CRISIS Y POLÍTICA INDUSTRIAL REGIONAL: EL CASO DE ASTURIAS

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RESUMEN

La crisis económica ha dado alas a las llamadas a favor de cambiar el modelo productivo europeo. Una cuestión crucial es hacia qué tipo de iniciativas productivas dirigir el dinero público, cuáles tienen el potencial de transformar de modo sustancial las capacidades productivas. Las regiones, en concreto, se cuestionan los modos de desarrollo previos basados en la atracción de inversiones extranjeras directas para maximizar la creación de empleos directos e indirectos en el área, a favor de inversiones que no crean tantos empleos pero pueden mejorar el posicionamiento de la región en las redes de producción global de subsectores asociados con la “nueva economía” y el “desarrollo sostenible”, crear empleos intensivos en conocimientos, y renovar el tejido productivo. Sin embargo, alejarse de las especialidades industriales tradicionales conlleva cierto riesgo pues la competencia entre regiones por estas inversiones es intensa.

Nuestro trabajo se centra en analizar esta estrategia en Asturias, una región con fortalezas competitivas tradicionales en sectores industriales maduros, cuyo peso en la economía española disminuye. Busca identificar las variables que puedan ser más importantes para atraer inversiones que puedan tener un efecto cualitativamente más amplio en el sistema productivo y en la actividad de las empresas locales en lo referente a capacitación de los recursos humanos. Analizará específicamente en qué medida la inversión extranjera directa continúa teniendo un rol importante en ese proceso de mejora de capacidades y recursos. Comparará los cambios en política industrial en Asturias y dos regiones del Reino Unido para avanzar hacia una perspectiva comparada.

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**Post-crisis industrial policy in peripheral regions: the case of Asturias**

**ABSTRACT**

The continuing economic crisis has led to a certain degree of questioning of existing economic strategies, at continental, national and sub-national levels. This has often gone beyond the initial financial/property crisis to a discussion of how the state, at different levels, interacts with firms and productive networks (IDEPA 2009; Department for Business Innovation and Skills (UK) 2009). At the same time, the economic difficulties of, and budgetary pressures on, national and sub-national states mean that questions about which sorts of capacity-building initiatives should attract public funding have become more pressing.

This paper reviews the current and potential strategies of one particular peripheral region of Spain – Asturias - whose competitive strengths have largely been in mature industrial sectors. In particular, it looks at policies directly or indirectly aimed at capturing and retaining the prized but mobile investment within global value chains. Policy in Spain and Asturias will be analysed alongside European level policy, and that developed in UK regions, in order to move towards a comparative perspective on regional attempts at upgrading in the wake of the global economic crisis.
1. Introduction, Research framework and Background

The work for this paper forms part of the early stages of a wider ongoing research project examining the relations between multinational corporations, sub-national economic governance bodies and institutions, and skills/human resources issues. This is a comparative research project involving researchers in Canada, Ireland, Spain and the UK. Details of this project are available at http://www.dmu.ac.uk/faculties/business_and_law/business/research/hrm/hrm-research-cross.jsp

This paper reports on early fieldwork, mainly from Asturias, and should therefore be considered as preliminary in nature.

The research framework for the wider project starts from the role of multinational corporations (MNCs) in coordinating activities across geographically dispersed sites, both within the firm itself and across its broader value chain or production network. Within such processes of coordination, we argue that their decisions are often shaped by local and regional characteristics such as labour markets and skills profiles, innovation systems and wider industrial networks. These features will affect how ‘host’ regions and countries are involved in global production, both directly, through subsidiary units of MNCs, and indirectly, through the involvement of local firms in the global value chains and production networks of such firms. Overall, how regional “business system” characteristics shape the involvement of geographies in global production networks is likely to have important effects on the nature and volume of employment and on productivity.

