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Spatialising industrial policies: A view from the South

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Abstract

A new approach to industrial policy which advances the ‘*spatial turn*’ of industrial policy thinking has matured and gained considerable attention in both developed and developing countries. However, the notion of ‘*spatiality*’ forwarded by the new approach is one which has essentially emerged from industrialised Northern economies and this raises questions relating to the largely uncritical way in which it is being adopted in developing countries. Drawing on original research conducted in Argentina, the paper demonstrates that without a context-sensitive industrial policy and a sound macro-economy, the policy tenets forwarded by the new approach are, in the South, condemned to fail.

Industrial Policy Developing Countries Clusters Regions

JEL classifications: L52, O18, R00, N66

Abstract (in Spanish)

Un nuevo enfoque sobre política industrial que propone un '*giro espacial*' sobre el pensamiento de la materia, ha madurado y ganado considerable atención tanto en países desarrollados como en desarrollo. Sin embargo, la noción de '*espacialidad*' ha surgido esencialmente desde economías industrializadas del norte, lo que genera dudas sobre la forma acrítica en la cual el nuevo enfoque está siendo adoptado en países en desarrollo. Basado en una investigación original realizada en la Argentina, el artículo demuestra que sin una política industrial sensible al contexto y una sólida macroeconomía, los principios propuestos por el nuevo enfoque están, en el Sur, condenados al fracaso.

Acknowledgments

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Introduction

For decades the so-called developing countries (DCs) have sought to replicate models of economic development 'inspired' by the experience of more advanced Western economies. Latin

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America is a paradigmatic case in this sense as this trend can be traced back to the pursuit of models of agro-exportation (approx 1880-1930) and import substitution (1930s-1970/80s). Arguably, the trend has deepened dramatically since the early 1980s as a result of the hegemonic role played by the Washington Consensus agenda and neoliberal globalisation. Even though neoliberalism is increasingly being scrutinized or contested by recently elected ‘left-wing’ governments throughout the continent, not least because of its failure to deliver a sustainable let alone inclusive model of economic development, it still dictates the fundamentals of economic policy in Latin America.

This paper sustains that the body of literature which forwards the spatialisation of industrial policy (IP) has recently reached a level of influence in DCs which risks turning into another manifestation of the problem of transferability, which could have negative political consequences upon the very idea of IP at a time when it appears to be back on the policy agenda. In fact, the new literature has provided an historic opportunity to re-examine the forbidden concept of IP after decades of neoliberal banishment. However, since many DCs had long witnessed the failure of industrialisation approaches ‘extrapolated’ from the North, enthusiasts of the new approach should interrogate critically its theoretical and practical relevance before embracing it. A critical reading of the new literature is essential given the high level of expectation that the new IP approach has generated not only with regard to its potential to boost firm competitiveness (notably, SMEs) but also to tackle uneven spatial patterns of socio-economic development. The paper begins by conceptualising the ‘*spatial turn*’ in industrial policy thinking. The relevance of its main policy tenets are then critically assessed in the context of a developing country with an erratic institutional framework and volatile macroeconomic environment. Specifically, these tenets were analysed in the case of a relatively buoyant industrial district in Argentina in order to

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3 identify potential gaps between the new approach's 'script', drafted in the North, and reality in
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5 the South. Implications on IP thinking are discussed in the concluding section.
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8 9 The new approach to industrial policy 10

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12 The '*spatial turn*' in the nature of IP is advocated by different traditions of thought which are
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14 referred to here as '*new industrial policy*' thinking (1). Geography lies at the heart of its
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16 foundations, as a means to unlocking and valorising local resources. Cities, localities and regions
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18 are seen as 'subjects' which are able to design, implement and coordinate IP actions, which are
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20 bottom-up, cluster-based and emphasize the powers of place, collaboration and localised
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22 learning; all of which are said to contribute to boost firm competitiveness and generate local
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24 returns. Positive effects stressed are the generation of externalities (BECATTINI, 1990;
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26 BRUSCO, 1982; PORTER, 1994; KRUGMAN, 1998) and economies of agglomeration and
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28 specialisation (KRUGMAN, 1995; 1998; PIORE and SABEL, 1984; PORTER, 1994; 1998a;
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30 STORPER, 1997), the reduction of transaction costs (SCOTT, 1998; KRUGMAN, 1995), and
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32 knowledge creation and innovation (BRACZYK et al., 1998; COOKE and MORGAN, 1998;
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34 FLORIDA, 1995; MASKELL et al., 1998).
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45 Two broad traditions of thought form the conceptual basis of the new approach. The first
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47 tradition, or 'new economic geography', comprises at one end the influential theory of clusters of
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49 PORTER (1994; 1998b), ranging to the 'New Geographical Economics' of KRUGMAN (1995;
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51 1998). The second tradition, or 'socio-economics of co-location', brings together more
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53 sociologically informed scholars (notably economic geographers) who, inspired by institutionalist
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55 and evolutionary economics, understand the economy as an instituted process, socially
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57 constructed and dynamic in nature (AMIN and THRIFT, 1994; BECATTINI, 1990; BIANCHI,
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1993; BRACZYK et al., 1998; BRUSCO, 1982; CAMAGNI, 1991; COOKE and MORGAN, 1993; 1998; SCOTT, 1998; STORPER, 1997).

