

3. DIFFERENT REGIONS, SPECIFIC PRODUCTIVE NETWORKS

There have been hundreds of examples of interest in the individual characteristics of regional economies,²⁶ but the current interest in this focus began in the early 1970s in the United States. There was a more systematic analysis of the de-industrialisation taking place in the North and the consequent migration of industrial plant to the South and abroad. This migration was due to factors such as imports of steel, automobiles and machine tools, and to the maturing of services and incentives to re-locate industries in other regions.

A phenomenon which has attracted a lot of attention among managers and students of economic development policies is the trend for business to become concentrated in specific regions, making up clusters or industrial districts.²⁷ The clearest stimulus behind this trend is the advantage of having specialised suppliers, services, clients and consumers all concentrated in one place.

It could be argued, however, that the concept of a cluster or industrial district - like the industrial districts in Italy - cannot always be applied to districts and places even when there is a grouping together of companies that are all in the same branch of activity.

Meyer-Stamer²⁸ identifies three kinds of clusters in developing countries (with specific conceptions of promotion): **survival, Fordist and transnational**. The **survival cluster** belongs to the informal sector of the economy and is made up of subsistence micro businesses with characteristics which include modest social

26 Already in the 19th century various studies by the Department of Agriculture in the United States and by the research services of some universities were working to identify the comparative advantages for agriculture in the economies of different regions and states. The motivation was to increase the productivity of establishments and to stabilise rural families (Makusen and Schrock, 2001).

27 Strictly speaking, an industrial district does not consist of a group of pieces of land with enterprises from various branches, as can be found in some Latin American countries, but an industrial agglomeration with a restricted specialisation profile like, for example, hundreds of companies that all produce shoes.

28 Meyer-Stamer, Jörg, "Estratégias de Desenvolvimento Local e Regional: Clusters, Política de Localização e Competitividade Sistêmica", ILDES, *Policy Paper* No. 28, September, 2001. Available at <http://www.fes.org.br>

capital, a high degree of distrust between firms, ruinous competition, and minimal capacity for innovation. The second type are **clusters with greater development potential** that were created to substitute imports during the industrialisation phase involving large enterprises and the Fordist production model. Finally, the **transnational cluster** results from changes in the strategies of transnational enterprises which spring from a combination of two factors: the demand in the host country which leads the enterprises to invest in developing local suppliers, and the strategy of conferring on these firms the status of 'globally preferred suppliers' so they would be supplying to company branches located all over the world.

In addition, Markusen also refers to the hub and spoke model (with big enterprises in the centre as hubs), the cluster satellite (dominated from outside) and the state-anchored induced model.²⁹

Hypothesized Features of New Industrial District Types

Marshallian industrial districts

- Business structure dominated by small, locally owned firms
- Scale economies relatively low
- Substantial intradistrict trade among buyers and suppliers
- Key investment decisions made locally
- Long-term contracts and commitments between local buyers and suppliers
- Low degrees of cooperation or linkage with firms external to the district
- Labor market internal to the district, highly flexible
- Workers committed to district, rather than to firms
- High rates of labor in-migration, lower levels of out-migration
- Evolution of unique local cultural identity, bonds
- Specialized sources of finance, technical expertise, business services available in district outside of firms
- Existence of "patient capital" within district
- Turmoil, but good long-term prospects for growth and employment

Italianate variant (in addition to the above)

- High incidence of exchanges of personnel between customers and suppliers
- High degree of cooperation among competitor firms to share risk, stabilize market, share innovation
- Disproportionate shares of workers engaged in design, innovation

²⁹ Markusen, Ann, *Sticky Places in Slippery Space: A typology of industrial districts*, Economic Geography, 1996. Available at <http://www.hhh.umn.edu/people/amarkusen/districts.pdf>

- Strong trade associations that provide shared infrastructure-management, training, marketing, technical or financial help, i.e., mechanisms for risk sharing and stabilization
- Strong local government role in regulating and promoting core industries

