

Snezhana HRISTOVA*)
Jelena TAST**)

**THE EMERGENCE AND SIGNIFICANCE OF LOCAL
ECONOMIC DEVELOPMENT**

Abstract

This paper makes a case that discerning what globalization means for local economic development strategies, structures and policies becomes a formidable governance challenge today. The thesis of this paper rests on the assumption that Local Economic Development (LED) policies as an integral part of the global socio-economic development, continuously occupy a greater importance in the overall economic development in less-developed countries as a way of resisting the forces of globalization. The main goal of this research paper is to find quantitative and qualitative justification for an appropriate governance structure for fostering local economic development. First, we argue that globalization debates engender controversy. One of the views is that it is a process which engages with trade, communication, technology, culture and the flow of capital across national boundaries and another that globalization has led to marginalization and exclusion because of downward pressures on systems of social protection, changing labour market conditions and increasing inequality in wages. Then, drawing on large national surveys of local economic development policies, the paper explores the policy strategies for community development that localities are employing as a response to globalization. Finally, the special focus of this paper has been given to the case of local economic development in the Republic of Macedonia.

Key words: Local Economic Development (LED), globalization, economic policy, Macedonia.

*) PhD, University American College Skopje, e-mail:shristova@uacs.edu.mk

**) PhD, MIT University, e-mail:jelena.stajik@hotmail.com

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Introduction

The starting premise of this paper is that globalization involves not only benefits, but also has costs or potential problems that some critics see as great perils. The transformation induced by globalization has contributed to the expansion of the world economy, caused major shifts in the composition and location of production and consumption activities and reduced the ability of national and local governments to act unilaterally. As a result it has reshaped the way millions of people earn their living and the way societies are organized, which in turn has huge implications on how natural resources are used. The challenge world face today is how can it harness the opportunities whilst at the same time limiting the potential costs of globalization.

The costs of globalization could lead to conflicts of various types, whether at the regional, national or international level. One such cost or problem is that of who gains from its potential benefits. There can be substantial equity problems in the distribution of the gains from globalization among individuals, organizations, nations, and regions. Indeed, many of the gains have been going to the rich nations or individuals, creating greater inequalities and leading to potential conflicts nationally and internationally. Some have suggested the possibility of convergence of incomes globally based on the observation that the poor nations are growing at a faster rate than rich nations. The reality, however, is that a small group of nations, the "tiger economies" of East Asia, have been growing at rapid rates, while the least developed nations of Africa, Asia, and South and Central America, Europe have been growing at a slower rate than the rich nations. These poor nations are thus becoming increasingly marginalized. The result has been not a convergence but rather a divergence or polarization of incomes worldwide, with the rapid-growth economies joining the rich nations, but with the poor nations slipping even further behind. This growing disparity leads to disaffection and possibly even international conflicts as poor nations seek to join the club of rich nations and have-not nations struggle with the have nations for their share of world output. This issue of distribution is a major challenge in the process of the globalization of the world economy.

1. Globalization v. Localization

The main hypothesis of this paper is the following one. LED policies as an integral part of the global socio-economic development, continuously occupy a greater importance in the overall economic development in less-developed countries as a way of resisting the forces of globalization. Paper work results from the conviction that negative aspects of globalization, such as marginalization and economic disparities, are a key component of global imbalance, and they create a significant challenge for national economies. Their major goal is to create adequate policies of structural adjustment in which to deal with such negative aspects. Localization is the route to achieve this. Localization has to be the route forward for a country that wants more jobs, better social conditions, and an improved environment. It is becoming increasingly clear that to tackle unemployment and rebuild healthy, stable and sustainable societies can only be done when citizens and nations take back control of their economies. Localization does not mean walling of the outside world. It means nurturing locally- owned businesses which use local resources sustainably, employ local workers at decent wages, and serve primarily local consumers. It means becoming more self-sufficient and less dependent on imports. Control moves from the boardrooms of distant corporations and back to the community where it belongs. Jerry Mander, one of the most immanent contemporaries in this area, actively opposes economic globalization. His aim is to shift economic thought and policy in search of new economic models that will lead the twenty-first century and to promote the idea of opposing the paradigm of globalization. His primary means of accomplishing this is to turn to so-called local economies as the most successful resistance to globalization. After Mander "Economic globalization has strong logic that is twofold destructive." His viewpoint is such that it not only improves the living standards of the vast majority of the world's population, but also that it contributes to its decline. Even today most of the world's population adheres to a relatively traditional economy. Those traditional economies in many cases are not poor and those who are poor are mostly impoverished because of the politics of the Neoliberal economics."¹ Turning to so-called localization will allow the promotion of local and small economies that are different, rely on themselves, and

