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**Article**

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# Economic convergence and regional development strategies in Spain: The case of Galicia and Navarre



Andrés Rodríguez-Pose

## 1. Introduction

During the Francoist period and the transition to democracy the Spanish economic panorama was dominated by convergence across regions (Suárez-Villa and Cuadrado-Roura 1993; Cuadrado-Roura *et al.*, 1999). Regions in the southern and western Spanish peripheries were catching up with the more developed regions of north-eastern Spain and Madrid. This process of convergence came however to a sudden stop in the late 1970s and early 1980s (Alcaide 1988; Mas *et al.*, 1995; Cuadrado-Roura *et al.*, 1995; Cuadrado-Roura *et al.*, 1999; Villaverde 1999). The slowdown in convergence was not exclusive to Spain. At a European level, several authors have pointed out that a similar exhaustion of the convergence process took place at the beginning of the 1980s (Armstrong 1995; Champion, *et al.*, 1996; Sala-i-Martin 1996; López-Bazo *et al.*, 1999; Rodríguez-Pose 1999).

The slowdown in regional convergence coincides with the oil shocks and with the beginning of the processes of economic restructuring and globalisation. However, in the Spanish case, these global economic processes were also accompanied by a profound political change, which not only implied the transition from a right-wing dictatorship to a fully-fledged democratic system, but also the passage from a centralised to a decentralised state. The transformation of Spain into a regionalised state in the early 1980s has had an important impact on the institutional framework behind policy-making.

In this paper, I will try to analyse the factors behind the lack of relative convergence in Spain since the early 1980s by focusing on two regions which have had different economic trajectories in the last two decades: Navarre, a region which, despite being located in the declining northern Spanish fringe, has managed to grow at a slightly higher pace than the rest of Spain; and Galicia, one of the regions which has undergone a relative decline since the beginning of the 1980s.

The paper is structured in four further Sections. The next section deals with the economic performance of Spanish regions since 1980, focusing specially on the problem of lack of regional convergence in recent years. Section 3 includes the reasons behind the selection of the two case studies, despite the fact that neither Navarre is the most dynamic, nor Galicia is the least dynamic region in Spain, as well as a description of the changing structure of the economies of the two regions. The fourth Section deals with the existing institutional framework for designing and implementing regional development policies in these regions, and with the assistance programmes actually implemented at the regional, national and EU levels. This is followed in Section 5 by a discussion of the factors behind the success and failure of regional development policies. Finally, the paper concludes with a brief discussion of how the experiences of these two regions can be generalised to other regions.

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## 2. Convergence or divergence across Spanish regions since 1980

The gap between the Spanish economy and that of the rest of the European Union (EU) reached its lowest point in 1975. In that year, Spanish GDP per capita measured in purchasing power standards was at levels of 79% of the EU average (Table 1). High economic growth in the 1960s and early 1970s had led to a rapid catch-up with the rest of Western Europe. However, from 1975 onwards and coinciding with the first oil shock, convergence with Europe came almost to a standstill. Two economic sub-periods are evident in the following years. First, between 1975 and 1985 the Spanish economy underwent a rapid relative decline. The gap with the EU in per capita GDP widened, and by 1985 Spanish per capita GDP represented only 70% of the average of the EU, almost 10 percentage points below the level 10 years earlier. After 1985, and coinciding with Spain's entry into the then European Community, the Spanish economy has once again experienced a relative catch-up. This process of convergence was strongest during the period of economic expansion between 1985 and 1991. Since then Spain has maintained its relative position at levels around 77% of the EU average, still below 1975 rates.

The slowdown in the convergence process with the rest of Europe of the late 1970s and early 1980s took place at the same time as a significant change in regional growth trends within Spain. The strong process of convergence across Spanish regions (Mas *et al.*, 1994; Raymond and García-Greciano 1994) and provinces (Dolado *et al.*, 1994; Mas *et al.*, 1995) since 1955 came to an abrupt end in the late 1970s (Suárez-Villa and Cuadrado-Roura 1993; De la Fuente 1996; Cuadrado-Roura *et al.*, 1999; Villaverde 1999). Between 1980 and 1995 the highest rates of growth were achieved mainly in tourist regions (the Canary and the Balearic islands) and by many of the traditionally rich service and industrial areas (Madrid, Rioja, Aragón, Catalonia, Valencia, and Navarre).

Only two regions which in 1980 had a GDP per capita below the Spanish average (the Canary islands and Extremadura) have grown above the Spanish mean during this period. In contrast, traditionally lagging regions have in general performed rather badly. Asturias, a region affected by a process of serious industrial restructuring, had the lowest rate of growth, followed closely by rural Galicia. The economic performance of other lagging regions, such as Castile and León, Castile-La Mancha, Andalusia and Murcia has also been poor (Table 2).

In addition to the reversal of the convergence trend, regional inequalities which had behaved in a counter-cyclical way, decreasing in periods of economic expansion, have become pro-cyclical in recent years, with many of the poorest regions performing relatively badly in years of economic growth. One of the consequences of recent trends has been greater economic polarisation. Wealth is becoming increasingly concentrated along the so-called Ebro (Rioja, Navarre and Aragón) and Mediterranean (Catalonia and Valencia) axes in the north-east, in Madrid, and in the two archipelagos. In contrast, the North, the Centre - with the exception of Madrid - and the South have suffered relative economic declines. The strongest decline took place in the regions in the northern Spanish fringe, along the bay of Biscay. Asturias, Galicia, Cantabria and the Basque Country were among the worst performers. The only exception is Navarre. In terms of employment the panorama is similar, and the northern fringe is once again the area most affected by employment decay.

**Table 1.** GDP per capita in Spain, Galicia and Navarre as a percentage of the EU-12 average, in purchasing power standards

|      | Spain | Galicia | Navarre |
|------|-------|---------|---------|
| 1975 | 79.2  |         |         |
| 1976 | 77.3  |         |         |
| 1977 | 76.1  |         |         |
| 1978 | 74.5  |         |         |
| 1979 | 71.5  |         |         |
| 1980 | 70.9  | 60.3    | 89.7    |
| 1981 | 70.3  | 60.6    | 90.5    |
| 1982 | 70.7  | 61.5    | 86.7    |
| 1983 | 71.1  | 61.2    | 87.1    |
| 1984 | 70.1  | 60.6    | 85.8    |
| 1985 | 69.9  | 52.2    | 87.5    |
| 1986 | 70.1  | 55.3    | 85.1    |
| 1987 | 71.8  | 55.4    | 92.0    |
| 1988 | 72.5  | 56.8    | 89.6    |
| 1989 | 73.4  | 57.1    | 94.3    |
| 1990 | 74.3  | 56.6    | 91.8    |
| 1991 | 78.8  | 60.0    | 97.7    |
| 1992 | 77.0  | 58.9    | 95.1    |
| 1993 | 78.2  | 61.7    | 94.9    |
| 1994 | 76.7  | 60.0    | 92.5    |
| 1995 | 77.2  | 59.8    | 94.0    |

Note: There are slight discrepancies between the Eurostat data used in this table and the Spanish Regional Accounts data, used in the remainder of the paper, with respect to the evolution of the Galician GDP per capita in the first half of the 1980s. Both sources show a similar relative decline of regional GDP with respect to the Spanish average. However, the decline occurs in a more gradual way in the Spanish Regional Accounts than in Eurostat data.

Source: Own elaboration using Eurostat data.

Several interpretations have been put forward in order to explain the breakdown of regional convergence and the greater territorial polarisation of economic activity since the late 1970s. Some early explanations stem directly from endogenous growth arguments, focusing on the diffusion of technology, the concentration of R&D activities in some core regions, and external economies (Cuadrado-Roura 1990). Foreign direct investment (FDI) (Molina and Martín Roda 1995) and public investment (Mas *et al.*, 1994) have also been highlighted as possible factors for the reversal of convergence trends. Recently Cuadrado-Roura *et al.*, (1998 and 1999) have put forward the idea that convergence in productivity in Spain in the post-war decades was less connected to technological diffusion or to the rationalisation of production, than to the progressive homogenisation of regional productive structures. The 1950s, 1960s and early 1970s had been years of strong migration from lagging regions to core areas. Migration from poorer regions to richer areas entailed a transfer of employment from agriculture to industry and services. Such a sectoral shift in employment and productivity ultimately led to a reduction in regional disparities

(Cuadrado-Roura *et al.*, 1999). However, the oil shocks, the decline of employment in agriculture to almost European levels, and the adjustment linked to the transformation of the Spanish economy from a relatively closed to an open modern economy brought this sectoral adjustment process and interregional migration almost to an end by the late 1970s. The transfer of labour from agriculture to other sectors since the 1980s has been confined to a few regions, and most notably Galicia. In most other regions the sectoral adjustment process has adopted a different profile in the 1980s and 1990s: instead of a transfer of workers from agriculture to industry and services, the transfer has mainly taken place from industry to lower productivity jobs in services.