As competition for much foreign direct investment between and within developed economies increasingly depends on the ability to assume higher positions in global value chains, there are a number of reasons to suppose that the role of sub-national governance in fostering networks of innovation and skills infrastructures which can respond flexibly to change might be important to embedding potentially footloose MNC operations within the locality:

- Most MNCs, and particularly high value-added segments of their value chains, are geographically concentrated in a small number of local sites within nations. It follows from this that if institutional arrangements contribute to the competitive advantage of MNCs, as is widely accepted when talking about national business systems (e.g. Kristensen and Morgan 2006), then firms will also seek advantages derived from sub-national institutional arrangements as well as those at the national level. Where there are advantages to localised supply chains, or collaboration with local firms or research institutions, the importance of supportive sub-national institutions is further increased;
With regard to labour, as the subsidiaries of MNCs substantially recruit from local and regional labour markets, developing unique and valuable human capabilities in the region is a priority for sub-national governance actors in attempting to attract and retain high value-added activity within their area. Equally, the effects of investment decisions, and the ongoing effects of MNCs on employment and organisational practices in their host economies, are most keenly felt at local and regional levels. In short, strategic MNCs are likely to have substantial interest in the nature of sub-national business and employment systems, and may also have more power to affect governance decisions at more local levels.

A broader literature in political economy, and political and economic geography, also gives strong reasons to believe that relatively local levels of governance may have gained in importance in recent years. First, from spatial political economy, such as the work of Jessop (1994) or Brenner (1999; 2003), the decline of semi-closed national markets has gradually led to national authorities placing less emphasis on the defence of national productive capital within their industrial policies, and more on policies aimed at capturing and retaining the prized mobile investment flowing, directly or indirectly, from leading international firms.

Competitiveness in capturing such investment, at least in high-income countries, is increasingly said to be based on the supply of innovation, and this becomes a key focus of state industrial strategy. This “Schumpeterian” argument was, for example, highly influential on the Lisbon Strategy of the EU, while in the UK, for example, concern with human capital and the supply of R&D was the main distinguishing feature in micro-economic policy between the Blair/Brown governments and the cruder neo-liberalism of the 1980s and 90s, and also the economic thinking behind attempts at regionalisation. The idea is that the problem of providing an adaptable supply-side infrastructure should be devolved to local and regional actors, on the basis that the sort of flexible, responsive capacity-building needed to embed innovative productive capacity is easier to achieve at these levels. Substantial elements of what institutionalists (e.g. Whitley 1999) might refer to as ‘business systems’, such as the coordination of relations between firms, relations between firms and academic and other research organisations, patterns of training, are, in this sort of framework, increasingly subject to local experimentation (Kristensen et al 2009).

Like all abstractions of stages within capitalism, this sort of discussion is an attempt to capture and frame broad change tendencies. The changes have clearly not occurred to the same extent, or from the same starting point, in all advanced industrial economies. Equally, pressures between centralisation and regional or local autonomy can also occur as a response to political and cultural factors outside this particular framework of political economy.
These macro-level arguments have counterparts at a more meso-level. These arguments essentially depend on the contention that there has been a dramatic increase in the importance of *tacit* knowledge to the sustained competitive advantage of firms because of the increased speed of dissemination of codified knowledge. It is also commonly supposed that the diffusion and management of such tacit knowledge is strongly supported by spatial proximity and is difficult to exchange over long distances. This helps to explain the perpetuation of economic concentration in a world of expanding markets, weakening borders, and cheap communication.

To the extent that this is true, many units within global value chains are seen as being considerably more embedded in sub-national business systems than more extreme visions of ‘footloose’ investment would entertain. It is sometimes even claimed that the degree of MNC ‘embeddedness’ in local economies has increased in the last two decades, with a move away from routine ‘branch plants’ to units exercising more strategic functions with the firm, and with closer links to regional firms and institutions. From this comes a vision of the ‘learning region’, with innovative activity backed by face-to-face communication, shared conventions, personal relations and trust.

Some of this literature perhaps overstates its case somewhat; some authors are guilty of simply assuming that geographical proximity is necessarily central to the diffusion of tacit knowledge, rather than seeking to verify such a claim on an empirical basis. Particularly, while it is fair to say that organisational research has shown that the development of shared conventions, ‘culture’ and trust within geographically dispersed units of MNCs and their global production networks is *difficult* and imperfect, this is quite different from saying that the development of organisational ‘closeness’ in the management of tacit knowledge is *necessarily* more difficult than the development of high trust extra-firm linkages within local geographies. Equally, concentration of the importance of access to local networks of knowledge seems rather to neglect the continuing importance of proximity to markets in the location decisions of firms.

