

## **THE ROLE OF THE CONCEPT OF “GROWTH POLES” FOR REGIONAL DEVELOPMENT**

**Viktor KOMAROVSKIY**

**Odessa Regional Institute of Public Administration of National Academy of Public Administration, Office of the President of Ukraine**

**Odessa, Ukraine**

*vickom2@yahoo.com*

**Viktor BONDARUK**

**Odessa Regional Institute of Public Administration of National Academy of Public Administration, Office of the President of Ukraine**

**Odessa, Ukraine**

*vbondaruk@yahoo.com*

**Abstract:** This study analyses determinants of the concept of "points of growth" at regional level. The definition of the concept of growth points is considered in terms of economic development of the region, which integrates into the global world. As a basic model of local development is proposed to use the theory for Growth Poles of François Perroux, that later was supplemented by Albert Hirschman. To estimate the possible practical applications of the theory for Growth Poles in the development of local economic development programs and regional planning in the article it is considered the adaptive model of "growth points" with feedback. Using the proposed model allows us to develop an algorithm for the local public administration to identify the most prospective areas for attracting FDI.

**Keywords:** FDI, "Growth Poles", regional development

### **INTRODUCTION**

The matter of ensuring local economic development is one of the primary objectives for local public administrations of the Eastern European countries, including Ukraine and Republic of Moldova. Commonly used forms of its initiation are the determination and activation of the so-called “Growth Poles” (François Perroux, 1955). A theoretical basis of the works referred to planning of local economic development is the Neoclassical Growth Theory that was set forth by James E. Meade, 1951 and then was further developed in the works of Robert M. Solow, 1956 and Trevor Swan, 1956.

Basic category of the growth theory is a “region” that should be seen as a territory that has a number of certain integral, interrelated characteristics, thus making it distinguishable from the other territories. Ensuring “economic development” expressed in indices of gross product dynamics or income level per capita in conditions of savings insufficiency is possible at the cost of external resources that are required for support of investment processes and capital reproduction, therefore stimulating the economic growth.

The task to determine the “growth pole” and implement the program of its economic development is certainly imposing on local public administrations. In order to create better conditions for the region’s economic growth their first step is the development and implementation of respective programs that are introduced by a succession of systematic changes that bring the region to a higher level of its economic development. Specific features of such programs are as follows:

- Long-term nature of practical implementation;
- Possibility to assess the change process using quantitative (economics) and qualitative (social sector) indicators;
- Compulsory attraction of external resources, investments;
- Localization of business within the “growth pole”;
- A combination of market principles and governance that allows considering different options of development directions, to foresee and choose the most optimal one.

Therefore, introduction of methodology of development and implementation of economic development programs on the principles of “growth poles” concept use is important and has prospects.

## **THEORETICAL GROUNDS OF “GROWTH POLES” CONCEPT USE FOR MANAGEMENT OF LOCAL ECONOMIC DEVELOPMENT**

The subject of planning and public administration of local economic development on the grounds of “growth poles” determination is covered in works of John B. Parr, 1999, John B. Parr, 1973, Morgan D. Thomas, 1975.

It is said there that a practical outcome of determination is the initiation of regionalization processes and appearing of regional economic centers: core, semi-periphery and periphery that subsequently become not only a heart of local development, but also a channel of involvement in the globalization processes. That is why a study of the influence and interrelation of regionalization and globalization processes on initiation and further development of “growth poles” is the first step in determining the possibility of their creation.

Such study should be based on the principles of contribution determination of respective mechanisms of local public administration into this. Such approach is related to the modern rethinking of the state and executive power organ’s role, their restructuring and modernization in the context of regionalization and globalization processes and simultaneous consideration of the specific characteristics of the regional forms of development. In this context the regionalization itself can be considered not only as a mean of territorial regulation. Postindustrial regionalization (new regionalization) is conceptually better fitting in the essentially different edifice, as its main idea is in considering a region as a completely artificial construction that allows regulating the economic potential in terms of territory in order to ensure its effectiveness.

