

Transport, Connectivity, and Regional Development

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There is a long-standing interest in the role of transport in regional development. In the 1950s American Walter Isard pioneered the field of regional science by examining how construction of a steel mill (in Puerto Rico) could promote development through the linked industries that located round it. This model of industrial complex development, based on minimising transport costs among related producers, became a tool for policy makers. In New Zealand the Bluff aluminium smelter opened in 1971 with the expectation that it would generate downstream investment. In fact, aluminium fabricating and finishing did thrive, but close to the markets in the main centres rather than close to the point of production in Southland.

Similarly, the Think Big energy projects in the 1980s were expected to generate downstream investment in Taranaki. There was certainly local spinoff of engineering and professional businesses supplying the energy sector. A number survive today, serving international as well as domestic exploration and extraction markets. However, there is little evidence of downstream value added outside the original gas processing plants.

Intensification of business development

Over the past ten years officials in central and local government have given a new twist to the connection between transport and regional development by advocating intensification of business development in Auckland as necessary for national growth. Their thinking draws on a tradition of analysis – popularised in the 1990s by business guru Michael Porter – suggesting that location in large urban centres confers cost advantages on firms (“agglomeration economies”) through ready access to labour, skills, suppliers, and competitors.

By clustering in large cities producers are believed to gain advantages from shorter supply chain linkages and lower transaction costs. The latter arise from ready access to information and intelligence as well as to goods and services.

How well does this proposition stack up? Not particularly if the last decade is anything to go by. According to Statistics New Zealand figures Auckland employment grew by 20% between 2000 and 2009, well under the 26% for the rest of the northern North Island (Northland, Waikato and Bay of Plenty). Auckland’s manufacturing actually fell by 8%, while it grew by 4% in the rest of the northern North Island. Employment growth was also higher in Canterbury and the rest of New Zealand. Auckland does not appear to have enjoyed any great advantage from its scale.

The nature of agglomeration

Perhaps our understanding of the nature of agglomeration is lacking. As the aluminium example demonstrates, the key to the concentration of modern manufacturing may be proximity to the market. As a centre increases its share of national or international markets, it becomes more attractive to investors. This becomes more powerful as increasingly effective transport systems

reduce the cost to producers and distributors of access to materials, components, and products produced elsewhere as more effective logistics systems compensate for the costs associated with long distance transport. In an open economy, this places Auckland at a disadvantage relative to, say, Sydney, Singapore, or Hong Kong.

In any case, the cumulative growth cycle can be interrupted, even reversed, if business costs increase rather than fall as a result of agglomeration. This might result from high land prices, traffic congestion, expensive infrastructure, and regulatory encumbrances. High housing costs, commuting problems, and intensive competition for skills generally lead to high urban wage costs.

Auckland may have entered the phase where the costs of doing business exceed the benefits of proximity to a large local market. This is especially critical for businesses competing internationally. In addition, the recent downturn in consumption means that Auckland may have to realign its fortunes with New Zealand's trade prospects. This is evident in a regional fall in retailing, hospitality, arts and recreation employment of 4.2% between 2007 and 2009 following growth of 24% between 2000 and 2007.

The region's economic fortunes today depend much more on reducing costs to attract investment than, than on promoting a high density of businesses. In addition, promoting Auckland's capacity to connect New Zealand with world markets takes on a new urgency.

Enhancing integration

Attracting investment requires well connected and generous industrial areas, efficient labour markets, productive infrastructure investment, and effective local transport. Transport planning and investment should enhance integration of complementary land uses, promote sub-regional labour catchments to encourage local commuting, and create efficient links between them. For example, the way in which Auckland's new western motorway connects local centres of employment, services, housing, and production within the northwest will be as important as its contribution to streamlining traffic movement across the region.

Promoting Auckland as an international trade centre requires regional transport to be integrated with the inter-regional linkages that connect primary industry, in particular, with overseas markets. Support for innovative logistics operations, the development of inland port capacity, and the rationalisation of rail, road and shipping linkages are all part of the mix through which Auckland's development can contribute to trade-based growth. At the same time, a positive regional investment environment should encourage development of innovative, value added export business through which Auckland's dependence for development can be shifted from reliance on local consumption to greater participation in international production and trade.