



ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT



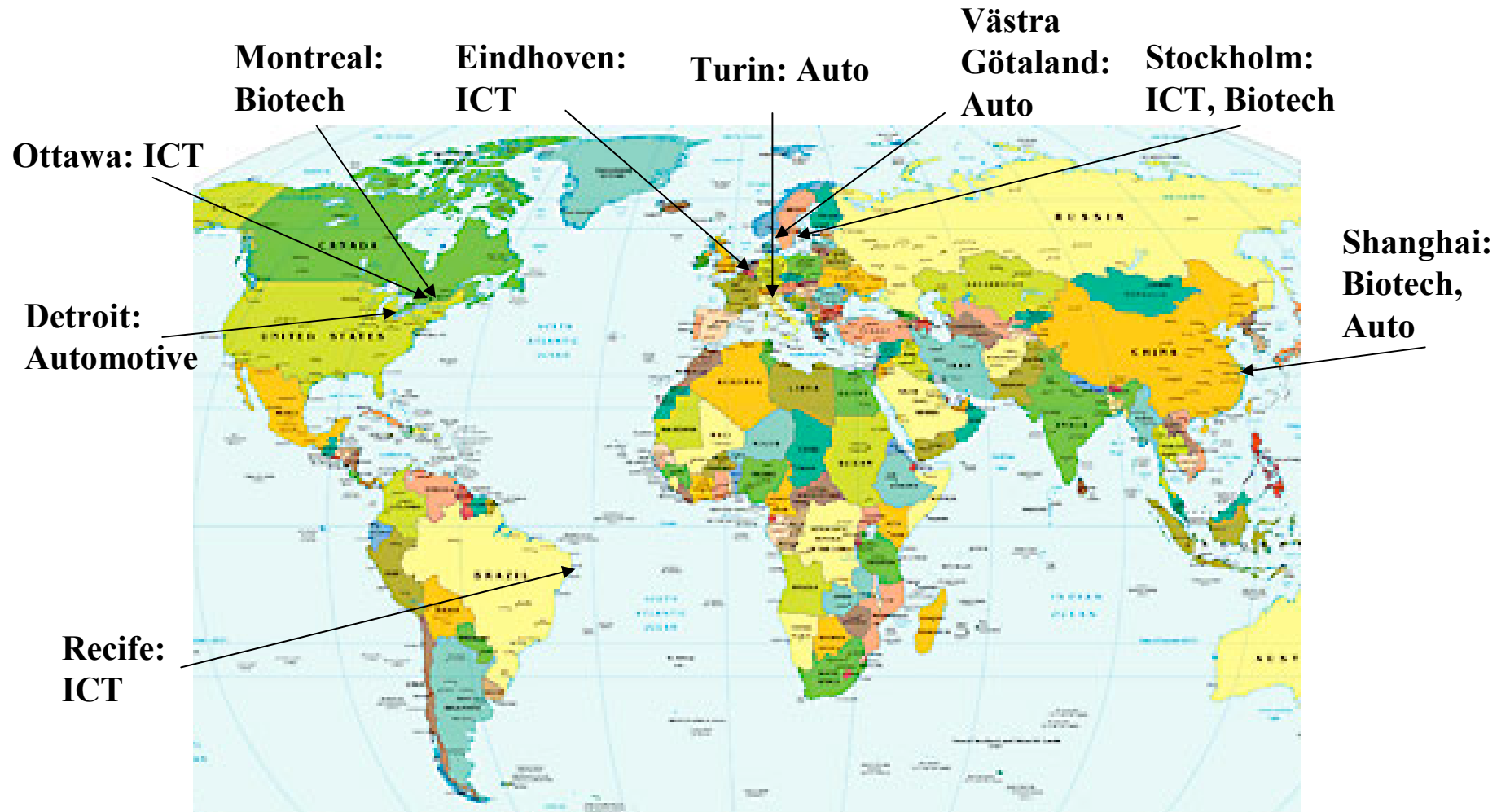
Globalisation and Regional Economies

Why this study?

Has the value of regional comparative advantages changed?