Modern approaches to the development of resource provision model for the “growth poles” consider two possible options:

- Initiation of “growth poles” on the grounds of special-purpose public financing;

- Determination of “growth poles” where is the concentration of available resources and favorable conditions created for economic development and attraction of foreign investments as well as developed infrastructure available, etc.

A comparison of both approaches allows making a conclusion that one basic model of local economic development, which theoretical base is the growth poles theory and development centers (François Perroux, 1955). In case of limited localization of resources, the growth pole can be introduced by a notion of “growth point”.

Behind the idea of François Perroux concerning the poles is the concept of centers and areas of economic space, where the enterprises involved in the international system of labor distribution are located and that become the attraction poles of production factors as they provide their most effective use. It leads to further concentration of the enterprises and as a consequence, formation of economic growth poles.

## **“GROWTH POLES” MANAGEMENT BY LOCAL PUBLIC ADMINISTRATIONS**

In the modern practice of spatial economic development the ideas of growth poles are implemented in such forms as free economic zones, technological parks, industrial parks, etc. Therefore, a conclusion can be made that it is about different approaches to practical implementation of one basic model of local economic development that in case of limited localization of resources can be represented by a concept of “growth pole”.

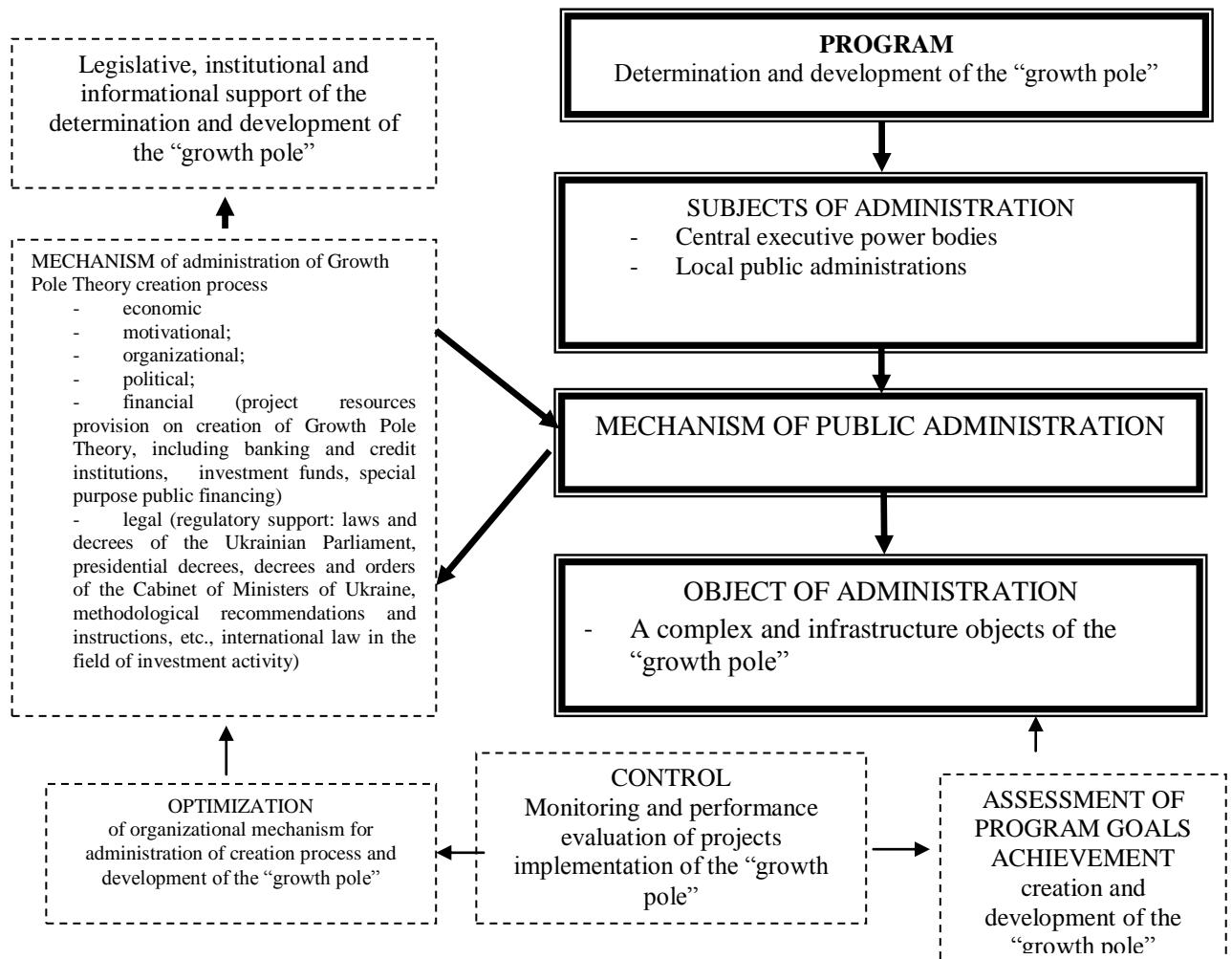
In the context of public administration system the model of “growth pole” creation should include identification of respective mechanisms with further presentations of the connections between the objects and subjects of administration and of the process itself in dynamics. In its turn, it stipulates the necessity to study specific features of the institutional and resource provision for implementation of “growth poles” and change creation programs that are required for local system of public administration.