There is clearly some convergence, however, between the ‘locally embedded tacit knowledge’ arguments and those around ‘societal comparative advantage’ developed by societal institutionalist researchers, although they concentrate on different geographical levels – this raises the question:

*To what extent, and under what circumstances, sub-national strategies are trapped within the logics of particular national business and political systems, or have the potential to be innovative and to create distinctive sub-national forms of interaction which can help bring sustainable advantages to the region?*

These questions of course predate the current economic crisis. But the property and financial booms experienced in various European countries in the last decade served to mask some of the deeper problems involved in
regional (and national) competitiveness within globalisation, particularly the need to establish higher positions in global value chains in response to the pressures of neo-liberal globalisation. The question of how governance actors help to achieve the forms of coordination which seem to be required has clearly, in the light of a severe economic and financial crisis, become more acute.

The material that follows is based on semi-structured interviews with a range of governance actors in Asturias. At the time of writing, interviews had been completed with a range of social actors, including representatives of regional government, the local inward investment agency, the employers association, trade union federations, the University, and civil society bodies such as the regional Quality Club, a centre aimed at the development of ICT, etc. Further interviews with governance bodies were being organised at the time of writing. A second stage of the research process will involve interviews with managerial and, where possible, workforce representatives of regionally significant foreign-owned MNCs. The questionnaire was designed for the wider project mentioned above, and thus will eventually be broadly replicated across at least eight regions in four countries. Interviews were recorded, subject to the permission of interviewees, and are in the process of transcription. Material included here is based on notes taken by the researchers on listening to the recordings, as well as field notes. At a later stage, fully transcribed interviews will be coded using data analysis software, while a form of social network analysis will also be employed.

2. The case of Asturias

Asturias clearly faced significant economic challenges even prior to the current economic crisis. Unlike the majority of Spain, it had a declining population, and also had to face the phasing out of European Union convergence funding in the wake of EU expansion.

Equally, in terms of attracting productive investment to the region, notwithstanding some notable successes, its peripheral location (both within Spain, but particularly within the EU) poses problems. The social actors recognised in the tripartite agreement on Competitiveness, Employment and Well Being (ACEBA 2008), that:

Foreign firms (typically) do not know Asturias, while Spanish firms often have a distorted image of the region, as a territory linked to declining industrial sectors. The first objective will be to promote the image of a modern Asturias, with advanced services and infrastructure, with enormous potential because of the quality of its human resources, and its integration in international markets.

Large greenfield investment is also very difficult because of limited land available for industrial use. In reality, such investment is, as one of our
interviewees argued, likely to be largely confined to logistics operations (eg ICT, etc.). Further problems cited in our interviews include the complex governance structure – i.e. a high number of municipalities and competition between the towns in the urban centre of the region – and a widely cited “lack of entrepreneurial mentality”.

However, it also has a number of advantages, as perceived by several of our interviewees. Productivity is higher that the Spanish average, reflecting an oft-cited strong “manufacturing culture” which is argued to be difficult to develop in other places. The workforce is relatively well qualified, traditionally in the areas of mining and metalworking, but also in the chemical industry and telecommunications. In new technologies, particularly ICT, the human resource supply of Asturias is also seen as good.

To these can be added certain natural advantages, such as the availability of sea transport for industrial goods and raw materials, while health, education and social services are seen as good. A number of respondents also mentioned what might be termed “soft factors” related to the quality of life in the region, which are widely recognised as being important to the attraction of managers and highly qualified workers. This also, it is argued, means that the managers of Asturian operations tend to become “Asturianised” and defend local interests.

2.1. Perceptions on FDI and MNCs

Given its background in industries previously dominated by state capital (mining, steel), the expansion of FDI has affected the Asturian economy profoundly. Typically, a move from state capital to competitive MNCs is seen as having made Asturias a more open and competitive economy; actors from trade union federations, as well as from more predictable sources such as the development agency, see foreign ownership as bringing knowledge to the rest of the Asturian productive sector, and demanding higher levels of quality, as well as lower levels of industrial conflict. One trade union leader describes the effects on local firms

The Asturian entrepreneur wasn’t accustomed to demands for quality and searching for new markets, they were supported for many years by the large public enterprises and were not worried about productivity. That was a deficit that has been corrected

Equally, an employer representative argues:

MNCs believe in continued training, the Asturian employer doesn’t. In the MNCs this continued training is not only encouraged, sometimes it is demanded. The criterion for promotion is professionalism, as measured through results and training, and this influences Asturian firms which do business with MNCs.
There is therefore, on behalf of most actors, representing both employers and workers, an attitude that MNCs have superior management systems, which can create spillover effects to the wider economy.