**Table 2.** Annual average growth rate of regional GDP and employment, percent

| Region            | GDP growth<br>1980-96 | Employment growth<br>1980-95 |
|-------------------|-----------------------|------------------------------|
| Andalusia         | 2.21                  | 0.85                         |
| Aragón            | 2.59                  | 0.26                         |
| Asturias          | 0.88                  | -1.03                        |
| Balearic Is.      | 2.62                  | 1.16                         |
| Canary Is.        | 3.62                  | 1.29                         |
| Cantabria         | 2.11                  | -0.85                        |
| Castile and León  | 1.94                  | -0.26                        |
| Castile-La Mancha | 2.30                  | 0.28                         |
| Catalonia         | 2.59                  | 0.79                         |
| Com. Valenciana   | 2.32                  | 1.09                         |
| Extremadura       | 2.68                  | 0.16                         |
| Galicia           | 1.45                  | -0.66                        |
| Madrid            | 3.06                  | 1.58                         |
| Murcia            | 2.23                  | 1.12                         |
| Navarre           | 2.56                  | 0.55                         |
| Basque Country    | 1.81                  | -0.20                        |
| Rioja             | 3.03                  | 0.37                         |
| Ceuta and Melilla | 4.29                  | 1.75                         |

\* Changes in percentages

Source: Own elaboration using Regional Accounts data.

*It is somewhat ironic that the slowdown in convergence across Spanish regions has precisely taken place when more efforts are being made to tackle regional disparities.*

It is somewhat ironic that the slowdown in convergence across Spanish regions has precisely taken place when more efforts are being made to tackle regional disparities. During the 1980s and 1990s, on top of the regional policies traditionally carried out by the Spanish state, the EU and regional governments have been active in designing and implementing policies whose main aim is the promotion of economic activity, and, in the case of national policies and the European regional policy, to achieve greater economic and social cohesion. Yet, with recent economic growth concentrated in some of the traditional economic cores, regional policies seem unable to curb growing disparities. In the next Sections I will analyse the impact of development assistance programmes implemented in two Spanish regions with very different recent economic trajectories (Galicia and Navarre), in order to assess to what extent these policies have contributed to the relative convergence or divergence of these regions.

### 3. Galicia and Navarre: Similarities and differences

The choice of Galicia (as one of the less dynamic regions) and Navarre (as one of the dynamic regions) may seem odd at first sight. As seen above, some Spanish regions have performed better than Navarre, while Asturias has performed worse than Galicia. However, there are several factors which make the more dynamic regions exceptional cases and eliminate them as possible case studies. For example, high economic growth in the Canary and Balearic islands is almost exclusively driven by their tourist sector. Madrid and Catalonia are too economically powerful and have attracted too much FDI to be compared with any of the declining regions. At the other end of the scale, Asturias' reliance on a heavy and largely publicly-owned industrial sector has meant that the economic trajectory of the region differs widely from that of the rest of the country.

In contrast, Galicia and Navarre are comparable in a number of ways: they are both medium-sized regions in the declining northern Spanish rim. Galicia is the westernmost region in the North, whereas Navarre occupies the eastern part of the fringe. They are regions that, despite having important urban centres, have a relatively dispersed population and show signs of demographic ageing, although these are more significant in the case of Galicia (Precedo Ledo *et al.*, 1994). A brief description of each region is given in Boxes 1 and 2.

*Galicia and Navarre are both medium-sized regions in the declining northern Spanish rim. They share a high level of autonomy.*

Galicia and Navarre also share a high level of autonomy. Galicia is one of the historical "nations" which make up the Spanish state. It has a strong sense of identity and its own language. As one of the historical nations – at the same level as the Basque Country and Catalonia – it achieved autonomy via Article 151 of the Spanish Constitution, which guarantees a high degree of self-rule. Navarre, although lacking the status of a "nation", is also characterised by a strong identity and very high levels of autonomy. It is a "Charter" region, which allows it to set up and collect its own taxes and to negotiate its contribution to the Spanish state directly with the central government in Madrid (1). It is, in fact, the region with the greatest financial autonomy in Spain as a result of its fully devolved fiscal system. This autonomy grants both Galicia and Navarre a greater margin of manoeuvre than other regions in the northern rim, such as Asturias or Cantabria, to implement their own regional policies.

Also, from a structural point of view, Galicia and Navarre are relatively diversified regions. In 1995, more than half of the total value added of both regions was generated by the service sector. Galicia – partly due to the size of its fisheries – had a larger primary sector, whereas the weight of the industrial sector in Navarre was relatively more important. However, differences increase when employment instead of gross value added is taken into consideration. Having almost 25% of the active population employed in agriculture, forestry and fishery (in 1995) makes Galicia the most agricultural region in Spain. Navarre, on the other hand, had a rate of employment in agriculture below the Spanish average, but its level of industrial employment, which hovered around 35% of the active population between 1980 and 1995, was twelve points above the 1995 Spanish average.

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1) The reasons for these economic privileges lie in the *fueros* or special economic charters granted to some Spanish kingdoms in the Middle Ages and respected henceforth by the Spanish state after unification at the end of the 15<sup>th</sup> century. Most *fueros* were suppressed in the early 18<sup>th</sup> century by the Bourbon dynasty. Only Navarre and the Basque Country have managed to survive until present.

### Box 1. Galicia

Galicia is located in the westernmost fringe of Europe (the “Finisterre” or Land’s end). The Atlantic Ocean to the north, the Bay of Biscay to the west, and mountainous ranges to the east limit accessibility to the region. More than 30% of its territory is situated at 600 m above sea level.

Surface: 29 575 km<sup>2</sup>

Population: 2 724 544 inhabitants

Population density: 92.1 inhabitants per km<sup>2</sup>

Largest cities: 1. Vigo (283 110); 2. A Coruña (243 134); 3. Ourense (107 965);

4. Santiago (93 584); 5. Lugo (86 620); 6. Ferrol (82 548); 7. Pontevedra (73 871).

Galicia has traditionally been considered an agricultural and fishing region. It still has the largest rate of employment in the agricultural, forestry, and fishery sectors in Spain. Since the 1960s, and as a result of development policies, parts of the region became industrialised. Large shipyards were located in the northern city of Ferrol, and a Citroën automobile plant was established in Vigo, already home of some of the most dynamic fishing and canning industries in Europe. However, the crisis of the 1970s provoked a steep decline which was especially severe in agriculture and in the leading industrial sectors (shipbuilding, automobile, metal products, machinery and equipment, and food industries). GDP per capita in 1996 stood at almost EUR 9 000, which represented 80% of the Spanish average.

Average annual growth rate of GDP (1980-96): 1.45%

Inward investment: 0.3% of regional GDP (1997)

Agriculture as a share of GDP: 7.6%

Manufacturing as a share of GDP (including construction): 34.1%

Services as a share of GDP: 58.3%

In terms of employment, Galicia was traditionally featured by a large underemployment in the primary sector and by having one of the lowest unemployment levels in Spain. The decline of employment in agriculture and fishing in the 1980s and 1990s has been accompanied by a rise of unemployment, which in 1998 stood at a rate of 17.3%, slightly below the Spanish average (18.8%).

Participation rate: 47.3% (1998) (men: 58%; women: 37.5%)

Unemployment rate: 17.2% (1998)

Educational attainment of population, aged 25-29 (1997): Less than high school degree: 70%; with high school degree: 13%; with college degree: 17%.

**Accessibility to markets in Galicia and Navarre is different. Another important difference comes from the skills of the working population.**

Of course, there are a series of other greater dissimilarities. Accessibility to markets is different. Galicia, located in North-western Spain and surrounded by mountains to the East and by the sea to the North and West, has been relatively inaccessible in comparison to Navarre, which enjoys a more convenient location for European markets along the Paris-Madrid axis (2).

2) The distance to markets and the transportation costs associated to it are a significant handicap for the Galician economy. Santiago de Compostela, the capital of Galicia, is located 670 kms. away from Madrid, 1174 from Barcelona, 1610 from Paris and 1905 from Brussels. In comparison Pamplona, the capital of Navarre, is 407 kms. from Madrid, 437 from Barcelona, 840 from Paris and 1135 from Brussels.

### Box 2. Navarre

Navarre is geographically located along the Paris-Madrid axis, east of the Basque Country. The Pyrenees form an important natural barrier to the north along the French border. The region is divided in three natural areas: the Pyrenees to the north, the hills and valleys of the north-west and west, and the plains or Riberas which stretch toward the Ebro valley to the east and south.

Surface: 10 391 km<sup>2</sup>

Population: 530 819 inhabitants

Population density: 51.1 inhabitants per km<sup>2</sup>

Largest cities: 1. Pamplona (179 281); 2. Tudela (27 526).

