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## Local Development In Times Of Globalization

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**40<sup>th</sup> EUROPEAN CONGRESS OF THE REGIONAL SCIENCE ASSOCIATION**  
**Aug. 29 - Sep. 1, 2000, BARCELONA**

**LOCAL DEVELOPMENT IN THE TIMES OF GLOBALIZATION**

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**ABSTRACT**

Economic and productive dynamics today is taking place under conditions of increasing competition and globalization. The paper argues that endogenous development continues to be a useful strategy in times of globalization and a new generation of regional policies is emerging. The new policy instruments focus on the mechanisms that strengthen the organization of the territorial actors and help the cities and regions answer the challenges of globalization

## **1. Introduction.**

Since the past decade, a new paradigm haunts the world, the globalization of both the economy and society. Markets and productive systems steadily acquire global dimensions, the State gives up protagonism and leadership on behalf of innovative firms (mostly multinational corporations), the new technology of transport and communications facilitate and reinforce the functioning and interaction of the firms and institutions.

Globalization is more significant when seen from the perspective of the economy's long cycle. The recessive phase, from the mid seventies to the late nineties, has been overcome thanks to increasing productivity in all the productive sectors (through the introduction of innovations), to a profound structural change (restructuring in the industrial system and in services activities), to institutional reorganization (privatizations and productive decentralization), and ultimately, to the emergence of the informational mode of development.

The new long term economic cycle begins in an atmosphere that favors a rise in income and employment. The new international division of labor, and the formation and development of multinational blocks and institutions with world-wide influence have increased competitiveness within the markets. Thus, the restructuring and adjustments of the productive system of the regions and cities affected by globalization will continue during the new upswing phase.

As this new scenario of competition between firms and territories began to take shape, more flexible forms of organization of production begin to emerge, new productive places appear, and firms, cities and regions faced the challenge posed by increasing competition through strategic planning and local initiatives. This is how local development policy has acquired consistency and strength, as a response on behalf of the local economies to the challenge of productive restructuring.

In a situation like today's, of emergence of globalization, and so, of increasing competition one asks the following questions: Is endogenous development still an adequate interpretation that guides both the economic analysis and the patterns of public intervention? Are local initiatives still useful instruments for stimulating territorial development, or should their contents and focus change? Is a new generation of regional policies emerging?

The paper argues that in the times of globalization, endogenous development continues to be a useful interpretation for understanding the economic and productive

dynamic as well as the answers of firms and institutions to the challenge of growing competition. After defining the concept of globalization and describing the change of scenario, the paper states that the concept of endogenous development allows argue the existence of increasing returns and presents some of the changes introduced by the new generation of regional policies.

## **1. Globalization, a new paradigm**

Recently, a new paradigm is coming into existence, the formation and development of the global economy, in which the productive system and the markets are globalized and the State is no longer the motor behind the economy but gives way to the leadership of multinational corporations. The different forms of regionalization and integration of the national economies (such as the EU, NAFTA, ASEAN, ADEC, CARICOM, and MERCOSUR) could be understood as the mechanisms through which the globalization process is institutionalized.

There is great controversy as to the significance of globalization, its importance, dynamic and impacts, which often leads to a certain skepticism as to its meaning and implications (Hirst and Thompson, 1996). In any case, it can be accepted that since a decade ago a process of increasing interdependence of the economic system is taking place and that the strengthening of economic, political and institutional relations among countries can lead to the formation of a global system, that, as Scott indicates (1998), is ever more diversified.

The factors responsible for the speeding up of the globalization process have been, among others, the following (OECD, 1996): the changes in economic and commercial policies that have generalized the liberalization of the goods, services and factors markets; the new strategies on behalf of the multinational corporations that take advantage of the new location opportunities that the openness and integration of the economic systems put forth; and the introduction of innovations in transports and communications that facilitate the integration of the markets and the internationalization of production, and reduce production and exchange costs .

