



## Does local economic development really work? Assessing LED across Mexican municipalities

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### ABSTRACT

Local economic development (LED) strategies are increasingly being recommended as an alternative or a complement to traditional development strategies. However, beyond a limited number of areas where 'best practices' have been identified, there has been little systematic monitoring of whether LED really works. This paper uses a purpose-built database of 898 municipalities in Mexico in order to assess, using a quantitative approach, whether the implementation of seven different components of LED – development plan, sustainability, entrepreneurship, capacity building, participation mechanisms, development links, and autonomy – has delivered greater human development across Mexican local governments. The results of the analysis indicate that municipalities engaging in LED during the last two decades have witnessed significant improvements in human development, relative to those which have overlooked LED strategies. The increase in human development has been greatest for those local authorities which have pursued capacity building, the establishment of additional development links and which have drafted a development plan. Greater independence from federal or state initiative has, by contrast, been detrimental for changes in human development at the local level.

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### 1. Introduction

Local economic development (LED) strategies – or, using other terms, local and regional development programmes – have now for more than two decades been increasingly recommended by scholars, practitioners, NGOs and some international organisations as a complement, if not as an outright alternative, to traditional top-down development strategies (Stöhr, 1990; Potter et al., 1999; Vázquez Barquero, 1999; Pike et al., 2006). The literature is awash with a multitude of successful local economic development cases showing that this type of bottom-up strategies provide viable development alternatives in a more integrated world. However, despite the numerous success cases documented by academics and practitioners, the impact of bottom-up LED strategies remains insufficiently assessed (Gordon and Low, 1998). A large percentage of the literature dealing with LED has tended to concentrate in a handful of cases. Places like the Silicon Valley in California, the Third Italy, Baden-Württemberg, or Jutland in Denmark have already attracted the attention of several generations of researchers. Other places, such as the Vale dos Sinos or Curitiba in Brazil, Bangalore in India, or Wenzhou in China have become LED stars in the emerging world. But the constant tendency in the literature to examine and evaluate successful cases has resulted in an over-

whelming dominance of single-case inductive approaches to the study of LED strategies, which have not only derived in what Markusen and Schrock (2006, p. 1319) have designated an “often-mindless groping for ‘best practice’”, but also in an impossibility to determine whether LED strategies, beyond the well-documented cases, really work (Crescenzi and Rodríguez-Pose, 2011). It may well be the case that the evaluation of local and regional development has been constrained to the lushest trees, disregarding the multitude of small and generally poorly documented attempts to try to implement LED strategies across the world and which make the bulk of the LED forest.

This need for systematic, multi-case evaluations of LED policies was already noted two decades ago by Hughes (1991) and Teitz (1994), who recognised the necessity to undertake better analysis and evaluations of the processes and outcomes of the diversity of LED strategies being implemented at that time. One decade later the OECD (2003, 2004) reiterated this demand to systematically evaluate whether LED strategies were actually making a difference and to what extent that was the case. However, almost 10 years down the line, the situation has not changed much. There is a significant dearth of analyses undertaking a systematic monitoring of a large number of LED strategies and those which have tended to wander into this uncharted territory have by-and-large remained firmly anchored in a case-study methodology (e.g. Potter et al., 1999; Pike et al., 2006). We are not aware of any study that has aimed to evaluate the impact of the LED strategies implemented

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by a large number of local authorities in a systematic way, using quantitative methods.

The aim of this paper is precisely to examine using a quantitative approach to what extent the implementation of bottom-up LED strategies by a large number of local authorities resulted in a significant improvement in development levels. In order to do this, we choose the case of Mexico, which is one of the countries in the world where the pursuit of LED strategies by regional and local authorities has been most prominent since the 1990s, as documented by numerous studies (Mazza and Parga, 1999; Rabellotti and Schmitz, 1999; Ruiz-Durán, 2000a, 2000b; Bair and Gereffi, 2003; Helmsing, 2001b; Albuquerque et al., 2002; Mitchell Group Inc., 2003; Pike et al., 2006; Vargas, 2006; Pérez-Sánchez, 2010).

Our starting hypothesis is that the implementation of specific LED features and policy actions – development plans, sustainability, entrepreneurship, capacity building, participation, development linkages, and autonomy – by Mexican municipalities in their development strategies during the period between 1990 and 2005 is likely to have brought about better development outcomes, than in the case of local authorities which have not followed the LED path, once the specific socio-economic conditions of Mexican municipalities are taken into consideration.

In order to achieve this goal, the paper is divided into four further sections. Section 2 looks at the basic characteristics of local economic development, with a view to extracting the key elements to be measured in the section containing the model and the data (Section 3). Section 4 presents the key findings of the analysis, while the conclusions and policy recommendations are included in Section 5.

