The development of SMEs: policies, actors and problems

A comparison between Japan, Argentina and Italy
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INTRODUCTION

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The papers now available in this collection include a revised selection of the contributions which were presented at the international seminar on “The development of SMEs: policies, actors and problems. A comparison between Japan, Argentina and Italy”, which was held in Rome in January 2010. For acknowledgement and thanks to the sponsoring organizations which have allowed that occasion through funding, hospitality and other support, we refer to the mentions in page 2.

A “trilateral” conference, gathering academic researchers and policy operators from three countries, so distant for geographical location, developmental history, and socio-economic characteristics, might have appeared a somewhat extravagant initiative. However, we all face a historical contingency in the world development, when the frame of “global” competition and increasing mutual interdependence are imposing challenges, and renewed call for policy vision, aiming at preserving and improving possibly patterns of specialization and regional potentials capable to assure sustainable subsistence within the international contexts. The need for “regional” and “Industrial” policies, although with a wide scope for differentiation of instruments and targeted environments, should emerge as one common, and still valid, option for supporting the resilience of the economic potential and of the welfare of the communities involved at the regional level.

This statement might appear in contrast with a vision, which has often prevailed in the academy and policy prescription, according to which national support of localized “industrial”, or otherwise specific, contexts, would interfere with the correct functioning of allocations by the “invisible hand” of the Market, which is deemed in the longer run to assure improvement of efficiency and welfare overall. In this moment, when the “real economy side” impacts of the crisis originated from an unregulated financial sphere are still hardly striking the economies of more mature countries, we should be however aware of the potential damages of the “failures” of the market. On the other hand, our contributors from Latin America, and in particular from Argentina in this case, should be fully conscious, out of the hard experiences of their more, and less, recent history, of the shortcomings of both, opposite approaches to policy, a “closed” protection of a national boundary before, and, later, the unregulated liberalization of the operation and options for capital inflows often of a speculative origin.

The convenors of the conference had called for a priority interest to be given to empirical accounts referring to problems faced by realities involving a relevant role of smaller enterprise (SMEs), in local employment activation, and the welfare support of the communities. We have however included in the selection contributions dealing with more general, macro-political frames, in particular for the illustration of the recent history of the Argentine’s context. We hope that all readers may find sources for instructive reflexion, on how the political regimes, the macroeconomic conditions, and the general vitality of a “microeconomic” texture, appear to have been closely interconnected, in the passages through often dramatic circumstances. The renewed vitality of the Argentinean economy, in which, within, but also out of, its traditional specialization in the farming and stock-breeding, appear to connect with new spaces and roles for the SMEs, capable of covering “niches” of productive and trade-servicing activities. “Agri-food” appears thus to become a source for a wider range of value adding activities in the local contexts, no more limited to the export business of mainly “unprocessed” agricultural staples. The opportunities offered by the widening of the “captive” markets, through the process of trade liberalization within the “Mercosur” area integration, offer further spaces for specialized and export-oriented SMEs, out of the past subsistence upon an “asphyctic” domestic demand. One of the contributions
from the Argentinean side illustrates, with rich detail, on the frames of a new industrial policy to support these potentially positive developments.

The three contributions selected for the case of Japan are, otherwise, all centered on the accounts of “local” or regional experiences, and of the challenges for a policy action aimed at preservation and innovation of the traditions of competence, manufacturing excellence and “community visions” which have been characteristic of the particular “manufacturing culture” of this country. The three contributions appear to be of complementary interest, since each of them insists on a particular level of a “local” reality: a) that of a “ward” within the Tokyo metropolitan area, traditionally a ground for small scale enterprise and craft production and the related trades; that of a “specialized industrial district” in the provincial area, with a tradition of excellence in the manufacturing of a particular product-line (eyewear); that encompassing the whole size of a regional entity, coinciding in the case with that of a greater island (Kyushu), which has pursued an effort of transformation and updating of its economic structure, from the traditional skills into the applications on the advanced front of the Information technologies, in the attempt at preserving at valorizing its base of technical and “human” skill. The second among these contributions has a particular interest, in its “twin industry” comparative approach, where the Japanese district for eyewear industry (Sabae, Niigata prefecture) is put in comparison with parallel transformations of an Italian district with analogous specialization (Belluno, North-East Italy). Out of all the cases, the problems of competitive survival of SME’s in industrial districts of a “mature” country, vis-à-vis the rise on the market of new competitors—China obviously in the first place—clearly come out. Downsizing, cases of “path-destruction” the concentration of activity in fewer, greater firms with capability for international operation and “brand” differentiation strategies at the higher ends of a quality chain, are described. But again, we believe that the main interest comes from the description of the detail of the policies, mobilizing funds and resources from the public bodies, research departments at the technical faculties of local universities, etc., in support to the entrepreneurial initiatives.

The Italian model of manufacturing district and, more in general, the peculiarities of an industrial organization which still has the highest share of contribution to sale values and employment activation provided by the SMEs, is comprehensively presented in a contribution. The historical development, and the “rationale” of a system of networking of smaller firms within a vertically disintegrated value chain; its successes in a still recent past, and the signs for stagnation and outsourcing causing now a relative decline, of this model, are critically reported and commented. Fewer firms upgrading their supply content, and pursuing dimensions required for a visibility in international operation, appear to emerge on one side; while a lower segment of SME’s appear stagnant, hardly surviving the cost struggle through the resort to cheaper labor, immigrant and temporary workers. The more rigid frame, as compelled by the belonging to a “single market” and the monetary union within the EU context, may limit the feasibility and instruments of national policies targeted to domestic producers, in principle not allowed by the EU norms on fair competition on a single continental market.

Although out of the theme with respect to the “three countries” comparative program, we had the opportunities of hosting a guest presentation by a group of Italian researchers, actively engaged in academic exchange and research partnership with institutions in the Province of Guangdong, PRC. We have asked them a written contribution to be included in this collection, since the interest has risen among the participants and the general public. The rise of China as the main global competitor on the world manufacturing scene is an obvious fact, but there is as yet a scarcity of surveys on patterns of local development, and of the policy initiative, targeted specifically to the implantation of a SMEs centered model of diffusion
of industrial settlements. Guandong region is widely known as the first core of the exponential growth of “Special Economic Zones” in China, open to the direct investment from foreign multinationals and giving rise to greater, export-oriented industrial plants. Less is known, perhaps, of a more recent orientation or the regional policies, aiming at the diffusion of an industrial texture more widely distributed in the territory, also aimed at limiting the congestion of the mega-industrial cities. Some 229 smaller cities in the province have developed, with impressive rates of growth of production volumes, into “specialized industrial towns”. The Chinese policy initiatives appear to have fully taken into account the experience and the models of countries with an older tradition of industrial development (Japan, Italy, Korea).

These contributions have, in the whole, strengthened our a-priori convictions. The success in the implantation and resilience of the local contexts favourable to the vitality of a network of smaller entrepreneurial initiative, in manufacturing or in specialized service sectors, is a necessary condition for a wider diffusion of an industrial culture, less polarized forms of agglomeration for the economic activity, and, last but not least, the welfare and vitality of the local communities. The joint involvement of the “capital” and “human” resources, from enterprises, public agencies, and the research community, is essential if these experiences are due to resist, and creatively innovate, within the changing scenarios of the global interdependence. A “visible hand” supporting these realities, by what we might call “regional resource oriented industrial policies”, appear then as appropriate and actual, either for the more “mature”, or the “emerging”, economies.
“The global crisis that began in advanced economies has sent severe shocks around the world, posing a test to the economies of Latin America and the Caribbean. The good news is that during this decade the region has made itself more resilient to external shocks, by strengthening policy frameworks and reducing vulnerabilities in its public finances and financial systems. These preparations, the report shows, mean that countries are now more able to respond to the external crisis, many for the first time, with active policies to boost output and employment and protect the most vulnerable groups. This will help contain the damage from the global crisis and speed up the region’s recovery”. This was the comment of the IMF Regional Outlook of May 2009. IMF stressed that Latin America was recovering more quickly from the global crisis relative to advanced countries. This good performance was essentially due to Brasil. On the other side, Argentina, after an extraordinary reaction to the internal crisis of 2001 was not able to react positively to the global crisis.

In this work, we want to illustrate the case of Argentina, using our theoretical framework for the analysis of industrial development policy. We show that long-term analysis is useful; that the consideration of production organisation is key in understanding wider economic development and in designing policies adequate for development, but at the same time that it is fundamental to analyse the institutional framework, as basic externality for development. Argentina experienced an institutional crisis in 2001 culminating on 20 December of that year in the resignation of President Fernando de la Rua. This crisis certainly had an economic basis, determined partly but not solely on the high external deficit. Argentina indeed reached this crisis with a productive structure not able to generate sufficient wealth to guarantee development and to pay the external deficit. Although it was considered as an example to follow in terms of IMF recipe adoption, the country went bankrupt. Four Presidents succeeded in a few weeks, the fixed exchange rate pegged with the dollar incurring into difficulties. However, the economy recovered in a phase of strong international opening up to being able to face the 2008 crisis much better than many more advanced economies.

How did Argentina reached this situation? We show here that an analysis with a long-term perspective is useful to explain Argentina’s development. Up to the default in 2001, the country experienced four important phases, delimited by dramatic political events and a high economic instability:
1. from the middle of the 19th century to about 1930, the model based on agricultural exports;
2. from 1930 to the mid-1970s, the model of import substitutions;
3. from the mid-1970s to the collapse, the years of unilateral opening (Kosakoff, 2000, p. 36);
4. from 2001 to the global crisis, rise and decline of a new approach.

The export economy
The colonisation of the Mar del Plata started in 1534 when the whole area became a province of the viceroyalty of Peru, of which it represented the Southern periphery: a large farming territory, at the extreme South of which was located a port, Buenos Aires, that found it increasingly difficult to support the colonial constraint. From there started the commercial bourgeoisie anti Spanish revolt against the landed gentry that grew during the colonial order. This opposition will carry on up to independence (1816) where the commercial bourgeoisie of
Buenos Aires will keep in conflict with the large estancieras families, especially concerning the government model, the commercial bourgeoisie preferring a centralist and unitary government while the estancieras families preferred a federal and decentralised government. A civil war outbroke leading to a federalist solution guided however by the most important landowner of the Buenos Aires province, namely the General Ortiz de Rosas which take on central power (Incisa de Camerana, 1988).

Rosas was defeated in the 1850s after almost 20 years of dictatorship, during which a liberal constitution was adopted and Buenos Aires became the capital, while the economy was progressively oriented towards raw material exports, especially meat and wheat.

The economic model was essentially based on farming, the ganaderia, to which auxiliary industries dealing with meat treatment and leather preparation, all oriented towards exports.

In the last years of the 19th century, the infant industry mainly comprised industries dealing with meat salting, while a meat freezing industry develops in the 20th century.

Between 1865 and 1895 the cultivated area grew from 95 thousands to 5 million hectares. Exports increased tenfold, but the value of the land was multiplied by a thousand every ten years (Incisa de Camerana, 1988, p. 314). Growth was sustained by a substantial flow of immigration from Europe, that allowed to consolidate the specialisation trend into agricultural products. While exports were concentrated into agricultural products, imports consisted in manufactured goods and basic goods necessary to build infrastructure.

The UK became a new reference point for Argentina. After a brief war in the years immediately following independence, England replaced Spain as guarantee and protector, as main foreign investor and the political and cultural reference of the young Argentinean state.

The Argentinean “original sin” was committed in these years, namely modernisation without industrialisation, as argued by Alberti et al. (1985, p. 8). The result was an oligarchic society where land owners directly controlled the country’s government and hence the economic and social power. The economic model was centred on land rents in the hands of the old aristocracy criolla (that is, Spanish and colonial) that modernised through intensive farming and exports of meat and other related products.

The industrial activities not connected to ganaderia were considered as marginal, because providing neither social prestige nor political rights. A strong contrast was therefore created between the need to attract labour force in order to populate the immense country and the risk of loosing control of an essentially closed political system.

At that time it was theorised the difference between political freedom, that has to be reserved to the minority of citizens who can effectively govern the country due to their capacity, competence and tradition, and civil freedom (comprising economic freedom to work and undertake any activity) which can be extended to all citizens including foreigners.

Democracy therefore was not expressed in terms of popular sovereignty but in terms of collective reason, interpreted and managed by an oligarchy which authority stemmed from heredity and nature. Only these ciudadanos - the members of the minoritarian authority – had the political rights in this double federative republic which only universally confer civic rights (Alberti, 1985, p. 8).

The first radical movement also converged on this position, which leaders originated from the traditional families and which basis was constituted by the urban middle class, namely professionals, retailers and civil servants, linked to the economy of agricultural export, which supported the terratenientes families and opposed the emergence of an urban working class mainly made of immigrants of the last generation (Di Tella, 1985).
The model based on exports of primary goods allowed the city-port to grow and a bourgeoisie related to exports and international trade developed, generating modernisation. This modernisation however was not linked to the development of alternative industries to those legated to land ownership as occurred in Europe and in the US. Radicalism, which could count on the votes of the new bourgeoisie due to a law adopted in 1912, interpreted this widening of the social spectrum, by initiating a social reform which continued leaving industrial development at the margin and inhibited the development of a movement that could oppose the agrarian establishment.

Social classes appeared and remained in the subsequent historical phases of the country: the terratenientes oligarchy, the professional and commercial urban bourgeoisie, which activities were complementary to those of the oligarchy, the vast area of immigrants remaining at the margin of the political system and, at the centre, the army as sole national technical structure which represented the only way young people of the bourgeoisie or also of the immigrants could hope to rapidly integrate the strategic heart of the nation.

Industrialisation based on import substitution
This economy based on primary goods export entered in crisis in 1930, when the whole set of international relations substantially reduced due to the crisis and the protectionist reactions of world countries. Argentina reacted to protectionist measures by other countries by raising its own barriers and inducing domestic firms to produce the goods that were imported beforehand.

At the same time, the political situation changed, President Yrigoyen, strong supporter of social aspects, being replaced by General Uriburu who subsequently tried to strengthen the political control of the agrarian class.

An import substitution model was established, focusing the drivers of economic growth on industry, which was oriented towards the growing, although still limited in size, domestic market. Only in the end of the 1930s was this domestic industry directly supported by the state, due to pressures from the army which requests protection of the domestic industry. The army, increasingly interested in the German and Italian experience, the new industrialists related to the Union Industrial Argentina, the urban commercial classes, and also the landowners all agreed on the Plan Pinedo which delineated a development strategy based on the consolidation of domestic manufacturing to substitute imports. The plan however was rejected by the Parliament where conservatives and radicals preferred the liberal scheme of the past.

However, the War imposed a war economy where the domestic industry was directly favoured and supported.

Contrary to the food industry related to ganaderia, the new industry was located in cities, essentially in Buenos Aires, with a social organisation that lead to the development of political and trade union organisations that had remained marginal until then. This model consolidated after the War with the growing leadership of Peron, first as a minister in the military government and then as President of the Republic.

Peron built a personal regime – the ‘justicialismo’ – strongly embedded in the social context specific to the city, the trade-unions, and the working class, also open to immigration, that shared the characteristics of the social fascism where the state plans economic activities. The state became producer and manager of economic activities, thereby resolving entrepreneurial weaknesses typical in the history of the country. Alberti (1985, p. 10) claims in this respect: “politically peronism represents the aim of building a political system of a corporatist and plebiscitary democratic type, based on the controlled mobilisation of popular sectors in order
to break up with the oligarchic power of the past. The state emerges as the political expression of the movement, thereby representing not only popular interests but also the interests of the industries producing for the internal market and the intermediate sectors” (our translation). Land-owners and farmers were excluded from this movement and fiercely opposed the peronist project; they lost political power as a result but maintained a strong economic power.

Peron was overthrown on 16 September 1955 by a military insurrection that easily overcame the exhausted regime and the claustrophobic economy (Incisa di Camerana, 1988, p. 593). The so-called ‘Revolucion libertadora’ was an attempt to restore the old economic and political establishment, to the expense of the popular classes, the new immigrants and the industrialists helped by Peron.

The economic model remained however based on import substitution, although exports started being encouraged. Some large firms consolidated and became multinationals, in the most dynamic sectors of the economy, while numerous local small and medium firms continued developing. Exports primarily consisted of primary products while manufactured goods were mainly produced in the domestic market. Arturo Frondizi was elected President in 1958 and started promoting the development of other export industries, such as heavy industries, so that the country could export more sophisticated products.

The Italian experience may have influenced Frontizi, an Italian emigrated to Argentina in childhood. The IRI (Istituto per la Ricostruzione Industriale, Institute for Industrial Reconstruction1) and ENI (oil and gas) were having high success at that time, and were showing how a country with scarce capital and entrepreneurship could grow and enter into the international market thanks to the production of state-owned firms supported by the government. As a result of this policy of the Argentinian government, industry reached about 28% of GDP in the 1960s, while exports of manufactured goods (almost nil in the 1950s) reached about a quarter of total exports at the beginning of the 1970s (Kosakoff, 2000, p. 42). Frontizi was however overthrown by the authoritarian block linked to food industries and the movement of ‘Peronism without Peron’.

Once again the model vanished with the outbreak of a new international crisis, namely the first oil shock that created high monetary instability in the country. The institutional and political situation also worsened, between radical governments and military coups. Peron was even recalled into power in 1973, with his wife Isabel as vice-President. In July 1974 Peron died and Isabel took on presidency, while the country dived into terroristic war, fed by the ‘court’ of the President. The economy grew out of control, prices rose by 28.6% in February and by 54% in March 1976. On 23 March 1976 the army made a coup and General Videla took on power, with an ambitious government programme untitled Proceso de Reorganizacion Nacional (Process of National re-Organisation, PNO in what follows).

Unilateral opening and hyperinflation

The PNO was sustained by a recurring alliance between the agrarian and military oligarchy, that appeared as natural power, acting in the name of the collective reason that popular sovereignty could not express. The origin of the crisis was indeed presented as being the protected national industry, with the subsequent accelerated urbanisation effects, popular pressure and social disorder as the endemic expression of industrial development engaged

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1 IRI was set up during the fascist government of Mussolini in 1933 in order to rescue the Italian industry and financial sector: IRI became owner of most industrial and banking enterprises of the time.
on the wrong path, while development based on the production of the liberal and agrarian oligarchy were seen as more favourable to the country in the long term. The military regime therefore started a development policy based on multilateral opening and liberalism.

Martinez de Hoz was the last representative of the agrarian families and was the Minister of the Economy who designed and implemented that economic project that lead to a clear de-industrialisation of the country, an expansion of financial speculation up to a deep crisis accompanied from the civic point of view by the drama of dictatorship and the military disaster of the Falklands in 1982.

The authoritarian phase can be divided into two sub-periods. Until 1978 the production of durable goods and investment good increased again, after a long period of instability and thanks to a reduction in internal labour costs. The reduction in external tariff from 90 to 50% had limited effects, essentially due to a fall in internal demand together with high inflation that started to sharply rise again after the military coup, so much so that wages were blocked. As a result, inflation reduced from 42% to 6% per month. However, the situation worsened due to both a reduction in internal demand given that the population was impoverishing and the lack of structural strategy. Inflation was fought by restrictive monetary policy which blocked the economy further.

In 1978 the government suddenly opened the economy, by eliminating tariffs, announcing currency devaluation and liberalising capital markets. The immediate effect was a leakage of capital abroad, by both foreign firms and national firms. In addition, inflation continued to rise, devaluation was ineffective, rising interest rates aimed at controlling inflation in fact reduced the competitiveness of domestic firms and increased firms’ indebtedness. The worse industrial crisis of the Argentinean history was thus generated (Kosakoff, 2000, p. 46).

A re-organisation process started in this situation and continued during the whole period of hyperinflation. The system polarised between a minority of firms which managed, using own means or external credit, to renew investment while the majority of firms reduced activity to the minimum or became importers or intermediaries. Foreign multinationals such as the Italian Fiat or Olivetti abandoned the country, often by selling their activities to their Argentinean suppliers. Foreign capital stopped entering the country, domestic capital flew abroad, financial speculation started to grow and generated what was called the “sack economy”. Some domestic groups however were created and started structuring a new industrial profile, characterised by groups with family ownership, often recently immigrated, that grew either out of financial and speculative activities or out of activities left by foreign multinationals or by bankrupt domestic firms. The government sometimes acquired the industrial activities, as was the case for the Soldati electric group.

A government change occurred in March 1981, Galtieri taking office instead of Videla. The new government faced the crisis by acquiring the debt of private firms, offering guarantee thanks to international debt, protectionist measures such as import limits and nationalisation of some domestic firm. Meanwhile, inflation continued to grow. The Falklands war lead to a new President taking office, namely Brignone, who eventually called for elections leading to the radical Alfonsin becoming President. Alfonsin inherited an economy characterised by external debt crisis, fiscal crisis together with hyperinflation. The crisis was made more acute by the oil crisis and the protectionist measures decided by the EEC limiting imports of Argentinean meat and wheat.

During the military regime foreign debt rose from $ 8 to 44 billion. Contrary to Brazil, where foreign credit was used as investment, the Argentinean debt only fed consumer goods imports and capital outflow (Incisa di Camerana, 1988, p. 696). Poverty simultaneously increased: GDP per capita was $ 3500 in 1975, $ 2950 in 1985.
In 1975 interests on foreign debt represented 15% of exports, in 1985 they represented 60% of exports. However, the fiscal crisis implied that the main revenue of the government stemmed from export tariffs.

The Alfonsin government continued to devalue in order to sustain exports and therefore government revenue to repay foreign debt. Meanwhile, inflation had to be reduced. In 1985 the “Plan Austral” (Austral Plan) introduced a new currency that was expected to curb inflationary expectations, given that future wage contracts were to be pegged to the new currency, together with fiscal and wider state reform (Sylos Labini, 1986). However the Plan translated into restrictive macro policy while the deep structural problems of the economy were not resolved. Inflation boomed again to the point of being defined “megainflation”, implying a worsening of the structural problems of the productive organisation (Heymann and Leijonhufvud, 1992).

The effects of both this long hyperinflation and the institutional uncertainty have been very significant, some sectors, developed during the period of import substitution and the consolidation of intermediary good production by Argentinean firms, being destroyed. In December 1989 a new institutional crisis started with the dismissal of Alfonsin and the election of the peronist Meném who reached sufficient consensus to be able to initiate a wide programme of structural reform, whose pillar will be the convertibility Law of 1991.

Effects of megainflation on productive structure
The effects of megainflation and institutional instability translated into a deindustrialisation process, which can be measured by the value of manufacturing production on total GDP. As shown by Kosakoff (1993, 2000), this ratio slowly grows until 1930, due to the expansion of food industries, rises substantially during the import substitution years and dramatically falls in 1980s, the share of manufacturing output in GDP falling to the 1940 level.

Dictatorship is characterised by a fall in per capita GDP (by a quarter), increasing unemployment and reduction in public spending, especially in health and instruction, so that not only poverty increased but also social inequalities. In addition, the high macroeconomic instability directly affects industrial production preventing any investment. Macro and institutional instability increases transaction costs and prevent long-term contracts to be adopted, so that production cannot be properly planned. Similarly, long-term contracts to assume high-skilled workers are more difficult to stipulate when uncertainty is so high that the ability of the firm to pay contracts is unsure (Kosakoff, 2000, p. 52).

In addition, most factories constructed during the import substitution period had suboptimal dimensions, since no investment to modernise or expand them had been undertaken. Most productive facilities rapidly became obsolete in this context (Kosakoff, 1998, p. 28). Manufacturing production in the mechanical, machinery, metals and metal working, textile and clothing, furniture substantially reduced both in absolute and relative terms, many manufacturing activities being replaced by informal activities or only trade. These sectors accounted for 31.6% of total industrial production in 1977 reduce to 20% in 1990. Firms in the heavy industries, such as steel and chemical, reacted by increasing vertical integration in order to reduce intermediary transactions, so that their weight rose from 20 to 30% of total manufacturing production. These sectors even succeeded in being competitive internationally, with significant export capacity (Chudnovsky, Kosakoff and Lopez, 1999, p. 78).
In this context, producers in the food industries followed the same tendencies and grew in importance from 21.7 to 26.5% of total manufacturing production. Argentina was therefore affected by deindustrialisation, since manufacturing activities fell to 76.6% of total industrial production, in a context of macroeconomic crisis, whereby GDP fell by 9.4%, industrial production by 24%, consumption by 15.8%. Imports and investment respectively decreased by 58.9% and 70.1%, per capita GDP by 25% and export grew by 78%.

**The convertibility plan and privatisations**

The Argentinian model from the 1970s to the 1990s is a liberal approach characterised by unilateral opening but without control of inflation and exchange rate. In 1991 a convertibility plan fixed the exchange rate of the peso relative to the dollar. The fixed exchange rate will remain until the crisis of December 2001.

Meném had an explicit populist programme, strongly recalling “Peronism without Peron”. He started his Presidency with a brief phase of uncertainty but then adopted a programme of structural reforms following the indications of international monetary authorities, in line with the so-called “Washington Consensus” approach.

The Minister of the Economy was first a member of the Bunge family, owning and managing one of the most traditional firms in the agro-food sector; Nestor Ravanelli was the second Minister of the Economy, originating in the same family. His successor was Antonio Erman Gonzales, still member of the land-owning families, as will be Domingo Felipe Cavallo.

In the federal structure of the country, the Minister of the Economy headed the co-called Gabinete Económico, comprising different “secreterias” (departments): commerce and trade; economic planning, public revenue, enterprise, transport, energy, finance, and so on. Given that the federal structure is highly decentralised and that foreign affairs, defence and internal affairs directly depend on the Presidency, the Minister of the Economy was relatively autonomous and had high power in governing the economy.

Cavallo was supported by his own organisation, the Fundación Mediterráneo, created in 1977 in Córdoba and consisting in a group of industrialists of Italian origin. The Fundación had the aim of training economists and researchers who, in the dictatorship years, opposed to the speculative and agrarian liberalism of Martínez de Hoz. In 1981, Cavallo was nominated President of the Central Bank where he remained only two months because of his decision to reduce interest rates which hurted the interests of the old oligarchy (Incisa di Camerana, 1998, p. 568 and 699).

Ten years later, Meném nominated him Minister of the Economy. In his first programme of economic development of 1984, Cavallo identified autarchy as the main problem of the Argentinean economy, which was rich of natural resources and yet was blocked into a crisis spiral.

Cavallo therefore proposed a wide economic opening that could have a large impact on the Argentinean economy. The Law of Convertibility of 1991 imposed that the peso be pegged against the dollar. Meanwhile, a vast reform of the State was carried out, started with a 1989 law inducing the privatisation of all industrial ownership of the state, so that public debt could be reduced. In addition, decentralisation was pursued further through an agreement between the central government and the provinces whereby health, education and other social assistance was transferred to the Provinces. Fiscal reform was also undertaken and the economy was liberalised.

A programme of structural reform of the Argentinean productive sectors was also carried out in the medium term (1992-1995), with the re-organisation of INTI, the national agency for technological transfer (Magariños, 2000).
Privatisations regarded first the different firms in the oil sector (15 firms previously owned by the YPF public holding, representing 21.2% of the total), gaz (Gas de Estado controlling 9 firms and representing 24.6% of the sector's total), electric energy (SEGBA, 10 firms representing 20.9% of the total), water (Obras Sanitarias), telecommunications (ENTEL, 2 firms representing 23.7% of the total), airlines (Aerolineas Argentinas), railways (Ferrocarriles), hotels (Hoteles – Llao), shipbuilding (Tandanor), steel (Altos Hornos, Zapla, Somisa), and chemical facilities (Kosacoff and Berzchinsky, 1993, p. 263).

Privatisations represented, in the end of 1992, a value of more than $ 16 billion partly transferring public firm debt to the private sector, 60% of which was paid by foreign firms and banks and 40% by national groups (Kosacoff, 1993, p. 260). National groups, among which Techint, Perez, Soldati, Astra and Macri, therefore took part in the privatisation process, although often allying with foreign ones. Thus for instance Techint, Soldati and Perez took part, together with the Spanish Telefonica, in the privatisation of Telefonica Argentina, while Perez was the sole Argentinean partner of the Italian Telecom Italia, the French Cable et Radio in the other telecom operator, Telecom Argentina. Techint also acquired oil and steel enterprises.

One effect of this wide programme was the growth of the large groups producing industrial commodities which emerged in the 1980s, by the strengthening of their position in basic industries such as petrochemical and steel, together with services (telecommunications, transport, water and gas and electricity) (Bisang, Burachik and Katz, 1995).

This growth allowed them to diversify and to expand abroad, in particular in the Mercosur, the regional Latin American integration area (Chudnovsky, Kosacoff and Lopez, 1999). However, these groups’ debt also rose, due to their acquisition of state-owned firms and their debt, and to their investment in the modernisation of existing plants. Acquisitions and debts were labelled in dollars, given that the domestic currency was pegged against it. Interest rates were high because inflation of the domestic currency with fixed exchange rates required to increase interest rates.

Privatisations resulted in an increase in concentration of the Argentinean industry. In 1997, the main 18 national groups accounted for 96% of the total revenue of the first hundred firms, for 83% of total revenue of the first 500 firms of the country and 81% of the first thousand firms. In terms of employment the first 18 groups accounted for about 89% of the total of the first 500 firms and 86% of the first thousand firms.

In addition, the concentration ratio of the first four firms in the country amounted to 55% in terms of revenue and 43% in terms of employment. Thus about the industrial activities of the country were realised by only four firms (YPF, Techint, Perez Companc and Socma), which accounted for 19.2% of the exports of the first 1000 Argentinean firms and 100% of FDI (Chudnovsky, Kosacoff and Lopez, 1999, p. 96). Table 4 shows the importance of the first 18 industrial groups in the Argentinean economy in terms of sales and number of employees.

The creation of Mercosur in 1991 establishing a common market between Brazil, Argentina, Uruguay and Paraguay (and Venezuela since 2006) was aimed at providing new impetus to the industrial development of the member countries, Argentina in particular. However, the effect of such economic integration had limited effects, due to the high diversity of the economies of its member states, the explicit distrust by international institutions, the reluctance of the United States and the indifference of the European Union (Chudnovsky, 1996, p. 157).
The Argentinean economy in the crisis

In the beginning of the 1990s the Argentinean industry developed substantially, as shown by the industrial production index: taken at 100 in 1986, the index reduced to 89 in 1989 but grew to 124 in 1994, while both exports and imports increased in the whole period (Magariños, 2000, p. 85).

The industrial strategy was closely followed by the IMF, since Argentina adopted all its recommendations, in a world-wide context of liberalism since most countries adopted liberal approaches to industrial policy in the 1990s (Bianchi and Labory, 2006), first and foremost the United States and the UK but also Chile in Latin America.

The recommendations of the IMF but also the World Bank were the elements of the Washington Consensus (Williamson, 1989), advocating trade and financial liberalisation, privatisation and macroeconomic stability as universal recipe for growth. The Asian miracle, namely strong growth of South Eastern Asia, was ascribed to Washington Consensus policies by the World Bank (1993).

Few critics emerged at that time, that would stress the long-term risks of such an approach which, being focused on unilateral trade opening and massive liberalisation, allowed to stabilise the exchange rate and inflation, but exposed the concerned countries to competitive shocks. These shocks were potentially disastrous given the structural problems of these economies which were not addressed by the Washington Consensus: limited industrial base, few competitive firms, and many SMEs not able to face international competition.

Kosacoff (1993), Katz (1997) and Chudnovsky (1996) outlined however these risks from the outset, arguing that opening and liberalisation without a simultaneous strengthening of the industrial base and its technology would lead to competitiveness based only on cost reduction which however was made difficult by the exchange rate re-evaluation.

Still in 2000 the World Bank was praising the economic reform programme of the Argentinean government (The World Bank Group, 2000): Argentina had experienced strong economic growth in the 1990s, from an estimated GDP of $ 141 billion in 1990 to $ 298 billion in 1998. Inflation had been reduced to very low levels (consumer prices were even reducing in 1999). Government deficit decreased from 6 to 8% of GDP in the 1980s to 1.4% of GDP in 1998, although the 1999 recession made it grow to 2.6% of GDP. However, the World Bank also recognised that the export basis of the country and the ratio of monetisation were low for a country with such income level as Argentina. Government deficit was low, but both the government and the main firms relied on international capital markets in order to finance their activities. The lack of internal credit was a sharp problem for SMEs. This situation made Argentina vulnerable to external shocks (World Bank Group, 2000).

The first destabilisation of the internal situation arose in 1995 when the Mexican peso was devalued. Mexico was indeed the first victim of the implementation of the Washington Consensus in economies with weak structures. The second external shock came from Asia, whose 1997 crisis ended up in hurting the rest of the world.

In fact, the miracle experienced in these countries was essentially due to the boom of local stock exchanges, driven by the world-wide boom in speculation and financial values. The local value of housing and financial companies continued to rise in these countries, without a clear correspondence with the real world, namely industrial production, thereby generating growing speculative bubbles. These financial investments increasingly replaced productive investments, in the sense that capital was increasingly lured to pure financial activities with higher return. Productive investment experienced growing difficulties as a result of this trend and of the re-evaluation of local currencies due to entry of foreign capital.

The crisis of the housing sector in Thailand revealed the huge difference between the market values of financial activities and the effective value of the real activities it represented. This
lead to the non sustainability of not only these activities but also of the underlying economies, which went out of control due to the gap between the financial and the productive spheres. On 17 August 1998 Russia announced the partial freezing of external debt refund, implying the crisis of the internal financial system. The crisis spread to Latin America in the end of the year, touching first Equador, followed by Argentina, Chile, Colombia, Honduras, Uruguay, Paraguay and Venezuela. The IMF massively intervened to support Brazil with a $41.5 billion dollar loan, in order to cushion the effects of the crisis on the major Latin American economy. Brazil devalued, affecting the other economies of the Mercosur and Argentina in particular since the peso continued being pegged to the dollar.

The Argentinean economy went into increasing difficulties from the mid-1990s, when the government implemented restrictive macro policies in order to face the Mexican crisis. Poverty substantially increased in the country as a result, leading to political conflicts that induced Domingo Cavallo to leave the government in 1996. Political upheavals continued but did not change the economic policy lines of the government, so that private and public external debt continued to rise and was worsened by the continued re-evaluation of the peso due to its being pegged against the dollar, while the currencies of the other countries involved in the crisis devalued.

In the meantime, the IMF and World Bank kept on providing loans to Argentina. In December 2000 the IMF provided Argentina with a support plan amounting to $40 billion, increased by $14 billion in 2001. However, on 5 December 2001 the IMF did not pay the agreed $1.26 billion instalment because Argentina had not reduced debt according to the agreed extent, implying an explosion of the country risk. After 33 months of economic recession, the Minister of the Economy (Machinea) resigned and was replaced by the radical and ultra-liberal Murphy. The latter announced a drastic public spending reduction plan, together with fiscal stimulus to production.

In October 2001 unemployment reached 4.8 million (about 30% of the labour force), while public debt reached $132 billion (to which $28 billion, coming from the Provinces, must be added). On 14 October the government lost elections and peronists returned to power. The country risk was 899 in January when the IMF accorded a loan; it represented 1300 in July and, after the October elections, rose to 2537 in November and 3055 in December. When the IMF refused to provide the last instalment country risk increased to 4116 on 19 December 2001. The government resigned, and tensions and social conflicts escalated. Duhalde was elected, who declared the Argentinean economy bankrupt, nominated a crisis office aimed at managing the end of convertibility of the peso against the dollar and hence devaluation, and designed and implemented an emergency plan aimed at the recovery of the internal market, all this in agreement with the IMF (El Clarin, 2 January 2002).

**Lessons from the Argentinean crisis**

This analysis of the evolution of the Argentinean economy over the long-term allows a number of reflections, about the crisis and beyond it. Three lessons can be drawn, about:

1. growth without industrialisation;
2. opening without integration;
3. privatisation without rules.

The Argentinean history had an ‘original sin’, that of basing growth on the sole production of agricultural products. From the social point of view, this model was characterised by the development of an economic oligarchy, that of land-owners, whose power rose up to the point of becoming a political power. An urban bourgeoisie allied to these land-owners, the economic power of the former mainly depending on the activities of the latter: the bourgeoisie
indeed carried out tertiary (trading and finance) activities related to the activities of the landowners. Industrial development was therefore primarily based on the development of the primary and the tertiary sectors with an actively exporting primary sector. As a result, the country has been exposed to international crises and intrinsically weak because not based on wealth creation out of knowledge, technologies and transformation competencies that could create and add value to production. Hence it is not true that development can occur without industries.

The period of import substitution was characterised by a forced industrialisation in sectors requiring huge volumes in order to be efficient, hence large markets, in fact markets larger than the Argentinean economy. The phase orientated to exports implied the consolidation of a few very large groups that subsequently remain the main companies in the country, controlling different privatised public services. In contrast, the SMEs sector of the economy had to face crises without any support from government policies.

In this context opening without integration had a negative effect. It is true that the pegging of the peso against the dollar allowed to control inflation but this fixed exchange rate exposed the domestic economy to international competition without the instruments to become competitive.

This unilateral opening is opposed to the progressive route followed by the European Community, whereby external trade opening is coordinated between member states that implement structural policies to allow the weakest to become competitive. International organisations have always opposed this European solution since they were convinced that trade opening was more efficient than tariff union (De Melo and Panagarijia, 1993).

The progressive solution of regional integration would have required a commitment and support to Mercosur which did not occur, not even from the European Union itself which rather tended to worsen the Argentinean crisis with its protectionism.

Privatisations were realised within a liberal programme including privatisations and ended up in reinforcing concentration in Argentina, given that the already large private companies of the country acquired the privatised public services that were and remained monopolies on the domestic market. Capital available in the country, but also foreign capital, were mainly invested in the acquisition of privatised firms, leaving the rest of the industrial structure, namely SMEs, without capital and investment.

In this sense, an operation of market opening and liberalisation requires a redefinition of the rules and the actors of the economy, in a logic of market construction, that cannot be reduced to the sole unilateral opening, privatisation and deregulation (Bianchi, 1997).

The Washington Consensus model in fact created enormous risks for fragile economies that had difficulties in becoming competitive relative to international rivals.

In addition, the 2001 Argentinean crisis is one of the important signs of the increasing non sustainability of the international rules defined after WWII at Bretton Woods, with the dollar at the heart of the international monetary system. The world context had drastically changed, with the end of the conflict between the US and the Soviet Union, and the emergence of new powers. The economic situation of the United States was becoming less and less sustainable, with booming public deficit and public debt, especially after the Twin Tower disaster and the war against terrorism and the intervention in Afghanistan.

In that context the European Union did not manage to take a common political role that would have strengthened its position in international relations. The EU was already affected by the German syndrome of being an economic power but remaining a political dwarf.
Recovery from the crisis and recent events

The flexible exchange rate allowed Argentina to start recovery, with industrial development, export growth and improvement in the trade balance and in the government deficit mainly due to its insolvency in paying debt. Nestor Kirchner, former mayor of Rio Gallegos and Governor of the Patagonic province of Santa Cruz, is elected President in 2003. He had been member of an extreme left party when he was young and, after a degree in law, he went back to the city where he was born to become mayor elected by the Justicialista party, of Peronist origin and close to workers.

During the Kirchner Presidency economic growth in Argentina reached 10% per annum; the public deficit was restructured and the IMF was reimbursed, partly thanks to a tax on exports and on financial transactions; some previously privatised firms were nationalised. By sustaining human rights and blaming dictatorship for its crimes, Kirchner designed a new way for Argentina and a new industrial development path. Kirchner found an appropriate context in Latin America, allying with various left-wing governments that delineated a new development perspective, independent from the United States, as shown by the refusal of Argentina, Brazil, Venezuela and Paraguay to agree on a bilateral free trade treaties proposed by the US Bush administration in 2005.

The following figure shows the evolution of real GDP since 1990.

Figure. Real GDP in Argentina, 1980 to 2009. Source: IMF (2010)

The first two years up to 1982 are years of dictatorship. The Alfonsin presidency follows, from 1983 to 1989, where the trend is slightly upward but hides huge ups and downs. The Menem Presidency, from 1989 to 1999, is characterised by fixed exchange rates that are associated, as shown by the figure, with positive growth of real GDP. The period 1999 to 2003, where many Presidents succeeded in office, experience a fall in GDP up to the election of President Kirchner in 2003, where a new phase of high growth rates starts, up to the 2009 recession. Interestingly, the Kirchner government did not follow economic and political orthodoxy that would have meant satisfying bondholders and the IMF, but rather the priority was to stimulate internal consumption first.
In November 2006 international reserves amounted to $30 billion, the unemployment rate amounted to 10.5% and poverty level at 33.5%. Together with Argentina the whole Latin American continent recovers in the years 2000, to the point of supporting the financial crisis relatively well. In May 2009 the IMF wrote:

“...The region has accumulated many sources of strength and resilience during this decade... many countries of the region have been able to respond to the external crisis with active policies to boost to output and employment... a return to growth is expected within the course of 2009.” (IMF Regional Economic Outlook, May 2009, p. 9).

The basic elements of Nestor Kirchner success story are:

1. first of all the financial default itself has frozen the domestic financial system, avoiding its involvement in the global banking turmoil, and at the same time has repaid the previous international debt of the country with a substantial 75% of discount.

2. the iperdevaluation followed to the end of fixed convertibility established by law has determined a huge acceleration of export and an evident import- substitution effect, which have supported the industrial dynamism.

3. the raw material price boom, and in particular the price explosion of the agricultural commodities, and among them of the soybean oil, generated on the Argentinian economy a rent effect, like to the oil price boom for the Arabian countries in the 1970s.