As Ferrer (1996) points out, globalization is an old phenomenon, associated with the international exchange of goods and services, and the internationalization of capital and production. Nevertheless, the feature that characterizes today's globalization is the fact that the internationalization of markets and production is linked to the increasing use of new information technologies. This fact differentiates the present form of economic

integration from previous experiences linked to the search for raw materials or new markets (Oman, 1994). Globalization is strengthened thanks to more flexible models of organization of production, firm's cooperation agreements and strategic international alliances, which allow for the creation of global networks.

Globalization is paving the way towards a new international order and a new international division of labor (Ugarteche, 1997). Leadership in the global economy would correspond to the OECD countries. The newly industrializing East Asian countries and some Latin American countries, whose foreign exchange and trade controls are liberalized and their economies are open to international trade and foreign capital, are well integrated within the global economy. The economies of the remaining countries would be excluded, unless they are capable of integrating themselves by accepting the rules of free competition and trade liberalization (Ohmae, 1990).

Globalization affects the productive system of both developed and backward regions, and large as well as small and medium size cities. The improvement of productivity and competition in innovative cities and urban regions has been possible thanks to the adoption of more flexible modes of firm organization (creation of firm networks, subcontracting, the externalization of production systems), the introduction of innovation in production methods and the diffusion of knowledge within the local productive systems, and the improvement of urban attraction (Scott, 1998).

Furthermore, Castells (1996) argues that the global economy is very asymmetric. In contrast to the predictions of the Core-Periphery theory, the global economy tends to be more polycentric and thus, the North-South categories have lost analytical capacity since the centres and peripheries within the new international division of labour are not symmetrically placed at either side of the hypothetical dividing line between the "North" and "South". There are cities and regions in the South that are well articulated within the global economy and there are cities and regions in the North that are not. Furthermore, poverty is a question that affects not only the South, for the low income levels, the low technological capacity and the unequal income distribution also characterize the cities and regions of the North, albeit the fact that the dimension and levels of poverty in the North and South are not always comparable as Sonia Barrios emphasizes.

In sum, in an increasingly globalized world, there are cities and regions that gain and others that lose (Benko and Lipietz, 1992), depending on their factors conditions,

their production system structure and competitiveness, their institutional framework and the integration within the global economy and not by the fact of pertaining to a predefined North or South.

## **2. Increasing competition and local development**

One must look back to the late seventies in order to find the origins of the local endogenous development paradigm (Vázquez-Barquero, 1999a). In the past twenty-five years, the European economies and particularly the Spanish economy, have passed through a process of structural change and have been drastically transformed.

In Spain, a late developed country, the economic situation in 1979 was very difficult. These were times of political euphoria, having just begun democracy, and for the first time representatives of the municipal governments had been elected. Yet, on the economic side, there was the crisis of the industrial development model and the adjustment of the productive system, that put an end to a long period of economic growth (Martin, 2000).

The hardest part of the economic crisis begins in 1975 and lasts till 1985, period in which the GDP growth rate was steadily deteriorating (7% between 1961 and 1974; 2.3% during 1977-78; 1.3% during 1979-1984) and employment is destroyed at an annual rate of 1.7%. The Spanish economy loses positions in relation with the other European countries, and the ratio of its GDP per capita to the average EEC countries goes from 78.9% in 1975 to 72.1% in 1985. Furthermore, it is estimated that between 1977 and 1984 the net employment loss was 1,636,000 jobs and the unemployment rate grows continuously (4% in 1975; 20.9% in 1985).

The Spanish and the European economy underwent a strong deindustrialization and productive adjustment process, with shut down of firms and massive layoffs. It was unknown at the time which would be the industrial activities that would win or lose, and what the productive structure of the European economy in the late nineties would be. Furthermore, the restrictive macroeconomic policies were beginning to dominate, and redistributive policies were losing force.

Changes in demand, increased market competition, changes in product and process technologies and the reorganization of the large enterprise system have provoked threats as well as opportunities within the European regional system. Certain regions and cities face serious crises in their economies productive system and labour market, while others discover new opportunities in the markets. The need has thus been created to restructure

the local productive systems and adjust them to the new technical and market conditions.