- **Regions and globalisation**
 - Changes in the way firms decide what they produce and where
 - ...leading to an evolution of the relative “value” of regional assets
- **Background of societal concerns**
 - OECD 2007 Ministerial meeting conclusions – need to communicate better the threats and opportunities of globalisation
 - Views of EU citizens: globalisation = delocalisation
- **Perception from the regions...**
 - Always someone, somewhere that can do what we do, but cheaper
 - Is it better to be specialised or not? How robust are today’s key industries as a basis for economic planning?

OECD-Nutek study: participating regions



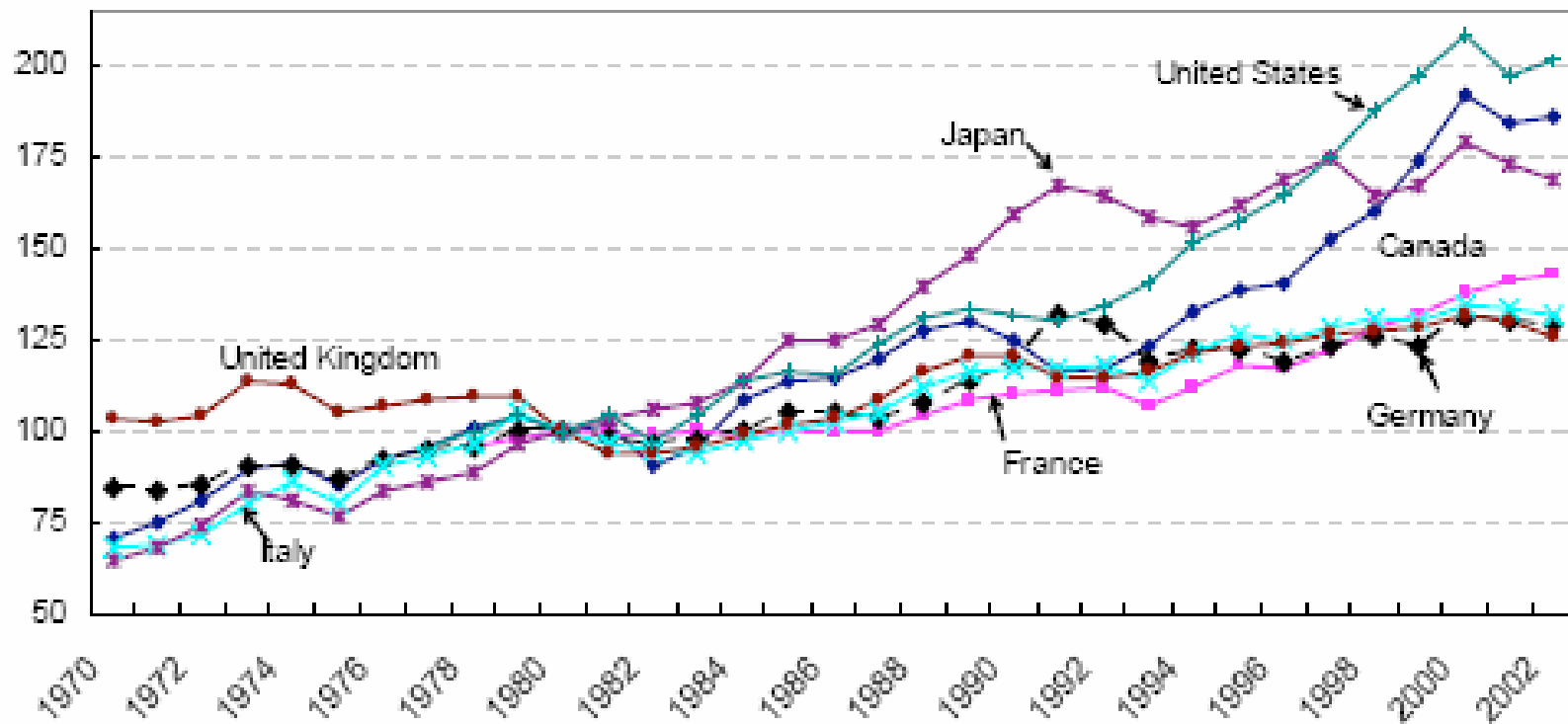
The context: the state of regional economies

The evolution towards service employment

- For an average TL2 region from 1998-2003/4:
 - ➔ **Loss** of 20,000 manufacturing jobs...
 - ➔ ...but **increase** of 60,000 service jobs... up to ten service jobs created for each production job lost
 - ➔ Real estate/business activities sector alone offset industry job losses
- Jobless growth in manufacturing output
 - ➔ Manufacturing output has increased but usually (for more than 2/3 of regions) without new jobs
 - ➔ Main explanation: technology-driven productivity growth not globalisation

Output continues to rise...

