

# Economic Clustering 101

May 2025



Economic clustering is when complementary industries, institutions, and workforces locate near each other. By setting up shop in close proximity, businesses can trade with each other, develop specialized workforces, and develop a specialized global competitive advantage that spurs rapid economic growth. Classic examples include Silicon Valley for tech and Hollywood for entertainment.

## Why Cluster?

**Shared Resources & Infrastructure** Businesses in a cluster can share common transportation lines, specialized suppliers, test facilities, and other resources that reduce costs and speed up the production of goods.

**Increase Innovation** When companies working on related technologies or products are based in the same area, ideas flow quickly. Researchers, engineers, and manufacturers collaborate more easily, exchange best practices, and come up with new solutions faster.

**Talent & Training** A cluster's concentration of skilled jobs and specialized education programs helps grow a robust job pipeline. Local universities and technical programs can adapt to industry needs. In turn, a deep talent pool attracts even more firms to the region.

**Regional Economic Growth** A dynamic cluster tends to multiply economic benefits. One well-paying manufacturing or processing facility can spawn other support services (construction, logistics, restaurants, healthcare), generating indirect and induced jobs, tax revenues, and local spending.

## Key Strategies to Encourage Clustering

### Workforce and Education

**Higher Education**

Expanded technical programs, strong universities, and public-private partnerships help attract R&D investment.

**Workforce Development & Talent**

Strong pipelines to develop, attract, and retain specialized workforce talent in the region is essential to staff new facilities quickly.

*The Bottom Line: Clustering doesn't guarantee success on its own, but it drastically improves a region's ability to build a stable, innovative, and profitable industry.*

### Physical Infrastructure

**Land Availability**

Shovel-ready and prepared sites with ample space for industrial activity, near transportation corridors.

**Transportation Infrastructure**

Effective highways, rails, and ports to allow for reliable, cost-effective shipments in the region.

**Energy Grid Infrastructure**

A modernized grid and ample high-capacity power are essential around key industrial zones, ideally with fast-tracked permitting for new grid connections.

### Policy & Investment

**Supportive Policy Environment**

Competitive incentives, streamlined regulations, and government partnerships can seal the deal on attracting new anchor investments.

**Robust Research and Innovation**

A strong innovation ecosystem, with institutions and private sector involved.

**Encourage Investment Capital**

Investment from a variety of sources (government, venture & private equity, foreign investors) allows for new businesses with high upfront costs and long-term benefits.