In analyzing these transformations, by means of the long Cycle Theory, it appears that productive restructuring is taking place in a good part of the European territory: in agricultural areas (such as Lebrija, in Spain, or Sitia in Greece) and in those devoted to activities that were dynamic in the upswing phase of the first cycle (1789-1814) such as textiles in Alcoy (Spain); in regions specialized in commodities that were new during the upswing phase of the second cycle (1849-1873), such as coal, iron and steel, and the heavy industry of the Rhur region (Germany) or Pas de Calais (France); or in those areas producing goods (cars, electronic equipment) that were new during the following upswing of the third wave (1896-1920), such as in the West Midlands region of England.

The challenges posed by productive restructuring and increased unemployment stimulated the response on behalf of the cities and regions in Spain and Europe through initiatives whose objective is to facilitate adjustment processes for the local productive systems, which gives rise to the local economic policy (Stöhr, 1990; Vázquez-Barquero, 1993).

Since the early nineties, the environment in which the Spanish economy and the rest of European economies evolve has been transformed. Above all, it must be recognized that the conditions under which the productive system functioned has changed drastically. Most important however, is to point out that the European economies are rapidly integrating themselves, stimulated by the creation of the Economic and Monetary Union (UEM), and participate in an ever more globalized world, which directly affects the competitive capacity of cities and regions.

The internationalization of the markets, particularly of intermediate producer goods, has increased in the past decades. Between 1980 and 1995, the ratio between foreign commerce (imports plus exports) and the GDP increased from 36.5% to 49% in the EU, from 12.8% to 21.6% in the U.S. and from 15.8% to 18.5% in Japan. A growing part of world commerce belongs to the exchange between multinational firms (intrafirm commerce represents close to a third of global commerce).

The development of multinational firms has increased progressively, as shown by the fact that direct foreign investments grew at a high rate (the flows increased by eight, from 1980/85 to 1997, and the foreign direct investments stock went from 4.6% of the world GDP in 1980 to 10.6% in 1996), mostly as a result of the need of the large firms

to use the existing strategic resources in other territories, and acquire an advantageous position within the national and regional markets.

Within these new international conditions, the Spanish economy is recuperating well (Martin, 2000). It is growing over a 3% annually (GDP growth rate of 4% in 1998; 3.7% in 1999) and in any case at a higher rate than the majority of European countries, and this has allowed improve its real convergence (in 1998, the GDP per capita in Spain reached close to an 80% of the European average). From 1995 net employment is created which permits reduce the unemployment rate (18.8% in 1998; 15.8% in 1999). With an ever more open economy, the Spanish productive system has specialized in restructured industrial activities (such as machinery, cars and clothing) as well as modern activities (aeronautics or electronics), and above all, in services activities, such as tourism, finance, and transport and communications (employment in services goes from 40.9% in 1975 to 61.6% in 1998).

The outstanding feature that characterizes today's scenario for the European countries, however, is the fact that to the needs created by the productive adjustment process has been added in the last ten years, the demands of the firms and local economies generated through the process of integration within the European and international markets. Today's challenge is not only improve production efficiency, through the introduction of innovations, but rather to answer the demands presented by increased competition in the international markets.

Which are the sectoral and territorial effects of the globalization process? What is specific to this phenomenon in late developed countries like Spain? Leaving aside the question of controversy over the significance of globalization, it may be accepted that the globalization process means increased competition in the markets, and thus, new needs and demands for services on behalf of local firms and economies in order to adjust themselves to the increasingly competitive global scenario. Thus, the productive restructuring processes of countries, regions, and cities will continue even though the economic and social environment conditions are changing.

Economic integration and globalization in general are a challenge for the productive and entrepreneurial system in Europe. Increasing competition will reopen the productive adjustment process for the third time (following the oil crisis of the seventies, and enlargement of the EU of the eighties), and this will provoke shut down of firms and job loss within the labor market, as in the past. It appears, however, that the impact and effect will be less, not only because many firms and productive activities are



already restructured, but above all because the economic conditions are different due to the change of the long-term cycle (OECD, 1999).

