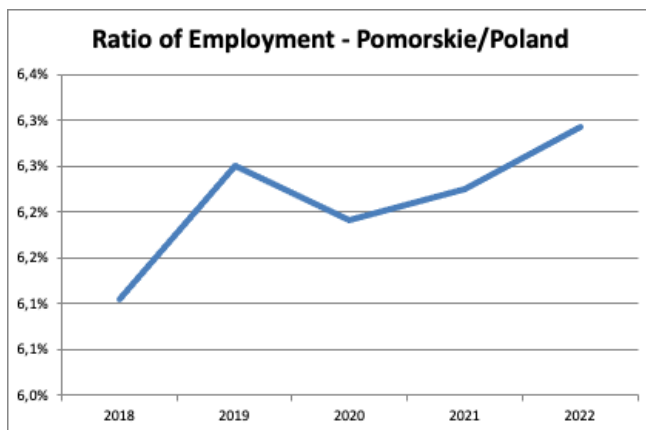
strategic LED model, promoting the local entrepreneurship ecosystem, as a region Pomorskie grew faster than Poland. The region grew on average 5.7% between 2018-2022 and surpassed Poland's average GDP by 0.6%. In nominal terms, the Pomorskie's GDP in Euros grew by 55% between 2013-2021 compared to Poland's average of 48%.



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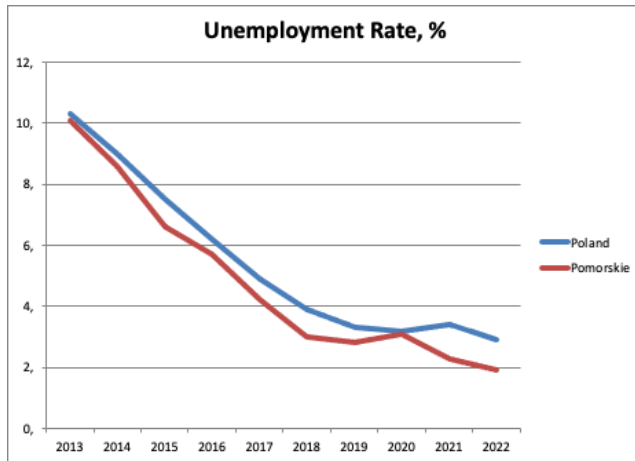
In addition, the region's employment rate has also expanded much faster than Poland's. While Poland's employment ration grew by 1% from 2018 to 2022, Pomorskie grew 4,1% as a consequence of the ecosystem. Finally, we can mention a sharp decrease in Pomorskie's unemployment rate. While Poland's unemployment rate was also decreasing, Pomorskie's rate was nearly 1% less than Poland's, implying the overall benefits of the locally led, strategically built local economic development model. Even though the LED model still needs improvement in becoming more innovative, equity financeable for scale-ups and start-ups, the preliminary economic indicators of the region compared to the rest of the Country are promising. indicators of the region compared to the rest of the Country are promising.

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⁵⁰ Eurostat

⁵¹ Eurostat



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A City exports its way to prosperity, Gaziantep, Turkey⁵³

Gaziantep is a city located in the south-central of Turkey, it holds a population of approximately 2 million people. Gaziantep is a mid-sized city in Turkey, possessing a manufacturing-intensive economy. Over the past decade, Gaziantep's metropolitan economy has proven to be one of the strongest in the Europe and Central Asia Region, from its remarkable GDP and employment growth. The city has grown to be the sixth largest one in Turkey, which is an upper-middle income country.

Through exports, the city was able to increase its welfare

The main reason for Gaziantep's success in having one of the fastest growing metropolitan economies in the world is indigenous light manufacturing firms; by selling their products to 175 different countries around the world, they attract population. The city has become more populated than ever, and became more popular in the eyes of tourists, in addition to being an international manufacturing hub.

Local Economic Development's place in Gaziantep's success story

Local Economic Development has played a key role in Gaziantep's success story by supporting the city's attempt into creating this prospering economy through exporting and manufacturing. With the help of LED, stakeholders from different sectors have been brought together easily in order for them to create a favorable partnership to implement strategies that support economic growth. The city provides a stellar example of effective stakeholder engagement and collective action for economic development. Communication of different stakeholders (business leaders, civil society, local government) was very close, the local government in Gaziantep has been a valuable partner to business. A series of pro-business

⁵² Eurostat

⁵³ Competitive cities for jobs and growth, December 2015, Alexandra Cech, Drilon Gashi, Luke Jordan Austin Kilroy, Z. Joe Kulenovic, Megha Mukim, T. Juni Zhu
<https://documents1.worldbank.org/curated/en/769741468185642990/pdf/101714-REPLACEMENT.pdf>

initiatives were initiated that enhanced the city's functionality and livability. LED initiatives have helped to build the necessary transportation networks, such as roads, railways, and airports, that connect Gaziantep to international markets. This has made it easier for businesses to transport their products and access new customers around the world.

Globalization's place

Globalization has also supported the growth of Gaziantep's manufacturing industry by providing access to new technologies, ideas, and best practices from other parts of the world. This has helped local businesses to improve their competitiveness and efficiency, as well as in developing new products and services that can be sold in international markets. It also contributed to the city's success by creating new opportunities for possible investments and the development of entrepreneurship businesses. It enabled them to invest in Gaziantep which contributed to the city's economic growth.

Valuable insights that Gaziantep can offer

Gaziantep's experience provides an example of what can be done to boost a city's economic competitiveness and outcomes. The city shows the importance of investing in manufacturing (help create jobs and economic growth), the importance of developing a strong export-oriented economy, prioritizing education and skills development (cities can create a skilled workforce that is able to support local businesses and industries) and most importantly the city witnessed of the importance of good communication and coordination between its actors that plays a huge and beneficial role in its development.

4. Conclusion

Local economic development and globalization are two unique economic policies with their own advantages and shortcomings. Globalization is the key to reaching out to the largest marketplace. However, globalization alone is never enough for a community to thrive. In order to prosper, a region desperately needs local initiatives which could be pushed forward by local authorities and local stakeholders thanks to Local Economic Development projects. After all, globalization policies are the same for every region but that is not the case for LED policies. Therefore an economic model consisting of LED and globalization policies allows the community to benefit the most compared to interiorizing them separately.

As shown in the example of Pomorskie, strategy development is crucial building policies specific for each region's strengths and weaknesses. Gaziantep example shows the importance of developing a regional connection between stakeholders and making an economic development plan by considering the resources and needs of a particular area and also being open to new technologies, ideas, and investments around the globe help a region to stand out and develop its own economy.

Since LED needs the analyses of the region to be made, it also focuses on the strengths of that area such as natural resources, labor force, and economic know-how. By that, local

authorities make a detailed plan for the development of that region rather than just sticking with the macro-scale economic plan which often skips the individual differences of a local area.

However, remaining solely local is not beneficial for businesses and for the economic environment of the region. Globalization is needed in order to improve competitiveness among businesses. It leads local entrepreneurs and business owners to open to the global market and export their products to other countries. As a consequence, the economy of the local area further develops.

In short Local Economic Development benefits from a bottom-up approach to economic growth while Globalization focuses on a more top-down approach, and they should be used together for getting the most out of localization and the global market for the economic development of the region.