4. the rapid growth of the Brazilian economy has accelerated the intratrade effect inside Mercosur, with a progressive complementarity among Argentinian and Brazilian industrial structures.

5. according to Kosakoff, in the last period of convertibility, Argentinian large firms invested massively in innovation in order to compete having a particular attention to transgenic and biotech production.

After a period of macroeconomic recovery, also Argentina entered the global crisis. Argentinian society came back to a fragmented political environment, where the political élites are recognized as a separate and privileged social body.

There is a serious risk to nullifying the results obtained, if proper policies for human resources and innovation are not implemented, to strengthen industrial and service production in a global economy, where China, India, but also Brazil play today and in the future a crucial role of leading economies. The Latin American economies recover faster that it was expected, Argentina must maintain this promise.

Nestor Kirchner experience has reintegrated Argentina in the global economy, but it is now necessary to reinforce the target of maintaining the country in the global economy. Nevertheless, this social objective can be reached only if the entire social and political body work together in the same direction.
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1. The life cycle of industrial agglomeration

The development of areas of industrial agglomeration usually differs according to the history of the region, the type of industry and the product involved. In the recent period, a reduction of industry agglomeration is remarkable in many factory towns, where core enterprises have reduced their dependence on local subcontractors in front of the shift to production abroad, especially in many local industries producing commodities for daily use, for which foreign competition and substitution by import are rather aggressive. When the expansion of the internal market and the competitive conditions for exports are favourable, the economic impact of agglomeration, deriving from the social division of labour between small and medium (or large) enterprises, works fairly well. In this period, local industrial agglomerations have first a period of quantitative expansion; gradually, the path of development moves to the phase of qualitative expansion and the industry moves to the stage of competition through product differentiation among the same product line.

In this period of development of the industrial districts, the learning effect – due to the diffusion of technologies and skills, to the formal and informal knowledge exchanges between entrepreneurs, the improving availability of funding or materials and resources, the rise of productivity, the improvement of equipment and techniques and the start-up of new firms in the same or related activities – works organically, and favours the emergence of an “industrial atmosphere”, as Marshall had already described (Marshall [1919]). In such areas, the effort of the local entrepreneurs that characterizes manufacturing development, supported also by the long working hours and the family labour, have the effect of enhancing expectations for a sustainable development of the industrial district.

It goes without saying that the entrance of new firms in the core industry and the innovations produced by those firms are very important for this positive development (Audretsch [1997]). Moreover, the local governments, also with the help of tax revenue increase and to the population growth, may actively promote regional industrial support policies, such as institutional financing, building of roads and industrial facilities.

However, when the market competition from domestic and foreign suppliers intensifies, and exports lose competitiveness, gradually the production begins to stagnate, and the growth of number of enterprises, of employees and of local production flattens. The industrial district enters thus its maturity stage and later may shift to the contraction and decline, with statistical indexes moving steadily downwards.

At this stage the number of firms going out of business exceeds that of new firms entering the sector, profitability deteriorates because of price competition from goods from other regions or foreign states, facilitated from the standardization of products and by the diffusion of design and production techniques. Besides, the tools for economic policy available to the government become less effective than in the development period.

Therefore, according to the theory of the “life-cycle” of industrial districts, it is important to accurately assess which stage the region under study has reached, and what kind of problems is facing, as the productive organization for the commodities and the industry in which the area is specialized will differ according to the stage of cycle.

In particular, in the areas of industrial agglomeration that have entered the contraction and decline stages, external examples from which one can learn how to improve
business almost disappear, and individual firms and small groups must endeavour, on their own, to maintain bargaining power, to develop the managerial skills and a new business model, through the building of the design and brand concept, the development of new products and distribution channels, and the search for the sources of funding.

In these activities, it is indispensable to have a high level management staff, or to acquire it, and to take advantage of these talents, in order to pursue new challenges with consistency and continuity. In this stage, the difficulties of “learning by doing” inside the area increase and the interactive diffusion of skill and knowledge, easily seen in the developmental stage, becomes rare.

In the global economy in these days, one can easily assume that most industrial districts in the developed countries, with few exceptions, are facing this situation.

2. Path dependency, path destruction, path creation

During the developmental stage, various local factors favouring development take form and accumulate inside the district, interacting positively until the maturity stage. In the contraction and decline stages, these advantages may work even in a reverse way. To understand these phenomena it is useful to refer to the concept of “path dependency”, used in evolutionary economics.

Path dependency is the phenomenon by which a certain technique, organization or institution is casually selected, and when it gets established and standardized, it develops and reinforces itself because it can be easily transferred and reproduced by learning, imitation and coping (Arthur [1994], David [2001]).

Path dependence can be seen widely in markets and products that use specific technologies and in specific sectors and individual firms, that is to say, in industries and markets for traditional goods, where conditions of decreasing returns prevail; but it can also be seen in the IT sector, where increasing returns are in principle the norm (Arthur [1994]).

Representative examples of this kind of regional development and agglomeration of firms are, for the first case, the regional productions of local industries that can be seen in Europe and Japan; Silicon Valley, instead, is the most famous example for the second typology. In this paper, I will limit my analysis to the first typology, of “traditional” industrial districts.

There are numerous examples of industrial districts characterized by decreasing returns which gradually evolve from the development stage to the maturity, contraction and decline phases. In the later stages of the cycle the positive effects of path dependency gradually fade away. The economic and social impacts of physical and social capital embedded in the area are then only partially working (Martin & Sunley [2006]). In particular, at the level of individual firms there is a risk of “lock-in”, i.e., the firms face the problem that elements as market, technologies, customer relations, production system, equipment and specific assets are tied by the path followed since the development stage; later, it is difficult to build a renewed development path and shift to it.

In addition, it is possible that the past success experience of the firm might lead to a sort of inertia in its activity, and consequently to the inability to innovate or to adapt to the new environment.

The organizational capabilities and behavior of a firm depend thus on the ability to adjust its routines and to expand its abilities, in a word, on its evolutionary capabilities, where it is required that it shifts from existing routines to new, innovative ones. (Nelson & Winter [1982])

With regard to the expansion of organizational routines of the firm, it has been pointed out that sometimes firms, besides changing the quality of the existing routines, add
new and different ones through “M&A”, revitalizing an organization too dependent on a previous path. (Karim & Mitchel [2001]).

In this situation, where the positive effect of path dependency is declining, the firm must overcome the effects of “lock-in” from the external environment and into the existing routines. “path breaking” and even “path destruction” may then become valuable possibilities or necessities. (Karim & Mitchel [2000], Matin & Sunley [2006].

Usually, the industrial districts are constituted by clusters of firms engaged in more or less the same area of activity, and then one can say that the set of routines of the firms acting as a “collective”economic agent in the area, describe the tipicity of the local industrial agglomeration. While the firms normally have not identical organizational routines, the SMEs belonging to a certain region or district, through formal and informal connections, tend to develop similar organization and management style. Especially in the development stages associated with the expansion of demand, through the division of labor within the area, skills and technology are spread, the economies of agglomeration are quite effective, and it is possible to enjoy the advantages of good policy and environmental conditions concerning infrastructures and the legal system. However, if the life-cycle of the local industrial agglomeration enters the stage of stagnation or decline, the essential condition for the resistance of a local development becomes the capability of building innovative routines by the individual firms in the district.

Even if it is not necessary that in this process all the existing routines are rejected, if the factors that have determined path dependence from the past (lock-in factors) are not overcome and new ones are built, the firm will decline. At this point, the positive effects of local learning, that worked well thanks to geographical contiguity, will greatly decline, and the firms that are able to look for a new role-model extending outside the original region or to build it autonomously, are the only ones able to continue to grow. For this reason, some firms will abandon previous norms of a “regional social division of labor”, or the production of traditional products altogether, and some may even become a vector for the re-conversion of the district to a different type of industrial specialization. This kind of process, of “path destruction” will strongly depend on the characteristics of the area, of the industry and of the individual firms, and therefore it is impossible to predict which firm, or which group of firms, will move into innovative action and with which results. However, a necessary condition for the continuous resilience of the industrial district is that firms try to develop new forms of “path creation” through new activities, by adding and building new routines and challenging the abandonment of old paths. Besides, the policies required in this conditions should be capable of supporting regional firms in this process of “path reconversion” and in the exiting from old framework with new and innovative concepts.
In figure 1, various aspects of the life-cycle of industrial agglomerations and path dependency are summarized. The most important points are the existence of a life-cycle for the process of industrial agglomeration, and the fact that it is possible to attain a certain degree of generalization in the analysis, by considering the stage of development of the industrial district, the point reached and the kind of problem it is facing. This generalization is particularly helpful in the comparison among industrial districts when, for example, products and market are similar, while it is less useful when the areas are in different stage of their life-cycle or specialized in very different types of production.

In the later stage of the industrial agglomeration life-cycle, i.e., in industrial districts moving towards the contraction period, the various positive lock-in and positive path dependency effects, which had worked positively in the development stage, decline. In order to attenuate contraction and decline, it becomes necessary and crucial for the resilience of the industrial districts that local firms experience a successful example of path destruction and path creation. At a difference with the developmental stage, in this situation it is difficult to learn from successful examples through mutual imitation, because the new organizational routines to be developed, such as organizational reforms, development of new markets, and the recruitment of highly talented new managers, are more complex.

Path destruction and path creation are evolutionary patterns for firms or organizational routines, considered from the point of view of evolutionary economics. In this

<table>
<thead>
<tr>
<th>Stage of the life cycle</th>
<th>generation</th>
<th>quantitative developmental period</th>
<th>qualitative developmental period</th>
<th>mature phase</th>
<th>reduction period</th>
<th>atrophy period</th>
</tr>
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<td>Market</td>
<td>small</td>
<td>increasing</td>
<td>large</td>
<td>intensification of competition</td>
<td>increase of exit</td>
<td>just part remains</td>
</tr>
<tr>
<td>Number of firms, employees</td>
<td>very few</td>
<td>increasing</td>
<td>further increasing</td>
<td>stable</td>
<td>deceasing</td>
<td>further decreasing</td>
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<tr>
<td>Regional society</td>
<td>challenge</td>
<td>industrial atmosphere</td>
<td>competition and cooperation</td>
<td>experiment of success</td>
<td>succession to 2nd and 3rd generations</td>
<td>difficulties of business succession</td>
</tr>
<tr>
<td>Scope of learning</td>
<td>in organization</td>
<td>in region</td>
<td>in region</td>
<td>in region and domestic</td>
<td>domestic and global</td>
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</tr>
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<td>production</td>
<td>analysis of market</td>
<td>brand building</td>
<td>exploration of market</td>
<td>survival</td>
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<tr>
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<td>imitation and learning</td>
<td>discrimination</td>
<td>discrimination</td>
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<tr>
<td>Factors of evolution</td>
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<td>path dependence+</td>
<td>path dependence±</td>
<td>path breaking</td>
<td>path creation</td>
<td>path creation</td>
</tr>
</tbody>
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Note: excluding transfer of product in local industry
Source: Itoyama (2009)
process, innovative actions are assumed to be continuously performed at any stage. The process that leads from path dependence to path transition is not innovation, but rather it can be defined as an innovative organizational activity encompassing the expansion and the evolution of organizational routines.

The decisions and the organizational changes of firms that try to escape from path dependency of past routines can be considered as experiencing path destruction, and then, the new development in the process can be viewed as path creation.

If a firm shifts to a new area of production due to path breaking and path creation, it can develop possibilities for new forms of industrial agglomeration for the area, and create opportunities for cooperation inside or outside the area, for the maintenance of employment and creation of added value, and even in the case of a overall contraction of the concerned industry, it may represent an opportunity for the area to transit to a new kind of industrial specialization.

In the following sections, by comparing the characteristics and recent history of “eyewear” districts in Japan and Italy, which are the biggest producers in this field among the developed countries, I try to exemplify, through a case-study, the peculiarities of a sustainable transitions of regional industrial district, throughout the life-cycle of industrial agglomeration path dependence, path destruction and path renovation.

3. Eyewear districts in Japan and in Italy

Japan and Italy are well known among the developed countries for the presence of important geographical clusters in the eyewear production industry and other related activities such as the assembly, parts processing, surface treatment, and the production and processing of lenses. Although China is the biggest producer of such goods in the world, it situates at a different phase of industrial agglomeration process. Besides, its economic and social system is much different. Therefore, this paper limits the analysis to the comparison of Italy and Japan.

Previous studies have analyzed aspects of the eyewear industry in Italy and Japan. In Japan it is well known that the town of Sabae, in the Fukui Prefecture, concentrates more than 90% of the domestic production of eyewear, and many studies have been written from the point of view of geographical economics and SME theory. The industrial agglomeration of eyewear production in Italy is localized in the area of Belluno, in the Veneto region, where 75% of the Italian eyewear production is concentrated. It has attracted interest because of the strategies of its enterprises and has been compared to the case of Sabae (Brunetti & Camuffo [2000], Camuffo [2003]).
In table 1 the main characteristics of these two industrial districts are outlined.

The history of industrial localization is older in Italy, where in 1878 the first eyewear production plant in the Cadore area was established. This plant underwent numerous ownership changes and was finally acquired by Safilo S.p.a. in 1934. In the Fukui prefecture the founder of the Masunaga Optical Glasses brought to the rural population a new opportunity for earnings cash in the winter season, by starting there his eyewear factory in 1905. Both firms played a crucial role in the agglomeration process of these districts, as many employees learned in those plants the needed technical and managerial skills to start later their own independent businesses, thus contributing to the agglomeration process.

Until recent years, the two areas have had a comparable number of establishments, even if the Belluno district employs a number of employees almost double with respect to Sabae. Furthermore, the sales volume of the Belluno area is now more than three times bigger than that of Sabae, a ratio which has increased since the mid ‘90s, when it was about two.

If one considers the sales volume of the major firms of these areas in 2008, it is clear that the scale of the firms of the Belluno area is impressively larger. The largest firm of the Sabae district, Charmant, had sales for 23.7 billion yen, while Luxottica S.p.a, the largest firm of the Belluno district, which is also the largest worldwide, reached 702 billion yen. The second largest Italian firm, the historical Safilo, follows at 115.3 billion yen, while the other larger producers in the Sabae area have sales for around 5 billion yen.

Moreover, these two main firms have a different orientation regarding production localization. Most large firms in Sabae have made direct investments in China and Malaysia in order to decentralize production. In the Belluno district, only Luxottica started a plant in China in 2006 for part of the production process and some products, but this remains an isolated example. There are also many cases of firms that localized production in other areas through the acquisition of other firms. Of course, firms from the Belluno area import parts and products from China, but the percentage of in-house production is still rather high, in order to exploit the consumer preference for the "made in Italy". This is reflected in the large scale of the main plant of Luxottica in Agordo, which employs 3,000 persons, or that of Safilo (1,400 employees), while the largest plants in the Sabae area employ only around 500 persons.
The comparison of the long term trend of the number of employees shows that the Belluno area overtook Fukui Prefecture in the '90s and continued to increase at high speed (fig. 2). However, the year 2000 marks, for both regions, the beginning of a period of decline. In 2005, the Fukui Prefecture had around 6,000 employees, and the Belluno area 11,000.

**Figure 2. Number of employees in the two regions**

In 2005, the Fukui Prefecture had around 6,000 employees, and the Belluno area 11,000.

The number of establishments peaked at the end of the '90s in both regions and is now declining (fig. 3). Both regions move towards the contraction stage of the life-cycle of agglomeration as they have entered the 21st century, and the declining number of workers and firms in the district is a clear sign of this evolution.
On the other hand, the scale of production and sales (fig. 3) in the two areas shows clearly different trends. The sales volume of the Belluno district shows after 2000 a steady increase, while the sales of the Sabae district have a markedly decreasing trend. The reason lies largely in the structure of distribution and production, in the strategies of the firms, and in the internal and external environment that the firms of the two areas are facing.

The decline of the three indexes for the Sabae district is mainly due to bankruptcies and shut-down of many enterprises, both large wholesale and manufacturing companies and very small firms. The Sabae industrial district, while holding an overwhelming share of the domestic market, was not able to control the rapid growth of imports from China, and could not find new openings in the foreign markets (in particular in the foreign sunglass market) and could not keep the OEM licenses of famous foreign eyewear fashion brands. Moreover, the largest firms of the area tended to localize plants abroad, further reducing domestic production.

In the Belluno district the reduction in number of firms and of workers was not due to the bankruptcy of larger firms as in Sabae, but to a large number of micro, small and medium enterprises going out of business. Indeed, as it will be showed later in more detail, the larger firms of the district are increasing their sales. This is mainly due to their ability to get involved in the production of foreign eyewear fashion brands, to M&A, to the building of a global scale distribution system and to a positive and open approach to exports and foreign markets. Some small firms, on their hand, increased sales by accepting sports brand production licenses, opening new foreign markets and by the development of niche strategies. In spite of this, employment in the district is decreasing, showing that also the Belluno area has turned forth from the development stage of the industrial agglomeration life-cycle.

Both areas have thus entered the contraction stage, but there is a huge difference in the behavior and performance of the firms, which deeply influence the characteristics of the performances of the industrial districts. In the contraction and decline stages, the positive path dependence effect, i.e., the spill over of knowledge and learning, the positive lock-in effects and the economies of agglomeration do not work as before. Therefore, in order to understand if there is a possibility for a sustainable resilience of the industrial district, one must look at the activities of the individual firms in the cluster and to what are their impacts at the level of the area. Here I will investigate, through an empirical survey, how the firms of the cluster have escaped from their peculiar path once embedded in the area, and how they pursue their "path destruction and path re-creation".

4. Case study: the largest firms in Sabae and Belluno

I will now focus on the comparison of the two largest firms in the Sabae and Belluno areas in terms of path dependence and path destruction, in the conceptual framework developed in the previous sections.

The largest eyewear producing companies in Japan and Italy are, as previously said, Charmant and Luxottica, two worldwide famous companies. Both are outstanding in their field in terms both of production and overall impact on the local society.

The origin of these two companies is similar, the way in which they face the challenge of path breaking has much in common, and their owners have become even friends. Both companies started as eyewear parts manufacturing and processing firms, moving later to the production of complete glasses (table 3). The two owners are now regarded in their countries as entrepreneurs who built in only one generation the largest and most prestigious firms in their sector.
a) Charmant group in Sabae, Japan

The company, founded in 1958, established sales division for the domestic market in 1978 and later in Europe and North America. This development was unique in the area: it was an unprecedented example of path breaking and path creation. At the time, in fact, in the Sabae district the ties between manufacturers and local wholesale dealers was extremely strong, and building a distribution network that did not pass through them implied a great risk. However, Charmant took this opportunity to sell directly to the department stores and to retail chains as a chance to promote sales and to develop its own brand, and thus to develop a new form of management which did not rely on local wholesale traders.

Between the end of the ‘80s and the beginning of the ‘90s, Charmant started to localize part of the production process in China, in order to build up price competitiveness. As the technological skills of the Chinese and East Asian plants improved, they started to produce there final products for the foreign and Chinese markets. At the same time, the
domestic plants continued to produce goods for the domestic market and for the high end of the foreign market.

From 1990 to 2000, there was a boom in the Japanese market for famous foreign brand glasses, and thus a competition started between firms to obtain brand licenses. However, from 2000, fashion brand owners started to seek licensees capable to manage production and distribution at the same time on the global market. This made the firms in the Sabae district drop out of competition, and even Charmant had to struggle to keep its licenses.

At that point, Charmant promoted the introduction of the “Toyota Production System” in order to improve and rationalize its production system. In 2000 it opened showrooms for its own brand products in Tokyo and New York, thus adding an important channel for the diffusion of information about its products.

Besides, manufacturers in the Sabae district, with Charmant in the forefront, were the first in the world to develop techniques to process and weld titanium in the glasses frames, and to develop and apply breakthrough techniques such as flexible alloys and transparent resin frames which made them world leaders in the field.

Summarizing, Charmant's path creation and path destruction, we can list the building of an own domestic and foreign wholesale system, the contracting with glasses retail chains, the shift to high level production in the off land plants in China, the production of fashion brand licensed products, the introduction of the Toyota Production System, and the establishment of showrooms. Until 2000, thanks to the solid support of the domestic market – due to the general improvement of the economic situation, to the fact that wearing glasses became fashionable and to the brand boom in the eyewear sector – these developments acted as positive factors of path creation, and became “new” routines. However, after 2000, due to the entrance into the market of low price eyewear from firms in other industries, to the increase of imports of foreign products, to the loss of licenses for the production of foreign fashion brands, and, finally, to the slowing down of the domestic market, those growth strategies ceased to work effectively. That is to say, the new path had already become an established routine and thus a source of new path dependence. The end of the market expansion and the new competitive environment had made a further stage of path destruction unavoidable.

b) Luxottica Group in Belluno

Luxottica adopted the strategy of controlling both the production and wholesale stages and not to depend on the local brokers (“rappresentanti”) for the distribution, in the same vein as Charmant. In the ‘80s, they began to develop their own fashion brand products, with a success that led to the firm’s growth.

However, the production system of the Belluno district, as the one in the Sabae area, depended on the division of work with the subcontractors of the area itself. The subcontractor firms, however, did not cope well with the severe conditions on quality, time of deliver, the great variation of production volumes and the complicated shapes required for the high quality brands. Therefore Luxottica gradually turned to in-house manufacturing, making considerable investment in machinery. For this reason they had to keep a high utilization rate and to cut costs. This led to a strategy of involvement with the Italian luxury fashion brand licenses.

In 1990, Luxottica took a step which definitely differentiated it form all the other firms in the Belluno area and from Charmant: its stocks were listed on the New York Stock Exchange market. The choice of New York was probably motivated by the necessity to avoid
direct competition from other famous European brands in the narrow Italian and European financial markets.

Next, Luxottica bought a retail chain selling on the whole territory of North America. This turned the wholesale traders who used to import from Italy into competitors, and put an end to the business relationship with them. However, the acquisition was made with a full understanding of the risk of customer alienation. The intention of the owner was to transform the market of sunglasses and eyewear which, until that time, had been dominated by low price competition and characterized by perfunctory design and customer service. The strategy of high value added from luxury brands and fashion design, rather than the cut-throat price competition, was eventually accepted by the North American wholesale traders who later resumed their relationship with Luxottica.

Furthermore, in 1999 Luxottica acquired Ray-ban, an internationally famous North American brand of sunglasses, thus moving towards a vertically integrated style of management with the direct administration of a famous brand, product development, production and wholesale/retail distribution. This implied the development of a deep connection between fashion and eyewear, and the style of management chosen by Luxottica appears very similar to that in fashion apparel such as SPA.

After 2000 Luxottica was listed on the Milano stock exchange market, and it bought retail chains in North America, Australia, China, and Europe, the well known sports glasses brand Oakley and finally acquired manufacturing licenses for sunglasses and eyewear with other brands of luxury European fashion firms (initially with the Italian ones). In this case, Luxottica routinized the successful American experience, transferring it to a more global level and building new pathways.

Looking at the trend in sales values of the two largest firms of the two areas after 2000, the difference is striking (figure 4). The value of total sales in 2008 for Luxottica is 86% higher than the 2001 value taken as baseline, while Charmant’s is lower than the baseline.

Figure 4. The sales trend of the largest companies in both regions

Source: Toyama (2009)
The reason for this difference lies in the fact that Luxottica moved to a completely vertically integrated model of production and distribution, while Charmant remained faithful to the model of production and wholesale distribution. Between the '80s and the '90s the power structure of the eyewear distribution in Japan changed because of the rise and development of small retail chains, and the producers in the Sabae district, which had reinforced their ties with these new chains, increased their production capabilities. Charmant, that had its management focus in the development, planning and production of eyewear, but relied on the large retail chains in Japan, was highly sensitive to market conditions and dependent on license agreements with fashion brand. In order to escape from market and distribution lock-ins and to proceed to path destruction, Luxottica dared to take the great risk of temporarily loosing its customers. Until 2000 both firms were national champions respectively for the European and Asian area. After 2000, one became a global champion, while the other remained an example only at a more local level.

Naturally, Luxottica must move to the process of creating new routines after renewed cycles of path destruction and path creation, and therefore it must continuously create new and higher level routines with regard to the entire process that goes from the expansion of the market and creation of demand, the development of products to the distribution and retail. For example, the production of licensed European and American luxury brands is a strong point of Luxottica, but at the same time it involves the risk of possible discontinuation of contracts or rises in the license fees. For this reason Luxottica tried to reinforce its own brands, bought the Oakley brand, and tried to increase its own bargaining power in the marketing and retail sector by buying retail traders in Asia and Oceania.

What kind of impact had the management strategy of these two larger companies on other local firms?

In the Sabae district, the large, small, medium, and the “medium strong” (chūken) firms raised production through increased exchanges with the retailer chains; only the larger firms operated on the front of an international division of labor, while “medium strong” (chūken) and larger firms tackled the production of foreign brand licensed products. Most larger firms continued to enhance the technical quality of their Chinese plants, improved the techniques for small quantity production of numerous variety of titanium frames and for superficial treatment, developing price competitiveness. However, Charmant was the only one to develop an extensive wholesale network in Asia, Europe and America, and to adopt extensively the Toyota Production System.

In the case of the Belluno district, the four larger firms after Luxottica are rather limited in scale, but they are adopting a management model of the kind of “SPA” (Limited Company) in the acquisition of eyewear foreign maker brands and luxury global brand licenses, in stock listing, in the building of a consistent production system, in the development of foreign wholesale facilities and in the acquisition of foreign retail traders. It is not possible to duplicate exactly the routines built by other firms, but these can be used as stimulus and hints, to look around for new possibilities. However, small and medium enterprises in each regional area must endeavour for their own strategies of path creation and path destruction.

5. Case study of small firms in Sabae and Belluno

The larger firms analyzed in the previous sections have very few connection, if any, with the industrial agglomeration of eyewear industries in the area. Charmant could not help reducing external orders to its subcontractors because of the cancellation of foreign famous brand license agreements, of the emphasis on in-house production within the “Toyota Production System” and of the improvement of foreign plant skills. Luxottica, after the difficulties it met to find a match for its high level quality and production requests, had to
change into a vertical integrated production system and did not rely on external orders anymore.

The production of famous licensed brands is concentrated in the hands of large Italian companies, while the small, medium and "medium strong" (chūken) firms in the Belluno area and all the large, small and medium enterprises in the Sabae area are cut out from that profitable and high value added market.

The comparison of the composition of products between small and medium makers and regional wholesale traders in both areas reveals characteristic differences. In table 4, the sale percentages of 1) OEM licensed production by subcontracting from regional large companies; 2) production of original own brand products of the firm; 3) contracts production of famous brand products, are shown.

The firms in the Sabae district have a high degree of dependence on OEM products, while the firms in the Belluno area have an extremely high degree of original products. This reflects two different strategies: in the case of the Sabae region, the small and medium enterprises structure their production in such a way as to respond to the domestic market and to accept subcontracts for small production batches from the larger companies of the region. The small and medium firms from the Belluno area, instead, choose to focus on niche markets for their own brand products.

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Source: Toyama (2009)

a) The Sabae district cases

SG produces the entire lot of metal frames for the FN Tokyo eyewear retailer, famous in the domestic market for its design and high value added. At present, it depends almost entirely on FN for its sales, but at the beginning it used to have almost 20 partners. The owners of these two firms are friends from the school days and they divide the work assigning design and distribution to FN and production to SG. The collaboration started because, as school friends, they had dreamt of developing a new product together, but FN was for SG just one of many business partners. However, FN required high quality standards and there were remarkable technical challenges in the FN product concept with titan alloy. Moreover, FN paid for the costs of process development and made a considerable effort in
market development and advertising, and demand gradually increased until their sales occupied almost completely the SG productive capacity.

BC, a wholesale trader known on the domestic market for owning famous and expensive brands, has almost equal shares of original and OEM products, which is unusual in Sabae district, where OEM products have usually a bigger share. This firm depended entirely on OEM production until 1996. However, with the contraction of demand due to decreased consumption, it decided to strengthen its position by developing its own original products. In order to avoid direct competition with the OEM contractors, instead of entering the titanium frame field, a technology for which the Sabae region was famous, BC chose to develop and strengthen its competence in the field of plastic frames. BC asked collaboration from the Sabae area's plastic frame manufacturers, and sustained the product development costs. Then, it presented samples and prototypes at eyewear fairs in Paris, Milano and Tokyo to actively promote its own brand, and started direct exchanges with retail traders and famous department stores in the whole country. In 2002 BC achieved its ambition to open its own retail shop in Tokyo, in Aoyama, and in 2009 opened the second one in Ginza. This managerial behavior, instead of bothering OEM contractor clients, gave them a better perception of BC’s ability to produce and design high quality goods.

SG followed a business model of complete specialization in OEM production, as most of the small and medium producers of the Sabae district, but with an important difference. In fact, SG expanded the territory of its routines with new high level management ability of even higher level quality control and processing technologies, and broke path dependence by discontinuing the old existing exchange relations.

BC broke away from its previous dependence on OEM business, and took the risk of developing and distributing its own original products; it then reinforced its own brand by participating at fairs and exhibitions. However, it did not brake old path dependence completely: in fact, it continued the OEM business but modified its complete dependence on it, by building at the same time its new own brand business.

b) The Belluno district

The small and medium firms of the Belluno district, after large firms started luxury brand licensed production and Chinese and Asian products flooded the European market, have worked steadily towards the establishment of their own brands and market development. They planned their marketing strategy targeting the upper part of the medium quality market, in order to avoid the strangling competition of mass produced low priced goods coming from China and other Asian countries.

Contrary to the Sabae area firms, they worked for the penetration of their original brands in both the sunglass and optical glasses market, and also towards foreign markets. The individual firms chose to target different markets (North America, Europe, Middle East, Russia, Asia, Oceania, South America) depending on individual strategy and perception of market potential.

The small and medium producer firms of the Belluno district have not relied on subcontracting, except for spare parts and for surface treatment. In the past social division of labor between interconnected firms was common also in the Belluno area. However, because of episodes of design theft by subcontractors, there was a shift towards in-house production. For this reason, these firms had to get the equipment necessary to process, weld and assemble the products, and are responding to fluctuations in production and demand for their brand products by an in-house organization of flexible labor and labor multitasking (examples are LO, DRB, SC, CL).
IE, a trader without productive functions, but with a steady relationship with five regional producers, has in common with the other above mentioned small and medium producers the specialization in original brands and niche segments of the world market. This firm had the outstanding result in 2005 of a 300% increase in sales compared with the previous year, when its design was accepted in the niche markets of many foreign countries. IE in the past depended largely on EOM (?) production. However, when in 2000 the Chinese goods flooded the European market, it decided to change its management strategy. They analyzed the market, defined a niche customer target and developed new distribution lines together with completely new lines of products, helped by their cooperative relation with the five local producers to whom they guaranteed a certain volume of orders.

Another noteworthy example is that of IA, a sales firm that was established with joint investment by six small and medium firms from the Cadore area and by local public administration, i.e., the provincial government of Belluno and the Comunità Montana di Centro Cadore. The president of the “Comunità Montana”, in particular, played a crucial role in the creation of this firm by proposing to the local small and medium enterprises a new business model to overcome their economic difficulties. The entrepreneurs responded by supplying the necessary capital. The business model proposed was devised with the support of a consultant company in Milan, and was based on the expectation of contracts with large firms of famous sports brands that intended to enter the eyewear market. The small and medium firms in the Belluno area do not have sufficient productive capability to accept orders from such large contractors, but the combined production capacity of six firms (180 people in total), with the powerful back-up and trustworthiness of the public administration, succeeded to secure to IA the license contract. When the initiative was presented at the preparatory meeting in 2004, the participation of about ten firms was expected, but because an initial investment was required to participate, many entrepreneurs judged the risk too high and eventually only six signed the agreement. The six firms which supplied the funding continued their production as subcontractors and OEM as formerly, but they added a share of production for the sports brands eyewear and sunglasses licenses. Therefore, for the participating small and medium firms, the path of business already developed until then continued to exist, but another path for the production of sports brands was developed through IA. Moreover, this experience of developing and planning a new product in the sunglass field allowed the six firms to develop a network for the reciprocal exchange of work and stimuli, besides increasing their ability of planning.
Figure 5 shows the trend in volumes of production per employee in the two districts of Belluno and Sabae, were the year 1999 is taken as baseline. Unfortunately, it was not possible to discriminate for firm size, and the index is not referred to SME alone. The production per employee in the Belluno area increased by 12% until 2002, and it is 45% larger in 2005 than in 1999. In the Sabae area the increase in 2001 is only 0.8%, and in 2005 it is lower than in 1999 by 11%.

It is natural to think that the increase in production depends mostly on the luxury license production of the larger firms, but from the previous analysis it is clear that the contribution of SME’s is not negligible. The most important differences in the strategies of the firms in the Belluno and Sabae districts is that while the latter limited themselves to the domestic market for optical glasses, the former attempted to penetrate both the global market and the sunglass market. Of course, it is possible to find examples of individual firms that developed new paths and new organizational routines, and in both areas path destruction and path creation occurred. However, if one considers the whole of the industrial agglomeration process, it is the width of path destruction and path creation and the gap between the sum of successful experiences and failures which can explain the different development of the two districts.

6. Conclusions

In the present paper, I compared two examples of industrial regional agglomeration of world-level importance: the two districts of Sabae in the Fukui Prefecture, and of Belluno, in the Veneto region, which are specialized in the production of eyewear and related products. My aim was to obtain some hints on what is useful for a sustainable survival of traditional industrial districts. For the comparison, I verified that the two areas were in the same stage of the life-cycle of industrial agglomeration and analyzed the local, economic and social factors that play a role in the development stage. Further, I investigated the theoretical implications of escaping from the negative effects of lock-in mechanisms and path dependency peculiar to the contraction stage from the view point of evolutionary economics, through an empirical analysis of path destruction and path creation at the firm level.

The result that emerged from the analysis, is that older path destruction and new path creation strategies were widely adopted by the firms in the Belluno area, including the small and medium sized ones, and an indicator of success can be seen in the growth of the largest companies and in the growth of the production for employee in the area. In particular, among the Italian firms, it is possible to see important examples of path destruction and path creation, such as the building of distribution network and the development of new global markets, the building of own brands, the exploitation of licensed brands, the acquisition of firms, the construction of new business models and the establishment of new types of firms. This kind of entrepreneurial behavior can be easily observed, but it is extremely difficult to replicate, due to path dependency of the existing organizational and managerial resources, and being dependent on the will and determination of the managers. However, successful examples from the same industrial district, or from foreign industrial districts and firms in the same industry represent a useful stimulus.

The entrepreneurial activity is something that moves forward, whether it is pushed by external stimuli or by interior motivations. Path destruction is an entrepreneur’s choice that promotes the radical evolution of organizational routines and destroys some domain of already existing path dependency, by transferring the entrepreneur’s intuitions into action. The real point is whether that behavior is effectively path breaking, rather than whether it is
innovative or not, and this can be judged only later. Moreover, it is essential to see whether we observe a successful path creation after path destruction of old routines.

For a continuing development of the industrial districts that produce a specific product to a high degree of concentration in the mature countries, it is more realistic and effective a process of path destruction and path creation that involves in different ways the existing firms, rather than one hypothesis of shift of production to a completely new type of industry. It is desirable that the traditional economic actors of the industrial district, without restriction from their size, and regardless of their past success stories or regional lock-ins, may contribute, with a global vision, to the evolution of the organizational routines, and that the public sector sustains such effort with adequate policies.

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ARGENTINE PRODUCTIVE SYSTEM'S FEASIBLE SCENARIOS: CHALLENGES FOR PRODUCTIVE POLICIES
Fernando Porta

Short term effects of the current world crisis on the Argentine economy have been less disruptive than initially expected. The impressive growth pattern of the 2003-08 period has been recovered during 2010 after a brief interruption in 2009. Both some external conditions and some internal policies are boosting this recent performance. Are “correctly aligned” macroeconomic incentives and favorable external terms of change sufficient conditions to sustain those good trends in the long term? This paper remarks some structural disequilibria of the Argentine productive system and calls for a new industrial policy framework to deal with them.

1. Uncertainties around the world crisis and its effects
Since 2002 Argentine exports have increased steadily. In the beginnings of the adjustment that followed the collapse of the Convertibility macroeconomic scheme, internal recession released some exportable balances; but as from 2003, the rise of external sales—which actively contributed to the recovery and subsequent net expansion of the activity level—can be explained by a favorable combination of exogenous and domestic factors. Among the latter, the policy towards sustaining an slightly depreciated exchange rate and, to a lesser extent, the reactivation of specific lines of financing were crucial to boost export growth in a context of accelerated and simultaneous expansion of the domestic demand. Whereas all production sectors benefited from this situation, the main impact unfolded over the manufacturing industry and tradable services, which remarkably improved their price competitiveness.

At the same time, the overall growth in economy, and therefore, of the international demand in the period represented a decisive “dragging” factor; all trading partners to Argentina increased in relatively high speed and this led greatly to the dynamic performance of all the exported goods. In the case of farming products, whether they be raw materials or elaborate goods, the intense growth of demand in some emergent economies caused the prices to rise, multiplying the income from exports. The positive trend in terms of exchange could be capitalized by the technological and organizational advances in the farming sector, which resulted in doubling the grain production—with a more than proportional expansion in the oil seeds, soya in particular—with respect to the levels from the previous decade. The response from the production system in terms of exports allowed a sustainable trend of imports that was particularly expansive and, at the same time, important surplus of the current account.

While this growing progress of quantity and quality of Argentine exports was recorded also in 2008, as from mid-year there appeared a progressive slow-down, translated into stagnation in the last quarter. Partly, this restraint is due to factors of domestic nature, among which a certain appreciation in the real exchange rate stands out, the saturation of capacity in various productive sectors and absolute drops of offer in others. Indeed, the quick growth of domestic prices since 2007 has led to erode the level of parity, as the flotation management of the rate of exchange did not accompany the inflation trend; on the other hand, whereas investment was a dynamic element in the increasing demand since 2003, its development was not enough to keep the rate of growth of domestic activity. These two factors affected mainly the

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manufacturing sectors, while in the case of the agrifood complex, draught and the negative reaction of producers towards sector policy led to drops in the production of some goods. However, the main factor of stagnation in exports and above all of its heavy subsequent fall – generalized in most of exportable goods since the last month of 2008- is the shrinkage of world demand. This situation harmed not only the dispatched volumes but also the prices of primary products, which collapsed from their unprecedented levels reached in the first semester of the year. Financial crisis, with its epicenter in the central countries, ended up moving to the real economy sphere, causing recession in most of them; in parallel, abruptly deflated the speculative bubble formed around the price of commodities, which- with some differences depending on the type of products- tended to go back to the average levels of 2007.

Given the relative disconnection of Argentine economy in relation with the international financial dynamics - a consequence of macro-economy and financial crisis from the end of 2001 and the main strategies to get out of it- the financial banking and currency paralysis had a relatively limited impact over domestic economy. But, instead, the trade channel was turned into the main link between global crisis and the level of domestic activity. Imports from the most important trade partners fell, in Argentina, by a 30% in average, as from the beginning of recession trends, and, in that context, exports suffered a proportional fall. Of course, expectations of economic agents –based on uncertainties about the international scenario and the consequences and the management in the domestic sector- extended the shrinking mechanisms.

At the beginning of the second semester of 2009, the volumes of global trade seem to have stopped their fall and tended to stabilize; some other indicators of the real economy –notably, the records of activity level and consumption- also exhibited a similar behavior in most of developed countries and others semi industrialized or emergent countries. As a consequence, the recession trend, at least in this phase of global crisis, would be near its end; in parallel, Argentine exports also had strongly decelerated their slow down, reached a "ground" level in the third quarter of 2009 and the end levels of the current year are expected to be close to the previous maximum. Certainly, this situation is favored by a slight although progressive recovery in the price of some agriculture raw materials, because of deceleration trends and even reactivation in some significant trade partners (China, Brazil) and because of better climatic conditions for domestic agriculture production; on other side, the short term volatility in the price of commodities has not disappeared and the conflict around the prevailing domestic economic policies is still acting as a contractive factor.

Anyway, there is no evidence nor opinions or analysis shown about a quick and important recovery of international trade; whereas there is consensus that, given the current conjuncture in the global production system, is very improbable that trade faces a catastrophic scenario like the one experienced in the crisis of 1930, projections over the progress in international trade in the short and medium term tend to be very cautious. These forecasts are made over two hypothesis relatively spread or generalized among analysts’ hypothesish he first is that, beyond different interpretations over the last causes, the current international crisis would respond to structural factors which are not easily changed in the short term; the second is that, even if we are far from assuming the intensity shown in that other great crisis, the protectionist practices constitute an important element in the public responses to the real or potential imbalance of the balance of payments and the labor market. In this context, the interpretations that could be taken as the “more optimistic” are the ones which lay the responsibility of the generation and result of the current crisis on the financial factors, mainly the institutionality of financial markets and the deficits of specific regulation, both at national and international levels. Without getting into minor considerations it can be
said that, for this point of view, we wouldn’t be only before a conjuncture imbalance in the assets market, fixed through some spontaneous mechanism or induced by the equalization of prices and holdings. On the contrary, the systemic character of financial outbursts and negative macro-economic trickle downs are stressed and therefore, the need to produce deep changes in the institutionality of such markets, in the practice of dominating agents and in the rules of supervision and control. This new architecture would require a degree in international coordination not yet envisioned nor sufficiently acknowledged.