The adjustment will particularly affect those firms and industrial activities that compete within national and international markets, and to a lesser degree, to firms which sell goods and services within local markets. In any case, increased competition within the markets will make the process, product and organization adjustments less expensive than in previous stages. Intermediate producer goods and raw materials prices are more stable and competitive, interest rates and financial costs have diminished and the structural changes will generally be on a smaller scale.

As a result of the increasing competition within the European markets, and of the strategic answers on behalf of local firms, both internationalization of production as well as integration within the markets of industrial goods and services will take place. This environment opens up new opportunities for Spanish and European firms to participate in a more stable and wider market with a single currency. Yet, as competition grows, threats for those firms that have not adapted their structures to the new environment increase.

The new phase of the restructuring process is taking place, however, following the strong structural change of the eighties and nineties, which soften the economic and social impacts. The productive system of the more dynamic urban cities and regions is formed by the high technology industrial activities (such as microelectronics, biotechnology, robotics or the aeronautics industry), but also by those manufacturing activities that during the fifties and sixties characterized themselves by the production of standardized goods, and today have been restructured through the introduction of innovations and produce differentiated goods (the clothing industry and/or automobiles).

There is no question, on the other hand, that advanced producer services activities have been crucial to the productive restructuring of European cities and regions, but the traditional activities, such as finance and leisure services, are adjusting to the new competitive environment by introducing knowledge and innovations in organization, product and process through new information technologies.

Thus, as far as the productive restructuring process has not yet been fully completed, increased competition will continue to have an impact on local firms and localities. Furthermore, given that globalization is stimulating differentiation and diversification in the urban systems, and they are becoming more polycentric due to the

emergence of firm and city networks (Veltz, 1996), local development policy continues to be an adequate mechanism for contributing to the development of urban and regional economies.

### **3. Endogenous development and increasing returns**

The globalization process implies growing competition within markets, and so, the continuity in the productive restructuring processes in countries, regions and cities, albeit under new conditions to those of the recessive phase of the previous long cycle of the world (and European) economy.

The central question of the dynamic and structural change of local and regional economies in the present scenario, as in the past, lies in identifying the capital accumulation processes that stimulate economic growth, and thus, how to approach the question of decreasing returns that, as neoclassical theory tells us, would lead to steady state growth (Barro and Sala-i-Martin, 1995).

Modern economic growth theory represents a step forward in the response to this question, given that it considers the law of diminishing returns as only one of the alternatives of the functioning of the economic growth process. In its endeavour to accomodate theory to reality, the endogenous growth approach emphasises that "economic growth is an endogenous outcome of an economic system" and not the result of external forces. Specifically, this approach considers technological change as an endogenous factor, and maintains that monopolistic profits motivate innovation and growth. This allows them conclude the diversity of the possible paths of growth (Romer, 1986, 1994).

However, the endogenous development approach seems to be adequate for analyzing today's growth processes and structural change in cities and regions, and for identifying the economic development mechanics. The studies on both the productive restructuring process and the economic dynamic of cities and regions have permitted conceptualize endogenous development (Vázquez-Barquero, 1999a).

Economic development is produced as a result of the use of the local economic potential and surplus, and by the attraction of external resources. The difussion of innovation and knowledge, and the generation of external economies of scale allow for increasing productivity, and thus, for economic growth. The strategic response of local actors to the challenge of increasing competition, would be the mechanism through which structural change and the economic dynamic of cities and regions are stimulated.

Thus, in order to neutralize the tendency toward the steady state, it is necessary activate those elements that characterize the accumulation and development processes: the formation of firm networks (industrial districts, innovative milieus, strategic alliances); the creation and diffusion of innovations within the productive system; and the economies of agglomeration and diversity of cities.