Hub-and-spoke districts

- Business structure dominated by one or several large, vertically integrated firms surrounded by suppliers
- Core firms embedded nonlocally, with substantial links to suppliers and competitors outside of the district
- Scale economies relatively high
- Low rates of turnover of local business except in third tier
- Substantial intradistrict trade among dominant firms and suppliers
- Key investment decisions made locally, but spread out globally
- Long-term contracts and commitments between dominant firms and suppliers
- High degrees of cooperation, linkages with external firms both locally and externally
- Moderate incidence of exchanges of personnel between customers and suppliers
- Low degree of cooperation among large competitor firms to share risk, stabilize market, share innovation Labor market internal to the district, less flexible
- Disproportionate shares of blue-collar workers
- Workers committed to large firms first, then to district, then to small firms
- High rates of labor in-migration, but less out-migration
- Evolution of unique local cultural identity, bonds
- Specialized sources of finance, technical expertise, business services dominated by large firms
- Little "patient capital" within district outside of large firms
- Absence of trade associations that provide shared infrastructure-management, training, marketing, technical or financial help, i.e., mechanisms for risk sharing and stabilization
- Strong local government role in regulating and promoting core industries in local and provincial and national government
- High degree of public involvement in providing infrastructure
- Long-term prospects for growth dependent upon prospects for the industry and strategies of dominant firms

Satellite industrial platforms

- Business structure dominated by large, externally owned and headquartered firms
- Scale economies moderate to high
- Low to moderate rates of turnover of platform tenants
- Minimal intradistrict trade among buyers and suppliers
- Key investment decisions made externally
- Absence of long-term commitments to suppliers locally
- High degrees of cooperation, linkages with external firms, especially with parent company
- High incidence of exchanges of personnel between customers and suppliers externally but not locally
- Low degree of cooperation among competitor firms to share risk, stabilize market, share innovation
- Labor market external to the district, internal to vertically integrated firm
- Workers committed to firm rather than district
- High rates of labor in-migration and out-migration at managerial, professional, technical levels; little at blue and pink-collar levels
- Little evolution of unique local cultural identity, bonds
- Main sources of finance, technical expertise, business services provided externally, through firm or external purchase
- No "patient capital" within district
- No trade associations that provide shared infrastructure-management, training, marketing, technical, or financial help, i.e., mechanisms for risk sharing and stabilization
- Strong local government role in providing infrastructure, tax breaks, and other generic business inducements
- Growth jeopardized by intermediate-term portability of plants and activities elsewhere to similarly constructed platforms

State-anchored industrial districts

- Business structure dominated by one or several large, government institutions such as military bases, state or national capitals, large public universities, surrounded by suppliers and customers (including those regulated)
- Scale economies relatively high in public-sector activities
- Low rates of turnover of local business
- Substantial intradistrict trade among dominant institutions and suppliers, but not among others

- Key investment decisions made at various levels of government, some internal, some external
- Short-term contracts and commitments between dominant institutions and suppliers, customers
- High degrees of cooperation, linkages with external firms for externally headquartered supplier organizations
- Moderate incidence of exchanges of personnel between customers and suppliers
- Low degree of cooperation among local private-sector firms to share risk, stabilize market, share innovation
- Labor market internal if state capital, national if university or military facility or other federal offices for professional/technical and managerial workers
- Disproportionate shares of clerical and professional workers
- Workers committed to large institutions first, then to district, then to small firms
- High rates of labor in-migration, but less out-migration unless government is withdrawing or closing down
- Evolution of unique local cultural identity, bonds
- No specialized sources of finance, technical expertise, business services
- No “patient capital” within district
- Weak trade associations to share information about public-sector client
- Weak local government role in regulating and promoting core activities
- High degree of public involvement in providing infrastructure
- Long-term prospects for growth dependent on prospects for government facilities at core

Source: Markusen, Ann: ‘Hypothesized Features of New Industrial District Types’, in *Sticky Places in Slippery Space: A typology of industrial districts*, Economic Geography, 1996.