The ‘new economic geography’

KRUGMAN’s late rediscovery of geography is linked to his theory of international trade and the role that endogenous growth plays within it. In his view, understanding international trade requires an understanding of the reasons why industries tend to concentrate geographically, primarily due to abundant supply of inputs and demand for outputs so that new firms are constantly attracted to firm clusters (KRUGMAN, 1995; 1998). The local external economies of scale generated produce positive effects on both intermediate and final outputs which gives rise to an uneven pattern of market dominance, hence to specialisation, local endogenous innovation, productivity growth, and ultimately (international) trade. Industrial policy implications are here a matter of speculation as KRUGMAN does not use the term explicitly. As MARTIN and SUNLEY (1998) point out, if clusters prove to be a source of external economies then clusters provide the case to define which industries should be the objects of IP. Hence, the authors speculate, what KRUGMAN seems to be suggesting is that the only justifiable form of industrial (trade) policy is regional industrial development policy.

The foundation of agglomeration economies in KRUGMAN’s theory is however a contentious one. How firms ‘get there’ into the cluster in the first place, how intermediate-output producers become specialised and how the structure of specialist suppliers and demand for proximity is created through market transactions are missing from this analysis (MARTIN and SUNLEY, 1998; 2003; STORPER, 1997). As STORPER (1997, p. 14) argues, everything in KRUGMAN’s discovery of geography “reduces rather axiomatically to fully efficient, though imperfectly competitive, clusters of producers who enjoy pecuniary externalities”.

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3 However it is PORTER's theory of clusters that has driven and mainstreamed the debate on the
4 spatialisation of the IP thinking within this tradition. Clusters here are defined as, "geographic
5 concentrations of [vertically or horizontally] interconnected companies, specialised suppliers,
6 service providers, firms in related industries, and associated institutions [...] in particular fields
7 that compete but also co-operate" (PORTER, 1998a, p. 197). Both trade and socio-institutional
8 relationships among clustered firms are core elements in PORTER's theory. This links directly
9 with his earlier theory of international competitive advantage and the 'competitive diamond'
10 hypothesis, where economies of specialisation and the business environment which arise (as a
11 result of intense business links among clustered firms) become a critical source of productivity
12 gains, innovation, and economic growth (PORTER, 1990). As MARTIN and SUNLEY (2003, p.
13 7) put it, "[t]he competitive diamond is the driving force making for cluster development, and
14 simultaneously the cluster is the spatial manifestation of the competitive diamond".
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34 The concept of cluster has turned into a mantra for recent debates on industrial policy and
35 competitiveness (OECD, 1999; 2001). Policy-makers the world over, "have seized upon Porter's
36 cluster model as a tool for promoting national, regional, and local competitiveness, innovation
37 and growth" (MARTIN and SUNLEY, 2003, p. 1). The reasons for this success are various.
38 Primarily, PORTER's theory of clusters sheds light on the determinants of competitiveness of
39 firms, industries, nations and locations. In an increasingly globalised world, as PORTER (1990,
40 p. 1) himself reminds us, competitiveness becomes "one of the central preoccupations of
41 government and industry in every nation". The concept is also framed directly in terms of the
42 economics of business strategy which offers a rather accessible and commonsense policy tool
43 which is well suited to the current IP focus on micro-economic supply-side intervention
44 (MARTIN and SUNLEY, 2003). Its definitional and conceptual elasticity and its universal
45 applicability have made the concept easily usable and appropriable for different purposes in
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different contexts, notably in developing countries. Finally, the cluster concept is ideologically compatible with the dominant market doctrine and neither re-distributional nor national state-centred IP statements are contained in it.

Although PORTER’s theory gained world-wide acceptance from policy makers and practitioners, some academics remain sceptical. The opportune deconstruction of PORTER’s cluster concept by MARTIN and SUNLEY (2003) unpacks the vague definition of both spatial-geographical scale and dynamics of clusters, which are major sources of inaccuracy and confusion, both analytically and as policy rationale. It follows that although the concept’s elasticity has made it more marketable across different spatial scales, industries and contexts, cluster theory cannot provide universal explanation of the foundations of agglomeration and how specifically agglomeration is related to local and regional economic growth. Most importantly, the alleged importance given to the socio-political dimension in cluster formation and dynamics remains “something of a black box in Porter’s work” as the author advances little to explain such factors (MARTIN and SUNLEY, 2003, p. 16). Consequently, analysis of the governance structure of clusters is omitted as emphasis falls solely on the ‘economic’ relationships among actors (SUGDEN et al., 2006).

The ‘socioeconomics of co-location’

Within this tradition both the dynamics of cluster formation (how firms ‘get there’) and the nature of interfirm relationships and specialisation, are critically influenced by cultural, historical and socio-institutional factors. In contrast to the ‘new economic geography’, non-market relations among economic agents, or intangible aspects of clustering, are seen here as a necessary baseline for inter-firm collaboration, learning and creating local competitive advantage, and these relations

are critically favoured by geographical proximity and the embedding of the economic activity in particular institutional milieus.

Non-market relations or untraded interdependencies (STORPER, 1997) underpin the emergence of trade interdependencies among co-located firms. If untraded interdependencies are endowed with a market value, what the analysis needs to elucidate is the asset which is locally appropriable for firms and can be transformed into cheaper, higher quality and/or new goods or services. That asset is knowledge, specifically tacit knowledge, hence its analytical importance within this tradition (COOKE and MORGAN, 1998; MASKELL et al., 1998; STORPER, 1997). Tacit forms of knowledge concern “direct experience that is not codifiable via artefacts [...] and is acquired via the informal take-up of learned behaviour and procedures” (HOWELLS, 2002, p. 872). Tacit knowledge is not easily transmissible through formal language let alone through market transactions and it follows that proximate face-to-face interaction among firms becomes the best means to access, learn, and master tacit knowledge (MASKELL et al., 1998). Knowledge that is created within local networks of mutual interdependency is difficult if not impossible for non-local competitors to imitate and therefore it becomes a potent competitive advantage which endows firms with market distinctiveness. Hence dense agglomerations of co-located firms operate as generators and repositories of knowledge therefore occupying a strategic place in the supply architecture of the learning and innovation economy.