¹ Mander, Jerry; Goldsmith, Edward (ur.) (1996), *The Case against the Global Economy*. San Francisco: Sierra Club Books;
<http://www.scottlondon.com/interviews/mander1.html>

are connected to external forces but do not depend on them. One benefit of a localized economy is that it dismantles economic activities into smaller segments that can be more easily managed and that connect people who make decisions. This means connecting the capital in one place and sharing the surveillance on the greatest possible number of people.

The word localization denotes several initiatives which are aimed at creating and preserving an intimate social atmosphere which is based on communities that work through direct relationships, that have their own self-control, and that are supported by a cooperative and participatory logic. Following this view, the best response to the evils of globalization can only be what is termed as re-territorialism, or a re-binding of the place and the local community, which includes the revival of old or inventing new local manufacturing activities. This is an economy and culture that is being spread more and more beyond national borders and it is a point of view that leads to the discovery, creation, and promotion of numerous local initiatives around the world. Localization projects include small family initiatives in agriculture, petty local trade, local exchange systems with the use of local currencies, and participatory forms of local government. Many of these initiatives or offers are based on the idea that culture, community, and economy are rooted in specific geographic locations that require constant support and preservation. It is felt that these initiatives based on such ideas and values form an inseparable part of the community and economy as a whole and should thus be protected.² Helena Norberg, who agrees completely with the opinions of Mander, strongly promotes local initiatives and points out their significant contribution to economic development. She states: "The awareness of the devastating consequences of economic globalization is growing more and more, but a point that is so often overlooked is the belief that the solution to the problems arising from it lies in the localization of economic activities". Societies today are faced with a two choices. One approach, which is already supported by governments and industry, is of an increasingly globalized economy whereby the distances between producers and consumers will continue to grow. The other approach is built from the base and focuses on a reduced distance between producers and consumers. It highlights the benefits of strong

² Norberg-Hodge, H. (1998) "The Pressure to Modernize and Globalize", in eds. Mander J. Goldsmith E. "The Case Against the Global Economy, and for a Turn Toward the Local", Sierra Club Books, 1998
http://www.sjsu.edu/upload/course/course_5710/Norberg_pressure_to_modernize.pdf

local economies based on more regionally located production. Norberg claims that globalization is the most significant contributing factor in the breakdown of local economies within many national economies. Although some may feel her beliefs are absurd, they are augmented by her study of the detrimental effects that globalization has had on numerous societies. She has performed research on various cultures which include heavily-industrialized America, socialist Sweden, rural areas in Spain, and the Ladakh, who are the traditional peoples of Tibetan Plateau. The conclusion she has drawn from her research has formed the basis of her arguments in support of the localized economic approach. Norberg personally performed the studies of the Ladakh, and it from them that she has formed the strongest of her arguments. "When Norberg first came to Ladakh, the western conventional economics had not yet arrived. What existed was a system in which producers and consumers were closely related and the economy was reliant on the local community". After two decades of development a number of fundamental changes occurred. The local people became dependent on food and energy which were thousands of miles away from them. Prior to this, the Ladakh local economy was considered strong and entirely capable of sustaining its people on its own. With the advent of globalization it was now being attacked by the products of factory farms located across the Himalayas. This food, which arrived from the distance in huge quantities, was much cheaper than the food being grown within the local community. For many Ladakh it was simply no longer viable to continue farming.

The same process not only influenced the production of food, but a whole range of goods including clothes, household utensils, and building materials. The imports from the distant parts of India could often be produced and distributed at lower prices than the goods that were produced locally. Such a situation was able to arise primarily due to strong subvention and outside support for the industrial infrastructure. The ultimate effect of these changes was a complete disruption of the local economy of the Ladakh people. It has adversely affected the general welfare of the local community which is inextricably tied to the health of their economy. These trends found within the globalized economic system demonstrate how the negative consequences of that system are able work their way through to other areas and worsen the overall condition of both communities and cultures. Children who traditionally studied farming and agriculture from their relatives and neighbors now had to study in schools with a Western educational system to prepare for