On the other hand, there is a mechanism of public administration of the “growth pole” creation process within such system. It should be directed at achievement of specific purposes by influencing certain factors and using available and potential resources of the “growth pole”. Various definitions of “public administration mechanisms” concept maybe used as a basis for development of such mechanism model.

Generalization of the “public administration mechanism” concept in the context of studying the preconditions for the creation and development of the “growth pole” allows determining it as a “system that sets the order of certain kinds of activity” and characterizes the «succession of conditions and processes that constitute any action». Such mechanisms can be represented as an aggregate of economic, motivational and legal means of focused influence of the public administration subjects on the course of regional economic development process. Thereby the diagram of such administration mechanism should contain goals, solutions, decisions, impacts, actions, results and that should be reflected in the respective model.

Use of the said mechanism of determination allows representing the mechanism of public administration of the determination process and development of the “growth pole” in the form of the organizational and functional diagram, Fig.1.

**Fig.1. Organizational and functional diagram of the mechanism of public administration of the “growth pole” creation and development process**



According to Fig.1, the mechanism of public administration of the “growth pole” creation and development process consists of the following elements:

- economic (mechanism of public administration of budget policy, social and economic development of the region, etc.);
- motivational (aggregate of social and economic incentives that influence on decision making process by public authorities with respect to the “growth pole”);
- organizational (available objects and subjects of public and social management, their goals, tasks, functions, methods of management and organizational structures, as well as results that are expected as a result of the “growth pole” development);
- political (formation mechanism of economic, social, financial, industrial policy on creation and development of the “growth pole”);

- financial (project resources support on creation and development of the “growth pole”, including banking and credit institutions, investment funds, special purpose public financing);
- legal (regulatory support: laws and decrees of the Ukrainian Parliament, presidential decrees, decrees and orders of the public ministries, methodological recommendations and instructions, etc., international law in the field of investment activity).

According to the determination, each of these elements represents a respective mechanism of public administration that in the general setting includes mechanisms of formation and implementation of the programs of creation and development of the “growth pole”.

Considering all mentioned above, it is possible to emphasize a number of specific features of the mechanism of public administration of the creation and development process of the “growth pole”:

- activity in the field of the “growth poles” projects statement and implementation process should be productive, therefore, to minimize the resources consumption and to maintain their profitability at the same time, it is necessary to determine their specialty or industrial direction;
- a condition of ensuring the profitability of the “growth poles” projects should be a priority compared with other directions of resources provision of local development;
- priority of the profitability goals of the “growth poles” projects should be compatible with the general strategy of the region’s economic development;
- performance evaluation of the project on creation of the “growth poles” should be done not according to specific elements of the project implementation course, but according to the final result.