Other interpretations don’t disregard the importance or the reach of these imbalances or problems in the financial sphere, but evaluate them more like manifestations or expressions of problems profoundly engrained in the dominant accumulation model and in the production and distribution structure. Therefore, some authors emphasize on the asymmetric development of the relative productivity at national level to explain the accumulation of enormous imbalances of the current account, impossible to be fixed, or at least, mitigated through changes in the exchange rate policies. Others, meanwhile, stress that trends towards a major distributional inequity consolidated and widespread in the last three decades are at the base of the extraordinary expansion of international liquidity, as much as of the credit over extension of some countries or social groups and the lack of effective demand sufficient to allow the realization of the productive capacity or generate new opportunities of business expansion and investment. In any case, from these hypotheses we can gather the idea that overcoming the current crisis has the introduction of new social norms of production and consumption as a prerequisite.

This debate shows the uncertainties existing not only over the causes of the crisis but also over their possible solutions. The reach, depth and ways of solving the international recession are under discussion and evaluation and consensus is still poor, both among experts, governments and ruling sectors alike, as can be seen depending on the different priorities and emphasis that the answers exhibit at national level. It is generally accepted that, once the crisis caused strong equity losses, there was a rapid reaction based on rescue packages and stimuli that mitigated its potential recessive effects; it is also understood that these measures are inefficient to manage the conjuncture in emergency. Meanwhile, conditions of strong macro-economic imbalance financial volatility and negative expectations persist, which contribute to – and, at the same time, are reinforced by- forecasts of a crisis in “U” with a relatively long seasonal phase, or either in “L”, with successive fluctuations or “false” recoveries. At the same time, it’s likely that, in this context, different strategies and national track records are implemented and, consequently, diverse regional and sector dynamics.

2. Pattern of specialization and insertion of Argentina and scenarios of the crisis

It’s not simple, therefore, to evaluate the net impact that the development of the global economy could have in the medium term over Argentine economy and, in general, and over its trade insertion, in particular. However, a group of trends that are emerging or characterize the current international scenario can be noted and that, alternatively, would act as restrictions and negative factors or as opportunities and relatively favorable factors for the development of the domestic productive system. Such factors combine some trends of prices and demand in different production and geographic markets, some evidence of restructuring at international level in diverse chains or productive links, some evidence of redefining economic policies at national level- mainly, trading policies and promoting competitiveness in specific sectors- some signs about the course and content of negotiations in multilateral regional or bilateral levels, and some trends in international financing conditions –mainly, in the trading lines-. Two clarifications are necessary: in the first place, one same factor can turn unfavorable for some sector and favorable for another; in the second place, there are cases
or circumstances in which an opportunity can only be nothing more than a slightly lesser restriction.

The exercise of evaluation proposed is based on identifying different techno-productive and competitiveness situations present in the Argentine productive system, which result in different modalities and mainly qualities of insertion at international level. That is to say, they propose from the nature of productive international insertion of the main constituent sectors of the domestic production system, and in terms of which, ponder qualitatively the potential impact of those relatively favorable or unfavorable trends over them. This diagnosis or qualitative scenario can indicate or at least, suggest some courses of action or lines in policy towards managing the balance between threats and potential opportunities better.

It is well known that the specialization pattern of Argentina is based, on the one hand, in some comparative natural advantages and on the other, in some relatively limited group of capacities accumulated in some upward phases of the manufacturing sector, notably in process industries, intensive in scale and producers of commodities. These latter activities respond to the maturity of a relatively continuous process of investment in the last three or four decades and they concentrate in the steel industry and aluminum and to a lesser extent, in the paper and petrochemical industries. In the case of activities close to natural advantage, jointly with the more traditional agrifood complex, mining in big scale has been more recently developed. The technological changes introduced in agro and widespread in the last decade have allowed the expansion of the agricultural border and the increase of rinds, which have doubled in the physical production; contemporarily, the offer has been biased to the production of oil seeds, mainly soya, which in turn, has incentive the expansion of oil industry; now, while we advance to a more elaborate food chain, international insertion of Argentine industry tends to weaken.

In the rest of the manufacturing industries, the quality of insertion is, in general, relatively poor. Within this group, the automotive industry could be considered an exception, if we take into account their element of exports—which are concentrated in the regional market, predominantly Brazil, and promoted by a sector regime specially established for MERCOSUR—; however, it is essentially about an activity which consists in assembling parts and components most of them imported and which, consequently, evolves in a context of increasing trade deficit. As regards everything else, in general, the Argentine manufacturing industry tends to settle down in the lower quality and added value standards and with a low degree of product differentiation, which expose it to competition based on price and increasingly characterized by predatory practices; in the same sense, the recent expansion of some entreprises and exports of services still seem to be mainly based on the relative advantages of cost generated by the depreciated exchange rate. Strong participation of transnational company branches in most of activities has not altered but consolidated those features, as they take relatively marginal places or functions in the corporate structure.

It’s worthwhile to note that one of the distinctive attributes of Argentine insertion in international trade is the diversification of target markets and in particular, their strong link to some emergent markets, inside and outside their region of origin. Also it can be stated that there is a certain “classic” correspondence between the type of productive supply and the nature of the market—raw materials and less elaborate products targeted to the developed countries, on the one hand, and manufactures targeted to relatively developing countries, on the other. Anyway, this correspondence is not entire: there’s an important current of agriculture-based exports towards emergent markets—soya and some derivates to China and India, in particular—and some significant flows of manufacturing exports towards developed economies—industry products and from the metal-mechanic complex to US, for example. As the current crisis seems to be characterized by a different intensity of the contractive effects
and by different speeds and “output” modalities at national level, the scenario for Argentina in the medium term could be crossed by trends and transmission modes of different kinds. From the side of restraints or predictably unfavorable factors, many elements can be grouped. There’s quite a widespread consensus over the permanence of low activity and consumption levels in central countries and on the top of that, in any case, their recovery will tend to be rather slow; so, international demand is supposed to be negatively affected by recession or stagnation in this part of the world. In the same way, the recurrence to different protectionist practices, of the old or new school, can extend the contractive effects over global economy, even in the context of an earlier reactivation of demand in these countries. Likewise, the systematic application of stimuli packages and subsidies with a view to facilitate the penetration of foreign markets or the deployment of aggressive strategies from the private sector can degrade even more the conditions of competition at international level. Nor less harmful can result the emergency linked to the opening or expansion of new markets, or the bilateral financing of really or potentially critical states of the balance of payments.

The longer an international scenario -where contractive factors predominate- is extended, on the one side, and there defensive responses proliferate, on the other, it’s likely that restructuring and rationalization movements of some value global chains in order to reduce costs are made. This strategy can mean the displacement of some capacities where relative scale and cost advantages and availability of manpower shortages and fiscal support are perceived. It must be also considered that financial and foreign exchange markets are predicted to perform in conditions of high volatility –at least until there is a generalized improvement of prospects-, which will imply a restrictive scenarios for financing of companies, on the one hand, and of relative fluctuating prices in the short term, on the other; this last circumstance can particularly affect prices of raw materials and some commodities. In this recessive context with uncertain prices, the evolution of market conditions for some novel and potentially dynamic products- like the biofuels for example- can also result affected. Finally, we should include in this enunciation of threatens the weaknesses of the coordination process of policies at regional level and in MERCOSUR, in particular, that up to this point, has shown to be more prone to conflict than to cooperation.

Symmetrically, there are many factors that could present a potentially favorable scenario for Argentine economy. As prospects for recession in the central countries predominate, the forecasts for progress in the short and medium term for China, India, Southeast Asia, South Africa and South America tend to be more optimistic and suppose positive rates of growth; also, in the case of China and India, it is estimated that the accelerated process of modernization and urbanization will continue, which will lead these economies to go on leading the global growth and exercise a certain dragging over the group. By the degree of interdependence already achieved, the Argentine economy is particularly sensitive to the evolution of the activity level and demand in Brazil. Here also the forecasts predict an optimistic scenario, based in the proven capacity of intervention and promotion of the fiscal and financial public system, in the margins still available to the enlargement of the domestic market and in the developing “tradition” of the corporate sector. We should note that, for these very reasons, the expansive policies of the Brazilian state can imply a group of positive external factors for Argentine producers.

The accelerated growth of emergent countries in Asia and the incorporation of thick population contingents to mercantile ways of consumption and certain diversification of the basic diet of its inhabitants are reputedly the main factors that, pressing over demand, have contributed in the last years to the gradual growth in the price of the raw materials, in general, and of food crops, in particular. It is foreseen that this scenario of relatively high prices in commodities – disregarding the speculative bubble of 2008- will continue in the near future,
accompanying the dynamism of those emergent economies. It can also be predicted that if these economies, including the Brazilian and other relatively open South American countries, confirm their prospects of growth and recovery, their currencies will tend to slightly strengthen, generating a likely sliding of the exchange rate in favor of Argentina. This circumstance and eventual supply chains restructuring towards cheaper providers or productive categories could also lead to potential benefits. Not less important is the fact that the greater weight and consideration of emergent economies in general can be translated as a greater power in negotiation of multilateral forums and in re discussing the standards and disciplines that, since the creation of the WTO, have been regulating – and limiting- the so-called competitiveness policies. In this context, MERCOSUR would offer a potential space for an effective coordination.

3. A qualitative assessment of restrictions and opportunities
Starting from then, the features that characterize competitiveness and specialization of the Argentine productive system and considering the group of restrictions and opportunities that emerge from the development of the international and regional situation some facts can be stylized and, consequently, suggest some courses of action or intervention. Anyway, we don’t intend from this exercise to make recommendations in detail nor establish priorities among sectors or activities.

The prospects of demand and international prices suggest a relatively favorable scenario for primary activities, both agricultural raw material production and the mining ones; as for the former, the already quite consolidated positioning of Argentine production in international circuits of distribution and trade results a factor of global competitiveness. Certainly, the likely stagnation in the developed countries, towards which is the Argentine offer is targeted, will operate some restraint. However, the dynamism expected in the demand of the big Asian countries –markets of increasing importance among the main targets- will tend to more than compensate such restriction. As Argentina is ready to increase its supply –limited nowadays due to sector conflicts rather than to the lack of available resources- will be able to sustain an increasing level of exports in the medium term. Anyways, the uncertainty settled in the financial markets will tend to foster the volatility of respective prices and with that, in the export and fiscal revenues. This situation should be accompanied with rather flexible fiscal macro-economic instruments.

The commodities and agricultural products, which constitute a significant portion of Argentine exports, could face a constellation of quite similar factors and benefit from a relatively favorable balance. Whereas in this case the widening of raw material processing capacity –that requires high investment in scale- could be limited by some restrictions in the credit requirements for the companies involved, the expected recovery in the Latin American markets could provide an additional vector of sustained demand. The analysis of trade policy trends for these segments shows a certain complexity: it seems more or less evident that in the case of raw materials there shouldn’t be a higher level of protectionism than the one traditionally registered in those markets; moreover, the weakening in the fiscal European position increasingly endangers the viability of the current parameters of regional agriculture policy and this can finally lead to a greater opening at global level, which is a question to be stressed at international forums. In the case of processing industries the restrictions could be a bit more significant: even if increasing tariffs over the current levels should not be expected, it’s probable that some practices that give preference to the manufacture in the place of
destination will intensify. Here, capital cost can be decisive when defining the location of new investments. As we go up to the higher steps of the agriculture and cattle breeding chain, the balance between opportunities and restrictions turns to be relatively more unfavorable, as a consequence of a weak international projection of the Argentine agrifood industry, on the one hand, and of more restricted regulations of access to international markets, on the other. In these conditions it is difficult to take advantage of relatively favorable prospects of food demand at the global level. There are two types of predominant agents in the food chain, particularly in the massive consumer products: the trading companies that control major distribution and the big production international companies with capacity and resources to differentiate and innovate in products. This dominant position has been translated into the promotion of private norms- associated, although not entirely or strictly assimilated to technical or sanitary standards- turned into the main barriers and requisites for entering the respective markets. The restrictive character of these norms is empowered with the proliferation of sophisticated ways of public protectionism, generally applied in an abusive way, linked to the exercise of “good practices” of elaboration of environmental concerns. In this context, Argentine industry has two main limitations: it takes subordinate or marginal places in the value chain and has not conveniently developed a “country brand”. The overcoming of these limitations requires an articulate public policy consistent at sector level, focused on the objective of product upgrading. The basic industrial commodities – in particular, the iron and steel industry products- in turn face an uncertain and predominantly restrictive picture. The international demand for these types of products – characterized by an elevated elasticity/cycle- has collapsed in the second semester of 2008 and has not registered signs of recovery. The projections for the near future are relatively pessimistic, in correspondence with estimations over the level of activity in the main developed economies. As usual when certain conjunctures of elevated idle capacity, on one side and the practices of predatory competition, on the other are generalized; the steel industry has been one of the main targets of rescue packages and fiscal stimuli approved in the USA and Europe and at the same time, protagonist of conflicts and complaints over likely manoeuvres of dumping. The upsurge of restructuring trends in production and an eventual relocation of plants it is not yet evident, but in such cases, it’s probable that competition in the relative promotional capacity of the different countries and in the possibilities and conditions to access international financing for companies will be increased. In the Argentine case, a rapid recovery of South American economies could foster a reactivation in demand; however, for the definition of the advantage margin the course taken by the Brazilian industry will be crucial- a sector player of great magnitude-. The policy priorities for Argentina should be centered on monitoring the trade practices of competitors, on coordination of actions at the MERCOSUR level and on the promotion of major linkages in the future. The automotive industry is another of the main receptors of the state aid programs deployed at international level in the last two years; in some cases, the concession of aid has been conditioned not only to the safeguard the production and employment levels in the recipient companies but also to intensify the links at national level, which defied standards agreed multilaterally. At the same time, the higher aggressiveness in competition and the different financial and patrimonial situation of the companies leaders in this market, forces a new wave in mergers and acquisitions of plants and brands. In this way, the new public policies and private strategies can lead to a relatively important industry restructuring at the global level. Argentine industry has a decidedly regional inscription, that’s why the impact of these movements could circumscribe itself to the repositioning and change of share of some of the settled companies. Instead, the crucial data for this segment of the automotive complex
resides in the speed of recovery of the Brazilian market. However, the –undercover or explicit– return by the central countries to certain policies conditioned to “performance requisites” can mean an opportunity to redefine the criteria of the automotive policy in Argentina, promoting a more active development in the auto part sector and advance in the substitution of imports, especially of the more complex technological parts and components. Here, the coordination of strategy and the instruments at MERCOSUR levels turns out to be absolutely decisive.

The rest of the productive Argentine system, whereas their competitiveness and modes of global insertion are based on the relative cost or in the qualification of manpower employed in tradable services- is characterized, on the whole, by the predominant trends to more informal and relatively defensive strategies. This picture, modeled by transformations over the 90’s and the crisis of the beginnings of 2000, has not varied substantially and qualitatively during the cycle of growth of the last years, even if some promising sector or business ventures have been registered. In general, there a strong structural heterogeneity, productive bottlenecks, weak net economies and a relative impoverishment and insufficiency of the technical and labor qualifications still predominate. The productive system is concentrated in middle or lower categories of the respective products, in the lower ranges of technological content of stages or productive processes and on the less complex ranges and strategic points of the companies’ productive function of the companies. In these conditions, the capacity to appropriate valuable rents generated in the global chain is poor and international competitiveness is limited to firms or very specific productive segments.

Of course, for all these sectors the restrictions identified in the context of the international situation constitute an important potential threat; anyway, probably the more severe ones are those linked to the protectionist management of the crisis, rather than to the conditions of activity level and demand. In this sense, not only the emergency of bigger and stronger barriers to the access to different markets but also, mainly, the conducts and offensive strategies of foreign market penetration based on subsidies or transfer prices can result particularly harmful. Likewise, it shouldn’t be disregarded that some bilateral proposals of financial assistance may introduce some conditionality to trade which acts in the same direction. The fact that Argentine industry could be not competitive enough in terms of prices makes these productions sensitive to fluctuations in exchange rates and can be out-placed by sudden or permanent shocks. Opportunities, in turn, seem to come almost exclusively from the developments in the regional scenario, mainly Brazil and the rest of South America, and probably more feasible and attractive when there’s a higher escalation and productive complexity that can be developed. An industrial policy and promotion of innovations that are consistent and capable of applying “high” tuning is, without doubt, an indispensable condition to minimize the restraints and take advantage of the available margins within the relatively favorable factors. Once more, the negotiations in MERCOSUR should be an integrated and essential part of that definition.

4. Some comments about MERCOSUR

It is clear that, after about twenty years of working in conditions of “open regionalism” MERCOSUR continues to be framed in an old controversy over the rationale of economic integration. Along its evolution, there has been manifested and developed a permanent tension has manifested between one facilitating instance and the acceleration of the policy of opening markets and a creation of a space to strengthen dynamic advantages and new productive capacities, exposed to international competition, but favored, in turn, by the certainty of reciprocal access conditions and other promotion regulations. In the first option, the priority would consist in eliminating the border restrictions and multiply the preferential agreements; in the second, instead, the main concern should be to guarantee the validity of
the widened market and stimulate efficiency and profits through specialization and complementarization, maximizing the intra-industrial integration. Certainly, a adequately designed and managed Customs Union could offer a fertile platform for a strategy enhancing productive development.

In theory, the benefits expected from the regional integration process imply generating and diversifying a new profile of exports and exporters, with potential advantages, in terms of technological development, qualification of resources, and increase of the real income. Up to now, however, the main part of intra regional trade has been explained through the existence of comparative complementary advantages, special temporary regimes or specific strategies in some sectors with the predominance of transnational companies. The theoretically more “virtuous” processes have concentrated on few actors, and in the intra industrial trade results, essentially, in an intra company one. In the conditions where it was conceived and regulated, regional space was advantageously put to good use by the group of branches from transnational companies, who, as a starting point, were in a better position to organize their corporate structures depending on the situation of free regional trade. As SMEs have acceded almost marginally to the advantages of regional specialization, the potential benefits of intra industrial complementation have been distributed in an irregular and rather regressive way.

Nowadays the possibility is under discussion, that MERCOSUR is constituted effectively as a Customs Union. Even when the structure of CET has been agreed upon and the correspondent chronogram of implementation has been established, its full adoption has been postponed. In fact, there also have been setbacks and nowadays there are less common tariffs than the ones registered some years ago. On the one hand, some necessary statutes for the effective validity of the CET—the unification of customs codes and the harmonization of other proceedings in the border, for example—have not yet been put in function, that's why, even if the same tariff is established for all partners, there is no free circulation of imported goods in the regional market. On the other hand, the countries have been practicing some detours from the agreed levels, justified via temporary exceptions which consolidate in the same way as the original chronogram is being left aside. Finally, also flexibility rules are required to allow partners to break through the regional frame and through preferential agreements with third countries.

The difficulties and the scarce disposition to establish a common foreign trade policy express, essentially, the lack of consensus among member countries over the regional productive structure orientation and the main lines of insertion in the global economy. The weakness of the policy coordination process, in general, is the result of the absence of a strategic agreement over the projection of the block of associate countries and over the specific position of each. Certainly, when the levels of economic interdependence are relatively low, the demand for coordination due to “defensive” reasons—that is to say, for precaution before the eventual transmission of cycles or instability—tends to be lower. In these cases, it is necessary to promote a coordination offer that establishes or fosters among the economic agents the incentives to cooperate and develop the frame of linkages and productive complementation that allow to make the most of the potential benefits of widening the market. But, the possibility of this offer depends on the existence of a shared strategic vision, on the development of a common interest matrix, and on a clear and efficient leadership. Precisely, the relatively low intensity and the asymmetrical character of the interdependence among the member countries has been noted as one of the structural weaknesses for the constitution of the Customs Union. The existing type of interdependence implies not only a low demand of coordination but also different national demands. In this way, the lower or less developed economies require some instruments that make the access to bigger partner
markets effective and at the same time, others which compensate them or preserve their less competitive capacity. The asymmetries in size, development and productive diversification have complicated the definition of a tariff structure common to the block of nations, which is compatible with the different requirements of the member countries. As the protective structure tended to be defined in function of the more diversified economies, the scarce or null implementation of active policies of support that promoted the development of productive links in the less developed countries led to their demands being managed via exceptions which denature the project of Customs Union. This dynamics reveals the absence –for decision or incapacity- of the conduction and leadership in the integration process and as a consequence, the predominant non cooperative actions.

In the option to deepen Customs Union, two objectives should be simultaneously considered: i) the establishment of a widened market (“the internal market”) as an effective short term sign and ii) the establishment of conditions of equal access to the members (“the internal cohesion”). Now, in the hypothetical case that member countries of MERCOSUR decided to develop these objectives effectively, it wouldn’t be enough to complete their many commitments pending in trade matters (the harmonization of non tariff restrictions, sanitary standards, customs procedures and special regimes and the elimination of the inconsistency in the access rules). As the effects of the process, as has been developed, have not been be neutral in terms of distribution of costs and benefits among member countries, the negotiations should contemplate the diverse national trajectories and the deepening of the asymmetries. This would suppose a redesigning of the diagram, not only in the prospect of correcting the deficits of implementation but also fundamentally with the purpose of turning it into an essential part for the solution of competitiveness problems and the sustainable development that their societies face.

4.5 Synthesis
The international trade has been one of the transmission channels of the recessive effects of the international crisis over Argentine economy. Whereas its contractive impact seems to have been concentrated in the last quarter of 2008 and the first semester of 2009, there are not hard indicators of a sustainable and general recovery of the international trade in the near future. Moreover, many uncertainties subsist over the depth that the global productive recession could reach, over the duration of that phase and over eventual ways of going out of the crisis; in this context, there persist a financial volatile scenario and relatively unfavorable expectations. Therefore it turns out difficult to venture a clear outlook and to assess the alternatives and vicissitudes of Argentina’s trade insertion in the short and medium term. Anyways, it’s possible to ponder a group of restrictions and relative opportunities present in the current scenario and which can act, respectively, as unfavorable or favorable factors for different segments of the Argentine productive system. In principle, Argentina counts on a productive insertion at international level well asserted on the production of agriculture and mining raw materials, of agro-based commodities and some other industrial products and to a lesser degree, on the automotive industry (in this case, at regional level).

Symmetrically, its insertion in the international circuits of elaborate food production and distribution, manpower intensive products –with or without qualification- of segments or “high tech” activities and of high added value services is, in general, weak and hardly developed. From this specialization profile and taking into account the actual or foreseen trends at international level, the first activities –in particular, those based on agriculture or less elaborate extractive phases – can see themselves favored by the continuity of a sustained demand of the emergent countries in Asia. For these segments, these relatively favorable factors can more than compensate some difficulties imposed by a reactivation of the
protectionist conducts in the central countries. Anyway, price fluctuations in these markets – linked to the volatility that financial markets exhibit- could continue causing certain instability in the revenues from exports. Considering this outlook, the strategy should be concentrated in actions continuing to promote a higher liberalization of agriculture markets, and mainly to regulate speculative operations and the future markets in commodities.

The activities characterized, instead, by a weak international insertion (or productive specialization) can face a more hostile competitive scenario and at the same time, lacking of a clear dynamic perspective. In this sense, the proliferation of old and new protectionist measures and stimuli packages with offensive intentions for some foreign markets, the access restrictions to financing for companies and prospects of volatile parity of exchange can hinder any strategy of improvement for the productive insertion on the base of escalation in the respective value chains. In this same sense, the weakness and inefficacy of coordination mechanisms for strategies and policies at MERCOSUR level make the picture even rougher.

As a counterpart, the prospects of a relatively rapid recovery of South American economies – particularly Brazil- which constitute important targets for current and potential exports from a good part of the sectors involved, could act a as “dragging” factor. In the same direction, even if with a more uncertain outcome, the hypothesis appears of a productive restructuring at the global level of some of this value chains, fueled by a certain change in demand- and therefore, in the specific locations- towards some providers or cheaper category products. In this scenario, Argentina could receive investments and additional demands. In either case, taking advantage of any of these relatively favorable circumstances requires the definition of an action strategy and an articulate group of productive policies. The incipient debate at multilateral level over the need to shift in favor of the developing countries the maneuvre margins for active policies of development promotion and the competitiveness can support a more comprehensive and efficient design of productive policies. In this context, Argentina should negotiate a strategic redesign of MERCOSUR in favor of a better coordination and the possibility to strengthen a more integrated regional productive system.

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I. Introduction

Between 1998 and 2002, Argentina went through one of the worst economic and financial crisis in its contemporary history, with lethal outcomes on the economic activity as a whole, which resulted in a GDP fall of 15%. As from 2003, the situation has reverted, fostered by a macroeconomic scene which brought about a stage of significant growth, with average annual rates over 8% between 2003 and 2008. Within this framework, an important recovery took place in the productive sectors, which good production and export performance records.

The main features of this new macroeconomic scene were “administered flotation” – aiming at maintaining a competitive real exchange rate -, the implementation of controls on short-term capital movements and the imposition of taxes on primary exports as a way of redistributing the surplus generated by the strong devaluation of the Argentine peso which took place in 2002 and thus, lessening its impact on internal prices, mainly for the case of wage-goods.

From the perspective of micro and “meso” economics, specific programs and policies were carried out, though the more relevant innovations were witnessed in the perspectives of macroeconomic management. This new context led to a substantial recovery of entrepreneurial profit, which benefited the economy as a whole, including small and medium enterprises. Therefore, the SME sector showed an impressive performance, featured by revitalization of entrepreneurial activity, stronger sector diversification and actions aiming at spurring production, employment, investment and, to a lesser extent, exports.

This work focuses, firstly, on the SMEs’ performance, and then briefly reviews the policies towards the sector, highlighting the financial assistance programs. Finally, some challenges and queries as regards public policies towards Argentine SMEs are posed for future analysis.

II. Performance of SMEs in Argentina after the 2001/2002 crisis

The performance of micro, small and medium enterprises during the period 2003-2007 exhibited certain distinctive features. One of the said features is that, beyond a certain reasonable level of heterogeneity – in accordance with the size and diversity of the SME world itself -, the indicators are highly positive. The level of business activity, the net creation of companies, the level of employment, investments, exports and profitability evolved favorably and depicted noteworthy differences when compared to previous periods. On the basis of the available indicators, this section gives an overview of the
performance of MSMEs.

II.1) Creation of companies
The demographic dynamics of the Argentine business community during the last decade has exhibited three clearly differentiated stages. The first of the said stages, 1996-1998, shows a stagnant phase with the first signs of decline in business activity, which would become the threshold of the Convertibility Regime collapse. On average, in the above-mentioned stage, a few more than four thousand companies (in net figures) were created per year. This figure represents a net business creation rate (measured as the quotient between net incorporations and the existing companies in the economy) of 1% per year. It’s worth mentioning that over those years, the GDP grew considerably until the first semester of 1998 inclusive. However, this growing economic frame generated few incentives for the creation of new enterprises.

The next stage clearly reflects the depth of the crisis, brought about the long agony of the convertibility system. During this said stage, the economy lost − in net figures − 47,000 companies, figure that represents the 13% of existing companies before the beginning of the recessive phase. Finally, a third stage shows an opposite trend. Between 2003 and 2006, 87,000 new companies were incorporated (again in net figures). Thus, it can be concluded that the above-mentioned 47,000 companies were recovered, with an additional growth equivalent to 40,000 companies, that is to say, a growth of 13% in relation to the beginning of the crisis and of 28% in relation to the beginning of the recovery phase.

Graph No. 1
Business dynamics in Argentina, 1996-2006
Net creation of companies (incorporations minus liquidations, in thousands of firms)


Graph No. 2
Gross business creation rate
(incorporated enterprises as a percentage of existing companies, in thousands)
These changes involved not only a higher survival rate for the existing firms but also a higher rate of gross creation of companies. The latter had been one of the indicators more seriously affected by the crisis. In fact, the gross business creation rate had been falling from year to year, from 9.4% in 1996 to 5.6% in 2002. As from 2003, it clearly recovered, reaching the peak of the period in question.

One of the most novel aspects of business performance during the period 2003-2006 was its clear trend towards sectoral diversification. Sectors which in the previous decade had undergone severe crisis or had proved to be unable to competitively operate in the country, appeared as leaders in the process of net creation of enterprises, led by the software and computer services industry and followed by office equipment manufacturing, leather manufacturing, clothing, research and experimental development, medical equipment manufacturing, retail business, rental of equipment and cultural industries such as radio, cinema and television. Out of the nine branches mentioned above, seven of them had a strong technological or design component, with a clear difference with respect to the performance registered during the previous decade, in which the said businesses tended to be reduced or to take refuge in “niches” dependent on imports and consisting in simple assembling. The present development synthesizes an important innovation in the technoproducive trends of the previous decade and evidences the effects generated by the changes to the incentives in terms of relative prices in the Argentine economy.

Graph No. 3
Net creation of companies rate according to business sector
In summary, the demographic dynamics for enterprises reveal that, in the period under review, there was a strong recovery of the entrepreneurial activity and more than 85,000 new micro, small and medium formal enterprises were created (always in net figures). Likewise, this framework was characterized by important sectoral diversification, in which the most knowledge-intensive businesses had a leading role, in contrast to what had occurred in previous periods.

II.2) Capital formation

As mentioned in the previous section, the levels of investment in the Argentine economy during the period 2003-2007 have been the highest over the last decades. A significant aspect has been the investment on producer durable equipment and, in that sense, SMEs have played an important role. In that respect, it is worth mentioning the fact that an important decrease in large enterprises and direct foreign investments was registered. In this context, a strong expansion of SMEs’ investment may be inferred from a lower degree of incidence of large enterprises investment concurrently with an increase in the aggregate investment.

The proportion of investing SMEs grew from a bit more than 10% in 2001-2002 to nearly 20% in 2003-2004 and to more than 25% in 2005-2006. All sectors showed similar trends as regards a rising investment rate over the decade under review. In this sense, the hotel and restaurant industry stands out, for the strong impulse given to the sector by the inflow of tourists which started in 2002 and, in the case of restaurants, for a high rate of new units and rotation, as mentioned. The investment dynamics in the industrial sectors were significant. 48% of SMEs made investments during the period 2003-2006 and within that percentage, 71% did it over more than a whole year within the said period.

Such a remarkable investment performance took place with little bank financing. Bleger (2007) explains that only about a quarter of “formal” Argentine SMEs access bank loans. His estimates show a growing debt stock trend, although subgroups displayed differentiated behavior. While the level of debt is growing moderately among micro and small enterprises, the increase is much higher in medium-sized firms.
Proportion of enterprises with access to bank loans in relation to the whole amount of formal Argentine enterprises

SOURCE: based on Bleger’s database (2007)

Graph No. 5
Development of bank portfolio of loans to micro, small and medium enterprises
Million of current pesos

NB: The Bulletin of Financial Stability of the Central Bank of Argentina defines the “micro” enterprises segment as the segment borrowing up to 50 thousand pesos, the “small” enterprises segment from 50 to 200 thousand pesos, the “medium” enterprises segment from 200 thousand to 5 million pesos and the “large” enterprises segment over 5 million pesos
SOURCE: based on Bleger’s database (2007)

The first issue to examine has to do with access conditions. Considering bank financing, it is possible to observe a dual behavior of the SME sector. Only 33% of SMEs applied for any type of loans at least once during the period 2003-2006. Particularly striking is the fact that 82% of SMEs were successful when applying for such loans. In other words, the financial market for SMEs seems to operate in a dual way: a minority –though a significant proportion- looks for financing while a majority of such group gets the finance sought. Such a conclusion leads us to claim that the high growth in investments of SMEs that occurred in the period 2003-2007 was based, mainly, on self-financing and, to a lesser extent, on financial instruments offered in different markets.

To sum up, investments of MSMEs grew considerably during the period 2003-2007, which revitalized their role in the economy. In fact, the positive reaction of the aggregate investment rate was closely related to the investing activity of MSMEs. During the period under review, there were fewer investment projects than in the previous decade, though a higher investment rate was registered. Within this framework, in spite of the fact that the
markets providing financing services to MSMEs started to recover, such recovery was limited. The highest growth was associated with medium enterprises while micro and small enterprises obtained low level of financing. Likewise, a dual-functioning mechanism was consolidated, characterized by a minority subgroup of MSMEs resorting to the credit market and another majority subgroup of MSMEs that mostly self excluded from the said market, either because of lack of investment projects or because access to credit is deemed impossible.

Graph No. 6
Access of SMEs to bank financing
SMEs which have some time successfully applied for credits from banking institutions between 2003 and 2006 – In percentages according to sectors

SOURCE: Network of SMEs. Undersecretary of Small and Medium Enterprises and Regional Development (SEPYME)

II.3) Employment
In the early 2007, the Argentine micro, small and medium enterprises hired over 6 million people, out of whom 40% were registered employees. The job positions generated by MSMEs constitute 73% of Argentine’s salaried employment, including bosses and excluding domestic service. Considering private employment exclusively, MSMEs represent 50.3%, and when including the totality of job positions in the economy, 41.6% corresponds to MSMEs. As it can be appreciated, the impact of job positions created by MSMEs is quite significant, though not as high as alleged on many occasions. One of the most striking aspects in relation to employment in MSMEs is the high degree of informality. Upon focusing on the development of registered employment, although MSMEs generate three times more jobs than large enterprises, registered employment in MSMEs appears to be scarcely higher than in large enterprises. In fact, by the end of 2007, registered employment in MSMEs was 12% higher than in the larger enterprises and, in the industrial sector, only 2% higher. In spite of the fact that the performances of all types of enterprises were positive during the period under review, the larger ones experienced a higher growth. The increase of registered employment in large enterprises amounted to 48% while MSMEs registered an increase of 46%. As regards the industrial sector, the increase amounted to 47.7% and 43.7% respectively.
The average number of employees hired by enterprises tended to increase, much more noticeably in MSMEs. Therefore, the average number of employees per company in MSMEs went from 4.8 in 2002 to 5.6 in 2006 (an increase of 15.5%) while in the case of large companies, the average number of registered employees in the same period went from 266 to 277 (+4%). In the industrial sector, the gap was wider: MSMEs went from 8.6 to 10.4 employees per company while there were almost no variations in the industrial sector (a growth of 0.5%).

As far as total employment in SMEs is concerned, an increase of 44% was registered between 2004 and 2006, measured on the basis of the SMEs network. The transport sector experienced the highest job creation rate (plus 93.2%), followed by the services industry excluding hotel, gastronomy and transport sectors (57.9%), restaurants (57.2%), manufacturing industry (28.3%) and hotel industry (22.5%). SMEs presented a homogeneous performance, out of which 69% experienced a growth in employment whereas 31% experienced an employment decline. Likewise, 49% of SMEs experienced a particularly high employment growth: 29% grew over 40% and 21% grew between 16% and 40%.

In conclusion, employment generated by MSMEs during the period under review grew significantly, a trend which spread to all sectors. In this sense, the MSMEs’ role is still important in the creation of jobs within the Argentine economy, although perhaps less pervasive than it is what is often alleged. The high rate of unregistered employment in this sector constitutes, in fact, a negative aspect which needs to be mentioned.

II.4) Exports

Argentine exports have shown, historically, a high degree of concentration. Such a historical trend was due to, at least, two factors. Firstly, the fact that exports have been associated with primary and agro-industrial production, to which some industrial commodities production has been added in the last three decades. Said production is usually highly concentrated, due to capital requirements and market structures. Secondly, the fact that even in markets in which production is not excessively concentrated, or at least the concentration is not a distinctive feature – such as many products related to farming and stock raising – a strong concentration is appreciated in the commercialization stage. Therefore, from a statistical point of view, we can observe two extreme cases presenting similar results. On the one hand, exports of metallurgy products, which are wholly produced and exported by two economic groups. On the other hand, exports of some fresh fruit, in which hundreds of SMEs take part but which are exported by less than ten large commercial companies.

The aforementioned structural features, which are reflected in the participation of SMEs in approximately only 10% of exports, offer a clearer picture of the productive competitiveness of MSMEs. Without taking into account these previous remarks, it may be inferred that MSMEs may only operate in the internal market when, in fact, different markets present specific characteristics which link production with the external market. Argentine exports doubled between 2002 and 2007, from USD 25,650 million in 2002 to over USD 53,000 in 2007. Taking into account the variations which took place between 2002 and 2006, it may be concluded that the highest growth occurred in manufactures of industrial origin (95%) followed by manufactured products related to farming and stock raising (87%), fuel (67%) and primary products (64%). The exporting structure slightly changed in relation to the year 2002 (changes of about 2 percentage points in the four subgroups), although such changes may not be deemed as persistent either, as in the
In the year 2007, rising prices of commodities related to farming and stock raising determined a significant expansion of primary exports value. As regards exports of MSMEs, the development proved to be positive as well, determining a stable participation in total exports. The expansive dynamics were very important and allowed the general growth experienced by exports of large enterprises. Likewise, significant proportions of SMEs’ exports were a consequence of parameters different from the main trends which governed the development of total exports in the Argentine economy. Particularly, most exports of Argentine SMEs were products of industrial origin, a sector which grew 55% between 2003 and 2006.

Such export expansion of industrial SMEs experienced a significant leap during the period under review. In the year 2000, only 11% of industrial SMEs had taken part in exports. In the year 2002, the proportion was barely over 13% and since then, a dynamic phase caused that, in the year 2006, it grew to almost 30%. Thus, it may be concluded that there was an authentic expansion of exports from micro, small and medium enterprises during the period under review, although - as mentioned below - not all said firms have consolidated themselves as exporting companies.

There were also higher value-added exports of MSMEs vis-à-vis large enterprises. Moreover, available evidence proves an indirect relationship between value added and size of the company. Thus, the average export price per ton varies from over USD 1,000 in the case of micro and small exporting enterprises to nearly USD 900 in the case of medium enterprises. Besides, large enterprises export at a ratio of USD 382 per ton, that is to say three times less than the average in the case of MSMEs. Another way of considering said issue is to disaggregate export sectors according to the size of the enterprise. In this case, the same phenomenon is confirmed: smaller enterprises are associated with a greater presence of manufactured products in the exporting structure.

Again, the conclusion drawn is that smaller exporting companies are –on average- more oriented to sectors of higher value-added or technology. According to the review of industrial SMEs’ export dynamics, 42% of the said companies exported for five or more years during the period 2000-2006, showing a considerable growth of the SME export base. As mentioned above, the exporting activity of SMEs grew considerably over the recent years, though not all enterprises may be deemed to be exporters. Only 39% of the SME export base matches the “consolidated” category while 6% are occasional exporters. These figures imply an important export take-off. In general terms, 4 out of 10 SMEs had already been exporters before and other 4 have consolidated as such.
Graph No. 6
Typology of exporting industrial SMEs

**Consolidated exporters**: Those SMEs which exported products more than 5 times in the period 2000-2006 and, also, in 2006.

**New exporters**: Those SMEs which exported products in 2005 or 2006 and did not do so in the period 2000-2002.

**Exporters of fast reaction**: Those SMEs which exported products in 2003 and 2006 and did not do so in the period 2000-2002.

**Occasional exporters**: Those SMEs which exported products in one year within the period 2000-2006 and do not comply with the above-mentioned conditions.

**SOURCE**: Network of SMEs. Undersecretary of Small and Medium Enterprises and Regional Development (SEPYME)

To sum up, the export industry is another sector that has shown a good performance of SMEs, with an insertion in external markets for manufacturing sectors of higher value-added than the average exporting industry. The SME export base grew significantly, with the prompt formation of a new SME exporting core.

II.5) Profitability

MSMEs' profitability has also developed favorably during the post-convertibility period. The profit margin over sales went from 2.42% in the period 1997-1999 to 7.24% in the period 2003-2006, that is to say three times higher than in the previous growing stage (in between, in the period 2000-2002, the profit rate had been negative at 4.07%). A remarkable aspect is that a new and higher profit level seemed to be set, which remained relatively stable all through the four-year period 2003-2006. A strong recovery in profitability that took place in the economy as a whole may also be appreciated. The SMEs’ revenue was equivalent to 3.47% of the GDP whereas larger companies’ revenue amounted to 9.46% of the GDP. Therefore, while in 1997-1999 large enterprises earned twice as much as MSMEs, in the period 2003-2006 the gap widened to three times.

Evidence then confirms a strong recovery in Argentine MSMEs‘ profitability, which is however still below the levels corresponding to large enterprises. As analyzed below, such an aspect represents one of the problems associated with a broader income distribution issue.

Said significant increase in the average profit level of SMEs is linked to two factors, a recovery of the unit contribution margin as well as an increase in sales volume. Empirical evidence proves that both have complemented each other over the period: high unit contribution margins and a market overcoming recession led to a reduction in the unit
contribution margin but with a strong expansion of the market and, consequently, an increase in sales volume.

Chart No. 1
Profit rates of Argentine SMEs, 1997-2006
Million of current pesos and percentages

<table>
<thead>
<tr>
<th>Year</th>
<th>MSMEs tax results</th>
<th>Total tax results</th>
<th>GDP</th>
<th>MSMEs over total</th>
<th>Results MSMEs/GDP</th>
<th>Results large enterprises/ GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-1999</td>
<td>3,501,573</td>
<td>10,758,548</td>
<td>291,776,753</td>
<td>32.55%</td>
<td>1.20%</td>
<td>2.49%</td>
</tr>
<tr>
<td>2000-2002</td>
<td>-5,079,571</td>
<td>-27,269,581</td>
<td>288,493,531</td>
<td>18.63%</td>
<td>-1.76%</td>
<td>-7.69%</td>
</tr>
<tr>
<td>2003-2006</td>
<td>17,411,288</td>
<td>64,928,095</td>
<td>502,482,624</td>
<td>26.82%</td>
<td>3.47%</td>
<td>9.46%</td>
</tr>
</tbody>
</table>

SOURCE: based on data from the Argentine Internal Revenue Service (AFyP). Year Compilation of Tax Statistics.

