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Articles

Will the post-neoliberal era represent a renaissance of industrial districts as we knew them?

*Bjørn T. Asheim**

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Abstract:

We have now entered a post-neoliberal era, characterised by deglobalisation and reindustrialisation to obtain resilience and security in value chains and increase manufacturing capacity in Europe and the US. Europe has not to the same extent suffered from deindustrialisation as the US. Typical examples of the industrial structure in Europe are the 'hidden champions' of Germany and the industrial districts of the Third Italy. The industrial districts have been exposed to globalisation, resulting in the brake up of the original complete regional value chains through outsourcing in some sectors. However, in general the industrial districts have been surprisingly resilient during the 40 years period of neo-liberalist globalisation illustrating the 'many possible world view' of Sabel and Zeitlin (1985). In this contribution we ask what will the new tendencies of deglobalisation, regionalisation and Industry 4.0 digital technology mean for the future of the industrial district model? Will it imply a strengthening of the original form of industrial districts so that this model of (re)industrialisation once again takes on a position as a role model for developed economies. The intention of this letter is to introduce a discussion about this fascinating topic.

Keywords: Industrial districts; post-neoliberal era; deglobalisation; regionalisation; industry 4.0.
JEL Classification: R3; O3; L6.

¿Representará la era posneoliberal un renacimiento de los distritos industriales tal como los conocíamos?

Resumen:

Hemos entrado en una era posneoliberal, caracterizada por la desglobalización y la reindustrialización para obtener resiliencia y seguridad en las cadenas de valor y aumentar la capacidad de fabricación en Europa y Estados Unidos.

Europa no ha sufrido la desindustrialización en la misma medida que Estados Unidos. Ejemplos típicos de la estructura industrial en Europa son los "campeones ocultos" de Alemania y los distritos industriales de la Terza Italia. Los distritos industriales han estado expuestos a la globalización, lo que ha resultado en la ruptura de las cadenas de valor regionales completas originales a través de la subcontratación en algunos sectores. Sin embargo, en general los distritos industriales han sido sorprendentemente resilientes durante el período de 40 años de globalización neoliberal, lo que ilustra las "muchas visiones del mundo posibles" de Sabel y Zeitlin (1985). En esta contribución nos preguntamos ¿qué significarán las nuevas tendencias de desglobalización, regionalización y tecnología digital Industria 4.0 para el futuro del modelo de distrito industrial? ¿Implicará un fortalecimiento de la forma original de los distritos industriales para que este modelo de (re)industrialización vuelva a posicionarse como modelo a seguir para las economías desarrolladas? La intención de este artículo es introducir una discusión sobre este fascinante tema.

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Palabras clave: Distritos industriales; era posneoliberal; desglobalización; regionalización; industria 4.0.
Clasificación JEL: R3; O3; L6.

1. Introduction

According to many observers we have now entered a post-neoliberal era, characterised by deglobalisation and reindustrialisation to obtain resilience and security in value chains through reshoring and regionalisation, and increase manufacturing capacity in Europe and the US to carry out the green transition. This is promoted by expansive industrial policies in the EU and the US and is expected in the US to result in a reindustrialisation of previous industrial regions which have suffered from deindustrialisation and plant closures caused by offshoring.

In Europe, which in contrast to the software-based platform economy of the US, is dominantly a hardware manufacturing region, most of Western Europe (including the Northern and Central part of Italy) and the Nordic countries have not suffered a similar deindustrialisation (with the exception of parts of Northern France and Belgium). Much of the manufacturing capacity is located in small towns and other semi-peripheral areas, and not in the large city-regions as is the case with the US platform economy. Typical examples of this industrial structure are the 'hidden champions', the Mittelstand firms of Germany (Lehmann and Schenkenhofer, 2023) and the industrial districts of the Third Italy (Asheim, 2000). These industrial districts have been exposed to globalisation, resulting in the brake up of the original complete regional value chains through outsourcing of labour- intensive work functions and the influx of MNC. However, in general the industrial districts, especially in Veneto and Emilia-Romagna have been surprisingly resilient during the period of neoliberalist globalisation. In this letter we aim to try to answer the question of what the new tendencies of deglobalisation, regionalisation and Industry 4.0 digital technology will mean for the industrial district model. Will it imply a strengthening of the original form of industrial districts where the (almost) complete value chain was the ideal form of organisation? This form of industrial organisation will clearly have more supporting environments in the post-neoliberalist era due to technologies of the fourth industrial revolution of industry 4.0 as well as a rising political focus on environmental, economic and social sustainability issue, viz. a resilient and secure value chain, CO2 emissions, exploitation of labour and infringement of human rights (Grillitsch and Asheim, 2023). The latter factors will gradually be integrated in trade policies and tariffs to even the global playing fields. In addition, security factors have attained increasing importance in the thinking about reindustrialisation, which means that what we now see is the integration of industrial policy, innovation policy, trade policy and security policy, which dramatically is changing the operation of the world economy.