Attitudes to seeking new FDI are also largely positive; a previous perception of foreign investment as something of an “invasion”, particularly in the labour movement, has been replaced by a positive perception of the work and wealth created.

This is not to say that there are no reservations about a development policy being over-dependent on FDI. Many actors are aware of the danger of spending public money on free land, infrastructure and grants to companies whose investment is very short-term. A regional governmental representative argued that MNCs continue to have nationality, in that they tend to concentrate high value added activities in their country of origin. More fundamentally, the argument that it is more important to develop local SMEs was implied by a minority of respondents.

Local actors are keen to distinguish between different types of investment. As already stated, Asturias has a high proportion of formerly nationalised corporations, which following privatisation have tended to move into foreign ownership (these are referred to by one governmental actor as “false multinationals”). Although such mergers and acquisitions appear on indices of FDI, internationalisation of their ownership does not, of course, create employment (although it is possible that internationalisation has in some cases given units the necessary critical mass to remain competitive). The degree to which the foreign ownership of such firms has any impact on the regional productive system will, as implied above, depend on the extent to which foreign ownership implies active foreign management, e.g. the introduction of new physical or human resource “technologies”.

Of course, the owners of such plants may have a degree of locational flexibility that means that the local plants need to compete for renewed investment and ultimately to avoid closure. However, there is awareness that this is not consistent across industries: as one employer representative put it “it is not the same to dismantle a steel works as an electronic assembly plant”.

2.2. Targeting sectors?

There does not appear to be any specific policy (at least an explicit one) of aiming for particular types of investment. An alleged lack of a long-term perspective, or of consideration of the effects of investment on local firms, is criticised by one employer representative, although a move away from a dependence on chasing highly mobile investment with grants is highlighted positively by other respondents.

There does appear to be some targeting of the ICT services sector, with a number of investment projects being successfully attracted. This enables one representative of a technology agency to argue
Now it’s not just any firm... (as in the 1980s)... firms are chosen. It is moving in the direction of firms which coincide with the Asturian clusters, as for example in the Knowledge cluster.

For the investment agency, while sectors in which to seek investment are not specified, ICT services with high knowledge requirements is one of the main current options for attracting investment, given the growing market in this area, the lack of possibility of competing for labour intensive investment, and the relative dearth of new investment in capital intensive industries which the region might be competitive in. It is also recognised that large new single investments are both unlikely, and arguably, from the point of view of the development agency, not desirable, given the dependencies created within the productive model and possibilities of crisis. Nevertheless, the implicit targeting of ICT is not universally popular, with one employer representative regarding such firms as a “dangerous bet” due to their mobility.

2.3. Competition within Spain

One problem highlighted in the previous literature on regional development and mobile investors is the potential that regional competition becomes a zero-sum game, i.e. that MNCs with genuine locational flexibility simply play regions, as well as countries, off against each other. As one union federation representative put it,

“there is now an office for attraction of FDI in every community in every country competing for a market, and that brings chaos”.

Equally, the auction can continue after decisions have been taken, as another senior union representative argued.

“In the end, the Autonomous Communities compete among themselves, and the MNC has already decided where to invest, but negotiates with various Communities to put pressure on and obtain a better settlement”.

One unintended consequence of the strength of regional government in Spain may be that the capacity of firms – included national firms that are mobile within Spain, as well as MNCs – to play such games successfully may be increased, thus risking wastage of financial resources. Whether this is a greater problem in countries with more powerful sub-national governance institutions, and indeed whether this potential disadvantage might be outweighed by the greater possibilities available to develop sub-national meso-economic policies, are among the questions our wider project eventually hopes to address.