specialized jobs in the industry. In Ladakh the availability of these jobs was very rare and as more people moved away from the farms the number of unemployed Ladakh grew exponentially. Moreover, the direction and action of the economy, which was once controlled locally, was now being determined from more global market forces, and this resulted in a growing instability and an increase in poverty. Almost overnight a range of social problems appeared, including crime, family breakdown, and homelessness. As the Ladakh people were moving away from their land their awareness of the limitations of local resources changed. Pollution was rising, and the population grew. All of this served to exacerbate the emerging problems. Norberg sharply criticizes the conventional economists who ignore these negative impacts and she points out that such impacts are not as easily measurable as monetary transactions. She also criticizes their justification for the changes according to which regions like Punjab have comparative advantages over Ladakh in food production. This gives Punjab an economic sense to specialize in producing food, while the Ladakh need to specialize in other products, so they can trade each other. Barry joins the same point of view and he charges that governments worldwide promote these trends with the assurance that their "sick" economies will recover only if they are directed towards economic globalization. Ironically, these policies have undermined the economy not only of local and regional communities, but even to national level.³

Although Norberg feels that it is quite unrealistic for modern economies to be fully converted to localized ones, she does suggest that if national economies move towards the promotion of localization, they will be able to solve a series of serious economic problems. Both, Mander and Norberg, absolutely agree that the paradigm of localization does not necessarily imply the denial of globalization and trans-local resistance. But they do feel that this context means taking safety measures to protect economies from adherents of the globalization school thought and the implementation of their neoliberal globalization policies. It is a new way of protectionism, which means maximum boost of the local trade within the different self-congratulatory local economy and reducing the trade with the distant countries. "The new protectionism pursued the idea that the global economy has not only failed to abolish the old protectionism, but also (in the name of multinational companies

³ Norberg-Hodge, Helena (1996), *Shifting Direction: From Global Dependence to Local Interdependence.*, p.393-406 .

and international banks) implements a protectionist tactic whose purpose is to destroy the capabilities of local communities so they can preserve their own viability and sustainability of their natural environments."⁴ Moreover, both of them emphasize that if local initiatives remain isolated in their actions, they will lose their significance. This, however, will not happen if they are an integral part of the economic policy of governments, as an institutional basis for promoting a far different economy policy. In light of these points of view and assumptions we are able to conclude that although globalization is a general process it is important that development take place in local communities. New development concepts require the states, i.e. the governments, to give up some of their responsibilities and to delegate them to the development entities of lower levels of government, i.e. to the level of regional and local authorities. One of the results of globalization is that the economies and governments of Nation-States have become too large to effectively solve specific problems of their citizens. These types of problems can only be successfully dealt with the active participation of both citizens and local communities at all levels of organization (municipalities, regions). The modern state needs to strengthen their interactions with local governments and to work to develop partnerships with them. Such a relationship would serve to significantly increase the overall functionality of the society as it adapts to global trends. It would also serve to allow greater movement of both capital and labor and would provide citizens with a better quality of life and general standard of living.

2. Local Economic Development (LED) Policies in a Globalizing World

What is LED? Actually it's a process in which the local authorities cooperate with the public sector, business community, and NGOs, in order to create more appropriate environment for economic development and for unemployment decreasing. Its objectives are to stimulate investments that will promote sustained high growth in a local community. LED focuses on the region's potential and identifies specifically what local stakeholders can and need to do to ensure their local community reaches its potential. In this context, Local Economic

⁴ Norberg-Hodge, Helena (1996), *Shifting Direction: From Global Dependence to Local Interdependence.*, u Mander e Goldsmith (ur.), p.393-406.

Development assesses a community's comparative advantage, identifies new or existing market opportunities for businesses, and reduces obstacles to business expansion and creation. LED activities should have an impact on the economic viability of the entire city and surrounding region not just a particular sector of the local economy. It aims to enhance competitiveness and thus encourage sustainable growth that is inclusive.⁵

How far has the importance of the role of local economies in the global context been accepted and incorporated as a policy strategy? According to OECD: "One of the most important trends in recent years that is associated with the emergence and the growing importance of the politics of local economic development is exactly the change in the orientation of economic and social policy in a direction away from the approach of "top down development " and so-called sectoral policy, to the approach of "bottom up development" and local development strategies."⁶

The path towards globalization is dependent upon continuous government investments. It requires the building-up of a large-scale industrial infrastructure, including roads, mass communications facilities and energy installations. This is adhered to the "top down development approach" and drawn up with the goal of attracting foreign investments to the most accessible sectors unfortunately fail to encourage economic development in remote and less significant areas. Unlike this approach, the so called "bottom up" approach generates support for endogenous development and can be far more effective in stimulating overall economic development in the long term. This is accomplished by implementing concepts such as support for entrepreneurship, developing human capital, fostering innovation, creating public-private partnerships and the building of a network of local institutions. Switching to so called "bottom up" and endogenous (local) development strategies is highly conducive to the creation of new theoretical concepts regarding the process of economic development, especially the development of new theories about the growing importance of the local environment for the competitiveness of businesses.