First step in development of the “growth poles” project public administration model is determining:

- the novelty of such model, that is, how effective is going to be its application in relation to previous variants;
- theoretical and methodological principles that shall lay the basis of the new model;
- possibility to apply known successful examples of the “growth poles” projects implementation;
- possibility to apply a public-private partnership mechanism upon “growth poles” projects implementation;
- readiness of local public administrations to practical implementation of the suggested “growth poles” projects and recommendations developed on their basis.

An instrumental action theory that proves a possibility to transform the environment based on the previously developed plan can be applied as a theoretical and methodological principle of the “growth poles” project administration model (Michael J. V. Woolcock, 2001). It supposes the availability of the administration system based on the hierarchic principles as its main task is to provide for an unhindered decisions implementations and existence of only one decision-making center. The availability of

two or more centers like this, which is natural on the framework of the democratic regime, is objectively leading to conflict of interests and powers of various intensiveness degrees.

Under such conditions the initiative and right to formulate a compulsory plan of actions should belong to the subject that is authorized to make final decisions, that is, local public authority.

Practical implementation of the “growth poles” theory regulations was summarized in three models, Table 1.

**Table 1 Models of the “growth poles” determination and development**

Model types	Characteristics
Growth poles	Centers and areas of economic space, where leading regional enterprises are. Dense location of industries that are dynamically developing leads to synergistic effect and appearance of industrial centers and peripheries. Practical implementation: free economic zones, technological parks, technology towns, priority development territories
Agglomerates	Dense location of urban settlements united into a certain integral unit with developed production, cultural and social connections. A form of territorial concentration of the industrial potential and various resources (financial, labor, infrastructural, investment, informational, etc.)
Clusters	Concentrated on the territory of interrelated companies: equipment, components and special service suppliers, infrastructure, research institutes and other organizations, that supplement each other and strengthen the competitive advantages of one another and the system as a whole.

World experience of the last decade shows high effectiveness of the “growth poles” projects creation. Their practical implementation is first of all related to the determination of the territories that are perspective for development and the possibility of their resource provision, joining the existing network of such poles.

A specific precondition of the “growth poles” concept use model development is a consideration of the terms of the a priori and current uncertainty in the description of the objects and factors of external influence, when such uncertainty has an essential impact on the process effectiveness. It stipulates the necessity to use an adaptive administration mechanism, which basis is an ability of the public authorities to change the adopted program of implementation within the process of the “growth poles” project implementation process.

Therefore, the adaptive model of the “growth poles” project implementation process model should be read as a system that serves the basis for the operative change of administration algorithm or its parameters in order to ensure optimal, to a certain extent, operation of the system with a feedback. It is possible if such system contains the information about the parameters of external actions, dynamic object characteristics that is obtained in the course of the project implementation program. For this purpose, the administration algorithm or its parameters (regulator coefficients) are in a somewhat functional connection with the parameters of the external influence factors and indicators of the project performance evaluation.