Traditionally considered as a rural region, Navarre has witnessed a significant increases in industrial employment since the 1960s. This development was initially based on local SMEs, but since the mid-1980s Navarre has been remarkably successful in attracting foreign direct investment. The establishment of the Volkswagen plant in Landaben is an indicator of this success. In addition, local firms have shown great economic dynamism. In rural areas there has been a relatively smooth transition from agriculture to industry and increasingly to services. As a result of these trends Navarre has become – with EUR 13 600 of GDP per capita – one of the leading Spanish regions.

Average annual growth rate of GDP (1980-96): 2.56%

Inward investment: 20.9% of regional GDP (1997)

Agriculture as a share of GDP: 3.7%

Manufacturing as a share of GDP (including construction): 41.4%

Services as a share of GDP: 54.9%

With a participation rate of the population in the labour market similar to that of Spain, Navarre stands out in Spain for its high level of industrial employment (48% higher than in the rest of Spain) and for a rate of unemployment which almost halves the Spanish average.

Participation rate: 50.6% (1999) (men: 63.5%; women: 38.3%)

Unemployment rate: 9.3% (1998)

Educational attainment of population, aged 25-29 (1997): Less than high school degree: 59%; with high school degree: 15%; with college degree: 26%.

Another important difference between Galicia and Navarre comes from the skills of the working population. Whereas, in the 1991 Population Census, Navarre had the highest level of educational attainment of the adult population (measured in years of schooling) and had the second lowest illiteracy rate (after Cantabria) in Spain, Galicia performed poorly in both indicators (Table 3). Only Extremadura, Andalusia, the Canary islands and Murcia fared worse than Galicia in terms of the overall skills of the population (Rodríguez-Pose 1998). Although with the creation of universities in A Coruña and Vigo, the university enrolment gap between both regions has narrowed since the late 1980s, the Galician ratio of university students enrolled in technical careers was less than half of that of Navarre. And the percentage of adult population with university degrees in Navarre (11%) was almost double that of Galicia (6%). This relative shortage of qualified and skilled workers in Galicia represents a serious handicap for productivity and entrepreneurship.



**Table 3.** Main regional educational indicators in Galicia and Navarre

|              | EDAT | ILRA | SCEN | VTEN | UNDE | UNEN | TECH | UNTR |
|--------------|------|------|------|------|------|------|------|------|
| <b>Spain</b> | 6.51 | 3.91 | 85.7 | 35.7 | 7.7  | 33.0 | 0.23 | 34.8 |
| Galicia      | 5.96 | 3.01 | 85.5 | 33.5 | 6.0  | 30.5 | 0.21 | 34.9 |
| Navarre      | 7.67 | 0.96 | 95.0 | 26.6 | 11.0 | 36.7 | 0.52 | 33.6 |

EDAT - Educational attainment of the population in 1991 (measured in years of schooling).

ILRA - Illiteracy rate of adult population in 1991.

SCEN - Secondary school enrolment rate in the academic year 1990-1991.

VTEN - Percentage of students in vocational training with respect to students in secondary education.

UNDE - Percentage of the population with University degrees in 1991.

UNEN - University enrolment rate (1991).

TECH - Ratio of students in technical careers with respect to those in humanities and social sciences (1988-89).

UNTR - Percentage of unemployed following training courses (1991).

Source: Derived from Population Census and Consejo de Universidades data.

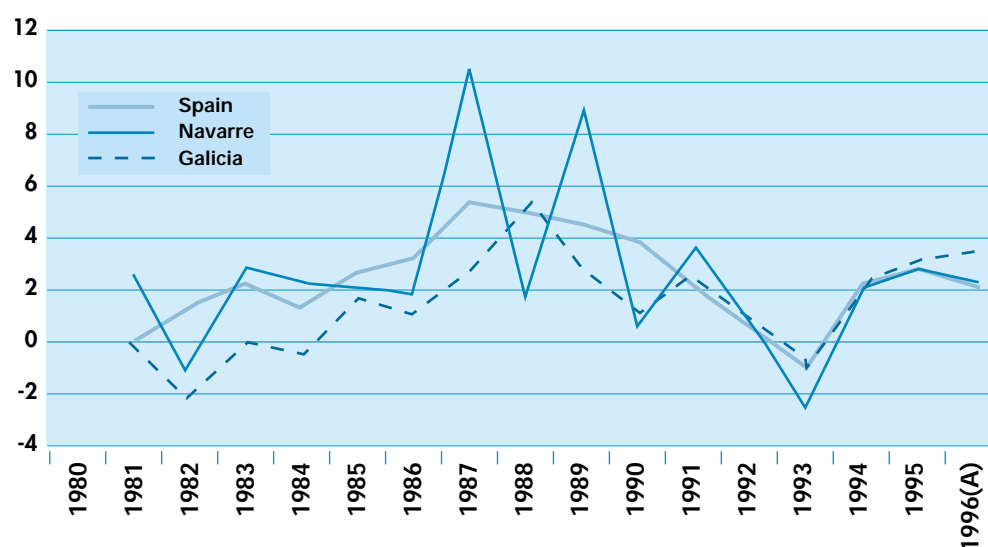
But perhaps the most important difference is the fact that Galicia is one of the few regions which has continued the structural adjustment of its production system throughout the 1980s and 1990s. Whereas the sectoral make-up of the GDP and employment of Navarre has followed the general Spanish trend of relatively little structural change, Galicia has witnessed a massive shift of employment from the primary sector to services and to unemployment.

### 3.1 The performance of the two regions compared

Galicia's growth performance in the two latest decades is illustrated in Figure 1. With the exceptions of recent years, its growth has generally been below the Spanish average. An important cause for this poor performance was the agricultural sector. The annual variation in Gross Domestic Product generated by agriculture in Galicia has suffered ups and downs, but has lagged behind the evolution of the sector in the rest of Spain. The years between 1985 and 1990 were particularly hard. Spain's membership of the then European Community was a serious blow for a sector which was neither competitive, nor differentiated enough to face the European challenge. The performance during the early 1980s of services, and of market-oriented services in particular, was also poor. Recovery, repair, trade, lodging and catering services, and transport and communication services had negative rates of growth between 1980 and 1986. In contrast to the evolution of the primary sector, Spain's membership of the EC led to a recovery of market-oriented services in the region.

Navarre performed slightly better than the Spanish average in the 1980s and early 1990s, although the depression of the early 1990s affected the region to a greater extent than the rest of Spain (Figure 1). The years which followed Spain's entry in the EC were particularly favourable for industry in Navarre. The metal products, machinery, equipment, and electrical goods, and the transport equipment sub-sector reaped the greatest benefits. The metal products sub-sector (which represents almost one-third of Navarre's industrial sector in terms of employment) grew at annual rates of 10% or above between 1985 and 1989. Growth in transport equipment was more volatile, but not less spectacular.

**Figure 1.** Annual change in real GDP in Galicia and Navarre.



Note: Domestic Product measured in 1986 Spanish pesetas, see note under Table 1.

Source: Own elaboration using Regional Accounts data.

*The contrast between the performance of Galicia and Navarre is even stronger when employment is considered instead of GDP.*

The contrasts between Galicia and Navarre are even stronger when employment instead of GDP is taken into consideration. As one of the most backward agricultural regions in Spain employment in the agricultural, forestry and fishery sectors in Galicia was always high (around 60% of the active population in the 1950s and 1960s). However, from the early 1960s employment started to decline steeply due to the passage from subsistence to commercial agriculture, together with restrictions to fishing in the traditional Galician fishing-grounds. The continued poor performance of agriculture after EC membership meant that some 220 000 jobs - or about one-half of the total - were lost in the primary sector between 1985 and 1995. In contrast to previous decades, other sectors were unable to create enough jobs to compensate. For example, 14 000 jobs were lost in industry and 12 000 in building and construction. Services were the only sector to expand, but there were significant differences in the behaviour of market services, on the one hand, and non-market services, on the other. Whereas employment in non-market services (i.e. public sector jobs) has almost doubled in size since 1980 (from 106 000 jobs in 1980 to 183 000 in 1995), market services grew only by 19% (Figure 2).