⁵ Bertelsmann Foundation and World Bank (2002): *Local Economic Development – Developing and Implementing Local Economic Development Strategies and Action Plans*, December.

⁶ Giancarlo Canzanelli, (2001): *Overview and learned lessons on Local Economic Development, Human Development, and Decent Work*, ILO Working paper.

From this paragraph some of the positive attributes of LED, such as the ability to determine problems at the local level and to implement procedures and measures aimed at solving specific local problems, are evident. It is because of these that LED has acquired a growing consensus among economic policy makers to become an integral part of the overall development of national policy. Local economic development as means by which to integrate local levels should actually unite the regional policy. Every local community will have to find a way to integrate in order to respond to evolving global change. This should be accomplished in order to strengthen its economy and to resist the sort of crises that the above national system underwent. To create integration it is necessary to have cooperation, mutual trust, partnership, and respect for the rules. It also implies that neither level nor any constituted authority of any level can independently manage the national system. The relations between local government and authority levels and national levels are not one-sided. They do not move from top down nor bottom-up, they are multilateral and move in all possible directions.⁷

Decentralizing the policies of national governments is being increasingly performed. It is re-animating the developmental processes by demonstrating the competence of local government to operate effectively. Local development concepts perceive development as an in common effort of public and private entities and local communities. It is obvious that this is a complex approach to development, which not only requires a review of the role of the state, but also an examination of the ability and willingness of local communities to take the role in managing their own development and futures. Local economic development is especially important for underdeveloped regions, localities that are in decline, those with high unemployment and poverty, those that have low levels of social services, and for areas with other such negative attributes. Local authorities in such unstable environments are becoming increasingly important factors in what motivates the mobilization of citizens, knowledge, capital, and alternative programs of employment. Hence, local economic development as an objectively determined mode of modern economic development can be the most important dimension in the process of reducing poverty and increasing equality. The LED as a policy of structural adjustment is a key link in the creation of values in the national economy. It exploits the developmental potential of local

⁷ Giancarlo, Canzanelli, 2001 Overview and learned lessons on Local Economic Development, Human Development, and Decent Work, ILO Working paper.

resources and in doing so creates economic and financial conditions that allow more regional areas to participate in and to also benefit the national economy.

According to prof. Uzunov⁸, "a main centripetal force for the development of the national economy is the strength and attractiveness of each LED territory (municipality) and how they (should) be creating power and the ability to attract capital to the local (economic) territory. In the final analysis, it crucially depends on the dynamism of local economic development." In this quote, prof. Uzunov indicates that the process of local economic development is the process of creating "niche" economic environments at the local level, those which will pull forward and progress by maximally exploiting the opportunities that come from the global environment. The process of creating a niche economic environment at the local level involves the creation and utilization of specific local advantages and better utilization of existing facilities which can generate the opening of new jobs and increase the welfare of the community. Most importantly, each local region should completely exploit its own potentials to increase the welfare of the community. The achievement of these imperatives will not only mean the creation of competition within the local economic regions, but also within the national economy. That is, "If the attractiveness of local economic regions represents the force of attraction of developmental factors, i.e. it is a centripetal force to locate developmental factors, than the technological progress is the centrifugal force in locating these developmental factors.

The achievement of these imperatives will not only mean the creation of competition within the local economic regions, but also within the national economy. That is, "If the attractiveness of local economic regions is represented by the force of attraction of developmental factors, it can be viewed such so that locating developmental factors is a centripetal force, and the technological progress is the centrifugal force in locating these developmental factors. Success in economic development is achieved only with the correct combination of centripetal and centrifugal forces and thus would actually achieve economic development of the given local economic region."⁹ Because of the ability to create a favorable business environment,

⁸ Uzunov, Vancho, 2001: Globalization and Economic Development-Theory and Politics, Law Faculty, Skopje.