Such high profit levels are in accordance with the significant increase of productive investment, which did not bring about an equivalent expansion of credit volume. In other words, the recovery in profitability became the central source to finance the growth of MSMEs’ investment.

II.6) Summary for the period
Compiled empirical evidence confirms that the period 2003-2007 showed very good performances in the MSMEs’ sector. If compared to the previous decade, the result is even more spectacular and suggests a change of trend. At this stage, it is worth analyzing some related issues, as most structural aspects have not yet been modified. It seems relevant to go over some topics in relation to two different matters. Firstly, the pattern of concentration of markets, which usually sets conditions or restrictions to the performance of MSMEs and which may set a sort of clamp on future performance. Secondly, the possibility of persisting in this trend towards a more extended growth stage for MSMEs. In this sense, some queries come up, as regards the problem of scale and the traditional small size of Argentine SMEs in international standards. The existence of new regional investors, particularly Brazilian, who have strongly penetrated the domestic market, often through the acquisition of local companies, either large or medium, and with strong state support, also poses questions for future analysis.

Regarding degrees of concentration, empirical evidence demonstrates that the Argentine economy operates nowadays with higher levels of concentration than in the Convertibility Period, when it was already quite high. This has been due, mainly, to the leap that occurred after the peso devaluation and the crisis that took place in the internal market, which strengthened the role of large exporting enterprises. Nevertheless, a stabilization of the indicators may be observed from towards 2005. Such an economic concentration may be a limitation in the case profit falls to lower levels, strengthening the struggle over wealth distribution within the production chains.
On the other hand, two other aspects which characterized the period need to be highlighted. The first one is the strong recovery of entrepreneurial activity, which is positive news in relation to existing potential and, simultaneously, a challenge in terms of the necessity to keep up such a pace of creation of companies and lower liquidation rates. The second one has to do with investment and the strong trend to self-financing, which may become a limiting factor, should SMEs’ revenue rates be reduced.

III. Policies towards SMEs in Argentina

MSMEs’ support policies in Argentina have been erratic over the last fifteen years. In the early 1990’s and in accordance with a market friendly structural adjustment program, which stood out for financial and trade liberalization, deregulation of goods and services market, labor flexibility and privatization of state-owned firms, SMEs became less important in the agenda of public policies. In the said period, no specific MSMEs support policies were carried out.

Towards the mid 1990’s, the implementation of institutional changes attempted to modify this situation. In the first place, Law No. 24467 was passed, creating a series of support instruments for MSMEs, such as the Rate Bonus System, an integrated system of information to MSMEs and, the most novel aspect, the system of Mutual Guarantee Companies, among other measures. In 1997, the Secretariat for Small and Medium Enterprises (SEPYME, by its Spanish acronym) was created, dependant on the Presidency of the Nation. Later, further changes were introduced, including but not limited to the implementation of new programs for MSMEs and the partial amendment to the system of Mutual Guarantee Companies, such as the creation of the Development Agencies’ Network as SEPYME’s institutional platform, which was then transferred to the Ministry of Economy’s jurisdiction. After a short interregnum in which the SEPYME turned to depend on the Ministry of Labor, within further institutional changes the SEPYME was again transferred but, this time, under the jurisdiction of the Ministry of Production.

Finally, in 2003, after an amendment to the Law of Ministries, the SEPYME became to depend from the Ministry of Economy and Production, but with the autonomy as an Under-secretariat, within the jurisdiction of the Secretariat of Industry, Commerce and SMEs.

It is difficult to ponder the SEPYME’s institutional performance from its creation up to the year 2002, due to at least three reasons. In the first place, because the general context of economic politics, did not favor the creation of the said type of enterprises. As mentioned above, during the period 1996-2002, there was a net destruction of 34,000 enterprises in Argentina. In other words, in that context, the SME policy was unlikely to be efficient in implementing defensive policies and institutional changes. In the second place, characteristics of an institutional immaturity need to be mentioned, either when carrying out with difficulty the programs set forth in the law or when monitoring and assessing programs’ efficiency. Finally, the permanent jurisdictional changes made management difficulties evident, mainly in the role assigned by different governments. The fact is that, in spite of the existence of a regulatory framework, an institutional recognition and the implementation of a few programs, the application of a coherent, articulated and long-term support policy towards MSMEs turned out to be unfeasible. On the other hand, it is worth mentioning that there were other organizations that implemented programs which, though not specifically aimed at MSMEs, caused certain impact on the said companies as a whole. In this sense, the role of the Argentine Technological Fund (FONTAR, by its Spanish acronym), within the jurisdiction of the Science and Technology Secretariat and the National Agency for the Promotion of Science and Technology, is to be highlighted.
In summary, in the period 1997-2002, the SME policy was characterized by an erratic trajectory, partial enforcement of a regulatory framework statutorily set forth and a weak impact of the implemented policies. The main change which was to take place as of 2003 was due to a sudden alteration of the macroeconomic context which, as mentioned in the previous section, turned to be much more favorable for the MSME sector, which recovered impressively. Within this framework, the SME policy could clearly aim at solving specific problems and proposing new courses of action. Likewise, many of the programs established by laws 24467 and 25300, which had had partial implementation or even no implementation at all, could be gradually enforced.

In conclusion, the analysis for the period 2003-2007 becomes particularly important because, although the SEPYME as well as the regulatory framework that governs the support policies towards MSMEs came into being much before, it is in this period that the said institutional scheme and policies were effectively implemented. Among the key elements of the SME policy implemented during the period under review, it is worth mentioning:

• Financial assistance, in an attempt to favor access to credit through intervention mechanisms in the credit market and the generation of instruments of its own.

• Technical assistance and training, which aim at providing subsidies to MSMEs to afford the cost of such services.

• Foreign commerce, in order to generate new exporting MSMEs and new foreign markets for MSMEs which have already operated in said market.

• Regional and sectoral development. Stimulus policies to generate projects of high regional impact, based on clusters, and to develop a regional network of technical assistance and supporting services for MSMEs all around the country.

For the sake of brevity and considering the specific importance of the financial assistance programs, the following section of this work gives a brief insight of said programs. The diagnosis provided above identified a strong investing activity on the part of the MSMEs concurrently with weak support on the part of the financing system. In other words, most investments were financed with the firms’ own funds and although the banking system gradually increased financial assistance to the MSME sector and some alternative sources appeared (such as the capital market), the MSMEs' financing issue still constituted a serious concern.

The problem of access to financing may be split, in general terms, in two. The first one is accessibility and the second one has to do with the financing conditions. As far as the first one is concerned, different issues apply. On the one hand, and from the point of view of demand, the long crisis which led to the Convertibility Regime collapse substantially deteriorated the firms' balance sheets. Thus, the banking system, traditionally oriented to assess credit applications on the basis of the firm’s net equity rather than on the projects, was unable to assist a significant proportion of companies. From the supply-side point of view, traditional concerns such as information imbalance were added to a structure of relative profitability which operated to the detriment of credits to MSMEs and in favor of other financing services (particularly personal loans).

Given this reality, the financial assistance policy towards MSMEs attempted to introduce several instruments aimed at softening the above-mentioned problems and promoting access to financing in the MSME sector.
Chart No. 2
Key elements of the financing policy towards MSMEs

<table>
<thead>
<tr>
<th>NECESSITY</th>
<th>CONCERN FOR SMES</th>
<th>PROGRAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short and medium-term credit from banking institutions</td>
<td>High interest rates</td>
<td>Interest Rate Bonus System</td>
</tr>
<tr>
<td>Medium and long-term credit from banking institutions</td>
<td>Lack of funds in the long-run</td>
<td>Global Credit Program</td>
</tr>
<tr>
<td>Credits for investment and innovation projects</td>
<td>Flexibility/ Requirements</td>
<td>National Fund for the Development of Micro, Small and Medium Enterprises (FONAPYME, by its Spanish acronym)</td>
</tr>
<tr>
<td>Credits in general</td>
<td>Credit accessibility, problems with guarantees</td>
<td>Mutual Guarantee Companies</td>
</tr>
</tbody>
</table>

SOURCE: SEPYME

III.1) Interest Rate Bonus System
The Interest Rate Bonus System (PBT, by its Spanish acronym) aims at facilitating SMEs' access to credit through the provision of subsidies on interest rates for loans granted by banking institutions which take part in the program through bidding. The maximum bonus reached 3 to 8 percent annual points or up to 50% of the offered rate, whichever is lower. Different bonuses were determined according to the level of productive development, favoring such provinces or regions with the lowest level of relative development. During the period 2003-2007, credit operations amounted to a total of ARS 1,763 million, with a few more than 15,000 MSMEs. The high number of operations has to do with the proportion used to fund working capital requirements, which represented 57% of the program as a whole.

Chart No. 3
Interest rate Bonus System for MSMEs
Credits granted between 2003 and 2007*

<table>
<thead>
<tr>
<th>Allocation</th>
<th>Number of credits</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor Capital</td>
<td>230,030</td>
<td>1,012,579,860</td>
</tr>
<tr>
<td>Capital Assets</td>
<td>3,635</td>
<td>317,663,008</td>
</tr>
<tr>
<td>Investment Projects</td>
<td>2,511</td>
<td>349,002,416</td>
</tr>
<tr>
<td>Agreements</td>
<td>2,592</td>
<td>84,045,811</td>
</tr>
<tr>
<td>Total</td>
<td>238,768</td>
<td>1,763,291,095</td>
</tr>
</tbody>
</table>

*Information as to third quarter
SOURCE: SEPYME

Among the main aspects to be highlighted as regards the Rate Bonus System, it is worth focusing on the fact that the said program: a) caused a reduction of credit costs for a significant number of MSMEs; b) adapted to market conditions and the necessities of economic politics, showing enough flexibility over time; c) obtained a good regional
coverage and also a satisfactory diversification in sector orientation; d) generated additionality effects in terms of credit volume granted (Molina, 2007), although there is no information available as regards additionality in terms of new firms financially assisted; e) satisfactorily covered the needs of different types of MSMEs, in spite of the fact that the size of the assisted company has grown as the program moves towards investment and acquisition of capital assets projects; f) the relationship between fiscal cost and benefits obtained ends up to be more than acceptable.

As aspects which constrain the potential of the program, it is worth mentioning that, as being implemented by the existing banking system, there is no possibility of specific orientation and of generating more subjects of credit. The improvement of such program should aim at more intense monitoring and more credit orientation which would lead to improve additionality and accomplish objectives regarding different sectoral and economic policies as a whole.

III.2) Global Credit Program

The Global Credit Program (PGC, by its Spanish acronym) was financed through a loan granted by the Inter-American Development Bank (BID, by its Spanish acronym) and aimed at facilitating MSMEs access to long-term credit. The funds pertaining to the credit line BID-1192 amounted to a total of USD 388 million, generated in equal parts - by the BID loan and local matching contributions from participating financial institutions. The PGC was oriented to compensate one of the main shortcomings detected in the late 2006: the complete lack of long-term credit in the financial market. The PBT had fulfilled an important role in redirecting credits to SMEs and reducing costs but, as being funded by financial institutions' own funds, the said program could not prevent maturity mismatches, due to the fact that almost all the sources of the financial market are short-term ones. Therefore, the PBT was successful mainly on short-term and medium-term credits, whereas less effective as far as credits over the three years horizon were concerned.

For this reason, the PGC was structured as a complement to the PBT and as a way to finance MSMEs' long-term investment projects. Its operating procedure was planned and executed together with the Central Bank, which acted as a financial agent. Commercial banks are the program's financial intermediaries, running the totality of the commercial risk through the granting of credits to MSMEs for investment projects, including the acquisition of capital assets, purchase and renovation of real state property and other capital expenditures related to said projects.

When compared to the PBT, the main difference is that the PGC provides funds to financial institutions, subject to the following conditions: a) funds shall be exclusively allocated to credits to MSMEs for investment projects; b) loan terms shall mature between 3 and 10 years; c) the active rate is constituted by a bank transfer rate adjustable every three months plus a spread. Said bank transfer rate was originally fixed at 2.9% and the spread at up to 6%. Later, it increased in 1 percentage point and the maximum spread was reduced in equal proportion; d) for each peso requested to PGC for funding, banks shall grant, with their own funds, credits to MSMEs for an equivalent amount. In this case, terms and financial conditions are to be set by the banks under their own lines of credit. Alternatively, banks may opt for using, in equal parts, funds of their own or provided by the PGC (option rarely used due to the problem of maturity mismatch in which such alternative derives); e) credits shall be denominated in legal tender and the amounts shall be less than the equivalent in pesos of USD 1 million for micro and small enterprises and USD 3 million for medium enterprises; f) participating banks shall monetize credits to MSMEs, either those granted with PGC funds or with their own funds,
before such credits are applied for. Thus, the exclusive allocation of funds to financing MSMEs is guaranteed.

The allocation of PGC resources was undertaken successfully in 2007 and in only four years, all funds were allocated. In all, 3,366 credits were granted for a total amount of ARS 1,190 million, of which ARS 583 million corresponded to funds granted by the SEPYME and ARS 607 provided by participating banks. In this case, contrarily to what happened with the PBT, additionality indicators were estimated in terms of new subjects of credit, allocated to investment. Only 16% of assisted MSMEs (measured according to the amount of the credit received) had already been financially assisted by banks through credits for investment. The aspects which evidence the additionality of PGC are the following: a) almost 72% of credits were granted to MSMEs which, although having access to credit before, had only borrowed small amounts and to finance working capital and for very short terms and; b) 12% of MSMEs had had little access to banking services and received financial assistance from a bank institution for the first time in a long period (some for the first time ever).

Bleger (2007) assessed the PGC estimating that said program allowed an increase in the investment credits stock of at least 11% to 13%, with probably a longer average terms of the credit. Simultaneously, the PGC increased financing of working capital to MSMEs between 5% and 6%.

Among the most distinctive features of the PGC, it is worth mentioning: a) its rapid implementation evidenced the existence not only of a strong demand of investment on the part of the MSMEs but of increasing need of funds on the part of financial institutions. In a period of only 4 months, the PGC allocated the equivalent of almost 70% of what the PBT had allocated in 4 years (and if funds’ availability would have been higher, the pertaining allocation would have increased proportionally). This piece of evidence proves that, in the banking system, there is not only shortage of medium and long-term sources of funds but also of relative profitability which encourage entities to allocate said funds preferably on other businesses (primarily personal loans, large enterprises and public sector); b) the SEPYME and BCRA monitoring made the use of the line more efficient and established a successful cooperation mechanism with the banking system; c) the PGC generated considerable additionality, which was expected a priori, considering the limited investment financing provided so far by the banking system.

III.3) System of Mutual Guarantees

The conformation of the system of mutual guarantees constitutes a strong bet on the part of the Argentine State, towards a mixed system of MSMEs promotion. The said bet became apparent in the resources investment performance. On the one hand, the Bank of the Argentine Nation began by providing the funds for the formation of “Garantizar SGR”, the first Mutual Guarantee Company (SGR, by its Spanish acronym) in the country, which became the leader of the system. On the other hand, tax exemptions aimed at stimulating private capital to invest in the area. In essence, it was a strong bet which, besides, significantly differentiated from other international experiences more dependant on public guarantees.

It is worth mentioning as an aspect related to the institutional weaknesses of the SEPYME and its erratic trajectory that, in practice, the said funds have been available and without use since the year 2000.
The first issue to bear in mind is the degree of MSMEs’ assistance generated by the SGR system. In this respect, indicators offer ambivalent points of view. The volume of allocated guarantees grew substantially during the period 2002-2007, passing from less than 2,000 guarantees in 2002 to nearly 20,000 in 2006, in a clear rising trend. In figures, this represents about ARS 1,100 million per year. Therefore, two first conclusions may be drawn: the volume of guarantees grew significantly, though not sufficiently when compared to the flow of financing offered by the whole of the financial system and, let alone, when compared to the financial needs of MSMEs.

Graph No. 7

System of SGRs: development of allocated guarantees stock, 2002-2007
(million of pesos and number of guarantees)
SOURCE: SEPYME

Such strong increase of guarantee level was mainly maintained due to the fact that more SGRs were allowed to operate. In fact, the number of SGRs grew from less than a dozen to 24 as from 2005. The behavior of these entities, as will be later described, tended to be conservative, once the minimum ratios established by law were complied with (80% of the contingency fund). Therefore, the higher number of actors rather than improvements in productivity or expansion of each SGR’s business is accountable for the expansion of the system as a whole.

The number of MSMEs linked to the systems of SGRs also experienced an important increase, trebling its presence up to almost 10,000 enterprises. Again, it is worth pointing out that such significant increase is still low, should the number of existing MSMEs in financial need be considered. As regards the types of guarantees provided, empirical evidence indicates a clear orientation of the system towards short-term guarantees, strong presence of the capital market through deferred checks, trusts and, to a lesser extent, negotiable instruments4, commercial guarantees and, to a lesser extent, financial

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4 In fact, the existence of the SGRs accounted for the growth of the capital market, mainly in the market of deferred payment checks.
guarantees on banking credits. These elements, which could generate more diversification and “sophistication” of financial instruments, also reflect certain conservative strategies and speculative practices on the part of some of the actors in the system.

Having to assess the development of the system, mainly in the first year of “post-convertibility”, the problems inherent to a new financial instrument should be taken into account, in the context of an institutional weaknesses. Argentina has long experience as regards industrial promotion and productive development based on tax instruments, though with uncertain results, due to the implementation methodology, the asymmetric control and regulatory mechanisms and other practices rather than to the instruments’ design—or at least not necessarily. In this sense, Fernandez Bugna y Porta’s remark (2008) as regards the necessity of applying institutional “unlearning” mechanisms turns to be valid.

The take off of the SGR system during the post-convertibility period was not exempt from speculative practices on the part of some investors. It is worth mentioning that the promotional mechanism was quite attractive, mainly in the expansion phases of the economic cycle, in which the risks of default are substantially reduced. Contributions to the contingency funds made by protector partners may be deducted from tax results—upon filing tax returns—in advance. In this regard, conditions imposed by law are lenient in periods of economic bonanza. Thus, the protector partner has access to a tax exemption to which the dividends from the contingency fund are to be added. It is a very attractive financial asset, even more when reviewing the requirements: immobilization of funds for a lapse of two years and granting of guarantees for at least 80% of the provided funds. In addition, low delinquency rates and strict control of the granting policy applied by protector partners lead us to conclude that the system of SGRs constitutes an investment of low risk and excellent profitability.

In this context, the number of SGRs, either authorized or in process of formation, has risen significantly. Many large enterprises set their own SGR incorporating as partners the MSMEs that constitute the network of their providers. In a wider sense, a great part of granted guarantees is redundant: it is the same financing provided before but with the introduction of a guarantee from the SGR. Said feature is, undoubtedly, one of the most controversial points of the system: the state makes an investment as taxes are not levied, but said investment does not generate additionality by the credit system. By the year 2006, the situation threatened to become unbearable. Most companies had already amortized losses caused by the crisis of the period 2001-2002 and their balance sheets started to show the strong recovery of profitability happened in the period 2002-2004. In addition, tax authorities had not authorized the inflation adjustment of the minimum exemption levels, so that tax pressure in terms of income tax grew significantly. Many companies and private investors found in the SGR system a way to reduce income tax’s taxable base. Thus, the tool faced the risk of being rendered meaningless. There was a strong trend to ask for the creation of a SGR, authorize the formation of a contingency fund, grant guarantees for an amount slightly over the statutory minimum (80%) in order to stop leveraging at that point and ask for a new increase of the contingency fund. In other words, a behavior which aimed at maximizing the protector partners’ benefits, by providing the contribution, claiming tax exemptions and then not offering further

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5 Some important accounting firms offered their clients the possibility of investing in a SGR’s contingency fund and also some financial assistance agencies even recommended that alternative as the best investment.
guarantees in order not to increase the risk on the investment. Such a situation tended to get worse, in relation to technical guarantees of dubious contribution and lack of additionality to the SMEs’ access to credit. The fiscal cost of the system, which by 2005 was of ARS 32 million, suddenly increased to ARS 104 million in 2006. Simultaneously, the existence of 21 new requests for the creation of SGRs and nearly 10 requests for an increase of contingency funds threatened to push up the fiscal cost in the short-term to nearly ARS 300 million.

Given this situation, the SEPYME took a series of corrective measures and established general regulations in an attempt to generate a more rational and efficient policy for the system. In the first place, the immission of new actors into the system and the increase of the contingency fund of existing SGRs were limited. Secondly, all SGRs were audited, homogenizing good practices and sanctions for non-compliance. In exceptional cases, two SGRs’ authorizations to carry on business were revoked. In the third place, mechanisms to induce higher leverage were established. On the one hand, 150% leverage was required in order to allow the renewal of the authorization for operating the contingency fund, once the investment term has expired, and 250% leverage in order to ask for an increase of the contingency fund. Such measures produced a substantial increase in the system’s leverage, passing from 122% in March to 144% a year later and to 170% by the end of 2007 (Chart No. 32), while keeping fiscal cost stable as the creation of new SGRs and the increase of contingency funds were drastically limited.

In the fourth place, the granting of guarantees for longer terms was encouraged through incentives. Deferred checks had gained too much importance, concentrating 40% of SGRs’ operations. Although this instrument may have beneficial effects, as explained above, there is a controversy on whether a system subject to fiscal promotion should depend so strongly on an instrument of such short-term and reduced additionality. In that sense, a menu of guarantees of different characteristics was established, that was used to measure the degree of use of the contingency fund, either for its renewal or its increase. Thus, not only is higher leverage encouraged but also better quality of guarantees.

Chart No. 4
Development of guarantees stock, current contingency fund and degree of leverage (in million of pesos and percentages)

<table>
<thead>
<tr>
<th></th>
<th>Current guarantees stock</th>
<th>Available contingency fund</th>
<th>Leverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2006</td>
<td>650.8</td>
<td>531.6</td>
<td>122%</td>
</tr>
<tr>
<td>June 2006</td>
<td>668.1</td>
<td>591.1</td>
<td>113%</td>
</tr>
<tr>
<td>September 2006</td>
<td>742.6</td>
<td>621.0</td>
<td>120%</td>
</tr>
<tr>
<td>December 2006</td>
<td>862.3</td>
<td>655.7</td>
<td>132%</td>
</tr>
</tbody>
</table>

Pursuant to the provisions of Rule 142/06, the creation of new SGRs and the increase of contingency funds were suspended for 90 days. Said rule also provided for the auditing of all SGRs (many of which had never been audited before) and stated in its preliminary considerations, that the suspension was intended to analyze a new system of authorizing and increasing contingency funds, subject to productivity, efficiency and additionality requirements. Later, pursuant to the provisions of Rule 16/07, leverage conditions and quality of guarantees were required to authorize increases of risk and Rule 290/07 provided for a new system of authorizations which limited, in practice, the possibility of generating SGRs of only one company or economic group.
A compulsory registration at the Central Bank was established, so as to increase control and supervision as well as to encourage more SGRs to issue self-liquidating guarantees. In summary, such measures led to improve the system, which does not preclude a reconsideration of this instrument and of possible amendments to the rules currently in force. Among the first conclusions that may be drawn, it is worth mentioning that: a) the SGR system is of great significance to improve MSMEs’ access to credit. However, in spite of the many positive experiences in this regard, the tool was rendered sometimes ineffective by speculative behavior on the part of some enterprises and investors. Most of such bad practices were constrained and reorganized under the new regulatory framework established between 2006 and 2007; b) SGRs created as initiative of only one single company seem to have shown – in general terms – low results as regards additionality in terms of access to financing, and to have operated as an additional department of the protector partner rather than as an independent organization aimed at facilitating MSMEs’ access to credit; c) the most virtuous examples have to be found for strategic associations between SGRs, banks (mainly state-owned) and local public or mixed institutions. Said de facto associations have oriented credit and have made feasible the financing of enterprises with significant regional and local impact; d) SGRs have also made possible MSMEs access to the capital market through financial instruments such as deferred checks, trusts and negotiable instruments. Such a positive aspect was partially blurred by an excessive concentration of short-term instruments.

IV. Tensions and challenges

MSMEs’ performance during the post-convertibility period showed signs of great strength and growth and was significantly better than that of the previous decade. Entrepreneurial activity recovered, while employment, investment and exports increased. The recovery in profitability, which trebled the figures of the best years in the previous decade, allowed financing the expansion of the sector, which at the same time was favored by a better macro economic environment. Within this framework, MSMEs’ activity showed important dynamism, with expansion in sectors with higher technological content and added value, that is to say, sectors which had suffered from a recessive behavior in the previous decade and in which MSMEs were more unlikely to develop successfully. Undoubtedly, the new macro economic context boosted the MSME sector of the economy. As far as specific policies for the sector are concerned, it is worth mentioning that for the first time since the institutional changes which gave place to the SME legislation and the creation of the SEPYME in the mid 1990’s, the package of programs and policies was effectively implemented. This fact leads us to think about the institutional difficulties of carrying out the SME policy. As a summary and final consideration, a series of topics which constitute actual dilemmas and challenges as regards SMEs’ performance and public policies related to the said enterprises’ development are presented as follows:

IV.1) Horizontal vs. sectoral SME policies

As mentioned above, the SME policy came into existence in the mid 1990’s. The law enacted in 2000 was partially amended and the full implementation of the package of programs and projects took place in the period 2003-2007. Although there were some changes tending to ameliorating different programs and projects, the concept underlying this institutional and political configuration has to do with considerations more related to
the previous stage. A horizontal conception in the implementation of policies prevailed. Within that conceptual umbrella and on the basis of “market friendly” policies, support policies towards SMEs attempted to act over market flaws, with a pretense of a normal functioning of most markets. From said point of view, the SME would be almost a subject of social policy to which it is necessary to generate opportunities to balance abilities or moderate “disabilities”, rather than a subject of industrial policy which is one relevant actor in a development strategy aiming at deepening technological content, or diversifying production, or developing differentiated products with higher international penetration. Such approach contrasts with the one for which the SME is an actor within industrial policy, which needs support within a strategy aiming at developing new markets, deepening the development of the existing one and generating more “dense” productive chains as regards complementarities and technological content. Many of the SEPYME’s programs tend to that goal, though strategic orientation and its implementation are essential factors. The “Cluster Program” was designed as a key to a change in orientation, from a horizontal conception towards greater focusing on applying resources to productive chains, clusters or activities considered of priority for their impact in terms of production, regions, competiveness and employment.

In summary, SME and industrial policies should complement each other, leaving aside short-term measures and facing an active strategy of productive development. On the other hand, it is essential to stimulate new productive fields on the basis of the articulation of SMEs’ activity and the agglomerations in sectors and regions. In the first place, Argentina is intended to become capable to produce differentiated products, and those which have more value added and dynamism in the international market. On the basis of innovation, Argentina may launch and re-launch industrial and specialized services branches which enable it to fill a position in certain niches. Aeronautical industry is one of them, in which there are capacities which are not fully exploited; tourism niches is another example, etc. Other cases include, but are not limited, to some branches of the pharmaceutical industry, biotechnology, some chemical products, electronic and satellite production, machinery and equipment.

In the second place, the focus is to develop new productive branches which strengthen the whole productive chain, having a great social and regional impact. Assembling imported products is not the same as developing a consistent number of products and services which constitute an industrial branch. Therefore, it is important to act in two directions: the development of new products and productive branches concurrently with the development of the whole productive chain and, in more general terms, of the region in which the said activities will be inserted.

IV.2) Types of SMEs: the need for more standardization
SMEs are a wide and heterogeneous collective. Said category, which represents a large section of the enterprising sector, includes stores and arts and craft workshops in which two or three people work, as well as manufacturing or service firms with significant economic volume and hundreds of employees. The definitions of SMEs, in such a wide collective, are likely to have apparent and unavoidable arbitrariness. Thus, upon implementing public policies, tensions and arguments arise as regards the determination of the segment subject of such policies.

For some sectors and opinion groups, many medium enterprises act like large enterprises and, therefore, should not be considered when implementing SMEs’ policies. However, the large relative size does not exclude them from the need inherent to their competitive development, which on many occasions cannot be afforded with their own resources. As
regards the SMEs’ world, there is a stagnant underlying conception which omits the fact that many of the current large enterprises, in Argentina as well as in other countries, came into business and developed as SMEs. Although this is desirable, together with the renewal of the larger enterprises, this phenomenon has not recently taken place in Argentina, as far as national capital is concerned. From this point of view, support to medium-sized enterprises (and small ones as well) for them to be able to grow and even get to further development stage, far from being something undesirable, should be an ultimate goal of the SME policy.

On the opposite side, some opinions affirm that supporting micro or small enterprises has no sense, given their small scale and business volume and the fact that they are unlikely to push the rest of the economic activity forward. Such perspective ignores the important cases of development of European regions which have depended on smaller enterprises, either integrated into productive chains led by large enterprises or creating production and commercialization circuits led within SMEs. In this sense, the dividing line should not be size but the economic activity and the productive and geographical agglomeration capability.

The truth is that, once false dilemmas have been clarified, it is necessary to reconsider the instruments and programs according to types of enterprises. Implementing a financial or technical assistance program, with the same approach in the case of a medium firm hiring 200 employees and exporting a quarter of its production, and in the case of a network of small producers with which an associative strategy is deemed to apply, is absolutely unfeasible. Thus, it is essential to differentiate the programs, to carry out measures which incorporate regional and sectoral specificities and identify realities with high degrees of informality, not ignoring the problem but directing those sectors into a progressive formalization strategy.

IV.3) The financing issue
The access to financing is a central issue of the SME policy in all countries with incomplete and shallow financial markets and even in many industrialized countries. Argentina is not an exception, with the aggravating circumstance of having recently recovered from a severe financial crisis.

After the beginning of such recovery, the strong increase in profitability enabled SMEs to finance working capital and some investments with their own funds. In general, these were small investments aimed at compensating for the deterioration of the capital stock and at repairing equipment. As the expansion stage consolidated, financial needs intensified. Bank loans and capital market proved not to be enough. Therefore, many enterprises kept self-financing and, as a consequence, not investing at all or investing partially and gradually according to funds’ availability.

Some tools made it possible to implement projects and generate new sources of financing. Bank loans increased, but then are being restricted since mid 2007 after the international financial crisis which started in the U.S.A. Medium enterprises had, so far, more access to financing from banking institutions. In the capital market, negotiation of deferred checks proved to be of great use as a financial alternative as well as an alternative to the informal market, reducing financial cost. Financial trusts also contributed to finance SMEs.

From the perspective of public instruments, the subsidized credit system contributed to reduce fiscal cost and to promote the market of credits to SMEs. On the other hand, the positive experience of the Global Credit Program showed a public-private cooperation mechanism to facilitate access to long-term credit for investment. The System of Mutual
Guarantees showed some positive results, later marred by speculative practices and high fiscal costs with no clear evaluation of results. Within this relative failure, deficiencies in control mechanisms have combined with a history of controversial results in the use of tax benefits, in which speculative practices are quite common.

Financing problems, although having changed and shown different impact throughout the period 2003-2007, can still be summarized in two great issues: terms and accessibility. The first one has to do with the difficulty in getting long-term fund sources and, in that sense, the experience of the Global Credit Program shows that by generating appropriate supply, long-term credit is possible. On the basis of said the mentioned experience and considering other options for publicly-managed banks, a wide mass of resources may be allocated to financing investments.

It is also worth making a final remark as regards regulatory issues, which should balance the differences between relative profitability in loans for production vis-à-vis loans for consumer. In that sense, differentiated bank reserves could be an appropriate tool. The second issue has to do with the difficult access SMEs have, mainly the smaller, to credit, due to informality and also lack of interest on the part of banks. To generate new subjects of credit should be as important as to increase credit volume and extend terms for those which already have access to credit, mainly because among the excluded enterprises there might be many dynamic ones of recent creation and with lots of chances to grow. The SGR system should be the core of said strategy, facilitating new enterprises’ access to financing. In that sense, an amendment to the regulatory framework in force, limiting fiscal incentives and making them dependant on the generation of specific results, may be considered. Examples of such measures include, but are not limited to, linking tax exemptions to the generation of new subjects of credit, expansion of credit in terms of regional extensions, creation of new financial instruments or lengthening of medium lengths of credit. Said incentive mechanism would benefit the system while discouraging those interested solely in the fiscal benefits. To ensure initiative’s success, supervision and control are essential, within the SEPYME as well as within the BCRA or any specific institution related to this scope.

Other mechanisms to stimulate accessibility could be the constitution of specific funds, not subject to banks’ regulations, but with higher levels of risk. For this purpose, more planning is necessary, so that the economic and regional actors might contribute with more elements for appropriate risk analysis. On the other hand, the importance of technical support upon providing investment credit must not be left aside, mostly in the case of large-scale projects.

IV.4) The income distribution issue

Available evidence shows lack of significant changes concerning the concentration of productive and financial structure. The main difference lies in that the inherited concentration structure was complemented with a noteworthy growth that benefited the economic activity as a whole. In this case it is not a “dual” functioning of the economy, but a structure giving place to a more integrated growth, where, due to the inherited structural conditions, it still promotes a higher excess appropriation on the part of more concentrated sectors, but this is not affecting SMEs’ capital accumulation.

For the purpose of illustrating this thesis, it is worth assessing the trends of profitability of firms. In the last decade, the conditions imposed by the Convertibility Regime (exchange appreciation, economic openness, commercial and financial liberalization, etc.) eroded the levels of average profitability in the economy. The said situation was made evident by the substantial deterioration of the entrepreneurial network which took place as from...
1998. The situation described above did not affect all sectors, as some (public services, oil and some industrial privatized enterprises) were able to avoid the trend. The fact is that SMEs, even in years of high growth such as 1997, could not get profit rates over 3% (the average profit rate for the period 1997-1999 was 2.4%). The contrast is clear: after the collapse of convertibility, SMEs’ profit rates recovered, even trebling past levels. The same occurred in the larger enterprises, which maintained an important gap with respect to the SMEs. Such a gap was even wider when comparing SMEs to large industrial enterprises carrying business in oligopolistic markets and providing key primary goods for manufacturing. In addition, the said gap keeps on widening and, in general, large industrial firms enjoy one of the best economic bonanzas of the last decades. SMEs’ profits represent approximately three percentage points of GDP, being tripled by those of large firms.

Much has been said as regards the fall of profitability levels over the last two years. In this respect, there are some elements to be taken into account. On the one hand, a recovery of wage levels has taken place, benefitting enterprises, due to an increase in domestic demand of their products. Though unit price-cost margins appear to have been reduced. In other words, enterprises earn less per unit produced though compensating the loss with an expansion of business activity. On the other hand, prices of public services and transport have risen. Finally—and this is one of the major hindrances—prices of extensively used primary goods have also risen, due to trends in international prices which push them up and also due to oligopolistic conditions of the market. The fact is that large industrial enterprises have the possibility of shifting an increase in costs to the chain of suppliers and clients and thus, keeping high profit levels. SMEs earn more than in the past, whereas large industrial firms which are the price makers in productive chains earn up to three more times than the latter.

The situation over said generates rigidities and constrains the growth, while eroding many industrial SMEs’ competitiveness. Problems inherent in times of change arise, times in which inherited structures coexist with new growth phenomena. Not so long ago, strong growth has mitigated the situation, but in the future the further expansion of some industrial activities may be at risk and, therefore, also the prospects for employment levels. An income distribution issue therefore arises.

Upon reviewing distribution issue, the analyzing of the relationships between employers and employees is as important as analyzing how income is distributed within the internal actors of productive chains, that is to say, how large enterprises, SMEs and regions relate with each other and distribute income throughout the productive process. In Argentina, such a matter becomes more complex, due to the existence of monopolies and oligopolies which constitute the core of economic activity in the country. In such markets, income distribution is not equitable precisely because of the existence of dominant positions. Frustration intervenes when, upon performing a sale to a large enterprise in a monopoly or oligopoly position, many SMEs are able to collect on the invoice only after 90, 120 and even 180 days. The situation is different when the large enterprise in such markets is the one who demands: often the SME is required to pay in advance, prior to the delivery of goods. The paradox is the following: SMEs end up financing large enterprises although being the ones with more difficulty in accessing credit.

The financial component is one of the aspects but, the most important one is that price fixing in those markets which enable large enterprises to reap high profit levels. SMEs need to adjust to fluctuations in market prices and also to other factors. Obviously, these
behaviors impact on the distribution of income in the economy, leaving fewer resources to SMEs for investment, innovation and generation of genuine employment. The real challenge does not consist in opposing large enterprises and favoring small and medium enterprises, but in fostering a more harmonic relationship between them, in order to have a more equitable distribution of income within the interior components of the productive chain and a more cooperative productive system.

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INNOVATION AND REVITALIZATION OF KYUSHU ECONOMY
Akio Imamura (Consultant, Kyushu Economic Research Center)

1. Innovation as the Key Word for Development in Kyushu

When I knew that the collective theme of this seminar was a comparison between different patterns of development of SMEs in Japan, Argentina and Italy, an idea occurred to me that I should focus on innovation. Joseph Schumpeter wrote in “Theory of Economic Development” that development is not a stationary growth but a discontinuous leap thanks to innovation, which means a new combination or a new departure. So the title of my speech today is “Innovation and Revitalization of Kyushu Economy”.

Kyushu economy is remarkably evolving. Kyushu is a sunny and greenery island and is called the “Food Supply Base” of Japan, just like Puglia known as "Granaio" (granary) of Italy. The size of Kyushu economy as a whole is similar to that of Switzerland. In its most prosperous days it made up 10% of Japan’s total. Although the share had once decreased to less than 8% level in 1965, it came back to 8.6% in 2005. What made it possible for Kyushu economy to have this remarkable development was the striking economic evolution. Here, I would like to introduce you three aspects of the development in terms of innovation.

Firstly, Kyushu is now called also the “Silicon Island”. Since the first Kyushu semiconductor plant by Mitsubishi Electric Machinery was opened in 1967, many integrated device makers — such as NEC, Toshiba, Panasonic, OKI, TI Japan, Yamaha, Asahi Kasei, Rome, and so on — have moved into Kyushu, and developed a network of excellent subcontractors of their own. Thus, a huge agglomeration of semiconductor and its related plants has been formed. The number of companies in this field amounts to more than 900. Shipping value of their products was 1,585 billion yen in 2006 — 30% of Japan’s total and 6% of the world’s. In addition, the “Silicon Island” is evolving from the “island without brain” to the one "with brain", an aspect on which I am going to speak later on.

Secondly, Kyushu is also called the “Car Island”, thanks to the growth of the agglomeration of automobile industries. Major automotive companies of Japan — Nissan, Toyota, Daihatsu and Honda—have their own plant in Kyushu. The car related industries in Kyushu form a huge agglomeration, and the number of the plants involved in the network is around 900. Today, the car production capacity in Kyushu is more than one million units a year, but it is expected to become 1.5 times greater in the near future.

Thirdly, Kyushu is also gaining a reputation of a so called “Solar Island”, thanks to the plant openings by the major solar battery makers in Japan such as Mitsubishi Heavy Industry, Fuji Electric Machinery Systems, Honda Soltec, Showa Shell Solar and etc. Both the sunny weather of Kyushu and the common technology base with semiconductor industry made the island an ideal ground for the development of a solar battery industry. Now Kyushu has the agglomeration of 73 companies of solar battery related establishments and more than 285 MW of electricity production capacity in 2009 — 17.2% of nationwide and 2.7% of the world.

Thus, Kyushu economy is evolving along with the fusion between the industries of semiconductors, cars and solar batteries. Kyushu is expected to become a “smart island with brain”. The key word for it is “innovation”.

The above is the outline of what I want to present in this occasion. The skeleton which I have prepared consists of three other sections: “theory of innovation”, “innovation in Kyushu”, and “prospect and issues”.
2. Theory of Innovation

The pioneer of the innovation theory, J. Schumpeter, wrote that innovation is the accomplishment of new combination of things, such as the production of new goods, the introduction of a new method of production, the discovery of new markets, acquisition of supply sources of raw materials and/or semi-finished goods, and implementation of new organizational frames. From Schumpeter's inspiration, many different theories of innovation have been developed, including the recent K. Kurokawa's work in Japan, which emphasizes the "socialization" of innovation.

I have listed up several key points on innovation in local economy in the "skeleton" of the text. These are what I have learned in my recent studies. I shall be happy if these examples may be of interest to all of you.

(1) A. Marshall: Industrial agglomeration offers spill-over effect of technology and knowledge, and synergy effect to create new knowledge through imitation and combination of original ideas.

(2) R. Camagni: "Innovative milieu", as a set of special factors like firms & infrastructure, knowledge & know how and institutions; Creativity and innovation as a result of collective learning process; Mutual action in local milieu and cooperative network with outside persons.

(3) R. Florida: the Region as operation base of knowledge creation and learning; Tolerance and liberal way of life of urban area, as a magnet attracting human talents.

(4) M. Porter: Diamond model of industrial cluster for effective innovation, including input resource, corporate strategy and competition, high level of customer and supporting industry. Successful cluster led by private sector. Competition and cooperation.

(5) I. Nonaka & H. Takeuchi: SECI model, i.e., interactive conversion between tacit and explicit knowledge/socialization—externalization—combination—internalization.


(6) R. Putnam: Trust as the key norm, and networks, improve social efficiency.

K. Yamamoto: High level of mutual trust and understanding are necessary for the transfer of tacit knowledge.

(7) D. Tascott & A. Williams: Wikinomics—open, peering, common, and global activity of the world—changes everything and brings open innovation or globalization of innovation.

(8) A. Kondo: Creation of high level scientific knowledge and their utilization bring science—driven innovation.