Furthermore, crafting linkages with firms and institutions beyond the local boundaries is also essential given the need that firms have to access, mobilise and put together varied and often spatially fragmented sources of new information and knowledge, and to avoid situations of lock-in (AMIN and COHENDET, 1999). This policy principle has led the new literature to think in terms of systems of learning and innovation. Innovation systems quickly acquired local and

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regional connotations (BRACZYK et al., 1998) – despite its origins within national settings (LUNDVALL, 1992), and their quality depends upon the local pool of labour; education, training and research infrastructure; the financial system; the industrial relations of firms with clients, suppliers, rival firms; and the institutional set up.

This systemic imperative leads the analysis to the politics of the new IP approach. The argument is that neither the national state nor local/regional governments on their own can cope with the complexity associated with new governance demands or the passage ‘from government to governance’ (2). Replacing the national state as the main subject of IP is the policy network, made up of a plurality of economic agents working with each other in a non-dirigiste way. Local public and private actors working collaboratively generate logics of collective action capable of creating favourable environments for the generation of economies of association and co-ordination, and regulation of the local economy; helping to reduce transaction costs and uncertainties derived from volatile market conditions (SCOTT, 1998). Policy metaphors including that of ‘policy network’ (RHODES, 1990; COOKE and MORGAN, 1993), ‘forums’ or ‘mechanisms of collective action’ (SCOTT, 1998; STORPER, 1997) and ‘networks *animateurs*’ (CAMAGNI, 1991) have been coined to capture the nature of governance demand as different to that of ‘government’. AMIN and THRIFT (1994, p. 14-15) coined the concept of ‘institutional thickness’ which unpacks the institutional determinants of local collective action in support of a network economy. These include: a strong local presence of firms and support institutions and their interaction, from which there emerges “sharply defined structures of domination and/or patterns of coalition, resulting in the collective representation”; and the development among local actors of “a mutual awareness that they are involved in a common enterprise”.

The role that each IP stakeholder is expected to play within these constructs deserves special attention. As '*animateur*' and no longer 'rule-maker', the state is expected to craft networks and enable collective action so that economic agents can collaborate for mutually beneficial ends (COOKE and MORGAN, 1998). 'Good governance' (i.e. efficient bureaucracy and regulations), dialogue, and consensus building should all be promoted (AMIN, 1999; MORGAN, 1997; KEATING, 1998). The private sector is expected to be organised, representative, non-hierarchical, and proactive in articulating the needs and demands of local firms. It should act as a catalyst in pooling resources, providing club goods, and fostering conditions for collective learning, especially through partnerships with the local state (BRUSCO, 1982; HELMSING, 2001). New actors and factors in IP, particularly in promoting, coordinating and controlling strategies of multi-level networking and providing real services to firms, are 'intermediary logics' such as business support and development agencies and intermediary brokers.

Public and private actors should observe minimal thresholds of synchronisation of their internal processes of learning so as to generate favourable conditions for evolutionary learning and the socio-political governance of the local IP. Ongoing training and capacity building involving politicians, policy makers and public/private IP facilitators becomes thus another IP imperative; especially in contexts of scarcely developed, dysfunctional or sclerotic institutional set ups (SEPULVEDA, 2001). Management of dissent is a base-line condition as well, as it is likely to emerge in places with hierarchical or conservative structures of governance which may feel threatened by the democratising project (KEATING, 1998).

Some of the neologisms coined to capture the nature and dynamic of firm agglomerations and their structures of governance include Italian 'industrial districts', '*milieux innovateur*', 'new industrial spaces' and 'learning regions', and they constitute the main policy metaphors for spatialised industrial policy within this tradition (BECATTINI, 1990; BIANCHI, 1993;

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BRUSCO, 1982; CAMAGNI, 1991; FLORIDA, 1995; MASKELL et al., 1998; MORGAN, 1997; SCOTT, 1998).

Despite the emphasis on governance, however, the new literature concurs that the national state continues to be the main coordinator and regulator of economic activity within national boundaries. Hence nation state-centred coordination, promotion of dialogue and synergy building between different tiers and scales of policy decision-making are seen as necessary conditions to build a solid basis for spatialised IP platforms. The concept of ‘multi-level governance’ is useful in this respect as it seeks to understand the dynamic interrelationship within and among different levels of governance and government (BACHE and FLINDERS, 2004). The rationale here is that coordination and synchronicity is necessary to avoid institutional complexity and duplication of local/regional IP initiatives, as well as to anticipate and/or control negative effects or disparities which are likely to emerge, notably between thriving and lagging behind local economies within the same country.

- INSERT TABLE 1 HERE -

The new industrial policy thinking in developing countries

The new IP literature gained considerable influence in the 1990s in relatively industrialised developing countries such as Argentina, Brazil and Mexico, in Latin America, India and Pakistan, in South Asia, and Egypt and South Africa, in Africa (see ALTENBURG and MAYER-STAMER, 1999; GATTO et al., 1993; HUMPHREY, 1995; PEDERSEN et al., 1994; SCHMITZ, 1990; SCHMITZ and NADVI, 1999; SEPULVEDA, 2001; SUZIGAN et al., 2004). ‘Industrial districts’, ‘local/regional innovation systems’, and notably ‘clusters’, were discovered

and became fashionable. More remarkable, and often under the auspices of dominant economic neoliberalism, policy frameworks inspired by the new approach began to materialise into concrete policy actions.