One of the central questions of the capital accumulation process of the productive systems in late developed countries lies, therefore, in the formation of external economies of scale and the reduction of transaction costs. Thus, the organization pattern of the local productive system, in which the relations between firms, suppliers, and clients are established, condition the dynamic of the local economies. Within local productive systems increasing returns are generated when relations and interaction between firms favor the use of scale economies hidden within both the productive system and urban centers.

The analysis of how local productive systems work (particularly in the case of industrial districts) has shown that the existence of a local firm network allows for the emergence of a multiplicity of internal markets and meeting points that facilitate the exchange of products, services and knowledge (Becattini, 1997). Firms converge within a milieu and exchange products and resources, firms and local actors establish a variety of relations and diffuse knowledge and information between them. Thus, networking favours increased productivity and improves the competitiveness of local productive systems.

Nevertheless, economic development and productive dynamic depend on the introduction and diffusion of innovations that stimulate the structural change of the local productive system (Maillat, 1995; Freeman y Soete, 1997). In order for this to be possible, it is necessary that the local firms make the necessary investment decisions in technology and organization. When this occurs, both firms and the productive system as a whole, acquire the innovative dimension that allows them improve their competitive positioning within the industry.

Economists, Sociologists and Geographers, no matter what methodological position they take, have always recognized that the economic growth and structural change of an economy is the result of the introduction of innovations within the productive system through investment decisions. Yet, the economic effects of the innovations depend on how these are spread throughout the productive fabric, and on what technological strategy is chosen by the firms.

The firms make their innovation decisions in an increasingly competitive and globalized atmosphere, and it is precisely the effort to raise profits and improve their position within the markets that, ultimately, constitutes one of the key mechanisms of the innovation process. From the perspective of the competitive development of the economies, the emergence and diffusion of innovations is a process endogenous to the productive system, to the economy and to the society, as the OECD (1992) report on Technology and the Economy acknowledges.

Today's economic reality is characterized by the globalization of production and exchange, and a rise in services activities, and thus, the cities have become the favorite place for development. Their development potential allows them respond to the challenges posed by increasing competition, linking the productive and organizational adjustment processes to the use of their own resources, to the diffusion of innovations and to the strengthening of relations with other cities.

The city and the local productive system share in a common process (Vázquez-Barquero, 1999b). Investment decisions within the productive system and within the city tend favor the convergence of productive development and urban development when the agents interact and create new spaces for the production of goods, for exchange of products and knowledge, and for interaction between actors. But, in any case, the city is the place for endogenous development: it generates externalities that allow for increasing returns; it has a diversified productive system that potentiates the economic dynamic; it is a place of networks within which the relations between actors allow for the diffusion of knowledge; and it stimulates the firms innovation and learning processes (Quigley, 1998; Glaeser, 1998).

The endogenous development approach, thus, recognizes the existence of increasing returns of the cumulative factors and identifies a selfsustaining path of development, endogenous in character. Economic growth is characterized by uncertainty and chance as a result of the markets changing conditions and the decisions on behalf of all the public and private actors that make investment decisions (Nelson, 1995; Metcalfe, 1998). The actors that make investment decisions do so from a territorial milieu, of which they are an integral part and help shape. The territory, therefore, counts in the decision making process governing the investment and location of plants, as recognized by Krugman (1990) and Porter (1990).

## **5. Development strategy in the times of globalization**

Economic development and the local productive system dynamic take place in a scenario characterized by the globalization of the economy and society, in which endogenous development continues to be an adequate approach for understanding the economic and social transformations of cities and regions, and so, useful for designing and implementing local initiatives. Change in economic, social, technological and institutional conditions of the scenario have gradually introduced changes in the local development strategy, giving way to a new generation of regional development policies.

i) A polycentric approach to development

Globalization has created a new scenario for cities and regions, that compete for maintaining and attracting investments against other cities and regions. The territories in this scenario, who wish increase its citizens well-being and improve its positioning with respect to its rivals, must give an efficient strategic answer. Otherwise, its competitive position in the long term would be lost, and this would lead to a situation where their standard of living, at least in relative terms, would diminish.