## 2. The key factors behind LED approaches

The popularity of LED approaches to development has risen significantly over the last two decades, fundamentally as a result of what has been perceived as a failure of top-down development strategies to deliver (Boisier, 1999; Puga, 2002; Crescenzi and Rodríguez-Pose, 2012). Numerous national approaches to development have failed to address market failures and, thus, to generate greater development and economic growth in a context of increasing globalisation (Potter et al., 1999). As a consequence, since the beginning of the 1990s, an increasing number of local and regional authorities across the world have been actively involved in the design and implementation of development strategies which increasingly adopt different specific features of LED approaches (Blakely and Bradshaw, 2002; Pike et al., 2007).

The process of globalisation has also contributed to the growing relevance of local approaches to development (Cooke, 1989; Stöhr, 1990). While central governments are increasingly viewed as too remote and too inefficient to effectively tackle the challenges and opportunities generated by globalisation, localities, cities and regions are perceived by some as the most adequate spaces to address global challenges (Scott, 2001; Scott and Storper, 2003), including those emerging from the Global Financial Crisis which started in 2008 (Vázquez Barquero, 2009; Tomaney et al., 2010). Hence, little by little, some of the key elements associated with LED approaches have been gaining a greater role in development strategies. The parallel processes of globalisation, urbanisation, and decentralisation have not only granted localities greater autonomy to design and implement their own development strategies, but have also promoted capacity building and the empowerment of local actors, leading to a greater emphasis on the participation of local stakeholders and on the sustainability of development strategies all over the world. In addition, in the case of Latin America, democratisation has also favoured decentralisation efforts and contributed to the transfer of greater responsibili-

ties and resources to subnational governments (Enríquez Villacorta, 2006).

Most of the characteristics of LED approaches are ingrained in the different definitions of the concept. Potter et al. (1999) define local development as “a wide ranging concept that can be best seen as a process” through which local actors together design and implement a development strategy “using as best as possible the resources of the territory” (p. 21) (see also OECD, 1993). The aims of this process hinge around the improvement of the quality of life of the local people, by expanding their economic and social opportunities (Pike et al., 2006), with a view of making the process sustainable – from an economic, social, and environmental perspective – in the medium and long-term (Helmsing, 2001a; Vázquez Barquero, 2009). This implies an approach to development that is both embedded in the territory and sustainable.

One of the key elements in order to make LED sustainable is the participation in the process of as wide a range of stakeholders as possible. This implies not only the involvement of public agents, such as local, municipal or provincial authorities, but also that of other agents such as “employers, community and voluntary organisations, trade unions, co-operatives, development agencies, universities and so on” (Potter et al., 1999, p. 22), creating a widespread sense of local empowerment, control and ownership by local stakeholders (Helmsing, 2001b; Swinburn, 2006). As this may be difficult to generate out of the blue, the promotion of attitudes and aptitudes that favour participation, as well as the creation or support of institutions that facilitate it – in other words, capacity building – becomes an essential element of LED (Helmsing, 2001b).

From a strategic planning point of view, LED requires the design and implementation of a strategy based on a sound diagnosis of the local economic potential, the institutional environment and socio-economic prospects (Grefe, 1989; OECD, 1993). It is in this combination between economic development strategy, on the one hand, and institutional capacity building, on the other, where the potential of reaching the goal of socioeconomic sustainable development lies (Hustedde et al., 2005; Swinburn, 2006; Cities Alliance, 2007; UN-Habitat, 2005; OECD, 2008).

Overall, LED is a comprehensive development strategy that goes well beyond identifying and taking into account local economic strengths, weaknesses, opportunities and threats in a globalised world, in order to set specific medium- and long-run goals. It represents a development process in itself which encompasses not only economic and physical features, but also the social, cultural and institutional characteristics of places (Boisier, 1999; Pike et al., 2007), involving actions aiming at meeting both the present and future needs of any given territory. LED is also about developing local capabilities: the capabilities to properly diagnose the local environment, as well as the productive and socio-economic prospects of a territory; the capabilities to improve the quality of public services; the capabilities to organise adequate systems for voice and participation; and the capacity to identify and support successful businesses and economic actors. Therefore, empowerment, capacity building and leadership are at the core of LED strategies, alongside with the creation of mechanisms for public, social and private sector participation in the development process (Albuquerque et al., 2002; Barreiro, 2000; Camejo and Gallicchio, 2004; CLAEH-ALOP, 2002; First Nation Forestry Program, 1998; OECD, 2003; UNIDO, 2001).

From this vision of LED we can extract the following key features and policy actions:

1. The LED process requires a *development plan*. The plan should include a strategic vision of development, combining economic, social and environmental goals.

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