Nowadays, the concept of an industrial district as a geographical and social space where a high degree of economic specialization is brought about (with different configurations) only covers part of the current diversity in regional economic experiences. Rodríguez-Pose refers to three categories³⁰ that can be called ‘winning regions’ in the current context of globalisation:

| 30 Rodríguez-Pose, *op. cit.*

- a. *Large metropolitan regions:* Large urban agglomerations in both the developed and the developing worlds are becoming concentrations of high value added service activities. Business, financial, real estate, and insurance services are clustering more than ever in large urban regions, as are the headquarters of corporations. The economies of agglomeration derived from such concentration of production factors are attracting research and development and design activities to global metropolises. Foreign direct investment is also flowing to large metropolitan areas. However, this author also points out, a majority of the large urban agglomerations around the globe suffer from the emergence of a dual economy, in which wealth and high productivity jobs coexist with economic and social deprivation, a growing informal sector, and low paid, precarious jobs in the service sector.
- b. *Intermediate industrial regions:* The second group of territories that seem to be profiting from the greater mobility of production factors are the intermediate industrial regions. Such areas often offer labour cost advantages with respect to core areas, with human capital and accessibility advantages with respect to peripheral areas, making them attractive locations for new industrial investment. The combination of low wages with a relatively skilled labour force and accessibility to markets has made them primary targets for industrial investment. Much of today's mass production is concentrated in these areas.
- c. *Tourist regions:* These are regions in the developing world that have managed to find their market niche in a globalized economy and have achieved great success base in their capacity to attract large number of tourists from all over the world, or at least to built up a healthy and relatively successful tourist industry.

The application of some or all of the typologies explained above to the Latin American and Caribbean region involves various problems. This is partly because in some cases the bases upon which these typologies were constructed were studies of regional economies in the more industrialised countries. Another reason is that any attempt to apply universal categories runs into difficulties when it comes to a more concrete application in a continent which is very heterogeneous in many aspects.

Nevertheless, the following is a list of different kinds of regional and local economies in Latin America and the Caribbean, but it is not intended to be exhaustive:

- a. *Traditional rural areas.* In many of the Latin American and Caribbean countries a considerable proportion of the population still live in rural areas. In these regions it is common to find an economic activity that is centred on small scale agriculture or livestock rearing, with low levels of productivity

and which is largely oriented to auto-consumption. This is the kind of region which usually has the highest rates of poverty, illiteracy, unsatisfied basic needs and inadequate health services. Although in some cases the productive network in these regions may be linked to larger production and commercialisation chains, these co-exist with archaic distribution, tenancy and exploitation land structures that hinder the prospects of modernising the production system and the population living standards. In addition, many social and political conflicts, specially armed conflicts, are taking place or have taken place in these areas.

- b. *Rural tourist areas.* In Latin America, a relatively small proportion of rural areas have found niches in the market to exploit their potential for tourism. In some cases new opportunities are displacing traditional economic activities either because they are more profitable or because of a previous crisis in the productive activity. In other areas, the tourist undertakings do not only co-exist with economic activities that are characteristic of the region but are actually reinforced by them. In general, the tourist boom in those areas is partly based on access to natural attractions, although there can be other kinds of attractions such as local culture aspects, archaeological remains, or the productive activities that characterise the region.
- c. *Agro-industrial areas.* In some regions in Latin America and the Caribbean, the production of crops like rice, barley, soya beans, wheat, sunflower seeds, sugar cane, grapes and citric fruit, or dairy farming and raising livestock for meat and quality leather, is at the level of modern agro-industrial chains. There are high levels of investment and technological development which yield high added value, which turn out to be higher than that of agricultural areas that still rely on traditional methods of production. Where these production chains are in operation the difference between rural and urban areas and between rural and urban populations is less marked because agro-industry does not only involve basic production but also transport, storage, classification, packaging and commercialisation in the internal market and for export, and these different phases of the process are carried on in different places.
- d. *Industrial port areas.* In Latin America there are a number of port areas that constitute a category in themselves. They may be built around the fishing industry or they may handle cargo or do both, and in some cases these kinds of economic activities determine the economic configuration of adjacent areas. In other areas, port activity may be interconnected with other sectors that play an important role, specially when the port is located in or near a large urban conglomerate.
- e. *Tourist-oriented traditional fishing areas.* An economic activity that can be found on the coast and in river basins all over Latin America and the Caribbean is