The new generation of policies approaches this challenge with a view of development that considers development as a diffused development process, depending on the growth trajectory of cities and regions. This new approach is based on an interpretation that understands that economic development does not necessarily have to be polarized and focused in large cities. Even though this approach is far from positions inspired in a core-periphery model, it points out that regional development requires the location of the productive activity in a small number of cities and urban centers to which resources and investments flow. These places should be large enough to compete (large cities, city networks, whole regions) and whose optimal size would depend on the type of actions necessary for stimulating territorial development.

Given that the firms don't compete in an isolated manner, but rather jointly with the milieu (characterized by a specific form of organization of production and institutional fabric) in which they are located, and that the firm, cities and regions dynamic depends on the use of the development potential of each territory, the new generation of policies require strategies with an important territorial and polycentric dimension.

ii) Systemic view of development

The endogenous approach to city and regional development is more sensitive towards initiatives that support network formation, and this means a basic change with respect to former generations of regional policies.

As mentioned above, globalization has stimulated the widening of relations between firms and actors from different milieus, and links firms competitiveness and positioning within the market to the successful functioning of the productive and institutional fabric. Because of this, the new generation of policies is necessarily sensitive to the local milieus and tries to stimulate measures that are rooted within local contexts and focused towards solving the problems of the productive systems and local networks, more than those of isolated firms.

This implies a fundamental change in the development strategy. The first generation of regional policies was mostly focused towards the building up of infrastructures and the attraction of foreign firms to specific places by means of incentives. The second generation focused on those initiatives designed to improve the "software" of local development, to promote the start-up and development of local firms, the creation and diffusion of innovation within the productive fabric, and training for up- grading human resources (Vázquez-Barquero, 1997).

The third generation of regional policies gives preference to local initiatives that try to stimulate and potentiate the emergence and development of firm networks, and strengthen the system of local relations among the economic agents, organizations and institutions that are within the territory. This would lead to an improvement in the functioning of the territorial system and a strengthening of the territorial organization that favour diffusion of knowledge and innovation, and improve the competitiveness of firms, cities and regions.

### iii) Development with multiple objectives

As in the case of local development policy, the new development strategy pretends improve the efficiency in the allocation of public resources, encourage a fair distribution of wealth and employment and satisfy both today's and future needs of the population with an adequate use of natural and environmental resources.

No doubt the objectives of efficiency, equity and ecology express the conflict of interests in each and every one of the territories. Given this, local development strategies seek find a balance, and in any case, establish priorities between the

objectives (and actions). When the economic objectives have priority, equity and ecology should act as constraints for the final objective sought.

The new development strategy, however, differs to a certain extent from the two previous generations of Industrial and Regional Policies by proposing the competitive development of cities and regions as a priority. It is very different from traditional regional policies, whose objective was to reduce the existing regional disparities within the territory, since in the scenario of the global economy it is impossible for the local and regional administrations adopt a strategy based on the equity of the system.

Furthermore, it widens the proposals of the second generation of policies, whose strategic objective was to bring out the entrepreneurial capacity existing within the territory and improve the productivity of the firms by implementing measures for improving the competitiveness of firms, cities and regions.

In sum, the new generation of policies seeks to reach a set of multiple objectives, trying to promote, in a combined fashion, economic development, social development and sustainable development.

#### iv) Sectoral view of development

The new generation of policies combines horizontal actions with sectoral actions. As a local development policy, the tools and instruments provide services to all types of firms and activities within a locality (encourage the start-up and development of firms, diffusion of innovation, quality in human resources and diffusion of information). But, furthermore, the new policy adds initiatives that foster the development of activities strategic for the growth of cities and regions.

This is an approach that goes beyond the view of integrated development whose spectrum of development activities would include the provision of infrastructures and social capital, the development of different productive sectors, such as tourism and industrial activities and those other actions that help make regions and cities more competitive. The purpose here is also to combine local initiatives with actions that emanate from all the administrative institutions, that have competences within the territory.