(9) Beyond "interdisciplinarity" toward "transdisciplinarity": Fusion of industries (M. Uekusa, A. Yamasaki); Realization of "Knowledge Wood" (J. Ikegami, T. Kamakura); Transdisciplinarity as a unity of knowledge beyond discipline (J. Piaget)

Due to the time limitation, I'd like to stop with this review and move forward, I may revisit the points later if though required.

3. Innovation in Kyushu

With regard to innovation in Kyushu, I wanted to present you both successful and unsuccessful cases, in terms of the "collaboration between industry-academy-government agency". However, due to the limited time, as for the unsuccessful case, I shall only present you the case of Okawa furniture industry briefly as an example of unsuccess.
Okawa city, located in Fukuoka prefecture, had the largest agglomeration of the furniture industry in Japan, but it started falling into a severe decline since 1991. Then the "Revival Plan of the Okawa Interior Industry 2004-2007" was drafted and the "Okawa Interior School" was established, to which the "Tokyo Art Institute" extended its support. In addition, it was tried to introduce a new brand, named "Sajica" and sell it in foreign markets, with the assistance of the Japan Brand Program supported by the Ministry of Economy and Industry. However, the plan was not successful, despite of the collaboration of a superior designer, of one of the universities in Fukuoka, local business associations and the local government. The reason why it went wrong is, it is understood, due to the critical failure in its marketing strategy.

Let me move forward to some of the successful cases. There are many success stories of SMEs in the process of the “Silicon Island” development, such as the new entry of a “geta” (Japanese wooden clogs) shop, a bamboo shop, a wholesaler of construction materials, the joint venture between a town authority and a local bank, and etc.

The Silicon Sea Belt Fukuoka Project is another example of the successful cases which involves the semiconductor industry in Kyushu. It is supported by the Fukuoka Advanced System LSI R&D Hub Promotion Committee, which was set up in 2002. Core members of the committee are representatives from industries, universities and government agencies. Utilizing the superior academic talents and the potentiality of the existing semiconductor-related venture businesses, they aim to make Fukuoka and Kitakyushu one of the world’s most advanced hubs for the system LSI R&D within the “Silicon Sea Belt”. (The area of Silicon Sea Belt covers Kyushu, Korea, Shanghai, Taiwan and Singapore.) Kyushu has two advantageous backgrounds for the development: the growth of its trade with semiconductor industries in the East Asian countries, and the growing agglomeration of businesses in the “Car Island” districts.

The Committee has promoted R&D projects, human resource development, networking and collaboration, venture support, etc..

Firstly, they promoted 33 themes of strategic R&D projects in 2001 and 56 themes in 2009. It was assisted by the “Knowledge Cluster Initiative Project” supported through the Ministry of Education and Science, it was also assisted by other local R&D promotion agencies. They aim to realize 100 “Themes” each year. I list up some examples in my form of a “skeleton” survey.

The first example is R&D System Integration Platforms: “Development of a Design Software Tool for the “Dimension-Three-all System-In-a-Package” available to overall design, and “Development of System Integration Platform” addressed towards an Asian standard. The second example is R&D of High-Yield Platform for LSI Circuits. It aims to raise the productivity in assembling semiconductors and to spread related standard in the Asian countries. There are also R&D of car IC (the third example) and R&D of automotive embedded software (the fifth example). The fourth example is R&D of engine control chips to be used in mechanism for enhancing the fuel economy in traffic jams. Thus, the functions of automotive mechanics are being shifted to electronic control, and the R&D for this change is promoted aggressively in Kyushu. This is the background of the fusion of the “Silicon Island” and the “Car Island”.

The next area of promotion of the Committee is the support of human resource development. Aiming at training 1000 engineers engaging in the system LSI a year, they recently opened the Fukuoka System LSI College. In addition, Kyushu University started the Education Program for the Hardware/Software Borderless System LSI Design to strengthen core human talents.
Thirdly, the organization of an Annual Summit of the “Silicon Sea Belt” and the support to
the formation of international team for joint venture R&D projects, as a way at promoting
networking and collaboration, have been generally appreciated.

Here I would like to present you the International Workshop on Microelectronics Assembling
and Packaging (MAP) led by Prof. Tomokage of Fukuoka University. This is an annual
meeting of semiconductor engineers to exchange technology information. The number of the
MAP members is increasing in Korea, China, Taiwan, Malaysia, India and Silicon Valley. My
own Agency, the Kyushu Economic Research Center (KERC) is supporting MAP in various
ways. KERC acts as the secretarial office of MAP through the involvement of domestic and
foreign participants, makes meeting plans and keeps directory of members, develops and
maintains the data base of the “Silicon Island”, and so on. In these activities for MAP, KERC
also utilizes its think-tank function. Unique projects of MAP are the Reverse Trade Show
(RTS—a joint venture project with Japan Export Trade Organization) and the Memorandum of
Understanding (MOU) with foreign participant associations. RTS is a trade show in which
SMEs, seeking technology solutions, are the presenters. MOU gives the SMEs’ engineers an
opportunity of visiting companies in foreign countries, which otherwise would be very difficult
for them to reach. Participation into MAP is then an excellent opportunity for SME’s
semiconductor engineers from different countries to exchange technological information. This
is an example of “good practice”, to show the importance of “trust” in terms of the theory of
innovation which I listed up above.

The fourth line of promotion is the venture business support. The Fukuoka Institute of System
LSI Design Industry was set up in 2004 to support venture businesses in the industry. It offers
shared services of the System LSI Design & Testing Laboratories and “business incubation
service” to SMEs, promoting System LSI Frontier Creation Project. In this incubation building
there are now 50 tenants, including supporting service providers such as a patent attorney,
LSI design library, test research laboratory, and so on. Also are there branches from both of
the Research Laboratories of Kyushu University and Osaka University, the office of “Q’s
Forum”, the association of embedded system LSI engineers, and the office of Semiconductor
Technology Marketing (STM).

STM is an engineers’ volunteer group organized by Prof. Tomokage. Its core members are at
the same time members of “MAP”. They contribute to SMEs for total technological solutions
as coordinators and mentors working together with KERC. This is the very “private” venture
assisting SMEs’ innovation in Silicon Island Cluster.

These supporting systems are contributing to the start-up of new venture businesses, R&D of
new products in SMEs through technology, and the enlargement of agglomeration of SMEs.

4. Prospect and Issues

Thus the number of start-up venture businesses from universities in Fukuoka
prefecture increased rapidly and it moved up to the No.4 place in the national ranking
amongst prefectures in March 2009. Also the growth of the venture businesses is helped by
other institutions, including the local governments of Fukuoka Prefecture, Fukuoka City and
Kitakyushu City. Among them, the Fukuoka Industry, Science & Technology Foundation,
which was set up by the local authority of Fukuoka Prefecture and is also the controlling body
of the Fukuoka Institute of System LSI Design Industry, is the most effective organization in
assisting venture businesses. It started Fukuoka Venture Market as a “business matching”
device. Furthermore its venture support center promotes a “venture school” to provide various
educational programs such as "start-up presentation", "business planning", and "marketing",
and so on. And then it gives them following-up support through working together with venture
business coordinators, management consultants, patent attorneys, accountants and foreign investment advisors.

As a result of these activities, the ratio of newly started businesses in Fukuoka prefecture was the second best within the national ranking average in the last decade.

As explained above, various efforts through the “collaboration between industry-academy-government agency” have been producing outstanding results in revitalization of Kyushu economy, that is to say the growing out of “Silicon Island without Brain”, the fusion of “Silicon Island” and “Car Island”, and then the rising of “Solar Island”. These results make us expect a successful development of “Smart Island Kyushu” in the future.

But there are many issues and problems to be solved on the way toward the “Smart Island”. For example, lack of “Angels” who offer the start-up money, the absence of projects to develop the system LSI in the low-tech industries (such as in the case of the Okawa interior industry), etc. I do not have enough time to further discuss these issues, but, I would like to point out one thing. A feeling of anxiety is now widespread among business people about the financial support from the central government. The so-called “project screening” by the new Government, to eliminate wasteful spending, is ongoing. And it is reported that even the budget which is critical for the various projects in science and technology fields is under examination and may well be cut down drastically. In addition, the expenditure of overlapping projects also may be cut down. It would seems at a glance that there are institutions pursuing similar aims. They include the “Institute of Systems, Information Technologies and Nanotechnologies”, "Fukuoka Innovation Plaza of Japan Science Technology Agency", and “Fukuoka Laboratory for Emerging & Enabling Technology of System on a Chip", located in Momochi district of Fukuoka city. "Kyushu University LSI Research Center” and "Fukuoka Institute of System LSI Design Institute” are other examples. However, they do have their own roles. Their collaboration with universities offers R&D opportunities and various synergy effects to the semiconductor industry in Kyushu. Both “The Knowledge Cluster Initiative Projects”, to which “Fukuoka System LSI R&D Cluster” belongs, and the “Kyusyu Semiconductor Cluster” are indispensable for the revitalization of Kyushu economy. I do hope that the Central Government would not break “Regional Dreams” but encourage and support in realizing them. This is one of the very development strategies which the people in Kyushu is demanding to the new Government.

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A SMALL AND MEDIUM ENTERPRISE PROMOTION POLICY BY A LOCAL GOVERNMENT: THE EXAMPLE OF SUMIDA WARD IN TOKYO
Prof. Kazuhide Yahata (Chuo University, Department of Economics)

Introduction

The New Small and Medium Enterprise Basic Law, which has been revised in 1999, marked a change in the target of the policy for Small and Medium Enterprises (SMEs) in Japan. The newly defined policy target covers only the small and medium firms and ventures capable of management innovation. In order to target those firms, which are mainly strong medium enterprises (chūken kigyō), the upper limit of the funding was raised. Within the new law, the Government continues to look directly over the best small and medium and venture enterprises, while local administrations have become responsible for the enterprises excluded by the provisions of the law.

In the sixth article of the Law the duty of the local public institutions is defined as follows: “Local public entities are responsible for formulating and implementing measures for SMEs which are suited to the natural, economic or social conditions in a local public entity's locality, and which are in accordance with the basic principles and based on an appropriate division of roles with the State”. This meant that local public institutions are allowed to develop policies for SMEs, which take into account the local conditions. The old law, formulated in 1963, required that the local autonomous bodies limited their role to the implementation of policies, as set by the Central Government; most local autonomous bodies acted simply as contractors of the central authority.

However, the more local is the level considered, the fewer excellent SMEs one can find. Therefore, local institutions need to draft and implement specific plans for the support and promotion of a significant number of SMEs localized within their administrative boundaries.

In this paper I will present the example of the local administration of Sumida Ward, which represents quite a model case. This example shows the necessity of planning policies for SME according to the local economic reality, and of involving in this planning both the SMEs and the local population.

SMEs policies and local economic promotion policies in Sumida Ward, Tokyo

The local SME promotion policy promoted by Mr. Torazo Ninagawa, who was the first general director of the Small and Medium Enterprise Agency and became the governor of Kyoto Prefecture in 1950, was seen as a modern and advanced field for prefectural policy. However, the local administrations closer to the community, such as the municipalities, were most often affected by the decline of the local economy. The municipalities also lacked the human resources to formulate an autonomous SME promotion policy.

The reform of the local administrative institutions in the ‘70s led to a movement for the formal regulation of SME promotion policies by the municipalities, but in the end the local governments continued to act as subcontractors, subordinated to the central government as usual. Although well constructed, the newly established financing system was not able to produce a strong policy that could support the local economy.
a) The request for a local law for SME promotion in Sumida Ward.

The first SME promotion policy implemented autonomously by a local institution can be traced back to 1979, with the “Basic Ordinance for the promotion of SMEs in the Sumida Ward”. The Action Program, based on the ordinance, and on the movement of small and medium entrepreneurs that promoted the ordinance promulgation, was carried on in a very democratic way.

At the time, in the Sumida Ward there was a concentration of knitware and general household manufacturing, the majority of which were constituted by very small firms with less than 10 employees, often living in the same building they used as workplace. Since 75% of the people living in the ward worked in manufacturing firms inside the ward, the management of these enterprises had a direct effect on their life conditions.

In the '70s most SMEs started to move out of Sumida Ward, due to the tightening competition from Korea and Taiwan in the knit and general household manufacturing and to the laws limiting the expansion of factories to prevent pollution and noise problems in the greater urban areas (Sumida, we remember, is a ward of Tokyo City), causing the hollowing of the manufacturing sector out of the ward.

With the deepening of the crisis for the small entrepreneurs who were not able to move out, the Democratic Chamber of Commerce and Industry of Sumida (Sumida Minshū Shōkōkai) started to negotiate with the Ward, the Municipality and the Central Government. About thirty associations based in the ward formed the Sumida Ward Small and Medium Enterprise Business Association (Sumida-ku chūshōkigyō konwakai). With this association, the voice of the SMEs was transformed into practical requests and led to the establishment of a system of direct financing by the Sumida Ward authorities. However, the need for a more substantial support to the local economy led to the request for the enactment of a specific regulation.

On the political side, in 1975 the Communist Party got five representatives in the Ward Assembly election, and thus acquired the right to make proposals. Its proposal to the Ward Assembly to regulate the SME support was the first step towards the ordinance.

At the end of the discussions in the Assembly, the Head of Sumida Ward ordered an inquiry into the conditions of the manufacturing sector and, in 1977, 160 local administration officers visited all the 9313 enterprises existing in the ward, conducted a thorough survey and carried out a hearing with the personnel of the SMEs. As a result, the local administration clearly changed its perception towards the workers in the micro, small and medium enterprises. In 1978 the Mayor ordered an inquiry on the conditions of commerce, and in 1979 the Ward Mayor submitted to the Ward Assembly a proposal for the promotion of an ordinance for SMEs that was broadly similar to the one proposed by the Communist Party. Eventually the Basic Ordinance for the Promotion of SMEs in the Sumida Ward was promulgated and served as a model for SME promotion policies in other areas as well.

b) The role of the Committee for Industrial Promotion in Sumida Ward and the policy for the support of SMEs until the ‘90s.

The reports at the origin of the ordinance were supported by the Investigation Committee for the Policy Measures in Support of the SMEs of Sumida Ward (Sumida-ku chūshō kigyō sinkō taisaku chōsa inkai) that included personnel from the government, specialists and researchers, and resulted in a proposal for future policy measures. In 1980, in order to
promote the implementation of the proposal, the Committee for Industrial Promotion in Sumida Ward (Sumida-ku sangyō shinkōkai), a space for consultation between people from the government and from the industry, including young managers, was constituted. This association, besides having an advisory role, published in March 1982 policy proposals for each of its five sub-committees.

These proposals included tangible objectives such as the construction of an Industry Hall (Sangyō Kaikan), a Small and Medium Enterprise Centre (Chūshōkigyō Sentaa) and a Labour-Welfare Hall (Kintrō Fukushi Kaikan), as well as immaterial targets, directly connected to the management of SMEs, such as the improvement of the employees welfare, the expansion of the retail routes for the products, the improvement of the image of Sumida industry, the development of tourism, and a plan for the support of the shopping district. Besides, city planning visions, around the peculiar challenges of an area where so many lived and worked, were included in the plan. From these proposals the Sumida SMEs policies were then concretely defined. In this first period, a base was built for the implementation of the policies of industrial support which expanded into a varied menu of proposals and activities.

The importance of the Committee for Industrial Promotion’s proposal is to have diligently put into practice the third article of the ordinance that stated: “It is of fundamental importance that the support of the SMEs should be promoted by firms, ward population and the ward itself all united in cooperation and independence”.

April 1984 saw the beginning of a second phase, which lasted 5 years, and whose important targets were, as proposed by the Committee for Industrial Promotion, to build the Industry Hall and the Small and Medium Enterprise Centre, to start measures of town management, to work on the improvement of the image of the ward (a campaign called 3M: Small Museums, Manufacturing Model Shop, and Meister) and the compilation of a register of the SMEs of the ward.

In this second phase, the role of the Committee for Industrial Promotion gradually changed from that of a consultation group, to a place were problems were discovered, experiences exchanged and developments discussed. In 1982 the five sub-committees were rearranged into a three sub-committees structure (manufacturing department, commerce department and youth department). In 1983, when the policy measures for the fashion industry were developed, a sub-committee was added (fashion industry department). In 1985, the youth department was discontinued, and the remaining three (fashion, manufacturing, and commerce department) had a wide turnover with the entry of new, younger members, and started to play a role directly tied to the real activities. The Sumida Industry Hall (Sumida Sangyō Kaikan) in front of Kinshichō station, was inaugurated in 1983, with an exhibition area of 1200 m².

In the third phase, from 1986, policy measures that had as objective that of “building a town with a network of opportunities for manufacturing” were promoted. A Master Plan for the support of manufacturing was drafted, emphasizing the importance of providing good environment and of improving the development planning capabilities of the enterprises. In 1989 the Committee restricted its sub-committees to two, the manufacturing and commercial ones, and started to inquire about the wide-ranged problems that the Sumida industry was facing and the way ahead. The Small and Medium Enterprise Centre, built in 1986, started to be used as a place for the exchange of experience between different industries, the free use of measurement instruments and machine tools and consultancy for the small and medium entrepreneurs about technology and management issues.

In the ‘90s, the manufacturing department promoted the “Starting From One (ichi)” campaign, as a follow-up of the “3M” campaign. Its basic idea was the promotion of the Sumida Brand with the “the best (ichiban ii) and the newest (ichiban atarashii) things
produced in Sumida, sold in the first instance (ichi-ban saisho) in the Sumida market (ichi) motto. In 1995 a new plan for the support of industry was drafted developing the concepts of “quick response manufacturing” (manufacturing suited and proposed for the larger Tokyo consumer market) and “manufacturing shop” (unified production and retail). Methods to strengthen the planning capabilities and the financial resources necessary to break away form subcontracting links were also examined, with the aim of building a “Town characterized by the culture of manufacturing”.

When in the ‘90s the deregulation for the number and licences larger retail stores caused problems all over the country, with the rush to open new large stores, the Committee for Industrial Promotion in the Sumida Ward did not miss the importance of the event. The conditions of commerce inside the ward were considered in all their aspects, such as the vitality of the shopping areas, the revitalization of individual shops, the support of firms involved with the creation of the urban environment, the creation of an attractive shopping district, the revitalization of the area’s commerce and environment, the signalling of the peculiarieties of the local trade and its future. Projects such as the “project for a friendly shopping district”, the “project for a community shopping district” and the “project for the promotion of the traders” were implemented.

c) Important points of the measures in favour of SMEs

In 2000 the Committee moved towards a new phase defined as “aiming at a new industrial district within the format of a city”. The same year, the International Fashion Centre (Kokusai Fashion Sentaa), a 25-story building meant to represent the core of the support facilities for the fashion industry of the ward, was built near Ryōgoku station. The building included the Creative Studio, a facility for “business incubation” (support to the establishment of new firms). Moreover, eight textile manufacturers created a team called Factory Eight, which organizes twice a year an exhibition of new products to improve business exchanges.

In December 2002 a comprehensive agreement with Waseda University was signed, connecting industry, government and university. In 2003 the New Plan for the Sumida town’s Small and Medium Enterprises, a master plan for manufacturing promotion, was formulated. As a part of this plan, the “Plaza” for the cooperation of Government, University and Industry in Sumida was established within the Small and Medium Enterprise Centre, creating a space where the university and staff from the SMEs of the ward could work together for the development of new technologies and products. Three Multi Micro Generators (MMD) have been located in the ward, to recharge batteries used during the night, generate electric energy by wind and to generate heat and light by solar power.

In 2004 the Sumida Frontier Juku was started (juku is a kind of private after-hour school), where young managers and business heirs are reared by formal lessons on Saturday, and have exchanges of experiences and discussions in the evenings. The opening lesson had as its theme the importance of the education for the successful transition to the next generation of business leaders, a debate which was already started in 2002 by the Committee for Industrial Promotion. There were also exchanges between young manager groups from all over the country, and even the participation to events in collaboration with the Technocentre of Shenzhen (China).

Moreover, the manufacturing department of the Committee has attached great importance to the direct knowledge of the conditions of the local industry, as the competition for “Prize for the firm that contributes to the vitality of manufacturing in Sumida” demonstrates. Every year a list of 200 firms is compiled, from which only 10 are selected. The Ward Head visits each of these firms and personally commends the employees and the managers for their activity. The public recognition makes the employees feel proud to work for a firm in the Sumida Ward, and
this has important effects, given that more than 50% of the employees are in fact residents of the ward. In 2005, in collaboration with the neighbouring ward of Taitō, Arakawa and Katsushika, the "Task Promotion Project “ was initiated, aiming at the revitalization of the local industries. Finally, in 2009, the New Master Plan for the manufacturing support in Sumida outlined the plan for manufacturing development in the Sumida Ward for the following five years.

d) The change of perception of the employees of the Sumida Ward and the enhancement of the industry and commerce department

In 1975 there was the reshuffling of 11 full time employees, from the office for the policy strategy of the economic section of the ward's population division, who were in charge of the industry promotion policy of Sumida Ward. However, after the ordinance enactment in 1980, the importance of the Commerce and Industry Department was enhanced, and in 2007 this had been expanded to a system of 68 employees, including part-time workers. The breakdown was as follows:
- Economic & Social Affairs Division: 19 employees (8 part-time)
- Industry and Economic Affair Division: 18 employees (1 part-time)
- Sumida Small and Medium Enterprise Centre: 30 employees (1 part-time).

The number of projects patronized was increased from 10 at the time of the ordinance enactment, to around 100.

The Small and Medium Enterprise Centre, which is the core base for SME policies of the Committee for Industrial Promotion, hired retired employees from larger companies, who were mainly used in technological and managerial coaching, giving instructions and training to the use of the equipments available at the Centre, to be at disposal of the very small firms which could not afford to buy them.

The entire executive staff of the ward went to visit all the larger and more efficient medium-sized firms with a CD-Rom of data and information about the SMEs of the ward, to encourage orders directed on their behalf. This event was widely reported in a television program. The SME register of the ward was also used in the schools as additional reading material. Sumida Ward officials had also an important role in providing night-time medical consultation to the many workers who could not leave their work during the day.

Before the inquiry on the condition of SMEs in 1977, public officers did not understand the necessity of SMEs promotion policies, but after visiting in person the entrepreneurs and talking to them, they were surprised by the harsh condition in which SMEs operated and became convinced that something had to be done. Even at present, the employees of the manufacturing and trade department from the ward visit regularly to local SME to gather information. Very often SME’s entrepreneurs have these meeting after 7 p.m and officials even participate to events held on Saturdays or Sundays, when the offices of the ward are closed, in order to deepen contacts and understanding with entrepreneurs. This kind of participation is much appreciated, builds a mutual relation of trust and is a fundamental factor for the success of Sumida economic policies.

Democratic promotion of SMEs and local economy in local areas

I will summarize, in conclusion, some important resources needed by the local administration in order to support the local economy.
First, the SME promotion policies need to be based on the characteristics of the area. In other words, the role of the local public institutions is to find a way to promote the SMEs already existing in the industrial district.

In the Sumida ward, the civil servants from the local administration participate to the meetings organized by associations, such as the Committee for Industrial Promotion, which mainly gather managers from SMEs. In this way, the employees of the local administrations can monitor in person the economic conditions of the area and become acquainted with the needs of the entrepreneurs. For these reasons they are able to develop measures adequate to the situation, and to formulate more efficacious policies, because developed according to the perceived needs of the SMEs themselves.

The Prefectural governments need to design their own plans for the support of the local economy, but also to encourage the municipalities to establish Master plans and Ordinances for local SME promotion and to secure them an appropriate budget. Moreover, it is necessary that the policies at the prefectural and municipal levels to be consistent and easily understood by local manufacturers and traders.

Second, promotion projects must be linked to a more general town development planning, that protects the Welfare of people and the environment. Environment and welfare are key words in the 21st century. A town development planning based on environment and welfare creates places where people are happy to live. Local governments should support, rather than the cutting edge ventures, those SMEs that are friendly to the environment and contribute in making residents happy.

Third, in the 21st century there is the need to build a network between SMEs, local public institutions and residents. This is not done by forming committees and discussion groups where only the industry bosses and a few residents participate, or by occasions of a purely formal public hearing. Policies by local public institutions should widely reflect the voice of the residents of the local area. The promotion policies for the local economy and for the small and medium manufacturers and traders should be designed by the local government, SMEs and local residents together, i.e., those who have their roots in the territory, and surveys and planning should not be entrusted entirely to external think-tanks, or research agencies.

Fourth, it is important to build infrastructure facilities, which are a key support to the local SMEs, and to plan their management in a democratic way. The Small and Medium Enterprise Centre is a structure open to local residents, with a library and a fitness gym, and it has become an essential component in the city atmosphere. The small and medium manufacturers and traders are directly responsible for its management, holding management meetings four times every year. Moreover, the counsellors from the Small and Medium Enterprise Centre visit local SMEs offering consultancy about the problems they are facing and this enhances a feeling of mutual trust and solidarity.
LOCAL DEVELOPMENT POLICY IN GUANGDONG PROVINCE, PEOPLE’S REPUBLIC OF CHINA. A FOCUS ON THE SPECIALISED TOWNS PROGRAM

Elisa Barbieri, Marco R. Di Tommaso, Lauretta Rubini (University of Ferrara)

1. Introduction and acknowledgements

The following pages are elaborated thanks to the activities developed at the University of Ferrara in the framework of the China and Italy Research and Learning Project (CIRLP). The project launched in 2001, is directed by Prof. Marco R. Di Tommaso, Professor of Applied Economic Studies at the University of Ferrara (Italy) and Honorary Professor at SCUT (South China University of Technology), China. The project is jointly managed with Prof. Lauretta Rubini, Professor of Economics and Firm Organisation at the University of Ferrara (Italy) and Dr. Elisa Barbieri, senior researcher at the Faculty of Economics, University of Ferrara (Italy). During these years of activities the project has benefited from the collaboration of several Italian and Chinese Institutions. Among them, in alphabetical order: c.MET 05 (Inter-university Centre for Applied Economic Studies, University of Firenze, Ferrara and Marche Polytechnics), Emilia Romagna Region Government, General Consulate of Italy in Guangzhou, Government of Guangdong Province, Italian Ministry of Foreign Affairs, Italian Ministry of University and Research, Lombardia Region Government, SIPRO Ferrara Province Government, South China University of Technology, Toscana Region Government, University Cattolica di Milano, University of Birmingham, University of Pisa, Zhongshan University.

In synthesis, the project has been focusing on the industrial development dynamics of Italy and China in the international scenario, with deep attention to the industrial policy implications in both countries. In particular the research has focused on the development of one of the fastest growing areas of China, the Guangdong Province, following the steps and the policies promoted by the Provincial government to boost economic development: the Chinese open-door policies of the late 70s that started in Guangdong, the establishment of laboratories to “test” a market economy in the form of special economic zones to attract foreign investors and push the exports, the promotion of industrial clusters and the use of territorial incentives to manage the geography of production and the industrial sector specialisations.

The main activities of the project include: research fieldworks, data collection and analyses, reports and scientific publications, public presentations to conferences, organisation of forums, workshops and seminars, exchange of students and professors, teaching and learning.

These years of joint research, fieldworks and meetings with universities and government institutions have allowed the accumulation of official policy documents at provincial and local level, questionnaires, interviews and data that have been gathered in a database hereon referred to as “CIRLP Database, University of Ferrara” that has been used to elaborate the present study. Further references on the sources of data used for the CIRLP database can be found in section 4.1.

2. Introduction: an overview on Guangdong province

2.1 Main economic indicators
Guangdong Province is located in the south-eastern part of China, close to Hong Kong and Macau, the two special administrative regions, respectively controlled by the United Kingdom (up to 1997) and by Portugal (up to 1999). It borders Guangxi province to the West, Hunan, Jiangxi and Fujian provinces to the east and the South Sea of China to the south. Up to 1988 Hainan was also part of Guangdong Province, then becoming an independent province. With a total area of 177,901 km, Guangdong province represents 1.87% of the whole People’s Republic of China. In 2007 the permanent population of the province amounted to 94.5 million people (about 7% of the whole national population) plus 81.6 million population with residence registration (NBS, 2008). Guangdong ranks first among Chinese provinces according to population and in 2004 it ranked seventh (excluding Hong Kong and Macau) for people’s density.

The province shows one of the highest GDP growth rates of the whole nation, with an annual average of 13.98 between 1981 and 2007. In 2007 it had the highest GDP of all provinces and municipalities (3,596 billion RMB, about 514 billion US$), as well as the highest per-capita GDP after Shanghai, Beijing, Tianjin, Zhejiang and Jiangsu, equal to 33,151 RMB (about 4,860 US$) compared to the 18,934 RMB (about 2,775 US$) of the whole country (NBS, 2008).

In 2007 GDP has been generated as follows: 51.28% by the secondary sector, 43.27% by services and 5.45% by agriculture (NBS, 2008). Industry therefore accounts for the main part of the Chinese Gross Domestic Product, even if in recent years there has been a relevant development of the tertiary sector. Between 1981 and 2007 the average annual growth rate of industry has been 22.5%. While the average growth rate was 24% in the Eighties and in the Nineties, it has slightly decreased in more recent years to 19% (2000-2007) (NBS, 2008).

2.2 An outward-oriented province, starting from Pearl River Delta

Guangdong is among the Chinese provinces attracting the highest amount of foreign direct investments (FDI): 22.9% of the whole China in 2007 (with an annual growth rate of 9.73%) (NBS, 2008).

Furthermore, in the province there is a massive presence of firms financed with investments coming from Hong Kong, Macau and Taiwan. As we will see in more detail in the following section, this is also the consequence of a wider opening of Guangdong’s economy in comparison to that of other Chinese provinces.

Finally, Guangdong accounts for the main import and export quota among the Chinese provinces, representing about 31% of total Chinese foreign trade in 2006 (GDICC, 2007). The average annual growth rate of exports between 1988 and 2007 amounted to 20.19% (NBS, 2008).

The rapid development of Guangdong manufacturing sector has been favoured by foreign investments, especially in the Pearl River Delta (PRD) region (see the following section for more details). The Pearl River Delta (PRD) is part of the Guangdong province and - according to the official definition - it includes the prefectures of Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Dongguan and Zhongshan, part of Huizhou (the urban district of Huizhou, Huaiyang County, Huidong County and Boluo County) and part of Zhaoqing (the

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7 Hainan is a province located in the south of China made up of several islands (the main one is the Hainan island). In 1944 it became Special Administrative Region (with more autonomy, a separated political system and an economy more oriented towards the capitalistic system), becoming then an independent province in 1988 (Vogel, 1989).
urban district of Zhaoqing, Gaoyao and Sihui) (official definition of the China National Bureau of Statistics, also applied by Enright et al., 2005). However, in several documents of urban planning of the PRD the entire prefectures of Zhaoqing and Huizhou are included in the definition and given the development potential of internal areas, which are at the centre of the planning process, in the present study we will refer to this second definition. Cities with the highest industrial production are located in the PRD area and include Guangzhou, Shenzhen, Dongguan, Foshan, Huizhou, Jiangmen and Zhuhai. In 2007, the real GDP of the PRD grew by an average of 16.2%, two points above that of Guangdong and well above the national average. The Pearl River Delta alone accounted for 10.2% of China's GDP in 2007, for 11.8% of China's gross industrial output and for 29.1% of China's total export (NBS, 2008).

To testify the concentration of wealth in this region the per-capita income of the Pearl River Delta in 2007 was about 56,000 RMB (about 8,210 US$) – much higher than the 33,000 RMB (about 4,840 US$) of Guangdong Province - with some outstanding figures in the cities of Shenzhen (79,645 RMB, about 11,656 US$), Guangzhou (71,808 RMB, i.e. 10,507 US$), Zhuhai (61,693 RMB, approximately 9,027 US$) and Foshan (61,199 RMB, equal to about 8,954 US$).

2.3 The open-door policy: Guangdong as the pilot case

In 1979 Deng Xiaoping designed and implemented the so-called open door policy, i.e. a government support policy to favour the modernization of the Chinese socialist economy based on the opening to the global capitalistic market. Among the foreseen aims there were: to increase the contacts with foreign investors, to decentralise the decision-making processes in order to improve the capacity to react to the market forces and, finally, the progressive legalisation of land ownership transfers.

Guangdong is the region selected as the pilot case to apply the open door policy in 1980. According to national government planners, its proximity to Hong Kong and Macau would have favoured the diffusion all over the province of a high entrepreneurial spirit, contributing to enrich the area with knowledge and best practices coming from the Western world. In the province were therefore established three special economic zones (SEZs) in Shenzhen, Zhuhai and Shantou. All SEZs were localised in proximity with strategic sources of foreign capital: close to Hong Kong (Shenzhen), Macau (Zhuai) and facing Taiwan (Shantou). The SEZs were designed as “laboratories” where to experiment an accelerated economic development and the controlled import of foreign technologies and capital (Jin, 2007; Inaba et al., 2001). The experiments carried out in the Special Economic Zones included the attraction and utilisation of foreign investments, the acquisition of foreign technology and managerial skills, the promotion of exports and the testing of market-oriented reforms. In order to reach these aims the Special Economic Zones have become mini autonomous societies gathering many different activities, going from the industrial production to the R&D promotion, from the education to the social well-being (Ge, 1999).

During the last thirty years of Chinese economic history the country has experienced a dramatic change in the internal equilibrium, coupled with an era of great transition of the world competitive and productive system. Similarly to what has happened in several transition processes, also in the case of China the economic evolution and growth has been driven by disequilibria (at least in the initial phases).

The government has therefore designed several policy tools aimed at re-balancing the
development of the province, while also supporting the promotion of higher value added productions and an overall restructuring process for the traditional industrial sectors located in the central and eastern part of PRD.

A particularly interesting experience in this sense has been the so-called *Specialised Town Program* – analysed in details in the following section – which has been focusing on factors such as the exploitation of proximity, of external economies, of collaboration among actors as a way to increase competitiveness, innovation and knowledge flow among firms.

3. The policy support to industrial clustering: the “Specialised Town Programme”

3.1 *Introduction*

The government of Guangdong province has planned to promote industrial development by several policy means. Among them, particular attention has been placed on how to shape the “geography” of Guangdong industry, influencing the location of firms within the Province territory.

In brief we may say that this active policy has been mainly devoted to reach two targets: 1) rationalise the dramatically fast - and often chaotic - development of the Pearl River Delta area; 2) encourage the development of the other lagging areas. In this scenario Guangdong Government planners have thought that encouraging the agglomeration of specialised firms in some specific localities should be considered as one of the tools to achieve the above mentioned two targets and more in general to promote industrial development, competitiveness, innovation and technological upgrading. In doing this the Guangdong government authorities have explicitly referred to the academic international literature and to government practices diffused in several countries around the world.

Although in several cases the agglomeration of (similar or complementary) firms is a spontaneous process, the Guangdong authorities have decided to accelerate and guide this process through specific policy measures. Through the effective slogan “one city-one product” the Guangdong government has launched in 2000 a programme to promote and encourage the growth and development of the so-called “Specialised Towns”: spatial agglomerations of enterprises all focused on the production of one specific item (or of a limited range of similar products, or of part of it, or in the same *filiere*). These Specialised Towns are different from any general industrial agglomeration, because they all have received official recognition by Government authorities; such recognition is based on specific criteria and linked to specific firms and town level incentives that will be explained in more detail in the following pages.

3.2 *The genesis of the target towns*

A thorough analysis of those Specialised Towns targeted by Guangdong Government highlights that there are relevant differences in the way they were born, developed and appear today (Di Tommaso and Rubini, 2006).

However, although the history of agglomeration might differ from one town to the other, what makes them similar today is the institutional recognition by the Government that is both an industrial development policy instrument and a signal for the market.

The experience is unique: each potential Specialised Town is studied by a group of government experts that eventually awards the town with the label “Specialised Town”; then a number of financial and preferential policies are granted in order to (further) encourage agglomeration and specialisation; government recognition and policy advantages are expected to guarantee competitiveness, innovation and market visibility rewards. Thus, the
promotion of clusters in Guangdong becomes an explicit industrial policy model: a tool used by the Government to address more general industrial development aims.

The phenomenon of Guangdong Specialised Towns is still widely neglected by the international English speaking academic debate. On the contrary, it is instead an emerging issue within the Chinese academia. There are in fact several authors studying, in particular, the evolution of the “Specialised Towns” in Guangdong Province (Chen and Cheng, 2005; Li, 2002; Huang et al., 2006; Li, 2006; Zhao, 2007; Wang, 2002; Wang, 2004; Tang et al., 2005; Lu, 2006; Zhang and Ling, 2003; DSTGG, 2006b; Huang and Hu, 2007, only to cite some). However, most of the relevant material to understand the experience of Specialised Towns has to be found in Guangdong Government documents describing the details of the ongoing practices.

It was the Department of Science and Technology of Guangdong Government (DSTGG) that firstly introduced the idea of “Specialised Town”, which is still at the centre of its current industrial policy promotion strategy. The support to Specialised Towns originated at the end of 1980, when the Chinese government launched the “Spark Plan” (DSTGG, 2003; Bolognini, 2000; Barbieri, Di Tommaso and Rubini, 2009a and 2009b)\(^8\). The program was directed to increase the technological innovation capacity in several rural areas of a country, with the idea that strengthening the innovative capacity of the agricultural sector would have had positive spill-over effects on the whole economy, favouring therefore a parallel growth of the industrial productions.

The Spark Plan, managed by the State Science and Technology Commission, was initially made of three main parts (Bolognini, 2000):

a) a training component, to provide about 200,000 young managers with the basic knowledge about the best techniques to be used in their local environment;

b) the constitution of a fund to finance research institutes in order to develop 100 complete technologies to be used in agriculture;

c) to create 500 small “demonstrative” TVEs to diffuse the transfer of knowledge, the management techniques and the quality controls in the rural areas.

The Spark Plan also foresaw the creation of several investment areas, the so-called “Spark Technology Investment Zones”, where firms could benefit from the availability of funds coming from government and bank loans. These investment zones represent the seed from which several Guangdong Specialised Towns originated. It is, for example, the case of Datang, in Shaoguan prefecture, Zhangcha and Pingzhou in Foshan prefecture and Fenxi in Chaoshou prefecture.

In particular, it was while studying these investment areas that some DSTGG experts and officials realised that in most cases each area tended to specialise in a specific sector, what has been called “one city-one product” (Lu, 2006). These studies and the notoriety of some analogous international cases of industrial agglomeration considered as successful all over the world (such as industrial districts, firm clusters, local systems of innovation, etc.), have been the basis for a new strategy in which Guangdong policy makers started to design measures to actively support this kind of industrial agglomerations, giving particular relevance to the initiatives designed to increase the innovative capacity of firms. Given that the town was the prevailing administrative unit among these agglomerations, they were defined as Specialised Towns (Lu, 2006; Barbieri, Di Tommaso and Rubini 2009a and 2009b).

In this framework, in 1998 the Department of Science and Technology of Guangdong government launched a specific program to support a first group of Specialised Towns that in

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\(^8\) For further information on the Spark Plan also see the official website of the program: www.cnsp.org.cn.
a second phase was extended to several other cities. Since then, the Department officially acknowledges as “Specialised Towns” those meeting the following criteria:

- the town has to be a “township” from an administrative point of view, or, less frequently, a “county” or a “urban district” and at least 30% of its industrial output (or employment) has to be concentrated in one industry (defined in specific sectoral terms, analogously to our 3-digit classification systems). This industry is called “specialised sector”. It has to be underlined that one city can have more than one specialised sector. Dachong, for example, is officially recognised as a town specialised in the production of Mahogany furniture and in the production of clothing (even if the furniture industry is predominant);

- the annual value of the industrial output has to exceed 2 billion Yuan (equal to about 293 million US$).

The officially recognised Specialised Towns are then entitled to receive funding from the Department of Science and Technology and from the local government. This money has to be used mainly to establish an innovation centre, whose aim is to help firms in the development of new technologies and to favour the establishment and consolidation of relations among actors. The idea behind the establishment of such centre is that in this way firms will be able to increase the quality of their products and the town will benefit from an improvement in the reputation of the whole city, possibly developing a common and easily recognisable brand (Arvanitis and Haixiong, 2004; Wang, 2004; DSTGG, 2003; DSTGG, 2006a).

The officially recognised Specialised Towns represent therefore a tremendous tool used by the local and the provincial government to foster the industrial development and for this reason it is particularly important to study their establishment, location and evolution in order to know more about the strategic policy choices made by policy makers and their effectiveness.

4. Studying Specialised Towns

4.1 Building the “CIRLP database”

While it is quite clear studying the official documents that the declared policy targets are the ones described in the previous sections, it is much more difficult to quantify and qualify the real relevance of the Specialised Towns experience. Official statistics at Specialised Towns level, as a unit of analysis, are not easily accessible, too often fragmented and inhomogeneous. This is also due to the dramatic impetus of industrial development and to the rapid urbanisation that make administrative borders quickly obsolete. Even an apparently simple statistic like the one on population is nearly impossible to quantify in Specialised Towns due to phenomenon of floating and temporary workers, coming from different areas of Guangdong and China.