2. Background: Neoliberalist globalisation and post-neoliberalism

Economies of developed countries underwent a quite dramatic change in the 1970s and especially 1980s due to the trinity of change in economic and political thinking that first took place in leading liberal market economies such as the UK and the US, and later gradually and partly diffused also to the coordination market economies of Western Europe: neo-liberalism, financialisation, and globalisation.

Neolibralism represents a political philosophy of minimizing the state and maximising the market; what is also often understood as laissez-faire economic philosophy of free-market capitalism without state intervention. Neo-liberalism was first introduced by president Reagan in the US and prime minister Thatcher in the UK in the 1980s (that is why it is 'neo' as liberalism as an ideology is much older), but slowly diffused also the other countries. This policy surprisingly survived change of governing political parties and continued to be the dominating political paradigm, as is seen in the UK when Blair took power, in the US when Clinton became president but also in Nordic countries. The neoliberalist thinking also became manifest in the public sector through the theories of new public management, which lead to a

systematic downsizing and outsourcing of tasks from the public sector to the growing market of big consultancies. This strangled the public sector and reduced its influence and capacity to regulate the economy in accordance with the philosophy of neo-liberalism.

Globalisation appeared first in the mid 1970s and Ford's 'world car' was the first manifestation of it. The idea was that parts of the car should be produced where the location factors for such production was optimal and the cost lowest, and then finally assembled in plants located close to the main markets such as Europe and the US. We see here the main idea of splitting up and offshoring of the original technical, intra-firm division of labour within a factory in global production network, orchestrated by multinational or transnational companies. The original plan of Ford become too complicated, but the idea of splitting up and offshoring of production of parts, functionally integrated in a global production network remained as the core of globalisation, where TNC played the orchestrating role (Dicken, 2015). What the becoming of neoliberalism meant for globalisation was a one-dimensional focus on cost minimisation to maximise the shareholders value, in accordance with the Friedman doctrine, which is central in neoliberalist economic thinking. This strong focus on cost meant that economies of scale drove FDI to countries with cheap labour, as it was primarily labour-intensive tasks that were offshored, which lead to a concentration of the operations in often gigantic plants, which Foxconn's factories for iphone production in China is an example of. Furthermore, the lowest cost focus implied that no other considerations of resilient and secure value chains as well as environmental and social sustainability issues were taken into consideration, which was drastically disclosed during the Covid-19 pandemic, and was the last nail in the coffin for the neo-liberal form of globalisation. The first serious crack in the operation of neo-liberal globalisation came under the financial crisis in 2008, which demonstrated the problems of a too strong influence in the economy by the financial sector.

In the discussion of globalisation it is important to recognise that globalisation and internationalisation is two different regimes of international cooperation and trade. As globalisation is a relatively new phenomena of the last 40-50 years, and represents the functional integration of the previous internal division of labour in global production systems and value chains, orchestrated by transnational corporations, internationalisation has existed since the great discoveries in the 15th century. Internationalisation simply means the exchange of goods in an international market, and is constituted by countries and regions' social division of labour, which means the individual countries and regions produce products which they are relatively most efficient in doing, which was the basis for the principle of comparative advantage, the foundation of international trade. Concretely, this meant the one region concentrated on wine production, another on textile and a third on autos. This was the forms of exchange that was also dominant in industrial districts.

What a deglobalisation and reshoring represent is a gradual transformation from global value chains to interregional and regional value chains and an increased importance of international trade of goods and services at the expense of the trade of parts as in globalisation.

3. Industrial districts and globalisation – what was the impact?

According to the logic of neo-liberal globalisation of cost minimization to maximize profit and shareholders value, the anticipation was that the model of industrial districts would have a hard time to survive, resulting in bankruptcies, closures of firms and outsources of production, even if the local production systems of specialised SMEs were effective as well as efficient. This opinion was especially based on the fact that many of the industries of industrial districts are traditional which products were labour intensive, less knowledge intensive and, consequently, easy to offshore and relocate to countries with cheap labour and less regulations. The experience, though, as showed in a thorough researched article by Fiorenza Belussi, the leading Italian scholar of industrial districts and globalisation, from 2015, is almost the opposite with most industrial districts being very resilient and showing no sign of a significant de-industrialisation, as was expected. This does not mean that industrial districts were unaffected by globalisation but that the impact did not result in a massive downsizing and rising unemployment. Belussi concludes her analysis by underlining 'how interwoven the evolution of local economies and MNEs is'