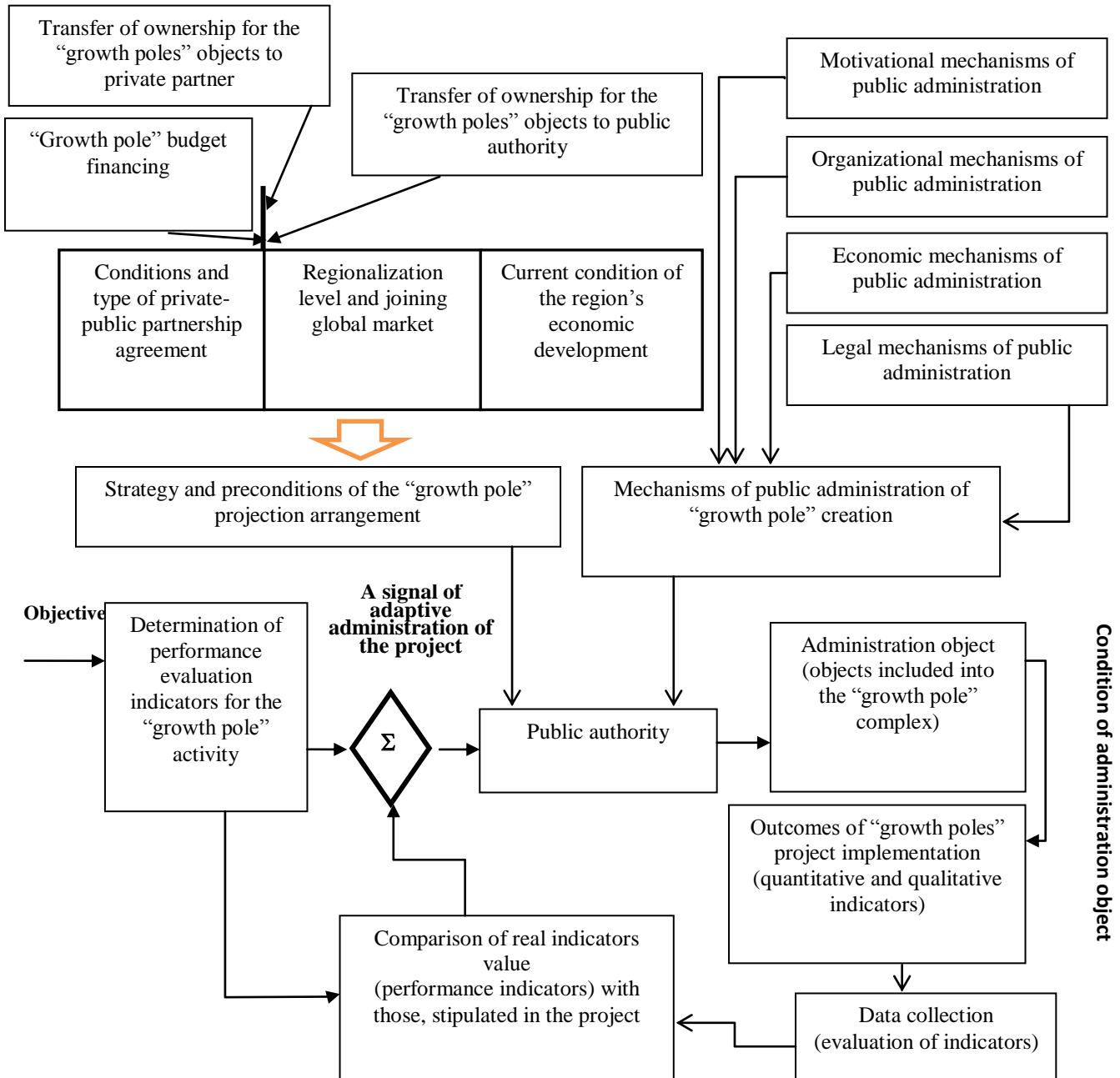
Thus, the development of the “growth poles” project implementation process model should foresee the detection of the specific features of the systems and mechanisms of administration of such projects and programs on the principles of organizational and functional adaptive model development, determination and justification of its optimization directions in accordance with the defined performance evaluation criterion. In accordance with the theory of multilevel systems the mechanism of public administration of the “growth poles” project implementation process should have a defined specific structure, methods, leverages and instruments of influence on the administration object with a respective legal, normative and informational support.

In order to ensure practical application of the adaptive approach it is necessary to make sure that the “growth poles” project implementation program complies with the existing approaches to adaptation of the complex social and economic systems in real time. According to Fig. 2 the administration system with a feedback compares the expected characteristics with performance indicators and determines the role of their deviation. Public authority shall develop and implement administrative decisions directed at elimination of detected inconsistency, achievement of desired characteristics by the “growth pole” objects.

Model arrangement, Fig. 2, is determined by two prerequisites:

- project output parameters (performance evaluation indicators) that in the process of its implementation serve as a regulation object for public authorities, that evaluate the nature of the administrative process course in the quantitative terms and adjust them in order to obtain the expected results, according to the changes of the characteristic features of the external factors impact;
- project arrangement is performed with use of the tools of public-private partnership upon provision of the expected performance factors by the public-private partnership.