⁹ Uzunov, Vancho, 2001: Globalization and Economic Development-Theory and Politics, Law Faculty, Skopje.

adequate conditions for sustainable development, and growth of small and medium enterprises, the role of local economic development should be greater than ever. Its influence is necessary in order to apply the new development approach, i.e. focusing on endogenous (internal) development and on using the potential of local human, institutional, and natural resources. The processes of economic development should begin at the local level and the national-economic level should present a macroeconomic policy. This is the essence of the process mentioned before which was referred to as access from bottom to top or the "bottom up approach". Today, many countries continue to design and monitor policies on local economic development. The significance of the role of LED policy has not only become more developed in the U.S. and EU countries, but also in third world and the transition countries. Also, the European Union is becoming more active in supporting and outlining the policy of LED through its structural funds and other initiatives. In the modern conditions of globalization, the world is faced with the paradox of increasing the importance of the local economic development. LED policy becomes more important when the new economic policies are based more on endogenous development in order to reduce the technological and organizational lag and to enhance the ability of less developed localities to attract investment. Growth and development exercise only those sites that manage local comparative advantages to transform the global competitive advantages.¹⁰

To summarize, the meaning and importance of LED can be emphasized through following:¹¹

Local- refers to a process of valuing the endogenous potential, making optimal use of the already existing local capacities.

Economic- is directed towards the identification of investment opportunities, supporting entrepreneurial activities and facilitating the access to (new) markets.

Development - is the process that is aimed at promoting an improvement in the living and working conditions of the community through the creation of new jobs, the retention of existing jobs and the generation of income. Various LED Approaches are: public-private partnership approach to assess/seize economic comparative advantage, small business approach for innovation, private investment and job

¹⁰ Nikolovska Natalija, 2002, Regional Economy, UKIM.

¹¹ Bertelsmann Foundation and World Bank (2002): Local Economic Development – Developing and Implementing Local Economic Development Strategies and Action Plans.

creation, regional approach leveraging the resources of surrounding areas, sector-cluster approach supporting the most promising sectors by bringing together business, educational institutions, NGOs and government etc.

3. Preconditions, Opportunities and Ways for Local Economic Development in the Republic of Macedonia

Republic of Macedonia welcomed the beginning of the process of transition with having highly centralized economic and political system. However, in the middle of the 1990s, the need for gradual decentralization started to arise. In the corpus of authorities that were transferred from central to local level, the one that is particularly emphasized is the duty regarding the local economic development.

Nowadays, LED policies are becoming key drivers of employment growth and competitiveness at the local level, and they are also a way of boosting the economic growth and development of the local economy. After more than ten years of pluralistic living, the constitutional amendments of 2001 and the new law of Local Self-Government in 2002 definitely marked the beginning of the process of decentralization and the development of a system of modern local government in the Republic of Macedonia. As a country with serious aspirations toward NATO and the EU Macedonia, in terms of regional and local economic development, must have one basic goal. This goal is to create a consistent system of goals, institutions, and instruments for balancing the social and economic development throughout the country. This should be sought to be accomplished by integrating general (national interests), regional, and local (special interests) in implementing an efficient, balanced, and sustainable economic development plan. Two instances confirm this commitment. First was the very adoption of the new Law of Local Government in 2002, whereby the responsibilities of local services substantially increased with LED becoming one of the first duties (authorities) to be shared on a local level. The second moment was adoption of the Law of Balanced Regional Development in 2007. With this law the principle of partnership was established as a fundamental principle that underpinned the policy for regional development where it has been highlighted the need for cooperation in the preparation, implementation, monitoring, and evaluation of planning documents for regional development between the central and local governments.

Furthermore, through the principle of subsidiary, it was emphasized the importance of the role of local government in regional development by demonstrating how the need for cooperation in planning is the main operative when it comes to the preparation, implementation, monitoring, and evaluation of programs and activities for economic development.