(Belussi, 2015, 108). This interconnection was manifested in breaking up the traditional internal districts-based value chain by outsourcing labour-intensive parts of production, by the entering of MNEs, so that the structure of the districts was no longer dominated by SMEs, by the merger of local firms into larger firms, of which some become home-grown MNEs, and by increased access to global knowledge (Belussi and Asheim, 2009). Thus, Belussi concludes her analysis by arguing that 'the recent entry and exit of MNEs, and the phenomena of offshoring did not question the model of ID/C per se' (Belussi, 2015, 108). But why did it develop this way, and not the way many observers had argued it would do, and does this development contain aspects which can be valuable for clusters in Western Europe in the coming reshoring of global value chains?

Even if industrial districts in the broader picture is seen as a distinct form of industrial organisation, it contains large differences with respect to the products manufactured, the knowledge and labour intensity of the products, the qualification of the workforce, the level of technology advancement, the level of R&D intensity, and the markets for the produced goods. Thus, it is not a question of 'one size fits all' but of a high degree of diversification. Industrial districts are far from all labour intensive and low tech, many districts have medium and high-tech industries such as engineering firms and biotech companies as well as design intensive and high fashion products. This differentiation of industrial districts is also the main explanatory factor of the different impact and consequences of globalisation for the various types of industrial districts.

According to Belussi (2015) offshoring took mostly place in the labour intensive parts of the value chain in districts specialised in the 'made in Italy' sectors such as footware and clothing, though with the value creation parts such as design, remaining in the Italian districts. One of the preferred locations was Romania, where sometimes similar industrial districts to the Italian one, were established, though without the special fusion of society with economy, that is one very important characteristics of the Italian districts (Sabel and Piori, 1984). In the present era of deglobalisation, this is an interesting example, as it would be characterised as near- or friend-shoring taken place within Europe in a country that is member of both the EU and Nato. One different example of consequences of globalisation in the textile sector is Prato in Tuscany, which has witnessed a massive influx of Chinese entrepreneurs as well as illegal Chinese workers. Prato specialised in medium quality fabric made from regenerated wool, and in colouring the fabric in a fast and flexible way. But this was neither a technologically advanced nor a design intensive production. But instead of upgrading to e.g. technical textile, the SMEs and their organisations insisted in doing what they always had done, which resulted in the takeover by Chinese entrepreneurs, as the production was low tech and did not demand any specific competence beyond a willingness to work hard. As a result, Prato was one of the very few industrial districts that had to rely on competition by cost (and not innovation), which led to the district being exposed to hypercompetitive strategies such as cut-throat prices resulting in severe restructuring and plant closures (Belussi, 2015, p. 107).

This is a key dimension in analysing which consequences globalisation had for industrial districts. According to Belussi's analysis, high- and medium-tech mechanical industrial districts, represented by biomedical, packaging machines and agricultural machinery, did not often choose to offshore part of the production (Belussi, 2015, p. 107). Also in industries with more integrated production processes, such as ceramic, relocation was marginal, and some local lead firms in the Bologna packaging and Reggio Emilia agricultural machinery industrial districts, have also developed into home grown MNEs. (Belussi, 2015, pp. 107-108).

The outcome of FDIs in industrial districts is also strongly correlated with how advanced the product and production as well as the technology level and the R&D intensity are. As many of these firms with more advanced products and technology are engineering based firms, the importance of tacit knowledge, developed over many years of specialised production, what Marshall called 'the industrial atmosphere', is significant. Such firms also base much of their innovation activities, especially concerning incremental innovation, on tacit knowledge, which is sometimes described as application development, in contrast to technological development, which is applied research in cooperation with technical universities (Asheim and Parilli, 2012). As tacit knowledge is sticky to places, and, thus, less mobile, foreign firms have to invest in the firms in these districts to have access to this form of knowledge and to exploit it, and they will have to remain and develop the firms in these places. The experience from industrial districts confirms this, as demonstrated by e.g. the Swedish globally leading medical technology firm, Gambro, investing in the

Mirandola biomedical district, and the Investment by Fiat and Audi Volkswagen in the Bologna motor valley districts as well as similar FDIs in the Montebelluna industrial districts, which is the world leading producer of technical sport shoes (Belussi, 2009). This represented an efficient way to get access to local knowledge, which strengthened the competitiveness of the districts.