**Fig.2 Adaptive organizational and functional model of public administration of the “growth pole” project implementation process with a feedback scope**



Specific character of the “growth pole” project implementation process model is embodied in determination of connections between them on the basis of functions, forms, methods, means and administration processes distribution that arise between the process participants in compliance with terms and conditions of the private-public partnership agreement. Their generalization allows suggesting model adaptation principle to changes of influence factors. The main components of such model are: objects and subjects of

public and social administration, their objectives, tasks, functions, administration methods, organizational structures and administrative services.

Statics of the model is determined by the subjects and objects administration (public authorities and private companies that act within the framework of the “growth pole”), and dynamics by a complex of connections and procedures of interactions between them that are determined by a respective legislative base, structure of public authorities.

Development, practical implementation and optimization of model mechanisms of public administration of the “growth pole” project implementation process are impossible without determination of performance evaluation criteria of such model.

Indices of economic growth and increase of goods and services production volumes, etc. serve as a quantitative indicator of the “growth pole” project implementation performance evaluation indicator.

A concept of public welfare as a long-term development objective may serve as a qualitative indicator of the “growth pole” project implementation performance evaluation indicator.

Determination of welfare of an individual consumer based on the satisfaction level of consumer’s needs (sustainable development concept) is possible by application of utility function:

$$u_i = (x_i, G), \quad (1)$$

where:  $x_i$  – is a consumption level of private welfare consumption and consumer;  
 $G$  – is a level of public welfare consumption (according to definition they are identical to all consumers).

*Bergson-Samuelson social welfare function is applied upon* the transfer from welfare of an individual consumer to determination of welfare of the whole society (Gareth D. Myles (2001))

$$W = \sum_1^k (x_1, \dots, x_k, G). \quad (2)$$

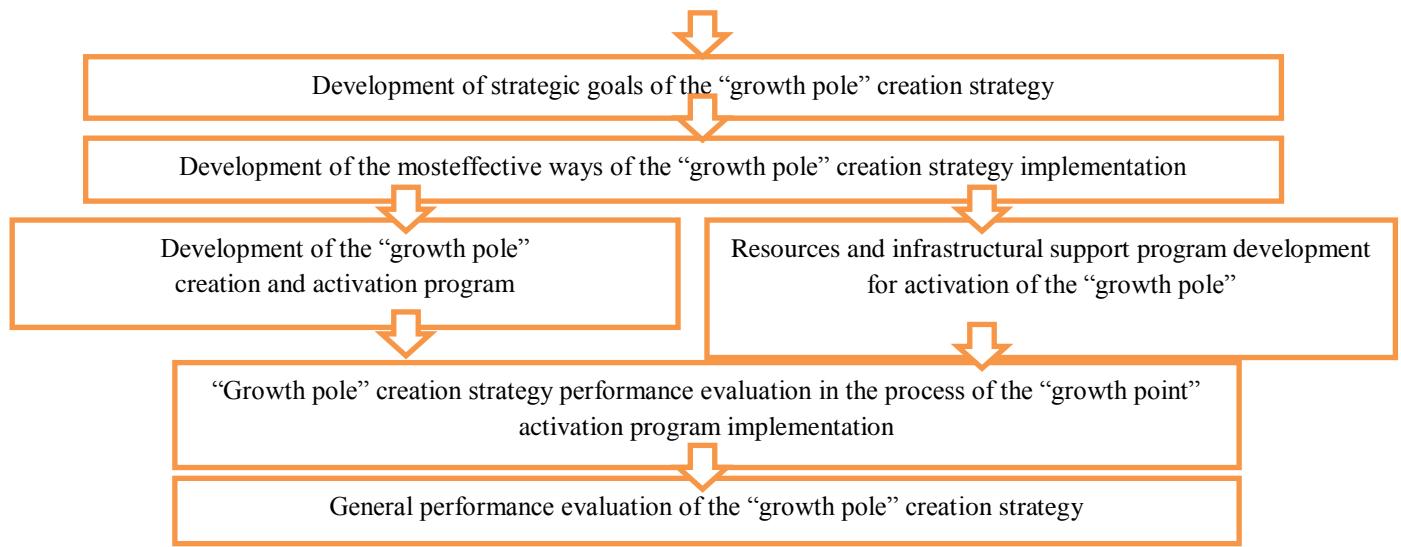
According to this function, for any consumer “ $k$ ” the best variant of consumption increases general utility  $W$ . At the same time, Bergson-Samuelson function does not explain how the changes that improve situation of some consumers and at the same time worsen the situation of the other consumers, influence the welfare of society.