During the paper research a questionnaire method was used. The survey was conducted in 2011/2012 year. These questionnaires were forwarded to all municipalities and more than 55% have submitted their responses, with 44 municipalities, including the City of Skopje, responding. There are 30 urban, or 68.2%. The other 14, or 31.8%, are rural municipalities. The research has shown the main hypotheses that LED policies as an integral part of the global socio-economic development, should occupy a greater importance in the overall economic development in Macedonia as a way of resisting the forces of globalization, can be absolutely confirmed. Herewith, the current socio-economic situation is characterized by the economic and social degradation of most municipalities, the spread of inequalities between urban and rural areas, and the prevalence of a monocentric structure with emphasis on the capital city, ie having large disparities between the periphery and the center. The largest part of financial resources, investment (including FDI), knowledge, science, culture, and other human and social funds are in Skopje. Because of the problems that emerged during the transition many municipalities have a huge number of unemployed people and the development of industries that employ many people is on a very low level. The manifestations of the poverty of rural communities as well as the social and technical degradation are still evident. With the considerations in mind, the necessity of keeping active LED policy becomes more acute because it can create better conditions for economic development in local communities and it will increase the employment and general welfare of the citizens.¹²

But is the local economic development a reality or is it just a needed authority? The main conclusion of the survey is that in comparing it with some other authorities in municipalities, LED still does not show very successful performance. One positive note, however, is that 2011, in comparison to the previous years, did show a positive trend. It is also evident that problems exist in areas that are crucial for the smooth functioning of municipalities in the implementation of the LED. Some of those problems are: securing increased revenue, reducing state debt, the

¹² Law on Local self-government, Official Gazette of Republic of Macedonia 5/2002.

ability to independently manage land and land projects, and the need for accelerated implementation of plans for balanced regional growth. The role of the government, both in terms of monitoring the situation and in terms of transferring appropriate experience to the areas that are demonstrating a need for competency (providing policy to support the development of small and medium enterprises) has been evaluated as insufficient. Therefore, it appears that in order to solve the problems of LED there is a need for more dynamic and effective dialogue and cooperation between central and local governments.

Strategically planned LED is increasingly being used by Macedonian local communities to strengthen the local economic capacity, improve the investment climate, and to increase the productivity and competitiveness of local businesses. The main problem that these municipalities are facing is the inability to fully implement the activities and projects that are planned in the strategic documents. This means that the available LED strategies are often not compatible with the LED needs of the municipalities. They are not usually based on the actual needs and opportunities of the municipality, nor are they based on the way they perform the prioritization of activities. The results of the survey indicate the most common problems that prevent the municipalities from effectively implementing their plans for LED. These include: lack of financial resources, which was cited as the main reason, lack of support from government departments, and a low level of planning on the part of the government.

It is also evident that there is still no progress in understanding that good design concepts in the politics of LED should be based much more on competitive rather than on comparative advantages. It also seems that the significance of so-called new factors in LED such as human resources, knowledge, quality of physical and social infrastructure, and building and strengthening the institutional capacity, are neither sufficiently understood nor valued. The essence of an LED strategy should be comprised by multiple elements that have great importance for the acceleration of Local Economic Development. Those elements are: promotion of competitiveness by stimulating the inflow of FDI growth of SMEs, entrepreneurship and attracting investments, improving business environments, development of infrastructure and the development of human resources. In case of Macedonia, communities follow this trend, but by giving priority to the development of infrastructure. Next comes the attraction of investments, then the support

of SMEs, the development of agriculture, and finally the development of human resources.

The implementation of LED strategies should result from both the specific needs of the municipality and also its future economic potential and projected capacity. The effective organizational structure and building capacity of LED management and administration needs to be absolutely confirmed. Development will depend on the improvement of individual skills and institutional capacities. This improvement is essential for the implementation and success of strategic plans. Generally municipalities will need to provide specific and adequate organizational structure (both in department and unit) that will focus on development needs. This structure will integrate the activities of all the other administrative functions of the municipality. Such functions include: finance, utilities, urban planning, education, etc. They also need to provide not just an outlined or conceptual plan but a real structure of organizational approach by making appropriate job descriptions and filling them with quality administration. It is quite clear that possessing high quality and highly developed management as a resource will be crucial for the successful implementation of local development initiatives. There is almost no municipality or municipal leadership who feels that there is no need for qualitative changes in the way of management. Common indicators which point to this condition are: a typically bureaucratic state, a low level of understanding of the concepts and mechanisms for LED, lack of expertise in staff, inadequate qualification standards for management, and so on. It is the erosion of managerial capacity and the lack of procedural skills and their application which directly and adversely affect the performance of municipalities. The existing educational structure of the population is also very unfavorable and most municipalities do not have quality human resources necessary to encourage and monitor economic development.

Among other things, this means that it is necessary to go beyond providing a basic financial and administrative structure. If the goal of boosting economic growth and development of the local economy is to be achieved what is also needed is a stronger emphasis on elements such as training of the workforce, development of skills, encouragement and means for higher education, etc.