With these premises, starting from 2001 it has been necessary to promote fieldworks and data collection at Specialised Town level that have led to the building of the “CIRLP Database, University of Ferrara” (since then constantly updated) on which the analysis presented in these sections is based. Given the constant evolution of the phenomenon of Specialised Towns and considering the heterogeneity of the available data, it has been necessary to continuously compare and verify the information, possibly using several official sources. In particular, data were gathered starting from the official statistics provided to us directly by representatives of the Department of Science and Technology of Guangdong Province, which is, as already mentioned, the main governmental body in charge of the design and implementation of the policy supporting the development of Specialised Towns. Nevertheless, this kind of data were mainly useful to draw the general framework and to
select some required context variables (such as temporary and permanent population, output, GDP, etc.), but do not allow to carry out a detailed analysis of the different aspects related to the performance, evolution and growth of the Specialised Towns. For this reason we decided to integrate the information firstly provided by the DSTGG with more specific sources. First of all we have consulted several other official documents, publications and websites of the Department of Science and Technology. Other relevant sources of data have been the Research Development Centre of Guangdong Province and the South China University of Technology, with which we collaborate steadily since the beginning of our research. Given the important role played by local institutions for the development of Specialised Towns and considering the main local dimension of the phenomenon, we have then started to collect data and information also from the local governmental bodies, when possible also by means of field case studies and interviews to relevant stakeholders (mayors, chiefs of the town, party representatives, entrepreneurs, policy makers in charge of the innovation centres, and so on). Finally, we have promoted a long phase of crossed controls, in order to minimise the risk of mistakes, inconsistencies and non reliable information.

By the beginning of 2009 the “CIRLP Database, University of Ferrara” included all the officially recognised STs that amounted to 229 cities, though the number is constantly growing: its evolution is visible in figure 1, showing the Guangdong Province divided by prefectures and counties.

**Fig. 1 – An overview of specialised towns in Guangdong Province**

Source: Barbieri, Di Tommaso, Rubini (2009a and b); CIRLP Database, University of Ferrara.

Note: shaded area indicates the Pearl River Delta counties.
4.2 Relevance of specialised towns on the Provincial economy

It can be useful in order to understand the relevance of the phenomenon we are describing to present some data on the Specialised Towns, with an elaboration of some of the information provided by the official government and statistical sources.

Tab. 1 – General data on Specialised Towns in Guangdong

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of STs</td>
<td>21</td>
<td>50</td>
<td>71</td>
<td>103</td>
<td>159</td>
</tr>
<tr>
<td>% of provincial GDP</td>
<td>4.14</td>
<td>8.32</td>
<td>10.77</td>
<td>14.22</td>
<td>21.47</td>
</tr>
<tr>
<td>Population (10,000)</td>
<td>148</td>
<td>351.5</td>
<td>549.9</td>
<td>850.3</td>
<td>1358.1</td>
</tr>
<tr>
<td>% of provincial population</td>
<td>2.0</td>
<td>4.6</td>
<td>7.1</td>
<td>10.9</td>
<td>17.2</td>
</tr>
<tr>
<td>Number of firms (10,000)</td>
<td>3.92</td>
<td>9.79</td>
<td>13.47</td>
<td>16.4</td>
<td>23.9</td>
</tr>
<tr>
<td>Number of firms in specialized sectors (10,000)</td>
<td>1.48</td>
<td>3.39</td>
<td>4.3</td>
<td>4.8</td>
<td>10.1</td>
</tr>
<tr>
<td>Industrial value of specialized sectors (100 m. RMB)</td>
<td>422.4</td>
<td>1271.3</td>
<td>1780.2</td>
<td>2693.6</td>
<td>4683.1</td>
</tr>
</tbody>
</table>

Source: CIRLP Database, University of Ferrara

Tab. 2 – Data on technological development in STs

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of STs</td>
<td>21</td>
<td>50</td>
<td>71</td>
<td>103</td>
<td>159</td>
</tr>
<tr>
<td>Number of science and technology staff (10,000)</td>
<td>10.69</td>
<td>18.78</td>
<td>26.01</td>
<td>48.16</td>
<td></td>
</tr>
<tr>
<td>High tech firms</td>
<td>68</td>
<td>257</td>
<td>336</td>
<td>513</td>
<td>688</td>
</tr>
<tr>
<td>Financing of town government to science and technology (10,000 RMB)</td>
<td>1352</td>
<td>29525</td>
<td>41132</td>
<td>60004</td>
<td>6128</td>
</tr>
<tr>
<td>Accumulated patents</td>
<td>2852</td>
<td>16289</td>
<td>23006</td>
<td>46101</td>
<td>4928</td>
</tr>
</tbody>
</table>

Source: CIRLP Database, University of Ferrara

All the available information of the CIRLP Database, University of Ferrara confirm the steady growth that has characterised Specialised Towns over the years. Only in the time span of four years, Specialised Towns have passed to represent from 4.14% to 21.47% of total provincial GDP, with an impressive increase in the number of firms (passed from 998 in 2001 to more than 100,000 in 2005) and in the number of employees (from 123,600 in 2001 to 3.7 million four years later). From the analysis of our data also clearly emerges the steady attention towards innovation. Not only the number of high tech firms has increased by more than 900%, but there has been a steady growing flow of local government funds directed to science and technology and an amazing boom in the number of patents, which has passed from 2,852 in 2001 to almost 50,000 in 2005 (tab. 2).
4.3 Analysing the evolution of Specialised Town Programme: geography

An analysis of the evolution in the official recognition process of Specialised Towns by Guangdong government confirms that the acknowledgement of Specialised Towns in the province, especially in recent years, is an active tool in the relocation strategy that has been described in the previous section. In fact, figure 1 shows that during the second and the third wave of acknowledgement, Specialised Towns have flourished especially outside the Pearl River Delta region. According to the “CIRLP Database, University of Ferrara”, in fact, while in 2003, 62% of Specialised Towns were located in the PRD and clearly near Hong Kong and the Special Economic Zone of Shenzhen, in 2008 only 40% of officially recognised Specialised Towns is in the PRD. In the second phase (2003-ongoing), in fact, the government acknowledged the majority of new Specialised Towns in the prefectures of Zhangjiang, Jieyang, Heyuan and Qingyuan that are not part of the Pearl River Delta. The Eastern part of the province then hosts another clear concentration of Specialised Towns, close to the Shantou Special Economic Zone.

It is relevant to underline that in Guangzhou and Shenzhen areas, which are the ones with the highest level of industrial and urban development, there are no Specialised Towns at all. The reason for this is that the two areas are heavily industrialised, but there is no prevalence of a specific industrial sector. However, in saying this we have also to underline the already underlined clear vocation of Shenzhen area towards the electronic sector, and toward high tech firms in general.

Table 3 highlights some more general data for each of the 21 prefectures of the Guangdong Province (population, firm density and level of gross domestic product in 2005 and 2007) and it reports the percentage of change in the number of towns that have been officially recognised in each prefecture in the period 2003-2008. It is evident from a first look at the table that, as we already mentioned, the prefectures outside the PRD are the ones with the highest number of new Specialised Towns recognised in the last few years. Moreover, looking at the table there seems to be a clear and evident negative correlation between the number of new towns recognised and the density of firms of the prefecture. There seems to be a precise direction of the Specialised Town Programme not just outside the PRD but more specifically toward the areas with the lowest firm density, normally the rural areas of the inner part of the Province, which are also in general the areas with the lowest level of GDP. In this sense we suggest that the Specialised Towns programme is used as a policy tool to shape the geography of firms’ location and to follow and support the more general guidelines of the double relocation policy. Our perception on the development of the programme is that by searching, in these areas, for localities that already show a specialisation, or sometimes just a vocation or a principle of specialisation for a certain production, the Government encourages further agglomeration and links this aspect to innovation and industrial upgrading.
Tab. 3 - Some data at prefecture level

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Heyuan</td>
<td>NO</td>
<td>3,354.200</td>
<td>600%</td>
<td>0,011</td>
<td>12,802</td>
<td>32,809</td>
</tr>
<tr>
<td>Qingyuan</td>
<td>NO</td>
<td>4,030.100</td>
<td>600%</td>
<td>0,015</td>
<td>20,599</td>
<td>59,395</td>
</tr>
<tr>
<td>Shaoguan</td>
<td>NO</td>
<td>3,211.900</td>
<td>500%</td>
<td>0,020</td>
<td>26,423</td>
<td>47,169</td>
</tr>
<tr>
<td>Meizhou</td>
<td>NO</td>
<td>5,033.600</td>
<td>333%</td>
<td>0,022</td>
<td>23,838</td>
<td>41,062</td>
</tr>
<tr>
<td>Shanwei</td>
<td>NO</td>
<td>3,298.600</td>
<td>200%</td>
<td>0,031</td>
<td>16,474</td>
<td>29,125</td>
</tr>
<tr>
<td>Yunfu</td>
<td>NO</td>
<td>2,686.200</td>
<td>433%</td>
<td>0,042</td>
<td>16,008</td>
<td>27,101</td>
</tr>
<tr>
<td>Maoming</td>
<td>NO</td>
<td>7,164.400</td>
<td>500%</td>
<td>0,045</td>
<td>61,078</td>
<td>102,460</td>
</tr>
<tr>
<td>Zhanjiang</td>
<td>NO</td>
<td>7,449.900</td>
<td>1000%</td>
<td>0,046</td>
<td>48,395</td>
<td>89,256</td>
</tr>
<tr>
<td>Yangjiang</td>
<td>NO</td>
<td>2,710.300</td>
<td>100%</td>
<td>0,047</td>
<td>21,514</td>
<td>40,785</td>
</tr>
<tr>
<td>Zhaoqing</td>
<td>YES*</td>
<td>4,077.100</td>
<td>550%</td>
<td>0,055</td>
<td>32,830</td>
<td>59,310</td>
</tr>
<tr>
<td>Huizhou</td>
<td>YES</td>
<td>3,128.900</td>
<td>500%</td>
<td>0,075</td>
<td>58,646</td>
<td>110,498</td>
</tr>
<tr>
<td>Jieyang</td>
<td>NO</td>
<td>6,347.800</td>
<td>1000%</td>
<td>0,090</td>
<td>35,907</td>
<td>58,590</td>
</tr>
<tr>
<td>Chaozhou</td>
<td>NO</td>
<td>2,540.600</td>
<td>116%</td>
<td>0,160</td>
<td>22,136</td>
<td>38,022</td>
</tr>
<tr>
<td>Jiangmen</td>
<td>YES</td>
<td>3,883.800</td>
<td>100%</td>
<td>0,228</td>
<td>61,781</td>
<td>110,707</td>
</tr>
<tr>
<td>Shantou</td>
<td>NO</td>
<td>5,008.200</td>
<td>283%</td>
<td>0,492</td>
<td>49,842</td>
<td>85,010</td>
</tr>
<tr>
<td>Zuhuai</td>
<td>YES</td>
<td>956.900</td>
<td>200%</td>
<td>0,512</td>
<td>47,671</td>
<td>89,590</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>YES</td>
<td>7,734.800</td>
<td>0%</td>
<td>0,633</td>
<td>375,862</td>
<td>710,918</td>
</tr>
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</table>

Source: CIRLP Database, University of Ferrara.

4.4 Analysing the evolution of Specialised Town Programme: sectors

Other interesting information on the Specialised Towns as policy tools to reach the broader aims set by the provincial government arise from the analysis of the sectors of specialisation.

As far as the sector of activity is concerned, it is possible to group the 229 towns of our database in different categories, and to compare the evolution of Specialised Towns in terms of sectoral specialisation from 2003 to 2008 (fig. 2). For our analysis we have divided the Specialised Towns in three categories: resource based, low tech, medium tech and high tech. This classification is the same adopted by UNIDO (United Nations Industrial Development Organization) (for more information see UNIDO, 2002, Technical Annex).

The first aspect that catches the attention while observing the data shown in fig. 5 is the sizeable decrease in the number of towns specialised in low tech sectors: their incidence has passed from 48% of the total number of Specialised Towns in 2003 to 32% in 2008. Data confirm that this decrease has been mainly caused by a shift towards resource based sectors (such as, for example, paper production, food processing, stone extraction, building, etc.) and towards agriculture related productions. This change can be better understood in the light of the choices made by the national and provincial government in terms of industrial development. In particular, in most recent years the Department of Science and Technology of Guangdong Province has formally acknowledged many new Specialised Towns in the hinterland areas of the province, which have a rural and mainly agricultural vocation. This has
not been done by chance: in this way the provincial government as used the formal recognition of Specialised Towns as a direct tool to reach specific industrial aims set by the general policy framework already mentioned in the previous sections. In other words, Specialised Towns become not only a way to promote industrial development, but also a means to favour a re-balancing of provincial development, trying to increase the innovative potential of less developed areas.

Fig. 2 – Distribution of Specialised Towns in Guangdong according to the sector

![Distribution of Specialised Towns in Guangdong according to the sector](image)

Source: CIRLP Database, University of Ferrara

The analysis of the sectoral data illustrated in fig. 2 allows to underline other two relevant trends. On one side there is a steady, even if slow, growth in the incidence on the total of high tech sectors, and on the other a new category of Specialised Towns emerges: the ones focusing on the tertiary sector, with particular reference to services and tourism. So, for example, the logistics and service sectors emerge in the cases of Changping, Zhang Mu Tou and Shatian in Dongguan prefecture; Henshan in Zhang Jiang prefecture specialises in transportation; Qiaotou in Zhaoqing, Lubao in Foshan, Tangkou in Jiangmen, Liuzu in Yunfu, He’herkou, Fenghuang and Guanyu in Zhaoqing prefecture see instead the emergence of towns specialised in tourism.

These trends can once again be explained in the light of the overall policy framework designed at national and provincial level. In particular, the choice to move from the acknowledgement of industrial Specialised Towns to new sectors, and in particular to services and tourism, reflects the need to diversify the production specialisation of Guangdong. This has been clearly expressed also during the interviews we had the chance to carry out with representatives from the provincial government (and from the Department of Science and Technology in particular).

The emergence of the above mentioned new trends does not mean that the traditional sectors do not play a relevant role anymore. In fact, the so-called “traditional” specialisations are still at the core of the industrial development of the province, in coordination with the emerging ones. For example, there are low tech Specialised Towns that continue to focus on textiles/clothing, ceramics, furniture, metal products and leather articles, while new ones emerge in the handmade processing of bamboo, wood, or in the production of Christmas articles, mainly directed to foreign markets. Furthermore, there are agriculture related towns
specialising in the cultivation and processing of tea, fruit and vegetables and in fishery.

Finally, as regards the medium tech Specialised Towns, there is an increase in machinery manufacturing and chemical production, while as far as the high tech sector is concerned, electronics is still the field accounting for the majority of Specialised Towns. Nevertheless, also as a consequence of the recent attention of policy makers for innovation and for technology, some new specialisations are emerging in high tech productions, such as the pharmaceutical chemistry.

4.5 Encouraging specialisation: some further considerations

A more detailed analysis on a selected sample of specialised towns highlights further interesting aspects. In particular some data on the specialisation rate of STs are revealing. By specialisation rate we mean the value of industrial output of the specialised sector over total output (for further details, see Di Tommaso e Rubini, 2005 and Barbieri, Di Tommaso and Rubini, 2009a and 2009b). It emerges that such rate is lower in resource based and agriculture related sectors, while it is particularly high in medium and high tech sectors (see figure 3).

Fig. 3 - Specialisation rate by sector (92 cities, 2005)

Source: CIRLP Database, University of Ferrara

In particular, the specialisation rate of agriculture related towns is just above the threshold established by Guangdong Government in order to be acknowledged as specialised towns. On average, the towns recognised in the services sector do not seem to reach such threshold. As it has already been illustrated, in the recent phases of the DSTGG programme most towns have been recognised in resource based and agriculture related sectors and some have been recognised in new services and tourism sectors, despite their relatively low specialisation rate. Thus, once again, the data seem to confirm that in several cases in recent years the government is not merely acknowledging consolidated realities of specialised agglomerations, but it is rather capturing a potential for specialisation in precise areas of the Province and it is considering specialisation as an aim to be pursued and encouraged by means of policy intervention.

5. The support to Specialised Towns: studying the framework of the “one city – one product” programme

5.1. The overall policy framework and the main policy lines
The data presented in the previous section show that Guangdong policy makers use the Specialised Town formal recognition as a new tool going beyond the mere support of the industrial development of the area. In particular, while using the formal recognition of specialised local aggregation of firms, local authorities clearly recognise the importance of the so-called meso-level, i.e. the territorial dimension of industrial development. Analysing the policy choices made by governmental authorities in these last few years it emerges clearly how they are well aware of all the benefits arising for firms from their agglomeration, from their proximity and cooperation, as well as from forms of joint action and collective supporting services. Chinese policy makers seem to have paid particular attention to the successful cases in the developed world, in Europe and in particular in Italy with the industrial districts (Di Tommaso and Rubini, 2006).

But the formal acknowledgement of Specialised Towns is not sufficient in order to obtain the economies and advantages that the international literature traditional assigns to the agglomeration of firms and to increase their competitiveness. It is also necessary to foster and consolidate the establishment of relations among actors. This is particularly difficult if we consider that some Specialised Towns, as observed by the Department of Science and Technology of Guangdong Province, not only tend to overcome the administrative boundaries (city, prefecture and town) but also to become inter-sectoral, increasingly involving actors operating in other fields, with growing linkages among agriculture, industry and services (DSTGG, 2003).

In this framework, the Department of Science and Technology is following three main policy lines:

1) **Promotion of the innovative capacity of traditional sectors.** This line mainly targets those towns specialising in traditional, labour-intensive productions. In this case the objective is to increase the cooperation among firms, but also to improve the quality of labour, which is mainly low-skilled.

2) **Promotion of high tech industries.** The number of Specialised Towns focusing on high tech sectors is still limited, and most of them are heavily based on foreign firms. For these reasons, some specific ad hoc measures are necessary. According to the Department of Science and Technology, the main limit of the existing high tech Specialised Towns is not a low technological level, but the fact that technology is controlled by foreign-funded multinationals. Therefore, the main challenge for the government is to foster their embedding in the locality: in this way it will be easier to control the technological potential that arises from them. The main actions to be implemented, in this case, are the encouragement of collaboration relations among local and foreign firms and the promotion of capital sharing initiatives.

3) **Promotion of the birth of new towns in rural and mountainous areas.** Particularly in these last few years, as underlined in the previous section, the efforts of the Department of Science and Technology of Guangdong Province have been devoted to decrease the imbalances in the industrial development among the various prefectures. This has been done by formally recognising new Specialised Towns in rural areas, especially in resource based and agriculture related sectors. Furthermore, the territorial re-balancing of the provincial development has been promoted also by favouring the relocation of high tech and service industry in the Central Pearl River Delta Area, while pushing the low value added sectors toward the external area.
5.2 Limits in the development of Specialised Towns

Undoubtedly the "one-city one-product" program shows several elements of interest as a tool to promote industrial development, territorial re-balancing and technological upgrading. However, the policy track that over about 10 years has led to the current recognition of more than 200 Specialised Towns in the whole province is also revealing some limits and difficulties.

In fact, thanks to the interviews we had with several local actors and to previous available studies on this aspect (Li & Fung, 2006), it has been possible to identify the following problems:

a. *Heterogeneous reactions to policy indications*. After the formal recognition of the town, the provincial and local governments usually provide funds for the establishment of ad hoc centres for the support to innovation, serving all firms in the ST. However, in some cases these innovation platforms are struggling to emerge because of the specific reaction of firms operating in the Specialised Town. In particular, on one side large firms tend not to use the services provided by the innovation centre because they have their own internal resources, and on the other small firms tend to be sceptical about the usefulness and safety of external resources, especially in the first period after the establishment of the innovation centre. This scepticism is also fed by the fact that the regulation for the protection of intellectual property rights is still insufficiently clear, and this tend to inhibit the innovative capacity of the Specialised Town. Finally, it has to be underlined that in some cases the publicly-funded innovation centres appear to be inadequate, semi-isolated, inefficient or at least under-utilised.

b. *Lack of coordination at provincial level*. The rapid and continuous growth of Specialised Towns has caused the arising of overlapping and "duplications" within the Guangdong territory: there are in fact several towns specialised in similar products that are now competing with one another. In particular, there seems to be an insufficient capacity to develop whole productive chains: in many cases Specialised Towns are not only operating in the same industrial sector, but they also concentrate their activity on the same specific phase of the productive process, with frequent horizontal linkages among competitors (Li & Fung, 2006). The provincial industrial system as a whole would instead greatly benefit in terms of competitive capacity from a vertical specialisation. This implies the necessity to encourage the town specialising in similar sectors to concentrate each on a specific phase of the production process (from the manufacturing of machineries, to the production of specific parts, to the assembly of the final products and to the commercial services). This structure therefore allows vertical relations among towns (i.e. among supplier and customer and not among competitors), decreasing the intra-provincial competition.

c. *Problems due to rapid and insufficiently controlled development*. Some Specialised Towns, and in particular those located in the Pearl River Delta, have experienced in these last few years an incredibly rapid growth, and not enough attention has been paid on the regulation of such a growth. This has created a series of new problems in terms of congestion, land scarcity, increasing labour costs, pollution, and so on (it is for example the case of the lamp production in Guzhen town, which is presented in the following section). An increasing number of Specialised Town governments is now planning specific policies to tackle these recently emerged difficulties.

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For a more detailed analysis of how leading firms in STs respond to innovation policies of the government, see Barbieri, Di Tommaso and Huang, 2009.
5.3 The role of local government in the promotion of Specialised Towns

The policy makers of the Department of Science and Technology, in charge of the design and implementation of the "one-city one-product" policy are clearly aware of the above mentioned difficulties, and encourage the local governments of Specialised Towns to play an active role.

In particular, the Department of Science and Technology has identified specific aims to be reached by local town governments (DSTGG, 2003):

- to encourage the development of intermediate institutions, i.e. of supporting bodies providing services to all the firms of the Specialised Town;
- to favour the investment in research activities. As we will explain in more details in the following section, research and innovation are becoming priority activities in the development of Specialised Towns, given the national focus on the technological enhancement of the industrial sector as a way to increase its competitiveness at international level;
- to promote the production and circulation of high level knowledge through the institution of ad hoc information networks. The aim of this action is to facilitate the access of single firms to specific and reliable information on market trends, technology innovation, and so on. This is particularly important for Specialised Towns mainly composed by small and medium sized firms, which tend to be more isolated from the international information circuits;
- to launch professional training programs. Once again, this is done in compliance with the overall aim set by the national and provincial government of improving the quality and skills of national labour-force as a way to increase the innovative capacity of Chinese firms;
- to foster the relations among firms on one side and university and research centres on the other. Technology transfer is acknowledged by the international literature as a way to favour the innovative capacity of an industrial system (see, among others, Anselin et al., 1997; Audretsch and Feldman, 1996; Coupé, 2003; Kaufmann and Tödtling, 2001; Powell and Owen-Smith, 1998; Etzkowitz, 1998). The Chinese government follows this wave of interest strongly investing on the strengthening of the university-industry connection;
- to organise ad hoc seminars and sectoral national and international exhibitions. Trade Fairs are seen as a very effective tool to increase the visibility of the Specialised Towns, and local governments often invest very heavily in the organisation of these big events. This has been the case, for example, of the “China Ceramic Exposition” in Shiwan (Foshan), of the “China Flower Expo and China Flower Trade Fair” held in Chencun (Foshan), of the “China International Lighting Fair” in Guzhen (Zhongshan).

Local governments seem to have followed the indications coming from the Department of Science and Technology of Guangdong Province, and have strongly supported the growth of their Specialised Towns, implementing a wide variety of supporting actions, ranging from vocational training courses to branding policies at town level, from the construction of town-level exhibition centres to the organization of big events at national and international level. A feature that all these interventions have in common is the intention of the local government to avoid the support to specific groups of firms, while instead fostering the development of the town as a whole and, as it has been explicitly argued by one of the interviewed policy makers, maintaining a “stable environment that can favour the social and economic development” of the town.

The contacts through fieldworks and interviews with the local governments of the analysed towns are important in a context like that of China, because they offer a clear picture
on the concerns that local policy makers share and on the possible future directions for the local economic development. In other words, although the interviews might not always offer a clear pictures on the “numbers” (how many firms, temporary workers, how innovative is the town and so on) they often provide clear indications on the objectives that are to be pursued. This normally means strong investments and commitment over those objectives.

Specialised Towns, as well as most cities of the Pearl River Delta, have grown fast and have served production objectives for many years. Now local governments reveal a renewed interest towards infrastructure and economic promotion services and more in general they want to increase the real level of general welfare of local population. If, on one side, this could be simply considered a political slogan, several public parks and green areas have actually been established, in addition to industrial infrastructures.

Already a few years after its recognition in 2002, Dachong, for example, within a large plant for the production of jeans (autonomously sold on the local market, and with a foreign brand in Europe and United States), a large water purification facility had been built and was perfectly functioning. In the same years the Guangdong government was launching several programs, in order to comply with national environmental laws and guidelines. Among these programs is the establishment of natural preservation regions and ecological demonstrative townships and villages. This shows, at least partially, a certain level of respect for the national law that limits pollution.

6. Concluding remarks

6.1 Challenges for industrial development policy in Guangdong.

Studying Guangdong and the process of economic growth that has characterised its last three decades of history, it is evident that in the planning-to-the-market opening process the Government has played a role. Industrial development has been gradually left to be driven by market forces and incentives, but this process has been carefully guided by the visible hand of government. Government, both at provincial and local level, has played an active role and it is in particular clear that industrial policy has widely been used being at centre of the development strategy of the Guangdong Province.

Undoubtedly, during this complex process, the degree of direct participation of government in production (through state-owned and state-controlled enterprises) has been strongly diminishing, leaving more space to private (Chinese and foreign) entrepreneurship. This has meant a change in the kind of involvement of the government – at all levels – which however has kept a strategic role in guiding industrial development. The government has used a wide range of different industrial policy tools (infant industry, regional and sectoral policies, structural adjustment policies, picking the winners, etc.), similar to the ones used in many other industrialised and emerging countries (such as France, Korea, Italy, and so on).

The transfer from planning to market has been accompanied by reach impressively high industrial growth rates mainly in low and medium-tech sectors and by a successful shift to an outward-oriented economy.

It is also clear that Guangdong Government has placed great attention to the spatial dimension of industrial development and has tried to guide the growth of an industrial base both in terms of the localisation of industries and of the specialisation in particular sectors. This has been done since the very beginning of the transition-to-the-market process through specific policy measures such as the establishment of Special Economic Zones in carefully selected areas. Similar emphasis on the spatial dimension can be found in the measures to
develop Industrial and High tech Development Parks, Free Trade Zone and Export Processing Zones, in the more recent incentives related to the Double Relocation Policy and in specific programmes such as the one supporting Specialised Towns described in these pages. In this unique “planning-to-policy” process that has accompanied the other opening to the market process, today one of the main challenges is to place policy evaluation at the centre of the new industrial policy framework for the development of Guangdong Province. This especially because, while the general policy targets are clear and shared, it is not always clear the extent to which each single policy tool and program contributes to the final aim.

In this scenario, the current crisis is sharpening problems that have already emerged in the last years.

The first main issue is related to innovation and technological upgrading of industry. For many years the development of Guangdong province has been based on relatively low-tech industries. While looking for a structural adjustment able to lead the country to more technology-intensive industrial sectors, the main obstacle is related to the capacity of producing endogenous innovation (so far innovation has in fact been absorbed mainly through the channel of foreign multinationals, especially from Hong Kong and Taiwan). This seems to be still an unsolved issue that the government is tackling in several ways, for example by means of programs such as the one for Specialised Towns or for the Industrial Parks. These are measures specifically designed thinking about the need for endogenous innovation. Also the first attempts to involve the Guangdong universities in this process are going in the same direction, where the real challenge is how to attract qualified human capital.

The second problem in which industrial policy may have a role in the face of the current crisis is related to the domestic market. It is strategic to make the province less dependent from foreign markets, increasing the capacity of Guangdong firms to access the huge mainland China market. In this respect, several problems have to be overcome, some of which go beyond the Guangdong province government competence:

1) there is an issue of different regulations across provinces that in many cases makes intra-province trade very difficult – if not impossible;
2) traditionally outward-oriented Guangdong firms often have a lack of knowledge on the mainland market in terms of trends, customer preferences, etc.;
3) the domestic market is very heterogeneous and in many provinces the per-capita income is still low and not able to quickly absorb goods produced for foreign markets;
4) there is an issue related to the dimension of the Chinese market, which implies the establishment of a new and huge domestic distribution chain;
5) the infrastructural network (in the province and in the whole China) has developed to serve an outward-oriented economy and not to connect the coastal provinces with the inner areas of the country;
6) firms will have to deal with a fierce and increased competition, both from foreign companies wishing to exploit the opportunities of the Chinese market but especially from firms located in other Chinese provinces.

To conclude, the crisis, coupled with the difficulties of Guangdong industry to entry in the mainland China market and to create an endogenous innovation capacity to compete on the national and international markets, could determine in the near future growth rates not sufficiently high to maintain a social sustainability.

6.2 More specific considerations on the “Specialised Town Program”

The Specialised Towns Program has to be analysed within the above-described wider Planning-to-policy transition process. When it was launched in 1998 the Guangdong
Government was initially trying to acknowledge and rationalise what already existed in the provincial area (see, among others, Di Tommaso and Rubini 2005 and 2006; Bellandi and Di Tommaso, 2005; Barbieri et al. 2009): the peculiar industrialisation history of the province had resulted in a “geography of production” traditionally characterised by a high number of localised clusters of firms, often highly specialised. These were the results of explicit planning choices - taken in different periods, from Mao age until the beginning of the Nineties - of the complex transformation processes of the collective and public property, of the transition to a market economy coupled with the open door and the one country two systems policies, of the localisation decisions of transnational firms and of the development of a Chinese private sector. In these realities the government initially tried to intervene in order to maximise not only the efficiency of the single firm, but also the efficiency of the whole territory and its innovation capacity. By doing so the Government was acknowledging the relevance of external economies, of agglomeration economies and, more in general, of the collective dimension of efficiency.

In more recent years the government programme encouraging Specialised Towns has experienced a strong acceleration. In particular, policy authorities have identified the development of specialised towns as a useful way to solve new problems stemming from the chaotic rhythms of the economic growth (such as social and territorial disequilibria, congestion, pollution, etc.) and to shift the industrial development of the Province to higher value added activities. Specialised Towns are seen today as a tool to reach other industrial policy objectives in the longer run.

In few words, no doubt that Guangdong Government has considered important to shape “the geography” of its industry, influencing the location and the agglomeration of firms. The Specialised Town Program has played a role in the last decade of the industrial development process planned by the Chinese policy makers. In particular, today it can be considered one of the industrial policy tools to achieve broader development objectives.

Industrial Policy targets, programmes and tools abound in the Government documents of the last decades. At the same time the government has defined many programmes and tools with the target of encouraging, in some locations, agglomeration and specialization. However, more efforts could be done in order to assess the effectiveness and the costs of these policies, since counterfactuals cannot be observed and there are very few evaluation practices available.

The only attempts to assess the effectiveness of the industrial policies implemented in Guangdong seem to be internal to government offices and not yet debated, neither in national (academic, institutional and entrepreneurial) circuits nor in the international ones (Barbieri et al., 2009).

Policy interventions, of the type of the program supporting Specialised Towns, can offer concrete answers to genuine needs such as promoting strategic structural adjustment, encouraging technological upgrading, offering solutions to lagging areas, solving problems of congestion or over exploitation of land. However, the same interventions could also be launched only to answer to government bureaucracies looking for new roles and legitimization in the new market oriented environment. In this last perspective, also the reference to widely accepted categories like the ones of “clusters” or “industrial districts” could be a way to obtain internal legitimization trough international consensus.

Of course all the policy documents analysed and to which we have referred to in the previous pages do not allow to accept this last extreme hypothesis. The Specialised Town Program does not seem to have been promoted only because it can legitimate existing bureaucracy. However, Government authorities should invest more in policy evaluation practices in order to highlight the most successful interventions and to find effective remedies
to what the international literature would define as *government failures*. This is particularly true given that Specialised Towns are today experiencing severe problems both structural and related to the crisis.

First of all there is an issue of destructive over-competition within the Towns but also among the Towns, due to the duplication of specialisations. In this respect more policy efforts could be devoted to promote coordination within clusters and among clusters, for instance through the adoption of a *filiere* perspective.

Second, there is a problem related to infrastructures. In many cases, of course especially in PRD, costs related to congestion, over-exploitation of land, chaotic urban development are extremely high. Given what we just emphasised in the previous paragraph, with reference to the current economic crisis, it is vital for Specialised Towns to be able to access infrastructure that make their mission to enter the Chinese domestic market possible.

Finally, the main challenge remains how to promote innovation and technological upgrading in the Specialised Towns. This is true, first of all, in terms of how to find effective tools for technology upgrading in the existing traditional sectors and, second, in terms of how to induce a structural adjustment towards more knowledge intensive sectors. This aim is to be achieved through traditional targets that have to continue to be promoted and tested. These include: the promotion of virtuous linkages among the firms within the clusters; the promotion of linkages among clusters so as to build regional industrial networks; the development of effective innovation centres; the involvement of the university in order to encourage an endogenous innovation process; the capacity to involve the multinational firms in the local process of industrial development.

However, there is another underestimated channel that can contribute to the industrial upgrading of Guangdong Specialised Towns and more in general of Guangdong industry. Specialised Towns, as it as been highlighted in this paper, so far have developed mainly answering to production needs and efficiency needs. They were born as one industrial policy tool to rationalise and guide the dramatically quick industrial growth experienced by Guangdong Province at the end of the Nineties. In many cases this policy seems to have reached concrete results but probably today new ways can be searched to reach technological upgrading, bearing in mind that endogenous innovation in the current context necessarily requires highly qualified human capital. The challenges are several: first of all to invest in local human capital through advanced specialised training and by offering them appropriate reasons to remain in the local town; second, to attract Chinese and possibly foreign skilled human capital. In this perspective, an effective education system and welfare policies are pillars of this ambitious strategy. More in general, human capital looks for good living conditions and quality of life. This means to invest in Specialised Towns in sectors such as: urban qualification, collective public goods, housing for workers and managers, health, schools and universities, environment and landscape preservation, leisure and culture. The development of these sectors should not be viewed as mere costs. On the contrary they are investments for growth and at the same time they may offer unexplored opportunities to promote “new industries”. In this scenario the cooperation with foreign actors (i.e. firms, universities, hospital, government, etc.) may play the same role that the multinationals did play in the first stages of manufacturing development in Guangdong.
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ACCOUNTABILITY STRUGGLES IN DEMOCRATIC ARGENTINA: CIVIC ENGAGEMENT FROM THE HUMAN RIGHTS MOVEMENT TO THE KIRCHNER ADMINISTRATION

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Abstract: The democratic period that Argentina inaugurated in 1983 is characterized by a new form of relationship between citizens and politicians that sets it apart from previous democratic experiences. Perhaps the most notorious novelty has been the emergence of a more sophisticated and demanding citizenry determined to redefine preexisting ideals of democratic representation into a novel civic concern for governmental accountability. The article describes the fate of civic politics of accountability at four different historical moments. The analysis begins with the emergence of a human rights movement during the last dictatorship in order to highlight the significance of this particular actor and its contribution to a new democratic political culture organized around a concern for rights and constitutionalism. Section two focuses on the second generation of civic actors that engaged in a politics of social accountability, that is, on initiatives organized around a common cry to improve governmental transparency and accountability. The third stage deals with the crisis that shocked the country in 2001-2 with the sudden eruption of mass protests demanding the resignation of all elected officials and the subsequent establishment of popular assemblies in several of the main urban centers of the country. The last section deals with the aftermath of such dramatic events, specifically, with the fate of the social accountability politics under the presidency of Nestor Kirchner.

The democratic period that Argentina inaugurated in 1983 is characterized by a new form of relationship between citizens and politicians that sets it apart from previous democratic experiences. Perhaps the most notorious novelty has been the emergence of a more sophisticated and demanding citizenry determined to redefine preexisting ideals of democratic representation into a novel civic concern for governmental accountability. The dramatic experience of state terrorism under the last military dictatorship that governed the country (1976-1983) gave rise to a new actor, the human rights movement, which would play a crucial pedagogic role in Argentine society, introducing a much-needed concern for rights and the rule of law into the country’s political culture. The emergence of a new civic sensibility in large sectors of Argentine civil society regarding breaches of law by public officials resulted in the rise of a new breed of civic politics aimed at improving the accountability of government.

This analysis will describe the fate of the civic politics of accountability at different historical moments. The article is thus not intended to provide an exhaustive description of civil society in Argentina: there are a number of very significant social movements and initiatives that will not the included here, like trade union politics or the movement of the unemployed. The focus is rather on a subtype of civic initiatives, those that express or are organized around claims for more accountable government. The article is divided into four sections that

10 By limiting the analysis to the politics of social accountability I am leaving aside a social movement that has been active throughout the 1990s and during the Kirchner administration: the organizations of the unemployed. There is a significant literature that analysis this important social actor. For a good overview and interpretation of the movement see Maristella Svampa and Sebastián Pereira, Entre la Ruta y el Barrio: la experiencia de las organizaciones piqueteras, Buenos Aires, Editorial Biblos, 2003.
chronologically describe what I consider to be four distinctive moments of civic engagement in Argentina. The analysis begins with the emergence of a human rights movement during the last dictatorship to highlight the significance of this actor and its contribution to a new democratic political culture organized around a concern for rights and constitutionalism. The analysis then focuses on the second generation of civic actors that engaged in a politics of social accountability, that is, on initiatives organized around a common cry to improve governmental transparency and accountability. The third stage deals with the crisis that shocked the country in 2001-2 with the sudden irruption of massive protests demanding the resignation of all elected officials and the subsequent establishment of popular assemblies in several of the main urban centers of the country. The last section deals with the aftermath scenario of such dramatic events, specifically, with the fate of the social accountability politics under the presidency of Nestor Kirchner.

I. THE POLITICS OF HUMAN RIGHTS AND ITS SIGNIFICANCE FOR THE EMERGENCE OF NEW FORMS OF CIVIC POLITICIZATION

The emergence of a human rights movement represented a cultural turning point that profoundly transformed Argentine political identities and its democratic traditions\(^{11}\). The politics of human rights altered well-established features of Argentine political culture, de-legitimizing the entrenched political identities and introducing a rights-oriented discourse, which established the legitimacy of claims to consolidate a representative form of democracy in Argentina and to establish the cultural and institutional conditions for an autonomous civil society.

The Argentine human rights movement (HRM) was composed of a series of organizations that were either formed or reached public notoriety during the military administration that governed the country between 1976 and 1983. In 1976, a military junta took power establishing a system of state terrorism that lead to the clandestine abduction, detention, torture and murder of thousands of Argentine citizens. It is in this context that the birth of the human rights movement took place. The movement consisted of a heterogeneous conglomerate of family-based groups, religious organizations and civil libertarian associations that developed in isolation: neither the church nor trade unions, political parties, lawyers’ associations provided significant support to the human rights cause. The manifest refusal of the Catholic hierarchy to endorse the movements’ activities eliminated the possibility of using the church as a protective umbrella organization for the cause, as in Chile and Brazil. It was only after the initiation of processes of authoritarian liberalization that the politics of the movement began to exert some influence on Argentine society; by the end of the dictatorship, the HRM had managed to generate widespread popular support for its cause. The issue of human rights occupied a central place in the agenda of most political parties and became a

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pivotal concern of Raul Alfonsín’s presidential term when the historical trial of the military juntas took place\(^{12}\).

The significance of the movement’s struggle goes beyond the successes and setbacks of their demands for justice and retribution: their discourse and practices acted as a catalyst for political learning, triggering a profound renovation of the country’s democratic tradition. The HRM inaugurated a new form of politics that introduced a healthy concern for rights and constitutionalism in Argentine political culture. By questioning all forms of state authoritarianism, be it military or civic, the rights-based politics and discourse of the human rights movement transformed Argentine democratic traditions, reuniting two elements that the populist political culture that had shaped previous processes of democratization had kept apart: democracy and the rule of law\(^{13}\). Such a cultural shift transformed preconceived populist notions about the nature of a representative government: the revalorization of rights and constitutional guarantees redefined the representative contract from an authorization to an accountability view. Constitutional mechanisms and guarantees are no longer perceived as ‘obstacles’ or ‘formalities’ that delay or prevent the full realization of popular aspirations; rather, they are now seen as indispensable protective institutional barriers against state despotism\(^{14}\).

The “accountability” model breaks with the “blank check” attitude of political delegation and introduces a combination of institutional and non-institutional mechanisms to assure that representatives are held accountable throughout their period in office. Institutionally, the elected official is monitored and controlled by what Guillermo O’Donnell has termed vertical and horizontal mechanisms of accountability, that is, by the vote and by the system of separation of powers, of check and balances, and due process, respectively\(^{15}\).

\(^{12}\) Upon taking office, Raul Alfonsín signed a decree ordering the trials of both the military juntas and of the leadership of the terrorist organizations. The trial of the nine commanders started on April 22, 1985 and lasted five months. The members of the three juntas were individually charged with specific crimes such as abduction, torture, and murder. The court gave its verdict on December 9, 1985: Jorge Rafael Videla and Emilio Massera, the former commanders of the Army and the Navy during the worst years of the repression, were given life sentences. For an interesting analysis of the trial and of the human rights policies under Alfonsin’s administration, see Carlos Nino, Radical Evil on Trial, New Haven, Yale University Press, 1996.

\(^{13}\) Enrique Peruzzotti, “Towards a New Politics”, op. cit. p. 83.

\(^{14}\) Peronism was the most influential democratizing force in contemporary Argentine history although it promoted a very ambiguous process of democratization. Its democratizing side is usually related to its promotion of social legislation and its trade union support. Peronism, however, showed an antagonistic attitude towards liberalism and the rule of law. The democratic ideal that Peron promoted entailed a plebiscitarian redefinition of the political landscape in detriment to the separation of powers and civic rights. It was also hostile to any idea of an independent civil society: the generous social legislation that Peronism introduced was not aligned with any conceptions of social rights or of an autonomous civil society but was rather oriented to consolidate a system of state corporatism.