Whether the experience of some paradigmatic cases of industrial districts on which the shift in the nature of the IP thinking was originally based (Baden-Württemberg and North Rhine-Westphalia in Germany and the Emilia-Romagna and Tuscany in Italy) constituted enough critical mass from which wider IP lessons could be drawn in the developed world is matter of controversy (Lovering, 1999). However, there was here at least an attempt to draw upon a baseline of empirical evidence. In contrast, the debate in the South had more to do with the ‘discoveries’ made by academics and policy makers who, armed with a ‘borrowed’ or ‘franchised’ theoretical and methodological arsenal, went out there to literally discover industrial districts or clusters wherever firm agglomerations were geographically, sectorally or politically significant.

Elementary questions immediately arise regarding the relevance of the new approach to developing countries. In such contexts, do places, firms and institutional set ups possess the resources and competences to develop the baseline necessary to stimulate economies of association and localised forms of learning and innovation so as to boost firm competitiveness? More generally, what does the new approach offer to countries with erratic macroeconomic settings and persistent institutional failures? Is the new IP thinking yet another policy fashion that is unsuitable for DCs?

The case of Argentina is a remarkable one to analyse within the DCs context in light of these questions. Although the purpose of this paper is not to make generalisations for all DCs based on

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a case study, the findings do suggest that some of the elements observed are relevant to other countries marked by similar contextual and structural deficiencies.

The case of Argentina

The (neo)liberal project has a long history in Argentina but it was during the 1990s under the *peronist* government of Menem that it reached its uppermost expression. Fiscal and monetary discipline, trade liberalisation, privatisation and deregulation became the norm whilst IP virtually banished. Important sectors of Argentinean society welcomed the reforms. Following a traumatic period of economic and political turmoil (‘hyperinflation’), the programme of stabilisation and structural reforms launched in 1991 (Convertibility) enjoyed considerable early success (3) - between 1991 and 1997 the economy grew at an annual average rate of 6.1 percent and inflation was controlled. However, success was short lived and during 1998 economic indicators began to show serious symptoms of economic decline. A spectacular downfall of the IMF-celebrated Convertibility model took place in December 2001, which resulted in a period of profound economic dislocation (see THE ECONOMIST, 2004; ROCK, 2002).

A small group of large (monopolist) national Holdings Companies and MNCs, along with elements of financial capital, were the main beneficiaries of the neo-liberal model (AZPIAZU et al., 1986; CHUDNOVSKY et al., 1996; KOSACOFF, 2000). The manufacturing industry and the SME sector were the most negatively affected by deindustrialisation and capital concentration which deepened during the Convertibility period (1991-2001). The SME sector shrunk by around 25 per cent between 1984 and 1994 (data from the last two economic censuses published to date), and SME closures continued to grow until at least 2003.

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3 It was within this unlikely context of the weakening of the SME sector and the Argentine
4 local/regional economies, that a number of micro IP initiatives inspired by the new literature were
5 established in the mid-1990s during the Convertibility's golden years. These included the
6 renowned experience of the City-region of Rafaela, the Productive Municipalities program
7 (Province of Santa Fe) and, most importantly, Buenos Aires Institute of Entrepreneurial
8 Development (IDEB), which covered several localities of the Province of Buenos Aires,
9 including the city-region of Tigre in Greater Buenos Aires.
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22 This study is rooted within these rapidly changing and instable macroeconomic conditions.
23 Against this background it attempts to unpack its effects on the behaviour of economic agents,
24 particularly those that defined the conditions of possibility for the new IP thinking within a
25 particular socio-spatial context, the city-region of Tigre. The findings reported below draw on
26 original empirical research undertaken in the critical year 2001, just before the Convertibility's
27 downfall. They therefore illustrate the contradictions associated with a recurrent situation in
28 Argentina, that of 'uncertainty' and the problems this presents for IP theory and practice.
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41 Analysing the new IP approach in the South
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45 The case of Tigre
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48 The city-region of Tigre presents an interesting case for analysing the relevance of the new IP
49 approach in Argentina. Tigre experienced outstanding economic dynamism during the late 1980s
50 and early 1990s. Field information collected confirms that Tigre's economic boom in this period
51 materialised largely owing to extensive public and private programmes of investment in public
52 infrastructure and estates (4). Its industrial structure was made up of 632 manufacturing firms
53 which accounted for 25 percent of employment and 91 percent of the GDP (IDEB-Tigre, 2000).
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This rather unusual overrepresentation of the manufacturing sector is explained by a tiny group of giant corporations (including Ford Motor Company) located on the North *Panamericana* motorway, which crosses Tigre and connects Buenos Aires to MERCOSUR. They operate however as enclave economies. The large majority of local firms are SMEs (6 to 150 employees), concentrating in food products and drinks, timber and metallurgic, metalmechanic and auto parts. Only a small group of them operate as independent subcontractors to the large corporations. A total of approximately 300 firms belong to the timber and wood furniture industries which constitutes an industrial agglomeration with potential for specialisation and division of labour. Furthermore, the numerous public, intermediate and private institutions which are committed to support the local SMEs, including Tigre's 'Buenos Aires Institute of Entrepreneurial Development (IDEB-Tigre)', makes Tigre a special case to evaluate in terms of whether there is new thinking along the lines identified by the new literature in supporting the generation of collective efficiency and local returns.

Tigre's industrial atmosphere is embedded in its geography and its economic history as a commercial harbour. The intense trade of goods (wood, fruits and vegetables) which existed between the vast islands of the River Plate Delta and Buenos Aires City attracted entrepreneurs for centuries. During the early 1900s thousands of European immigrants (notably Germans, Italians and Spaniards) settled in Tigre's Delta islands bringing with them craft and innovative manufacturing expertise. They acted as 'technological gatekeepers' and had a huge impact on the organisational and institutional-associative capacities of the local economy. The local carpentry and wood furniture industries were thus the outcome of the positive combination of existing manufacturing expertise (sawmills, wooden crate and shipbuilding) and innovations brought by the immigrants to the region.