Thus, determination of qualitative and quantitative indicators of the “growth pole” project implementation performance evaluation is a separate problem that requires further study.

The initial precondition of the “growth pole” project implementation model development is a local development strategy. Thereby, a respective algorithm of the “growth pole” creation has a dependent nature, is agreed according to the objectives and stages of implementation and is considered as a factor of its effectiveness provision in accordance with a chosen general economic strategy, Fig.3.

**Fig.3 Algorithm of the “growth pole” project implementation strategy development**

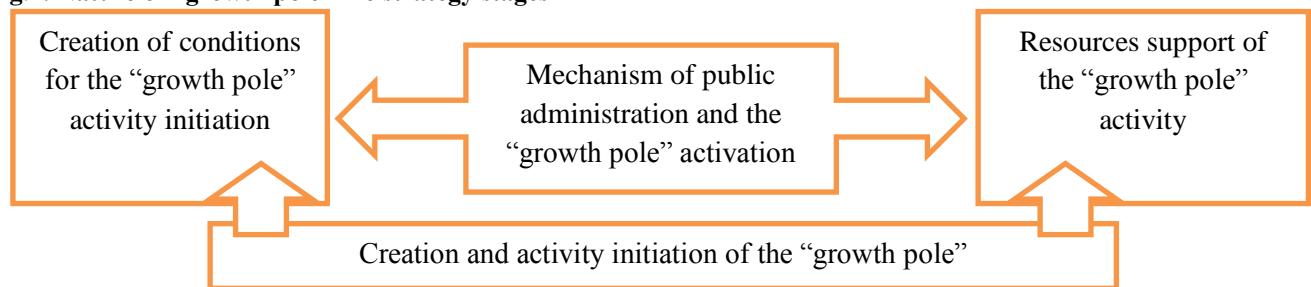
Period determination of the “growth pole” creation strategy development



In accordance with the algorithm represented at figure 3 the choice of implementation ways of the “growth pole” local strategic objectives can be performed in two directions. One of them shall cover the development of the “growth pole” strategic directions and the other one – resource support strategy development. This stage is the most important and difficult.

The solution of this problem in perspective depends on the stages of life cycles of the adopted “growth pole” strategy, Fig.4.

**Fig.4. Nature of “growth pole” life strategy stages**



At the stages of “birth” and “development” of the “growth pole” main share of the resources support of the “growth pole” activity has a material form. At the stage of “expansion” prevailing are direct foreign investments that at the stage of “maturity” of the “growth pole” are also a condition of further development. In order to avoid a “recession” period and to prolong the “maturity” period, it is necessary to perform a timely activity diversification of the companies, which are a part of the “growth pole”. In its turn, it provides for not only the suspension of the “recession” period, but also for a transfer to a new stage of “expansion”.

World’s most widespread practice of local economic development achievement on the principles of the “growth pole” concept is the establishment of industrial parks. An extremely important success condition at the stage of initiation and commencement of the “growth pole” project is the level of expertise and will to compromise by the local power in the negotiation process with key investors.

## CONCLUSIONS

The offer to apply the “growth pole” project implementation as a basis for the provision of local economic growth supposes a combination of functional and situational beginnings, consolidation of administration stages into a unified administrative cycle and objects and subjects of administration into an integral flexible organizational structure. Such approach allows considering a possibility to change the administration system functioning conditions, ensuring its flexible reaction to change of conditions by application of alternative options. It supposes a systemic review of the organizational structure that consists of the differentiated and interdependent totality of actions required for achievement of goals and determination of which part of the unified administration cycle may be performed by a private company and which part by public authorities.

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