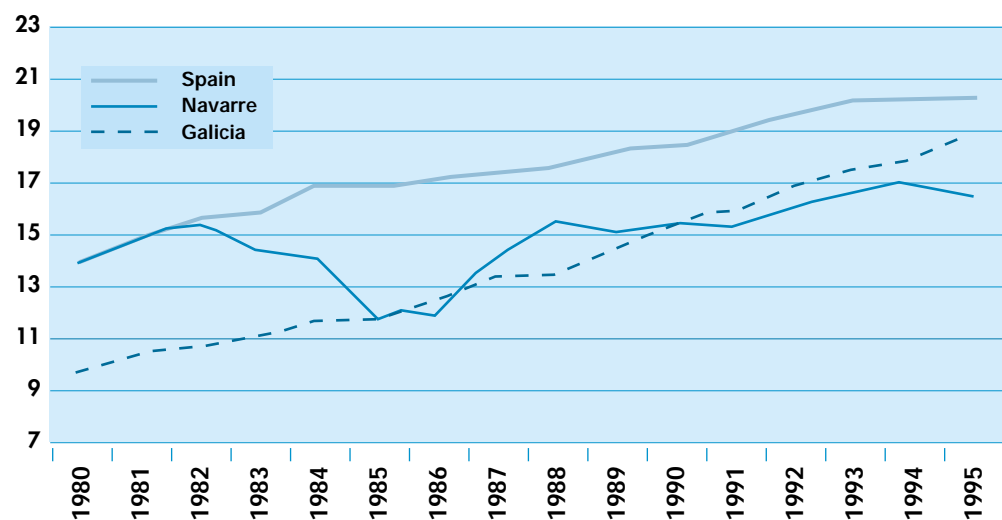
As a result, in the fifteen years covered in the analysis more than 100 000 jobs have been destroyed in Galicia and unemployment has risen sharply from being the lowest in Spain, with a rate of 12% in the early 1980s, to a rate of 19% in 1996 (Table 4).

**Table 4.** Unemployment rates, percentage

|         | 1983 | 1988 | 1992 | 1996 |
|---------|------|------|------|------|
| Spain   | 17.4 | 20.1 | 17.8 | 22.3 |
| Galicia | 10.1 | 13.2 | 16.1 | 19.0 |
| Navarre | 15.7 | 14.1 | 10.5 | 11.0 |

Source: Eurostat.

**Figure 2.** Evolution of the share of employment in non-market oriented services, percent.



Source: Own elaboration using Regional Accounts data.

The evolution of employment in Navarre depicts a very different panorama from that of Galicia. Despite having an ageing population, employment in the region has expanded. From 1980 to 1995 employment grew by 8.5%; there were 15 000 more jobs in 1995 than in 1980. All sectors except agriculture have managed to generate employment or maintain jobs. Unemployment rates in Navarre have followed an opposite trend to those of Galicia, going from levels of 16% in the early 1980s to 11% in 1996 (Table 4). The loss of employment in agriculture (10 000 jobs) has been more than compensated by the expansion of the service sector (23 000 jobs created between 1980 and 1995). If, in the case of Galicia, there was a clear imbalance between the expansion of non-market services and the more moderate growth of market services, in Navarre the level of growth of both sectors is comparable. The number of jobs in market services increased by 28% and that of non-market services by 26% - well below the Spanish average - during the period of analysis.

### 3.2 Productivity

**Labour productivity in Navarre was slightly above Spanish levels. Galicia's productivity has remained at levels of around 70% of the Spanish average.**

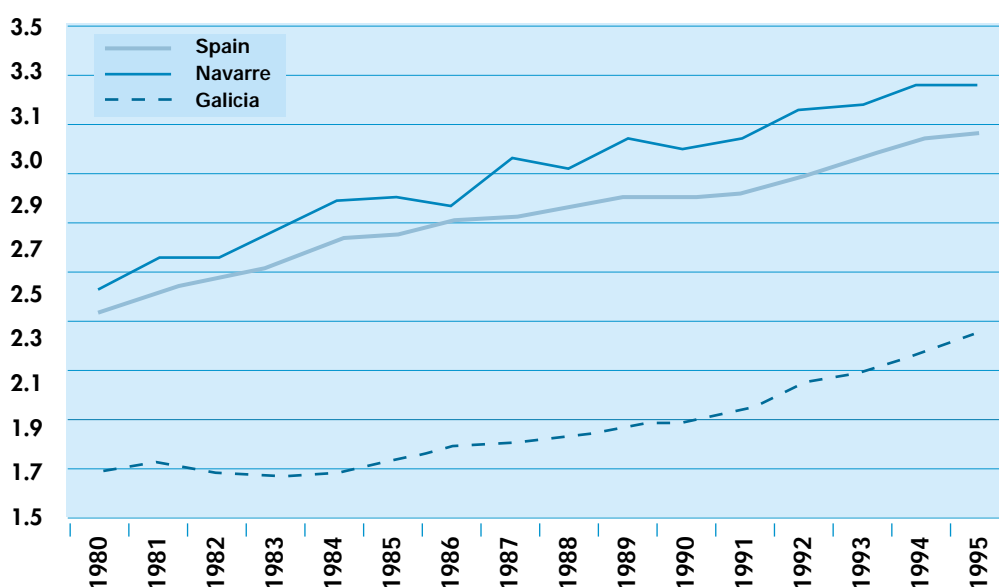
Differences in the employment structure of the two regions herald a significant gap in productivity levels. Labour productivity in Navarre was slightly above Spanish levels throughout the period of analysis, rising from 3% in 1980 to 6% above the Spanish average in 1995. Galicia's productivity has remained at levels of around 30% below the Spanish average since 1980 (Figure 3). The primary sector is responsible for most of the productivity gap between both regions. A worker employed in the primary sector in Navarre is three times as productive as a worker in the same sector in Galicia, and the gap has been growing in recent years. This gap in productivity is related to the structure of Galician agriculture, which was and, to a large extent, still is dominated by minifundios, small patches of land divided from generation to generation (3), and characterised by

3) Galician farms have an average size of 8.2 hectares, which is less than one third the average size of a Spanish farm. Navarran farms have an average size of 34 hectares (Encuesta sobre la Estructura de Explotaciones Agrícolas, 1993).

an ageing workforce and large female under employment. This despite some notable exceptions and recent improvements – has limited the capacity of the Galician agricultural sector to insert itself in international commercial circuits. Navarran agriculture is, by contrast, more dynamic and market-oriented.

The productivity gap in other sectors is smaller. In fact, the productivity per worker in industry is higher in Galicia than in Navarre. This greater industrial productivity is linked to the size of the energy, fuel and power sector. The location of several power plants, dams and an important refinery in Galicia imply that the energy sector represents about 9.5% of the region's GDP and almost a third of its industrial GDP, whereas the level of employment in the sector does not reach 1%. In comparison, the energy sector in Navarre is relatively small, not reaching levels of 2% of the region's GDP. Productivity levels in the energy sector in Galicia are 75% above those of the same sector in Navarre. However, when only manufacturing is taken into account, the picture changes, and productivity is 25% higher in Navarre than in Galicia.

**Figure 3.** Productivity (all sectors) in Galicia and Navarre, 1980-95.



Note: Productivity measured in million 1986 ESP.

Source: Own elaboration using Regional Accounts data.

Workers in the Navarran service sector are more productive than their Galician counterparts, but the gap has remained smaller than in the primary sector. Notably, the productivity of the Galician non-market service sector has declined by almost 10% from 1980 to 1995, as a consequence of the growth of low-skilled employment in sectors such as day-care services, and of the failure of non-market service salaries to keep up with inflation.

## 4. Policy effort to promote economic development in Galicia and Navarre

What policy efforts have been made in order to promote economic development in Galicia and Navarre? What has been done to prevent a further decline of the Galician economy? In this section of the paper I will present the different tiers of government involved in setting up and implementing assistance programmes in Galicia and Navarre. The following section will provide a critique of these policies.

### 4.1 The institutional framework for the implementation of development programmes

Spain's democratic transition and membership of the EU have introduced new institutional actors in the economic decision-making process. Devolution of power to the regions in the early 1980s and the implementation of an active European regional policy mean that, in the recent past, local, regional, national, and supra-national tiers of government have been actively involved in promoting economic development at the regional level. This represents a considerable change with respect to the situation prior to 1982-3, when territorial development was a prerogative of the Spanish state, with some local government involvement (Cuadrado-Roura 1987).

*The introduction of new tiers of government has added complexity to the institutional framework of regional development policies in Spain.*

The introduction of two new tiers of government has added complexity to the institutional framework of regional development policies in Spain (Table 5). Regional governments have taken centre stage in the process. Each autonomous community has set up its own development and foreign investment departments, whose main aims include the promotion of economic development and the attraction of FDI to the region. In addition, other regional departments, ranging from tourism to industry, have powers which indirectly contribute to enhance or curtail regional competitiveness. Galicia and Navarre are no exception to the rule and their respective regional governments have set up special development agencies for these purposes (Table 5).