Research methods

Research methods consisted of semi-structured interviews in 20 wood furniture firms, 12 local institutions and 5 key informants. Firm-size (1-5, 6-50 and over 50 employees) and their location (dividing into 'isolated' and 'co-located' firms) were the variables used to select the sample of firms. The entire institutional set up was surveyed (divided into public and private sectors and 'local system of innovation'). A total of 10 national institutions were consulted, including the Ministry of Economy and the Department of SMEs, several business associations (i.e. manufacturing sector, SMEs, and the timber-wood furniture industry), and experts in industrial economics.

Drawing upon previous discussion of the new IP thinking (see Table 1), three key policy tenets endorsed were measured against the experience observed in Tigre's city-region. Firstly, the nature of learning and innovation and the role of geographical proximity was considered. Do firms learn and innovate incrementally and draw on tacit knowledge? Does inter-firm collaboration play a role in the firm's learning process and is this favoured by geographical proximity? Secondly, the role of the institutional set up was analysed. Does Tigre's institutional set up play a role in boosting firm competitiveness and promoting a network economy? Finally, the nature and role played by the structure of socio-economic governance: does the local structure of governance play an enabling role in building up 'institutional density' and mobilising the territory in order to establish and coordinate a wide-ranging local IP platform as advanced by the new IP literature?

The nature of learning and innovation and the role of geographical proximity

The evidence revealed that the nature of learning in the cluster was predominantly firm-centred, unsystematic and often unintended, although incremental (80 per cent of firms). Ad-hoc

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3 strategies of product differentiation to avoid competition with imported goods was the main
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5 'innovation activity' reported and only occasionally did this bring about a move towards higher
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7 quality products. Firms relied heavily on the entrepreneurs' practical expertise, '*sense of smell*',
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9 and intuitive marketing strategies, which were considered key assets to '*stay alive*' in situations
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11 of uncertainty and crisis (such as the 1998-2001 period). While this form of tacit knowledge
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13 proved to be important for the firms it turned into a constraint when it came to improving
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15 productive efficiency and embracing strategies of inter-firm collaboration and collective
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17 efficiency (specialisation based on division of labour) (COOKE and MORGAN, 1998;
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19 MASKELL et al., 1998; SCHMITZ and NADVI, 1999; STORPER, 1997). A local expert on
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21 furniture technology explained that learning was underrated by most traditional firms on the basis
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23 that firms do not visualise the relationship between formal training and gains of productive
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25 efficiency, as it does not guarantee 'short term sales' or 'tangible results'. Similarly, as ex-ante
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27 market research to assess the competitive potential of new products was not undertaken
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29 (entrepreneurs trusted only their own '*sense of smell*') firms relied upon ex-post tests of new
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31 products in the market, which proved to be a highly risky strategy.
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41 With respect to inter-firm relationships and collective learning, firms neither associated inter-firm
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43 collaboration with learning nor did they envisage local institutions (notably those of the 'local
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45 innovation system') as an interface for or a facilitator of knowledge creation. Despite the growing
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47 need hinted at by firms to open themselves up towards other firms so as to gain access to
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49 otherwise inaccessible complementary assets, firms in and out of the furniture cluster continued
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51 operating on the basis of high levels of vertical integration. The findings therefore seem to
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53 suggest that the assumptions forwarded by the new literature hold only partially.
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3 However, the evidence also revealed that a group of firms (approx 20 per cent) located within and
4 outside the cluster boundaries displayed a higher innovative capacity based on advantages gained
5 through inter-firm collaboration, flexible specialisation, and vertical disintegration. Specifically,
6 three cases of medium-sized firms (the oldest in the panel) which had recently established joint
7 ventures with foreign firms were reported. 'Partner to partner' relationships with foreign firms
8 were the main form of evidence observed concerning interactive practices of knowledge
9 searching, exploration and generation.
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20 Although foreign firms were identified as 'technological gatekeepers' for local firms, as well as
21 creating potent incentives to improve productive efficiency, this type of learning was mainly
22 mainstream learning based on 'one to one' market transactions and rather distanced business
23 relationships. Overall firms stressed that they distrusted any sort of collaboration with local firms,
24 judged to be individualistic and opportunistic. Hence, while this evidence seems to give credit to
25 KRUGMAN (1995, 1998) and PORTER (1994; 1998b), in the sense that inter-firm collaboration
26 relied on pecuniary (and in this case de-territorialized) market transactions, policy makers should
27 not rush directly to policy conclusions, especially if IP is intended to break down the vicious
28 circle that nurtures the low-trust business environment existing in Argentina.
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46 As regards 'proximity advantage', evidence showed that this only matters partially for firms'
47 competitive performance, although most firms surveyed did learn on the basis of 'shorter
48 distances' compared to their larger counterparts (only 30 per cent of firms used the Internet and
49 only three entrepreneurs had attended furniture fairs internationally). 'Tracking rivals' was the
50 only source of localised learning identified within the cluster as co-located firms learnt 'by
51 hearing' what the leading firms did, what they did not do and what they gave up doing. The
52 concept of '*cluster noise*' serves here to conceptualise the knowledge that circulated informally
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within this cluster, which is based on proximate social relationships, and helped smaller firms to reduce their levels of uncertainty without cost. Firms also benefited from incidental or passive Marshallian external economies which stem from Tigre’s industrial atmosphere, including the local market for timber, furniture and second-hand machines, specialised labour pools, and training infrastructures, which had fuelled entrepreneurship.