Last, but not the least, fiscal and financial aspects of the process of decentralization remain the most important and most complex challenges: improving the financial health of municipalities. This can be accomplished with the inclusion of external funds in local development

and by encouraging more evolved and established powers to take a more active role in local economic development.¹³ Despite the positive trends observed in the allocation of municipal budgets for LED, the funds are still relatively small. The municipalities have very little financial resources to deliver their development needs, and most of the budget is spent on meeting the current operational and administrative needs. This proves that LED is still not considered of key importance or focus. One positive sign is to see municipalities in control and making decisions with their own funds in regards to the implementation of LED. This indicates that some progress has been made in improving their financial health. However research has shown that municipalities are still financially dependent to a large extent on the central government regarding the implementation of LED policies. Additionally, it shows that there is a sufficient interest in fundraising from the private sector for building the public-private partnerships (PPP), which actually represents a largely untapped opportunity to engage in more capital investment within the municipality. Finally, if the analysts acknowledge the fact of the enormous differences between municipalities in terms of their income, it would imply a variety of different opportunities to stimulate LED. Provision and maintenance of sustainable long-term sources of financing activities in the field of LED is a significant challenge for local government.

In determining the budget of local government activities in the field of LED, municipalities must compete for limited funds namely directed toward accomplishment of other authorities such as urban planning and health and education. Hence, there is a critical need that local governments must understand that LED represents a potential driver of future revenue growth. Local government must understand that successful activities in the field of LED will influence the increase in the overall economic activity in the local economy and thus the increase of local government's budgets. Finally, in order to improve the situation, Macedonia should create polycentric policies of development that will contribute towards the prevention and elimination of disparities and will also have the goal of creating conditions for optimal utilization of available natural economic, human, and cultural resources in specific developing regions. The policy of polycentric development should generate enormous internal migration and this will stimulate growth and

¹³ Nikolov Marjan, (2006) Local Finances – Case study from Romania, Bulgaria and Macedonia, Center for economic analysis, Skopje.

development in intermediate-size and smaller municipalities in order to maintain and increase vitality in more rural parts of the regions.

Conclusion

In the conditions of global imbalances, in order to resist the marginalization caused by globalization, national economies are faced with the challenge to create adequate policies of structural adjustment, by emerging of new development concepts that require governments to give up some of their responsibilities and to delegate the development at the level of regional and local authorities. Nation-state becomes too wide framework for solving specific problems of citizens who can be successfully dealt only with the active participation of local communities. Communities are pursuing different LED policies to lower production factor costs (land, labor, and capital) relative to other local entities, though, for example, tax incentives or other subsidies for businesses. They also are pursuing world-class community policies, developing innovative production capacities to gain a niche in the global economy via, for example, public-private partnerships, encouragement of research and development, and efforts to attract foreign investment. And to a lesser extent, they are pursuing entrepreneurial mercantile policies and human capital policies. The former builds on local resources to encourage small businesses to form and grow rapidly by, for instance, providing seed capital and technical marketing assistance to these businesses, which has the result of diversifying the local economic base.

The Republic of Macedonia has had highly centralized economic and political system by the beginning of transition process. In the middle of 1990s the need for its state organization decentralizing started rising. Since 2001, Macedonia's macroeconomic strategy has sought to accommodate the forces of globalization and ensure the country's re-entry into the global economy. One key component of restructuring for globalization has been a shift in the burden of responsibility for economic development from national to local government level and of the promotion of local economic development (LED) across. Following the main thesis of this paper it can be concluded that in case of Macedonia there is a need for the LED policies to be an integral part of socio-economic development and to cope with globalization. But, so far, the experiences from practice have been proving the fact that local economic development is still not considered of key importance or focus and that

the existing administrative and territorial setup and functions that derive from the related legislation in Macedonia do not comply with the needs of economic growth and development on local level. It also seems that the significance of so-called new factors in LED such as human resources, knowledge, quality of physical and social infrastructure, and building and strengthening the institutional capacity, are neither sufficiently understood nor valued. The essence of an LED strategy should be comprised by multiple elements that have great importance for the acceleration of Local Economic Development. Those elements are: promotion of competitiveness by stimulating the inflow of FDI, growth of SMEs, encouraging entrepreneurship and attracting investments, improving business environments, development of infrastructure and the development of human resources.

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