Many of these agencies adopt the form of quangos. They tend to be public companies organically linked to different ministries or cabinets in the Galician and Navarran governments. Probably the most prominent development agency in Galicia is the *Instituto Galego de Promoción Económica* (IGAPE, Galician Institute for the Promotion of Economic Activity). The main aims of this agency - linked to the Galician Ministry of the Economy - are to promote local and foreign investment in the region; to provide financial support for small and medium-sized enterprises (SMEs) by subsidising loans; as well as to implement other measures aimed at improving the competitiveness of SMEs. Together with the IGAPE, other regional institutions play a part in promoting economic development in Galicia. The *Sociedade para o Desenvolvemento Comarcal de Galicia* (SDCG, Society for District Development in Galicia), linked to the Cabinet for Planning and Territorial Development, is actively engaged in planning and development at the local level through the design and implementation of local development plans. Likewise, other governmental agencies, such as Turgalicia, and departments linked to the Regional Ministry of Industry are indirectly involved in development strategies. Private organisations, such as the *Instituto de Desenvolvemento Comunitario* (IDC), are also active participants in the development process.

The Navarran regional government has set up a governmental agency to promote economic and industrial development in the region. The *Sociedad de Desarrollo de Navarra* (SODENA, Society for the Development of Navarra) is controlled by the Government of Navarre. The *Caja de Ahorros*

*de Navarra*, a prominent local building society, owns 20% of its shares. The regional Ministries of the Economy and of Industry, Trade, Tourism, and Employment and the Centro Europeo de Empresas e Innovación (European Business and Innovation Centres) also participate in designing and implementing assistance programmes.

**Table 5.** The institutional framework in Galicia and Navarre

| Galicia                                    | Navarre                  |
|--|--------------------------|
| -EU  | -EU                      |
| -Spanish State                             | -Spanish State           |
| <i>F. de Compensación Interterritorial</i> |                          |
| -Region                                    | -Region                  |
| Regional departments                       | Regional departments     |
| Economy                                    | Economy                  |
| Industry, Trade, Tourism                   | Industry, Trade, Tourism |
| Agriculture                                | Agriculture              |
| Quangos                                    | Quangos                  |
| <i>IGAPE</i>                               | <i>SODENA</i>            |
| <i>SDCG</i>                                |                          |
| Private Actors                             |                          |
| <i>IDC</i>                                 |                          |

Together with policies implemented by regional governments, national and supra-national tiers of government carry out regional development policies. The Spanish state intervenes mainly through public investment and the Fondo de Compensación Interterritorial (Inter-territorial Compensation Fund), set in the Spanish Constitution as the national source for levelling out territorial disparities. Since 1986, EU funding has also become a key instrument for the development of lagging regions and for the correction of regional inequalities in Spain. The European Structural Funds co-finance large development programmes in the regions and specific European Initiatives are gaining ground in areas such as trans-border co-operation and bottom-up rural development.

In sum, the institutional framework for the implementation of development policies in Spain is rather complex. Territorial and regional assistance programmes specifically aimed at the promotion of economic activity by different tiers of government are joined by sectoral policies implemented by the same governments. From the point of view of co-ordinating policies, the combination of horizontal development policies and vertical sectoral policies, with diverse aims and objectives, leads to clashes among different administrations and even, within administrations, among different departments. And quite often the effects of certain sectoral policies undermine some of the effects of territorial policies. From the point of view of policy analysis, this complex policy framework makes discerning the impact of individual policies and assistance programmes difficult.

## 4.2 Regional development and assistance programmes in Galicia and Navarre

An important difference between the two regions is that Galicia, being one of the least developed regions in Spain and in the EU, benefits from the substantial regional policy packages set up by Spain

and the EU in order to reduce economic disparities within their respective territories. Conversely, Navarre has to rely mainly on the policies and resources of the Navarran regional government.

### ***The involvement of regional governments***

Galicia and Navarre are, as mentioned earlier, among the Spanish regions with a higher level of self-rule. As a Charter region, Navarre has a greater financial capacity to set up its own policies (and development policies) than any other Spanish region. In 1997, the size of its regional budget in per capita terms was 56% higher than in Galicia (Table 6). Galicia, however, does not lag far behind in its capacity to set up its own autonomous policies. Accessing regional autonomy via art. 151 of the Spanish Constitution guaranteed the transfer of considerable powers. And the areas of policy intervention which are exclusive powers of the Galician regional government have continued to grow throughout the 1980s and 1990s. The region also has the financial muscle to put its autonomous policies into operation. With a regional budget of ESP 870 billion in 1997, it comes only after Navarre, the Basque Country, and Andalusia in financial autonomy, measured in per capita terms. When the size of the budget as a percentage of GDP is considered, the difference between Galicia and Navarre dwindles. In 1996 the Navarran regional budget represented 21% of the region's GDP, while Galicia's budget was 20% (4). The high degree of financial autonomy has granted both regions the capacity to implement a wide range of policies aimed at promoting economic development.

*On paper, there is little difference between the regional development strategies pursued by the two regions.*

On paper, there is little difference between the regional development strategies pursued by the two regions. Economic and development programmes have been mainly geared towards attracting inward investment, supporting and restructuring the local production structure (and especially local SMEs), and investing in local human capital. These normally include:

- a) Economic incentives aimed at the attraction of investment and the creation of employment, including subsidies to investment, and for permanent job created.
- b) Financial incentives for the development of research and development activities, such as interest-free loans for the development of R&D projects, subsidies for the purchase of scientific equipment, and the provision of grants and scholarships for researchers.
- c) Provision of infrastructure and equipment for the development of economic activities: measures in this area range from the development of technology parks and incubators, to the simple provision of basic infrastructure such as electricity or mobile phone coverage in remote areas.
- d) Incentives for the development of industrial sites including infrastructure construction, and special loans for the purchase of land on these sites.
- e) Training and skills of the labour force: measures aimed at enhancing the skills of the local labour force include greater investment in higher education with the creation of new universities; promotion of vocational training; grants and financial support for researchers; and, in some cases, training agreements with companies for the re-training and redeployment of employees.

Navarre, thanks to its financial and fiscal autonomy, has also been able to grant special tax-breaks in cases of new investment (SODENA, 1995).

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4) These percentages, however, highlight the significant increase of the size of the budgets of the two regional administrations over the last decade. Between 1990 and 1996, the relative size of the regional budgets in these two Autonomous Communities grew from levels of around 12 to 20 % of the regional GDP (Rodríguez-Pose, 1996b).

**Table 6.** Regional budgets in relation to population (thousand ESP per capita)

| REGIONS                | 1990         | 1994         | 1997         |
|------------------------|--------------|--------------|--------------|
| <i>ART. 151</i>        |              |              |              |
| Andalusia              | 175.8        | 255.3        | 320.2        |
| Canary Is.             | 130.2        | 187.5        | 314.6        |
| Catalonia              | 169.9        | 256.8        | 297.8        |
| <b>Galicia</b>         | <b>127.7</b> | <b>267.3</b> | <b>319.4</b> |
| C. Valenciana          | 145.0        | 218.1        | 254.8        |
| <i>ART. 143</i>        |              |              |              |
| Aragón                 | 49.5         | 143.5        | 190.0        |
| Asturias               | 60.6         | 92.6         | 145.4        |
| Balearic Is.           | 35.4         | 62.3         | 99.9         |
| Cantabria              | 94.7         | 90.1         | 145.8        |
| Castile-La Mancha      | 75.7         | 166.4        | 226.4        |
| Castile and León       | 58.9         | 125.4        | 174.3        |
| Extremadura            | 80.4         | 171.4        | 202.5        |
| Rioja                  | 88.7         | 102.5        | 134.0        |
| Madrid                 | 50.4         | 67.3         | 117.7        |
| Murcia                 | 59.8         | 74.4         | 120.2        |
| <i>CHARTER REGIONS</i> |              |              |              |
| <b>Navarre</b>         | <b>240.0</b> | <b>440.9</b> | <b>514.7</b> |
| Basque Country         | 203.1        | 306.3        | 345.4        |
| NATIONAL AVERAGE       | 123.9        | 196.8        | 249.3        |

Source: Ministry of Public Administrations.

Since 1991 Galicia has also set in motion an ambitious local development plan, known as the *Plan de Desenvolvemento Comarcal* (District Development Plan). This plan, which includes the division of Galicia in 52 *comarcas* or districts, was designed with the aim of reducing disparities, developing local potential, and improving living standards in depressed areas while, at the same time, protecting the environment. This bottom-up development strategy is based on the voluntary participation of town-councils and local economic and social actors in the design and implementation of plans, as well as on the vertical co-ordination of other regional sectoral policies which may have an impact on local development (Precedo Ledo 1994). Similar local development strategies have been pursued by the Navarran regional government, albeit in a less structured way and following a more top-down approach. These strategies have included the division of the region into 7 zones and 19 sub-zones under the programme 'Navarre 2000'. The idea of the programme is to match regional sectoral policies with the specific needs of different areas of the region.