The performance of the macroeconomy was also highly important in relation to learning, inter-firm collaboration and spatialised IP. Firstly, evidence demonstrated that in contexts of high uncertainty and sharp drops in sales, firms preferred to pursue defensive and/or reactive business strategies. As a result, learning was seen as a highly risky choice of relatively minor importance for firms vis-à-vis cutting labour costs, avoiding regulation and tax compliance, and a risk-averse ‘wait-and-see’ stance to investment (i.e. training and technological upgrading). Secondly, firms at large expressed a ‘desire for overnight policy solutions’ which undoubtedly blocked any chance of nurturing long-term relationships with local agencies as forwarded by evolutionary learning. Yet, this demand for overnight solutions deepened in the period 1998-2001; “*always, every two or three years something happens to the Argentine economy that stops you*” was a recurrent complaint voiced by entrepreneurs. Thirdly, higher transaction costs which derived from the macroeconomic situation discouraged inter-firm collaboration and pushed firms further to pursue strategies of vertical integration, which reinforced the low-trust business environment in which firms operated. Evolutionary learning and cultures of collaboration mature over long periods of time and only when the economic benefits are tangible to firms; and to date this seems to remain the privilege of more advanced and predictable economies. Finally, evidence also demonstrated that macro-economic uncertainty reinforced the prevalent belief of firms in Argentina that the main constraints hindering firm competitiveness were exogenous to the firms, that is, of a macroeconomic nature (YOGUEL and MOORI-KOENING, 1999); and that IP solutions should

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3 mirror this. Consequently, and prior to considering the impact of key macroeconomic indicators
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5 on firms' competitive performance (exchange type, interest rate or trade barriers to import
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7 products), the baseline condition for micro- and meso- economic interventions aimed at
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9 promoting an economy of learning and innovation in line with the new IP thinking looked rather
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11 fragile.
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14 15 16 17 The role of the local institutional set up 18

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20 The findings demonstrated that neither 'real business service provision', nor 'political
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22 representation' of firms' interests occurred as a result of the significant presence of business
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24 support institutions in Tigre. A top-down approach to service provision, limited communication
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26 and lack of knowledge about the firms' needs characterised the nature of the relationship between
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28 the public/private institutions and local firms. IDEB-Tigre, the only IP initiative in the region,
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30 was hardly mentioned by the firms. More strikingly most institutions did not recognise the top-
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32 down approach as a problem, as was evident when an official from an important local business
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34 association who stressed his frustration and lack of understanding as to why firms did not take up
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36 the cost free services offered by them.
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44 Real service provision to firms, as opposed to old-style IP financial service provision, must
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46 however be analysed in the context of developing countries. Generic or 'catch-all' policies are
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48 often considered as more efficient low-cost solutions in DCs (compared to the costly custom-
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50 specific ones) due to the economies of scale involved in their design and delivery as well as the
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52 larger number of firms which can be targeted. The rationale here is that, in a context of budgetary
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54 restriction, more urgent policy needs, and ideological opposition to the very idea of IP, the
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56 opportunity cost of an IP which does not deliver immediate and quantifiable results (meaning
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58 here visibility and take up of services), is extremely high. Hence, with the exception of Rafaela's
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city-region, most micro IP established in 1990s' Argentina followed this rationale as the only one that would allow them to legitimate the public resources allocated and maintain continuity of that funding stream. Local IP initiatives were literally 'downloaded' from the providers' headquarters; that is, they were designed and delivered without taking into account the firms' needs either by size, sector or location. As demonstrated, the paradox is that top-down policy approaches could hardly deliver the expected results, especially in terms of evolutionary learning based on gradual service take up.

In line with the assumptions forwarded by the new literature (BECATTINI, 1990; BIANCHI, 1993; BRUSCO, 1982), the evidence did show that an emerging process of institutional change had been on course since the mid-1990s onwards, in a context of generalised budget restrictions in both public and private sectors. Four institutions of the 'local system of innovation' (including IDEB-Tigre) made substantial progress in building up business relations with specific local firms. A more entrepreneurial approach towards service provision based upon soft institutional innovations, including 'outreach', 'a more customised portfolio of services' and 'fast response times to firm requirements' (a novelty in Argentina), was the key to unlocking both institutional autism and firm isolation. Although these 'innovations' may be seen as an opportunity in line with the new IP approach, they barely resulted in the development of a local networked economy; let alone a local system of innovation like those portrayed in developed countries (BRACZYK et al., 1998).

The nature of the relationship between local institutions showed similar patterns when it came to business support for local SMEs. Institutions rarely carried out 'formal' joint activities among them nor did they hold 'informal' contacts to exchange ideas and concerns. Business associations in general did not even know what other agencies did and vice versa, and some justified this gap

on the basis of a lack of discernible motives or reasons to collaborate, notably with the public sector. Far from resembling a homogenous political front, the private sector appeared as a highly fragmented collage of interests and institutions. Likewise, the synergy of the local state (Municipality of Tigre) with the private sector was extremely low, which mirrored the low interest demonstrated by the local government in local SMEs. Institutional sclerosis and the conservative attitudes of firms thus reinforced each other making it harder to change embedded patterns of behaviour, which helped clarify why the national state (though absent) was elevated to the only agency capable of representing the interests of local firms.

On a positive note, IDEB-Tigre, Tigre's Technological University and Industrial Union (Tigre's main business organisation) had made significant progress in identifying common policy interests and transformed them into policy actions targeted at specific local firms (i.e. the metal-machinery sector). This 'informal' partnership allowed these institutions to commence a public debate on the 'SME issue' in Tigre which had been previously non-existent. A consequence of this was evident in 2005, when for the first time Tigre's Municipality gave official backing to a new provincial policy initiative forwarded by IDEB-Tigre to promote what now is called Tigre's 'Wood Furniture' and 'Nautical and Shipbuilding' Industrial Districts. Again, although this embryonic process of institutional building is attuned with the new literature, it has not yet turned into a policy network able to galvanise local IP stakeholders so as to promote a local IP platform (COOKE and MORGAN, 1993; RHODES, 1990).