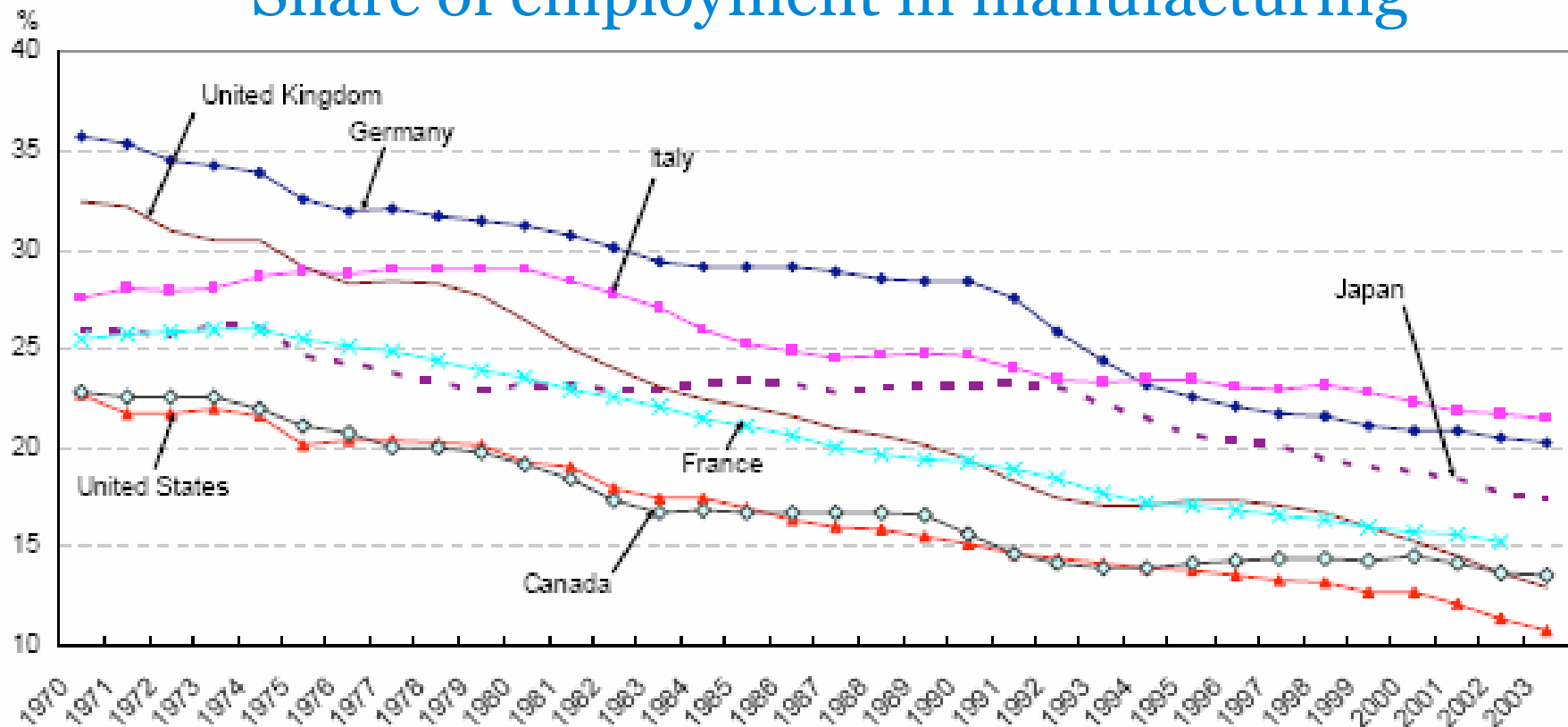
Index of manufacturing value added



Source: OECD (STI) , STAN database, December 2005

...but manufacturing jobs decline

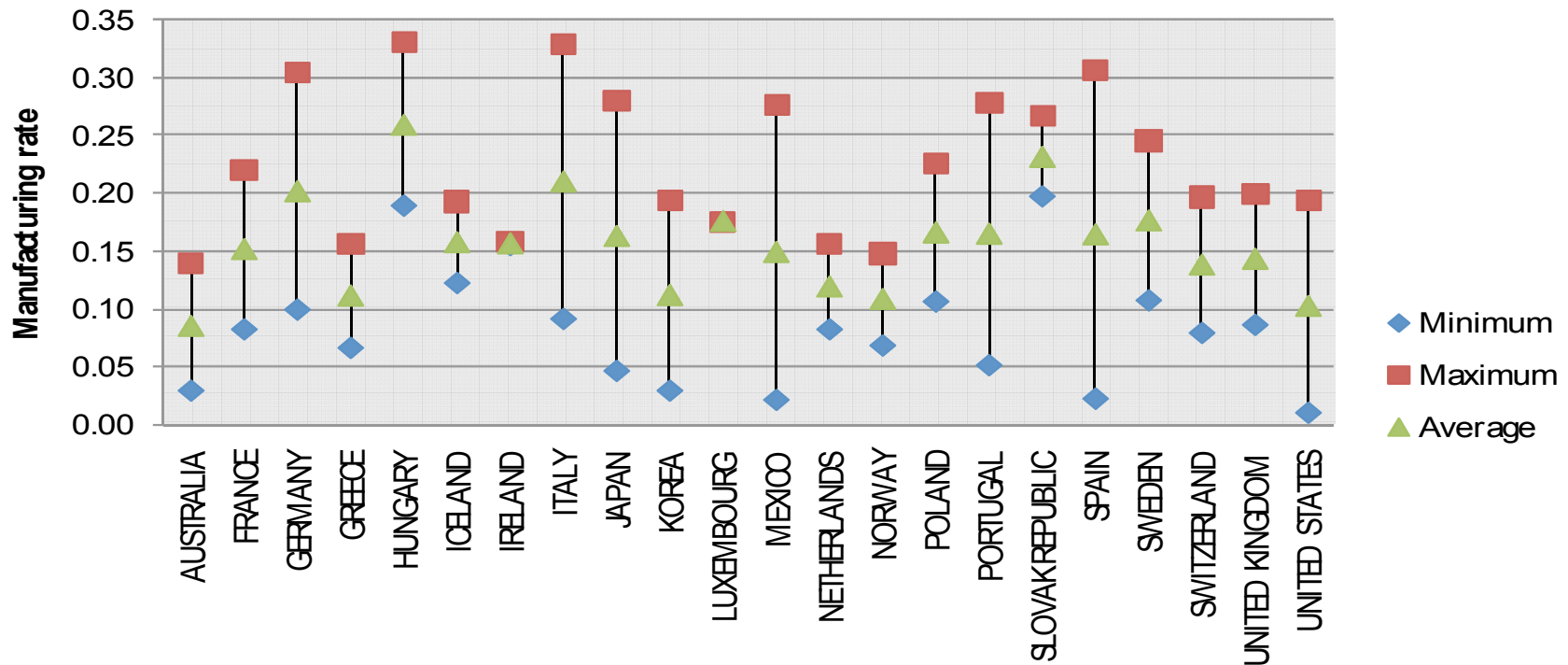
Share of employment in manufacturing



Source: OECD (STI), STAN database, December 2005

... though with very large regional variations