2.4. Organisation of FDI attraction and retention

The ACEBA regional social pact recognised the need to attract investment, through a variety of means aimed at marketing locations, but also to maintain and reinforce existing investment in the region.
The regional development agency (IDEPA) was charged with identifying difficulties which could lead to existing investors leaving the region and attempting to find solutions, including lobbying the headquarters of international firms where necessary. Equally, it is responsible for identifying new investment projects of firms and helping them to put these in operation. IDEPA also has a role identified in the collective agreement of feeding back reported problems of investors to the relevant governance actors. In principle, “in IDEPA a firm has all it needs, installation, help, incentives” (interview). The vast majority of new investment in Asturias will pass through this agency in any case as it is the transmission belt for incentives of various kinds. While links exist with the social partners in a formal sense, the development agency seems to operate with a high degree of autonomy.

Like similar governmental agencies elsewhere, the main direct tools in attracting (and sometimes retaining) investment consist of grants, indirect fiscal policy (e.g. the pricing of electricity for large-scale industrial users, although the use of this sort of measure is limited by European regulation), and the development of industrial land. Grants (which only require five years of investment) are unlikely to attract firms which are likely to offer much to the productive system in the medium to long-term; for the development agency “grants are like sex appeal, they are enough to attract you but not for marriage”, and firms do not make investments only for grants, particularly as similar offers will be available elsewhere.

The twin role of IDEPA in dealing with attracting new investment and seeking to work with existing investors is fairly common to development agencies elsewhere in Europe. In England, for example, there is a very similar functional split between the initial attraction of investment and what has traditionally been known as ‘aftercare’, with Regional Development Agencies having a statutory responsibility for managing relations with existing investors. Equally, anecdotal evidence would suggest that ‘core’ EU15 countries such as France and Germany have recently begun to pay much more active attention to competing for international investment, whereas previously such concentration on foreign productive investment was primarily a feature of peripheral regions/countries, and/or highly deregulated countries such as the UK. In other words, such investor development work is necessary to the attraction and retention of productive investment, but is clearly not in itself sufficient.

2.5. Clusters

Academics and policy-makers seeking to improve the competitiveness of places, particularly within high-wage countries under globalisation, have frequently used the term “clusters” (e.g. European Commission 2009). The term broadly means a geographical concentration of establishments in a particular sector or productive activity, who improve their competitiveness through acting together in ways which go beyond simple contractual relations. Normally part of the same value chain, such firms would tend to
have similar clients/production processes/skill needs/product markets/needs to share knowledge etc. Much attention has from time to time been paid to this notion of localised production systems, giving rise both to a considerable academic literature (e.g. Porter 2000) and to interest among consultants of local/regional competitiveness.

There is, inevitably, often something of a gap between the vision of economic clusters commonly found in the academic literature, and that found at policy level. This is by no means confined to Spain: some regional actors in England, for example, are noticeably hesitant to use the term ‘clusters’, as they see some of the high-trust, collaborative language involved as somewhat unrealistic.

Interestingly, in the Asturian case, the term ‘clusters’ has been used consciously and deliberately to refer to a large number of very broad sectors – as broad as “energy”, “maritime”, “chemical”, etc, which between them account for the overwhelming majority of private-sector regional GDP. This particular clusters policy has been developed by the regional development agency IDEPA, and agreed to in the tripartite collective agreement, with the explicit aim of creating a greater level of inter-firm cooperation, which, interestingly, is identified as a key regional weakness by the regional development agency itself:

In IDEPA we consider it to be fundamental to develop a culture of cooperation, which until now has been very under-developed in Asturias. Because of this, the first concrete objective was to identify the most significant sectors in which to stimulate this cooperation (IDEPA 2009).

In an interview, a regional officer puts it more strongly:

Association (among Asturian employers) has acquired the form of lobby groups (they only cooperate in terms of collective negotiation, putting pressure on the Administration), beyond this, there is no spirit of cooperation, it doesn’t exist.

Equally, the regional social pact refers to:

the existence of a number of obstacles which constrain the development and consolidation of processes of inter-firm cooperation, mainly among SMEs and also between SMEs and large firms...