The structure of governance

The structure of governance did not play the role in building up institutional density and mobilising the territory in order to promote a wide-ranging local IP as expected by the new literature (BRUSCO, 1982; KEATING, 1998; PIORE and SABEL, 1984; SCOTT, 1998). The

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case of local government deserves special attention here. Firstly, in the absence of any coherent strategy for economic development, Tigre’s local government has adopted an infrastructure-led economic regeneration programme based on large public investments in infrastructure (roads, bridges, and railways); in line with the equally large influx of non-local private investments in real estate (notably, gated communities). Investments in real estate ultimately generated substantial council tax revenues (from 2003 onwards) for local government and this was ‘Tigre’s master plan’ for economic development. The local SMEs were neither consulted nor approached in relation to these investments (i.e. as potential subcontractors). To date, the local tourism industry has been the major beneficiary.

However, Tigre does not constitute a case of governance failure. Firms and business associations highlighted that the 1990’s process of reform of Tigre’s public administration made bureaucracy more efficient and transparent. This facilitated the influx of private investments and fostered a business-friendly environment. Hence despite its criticised lack of ‘explicit’ policy support to the SMEs, Tigre’s local government was seen as an example of institutional efficiency, good governance and political stability (5). Similarly, Tigre succeeded in developing local decision-making capacity and hence became an example of bottom-up-led decentralisation with respect to the Buenos Aires Province to which Tigre belongs politically. It can be argued that, in the absence of strong national players and state failure, strong local players become a critical asset in developing countries to promote bottom-up economic development agendas. However, the experience does not correspond to the type of inclusive decentralisation and multi-level governance to which the new IP approach refers (AMIN and THRIFT, 1994; BACHE and FLINDERS, 2004; RHODES, 1990). Like many other charismatic leaders in Argentina and in Latin America at large, Tigre’s Mayor governed the region through a hierarchical and centralised style of government which frequently blocked any local policy initiatives that did not emerge

from, or were led by, Tigre's government. This was the case for most IP initiatives promoted by IDEB-Tigre and its local partners (i.e. a programme on government and real estate procurement). Hence the 'indirect' role played by the local government in relation to local SME competitiveness (though enviable in many Argentine localities), turned into a major obstacle to the establishment and success of any local IP platform.

Placing the 'spatial turn' of industrial policy: concluding remarks

A number of restrictions and inadequacies relating to the theory and practice of the new IP approach was evident when tested against reality in the South. It proved that there was a need to qualify the limits and timescale of the approach before arriving at policy conclusions, particularly in places that face very different historic circumstances. Although Tigre appeared to have the potential for a new IP style approach this case also demonstrated that even in places that fulfil basic policy requirements, building the baseline conditions for bottom-up industrialisation is demanding and does not lend itself to quick policy solutions. The challenge to developing a more context-dependent IP in DCs is therefore immense.

In principle, there is a prime need for micro IPs aimed at strengthening the productive efficiency of firms in order to transform 'craft-based' businesses, such as those in traditional low-tech industries and 'survival clusters' of SMEs (ALTENBURG and MEYER-STAMER, 1999; PARRILLI, 2004), into 'industrially-organised' firms. Service provision in areas such as management (pricing, cost and stock control), marketing (market research, post-selling) and technological 'awareness' (prior to upgrading), is a potent vehicle for this transformation. Policies like these could target groups of firms. There is also a need to expose firms to new sources of information and practical knowledge. Direct experience and observation of peer firms

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and visits to trade fairs or to centres of expertise nationally and internationally are effective devices for exposing SMEs to tangible best practice. Distanced or de-territorialized forms of learning (i.e. via virtual connectivity) are critical to face increasing global competition and therefore should be encouraged and supported (AMIN and COHENDET, 1999). However, the findings corroborate that, in the South, most firms learn ‘at shorter distances’ (often locally) and therefore a context-dependant IP requires gradual steps and customisation. Similarly, more advanced strategies of ‘multi-locality’ networking, ‘multinational webs’ or ‘cluster-to-cluster’ perspectives (BELLANDI and CALOFFI, 2006; SUGDEN, 2000) remain theoretical options in localities and regions (i.e. Tigre) which have not transformed into subjects and ‘launching pads’ of IP.

Secondly, it is evident that cluster policies perform better in areas where economies of scale are relevant and that harnessing networks beyond local boundaries is essential to build critical mass when it does not exist locally. This study demonstrated however that, prior to this, policy makers should pay special attention to those elements that foster the development of economies of association locally, including outreach visits to workshops, dialogue and effective participation in the local structure of governance; all of which could facilitate trust-, consensus-building and external connectivity, ultimately transforming dormant clusters into active ones. Hence paying attention to the meso-economy of spatialised IP becomes crucial. In this case, capacity building throughout the local institutional set up, and the need for strong local players and good governance have proved to be essential ingredients for nurturing and enabling a business-friendly environment. However, if good governance was going to turn into good guidance, co-ordination, and partnership with local IP stakeholders, Tigre’s laissez-faire attitude toward its economic policy would have to change. Again, the power of circumstances obligates the policy maker to rethink the contextual conditions for more proactive local government roles, particularly in light

of a long history in which local/regional economies have been treated as secondary within the national framework of economic policy. Having said this, the case of Rafaela demonstrates that, even in Argentina, successful local/regional economies can play an important role in shifting conservative patterns of government at national and province levels (see SEPULVEDA and AMIN, 2006).