fishing by traditional methods, usually based around the family or the small community. To a certain extent these places share many of the characteristics and problems of traditional rural areas, and they are closely linked to them. Production is oriented to auto-consumption and to supplying local markets on a limited scale. Although from a technological point of view these could be considered activities with low productivity, traditional fishing techniques have increased their value since they involve the sustainable management of the natural resources they depend on, which often stands in contrast to large scale fishing industries. Sometimes, these fishing villages are able to develop their tourist potential (an activity in harmony with their traditional economic activity).

- f. *Industrial areas in the process of rationalisation.* Liberalisation in general and trade opening in particular have made a big impact in Latin America and a number of industries are making efforts to adapt to the new conditions. Even when old industries have managed to survive or improve their position in national or international markets, there have usually been profound changes in the social environment and local job markets. New focuses for organising and managing production and the technological reconstruction involved, have brought about job losses and changes in the structure of the qualifications needed for work. On the other hand, organisational changes have led to the outsourcing of many of the tasks which were previously carried out internally, leading to the creation of new kinds of jobs in smaller enterprises which operate as suppliers of products and services to the large firms.
- g. *Old industrial areas.* The old industries that grew up before or during the import substitution period have not managed to survive. Some of these are very old indeed, such as the saltpetre or rubber industries, and more recent examples are the textile sector, footwear, meat processing plants and tanneries. Many of these industries were large scale and dominated the economic and labour life of the regions and cities where they were located. Their disappearance has led to endemic unemployment, migration, and lack of economic dynamism. In some cases, the land that was previously destined for industrial purposes has been put to other uses which may involve tourist facilities, the development of service areas or the incubation of small enterprises.
- h. *Border areas.* These are limited geographical spaces that are near international borders where two adjacent societies and economies interact and are interconnected. In Latin America these border areas have certain common characteristics: their economies are relatively isolated and depressed compared to the main urban centres, they have a low level of development, they are less densely populated and, in a political sense, they are heavily dependent

on the main decision-making centres. This combination of characteristics lead these areas to develop a *modus vivendi*, adapting to the reality of being distant and underdeveloped, and they are no strangers to smuggling, illegal migration, and in recent years to drug trafficking.³¹

Another situation which can be found in some border areas has its roots in differences in the offer, the prices, the production costs and the legal requirements in each country. Large industrial undertakings usually decide to set up their plants in the border area of a neighbouring country to take advantage of favourable exchange rates or labour costs that are considerably lower than in their own country. In no way does this mean 'growth and development' for the locations chosen since the profits that these enterprises make are not re-invested in the area and the salaries they pay are too low to activate the local economy. Despite these enterprises may create new jobs, they are of low quality and imply no social protection or social security.

- i. *Traditional specialised industrial areas.* In a number of countries there are places or regions which have a concentration of many micro and small industries that are specialised in a particular kind of production such as furniture-making, handicraft stone work or shoemaking. They have frequently come about for historical reasons, and sometimes because of specific resources availability (such as wood, stone, leather, etc.). Strong collective traditions grow up over time, and make the main economic activity of the area a distinctive characteristic in regional identity. These concentrations, and the knowledge capital that they involve, may attract larger firms that are in the same field but have better technology and greater commercial reach to establish themselves in the area.
- j. *Extraction industry areas.* This group consists of different kinds of industries with very different characteristics which necessarily lead to the creation of economic structures and labour markets that are completely different. Examples are oil fields, natural gas fields, and the mining of precious and semi-precious minerals. In some cases, these industries import a high level of technology and heavy investment (for example, petrol and natural gas) and in others production depends on the intensive use of labour. Some of these industries require their personnel to be highly specialised and trained while others do not require their workers to have any kind of previous training. Conditions of work and the degree of market regulation in each case are also very varied.
- k. *Large metropolitan areas.* Some examples of large urban conglomerates are the Federal District in Mexico, Sao Paulo, Buenos Aires, Bogotá and Santiago de