The current Asturian ‘clusters’ policy is therefore specifically oriented towards a problem diagnosed at the regional level, because of the perceived failure of earlier attempts at imposing ‘cluster’ visions from elsewhere:

We put great effort into reflecting on what a purely Asturian clusters policy would look like. Perhaps the biggest error that was made with previous attempts, over several years of trying to put in place such policies in Asturias, was to copy, virtually literally, models from other
regions which had different characteristics. I refer, for example, to the Basque model, where clusters policy is very developed and there is a much stronger culture of cooperation (IDEPA 2009).

The Asturian clusters model, which, it is claimed, is based more on experiences outside Spain, such as in Upper Austria and in Slovenia, is said to be a much ‘softer’ model, based largely on project-based networking. This model, it is argued, has low structural costs, with firm-level coordination on projects supported by the regional agency acting as a catalyst and facilitating communication. Improving coordination in this way, particularly in the creation of infrastructure which otherwise might suffer from market failures is, at least in principle, a sensible, and relatively cheap, form of risk-sharing across the private sector, and with publicly funded agencies. There is, here, an admission that the ingredients for positive sum agglomeration and cooperation between firms within value chains were not yet in place, and that it was necessary to attempt to foster the conditions for more collaborative forms of firm strategy through region state supporting for networking etc.

Some ‘clusters’ appear to be attempts at general firm upgrading through target-setting, rather than close-knit clusters. For example, the cluster covering traditional areas of manufacturing has among its objectives that each member firm will, by 2013, have at least two R&D projects partially funded by regional or national bodies, and that at least ten patents/industrial designs will be registered.

The collective agreement on clusters itself recognises the need for variability in their functioning depending on the value chains involved, the firms and business groupings active in the region, and the broader ‘associative, institutional and infrastructural environment’. Once the precise membership of clusters, and the value chains involved, has been determined, however, the intention is: to put into place actions which will contribute to the development of cooperative strategies between small and large firms, including the sharing of supply chains, technology transfers, joint R&D projects, etc; as well as actions which will support the commercialisation of Asturian products outside the region.

The regional government announced eight ‘areas of activity’ which could be a starting point for the constitution of clusters. As already stated, these are very broad: energy; the automobile auxiliary industry; maritime, knowledge industry; agro-food industry; chemical and environmental; wood and furniture; and general manufacturing. These cover 90 per cent of private sector value added in the region and, again, suggest a general attempt to move towards greater coordination between firms rather than very specific projects in more closely identified value chains.

Whether MNCs work within/alongside such clusters is somewhat unclear, and as the policy in its current form is relatively new, it is perhaps too early to make pronouncements on its success or otherwise. It is clear that Arcelor is strongly
embedded in various institutional bodies, and the ICT cluster contains some MNCs. Some more general actors however argue that MNCs have no significant role within clusters.

This brings us to the wider question of embeddedness. On the one hand, it would be easy to conclude that the institutional embeddedness of the foreign MNCs in Asturias was fairly weak. Their interaction with the regional industrial relations system, in particular, is fairly limited. While some of the more established MNCs such as Arcelor may be members of employers associations, their role in them is purely formal. Other large foreign MNCs either operate non-union systems (Du Pont) or systems of micro-coordination (Thyssen). Whatever their internal industrial relations policies, they take relatively little interest in social dialogue at the regional level, or in formal training provision as, to quote one union leader, “they don’t need it”.

However, the local managers of MNC units have had some degree of active involvement in the modernisation of the productive system, as is witnessed, for example, by their role in setting up the regional Quality Club, which aimed, originally, at spreading the management cultures of MNCs to local suppliers. This Club, among other activities, runs open days in the large MNCs in attempts to permit learning and application by other regional organisations.

More generally, as one employer representative argues:

MNCs are interested in knowing the Asturian industrial fabric….they talk to us about personnel management, the prevention of accidents, mechanisms for exporting…but they don’t give you their know-how.

Thus, on the whole “embeddedness”, in very general terms, seems to be mainly limited to a dependence on the good human resource supply of the region, and a certain degree of willingness to coordinate the “overspill” of MNC ideas into local firms. It is likely that the nature and extent of more specific embeddedness, particularly that involving knowledge creation and development, will become more apparent in later stages of our research.