Finally, the paper demonstrates that the macro-economy plays a critical role in shaping local fortunes and yet, it is recurrently a factor of great uncertainty in DCs. In late 2001 Argentina announced a historical default of its external debt, and devaluation followed in January 2002. By 2003 the economy began to show signs of incipient recovery (agro-industrial commodities, construction, tourism and manufacturing industries previously affected by import competition all grew) and in 2005 it surpassed its previous 1998 peak; which has also helped revive some local and regional economies.

Whether the baseline conditions for the learning economy and collective efficiency have changed remains difficult to assess. Despite economic growth and some evidence of promising experiences of locally-based inter-firm collaboration (i.e. within the booming regional wine industry) the situation provides little ground for optimism as regards the opportunity structure for systemic competition. The low-trust business environment remains unchanged, the potentially destructive socio-political situation is ever present (in the form of the huge social debt and widening social disparities) and, notably, new inflationary pressures which have been on the agenda since 2005 are generating new uncertainties. This explains why despite the current ideological climate being more committed to tackling the problems of the real economy, the country's prime economic goal is (once again) to consolidate the fragile macroeconomic equilibrium that has been reached. What is more, the perceived and real need for certainty and long-term business horizons has proved not

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only to be the consequence of chronic hyper-inflationary cycles but also the product of a widespread belief that only a ‘healthy’ macroeconomy will bring about the expected micro-economic adjustments in the manner in which firms produce and compete. In the words of one policy maker from the influential Ministry of Economy: *“policies targeted at firms whether by size, sector or location would not be necessary if Argentina had a ‘normal’ macroeconomy.”*

Yet, while the solution to key macroeconomic constraints is fundamental to sustain any development model in the medium and long term, this alone cannot deliver economic success (BIANCHI et al., 2003; BONVECCHI and PORTA, 2003; KOSACOFF, 2000). Changing the culture and nature of the industrial apparatus should be as central to debates on economic policy in Argentina, as those on the macroeconomic issue, and indeed those on economic nationalism which are back on the agenda in Latin America. Evidence presented in this paper indicates that changes at firm, institutional and spatial levels are slowly taking place despite a volatile business environment. It must also be pointed out that without the theoretically ‘old fashioned’ and ideologically ‘unsound’ financial backing of the central state micro- and meso-economic policies inspired by the new IP thinking will lack a central ingredient for their realisation in DCs.

To conclude, the new IP thinking should thus be thought of as a loose frame of policy principles for local adaptation rather than as a model for industrial development. In DCs like Argentina it may mean the production of theoretical and policy frameworks that are more flexible and adaptable in the face of changing business environments. Advocates of the new approach should readdress critical debates on the macroeconomy and their relationship with industrial development policy. The link between these two dimensions of political economy may become the key to unlock the full potential of place-based industrialisation in the South.

Notes

(1) The use of the word 'new' to refer to 'new industrial policy thinking' does not imply a view that there is one single new form of IP thinking (see BIANCHI P. and LABORY, 2006), but rather a number of related new approaches that share certain common characteristics.

(2) Governance can be defined as the complex art of steering multiple agencies, institutions and systems which are both operationally autonomous and structurally coupled through various forms of reciprocal interdependence (JESSOP, 1997). In practical terms, governance describes the increased involvement of non-governmental actors in public policy making and delivery, notably through network actors (BACHE and FLINDERS, 2004).

(3) The currency-board scheme known as 'Convertibility' fixed the peso by law and limited the money supply to the stock of hard-currency reserves.

(4) The lack of statistical data in Argentina and in DCs at large is a recurrent problem hence studies on local/regional economies frequently rely on primary sources of information.

(5) Mr Ubieto (Tigre's Mayor) won three consecutive elections with 70 to 80 per cent of votes in each election between the late 1980s and 2001.

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Tables

Table 1. The new industrial policy thinking: stylised factors

'Old-style' IP	New approach to IP	Specific contributions
<p>Focus on 'static' factors of competition (competition seen as a market structure):</p> <ul style="list-style-type: none">• tax concessions and large outgoings of public subsidies• national policies• macro-economic interventions <p>Key actors & factors of IP:</p> <ul style="list-style-type: none">• national agencies• 'national champions'• localities/regions seen as state 'administrative units' <p>National state as the main 'subject' of IP:</p> <ul style="list-style-type: none">• state as 'rule-maker'• 'top-down'	<p>Focus on learning and innovation or 'dynamic' factors of competition:</p> <ul style="list-style-type: none">• 'real service' provision, creation of enabling business environments• local/regional policies• micro- and meso-economic interventions <p>Key actors & factors of IP:</p> <ul style="list-style-type: none">• local institutions and systems of innovation• SMEs and systems of firms• localities/regions seen as 'social constructions' <p>Multi-agency/multi-scale structures of governance as the main 'subject' of IP:</p> <ul style="list-style-type: none">• state as 'animateur'• 'bottom-up'• decentralisation	<p>The 'new economic geography':</p> <ul style="list-style-type: none">• pecuniary external economies of agglomeration & specialisation• reduction of transaction costs (Krugman)• sources of competitiveness (Porter)• 'cluster' as a key IP rationale and measure of proximity (Porter)• 'private governance' based on vertical & horizontal linkages among firms <p>The 'socio-economic of co-location':</p> <ul style="list-style-type: none">• socio-institutional & historical factors which underpin the development of trade interdependences• local 'tacit knowledge' and socio-relational nature of learning & innovation• external economies of agglomeration & flexible specialisation• 'geographical proximity'• multi-agency/multi-scale structures of governance

Source: elaborated by author

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