A good example is the situation of today's EU agriculture, which suffers strong weaknesses and faces growing competition in the international markets, and where backward regions in Europe are strongly affected by the effects of globalization. It seems reasonable propose a coordinated action for both the agricultural policy

measures, and the initiatives that promote rural development policy; and thus, to combine both functional and territorial actions.

The cooperation between actors and institutions that implement both kinds of policies can be argued in terms of the convergence of the strategies on which the actions of both policies are based. Within a scenario of globalization and increasing competition, farms and rural areas face threats and challenges that can only be overcome by improving competition in farming and territories; and in this way the objective of maintaining or improving the agricultural income of the land owners, the agricultural workers and the farmers could be attained. In fact, the main question is to mix the firms and sectors (such as agriculture) territorial strategies with the cities/regions economic strategies.

v) Cooperation of local and external actors

The participation of the local society and the economic, social and political actors within the definition and implementation of development initiatives is one of the main characteristics of the local development policy. Yet, important differences exist between the new generation of policies and the two previous generations with regard to organization and the management of development strategy.

Development processes, as mentioned above, are rooted in the productive, cultural and institutional context of the territory. Because of this, its consolidation and dynamic depends on the support of the civil society and the actors that make the public and private investment decisions. The purpose, therefore, is to design and carry out the initiatives with the support of all type of actors. When the development policy is implemented through strategic planning, the methodology requires an agreement between actors and the participation of society in general.

Local development policy results indicate that the management and implementation of development initiatives is more efficient when made through intermediary organizations in whose directive boards are present entrepreneurial organizations, trade unions, training and research centers, and the public administrations that have competences within the territory.

For this reason, intermediary organizations continue to be a key tool for stimulating endogenous development processes, but its efficiency is related with the conditions of the institutional context, that is most difficult to change in the short term.



Within the globalization scenario, it is convenient introduce a change, with respect to previous policy generations, paying more attention to the role played by the large external firms located within the area. As has been argued in a previous work (Vázquez, 1999c) a high degree of compatibility and potential synergy exists between territorial strategies of firms and development strategies of cities and regions. Thus, large innovative firms can play a relevant role in the endogenous development process. Therefore, if in traditional policy the strategic actor for development was the central administration and in local development policy it was the local community, in the new generation of policies one must also count on large firms, that may become a catalyst for the local development processes under certain conditions.

Finally, Boisier (1999) emphasizes that the instrumental vector of the new regional policy today lies in the stability of the regional/national relations. As Castillo, Arriola and Ozerin indicate (1998), the question is to identify the government level to which each competence corresponds. The regional and local level would be ideal for implementing initiatives focused towards stimulating organizational change in the firms, those directed towards the emergence and development of networks of firms and institutions, and those which influence new learning methods.

## **6. Policy negotiation and endogenous development**

The adaptation of regional policies to the new institutional environment has made them into policies negotiated between the economic, social and political actors. Globalization has given a strong push forward to this process by influencing strategies of both firm and cities/regions, and so favor the territorialization of the development processes (Veltz, 1993; Storper, 1997).

Globalization implies that firms compete within global markets and manage globally the different territories. Therefore, basic and generalized factors such as the supply of a cheap labour force, is no longer a competitive advantage for a city/region. Dynamic firms prefer to locate their plants in places where productive dynamic takes place through endogenous development processes, that will allow them use the specific competitive advantages of the territory.

In turn, the logic of globalization has made cities and regions compete among themselves on an international scale. They try to obtain competitive advantages through the upgrading of local resources and the differentiation of local productive activities. Thus, both cities and regions must necessarily follow an endogenous development path

that will allow them improve their competitive position, and at the same time, launch strategies that will attract the location of innovative firms within their territory.

The effect of globalization, therefore, places firms and territories in a scenario in which a potential synergy between territorial strategies of the firms and the development strategies of the cities and regions seem viable. This leads us to think that endogenous development policy can very well play a relevant role in the convergence for both types of strategy.