### ***The involvement of the national government***

The vast majority of the involvement of the Spanish government on regional development issues is still achieved via national sectoral policies and the budget transfers associated to them. Infrastructure investments account for a large percentage of the transfers. Large road, railway, hydrological and similar infrastructure schemes are still co-ordinated from Madrid, although in



many cases the regions and the EU (mainly through the Structural and the Cohesion funds) contribute to their financing. Technology is another important area of investment by the central government. Education and other areas of government have, in contrast, been progressively devolved to the regions.

In addition to sectoral programmes, Galicia attracts additional funds from the *Fondo de Compensación Interterritorial* (Inter-territorial Compensation Fund). The region has traditionally been the second recipient of funds after Andalusia in absolute terms, and also the second -after Extremadura- in per capita terms. During the 1990s the contribution of the Fund to the development of Galicia has fluctuated around ESP 24 billion per year, or almost ESP 9 000 per inhabitant per year (Table 7). Navarre, as all the more developed Spanish regions, is a net contributor to the *Fondo de Compensación Interterritorial*.

**Table 7.** Funds received by Galicia from the inter-territorial compensation fund (ICF)

|                                 | 1991   | 1992   | 1993   | 1994   | 1994   | 1996   | 1997   | 1998   | 1999   |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Funds received (in million ESP) | 30 025 | 25 715 | 23 505 | 24 073 | 23 747 | 23 670 | 24 285 | 24 540 | 24 283 |
| As a % of the ICF               | 11.7   | 12.0   | 18.2   | 18.7   | 18.4   | 18.4   | 18.2   | 18.0   | 17.5   |

Source: Instituto Galego de Estadística and Ministry for the Public Administrations.

### **European involvement in regional development**

Since the reform of the Structural Funds, the EU has become a major actor in the co-designing and co-financing of regional development strategies. This has mainly benefited Galicia, which because of its GDP per capita below 75% of the EU average, has been classified as Objective 1 region. Navarre, being above the 75% threshold, has remained outside this group.

**EU has become a major actor in regional development. This has provided a boost in the amount of funds available for Galicia, an Objective 1 region.**

This has provided a boost in the amount of funds available for development programmes in Galicia. In the period 1989-93, the Structural Funds contributed with ESP 186 billion (ECU 1 116 million) to the development of Galicia (Gil Canaleta 1999), and a further ESP 343 billion (ECU 2 061 million) is budgeted for the period from 1994 to 1999. Thus, these transfers are significantly larger than those made on a national basis via the *Fondo de Compensación Interterritorial*.

The bulk of Objective 1 funds has been geared towards infrastructure projects, and most notably in the case of Galicia to the two motorways connecting the to main cities in the region (Vigo and A Coruña) with Madrid. Other projects financed under Objective 1 include the improvement of human resources; the support and promotion of the industrial tissue, in general, and of SMEs, in particular; the protection of the environment; and the promotion of tourism and rural development (5).

5) In addition to Objective 1 support, Galicia also receives funds linked to several Community Initiatives. Leader and Interreg are the most important Initiatives in the region, although other Initiatives such as Rechar, Conver, Resider and Urban are present. Leader, a programme aimed at rural development, is being supported by a contribution of ESP7.3 billion (ECU 43.8 million), and the Spain/Portugal Interreg programme, has a support of ESP92 billion (ECU 552 million), a substantial amount of which will be used to improve the connections between Galicia and the North of Portugal.

Navarre, in contrast, receives much less support from the European Structural Funds. During the period 1994-99 it is budgeted to receive ESP 25 billion (ECU 147.2 million), or 7% of Galicia's share (Commission of the European Communities, 1999). Being out of Objective 1 also means that the nature of the assistance programmes implemented in Navarre is very different than in Galicia. There is comparatively little emphasis on infrastructure and the effort is concentrated on the support for employment, R&D, and the protection of the environment (Objective 2); the integration of young people and the long-term unemployed into the labour market, via teaching and training programmes (Objectives 3 and 4); and the economic diversification of rural areas (Objective 5b) (6).

## 5. Reasons behind the success and failure of regional development in Galicia and Navarre

For much of the last two decades, Galicia would seem to have been in an ideal position to converge to the GDP levels of the rest of Spain. It has been one of the few regions in Spain which has still witnessed a convergence in productive structures. It has also enjoyed an unprecedented level of support for regional development by different tiers of government. The regional, the Spanish and the European administrations have all joined efforts - albeit not always in a fully structured and co-ordinated way - to promote economic activity and generate employment in the region. In contrast, Navarre was in a worse position to converge. The rapid transfer of employment from agriculture to other sectors had already been achieved during the 1950s and 1960s, and in the last two decades there has been no significant change in the sectoral structure of employment. Moreover, the resources devoted to promoting development in the region, while significant, have been a fraction of those spent in the promotion of economic activity in Galicia.

*Yet, almost against all odds, Navarre has performed well in the declining Northern Spanish rim, while Galicia has lagged behind.*

And yet, almost against all odds, Navarre has performed well in the declining northern Spanish rim and has kept up with the pace of the rest of Spain. It has managed to converge to the EU average at a slightly higher rate than that of Spain, while Galicia has lagged behind, with poor performances both in economic growth and in employment generation.

There are multiple factors which explain the relative economic success of Navarre and the relative failure of Galicia during the 1980s and 1990s. Some of them point in the direction of the process of European integration and the different capacities of the two regions to adapt to and to respond to the challenges of greater integration. Navarre, which has a more open and competitive industrial and service-based economy was - as the rest of north-eastern Spain and Madrid - expected to perform better in an open economic environment than the relatively backward and rural Galicia (Hamilton 1996; Cuadrado-Roura and Mancha Navarro 1996). However, a key reason behind the different performance is the way in which development strategies were designed and implemented.

### 5.1 Regional policies and lack of convergence in Galicia

Perhaps the most significant feature of Galicia's economic evolution during the 1980s and 1990s has been, as mentioned earlier, its failure to create employment: jobs were lost in agriculture, and neither industry, nor construction provided the outlet for the redundant agricultural workforce or for

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6) Other Community initiatives are also present in the region, but, once again, the dimension of support is much smaller than in Galicia. The Leader initiative provides only one-eighth of Galicia's funding. And although Navarre is also a border region, the France/Spain Interreg programme is much smaller than the Spain/Portugal programme, and a large percentage of the funds are being spent to improve links between the two countries in Aragón and Catalonia.

new entrants into the labour market. Market services grew at a slower pace than elsewhere in Spain and only non-market services (in the public sector) witnessed a significant expansion in employment. This means that low productivity jobs in the primary sector have been at best traded by jobs in the non-market service sector, and at worst by lower activity rates and unemployment.

Hence, if lack of job creation is the main factor behind the decline of economic activity in Galicia, the failure of regional policies and assistance programmes to put it at the heart of the development strategies is partially to blame for the lack of convergence. Instead, regional policies and assistance programmes have focused on two areas (infrastructure and the attraction of FDI) which have so far proven less successful in setting the bases for sustainable economic development in the region.

During the 1980s and the beginning of the 1990s the main development strategy by the Galician regional government has been to stress the negative impact that Galicia's relative physical isolation had on the competitiveness of the region. Therefore investment in infrastructure, in general, and the building of the two motorways connecting Galicia to the Spanish Meseta, in particular, have been regarded as the main development priority. Such an emphasis on infrastructure was largely justified on the grounds of Galicia's poor accessibility and relatively poor endowment of infrastructure in the Spanish context. Similarly, Galicia also had a deficient accessibility by rail (7).

*In brief, infrastructure has been a relatively easy and low risk strategy for regional politicians.*

However, a strategy based on infrastructure investment also had a series of advantages for the regional government. First and foremost, it is the more traditional form of development policy and an easy -if not very innovative- way to spend the large amount of development funds funnelled to the region. The development of infrastructure is also highly visible. It is supported by public opinion and politicians can capitalise on achievements before local and regional elections. It is also a way of putting the blame on the national and European administrations, who are responsible for the bulk of the funding, if the development of infrastructure is behind schedule. Finally, the regional conservative government, in office during much of the 1980s, could also use this argument against the Spanish socialist central government of the time, and blame its failure to deliver the required infrastructure for Galicia's economic problems. In brief, infrastructure has been a relatively easy and low risk strategy for regional politicians, akin to the one used - with a strikingly similar lack of immediate results - in the Italian Mezzogiorno during the post-war decades (Trigilia 1992).

If the returns from regional investment in infrastructure are low, it is often because some of the projects have taken longer to complete than expected. The building of two motorways, for example, has been painfully slow, taking almost 20 years between design and completion. The final sections of the Southern motorway have only been completed in 1998 and 1999. The completion of the Northern motorway is expected for 2000. The complex Galician geography and a lengthy process of expropriation in a land dominated by *minifundio* are behind these delays. Faster progress has been made in the field of telecommunications, through the Plan de Telefonía Rural (Rural Telephone Plan). Galicia was in 1995 the first Spanish region to have full coverage of its territory for mobile phones.