| 31 Valenciano, Eugenio, *La Frontera: Un nuevo rol frente a la integración. La experiencia en el Mercosur.*

Chile. As Rodríguez-Pose has pointed out, these tend to bring together many activities with high added value, which range from modern industries to different kinds of services, and which may be of national or transnational origin. Due to their weight in terms of demography and employment these regions tend to guide the service sector growth. Although the informal sector is clearly important, economic benefits also tend to become concentrated in these regions, which constitute the best economic and occupational mix.

The categories set out above are only an aid to analysis, and when applied on the empirical level they cannot be mutually exclusive. All regions constitute an economic and occupational mix in their own ways and to different degrees. Consequently, the advantages of regional economic analysis are easier to see by making a synthesis that goes beyond sectoral analysis and the study of regional planning based on criteria of administrative policy.

Moreover, we can also ask to what extent exclusive consideration of the kinds of economic activity that are concentrated and combined in certain regions constitutes a factor in explaining their development processes. Some authors think that a focus on occupations has greater explanatory power than a focus which is exclusively on industry.³² This is based on the idea that the education, location and migration of people with specific competencies connected to occupations or families of occupations are more important than the location and migration of installations, firms or industries. While these two aspects are clearly related, and it is obvious that people do seek and pursue job opportunities, the argument here is that people are increasingly choosing locations because of specific kinds of facilities, advantages and personal preferences, and that now the enterprises are following the workers. Research carried out by these authors indicates, first, that the distribution of occupations among different industries is diffuse while the occupational structure of these industries changes over time. Second, that the regions are characterised by significant occupational considerations which in certain cases create a concentration of specialised occupations that is greater for example than the national average. Third, over time a significant number of occupations become disconnected, that is to say they become mobile and their continuing presence in the regional economy cannot be predicted with complete accuracy based on their presence there in the past.³³

Therefore, the conclusion is that insofar as it is a base for stimulating local economic development strategies, regional economic analysis has to take into consideration not only the presence and structure of economic activities but also

³² Markusen, Ann; Schrock, Greg, 'Occupational Advantage: Detecting and Enhancing Occupational Mix in Regional Development', *Working Paper* No. 256, Project on Regional and Industrial Economics. University of Minnesota, USA, 2001.

³³ *Ibidem*.

the specific occupational configuration of the region. The latter does not only include the current sectoral orientation of the labour market but also its composition by occupational levels (managers, middle managers, technicians, professionals, manual workers, service workers, entrepreneurs) and the levels of qualification in that market (from the highest levels of specialisation and qualification to unskilled labour).

Finally, we should also bear in mind that just as investment, industries and firms move to different areas in search of greater advantages, the labour market is also dynamic insofar as people develop options for work, study and life which, while they may be connected to the decisions of industries or enterprises, they are also based on the people's own motivations and criteria. Although this makes the task of constructing development strategies considerably more complex, it does allow us to visualise a wider scope for intervention and for modifying current conditions.

DELNET - Local Development Support Programme of the ILO International Training Centre in Turin

With decentralization happening across the world, local principals are taking on increasing responsibility for the development of their territory and for improving the quality of life of its inhabitants.

Local development initiatives and strategies initially concentrated on a territory's **economic development**. Their main thrust was to implement job creation measures.

These measures then began to broaden their scope. They began to take an **integrated development perspective** that goes beyond the purely economic context to build "**human**" and **social development**. In this perspective, **participation** by all the players in civil society and the local socio-economic fabric is an indispensable condition for the sustainability of development.