\(^{15}\) The concept of horizontal accountability refers to the operation of an intrastate system of checks and balances oriented to control or punish the actions or omissions by agents or agencies of the state that might be considered unlawful. Vertical accountability refers mainly (although not exclusively) to elections as a mechanism of political control. See Guillermo O’Donnell, “Horizontal Accountability in New Democracies,” in Andreas
Extra-institutionally, citizens and civil society organizations in the public sphere can contest the decisions and denounce the unlawful actions of public officials. Both institutional and extra-institutional mechanisms are crucial for institutionalizing and strengthening mechanisms of political distrust that could help reduce the inherent risks involved in the act of political delegation. The “accountability” model of representation therefore presupposes a redefinition of the representative relationship: the former is no longer based on a basic trust in the personal qualities of those in power, rather trust is transferred to a set of impersonal safeguards that protects the citizenry against eventual breaches of trust by authorities. There is no longer a direct relationship of trust between represented and representatives, but the generation of political trust is now institutionally mediated: it is the existence of working safeguards against unresponsive or irresponsible behavior on the part of officials what generates social trust in representative institutions.

The abovementioned changes in the political culture led to a more critical civic and electoral attitude of citizens both towards representatives and representative institutions: the represented no longer stands as a passive subject but assumes an active monitoring role. Such an attitudinal change should not be misinterpreted as a sign of political cynicism or disbelief in politics. Actually, it is the result of both the leveling-off of higher expectations in elected representatives and public officials and of an enhanced trust in institutions.

The emergence of a more sophisticated and vigilant electorate and citizenry resulted into two fundamental political developments that respectively address the two dimensions (political and legal) of the concept of accountability: a) the so-called “electoralization” of politics and, b) the politics of societal accountability. The first development illustrates the introduction of a concern for political accountability into electoral politics. The erosion of populist allegiances created conditions conducive to the emergence of an independent

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18 I am borrowing the term from Diego Miranda, “Crisis de Representación Política en Argentina”, Revista SAAP, volume 1 #1, 2002, pp.66-111.

19 The concept of political accountability refers to the responsiveness of government policies to the preferences of the electorate. It is usually assumed that free competitive elections are the central institution for this type of control. See Enrique Peruzzotti and Catalina Smulovitz, “Social Accountability. The other side of control,” in Peruzzotti and Smulovitz, 2006, op. cit., chapter 1.
electorate\textsuperscript{20}. Many voters, especially non-peronist electors, are no longer linked to parties by strong and unreflective bonds of loyalty, but assume a discriminating attitude at the ballot box and are willing to shift parties and candidates if the representatives do not meet their expectations. While Peronism still retains a significant proportion of loyal voters, the independent electorate has become a significant political force in recent years\textsuperscript{21}. Yet, it is the politics of accountability the most interesting phenomena for the understanding of new patterns of civic protest and engagement in Argentina.

II. THE DEVELOPMENT OF A POLITICS OF SOCIAL ACCOUNTABILITY

The politics of social accountability indicates the emergence of a novel concern for legal accountability\textsuperscript{22}; citizens are eager to protect themselves from the hazards of electoral delegation by developing a social and institutional setting that can lower those risks. That entails addressing the institutional deficits and malfunctioning of horizontal mechanisms of accountability. Parallel to the concern for political accountability that the “electoralization of politics” expresses, Argentine society witnessed the emergence of numerous civic initiatives organized around demands for more transparent and accountable government. Those initiatives range from case-based social movements, like the ones spawned by the murders of Jose Luis Cabezas, Omar Carrasco, Maria Soledad Morales or Walter David Bulaccio\textsuperscript{23}, to professional NGOs that develop programs and initiatives to control and monitor governmental agencies. The emergence of a more inquisitive type of journalism provided a crucial ally to this form of politicization and has helped expose innumerable cases of governmental


\textsuperscript{21} The growth of an independent electorate is mostly an urban, middle class and non-Peronist phenomenon. The increased significance of this electoral force does not necessarily represent a challenge to Peronist electoral hegemony given the fragmentation of opposition forces and the difficulties they encounter in presenting a unified political option against Peronism. The collapse of the Unión Cívica Radical (UCR) after the collapse of the De la Rua administration was not followed by the creation of an oppositional party that could contribute to equilibrate the political system. As a consequence, the non-Peronist middle class electorate (which was the protagonist of the \textit{cacerolazos}) ended up, to quote Juan Carlos Torre, in a situation of “political orphanage.” As a result of the fragmentation and weakness that non-Peronist electoral forces have, the PJ (Partido Justicialista) “emerged as the de facto dominant party.” Steven Levistky and Maria Victoria Murillo, “Argentina: from Kirchner to Kirchner”, \textit{Journal of Democracy}, volume 19, Number 2, April 2008, page 23. For a good analysis of the emergence of an independent electorate see Juan Carlos Torre, “Los Huérfanos de la Política de Partidos. Sobre los alcances y la naturaleza de la crisis de representación partidaria” \textit{Desarrollo Económico}, vol. 42 number 168 and “Citizens versus Political Class: The Crisis of Partisan Representation” in Steven Levistky and Maria Victoria Murillo (Eds.), \textit{Argentine Democracy: The Politics of Institutional Weakness}, University Park, Penn State University Press, 2005.

\textsuperscript{22} The notion of legal accountability refers to a set of institutional mechanisms aimed at ensuring that the actions of public officials are legally and constitutionally framed.

\textsuperscript{23} I will return to the analysis of this type of initiatives in the next pages. A brief description of some of these individual cases can be found in endnotes 15, 17 and 19.
corruption or wrongdoing. Uniting all of these heterogeneous actors and initiatives is a common concern for the legal dimension of governmental accountability. They involve a diverse set of activities whose goals are: a) to monitor the behavior of public officials and agencies to make sure they abide by the law, b) to expose cases of governmental wrongdoing, and, c) to activate, in many instances, the operation of horizontal agencies, such as the judiciary or legislative investigation commissions, that otherwise would not be initiated or would be initiated in biased way. The emergence of a politics of societal accountability is directly linked with the already referred changes in the public’s attitudes toward the exercise of representative government. Its ultimate objective is to guarantee the operation of horizontal mechanisms of accountability within the state to assure both the effectiveness of rights and the proper functioning of representative institutions.

There are three major protagonists of the politics of societal accountability in Argentina:

a) NGOs and advocacy organizations. The post-human rights movement stage has been characterized by the consolidation of a specialized group of NGOs and civic associations that show a common concern for increasing the transparency and accountability of representative government. In recent years, these associations—such as Poder Ciudadano, Fundación para el Ambiente y los Recursos Naturales (FARN), Conciencia, Coordinadora contra la Represión Policial e Institucional (CORREPI), Coordinadora de Familiares de Víctimas Inocentes (COFAVI), Asociación por los Derechos Civiles, and the Centro de Estudios Legales y Sociales (CELS)—have launched a variety of initiatives to make the exercise of political power more transparent and to increase citizens’ monitoring of state agencies or officials. The initiatives range from campaigns to demand public disclosure of the assets of Senators and Deputies to the surveillance of police behavior and reporting of police abuses.

b) Social movements that emerged as the result of specific cases of wrongdoing by public authorities. Throughout the 1990s there were numerous movements and mobilizations that demanded truth and justice in several cases of human rights violations. Several of those initiatives galvanized large sectors of the population, who marched in the thousands to support the movements’ demands for independent justice. Perhaps the most notorious violations were the murder of schoolgirl Maria Soledad Morales in the northwestern province of Catamarca, the death of Army private Omar Carrasco in an isolated garrison of the Patagonian province of Neuquén, and the assassination of news photographer José Luis.

24 The Maria Soledad case refers to the demand for justice in the case of the rape and murder of a high school student in the province of Catamarca. For an analysis of the case see Catalina Smulovitz and Enrique Peruzzotti, "Societal and Horizontal Controls: Two cases of a Fruitful Relationship", in Scott Mainwaring and Christopher Welna (Eds.) Democratic Accountability in Latin America, op. cit., chapter 10.

25 The Carrasco case refers to the mistreatment and murder of conscript Omar Carrasco by military officers while doing the then-mandatory military service in a remote barrack in the province of Neuquén. As a result of the scandal that the case arose, military service.

Cabezas in the summer resort of Pinamar. These three highly publicized murders gave rise to claims for justice and to extensive social mobilizations to demand guarantees by the authorities for proper police investigations and judicial procedures since there were strong indications that authorities had been involved in the cover-up and mishandling of the initial investigations. In other words, what the citizenry was demanding was the unbiased performance of accountability agencies.

c) Watchdog journalism. In the past decade the appearance of a more inquisitive type of watchdog journalism resulted in numerous exposés of government corruption and wrongdoing. It was under the Menem administration that investigative journalism gained national notoriety by disclosing countless episodes of official corruption. One of the first scandals surfaced in 1991 when Pagina 12 revealed that the then-U.S. ambassador to Argentina sent a letter to the government in which he accused high-ranking officials of soliciting bribes from the U.S.-based Swift Corporation to allow for the import of machinery. Only months later, the president's sister in law, Amira Yoma, was implicated in a drug-money laundering scandal. Shortly afterwards, two of Menem's close aides were involved in the sale of rotten milk to a federal nutritional program for poor children. Another prominent member of the administration, the head of the national agency of social services for senior citizens (PAMI), had to step down due to accusations of receiving bribes from favored providers. Similarly, an exposé about the building of an oversized airstrip near Menem's private summer residence in Anillaco ended when the TV station decided to cancel the program. In 1995, a major scandal broke out due to revelations by Clarín that Argentine weapons were sold to Ecuador. Argentina was one of the guarantors of the 1942 peace treaty between Ecuador and Peru. Months later, the media revealed a new and much more important sale of weapons to Croatia in 1991 that violated the United Nations embargo. Political scandals were not circumscribed to the Menem administration. In fact, the most significant scandal would take place under De la Rúa's administration. As will be seen in the next section, the case of the Senate scandal provides important clues for understanding the anger against political representatives, which has propelled the most recent wave of civic protest and mobilization in Argentina.

The politics of societal accountability represent an important sub-institutional complement to the institutionalized mechanisms of accountability and have helped to schematize and limit different forms of state abuse of public power. Its contribution to the agenda of legal accountability is threefold:

First, it plays a crucial signaling function. The reporting of specific cases of wrongdoing provides a vivid illustration of certain shortcomings in the performance of horizontal agencies or representative institutions. Media attention is crucial for making a demand or voice visible to public opinion and political authorities. The activity of watchdog journalism is central for this

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26 The case refers to the murdering of press photographer Jose Luis Cabezas in January 1997. From early on, his murder was kinked to his photographs of a businessman Alfredo Yabran, the head of a vast business empire that always attempted to avoid public exposure. For a detailed analysis of the case see See, Jacqueline Behrend, "Mobilization and Accountability" op.cit.

27 Silvio Waisbord, “Reading Scandals: scandals, media and citizenship in contemporary Argentina” in Enrique Peruzzotti and Catalina Smulovitz (eds.) Enforcing the Rule of Law, op. Cit, chapter 10
form of politicization for the workings of independent journalists helped uncover numerous cases of governmental corruption or gave voice to mobilized social actors. Social mobilizations and media exposés serve to signal an accountability deficit, transforming it into a more general issue on the public agenda. The mobilizations and media exposure attained by cases like Bulaccio or Carrasco, served not only to highlight a specific and extreme instance of abuse of power or wrongdoing by state agencies but also brought the public attention’s into the persistence of questionable yet long-established institutional practices of police violence against youngsters in popular neighborhoods or of military mistreatment and violence against conscripts respectively. The mobilizations and the social reaction that both cases generated were decisive in putting institutional misconduct into the spotlight and simultaneously transforming the social appreciation of the issue.

The impact that those cases had on public opinion helped to create a new social sensitivity to ingrained (and largely ignored or socially tolerated) institutional behavior. Such a ‘denaturalization’ of the phenomena contributed to transform the social perception of the problem, encouraging the organization of other protest movements against police or military violence who would now frame the issue in the newly discovered discourse of rights and accountability. For instance, an immediate reaction of the families whose sons were receiving military training in the same Army unit as Carrasco’s was to refuse to send them back to the barracks after the conscripts’ leave of absence was over. The fear that this reaction could be extended nationwide forced a rapid response from Army chief Martin Balza, who flew to Zapala to meet with the parents and to assume personal responsibility for the conscripts’ safety.

Second, through pressure and symbolic sanctions, social initiatives might force the activation of an otherwise reluctant network of horizontal agencies of accountability. In many cases, societal mechanisms go beyond the signaling function and directly affect the workings of horizontal agencies or the careers of those officials under suspicion. They do so, by exerting symbolic sanctions on those agencies or officials that social mobilizations or the media’s accusations have placed under the spotlight. The high costs in terms of political reputation that civic mobilizations, escraches, or press exposés usually involve, may force reluctant agencies or officials to make or reverse decisions in ways to appear responsive to the accused institutional failures. Such decisions could entail the initiation of judicial procedures and parliamentary investigation commissions, or requesting the resignation of those officials under suspicion. The notoriety reach of the Carrasco case and the reputational implications it had for an institution that was attempting to change its tarnished public image due to its responsibility in the massive human rights violations during the last dictatorship, for instance, forced the Army chief to face up to the crime and to put an end to any type of cover-

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28 The Bulaccio case involved a case of police violence that resulted in the death of teenager Walter Bulaccio. The murder gave rise to social mobilizations to claim for justice and to an end of police violence against youth.

29 See, Jacqueline Behrend, “Mobilization and Accountability” op. cit.

30 The term escraches refers to a form of symbolic punishment to individuals suspected of corruption or human rights violations that have either benefit from an amnesty law or who did not receive judicial punishment. The methodology was first implement by human rights organizations against perpetrators of human rights violations that have been absolved by an amnesty decree or by the law of due obedience. It consists on mobilizations to the residence of the alleged perpetrators to publicly condemn the person. This strategy of public shaming was later adopted by other organizations.
up maneuvers by the institution: the military officials that were directly responsible for the death of Army private Omar Carrasco were tried and sentenced to prison\(^{31}\).

Third, it can lead to the establishment of permanent societal watchdog organizations that monitor the performance of specific public agencies. For example, an important accomplishment of a group of social movements that emerged as a consequence of cases of police brutality and violence was the creation of two organizations for the supervision of the police forces (CORREPI and COFAVI). Those organizations not only provide legal assistance to the families of the victims, they also actively monitor the behavior of the police, acting as external “fire alarms” that are set whenever new violations of human rights by police officers occur\(^{32}\) and they have forced legislators to review the existing legal framework that regulates the police. Some of these social watchdogs provide important support to case-based social movements: for example, the media attention that the initial denunciation made by Carrasco’s father received in a local newspaper, alerted local human rights organizations about the case. The latter not only decided to assume the legal defense of the family in the local judiciary but also took the case to the attention of the Defense Ministry and the National Congress\(^{33}\).

As previously argued, the emergence of these forms of politicization is directly linked with the consolidation of a new representative ideal that places great trust in democratic institutions. The politics of social accountability serve to test whether the actions of political representatives and non-elected officials abide by the normative principles embedded in liberal representative democracies. As Claus Offe argues, those practices function “to authenticate the core assumptions that turn out to be capable of withstanding and disconfirming trust.”\(^{34}\) “Trust” —Offe states— “is the residue that remains after the propensity to distrust has turned out to be unfounded.”\(^{35}\) It is by strengthening mechanisms of institutionalized distrust and sanctioning situations of breach of trust by specific public officials that the politics of social accountability contributes to build and generalize social trust on political representatives.

There are, however, two possible dangers arising from such politics. The first one refers to the failure of institutional mechanisms and political society to adequately address those demands. If public officials systematically disregard civic claims for greater transparency a democracy might witness a sharp decline in citizens’ confidence in political representatives. As Stompka argues, “if failure is widely perceived, generalized trust is replaced by pervasive distrust.”\(^{36}\) The second danger is related to the number of disclosures of illegal behavior on the part of representatives. For generalized trust to pervade, institutional mechanisms of distrust must be activated sporadically. A public scenario that is characterized by the profusion of denunciations and scandals and by the hyperactivity of institutions of

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\(^{31}\) Behrend, "Mobilization", op. cit.


\(^{33}\) Behrend, "Mobilization", op. cit.


\(^{35}\) Ibid, p. 76.

\(^{36}\) Stompka, op. cit. p. 145
control signal to the average citizen that breaches of trust are pervasive, feeding a culture of civic distrust\textsuperscript{37}.

Both developments were present in the Argentine scenario. On the one hand, there was a generalized perception in the citizenry that on many occasions, particularly on those that involved accusations of high ranking members of the administration, agencies of distrust were reluctant to fulfill its controlling role or that they easily yield to political pressure. On the other hand, throughout the 1990s, the Argentine public scenario was bombarded by numerous allegations of illegal or corrupt behavior by public officials. The extent and periodicity of media revelations throughout Menem’s rule contributed to the emergence of a shared public sentiment that corruption was widespread in his administration. The third stage of civic engagement in Argentina is marked by a growing division between Argentine civil and political society that was largely fed by the reluctance of the representative parties to respond to the persistent demands for a more accountable and transparent government.

III. FROM THE POLITICS OF SOCIAL ACCOUNTABILITY TO THE CACEROLAZOS AND ASAMBLEAS

The formation of an electoral coalition between FREPASO and the Union Cívica Radical organized around a discourse sympathetic to the demands for greater transparency and accountability brought great civic hopes in large sectors of the electorate. The Alianza represented a chance to refurbish the bond between disaffected sectors of the citizenry and the political system, relationship that had been seriously eroded by the profusion of corruption scandals of the Menemist era. Unfortunately, the expectations opened by the electoral triumph of the Alianza were short-lived. A major scandal involving the government paying of bribes to opposition Senators to pass a labor reform law in the initial months of De la Rúa administration led to the breakdown of the coalition and killed the civic hopes for institutional and political reform\textsuperscript{38}. The hope for change rapidly turned into civic disappointment and frustration. The mid-term legislative elections of October 2001 showed a dramatic increase of blank and null votes. The results of the elections were an early warning of the gap that had opened between great sectors of the electorate and the political class. The warning was ignored. A few weeks later, the Argentine political leadership was shaken by an unprecedented civic mobilization aimed at kicking them out of power.

The first sign of the erosion of the representative link was in the results of the October 2001 legislative election, in which more than 40\% of the electorate either abstained or cast null or blank votes. All in all, the Radicals and Peronists lost 4.7 million votes in relation to the previous election in 1999.\textsuperscript{39} The two great novelties of the election, the large number of null

\textsuperscript{37} Ibid. p. 146.

\textsuperscript{38} The Senate scandal was triggered by an editorial written by the prestigious political journalist denouncing that a group of Peronist Senators had received substantial bribes in exchange for their support of a labor reform law. A few days latter the same newspaper published an off-the-record interview with a member of the Senate in which he not only admitted receiving a bribe to pass the new labor legislation but also declared that bribery was a regular procedure in the Congress. This was not simply another corruption case but an event that has created serious doubts about the operation of the Argentine representative system. In contrast to many of the previously mentioned corruption exposés, the Senate scandal affected the credibility and reputation of the entire political society and not only of some isolated members. For a more detailed analysis of the scandal, see Enrique Peruzzotti, “Media Scandals and Social Accountability. Reassessing the Role of the Senate Scandal in Argentina” in E. Peruzzotti & C. Smulovitz, 2006, op. cit., chapter 9

\textsuperscript{39} La Nación, 10/16/01.
or blank votes and the high percentage of abstentions, illustrated two different ways of society expressing its disappointment. Abstentions represent an exit strategy: the choice signals a cancellation of the representative contract by the represented. The protest vote, however, is a voice strategy that still takes place and expresses itself through the mechanisms provided by representative institutions.

The state of affairs that the October 2001 electoral results insinuated would only become vividly and tragically palpable less than two months latter, when thousands of angry pot-banging Argentines took to the streets and plazas of the country demanding the resignation of all of the country’s political representatives. Starting on December 14, attacks against stores and lootings occurred in several urban locations across the country, including Concordia, Mendoza and Santa Fe. One third of the reported 289 episodes of violence occurred in the Greater Buenos Aires, particularly at La Matanza y Moreno40. Police presence and reaction to the lootings was uneven: while in some cases it deterred the crowds or played a dissuading role, in many other occasions there was evident police inaction. Given the dimension that looting has reached especially in the greater Buenos Aires on December 18 and 19 and the passive attitude of the provincial police force assumed, which allowed Peronist political brokers and crowds to move freely from one targeted store to another (Auyero 2007:6), the De la Rua government decided to declare a state of siege, calling in the federal police to contain riots and lootings in urban areas. The presidential announcement of the state of siege on national television generated an immediate popular reaction. Without any previous planning or coordination, a multitude of citizens expressed their disappointment with the governing administration by banging pots and pans in their residences and streets of the major urban centers. Spontaneously, thousands of Argentines took to the streets and plazas of the major cities of the country to demand the resignation of the president and his cabinet. In Buenos Aires, a massive and spontaneous concentration in Plaza de Mayo was met with a violent repression by police forces, taking the lives of many protesters. Far from demobilizing, the population participated in a second massive nation-wide cacerolazo on December 20 that forced De la Rua’s to step down half-way through his four year term.

While the Peronist leadership secretly commended the cacerolazos that paved the way for their premature return to power, they would almost immediately and tragically grasp that the target of the protest was not confined to De la Rúa’s administration but to the whole political class. Far from disappearing after the appointment of new authorities, the mobilizations and protests grew in breadth and anger, opening a period of political turbulence and turmoil. Massive cacerolazos affected the permanence in power of the recently appointed Adolfo Rodriguez Saa, who resigned in December 31st only seven days after being named interim president by the National Congress. In its initial months in power, the menace of the cacerolazos represented a latent threat to the stability and continuity of Eduardo Duhalde’s administration41.


41 As the number and intensity of the cacerolazos declined with the passing of time, the concern of the Duhalde administration shifted to the problem posed by the mobilizations and demands of the unemployed movement or piqueteros. The number of roadblocks suffered a substantial increase in the year 2002, reaching a record number of 2336 or an average of 194 roadblocks a month. The killing of two protesters during a demonstration in the month of April sent a dramatic warning to the government about the political damage that the mobilizations could exert on the Duhalde administration. The government
The epicenters of the civic unrest were the city and the province of Buenos Aires, where 859 *cacerolazos* and mobilizations took place between December and March. Other major cities, like Rosario, Córdoba and Mendoza also witnessed a considerable number of protests. Yet, after an initial period of proliferation of *cacerolazos* and the attempt to make them a weekly event, this form of protest gradually vanished from the public scenario. The end of the *cacerolazos* did not imply, however, the end of social protests. The mobilizational climate opened by the December protests gave birth on the one hand, to a heterogeneous multitude of vocal groups and mobilizations (*ahorristas, deudores, llaverazos, escraches, mobilizations against the Supreme Court*, etc.), and on the other hand, to the establishment of popular assemblies in some of the main cities of the country. Lastly, it fueled a remarkable increase of the activism of unemployed organizations.

Part of the social energy unleashed by the *cacerolazos* was subsequently channeled through a multitude of groups and organizations of a more focused character. On the one hand, the economic measures of the Duhalde administration spawned a wave of mobilizations of sectors who were directly affected by them, mainly but not solely depositors and debtors. On the other hand, there were numerous social initiatives and mobilizations directed towards certain institutions or political figures. Most notably, the mobilizations demanded the removal of the nine justices of the Supreme Court or the numerous *escraches* and attacks organized against certain political figures. Most of those initiatives can still be framed within the concept of social accountability: the organizations of *ahorristas, llaverazos* and *deudores*, for example, resorted to legal and social mobilization to protect their rights against what they considered a breach of private contracts and a violation of constitutional guarantees by the authorities. The *escraches* and mobilizations against the Court justices, the legislative, etc. entailed a severe (and many times violent) condemnation of the workings of horizontal institutions.

The most notorious development of the post-*cacerolazo* period, however, was the proliferation of popular assemblies in the vast number of neighborhoods of the city of Buenos Aires and in other large urban centers, like Rosario and Mar del Plata. The establishment of neighborhood-based popular assemblies took place in January and February under a public scenario still dominated by the *cacerolazos*. In a certain way, the *asambleas* were an outgrowth of the latter, since they developed as a result of neighbors meeting in the streets to protest. As the *cacerolazos*, these associational forms developed spontaneously and from below without the intervention of any organized social or political group. Since a central aspect of the movement, as of the previous *cacerolazos*, was a radical critique of political parties and representative institutions, the assemblies adopted a loose horizontal, participatory and deliberative type of structure to avoid the “dangers” of delegation.

Initially, the assemblies consisted of a loose congregation of neighbors who met to express their anger with the current social and political situation and to demand the resignation of all political representatives. By the end of February and early March, many *asambleas* had established different commissions to deal with specific issues that affected the neighbors in the locality (soup kitchens, press and communication, health, unemployment, exchange of goods and services, etc.). As had previously happened with the *cacerolazos*, the wave of civic effervescence that fed the assemblies gradually faded. Attendance of the response was to dramatically increase the number of social funds for the unemployed that were distributed not directly to the beneficiaries but to the different picketers organizations. From May to October, the number of social subsidies jumped from 1.100.000 to 2.050.000. The strategy paid off: during the same period roadblocks declined from 514 to 86.
weekly meetings drastically dropped in numbers. The significant burdens of active participation exerted their toll on assemblies, leaving only a nucleus of neighborhood and leftist party activists. The attempt at recapturing delegated power in grass-roots organizations that would establish a fully participatory and consensual process of decision-making proved not only burdensome for ordinary citizens but also generated innumerable internal conflicts and eventually fragmentation and demobilization.

During Eduardo Duhalde’s term, the menace of destabilizing popular protests remained a latent threat to the stability and continuity of his administration. In fact, the mobilization of organizations of the unemployed that turned sour as the result of the violent death of two militants by the police forced Duhalde’s hand in shortening the administration’s term and calling for anticipated presidential elections. The challenge that Duhalde faced was to find a candidate within the Peronist party that would be willing to challenge Carlos Menem, who immediately announced his intention to try for a third reelection. The search for candidates proved to be more difficult than it was originally envisioned: Duhalde’s initial choices—Carlos Reuteman and De la Sota—refused the offer. In the end, Duhalde opted for Nestor Kirchner, who at the time was a figure with little public recognition.

The 2004 elections were characterized by the fragmentation of the political offering: there were three competing Peronist tickets and three candidates that, although representing different political parties, shared a common Radical origin. The first electoral round showed certain parity of forces among the main candidates, leading to the close victory of Carlos Menem (24.4%) over Nestor Kirchner (22.2%) that forced a ballotage between the two. Menem’s decision to back out of the second electoral round once he realized that the victory of Kirchner was unavoidable left the newly elected president with a weak electoral mandate. Kirchner was forced to court public opinion and provincial bosses to strengthen his political standing and to broaden his slim base of electoral support.

The electoral results showed that, ironically, the after-effects of a crisis fueled largely by civic discontent against a political class that was viewed as unresponsive and unaccountable, ended up strengthening the political standing of precisely those sectors of political society that were more hostile to the social cry for transparency. The more independent sectors of the electorate found their electoral standing weakened by the fragmentation of its vote to a myriad of candidates and parties. The Union Cívica Radical suffered a dramatic loss of its electoral base (its share of the presidential vote falling from its 1983 peak of 52% to a meager 2% in the 2003 elections) while all the newly created non-Peronist parties seem unable to consolidate a nation-wide political structure, remaining strong only in some metropolitan areas. The Peronist party instead retained a relevant electoral and territorial base of power.

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42 For a discussion of different aspects of the crisis see Flavia Fiorucci & Marcus Klein (Editors), The Argentine Crisis at the Turn of the Millennium. Causes, Consequences and Explanations, Amsterdam, Aksant, 2004; Edward Epstein and David Pion-Berlin (Editors), Broken Promises? The Argentine Crisis and Argentine Democracy, Lanham, MD, Lexington Books, 2006

43 This sector of the electorate, while it would lose electoral power due to its dispersion, would however retain significant weight as political opinion. See Isidoro Cheresky, “La ciudadanía y la democracia inmediata,” in Isidoro Cheresky (Compilador), Ciudadanía, Sociedad Civil y Participación Política, Buenos Aires, Miño y Dávila Editores, 2006.
its political structure mainly consisting of a network of governors that controlled significant territorial and institutional resources.

IV. CIVIC ENGAGEMENT UNDER THE PRESIDENCY OF NÉSTOR KIRCHNER

The arrival of Nestor Kirchner to the presidency in May 25 of 2003 closed the institutional crisis begun by the resignation of President Fernando De la Rúa in December of 2001. While the election of Kirchner served to channel political dynamics back into a regular electoral calendar, canceling the period of institutional exceptionality that the crisis of 2001-2 opened, it did not necessarily represent a healing of the wounds that triggered such a dramatic political event. The Kirchner presidency not only resorted to many of the questionable behaviors and styles of his predecessors, he would also mount a strategy to disempower the civic sectors organized around demands for greater accountability. In this sense, it would be erroneous to identify his government as a local sprout of a new style of progressive politics: Kirchner’s presidency was characterized by a blunt concentration of presidential powers, a constant resort to emergency legislation and executive decrees, as well as to repeated encroachments on judicial autonomy. Far from triggering processes of political reform and institutional betterment, the response of the political system to the cacerolazos was a deepening of the discretionary path to politics.

To consolidate his power, Nestor Kirchner developed a dual strategy. First, he was to establish himself as the new leader of the Partido Justicialista in order to weaken and displace the territorial power of Duhalde and of the remaining Menemista sector. Second, Kirchner courted the non-Peronist electorate, in particular, those progressive sectors which the crumbling of the Alianza left in a situation of political orphanage. This dual strategy appealed to two very different groups and forced Kirchner to walk a thin line between a “progressive” discourse to appeal to the independent electorate and to traditional pork and barrel policies that would buy political support within the party and national structure. A major problem of this strategy is that it demanded contradictory measures: on the one hand, an emphasis on institutional transparency and reform, and on the other, the use of questionable traditional methods to build political capital within society.

Kirchner proved to be very skilful in walking such a line, and was able to acquire significant support from both groups. He successfully managed to obtain control of the party and to generate significant support within public opinion. How did he manage to do that? The political and economic conditions that led to his arrival to the presidency helped him in his double task of strengthening electoral and territorial power. In the first place, the dimension of the crisis had generated a demand for order within ample sectors of society; those afraid of the very tendencies that the crisis had unleashed in civil society, were ready to return to political society as a guarantor of order. Second, after Eduardo Duhalde’s administration finished the dirty work of economic restructuring, the economy began to show signs of significant recovery. The decision by Kirchner to retain Duhalde’s Finance Minister Roberto

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44 Levistky and Murillo, “From Kirchner to Kirchner” p. 19

45 A central aspect of such conflict is over the control of the vast clientelist machinery controlled by the Peronist structure in the province of Buenos Aires.
Lavagna in the same post and the fiscal restraint showed by his administration helped to consolidate an impressive trend of growth. The economic recovery certainly served to build political support and to place other types of institutional demands in the background. Third, Kirchner also developed a political strategy to position himself as a progressive leader mainly through his politics of human rights. Let’s briefly review this last strategy for it was the one that helped to build the progressive image of the administration.

In his efforts to strengthen his political standing, Kirchner sent strong signals to the new “orphans” of Argentine politics. While the independent electorate lost political standing due to the fragmentation of its vote, it still remained a crucial social counterweight to government in the form of public opinion. Since its inauguration, the Kirchner administration was particularly concerned with courting and eventually winning over part of this sector of public opinion. To accomplish such task, Kirchner carefully launched a “progressive” agenda that consisted in drawing a clear-cut line between his administration and that of Carlos Menem. By exaggerating his political differences with the Menem administration and his neoliberal program, Kirchner succeeded in positioning himself as part of a new brand of regional leaders that arrived to power to implement a left-leaning type of political agenda. His other move was to announce a series of measures that specifically catered to the demands for institutional improvement: his appointment of a figure of ARI as head of the PAMI (the largest social services public agency in the country and a national symbol of corruption) to clean up the institution; his initiative to impeach the most questioned Justices of the Supreme Court, his decision to establish a more public and transparent process to appoint future Court nominees, the lifting of any legal obstacles that might prevent the administration of justice in relation to cases of past human rights violations by the Military, etc. All of these actions helped to boost his public image and to build in a very short time an impressive base of public support.

The politics of human rights played a crucial role within the Kirchner administration for they have helped the government build a progressive image and generate support from leftist parties and the progressive sectors of the electorate. Such politics proved to be an easy way to get progressive credentials in the arena of institutional reform without having to engage in any significant process of political reform in the present: by redirecting the claims for rights and justice to the past, such policies helped to build bridges between the administration and the network of human rights organizations and with important sectors of the independent electorate without having to initiate reforms that would entail a limitation of presidential powers.

The project of the so-called “tranversalidad” aimed at expanding the political base of the government beyond the boundaries of the captive sectors of the electorate and of the traditional territorial bases of the party. The project also reflects a more significant problem of the post crisis political scenario: the emergence of an abyss between political resources that are needed to win the presidency and the symbolic resources that are required to establish a good relationship with the public in general. The aim of Nestor Kirchner was to articulate the electoral and institutional resources of the Peronist Party with political legitimacy in the public sphere. This project seems to have been abandoned in the presidency of Cristina Kirchner to prioritize the control and strengthening of the Peronist apparatus. The tone of the presidential discourses also indicate an abandonment of the politics of courting the independent urban sectors, specially given the emergence of some cacerolazos during the crisis generated by the conflict between the agrarian sector and the administration of Cristina Kirchner.
Simultaneously, Kirchner initiated a process of institutional concentration of power and an unabashed confrontation against Duhalde for the control of the main institutional resources of the PJ. While both agendas seem to clash, the President was blessed, as previously argued, with two factors: first, that the extent and depth of the crisis had generated demand for economic governability that placed in the background demands for institutional improvement. Second, a favorable international context contributed to a notable economic recovery and to sustained economic growth. Both factors openly undermined the relevance of social claims for institutional transparency and accountability. In addition, Kirchner actually took some initiatives that also resonated with the social cry for institutional improvement and reform. The already mentioned decision to remove an unpopular Supreme Court and to name new Justices, for example, helped him to win the support of the urban middle class sectors that during the cacerolazos demanded the resignation of all the Court Justices.

The discourse of institutional reform, however, was short-lived. The calls for political reform, for greater transparency, and for the limitation of power, were rapidly banished from the official discourse, giving way instead to a series of measures and practices that concentrated power in the executive and limited the influence and power of the legislative and judicial powers. The use and abuse of executive decrees, the approval of the so-called “superpowers” that allow greater discretionary power of the executive office over budgetary decisions and the reform of the Council of Magistrates are measures aim at strengthening and concentrating power in the presidential figure. All that survived from the initial package of presidential announcements and gestures towards institutional reform was the government’s policy of retributive justice in relation to the human rights crimes committed by the dictatorship.

The sense of emergency and the subsequent demand for governability and strong leadership that the socioeconomic crisis generated in large sectors of society helped to ameliorate the political costs of such measures. One can trace a parallel with the Menem administration in this respect: during the initial years of the government of president Menem the social call for governability remained in the background due to the dimension and consequences of the hyperinflationary crisis of 1989. The social cry for greater governmental accountability was displaced by a social demand for economic governability. The departure of Finance Minister Domingo Cavallo, however, entailed the tacit recognition that the period of economic emergency was over, leading gradually to the reappearance of social calls for better government and to media exposes of public wrongdoing. Did the departure of Minister Lavagna inaugurate in a post-emergency stage characterized by the return of social calls for greater governmental accountability? While elements of a politics of social accountability

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47 The current politics of human rights, however, had not taken a significant stand in issues such as police reform and the current trend of criminalization of protest that affect human rights in the present. A general criticism from rights oriented groups is that the government selectively used a policy of co-optation towards certain group of unemployed organizations and one of repression and criminalization against those that refuse to enter into the clientelist arrangements proposed by the government. See for example the interview to Maristella Svampa, “Kirchner responde a las protestas con doble discurso y represión,” La Nación, Sábado 30 de Septiembre de 2006.
eventually reappeared at the end of Kirchner’s term, there were other factors that contributed to undermine or conspire against the reemergence of significant initiatives of social accountability. The first one was the amazing economic recovery that took place under the administration of Nestor Kirchner. As was the case with the first years of the tandem Menem-Cavallo, good economic results inevitably delayed or undermined citizen’s calls for governmental transparency or accountability.

A second difference is that the Kirchner administration developed a series of relatively successful initiatives to weaken those actors that in the past motorized such politics and claims. Who were the main protagonists of such politics in the previous decade? In the first place, a network of civic organizations and NGOs that acted as informal watchdogs of government in issues such as police violence, human rights abuses, judicial independence and performance, etc. Such a network was unlikely to have the same significance it had during the 1990s. The government has developed a series of initiatives and policies aimed at co-opting and dividing such sector. In contrast with the unity of action it showed in confronting and denouncing breaches of due process and rights by the Menem administration, nowadays such a group of organizations is divided in relation to its attitude towards Kirchner. An important and visible group of human rights organizations and leaders have been co-opted by the present administration and have actively intervened in the defense of the government political position and decisions.

The second actor, a watchdog media, is also less relevant than in the nineties. Again, the government implemented a series of questionable measures oriented at controlling the public agenda through the respective development of premiums and punishments to journalists and media that were critical or supportive of the government. The use of official publicity as a measure of pressure on media companies, pressure over journalists by public officials, threats, etc. are part of a group of mechanisms oriented to raise the costs of independent and critical journalism. It is only at the end of his presidential tenure that Argentina witnessed a reappearance of media exposes of official wrongdoing, such as the ones that forced the resignation of the then Minister of Economy Felisa Micheli, the Skanka case, or the scandal generated by the attempt by an obscure Venezuelan figure linked to Chavez to illegally introduce 750,000 dollars to allegedly finance the presidential campaign of the first lady, Cristina Fernandez de Kirchner.

The third actor is protest movements. Given that this sort of actor is more unpredictable and difficult to prevent, it is also the type of civic actor that poses more problems to the current administration efforts to manipulate and dominate the public agenda. During his tenure, Néstor Kirchner confronted three mayor civic movements that bear some resemblance with

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48 I will not focus on electoral dynamics under the period, although it is worth mentioning a episode that was crucial in curtailing the political ambition of Kirchner, who was tempted to modify the constitution to permit unlimited reelection of the executive. So when the governor of Misiones, an ally of Kirchner, attempted to rewrite the provincial constitution to allow his unlimited reelection, he was defeated by a strong oppositional campaign lead by a Catholic priest. Rovira’s defeat was read by Kirchner and other governors as a warning against the political ambitions and thus the plans to introduce amendments for unlimited elections were abandoned at the national level as well as in some provincial districts. See Levistky and Murillo, 2008:20.
the social accountability protest movements of the 1990s: the parents of the Cromañon victims, Blumberg, and the environmental assembly of Gualeguaychú.

The Cromañon case refers to a fire that killed nearly two hundred youngsters who were attending a rock concert in a club that was in fragrant violation of all city codes. The organization of a vocal movement composed of families of the victims demanding the resignation of a close political ally of President Kirchner, Mayor Aníbal Ibarra represented a significant political challenge to the administration which initially closed ranks with the mayor. Once the administration realized that the fate of Ibarra was already decided, it quickly attempted to dissociate itself from his figure. Ibarra finally was removed from his post by the Buenos Aires legislature.

A second major challenge was the protest movement headed by Juan Carlos Blumberg who, after his son was kidnapped and murdered by delinquents, became the leader of a movement to demand effective policies to fight crime. Blumberg posed a problem to Kirchner, for the case touched upon sectors of the independent public opinion that the government was courting. Blumberg organized a series of massive mobilizations to demand tougher legislation on crime and to criticize governmental inaction. The government's strategy to counter the movement shifted over time from an initial attempt at acceding to some of the demands to tighten the penal code to then open confrontation and linking Blumberg's discourse to that of the military dictatorship.

The last movement was organized around an environmental claim. The conflict was triggered by the decision of two European firms to build two pulp mills in the Uruguayan coast of the Uruguay River which provides a natural border limit with Argentina. The news generated resistance in Argentine coastal towns opposite where the mills where to be located. By 2003, self-mobilized neighbors created the Asamblea Ciudadana Ambiental Gualeguaychú. Since 2003, the assembly has conducted blockades of the international bridge that links both countries, creating a major diplomatic conflict. Thus the conflict rapidly turned into a major issue of the national political agenda and a political challenge for the administration. As the conflict escalated, and in lieu of the proximity of legislative elections, the Kirchner administration openly sided with the assembly. The then Minister of Foreign Affairs, Rafael Bielsa (who was also running for major of the city of Buenos Aires) met with the Assembly, praising the people of Gualeguaychú for their civic organization and courage. After a failed accord between President Kirchner and Tabaré Vazquez to suspend the construction for ninety days, the Argentine government brought the issue to The International Court of The Hague in May 2006. The presentation was preceded by a massive act in Gualeguaychú presided by President Kirchner in which 19 provincial governors attended. Kirchner encouraged nationalist discourse and redirected civic anger and demands away from the domestic scenario and into Uruguay. The internationalization of the conflict and the polarization of the discourse along nationalist lines contributed to diffuse the domestic costs of that the conflict might inflict to the administration. It also contributed to boost the image that Kirchner had consciously constructed in his negotiations with the International Monetary Fund and on the negotiations of the debt default as a defender of national interests49.