Infrastructure developments have certainly contributed to solve important bottlenecks limiting the development potential of the region. Moreover during the 1980s and 1990s, investment in

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7) If we consider the situation in 1990, Galicia only had 129 kms of motorways, that is, 29 kms less than Navarre, despite being three times its size. There were only single track railway lines in Galicia and only 219 kms of electrified lines. Navarre, by contrast, had 64 kms of double track lines and 211 kms of electrified lines (Eurostat Regio data).

infrastructure has provided much needed funds which have acted as a safety net to prevent Galicia's economic free fall. Nevertheless, it is doubtful that the sole emphasis on infrastructure will bring the expected results in terms of sustainable development, especially since comparatively little has been done to promote the competitiveness of Galician companies and to generate entrepreneurship.

*Infrastructure is, in turn, contributing, to the genesis of new development problems - the greater economic polarisation within the region.*

Infrastructure is, in turn, contributing, to the genesis of new development problems, and namely to a greater economic polarisation within the region. In recent years economic activity has become increasingly concentrated in the main urban centres (fundamentally Vigo and A Coruña, but also Santiago, Lugo and Ourense), at the expense of traditional industrial sites and rural areas, which have remained devoid of resources to face the new challenges of an ever more competitive and global economy (Precedo Ledo 1998).

The other leading development strategy in Galicia has been the attraction of FDI. The IGAPE has been given a prominent role in promoting the image of Galicia and in trying to bring foreign companies to the region. However, and although Galicia profited from the surge in FDI associated with Spain's entry in the EC, progress in the field has been slow after 1986 (Doval 1994). Most FDI channelled to Spain since becoming a member of the EU has been concentrated in Madrid and Catalonia. These two regions attract more than 70% of all new FDI entering Spain (Table 8). Galicia - a region which generated 5.6% of the Spanish GDP in 1996- only attracted 1.12% of all FDI in the same period (Table 8). As a whole, FDI has had neither a significant impact on the economic development of Galicia, nor on the creation of jobs.

**Table 8.** Regional FDI as a percentage of total FDI

|                   | 1988       | 1989       | 1990       | 1991       | 1992       | 1993       | 1994       | 1995       | Total      |
|-------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Andalusia         | 7.6        | 12.9       | 5.5        | 5.5        | 5.3        | 5.9        | 8.7        | 5.4        | 6.8        |
| Aragón            | 4.0        | 1.4        | 1.4        | 0.9        | 0.8        | 0.9        | 0.5        | 3.9        | 1.5        |
| Asturias          | 0.2        | 0.2        | 0.5        | 0.7        | 0.3        | 0.3        | 1.3        | 1.4        | 0.7        |
| Balearic Is.      | 1.4        | 2.4        | 1.4        | 0.9        | 1.5        | 0.5        | 1.6        | 2.5        | 1.5        |
| Basque Country    | 2.3        | 3.9        | 2.8        | 1.0        | 4.5        | 2.6        | 3.6        | 4.7        | 3.1        |
| Canary Is.        | 1.3        | 1.0        | 2.1        | 0.8        | 0.9        | 1.1        | 0.4        | 1.2        | 1.0        |
| Cantabria         | 0.2        | 0.8        | 0.2        | 0.1        | 0.7        | 0.2        | 0.1        | 0.8        | 0.4        |
| Castile-La Mancha | 0.8        | 0.2        | 0.5        | 0.3        | 0.6        | 0.6        | 0.9        | 1.1        | 0.6        |
| Castile and León  | 0.5        | 1.1        | 0.7        | 0.5        | 1.0        | 0.9        | 3.2        | 1.2        | 1.2        |
| Catalonia         | 23.7       | 24.6       | 29.9       | 43.0       | 28.9       | 29.6       | 24.3       | 25.5       | 29.5       |
| Extremadura       | 0.1        | 0.1        | 0.1        | 0.7        | 0.1        | 0.2        | 0.2        | 0.1        | 0.2        |
| <b>Galicia</b>    | <b>1.0</b> | <b>1.3</b> | <b>0.5</b> | <b>0.7</b> | <b>2.2</b> | <b>1.4</b> | <b>0.4</b> | <b>1.9</b> | <b>1.1</b> |
| Madrid            | 46.4       | 40.6       | 46.0       | 39.4       | 40.2       | 43.5       | 42.9       | 35.3       | 41.5       |
| Murcia            | 0.2        | 0.6        | 0.5        | 0.6        | 0.6        | 1.5        | 0.9        | 0.4        | 0.7        |
| <b>Navarre</b>    | <b>1.5</b> | <b>0.8</b> | <b>2.2</b> | <b>1.9</b> | <b>1.9</b> | <b>4.5</b> | <b>5.6</b> | <b>1.7</b> | <b>2.8</b> |
| Rioja             | 0.4        | 0.9        | 0.1        | 0.2        | 0.3        | 0.0        | 0.2        | 0.5        | 0.3        |
| Valencia          | 2.5        | 2.7        | 2.2        | 2.2        | 8.7        | 4.6        | 1.7        | 6.3        | 3.9        |
| Multi-regional    | 5.9        | 4.4        | 3.4        | 0.8        | 1.9        | 1.9        | 3.6        | 6.5        | 3.2        |
| Total             | 100.0      | 100.0      | 100.0      | 100.0      | 100.0      | 100.0      | 100.0      | 100.0      | 100.0      |

Source: Own elaboration using Bolefín de Información Comercial Española data (various issues).

This focus has relegated the support of local firms and human resource strategies to the background. The problems of Galician firms, in general, and of those in the industrial sector, in particular, to compete in a more open market, are multiple. Most firms in Galicia are SMEs. In 1997, 99.6% of all Galician firms had less than 50 employees, whereas only 23 had more than 500 employees (IGAPE data). Given their size and also the skills of the workforce, most firms have little or no capacity to network with other firms in the same sector inside and outside Galicia. Many are still family owned and lack the adequate capital, the technology and the management capacities to adapt to recent structural changes. Poor internal organisation is an additional handicap. Large firms face identical problems of shortage of adequate technology, skills and management techniques and are hardly embedded in the local economic fabric. Although the establishment in Galicia of large shipbuilding, automobile, and metalworking industries in the 1960s had led to the genesis of a few related medium-sized firms, the relationship between the large firms and the Galician economy has been at best partial (Quintás 1993). Most large firms, like the shipyards (Astano and Bazán) in Ferrol, the Citroën car plant in Vigo, and the large energy plants rely heavily on technology, organisational skills, and suppliers located outside the region. In addition, some of these firms, and especially the two large shipyards, have traditionally depended on state contracts and subsidies for their survival. The progressive demise of these conditions since the 1980s has condemned many of the large and medium-sized Galician industries to closure.

This does not mean that Galicia is completely devoid of industrial dynamism. The rapid expansion of the textile group Inditex and of its high street retail group Zara, the success of the Galician fashion sector, and the successful restructuring of some fishing companies such as Pescanova, prove that dynamic companies are starting to appear. However, these cases are still the exception and not the rule.

Given these difficult conditions, it is no wonder that the regional government and other actors involved have shied away from a more active involvement in the support for local firms. And even when aid programmes have been put in place the results have been rather disappointing. The financial support to SMEs aid programme set up by the IGAPE has achieved meagre results. The number of SMEs applying for subsidised loans has declined year on year since the beginning of the 1990s (Meixide Vecino and Ares Fernández 1995: 201). The preferred – if more expensive – alternative has thus been the creation of public sector jobs, sheltered from the ups and downs of the market and from competition.

Human capital strategies have been fundamentally geared towards the increase of the overall educational attainment level of the population. The creation of the Universities of A Coruña and Vigo has been a significant milestone in this direction. However, both centres a few years after their establishment already suffer from many of the ailments of the Spanish higher education sector, and mainly from lack of resources. The two universities are, with that of Alicante, the Spanish universities with the lowest level of expenditure per student. In addition, the emphasis on a rapid expansion of higher education is provoking additional problems such as the lack of trainers and an increasing unemployment among young graduates, as a result of the mismatch between the type of education offered and the demands of the labour market (Rodríguez-Pose 1996a).

The failure to address effectively the human resource and the regional production fabric problems is, however, curtailing the effectiveness of the regional development policies based on infrastructure

*The failure to address effectively the problems of human resources and the regional production fabric is curtailing the effectiveness of the regional development policies based on infrastructure and FDI.*

and FDI. Foreign companies often find that the local production fabric is so weak that they have to rely on suppliers outside the region. Hence the principal reason to invest in Galicia and not in other regions is the size of the financial and other incentives offered by the regional government. New infrastructure is probably contributing more to channelling competing products and services into the region, putting additional pressure on firms which are still ill-prepared to compete in a more open market. Hence, the implementation of an unbalanced regional strategy is unlikely to yield sustainable development in Galicia in the foreseeable future.