Thus, the conclusion we can draw from this short overview of the experiences of industrial districts in the era of neo-liberal globalisation, is that districts with technologically advanced production and specialised products for niche markets, in general, have been resilient and done well, and have benefited from access to global knowledge and FDIs, and have come strengthened out of globalisation. This is very much the same development as the hidden champions of Germany have experienced (Lehmann and Schenkenhofer, 2023). The exception is few, foremost represented by Prato, with a relative low-tech production and not very specialised products, that now more or less are taken over by Chinese entrepreneurs and workers, and are competing on cost in the market of fast fashion.

Even if the strength of tacit knowledge of these engineering based industrial districts are their basic competitive advantage, to remain competitive and increase their competitiveness, access to science based, analytical knowledge becomes increasingly important, especially in relation to taking advantage of Industry 4.0 technology to implement robot and automation technology to make the production process more efficient and less dependent on labour costs. Applying Industry 4.0 technology will in many ways be a parallel story to the adoption of computer aided machinery in industrial districts in the beginning of the 1980s, which resulted in the production systems of SMEs enjoying the same productivity level as large firms exploiting internal economies of scale (Asheim, 2000).

An example of how knowledge base combination of analytical and synthetic knowledge (Asheim et al., 2017) can be achieved, is the mechatronic industrial districts of Vicenza. The mechatronic industry is solidly based on synthetic knowledge, but to upgrade to be able to implement Industry 4.0 solutions, the access to analytical knowledge is necessary. One way this demand has been accommodated, has been to locate the Doctoral Programme in Mechatronic and Product Innovation Engineering of the University of Padova in Vicenza. This decision has significantly made the access to this type of knowledge much easier, and also lowered the barriers that often exists between SMEs and universities, by co-locating the educational offer with the industrial district (Plechero and Grillitsch, 2023). Surely, often it can be even more important to co-locate relevant master educations in engineering in the districts of the industry.

4. What can be learned from the industrial districts experience of neoliberal globalisation relevant for the new post-neoliberal era of reshoring value chains

In general, industrial districts seem to have been very resilient with a positive economic development during the time of neo-liberal globalisation, as is also the case with the German 'hidden champions', with no dramatic down-sizing and loss of jobs. This is especially the case in districts producing technologically advanced or design based (luxury) products for niche markets. This seemingly continued success is also due to characteristics of the labour force and the social embeddedness of the districts. Lately, also an increased cooperation with regional technical universities, something that has been more prominent among the 'hidden champions' to upgrade products and the competence of the workforce, has been an important contributing factor (Plechero and Grillitsch, 2023).

However, even in spite of this, industrial districts and 'hidden champions' have always been looked upon as exceptions or special cases, that has surprisingly survived due to regional contingencies, and not as an alternative model for manufacturing industries. Most observers and researchers within economic geography and innovation studies in Europe has bought into the US based narrative about a rapid deindustrialisation as well as the story about (manufacturing) industry representing the past. This has been the case in the US, which as pointed at earlier in the letter, has developed into a software-based platform economy, and where the majority of the manufacturing firms and jobs in the traditional industrial centres in the Mid-West, has been outsourced to countries with cheap labour in East Asia and Mexico. But as argued in this letter Western Europe is still basically a manufacturing economy, which has not experienced

a similar deindustrialisation. And when we now look forward to the green transition of societies and economies, we see the need for a dramatic increase of industrial production capacity and capabilities to be able to manufacture the large amount of tangible products that is required to carry out such a transition. Thus, industry is the future, not the past. This new development has been supported by the reintroduction of industrial policy as part of the post-neoliberal era, and the deglobalisation and reshoring of value chains, caused by a combination of environmental, social and economic sustainable considerations as well as security reasons, connected to geo-political tensions and control of the production of products of strategic importance, such as semiconductors.

In this new context, the experiences of industrial districts and the 'hidden champions' can represent important learning and inspiration for the future thinking about the organisation of industrial production. Here it is important to keep in mind the 'many possible woofrld view' (Sabel and Zeitlin, 1985), which was mentioned in the introduction. This view argues that the future development is not based on or limited by only technological trajectories and firm-based economic consideration, but is fundamentally a question of politics and policies, of how inhabitants and politicians make value judgements and priorities of what is considered as important for a prosperous life and a save future for people and planet. We see this clearly in our time of large societal challenges concerning economic, social and environmental sustainability as well as rising geopolitical tensions and of non-democratic, strong nations. New technological development gives us the opportunities to contribute to solving these challenges, and also to organise the production and distribution in a sustainable way, that at the same time creates a basis for a meaningful and prosperous life for people and a sustainable planet. The story of industrial districts represents an example of the 'many possible world view' that can inspire and help us to act responsible.

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