Employment 2003/4



Source: OECD Regional Database, TL2 level

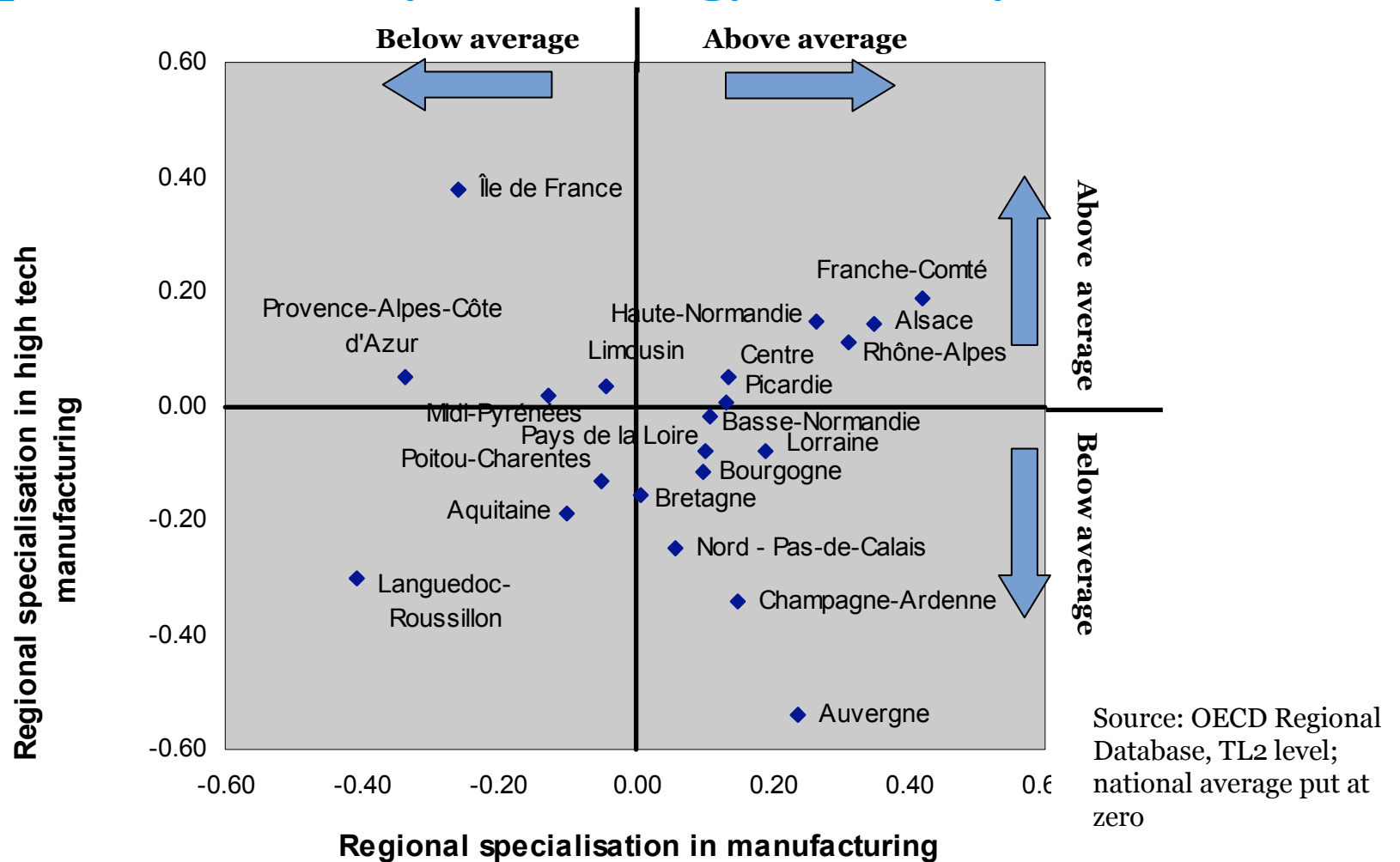
...and a blurred line between manufacturing and services

- Up to 40% of manufacturing jobs are in fact in service occupations
- Manufacturing skills and knowledge often the origin of transition to (related) services
 - From phone manufacture to multimedia system design
- A large component of manufacturing output is contributed by “service” inputs
 - Innovation in cars is as much about on-board computer systems as mechanics (road sensing, safety, GPS)

Transition from production to non-production activities not necessarily a break with the past