## **5.2 Regional policies and growth in Navarre**

The relatively limited amount of funds available – especially in comparison with Galicia – for regional development in Navarre has forced the institutional actors involved in the development of the region to adopt different strategies.

In contrast to the Galician case, infrastructure has been relatively low key in Navarre's development strategy. This does not mean that infrastructure projects have been completely disregarded. Important projects, such as the Northern and the Barranca highways and the tunnels of Velate, have been completed with the support of European Funds. Navarre's greater accessibility has certainly helped to keep infrastructure as a relatively minor development strategy.

The two main axes of the Navarran development strategy have been the support of existing firms and the attraction of FDI. Regional policy guidelines have been aimed, on the one hand, at the reduction of structural bottlenecks, and, on the other, at the strengthening the comparative advantages of the regional economic fabric as a means of not only creating employment, but also of attracting new investment (Rapún Gárate 1993: 310). In order to achieve these objectives, four specific policy areas have been pursued.

Firstly, the government of Navarre, mainly through the regional Ministry of Industry, Trade, Tourism and Employment, has set up a series of measures aimed at the support of new investment, the creation of employment, and the promotion of the relatively large SME sector in the region. These include certain tax abatements for new investment, subsidies for permanent job creation, soft loans for the development of technology and innovation or for the purchase of industrial land, and incentives geared towards the training of employees. These packages of subsidies and measures have become increasingly popular among firms (8). Most of these measures – with the exception of the tax abatements – do not differ greatly from those in place in Galicia. However Navarran firms have been both keener and more capable to take advantage of these packages than their Galician counterparts.

Secondly, in parallel to the financial incentives offered to firms, the regional government of Navarre – often in co-ordination with the Spanish government and with the co-financing of the EU – has developed a series of measures targeted at the improvement of the skills of existing human resources and of industrial relations in the region. Skills and training programmes have been set up with the needs of the local production sectors in mind. It comes thus as no surprise that many of the training

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8) For example, in 1998, 188 grants were given with a total value of ESP5 113 million to support new investment, 80 grants for a total of ESP 407 million for employment creation, and 66 grants for a total of ESP 92 million for industrial SMEs.

measures implemented have been actively supported by the private sector. Higher education in the region has also tried to adapt its courses to the economic conditions of the region. Technical careers and economics have thus become strong fields of study in the recently created Public University of Navarre. And the private University of Navarre has a long tradition of excellence, especially in medicine. The effort in the promotion of technology by the Centro Europeo de Empresas e Innovación (European Business and Innovation Centre) and other agencies has also been considerable. R&D initiatives have been funded by the regional and national governments and the EU. The Technology Plan of Navarre is currently supporting the development of R&D in local firms, as well as contributing to the training of researchers in the private sector and in local universities.

Environmental protection and rural development make up the third area of the regional development strategy. The achievement of sustainable development in rural and urban zones and the promotion of environmentally friendly industrial activities have been the main lines of action of the Navarran Department of the Environment. Navarra has also pioneered sustainable rural development in Spain. Regional rural development programmes have been successful in generating alternatives to agriculture in rural areas. Rural tourism has grown exponentially during the late 1980s and early 1990s, but other environmentally friendly activities, such as organic agriculture and quality handicraft, have also flourished.

But perhaps the policy area in which Navarre has excelled is the fourth, in the attraction of FDI. Between 1988 and 1995, Navarre has been capable of attracting 2.75% of all FDI coming into Spain, with an economy which represents only 1.65 of the Spanish Gross Value-Added (Table 8). Most of this FDI has been concentrated in the industrial sector. A total of 93 of the largest firms in Navarre are owned or partially-owned by foreign investors. The majority of FDI comes from EU countries, and especially from Germany, France, the United Kingdom and Italy, although there is a considerable North American and Japanese investment. The single most important investment is the Volkswagen plant, which alone accounts for 28% of all Navarran exports and 45% of imports (Rapún Gárate *et al.*, 1995: 240).

*The reasons behind the success of FDI in Navarre are multiple. Different regional development strategies have mutually reinforced each other, creating a virtuous cycle.*

The reasons behind the success of FDI in Navarre are multiple. Incentives and subsidies offered by the regional government have played a part, but they are by no means the key to the success. The dynamism and competitiveness of Navarran SMEs, the skills of the labour force, the openness of the Navarran economy, and its accessibility to markets have been more significant factors in the attraction of FDI. Hence, different regional development policies have mutually reinforced each other, creating a virtuous cycle of regional development. Foreign investors have often been capable of finding partners and suppliers, as well as qualified workers locally. Foreign firms have thus become embedded in the region and contributed to the restructuring and the development of local firms, as well as to the attraction of new firms.

## 6. Conclusions

The success of regional development strategies depends on a series of factors which are often difficult to ponder. Geography, accessibility, economic and social structure, skills, institutions, politics and culture determine, to a greater or lesser extent, the success of development strategies. Hence comparing development strategies in two regions which differ significantly in geographical,

economic and social terms makes it difficult to assess to what extent any economic success is the result of the implementation of the policy or of the prior economic potential of the region. As a whole, the reasons behind the economic dynamism of Navarre and the lack of dynamism of Galicia during the last two decades may well lie outside the realm of development strategies and policies. Lack of economic agglomeration, a large rural population, lack of skills, poor accessibility, a weak and largely non-competitive industrial fabric – as in the case of Galicia – are factors which might limit the effect of even the best development policy. Promoting regional development in a region with already competitive firms and a highly qualified workforce – as in the case of Navarre – seems comparatively easy.

In addition, regional development is always a medium and long-term process, and some of the regional policies adopted by Galicia and Navarre are still too young to allow us to discern their possible future effects on local economic activity and economic growth. Therefore any conclusion about the impact of development policies on growth and convergence in both regions has to be dealt with caution.

However, structural problems do not hide the fact that an often hastily designed and piecemeal development strategy in Galicia has done very little to curb the relative decline of the region. The availability of funds for regional development has not been coupled during much of the period of analysis by the existence of a balanced development strategy. Too much emphasis was put on infrastructure, mainly because it was a visible and easy solution. However, relatively little political and economic effort has been made towards the promotion of endogenous resources and the support for the restructuring of local firms. These are policies notoriously more difficult to design and implement than infrastructure-driven strategies, but which are essential in the long-run for the genesis of greater economic activity and the creation of employment. And the fact that the emphasis has been put in one area of development policies has meant that different strategies have not been able to mutually reinforce each other as in the case of Navarra. Therefore, the prevalence of strategies based on infrastructure are so far yielding scarce results, since they seem to be contributing more to the opening of the region to competitive goods and products from elsewhere, than to introducing Galician goods and services in national and international economic circuits.

*One of the consequences of the lack of a balanced strategy in Galicia has been the progressive sheltering of the region's economy from market conditions.*

One of the consequences of this lack of a balanced strategy has been the progressive sheltering of the region's economy from market conditions. The lack of success at generating economic activity and jobs in sectors other than non-market services is making the Galician economy more dependent on transfers from Spain and Europe and, at the same time, relatively impervious to changes in market conditions.

Paradoxically, in the case of Navarre the relative lack of resources devoted to development may have acted in the region's favour. Since setting up a strategy fundamentally based on infrastructure was impossible, the institutional actors involved have had to use the resources available in a more balanced way. The establishment of clear and viable objectives from the start has contributed to the success of policies, although the increasing regional debt looming in the horizon may jeopardise some sections – and most notably the financial incentives – of the regional development strategy.



*The experience of Galicia constitutes a warning for other regions trying to implement partial development strategies based fundamentally on infrastructure. Navarre shows that more balanced and tailor-made strategies need to be encouraged.*

To what extent can the experience of these regions be generalised to others? The experience of Galicia constitutes a warning for other regions trying to implement partial development strategies based fundamentally on infrastructure. In this sense the case of Galicia does not differ significantly from some of the development policies conducted in less developed regions during the 1950s, 1960s, and 1970: top-down approaches with infrastructure at the centre, which became in fact more of a short-term social policy than a long-term development strategy. The success of regional policy in Navarre shows that more balanced and tailor-made strategies which address the competitive advantages as well as the weaknesses of each region need to be encouraged. Only if development problems are addressed in a comprehensive and encompassing way lagging regions may have a chance to set the foundations for future economic development. Concentrating exclusively in one or two policy areas and hoping that other development problems will wither away may, at best, yield little or no result, and, at worst, increase the dependency on transfers and on an increasingly swollen public sector. The Navarran strategy is certainly not an easy alternative, especially for less developed regions, but it is perhaps the only way to prevent current regional development strategies from becoming just a means of income support in many problem regions.

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