2.6. A “new productive model”?  

Clearly, one part of any “new productive model” would be, as argued by a trade union leader, a greater orientation towards the knowledge economy and society, and the development of research and development, themselves key to attracting the more desirable forms of foreign capital towards the top of global production networks (or indeed to allowing local SMEs to operate effectively within such networks). But, according to the same respondent, this would require a number of significant changes – to firm culture, to society, to the University.

One problem with talk of changing the productive model in old industrial regions is that high numbers of high value-added employment remain
attached to heavy industry, leading some to argue in favour of “reinforcing” rather than changing the productive model. While there is no necessary contradiction between attempting to reinforce existing industry and developing in emerging areas, the need to defend employment in existing large firms may make a more fundamental rethinking of regional level industrial policy unlikely.

Another obvious problem is that the development of an endogenous regional innovation system (Cooke et al 1997), which depends less on the attraction of specific MNCs and more on the creation of an “ecosystem” which can respond flexibly to economic change, requires, among other things, public investment which is unlikely to be forthcoming in the middle of a financial crisis, as one respondent in an ICT centre reflects:

We need to create our own space for research and technology through policies which aid research. The Principality helps research, but the central government has cut costs. To maintain this competitive advantage you need scientists and not to allow them all to leave, but without the financial means there is nothing to be done.

3. England

The picture in the UK is quite fluid because of the recent change of government. The previous government, looking at national level government reports, has clearly taken account some of the academic talk of the supply of innovation cited above; a Conservative-led government may well retreat to a more outright neo-liberal position. Given that government in England itself is very centralised, strategies in dealing with the crisis and in seeking to attract new forms of investment are probably more affected by a change of government in England than elsewhere. The following brief remarks deal with the situation as of May 2010; it is clear, however, that the current coalition is reviewing actively regional development institutions, and skills agencies, both as a matter of reducing the budget deficit, and, perhaps, for deeper underlying ideological reasons.

Looking at sub-national economic governance in England (the picture in Scotland, Wales and Northern Ireland is slightly different because of the existence of autonomous governments in those countries), the most important actors in terms of developing regional economic strategies and brokering provision in a number of areas are the Regional Development Agencies (RDAs), of which there are nine. These cover very wide geographical areas in terms of population, typically covering 4-5 million people. In their current form, these were created by the Blair government in 1998. These are ‘business-led’ institutions, who report to the Department for Business Innovation and Skills. Board members are appointed by central government, typically featuring business leaders from a range of sectors,
university vice-chancellors, local or county councillors and the occasional trade unionist. Their performance is managed through a number of Key Performance Indicators which are set by central government.

RDAs are intended to act both as strategic enabling authorities to permit regional economic development, act as brokers between other actors in the institutional infrastructure, and also directly seek and manage foreign direct investment. So, inward investment facing functions sit, with varying degrees of cohesiveness, alongside many other functions and goals (such as wider business support, innovation, skills, sustainable development, social inclusion, etc.). In other words, as well as the promotion of private sector investment, they perform many roles which in Spain would be devolved to regional parliaments and their agencies.

The relevant national ministries have attempted to support the idea of local clusters periodically, but largely through rhetoric rather than in the form of any particular public support. However, unlike in a small region in Spain, the Regional Development Agencies in the UK are large enough to manage inward investment through sectoral teams, allowing some degree of coordination and aggregation of similar requests from foreign investors in similar areas of activity.

Inward investment work itself covers, as in Spain, the attraction of new investment and investor development work, or what was traditionally known as aftercare. There appears to be a widespread recognition among the English actors that the perceived advantages of labour market flexibility, which encouraged high levels of foreign investment in the UK in the 1980s and early 1990s, are no longer repeatable. This means that regional managers responsible for seeking investment claim to have developed a much more targeted approach. For example, to quote one interview respondent:

"it’s about looking at which companies we want to target, who do we want into (Media Park), who do those facilities benefit, and then targeting those companies. So, you’re not going out with a general message, you’re saying I want one of those, two of those, and three of those, and then we tell our overseas (people), these are the targets we want to go after, these are the messages why we think they should be in (Media Park), and it gives them something very compelling to get through the door of those companies" (Regional Inward Investment Manager).