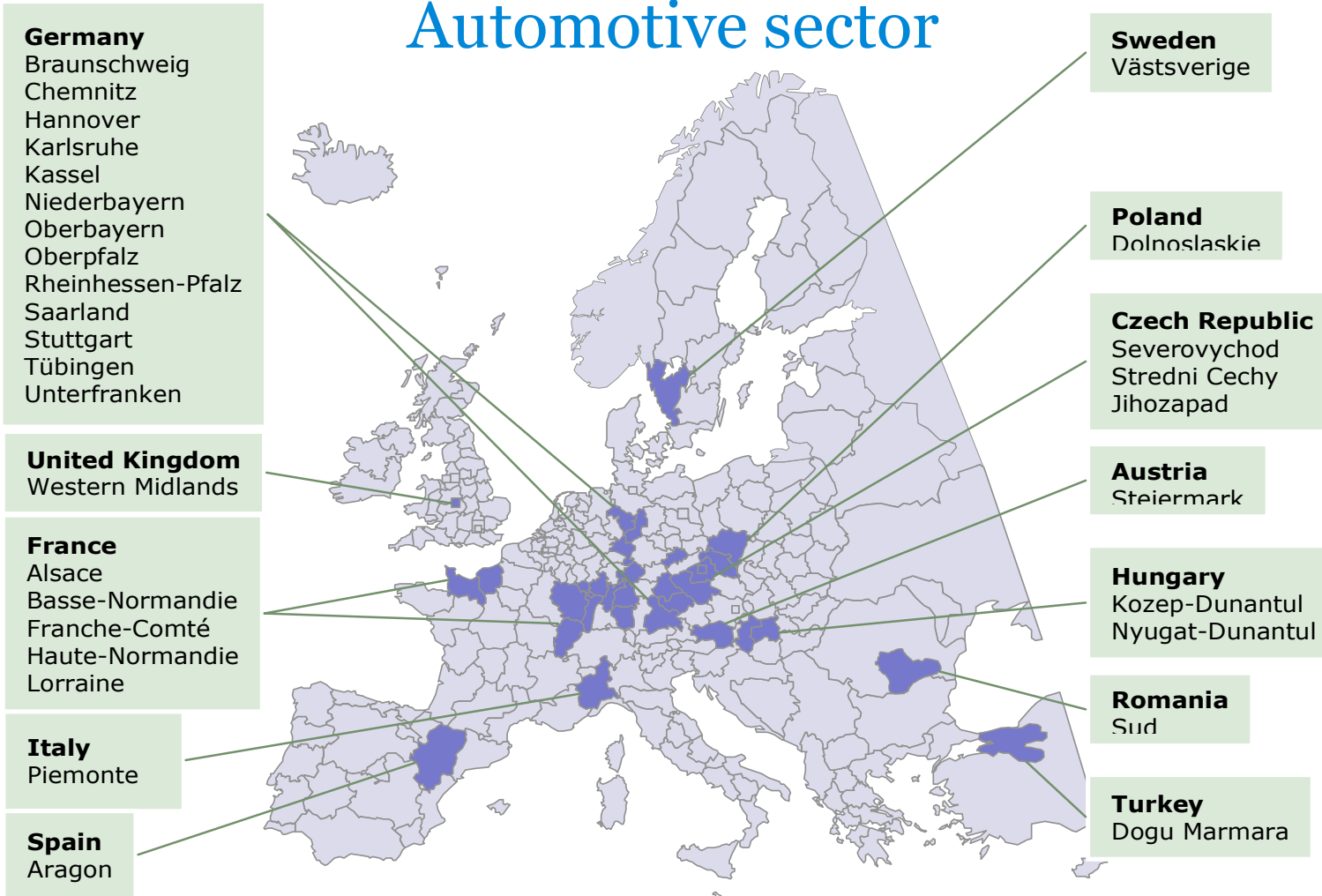
Regions specialise in different technologies

Specialisation by technology intensity: France



...and in different industries

Automotive sector



Source: European Cluster Database.