The convergence of interests of firm and territories has helped foster a negotiated programming in recent years through territorial pacts and planning agreements between firms and cities/regions. In fact, the territorialization of planning would only formalize the convergence between the territorial strategy of firms and productive sectors, and the economic strategy of cities and regions. A line of action has opened up that allows improve the cities and regions productive restructuring processes and favor job creation.

Nevertheless, the new scenario also favors a change in the tendencies of the local development initiatives. Initiatives that propose improve the "software" of local development such as measures geared to upgrading human resources, to the emergence and diffusion of innovations, start up and development of local firms within the territory continue to play a relevant role. In any case, the new generation of policies emphasizes, more and more the development of those specific factors (knowledge, technology, skill), whose value is not always reflected in the price of the products, but that help make the territory more competitive and attract investment.

At this time, technological policy, that may satisfy the needs to improve learning and knowledge within local firms, represents a change with respect to traditional local initiatives (such as the Technological Centres) that used to give services like training, quality control or information on raw materials and equipment goods.

Technological policy at the present time, tries to favour the learning process within the firm and between firms, and to spread knowledge to the rest of the actors that shape the territorial innovation system. The improvement of firms human resource skill and the transfer of tacit knowledge (production know-how) are strategic aims in order to stimulate and diffuse innovation. Furthermore, in order to foster the creation and diffusion of innovation, it is necessary support the surge and development of networks and the cooperation between research centers and firms, in such a way that creative

interaction between institutions and firms is produced and learning processes take place within the firms and organizations.

Training is also one of the strategic lines for action of the new development policy. Human resources training in firms is often accompanied by support actions that stimulate the interest of local firms and institutions for the contents and results of this training. A particularly interesting area, is no doubt, the training that will permit improve local firms competitiveness within international markets, as shown by the initiative led by Vigo's Zona Franca in Spain. Here training activities are accompanied by technical assistance to the firms from which the students come. This initiative favors the emergence and development of networks for access to foreign markets among the local firms.

Nevertheless, local initiatives that acquire priority, at the present time, are those that try to reinforce the organization capacity existing in cities and regions. In contrast to what occurred with the local development policy of the previous generation, the new one minimizes the emphasis on leadership capacity of the local actors and focuses on the formation of networks between firms, between intermediary organizations and other agents whose decisions affect or can affect investments located within the territory, and to the cooperation agreements, formal and informal, between them. Trade fairs, for instance, favour commercial exchange and allow for contact between firms and economic, social and political actors. In sum, any action that helps increase the local density of networks has, no doubt, priority in the new generation of development policies.

As Helmsing (1999) suggests, these initiatives cannot only be local, since they are necessarily focused towards improving the position of the urban and regional economies within the global system of cities and regions. They must necessarily surpass the limits of the local and national economy, and must tend to become ever more international and global, which is why local initiatives and their attempt to establish strategic alliances and more efficient cooperation between public and private firms and organizations are ever more important.

## **7. Final Comments**

This paper argues that change in the economic cycle and the productive, spatial and organizational effects of globalization have created a new scenario, that poses new needs for firms and territories, and this requires a change in the development policies of

cities and regions. It appears that a new generation of regional policies have begun to take shape, and policy actions are mainly focused towards the improvement of the organizational and institutional fabric of the territory.

Cities and regions must give an adequate response to the challenges of globalization, and so need instruments that will facilitate develop its competitive advantages. This can be achieved through the combination of initiatives and actions that will be decisive for the upgrading of the local resources, the diffusion of knowledge, and efficiency and effectiveness in the organization of the economy and society. All these factors will permit the efficient use of the local development potential and will contribute towards the attraction of resources and inward investments.

The third generation of regional policies requires strategic action in an ever more competitive world. Both initiatives and actions should be defined and implemented within a general development strategy of the city or region, that is supported by the combined action of the local actors. If efficiency is a goal, it is also convenient that the actors making the public and private investment decisions agree on the definition of objectives and priority actions, and carry forward their initiatives in a coordinated manner. This requires the design and management of policies agreed upon for the development of cities and regions.

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