Local development thus becomes a tool of consultation and social dialogue. It places responsibility for designing and implementing sustainable development strategies in the hands of its beneficiaries, the local players.

One of the pillars of local development is the mobilization of a territory's inherent potential, the strong points of each local environment, to enhance the quality of life of its inhabitants.

This inherent potential is taken better advantage of when there is contact and relationship with other places, regions and countries: acting locally and thinking globally.

The local level is often geographically isolated and outside the main channels of information. This impedes access to skilled human resources and to specialist knowledge and information, which are essential to giving development momentum.

Delnet is a local development support programme run by the **International Training Centre** of the International Labour Organization, one of the United Nations' specialized agencies.

The International Training Centre of the ILO is based in **Turin, Italy**. It offers training in areas such as job creation, improving working conditions, workers' rights, equal opportunities and social dialogue.

In recent decades, local socio-economic players have increasingly had to deal with these issues, and have often found it hard to do so.

Delnet supports local development and decentralization by **enhancing the capabilities** of local players through **training, information, technical consultancy and networking**.

Training

Delnet's innovatory use of information and communications technology (ICT) takes it beyond the bounds of traditional training.

The Delnet programme offers a model of **distance training** based on Internet use, in which participants can step into a **practical, dynamic learning experience** at any time anywhere in the world.

Every participant in a Delnet course receives constant support from a specialist teaching team that uses the most innovatory training resources and services. Each participant thus becomes the protagonist of his or her own training process.

All Delnet courses support the participants in their daily local development work by providing not only theoretical models but also practical tools that are applied throughout the training process. The participant's access to Delnet's information and technical advisory services complements this process.

Information

InfoDelnet is Delnet's information service. It seeks to provide participants and their institutions with global, up-to-date information on cases, ideas and initiatives that affect the local world.

To this end, it uses the following tools:

- A direct **e-mail line**
- Specialist **publications**
- Delnet's **Intranet**

Technical advice

AsistecDelnet is a personal **technical advice service** on local development issues and the use of information and communication technology

that Delnet offers its participants.

A multidisciplinary team of international experts answers participants' enquiries through a direct e-mail line.

This service enables the participants to take advantage of:

- consultancy on **managing local development** in a concrete context;
- consultancy on the feasibility, design, implementation, monitoring and evaluation of local development **projects and programmes**;
- guidance and information on **sources of funding**;
- consultancy on **strategic planning**;
- **local development models and experiences**;
- consultancy on strategies for **citizens' participation**.

To ensure that Delnet's services are used well, AsistecDelnet also offers:

- immediate **personal help** to sort out computer problems;
- the latest **warnings and information on computer viruses** and computer security;
- **practical advice** on computer use.

Networking

In a world that is ever more closely inter-connected, it is essential to know how development policies are designed and implemented elsewhere, to learn from their successes and failures, and to share ideas and opinions about the factors that influence the development of a territory.

Delnet actively promotes **networking** among participants by:

- **stimulating dialogue** among local players;
- **making it easier to share**;
- **connecting** people and institution.

The Delnet Network encompasses every individual and institution that has taken part in the programme since it began. It has participants from 55 countries in Africa, Asia, the Americas and Europe. The Network's strength lies in the diversity of its component institutions: big ones and small ones, from industrialized countries and developing countries, pub-

lic and private, local, regional, national and international, speaking various languages and working in very different subject areas and contexts.

The networking tools are:

- **DelnetForum:** An electronic forum that provides up-to-date information on experiences, meetings and news about the world of local development. It stores all the experiences shared by the members of the Delnet Network in a single, virtual, interactive location
- **Delnetlist:** an electronic mailing list that keeps all the institutions in the programme and the Delnet Network in daily contact. It is a vehicle for debate among the participants and the sharing of their information and experience.
- **Face-to-face meetings:** courses, seminars and workshops organized by Delnet, in which experts from all over the world take part.

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