...so regional performance is linked to sector-specific evolutions

- 2/3 of total OECD manufacturing jobs lost were in textiles and apparel (1980-2003)
 - Textiles, apparel, footwear and leather goods among the most clustered activities (>50% of employment in regions with LQ >2)
- In contrast, motor vehicles and pharmaceuticals *created* net jobs
 - >40% of employment in regions with LQ >2
- Industry specific shocks very significant
 - ICT bubble (Ottawa –20,000 jobs; Stockholm –30 000)
 - Slump in SUV sales (Detroit –120 000 jobs, more projected)

Why is this important for regional policy? Some political questions:

- *Adjustment to economic change* -- Specialisation means that impacts can be very localised
- *Over-concentration* – Stockholm and Eindhoven generate >250 patents per million; a third of EU regions produce fewer than one; same story in US
- *Specialisation and innovation* – EU regions have lower levels of concentration in strong clusters than US regions – is there a link with innovation?
- *Policy influence?* – 75% of US biotech industry is in five urban centres, despite funding programmes in 41 states

Reorganisation of production: what are the regional implications?



Understanding business choices: What they produce...

- More products and increasing segmentation
 - UK car market – same number of brands as in 1995, but twice as many models
 - US TV market – imports from Japan worth over \$1000, from China less than \$100; both growing
- Production for emerging markets – low cost/no frills products, huge volume
 - Nokia, GM etc. need presence in this market, or face possible erosion of OECD markets

**Firms need business model for
scope and scale in different markets...**

...How they produce it

- Merger to achieve scale and access market is still important...
 - ...but different models to achieve “scope” – informal alliances (>intelligent suppliers and innovative SMEs)
- Decoupling development and manufacturing promotes offshoring to *trusted* suppliers
 - With core firms that do less or even no production
 - ...and suppliers that innovate and sell to multiple customers

Networked production systems offer incentives for OECD regions to reshape enterprise base

...Where they produce it

- Basic equation: low cost labour and transport...
 - Hourly wages in manufacturing: China, \$0.66; Mexico, \$2.11 (OECD > \$20)
 - Transport costs to US (from China \$4 300 in 12 days, from Mexico \$1 750 in 2 days)
- ...but limits to offshoring
 - Inadequate quality/timeliness of goods supplied
 - Transaction costs, loss of control
 - Failure to respect intellectual property

“Portfolio” approach to maximise savings while keeping risk low/spread – OECD regions have enduring advantages as “anchors”

How firms innovate

- R&D is still linked to strategy, design and process innovation
 - Close to HQ and key production sites where labour pool and technology are concentrated
- But innovation outsourcing increasingly important in innovation process
 - Complexity of innovation increases need to cost-share (drug development >\$1 billion, 10 years)
 - Need to bring in specialised firms to solve cross-disciplinary problems, including ICT-enabled global innovation networks

R&D less “internal” – open innovation systems in OECD regions encourage new entrants -- MNEs keen to be present

How are regions capitalising on these opportunities?

Globalisation-friendly regional assets: (1) Firms

Existing specialised firms

Broadening the customer base of specialised firms; reducing their dependence on MNEs by helping them to reach global markets

Innovative small firms

Supporting small firms with technical facilities; linking them to venture capital and other finance; helping to create networks among small firms

“Interested” MNEs

Embed certain functions/activities of MNEs by marketing region’s innovation capacity and flexibility in supply chains; support interaction between large firms and innovative small firms



Globalisation-friendly regional assets: (2) business environment

Cross-over technology

Reducing dependence on single industry by identifying cross-over or enabling technologies; finding new applications for sector-specific technologies

Regional innovation system

Promoting linkages between economic actors through co-location (science parks, etc.); strengthening the applied research dimension of public R&D facilities, supporting open innovation mechanisms

Other measures of regional attractiveness

Infrastructure; ensuring that skills supply is appropriate; limit brain drain and try to attract skilled people

Regional strategies: identifying a strategic orientation

- Process of strategy development crucial
 - Agreement on the problems and solutions, external shock to the region served as trigger in several examples to define the region and its strategy
 - Mobilisation of actors with resources and capacity to implement strategy; especially if weak regional mandate
 - Private sector engagement – transformation often technology driven and technical
- Type of strategy less important than the ability to mobilise actors around common vision