“skills as a topic is a constant and recurring theme and is by far and away the single most recurrent issue and has been over the last 5 or 6 years in terms of our discussions with those businesses” (Investor Development Manager, Region B)

Both general skills issues, in terms of lack of education among low-skilled labour, and more specific skills issues, are seen as problems in the relations
between localities/regions and multinational firms, and are seen, outside the economic crisis and its effects, as the most single recurrent issue brought up when English regional agencies talk to their existing multinationals. This, obviously, is a particular problem where the skills need of firms does not match public provision. It is also apparent that there is a multiplicity and inconsistency of central government skills initiatives within England, and a broader lack of stability within the skills system which serves to confuse both private sector firms and those individuals who might benefit from such training.

Equally, problems of coordination between firms are not confined to Spain. Even large firms often fail to communicate with other large firms in their locality: the interview quotation below is far from untypical:

_Pcom said to us, with their investment skills was a major issue. They had to upskill and they wanted to put in certain process in place. We said well actually we’ve been talking to (two other local companies in the same sector), that have exactly the same issues as you around this, we will look to fund a cross-company training programme, if those companies support it as well, if they put some funding it. So we put matched funding in, the programme was incredibly successful, I think it won all sorts of national training awards, but that actually benefitted three or four companies there because they all had the same issues. Now they weren’t talking to each other, but because our sector team was key account managing three or four of them, we could draw out those common issues.”_ (Investor Manager, Region).

This quotation shows the potential advantages, from a functional business point of view, in the existence of public intermediaries in liberal market economies. It perhaps also shows, however, that many relatively large foreign multinationals tend, at least in the UK, to be slow to look for creative solutions to their human resource supply issues outside the firm itself.

Finally, again in a liberal market economy, the public role of monitoring and ‘aftercare’ is particularly important, given the lack of strategic consultation taking place with other national or local actors. For example:

_From an aftercare (perspective), it’s perhaps best typified by an example that we tend to use quite a lot here, but Hitachi made TVs in North Wales. And one day it closed, and everyone went “Ugh!” and four, five hundred people closed. Well actually, if you’d known the sector, you’d have known that cathode-ray tube televisions were on their way out, everybody was buying flat-screens, but nobody actually challenged Hitachi in that factory, how they were adapting to the new technology. Nobody said, where you going to be in four, five years time, and actually plan to either downscale that plant, so there’s a managed closure, or look to work with Hitachi to actually bring in new technology (Investment Manager, Region)
4. Concluding remarks

The governance dilemmas involved in dealing with a fluid, fragmented model of production, and with the unequal power dynamics between governance actors and internationally mobile firms, obviously predate the current economic crisis. What the crisis has done, however, is to put the existing competitive advantages and disadvantages of regions and countries into much sharper relief, as competition for mobile investment becomes yet more intense, and, given the lack of serious questioning of the broader economic system, more important in terms of the creation and preservation of employment.

Additionally, the crisis has brought to the fore existing concerns about regional and national employment systems and how these might be dealt with. In particular, the recent economic booms in the UK, and especially Spain, did nothing to deal with severe underlying problems such as a large number of low-skilled workers. Indeed, investment in “knowledge”, as defined by the OECD (OECD Factbook 2006) increased more slowly, and from a lower starting point, in Spain (and the UK) than in “high investment economies” such as Sweden, the USA, Finland, Korea and Denmark.

Equally, as directly admitted by the Asturian social actors in the establishment of a ‘clusters’ policy, collaboration between employers has tended to be weak. Under increasingly collaborative supply chains (Herrigel and Zeitlin 2009) fostering cooperation among employers is likely to be a necessary condition to improving regional economic performance over the medium term. Whether improved inter-firm coordination is likely to be sufficient is another question, however. The challenge of creating a higher-skilled, higher trust employment relationship is equally important and remains a difficult, although far from insuperable, challenge for the social actors concerned.

Another concern, from a more national point of view, is how a situation can be avoided where different regions compete with each other, either for particular pieces of investment or in identical value chains, potentially leading to zero-sum games at a national level. Finally, there remains the perennial open question of the potential for “institutional capture” (Phelps 2001): in other words how far should sub-national governance actors tailor their business systems to needs of specific actors in global production networks remains a difficult issue.
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