CONCLUDING REMARKS

The accountability model of representation is inextricably tied to the legitimacy of the new Argentine democracy: finding ways of assuring governmental responsiveness and responsibility has been one of the central concerns of a citizenry that, after the horrors of authoritarianism, has placed great trust in institutional safeguards against unresponsive or irresponsible government. While Argentina has made important accomplishments in the direction of rights protection and governmental accountability, there is still a notable deficit, particularly, in relation to the control of the executive power. The failure of political society to adequately respond to civic demands for greater governmental accountability explains in part the dramatic break of trust of citizens in their political representatives that fueled the 2001-2 events. It also serves to highlight that, under specific circumstances of governmental unresponsiveness, the social cry for accountability can adopt some worrisome features, promoting anti-political discourses and initiatives. The economic and social crises that followed the events of the summer of 2001/2 diverted the attention of the population to more pressing matters. The politics of social accountability disappeared from the public scene for most of the Nestor Kirchner administration except from the isolated cases that were previously described.

In October 2007, Cristina Fernandez de Kirchner was elected president after winning nearly 45% of the votes—the lowest result in a presidential election since 1983 except for the irregular 2003 elections— but with the largest margin of victory over the runner up, given the fragmentation of oppositional forces. Her electoral performance was a far cry from expectations of a coalition with the progressive elements of the middle classes; rather her electoral performance drew fundamentally on the Peronist vote. Cristina Fernandez de Kirchner had an ample majority on both houses of Congress, close to the two-thirds majority which is needed to have absolute legislative control. Furthermore, a modification of the law on government spending gives the President the power to amend the budget, freeing the executive branch from any interference by Congress in budgetary matters. Congress has also delegated authority over taxes (something which the Constitution explicitly says it cannot wield).

With Cristina Fernandez de Kirchner in the presidency, media exposes and civic protests reemerged. The new president was immediately challenged by exposes of governmental corruption and by a more mobilized society. Yet, the main challenge to her administration came from four interest groups organizations: the Sociedad Rural Argentina (SRA), Confederacion Intercooperativa Agropecuaria (CIF), Federacion Agraria Argentina (FAA)y Confederacion Rural Argentina (CRA). The conflict was triggered by the Ministry of Economy’s to implement a new taxation scheme for agricultural exports on March 11th 2008. The new scheme significantly raised export taxes on most agricultural commodities. The rate on soybeans was hoisted as high as 45% (with a sliding scale based on international prices) from the fixed rate of 35%. Outright export bans and price controls were other features of the Kirchner’s anti-inflation policies that had generated tension and conflicts with agricultural producers.

The four major farm organizations called for a suspension of supplies of grains, milk and meats to markets. led to a long political conflict that serve to reawaken some of the discourses and demands of the politics of civic accountability. The reaction of the
administration to the protest generated a response from urban middle class sectors who mobilized in support of the agricultural producers. There were cacerolazos against the president as well as massive civic mobilizations in cities like Rosario and Buenos Aires to back the agrarian organizations against a government that was increasingly perceived as authoritarian and confrontational in its reactions and discursive style. The conflict exerted a dramatic blow to the president’s initial popularity: Cristina Fernandez de Kirchner witnessed a sharp erosion of public trust in her administration. At the heart of civic unrest is a questioning of a political style that relies on an extreme concentration of power in the executive at the expense of other actors and institutions. The agrarian conflict while it initially started as rent distribution problem eventually shifted to a problem about the political behavior of the ruling couple.

Are we witnessing the dawn of a new cycle of the politics of social accountability? It is still too early to determine. It is also difficult to say which forms will social accountability initiatives assume in an eventual new cycle. Future accountability struggles should reflect on past failures and accomplishments to reinvent themselves: first, because political authorities have learned how to weaken previous tactics and initiatives, second, in order to avoid feeding some negative forms of politicization that can be detrimental to democratic legitimacy and only contribute to widen the representational gap. The direction of future initiatives should attempt to productively establish links with those sectors within political society that are open to an agenda of institutional reform. Simultaneously, political parties should reinvent themselves by cultivating ties with society. No democratic representation can flourish in a landscape in which parties turn their back to society while citizens reject political parties. Until that basic connection that is at the heart of the idea of democratic representation is recreated, the notion of accountable government will only remain a much desired but unfulfilled promise in Argentina.
Torn Between Breaks and Continuity: Small Enterprises and Italian Development Patterns

As the OECD (2005) well reminds us, small and medium enterprises (SMEs) are the main mode of organising business activity all over the world and, depending on the country considered employ between 95 and 99% of the economically active working population. In 2003, 99.8% of companies operating in the 27 member European Union were SMEs (i.e. less than 250 employees). Of these, the smaller companies (less than 50 employees) made up at least 95% of manufacturing firms in many economies. The figure in Italy is actually very near 99% – at the top of the European list – while at the bottom end are the USA, Ireland and the Slovak Republic, where the figure is around 80%

The first point that we shall stress in this paper is precisely the fact that the percentage of small enterprises (SEs) in Italy’s manufacturing industry is the highest among all other industrialised countries. This numerical dominance of small-sized enterprises has long been the rationale for those supporting a model of development based on the so-called “industrial districts” which had seen the Italian economy perform consistently well over the past decades, establishing it among the greatest six-seven economies in the world. This paper will argue that the “Italian model” for manufacturing dates back to radical structural transformations initiated in the 1970s, a decade in which the weight of smaller enterprises on the economy grew consistently, together with the apparent success of “local systems” of production. While small firms have represented a point of strength in a still recent past, this has now turned to be a point of weakness, in front of a changing composition of world markets, the emergence of new competitors and the evolution of technology. Today there are clear signs of this change in trends, with at least medium sized enterprises assuming an increasingly important role in front of global competition.

The problem of smaller enterprises and their still high relative weight must then by now be addressed in the light of the current debate on a general decline of the Italian economy. What needs investigating are the reasons that check the growth potential of smaller firms, or rather, as this paper will argue, compels them to remain small. As we shall see, there is strong evidence that the current state of affairs in the politics, institutional and the legislation actually encourages enterprises to remain small because of the advantages that status quo circumstances still guarantee to small enterprises.

The significant role of small enterprises: an Italian peculiarity

The small average size of firms and the high percentage quota that they represent – in terms of both the number of firms and number of employees – are a distinct feature of Italian industrial structure.

Any rapid comparison with other industrially mature countries will corroborate this fact beyond any doubt (Chart 1). Bearing in mind that there is no commonly accepted definition of
an SME, what is most striking in Italy's case, is the weight there of 'small' firms (less than 50 employees) and of micro enterprises (less than 10 employees). The 2001 industrial census (table 3) has shown that 50% of manufacturing companies (and over 70% of construction firms) have only 1 or 2 workers in employment and so they were classified as individual or family firms. Micro-enterprises make up 82.5% of the total (95% in Construction) and employ 24.2% of the workforce (64.2% in Construction).

Chart 1 – Share of employment in small and micro enterprises in some OECD countries, 2006.

Source: elaboration data from OECD, Country Profile.

It is worth providing a brief historical account of how the current conformation and size structure of Italian industry has come about. It has been argued that the continuing existence of small and micro firms is a sign of a slow and incomplete process of industrialisation (Castronovo 1990; Onida 2004; Balcet 1995). In reality, Italian manufacturing industry at the beginning of the 1950s was composed of two main categories of enterprises (tables 5 and 6), medium to large sized companies (more than 200 employees) and micro firms (less than 10 workers), each category representing about 1/3 of the total of those in employment. Starting from 1951, the steady increase in the number of people employed by medium to large companies heralded the start of the period of sustained growth in manufacturing industry and in the economy as a whole, that would later come to be called as the “Italian economic miracle”. Yet, during these two decades, a large number of very small

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50 There is not a single agreed definition of SMEs. A variety of definitions are applied among OECD countries, and the number of employees is not the sole defining criterion. SMEs are generally considered to be non-subsidiary, independent firms which employ less than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the EU. Small enterprises are those with less than 50 employees, and Micro enterprises have less than 10 employees.

51 See at Statistical Appendix

52 The 1950s in Italy were the years of the so-called “economic miracle”, with sustained growth in GDP over several years. The role of manufacturing industry and its ability to export production was central to this growth (Caizzi 1965; Castronovo 1969). Large
firms, chiefly traditional artisan businesses (tailors, carpenters, shoemakers, upholsterers) continued to persist, a fact which many pointed to as a sign of the proto-industrial nature of Italian development. Until 1971, industrialisation in Italy seemed to be following the same path undertaken in other advanced industrial countries; a path that consisted of a growing number of large firms with a vertical integration of production and economies of scale (Chart 2). Indeed, there was a sharp increase in the average size of firms, a rise in the percentage of workers employed in larger companies and a simultaneous, marked fall, in the number of people employed in smaller companies (table 4). The 1971 census clearly confirmed this trend; the number of people employed by larger companies peaked at a level that it would subsequently never be surpassed. The relative importance of SMEs seemed at that time, to enter a rapid decline.

Chart 2 - Balance 1981-1971 of the number of enterprises and their employees by size range class of the enterprise.


The turbulent '70s. The extraordinary increase of Small and Micro-Enterprises.

The 1970s marked a veritable turning point in the history of Italian Industrial organization. During this decade, there was a reversal of the trend of the previous years; while large companies lost a significant number of employees, the SMEs saw an authentic explosion in terms of their number and numbers employed in them. What exactly had happened? The 1970s were characterized by acute turbulence, both for the economy and Italian society as a whole. The prolonged energy crisis, together with the climate of conflict by the trade union/workers movements – which reached its zenith in the struggle for renewal of contracts between 1969 and 1972 (the so-called Autunno caldo) – had led to a sharp rise in the cost of labour and increasing rigidity in job markets. Given that low levels of wages was one of the factors that made the “economic miracle” possible, pay increases and greater constraints in industrial relations posed two serious problems for larger companies, geared on “Fordist” model of industrial organization, which entered a crisis due precisely to the conglomerates of state owned companies played a key role in making the “miracle” possible (Nardozzi 2004).
obsolence of the Fordist-Taylorist technological mode of production. Large companies were obliged to restructure business organisation and introduce new models of employment. In order to increase flexibility and curtail the power of the unions and worker militancy, they began to invest heavily in labour-saving technology. Moreover, all production work that could be outsourced without seriously impairing production cycles, was handled out to subcontractors. All the large firms at the time had a high percentage of union membership among their work force and were further penalised from the promulgation in 1970 of the so-called “Workers Statute” (Statuto dei Lavoratori), which set legal regulations and established rights and guarantees regarding work conditions.

These conditions of national and international industrial turmoil encouraged a long-term process of decentralisation of production, which gave rise to the rapid growth of numerous smaller, satellite units of production. In addition, there was a widespread resurgence of the traditional mode of “working at home” (cottage industry economy), which in the period led to the proliferation of a number of micro-enterprises. These small firms contributed considerably to the growth of SMEs, and were also responsible for the expansion of the so-called “submerged economy”, in which smaller firms were more apt at circumventing collective work contracts, ignoring standard wages levels and union rights, saving on social pension contributions and in short underpaying workers and evading taxes.

Indeed, the comparison of the 1971 and 1981 censuses showed clearly and unquestionably that employment in larger companies had fallen drastically (-20% in a decade) and that there was a simultaneous rapid growth of small (+66%) and micro enterprises (+41%). From 1971, there was a continued gradual reduction in the average number of employees per firm (table 4): from 10.6 workers per company in 1971, it fell to 9.9 in 1981, 9.5 in 1991 and 9.0 in 2001.

The initial reaction to this trend in the 1970s towards decentralisation of production with the consequent inflation of the number of small enterprises was decidedly negative. According to many writers and analysts of the period (for a general overview see Fuà 1976 and Graziani 1989), the anomalous increase in SMEs was due to a regression toward backward modes of production and, a tendency to concentrate production on localized, protected markets, with evidence of technology gaps, labour intensive work methods and low productivity. As Fuà (1976) observed at the time, an extensive “submerged” economy, the extension of cottage industries, trade on informal markets allowed benefits to accrue in terms of lower labour costs, greater flexibility together with savings out of a tax evasion, giving small enterprises a distinct competitive advantage. The combination of these circumstances enabled the Italian economy to emerge from the crisis years of the 1970s with a growth model led and fed by successful export performance in traditional manufacturing goods.

Small firms and industrial districts

Compared with other countries also confronting the Ford model crisis and the energy crisis, the process of restructuring and reorganizing in Italy was “rapid and frenetic” (Castronovo 1990), partly due to the strained political and social situations at the time (home-grown terrorism, social conflict etc.)

It is worth remembering that the Statute did not apply to firms with fewer than 15 employees, where union activity was in any case traditionally less common.
Although tax evasion and flourishing black market trade did initially play a key role in the success of smaller enterprises, it would be an oversimplification to affirm that their growth was due mainly to these two factors alone. In the early 1970s, researchers and experts from various disciplines (sociologists, economists, geographers) were indeed already calling an attention to new phenomena, emerging in particular in the regions of Central Italy (an area that would subsequently be referred to as “Terza Italia”) where a new industrial model was clearly taking shape, and one where small enterprises played a quite different role to the one usually associated with the traditional backwardness of Italian manufacturing industry. These newly affirming “local systems of production” were since then to become well known under the name of “industrial districts” (Bagnasco 1988; Becattini 1987), where the set of connections between the firms within a local area was the key strength, rather than the efficiency of the individual firm in itself. On a local level, the networked and capillary interconnection and integration among small companies tended to reproduce the efficiencies and scale economies from which only the vertically integrated large companies seemed since then to have benefited (Brusco e Paba 1997). But since this point is an already well documented subject in the literature (Becattini 1998) also in a number of international studies, further detailed comment falls outside the scope of this text.

**Sign of crisis for the industrial districts**

A number of factors and clear empirical evidence point to the fact that this long cycle, started about thirty years ago, has come to an end. Yet despite this evidence, there remains a rhetorical vision and stereotypical ideas about systems of local production, particularly amongst the world of politics, where the belief that “small is beautiful” resists as an example of successful entrepreneurship that opened for Italian SMEs the doors to the international markets.

However, it is interesting to note that this vision is at odds with respect to two key theoretical and empirical points. First, it is an error to equate all SMEs with the “industrial districts”; even with a large overestimation for the number of districts and workers employed in them, a rough account plainly would show that over half of Italy’s small enterprises are not actually part of a local production system (Istat 2006). Moreover, the definition ‘small enterprise’ is too loose as categorization to describe a set of similar enterprises, since there are at least four main typologies of SME, each warranting further possible subdivisions:

a) “marginal” small and micro enterprises, operating exclusively in local markets, with low earnings and turnover. These include “local” natural monopoly businesses, such as transport firms and micro-firms working in building and construction.

b) *Satellite* SMEs, operating in a network of sub-suppliers and usually located near the large companies for which they work on commission.

c) *Interstitial* SMEs, which occupy a niche in the technology specializations and segments of final markets; their strengths include innovation, imitation and rapid adaptation to new technologies;

d) Highly competitive *Specialised supplier* SMEs, operating independently from larger companies, and working mainly for the international markets.

Strictly speaking, only the last two types match the description of a local production system or industrial district firm. There is also a geographical differentiation here, since *Satellite* SMEs are prevalent in the traditional “triangolo industriale” (Genova, Milano, Torino) and *Service*
SMEs are located mainly in the North and North East. With very few exceptions, non-competitive and “marginal” SMEs are the norm in Southern Italy.

The second critical aspect that supporters of the persistence of ‘districts’ model ignore is the very fact that radical changes are underway in local production systems. Starting from the second half of the 1990s, some of the advantages previously enjoyed by the Italian manufacturing sector have begun to weaken. Labour-costs have risen and competition from the so-called emerging countries has become increasingly more robust. Furthermore, the introduction of the euro made time-to-time devaluations of the lira no longer a viable option, which in the past had significantly assisted the competitiveness of Italian exports.

As the specialized literature has described, the districts have never been static, but have continually evolved and adapted their products and production strategies to changes in international markets. More recently though, certain processes underway as a result of increasingly difficult conditions in some sectors are apparently undermining the vitality of the whole system of districts (Viesti 2007): mergers, acquisitions and share purchasing and private equity trade have created market leaders and led sometimes to groupings of SMEs – each company officially autonomous – but in fact controlled by one single strategic management board. Consequently, the average size of companies has grown and the general organization of the districts is now more hierarchical than in the past, with the stronger companies opening up to external markets, and establishing commercial relations with suppliers, sub-contractors and clients outside their districts. In practice, these companies have become more international through entering into joint venture agreements with foreign partners and by relocating production processes either partially or totally, thus leaving only the central management core in the original district itself. This concentration of power and ‘pyramid structure’ of control over several firms (and relations between the dispersed units of production) is thus undermining some of the traditional features of “districts”. The whole process is accompanied by parallel phenomena, such as overcrowding into smaller areas, environmental damage, rising labour-costs pushing companies to resort to employing immigrant labour, resulting in the weakening of social cohesion and community identity.

The results of recent surveys (Mediobanca 2010, Istat 2005) and research (Colli 2002; Chiesi 2009, Coltorti 2008) have in fact helped to explain and confirm the changes and new trends underway. As regards the size structure of firms, there seems to be a clear reversal of trends (Chart 3); from the mid 1990s, the number of (Italian) medium-sized firms has risen steadily. From 1999 to 2004, figures show that there was a clear reduction in the number of small and micro enterprises (-5.5% and -2.9% respectively) and a simultaneous significant increase in the number of medium-sized and large enterprises (+2.0% and +2.5%). With regard to employment statistics (which indicate a generalized fall in the number people employed in manufacturing), small enterprises have decreased in number, as has the number of people they employ; larger firms have increased in number but employ fewer people; medium-sized firms are the only one to have increased the total number of workers they employ.
Research also shows that an increasing number of medium sized firms now operate in the global markets also outside Europe, and are involved there both in commercial investment and industrial production. They generally come under the category of “group” or family holding companies that oversee a wide range of service, commercial and manufacturing companies. Examples of successful groups of this kind include Luxottica, Benetton, Lucchini, and Mapei. Colli (2002) coined the definition “fourth capitalism” to refer to these companies in this particular period of time, in order to distinguish them from private capitalism in the earlier years of Italian industrialization, from post-war enterprises under a public control, and from the model traditionally represented by the industrial districts. Although this is quite an intriguing interpretation, it remains vague and also lacks sufficient empirical evidence. Besides, it will be needed to see what effects of the current international crisis might have on these tendencies.

In any case, as a result of the long on-going debate on the “overall decline” of the Italian economy, in terms of worsening of the indicators for growth, productivity and competitiveness, there is now renewed interest on the question of the structural weaknesses of SMEs when compared to larger firms (Chart 4), as well as on the difficulties that small and micro enterprises experience in growing their size.

Chart 3 - Variations (%) in the number of enterprises and of employment in manufacturing enterprise by size range, 1999-2004.

Source: elaboration data from Istat, Struttura e competitività del sistema delle imprese industriali e dei servizi, 2009.
In such a scenario, it has been pointed out that the smallness of Italian firms, both in the districts and elsewhere, is a constant handicap (Balcet 1997; Colli 2002; Onida 2004) for the following reasons, briefly here summarized:

a) Increasing exposure of traditional products and exports to competition from countries which have followed a similar path of development as Italian SMEs and imitated “Italian style”, but which have subsequently learned to produce competitive, “quality” goods more cheaply.

b) Low unit returns, due to the small size of firms, tend to reduce total private investment in R&D and in staff training. For example, it is often pointed out that the average level of education in Italy’s North-East regions has in no way increased; moreover, while the steady increase in the recruitment of immigrant labour has helped to contain labour costs, it has by no means contributed to increase the technical skills of workers (Azzariti 2000; Messina 2001).

c) The small size of firms often results in a marked financial weakness and under capitalization. According to Eurostat data, Italian firms have the highest levels of bank debt among EU countries (Istat 2009) which is at once the cause and consequence of the scarce availability of “venture” capital in Italy.

d) The previous point relates to the widespread “family company” nature of Italian firms, smaller but also larger. Families often have a central role in controlling their companies, and the fear of losing this control discourages them from seeking contribution of external capital and is thus a major obstacle to increasing company size.

e) Last, public institutions cannot most often be relied on in providing financial support and incentives, a further factor that hinders company growth.
Small enterprises: incentives not to grow

As all research studies have demonstrated, the small average size of companies and the persistence of large number of small companies unable to compete on the international markets continues to be a principal problem for the Italian manufacturing, especially in the light of a decline resulting from the evidence of inadequacy today of once successful models of industrial organization.

There is no single explanation thus, as to why firms experience difficulty in growing; instead there are a series of factors peculiar to Italy which tend to provide obstacles. Companies are closely identified with the environment where they are set up and while they can often survive without difficulty within this immediate frame, the growth and expansion becomes another matter. In short, there are a series of interrelated factors at work, grounded in the country’s historical-cultural context and traditional modes of policy, both from the Right and the Left, to consider role and support for SMEs. The view of the Left, originally based on Marxist visions, was that small companies should be seen as a relic of the past destined to disappear with the progression of “monopoly capitalism”. Yet in the regions of Italy where the former PCI (Italian Communist Party), has long wielded political and cultural hegemony, the local Left has always viewed SMEs as a potential ally against the power of the “monopoly capitalism” itself. At the same time, the main Conservative Party of DC (Democrazia Cristiana), that governed Italy throughout the first two decades of post-war Italy, relied on smaller entrepreneurs with the same spirit as they regarded landowning small peasantry. They were to be protected as the bastions of local community spirit as well as of traditional family values, against the onslaught of modernity. Thus for a variety of reasons, smaller enterprises were defended and supported by both the Right and the Left, most importantly perhaps because they assured good levels of employment in their regional contexts. Such wide-ranging support across the political spectrum, together with an essential mistrust of large companies (corporate power!) generated complex legislation and an institutional framework widely favourable to SMEs.

Articles 44 and 45 of the Italian Constitution had already foreseen provisions for help and assistance to small firms and traditional craftsmen, as the Civil Code in the article 2083, where the positive role of small entrepreneurs is specifically cited. In general, small enterprise and the “traditional handicrafts” sector have long benefited from a legislation framework supporting them, for example in the form of favorable credit regulation and employment legislation as well as tax abatements. Such legislation ensured far more advantageous conditions for small enterprises compared to medium to large sized firms by offering for example a series of financial incentives, at least until the Maastricht Treaty imposed drastic limitations on government help and support for the single economies within the EU. Although policies supporting small enterprises were also implemented in many other countries, policies...
in Italy appear to have been more widespread and wide-reaching (Arrighetti and Seravalli 1997).

Actually, it is precisely this legislation that has often provided the main incentive for small firms “not to grow”. For example, typical artisan and handicrafts businesses have little to gain from increasing the number of workers employed. By staying “small” and being classified as “artisans”, they have no obligation to keep account books, do not need to give a “just cause” in case of the dismissal of an employee, have no obligation to employ number of persons out from the so-called “positively discriminated categories” and are not obliged to recognize union membership and representation. Moreover, until 2007, they were not subject to corporate bankruptcy and the application of safety regulations was less stringent.

Aside from regulations, there are other significant factors that encourage small enterprises to stay small. Below the threshold criteria that define the small entrepreneur, not only is the tax system more benevolent, but it is easier to evade taxes, since it is easier for small businesses to escape the control nets of the tax authorities. In addition, barely efficient controls are often waived by the regular succession of “tax amnesties” which provide a further incentive to stay small.

The situation today has most probably changed compared to the description given by Pizzorno in his classic essay of 1960, where he depicts the mechanism of a political exchange of favours, between politicians and small enterprises (votes in return for connivance in tax evasion). Figures on taxation levels continue to be alarming, since they confirm an enduring ‘tax advantage’ for small entrepreneurs and the self-employed. As Chiesi (2009) maliciously notes, an analysis of data on tax revenues reveals that in 2004, a large proportion of the “new poor” in Italy would had been owners of small businesses, given that 26% of them had declared income of less than 6,000 euros per year. In essence, the state of current regulations together with the *modus operandi* of State institutions seem designed to ensure merely the survival rather than the efficient growth of business enterprises.

A second factor that makes it difficult for companies to grow is the strong presence of numerous family controlled firms. This continuing influence of family capitalism is certainly more apparent among the small and micro-enterprises, and continues to be a hindrance in Italy to the likelihood of firms to grow in size. In truth, even though the combination of family and enterprise can play a positive role during the creation and first stages of development of a firm, in the medium and long term direct control and management by one family tends to hamper development. As stated above, the legal and institutional framework tends to compound these difficulties. For example, it is fairly common the confusion between company resources and family finances, which may not be problematic providing the firm remains small and certain financial maneuvers remain feasible; this will not be the case when the firm begins to grow. Evidently, cultural factors peculiar to Italy are at work, resulting from the more central role of the family in Italy compared to other countries. In any event, the outcome has been to identify enterprise with family business and control, that family members are reluctant to relinquish. As mentioned above, this explains the scarce role of venture capital in Italy and the strong resistance to listing companies on the stock exchange (Onida 2004)\(^\text{56}\).

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\(^56\) Of the approximately 5 million companies – excluding the 3.5 million one or two person firms – there are about 700 thousand corporate firms (14%) and roughly 900 thousand Public Limited companies. 60% of stock-exchange listed companies are under family control, as opposed to 23% in Britain and 11% in the USA (Chiesi 2009). In Italy, there are 265 companies registered on the stock exchange, compared with 715 in Germany, 737 in France, and 2405 in the United Kingdom (Onida 2004).
Some Conclusive Remarks

The capillary network of small and micro enterprises has been a feature of the Italian economy which, in the past, had not inhibited growth and expansion of Italian industry into international markets. In the current time, however, the disintegration of the country’s productive-economic fabric is again causing concern because it is deemed a factor hampering the ability to react – e.g. by improving competitiveness – to the general downward turn of the national economy. The past decade has seen much debate on this decline, though discussion seems to be restricted to the academic research circles, unable in stirring the interest of politicians, except perhaps when self-interest were involved. One of the recurrent themes within this debate is, indeed, the average small size of Italian business enterprises (Traù 2000; Rossi 2006; Boeri et alii 2005; Gallino 2003).

On the other hand, the broad outline drawn here of the main phases of Italian industrial history has enabled us to highlight also the vitality and creativity of Italy’s productive fabric. The “industrial districts” model and the Italian path to flexible specialization that derived from it, were the result of a spontaneous, unplanned dynamism which allowed a trail towards development. Although explainable with hindsight, it was indeed an unplanned blessing in disguise, as Hirschman would say. In effect, while the industrial policy of a succession of governments favored dialogue with both large public and private industrial groups and investment companies, based on incentive to invest in broad areas of relative underdevelopment, a concrete world of production was taking shape in the districts and mainly in the form of small and independent firms. Once it had become apparent that these local systems of production were an undeniable, dynamic reality, the governments attempted to control and fortify this model by, for example, passing a law on incentives to the industrial districts, hailed as model to follow. Yet on the occasions when attempts were made to “export” the model in less developed parts of Italy or Europe, through carefully studied local development schemes (e.g. the so-called “Territorial Pacts”, Planned agreements and contracts, Leaders Programmes, and so on) the results were generally far from brilliant.

More recently, with the tendency for medium-sized firms to grow in number and thus to employ a higher proportion of the workforce and a simultaneous decrease in the number of small enterprises and hence workers they employ, a renewed pattern of Italian capitalism seems to be emerging. As before, this come out of a spontaneous development, rather than being the outcome of coherent objectives set by any industrial policy.

As we have underlined in this occasion, the means to continue to foster the growth of small and micro enterprises must be founded on a transformation of institutions and the cultural environment. Yet such an objective can only be realistically pursued through coherent and determined policy action; in other words through the implementation of a kind of industrial policy that Italy has not seen for decades. Unfortunately, it is not encouraging to think of a State that has over time, apparently, given up attempting to regulate economy and society, deciding to instigate change in the very social and cultural environment of which it forms an integral part. Instead, it has perennially relied on the creative flair and “animal instinct” of Italian individualism.

In his essay on Italian capitalism, Barca (1997) notes that Italian governments in the immediate post-war era gave up attempting to “regulate”, i.e establish rules on rights and duties on a level playing field that might have given guarantees and equal opportunities to individuals and different social groups. Instead, post-war governments opted for another form of regulation: constant state intervention, which in the absence of fair rules for all, merely protected first this social group, then another or first this then that individual. The outcome of this strategic choice was a series of improvised and contradictory government actions characterized by special ad hoc laws, exemptions and amnesties and waiving of rules. This formed part of the general socio-political environment described above.
REFERENCES
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- Castronovo, V., L’industria italiana dall’ottocento a oggi, Mondadori, Milano 1990.
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- Rossi, S., La regina e il cavallo. Quattro mosse contro il declino, Laterza, Roma-Bari 2006.
### Table 1 – Enterprises and employment by enterprise size class in some OECD countries, 2008.

<table>
<thead>
<tr>
<th>Size of enterprises</th>
<th>USA</th>
<th>Japan</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>Spain</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;20</td>
<td>11.1</td>
<td>20.5</td>
<td>18.0</td>
<td>13.0</td>
<td>30.9</td>
<td>27.3</td>
<td>18.1</td>
</tr>
<tr>
<td>&gt;20</td>
<td>88.9</td>
<td>79.5</td>
<td>82.0</td>
<td>87.0</td>
<td>69.1</td>
<td>72.7</td>
<td>81.9</td>
</tr>
<tr>
<td>1 to 9</td>
<td>5.7</td>
<td>10.3</td>
<td>10.8</td>
<td>4.9</td>
<td>15.3</td>
<td>14.9</td>
<td>10.4</td>
</tr>
<tr>
<td>10 to 19</td>
<td>5.4</td>
<td>10.2</td>
<td>7.2</td>
<td>8.1</td>
<td>15.5</td>
<td>12.5</td>
<td>7.6</td>
</tr>
<tr>
<td>20 to 49</td>
<td>NA</td>
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<td>12.2</td>
<td>7.5</td>
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<td>20.6</td>
<td>14.0</td>
</tr>
<tr>
<td>50 to 249</td>
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<td>25.0</td>
<td>25.1</td>
<td>24.7</td>
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</tr>
<tr>
<td>&gt;250</td>
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<td>47.3</td>
<td>54.5</td>
<td>26.2</td>
<td>27.4</td>
<td>50.2</td>
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</table>

#### Number of enterprises

<table>
<thead>
<tr>
<th>Size of enterprises</th>
<th>EU-27</th>
<th>Germany</th>
<th>France</th>
<th>Italy</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;20</td>
<td>78.8</td>
<td>21.2</td>
<td>NA</td>
<td>31.7</td>
<td>18.9</td>
</tr>
<tr>
<td>&gt;20</td>
<td>72.4</td>
<td>NA</td>
<td>18.5</td>
<td>NA</td>
<td>15.9</td>
</tr>
<tr>
<td>1 to 9</td>
<td>90.8</td>
<td>NA</td>
<td>3.4</td>
<td>NA</td>
<td>16.8</td>
</tr>
<tr>
<td>10 to 19</td>
<td>81.4</td>
<td>NA</td>
<td>10.7</td>
<td>NA</td>
<td>5.4</td>
</tr>
<tr>
<td>20 to 49</td>
<td>93.0</td>
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<td>21.1</td>
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</tr>
<tr>
<td>50 to 249</td>
<td>89.1</td>
<td>NA</td>
<td>21.1</td>
<td>4.7</td>
<td>8.1</td>
</tr>
<tr>
<td>&gt;250</td>
<td>85.5</td>
<td>NA</td>
<td>10.5</td>
<td>7.6</td>
<td>5.3</td>
</tr>
</tbody>
</table>

**Source:** data elaborated from OECD, Country profiles.

### Table 2 – Distribution of value added by enterprise size class, non-financial business economy, 2005 (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Micro (1-9 persons employed)</th>
<th>Small (10-49 persons employed)</th>
<th>Medium-sized (50-249 persons employed)</th>
<th>Large (250+ persons employed)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-27</td>
<td>21.0</td>
<td>18.9</td>
<td>17.8</td>
<td>42.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Germany</td>
<td>15.4</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>France</td>
<td>20.2</td>
<td>18.5</td>
<td>15.6</td>
<td>45.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Italy</td>
<td>31.7</td>
<td>23.2</td>
<td>16.0</td>
<td>29.1</td>
<td>100.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>18.9</td>
<td>15.9</td>
<td>16.8</td>
<td>48.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Source:** data elaborated from Eurostat
### Table 3 - Enterprises and employees by size class (number of employees) in Italy, 2001

<table>
<thead>
<tr>
<th>Size class (n. of employees)</th>
<th>Enterprises</th>
<th>Employees</th>
<th>Enterprises (%)</th>
<th>Employees (%)</th>
<th>Enterprises</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>198739</td>
<td>198739</td>
<td>36,6</td>
<td>4,1</td>
<td>36,6</td>
<td>4,1</td>
</tr>
<tr>
<td>2</td>
<td>87433</td>
<td>174866</td>
<td>16,1</td>
<td>3,6</td>
<td>52,7</td>
<td>7,6</td>
</tr>
<tr>
<td>3-5</td>
<td>104593</td>
<td>394306</td>
<td>19,3</td>
<td>8,1</td>
<td>72,0</td>
<td>15,7</td>
</tr>
<tr>
<td>6-9</td>
<td>57094</td>
<td>414356</td>
<td>10,5</td>
<td>8,5</td>
<td>82,5</td>
<td>24,2</td>
</tr>
<tr>
<td>10-15</td>
<td>40956</td>
<td>499294</td>
<td>7,5</td>
<td>10,2</td>
<td>90,0</td>
<td>34,4</td>
</tr>
<tr>
<td>All sizes</td>
<td>542876</td>
<td>4894796</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Size class (n. of employees)</th>
<th>Enterprises</th>
<th>Employees</th>
<th>Enterprises (%)</th>
<th>Employees (%)</th>
<th>Enterprises</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>297900</td>
<td>297900</td>
<td>57,8</td>
<td>19,5</td>
<td>57,8</td>
<td>19,5</td>
</tr>
<tr>
<td>2</td>
<td>79195</td>
<td>158390</td>
<td>15,4</td>
<td>10,4</td>
<td>73,1</td>
<td>29,8</td>
</tr>
<tr>
<td>3-5</td>
<td>81981</td>
<td>303148</td>
<td>15,9</td>
<td>19,8</td>
<td>89,0</td>
<td>49,7</td>
</tr>
<tr>
<td>6-9</td>
<td>31078</td>
<td>221889</td>
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<td>14,5</td>
<td>95,0</td>
<td>64,2</td>
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<tr>
<td>10-15</td>
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<td>181376</td>
<td>2,9</td>
<td>11,9</td>
<td>98,0</td>
<td>76,0</td>
</tr>
<tr>
<td>All sizes</td>
<td>515777</td>
<td>1529146</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: data elaborated from Istat, Censimento dell'Industria 2001

### Table 4 - Balance 1971-1981 of the number of enterprises and employees by size class of enterprises

<table>
<thead>
<tr>
<th>Enterprise size</th>
<th>Enterprises</th>
<th>Employees</th>
<th>Enterprises (%)</th>
<th>Employees (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-9</td>
<td>+73652</td>
<td>+277800</td>
<td>+72,9</td>
<td>+41,8</td>
</tr>
<tr>
<td>10-99</td>
<td>+26902</td>
<td>+440655</td>
<td>+26,6</td>
<td>+66,3</td>
</tr>
<tr>
<td>100-499</td>
<td>+439</td>
<td>+80040</td>
<td>+0,4</td>
<td>+12,0</td>
</tr>
<tr>
<td>500+</td>
<td>-6</td>
<td>-133823</td>
<td>-0,01</td>
<td>-20,1</td>
</tr>
<tr>
<td>Total balance</td>
<td>+100987</td>
<td>+664672</td>
<td>+100,0</td>
<td>+100,0</td>
</tr>
</tbody>
</table>

Source: data elaborated from Istat, Censimenti dell’industria

### Table 5 – Distribution of employment(%) in Manufacturing by enterprise’ size class at Industrial Censuses in Italy, 1927-2001

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>1-9</td>
<td>37,8</td>
<td>36,4</td>
<td>32,1</td>
<td>30,0</td>
<td>22,3</td>
<td>23,9</td>
<td>26,2</td>
<td>24,2</td>
</tr>
<tr>
<td>10-99</td>
<td>21,7</td>
<td>20,7</td>
<td>22,1</td>
<td>26,9</td>
<td>28,3</td>
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<td>1-99</td>
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<td>54,2</td>
<td>56,9</td>
<td>50,6</td>
<td>58,8</td>
<td>67,9</td>
<td>66,0</td>
</tr>
<tr>
<td>100-499</td>
<td>21,2</td>
<td>20,9</td>
<td>20,4</td>
<td>21,6</td>
<td>18,6</td>
<td>18,3</td>
<td>19,2</td>
<td>17,7</td>
</tr>
<tr>
<td>more than 500</td>
<td>19,2</td>
<td>22,3</td>
<td>25,4</td>
<td>21,5</td>
<td>30,8</td>
<td>22,9</td>
<td>12,9</td>
<td>16,3</td>
</tr>
</tbody>
</table>

Source: Balcet (1997); for 2001, data elaborated from Istat.
Table 6 – Share of employment in manufacturing by size class of enterprises, at Industrial Censuses, 1951-1991.

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>1-9</td>
<td>32.3</td>
<td>28</td>
<td>20.2</td>
<td>22.8</td>
<td>26.2</td>
</tr>
<tr>
<td>10-19</td>
<td>5.4</td>
<td>7.3</td>
<td>8.7</td>
<td>12.4</td>
<td>15.3</td>
</tr>
<tr>
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<td>8.7</td>
<td>11.6</td>
<td>13.1</td>
<td>13.7</td>
<td>16.3</td>
</tr>
<tr>
<td>50-99</td>
<td>8.1</td>
<td>10.1</td>
<td>10.8</td>
<td>10.2</td>
<td>10.1</td>
</tr>
<tr>
<td>100-199</td>
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<td>12.4</td>
<td>10.4</td>
<td>10.1</td>
<td>9.1</td>
</tr>
<tr>
<td>200-499</td>
<td>8.6</td>
<td>9.1</td>
<td>12.8</td>
<td>11.1</td>
<td>10.1</td>
</tr>
<tr>
<td>500 e oltre</td>
<td>25.1</td>
<td>21.5</td>
<td>24</td>
<td>19.7</td>
<td>13.0</td>
</tr>
<tr>
<td>Totale</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Brusco e Paba 1997

Table 7 – Average number of employees per enterprise at Industrial Censuses, 1971-2001.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MANUFACTURING</td>
<td>10.6</td>
<td>9.9</td>
<td>9.5</td>
<td>9.0</td>
</tr>
<tr>
<td>OVERALL INDUSTRY</td>
<td>10.6</td>
<td>9.7</td>
<td>9.5</td>
<td>8.9</td>
</tr>
<tr>
<td>CONSTRUCTION</td>
<td>7.6</td>
<td>4.1</td>
<td>4.0</td>
<td>3.0</td>
</tr>
<tr>
<td>TRADE</td>
<td>2.2</td>
<td>2.4</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>OTHER SERVICES</td>
<td>4.5</td>
<td>3.9</td>
<td>4.7</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Source: data elaborated from Istat, Censimenti dell’industria.

Table 8 - Absolute and percent variations of the number of enterprises and of employment in manufacturing enterprises by size class, 1999-2004.

<table>
<thead>
<tr>
<th>Absolute variations 1999-2004</th>
<th>% variations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprises Employment</td>
<td>Enterprises Employment</td>
</tr>
<tr>
<td>1-9 -25774  +69861 -7817 +189995</td>
<td>-5.5 +15.1 -0.6 +20.7</td>
</tr>
<tr>
<td>10-49 -2342  +7097 -48388 +115264</td>
<td>-2.9 +34.2 -3.2 +33.7</td>
</tr>
<tr>
<td>50-249 +205  +394 +15779 +32417</td>
<td>+2.0 +39.9 +1.6 +38.0</td>
</tr>
<tr>
<td>&gt;250 +37  -5 -113327 +3337</td>
<td>+2.5 -5.7 -9.1 +7.2</td>
</tr>
<tr>
<td>Tot al -27874  +77347 -153752 +341019</td>
<td>-5.0 +15.9 -3.1 +24.5</td>
</tr>
</tbody>
</table>

Source: data elaborated from Istat, Rapporto annuale 2005
Table 9 - Main performance indicators in manufacturing enterprises for some European countries, 2007

<table>
<thead>
<tr>
<th></th>
<th>Italy</th>
<th>France</th>
<th>Germany</th>
<th>UK</th>
<th>Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Totale sales per employee*</td>
<td>239,2</td>
<td>269</td>
<td>274,3</td>
<td>266,1</td>
<td>219,9</td>
</tr>
<tr>
<td>Value added per employee*</td>
<td>51,9</td>
<td>63,3</td>
<td>68,3</td>
<td>86,3</td>
<td>55,6</td>
</tr>
<tr>
<td>Wage cost per employee*</td>
<td>34,9</td>
<td>45,2</td>
<td>48,1</td>
<td>43,1</td>
<td>31,7</td>
</tr>
<tr>
<td>Competitiveness**</td>
<td>148,7</td>
<td>140,1</td>
<td>141,9</td>
<td>200,4</td>
<td>175,3</td>
</tr>
<tr>
<td>Investments-value added ratio**</td>
<td>16,6</td>
<td>15,6</td>
<td>12,2</td>
<td>14,8</td>
<td>20,4</td>
</tr>
<tr>
<td>Gross profitability**</td>
<td>32,8</td>
<td>28,6</td>
<td>29,5</td>
<td>50,1</td>
<td>43</td>
</tr>
</tbody>
</table>

* (Euro x 1000)
** (%)  
Source: data elaborated from Istat, Rapporto annuale 2008