



# WHAT POLICIES, INITIATIVES OR PROGRAMMES CAN SUPPORT ATTRACTING, EMBEDDING AND RESHAPING GVCS IN REGIONS?



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Broadening innovation policy: New insights for cities and regions

**What policies, initiatives or programmes can support attracting, embedding and reshaping GVCs in regions?**

Sandrine Labory and Patrizio Bianchi

## Background information

This paper was prepared as a background document for an OECD/EC high-level expert workshop on “Building, embedding and reshaping global value chains” held on 21 September 2018 at the OECD Headquarters in Paris, France. It sets a basis for reflection and discussion. The background paper should not be reported as representing the official views of the European Commission, the OECD or of its member countries. The opinions expressed and arguments employed are those of the author(s).

## Broadening innovation policy: New insights for regions and cities

The workshop is part of a five-part workshop series in the context of an OECD/EC project on “Broadening innovation policy: New insights for regions and cities”. The remaining workshops cover “Fostering innovation in less-developed/low-institutional capacity regions”, “Developing strategies for industrial transition”, “Managing disruptive technologies”, and “Experimental governance”. The outcome of the workshops supports the work of the OECD Regional Development Policy Committee and its mandate to promote the design and implementation of policies that are adapted to the relevant territorial scales or geographies, and that focus on the main factors that sustain the competitive advantages of regions and cities. The seminars also support the Directorate-General for Regional and Urban Policy (DG REGIO) of the European Commission in their work in extending the tool of Research and Innovation Strategies for Smart Specialisation and innovation policy work for the post-2020 period, as well as to support broader discussion with stakeholders on the future direction of innovation policy in regions and cities.

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## 1.1. Executive summary

1. This paper outlines the regional industrial policies most conducive to GVC reshaping and emergence, on the basis of an analysis of concrete experiences in regions in the OECD countries and outside. It starts by examining the current changes in the competitive context of industries, namely the new phase of globalisation together with the fourth industrial revolution, to outline the implied structural changes most likely in GVCs, and some already occurring. This is useful to define the most appropriate industrial policies at regional level, that are confronted with some successful concrete experiences in regions.

### Box 1. Key takeaways

- Globalisation and the fourth industrial revolution are inducing substantial structural changes in industries, hence GVC reshaping and emergence: we argue that a new manufacturing regime may be establishing, characterised by ‘mass customisation’, namely the ability to combine high economies of scale with high economies of scope.
- Industrial policy is key in this context: it is the policy aimed at favouring structural changes, defining and implementing sets of instruments and actions specific to territories, in accordance with their strengths and weaknesses and their strategic choices of development path.
- Structural changes are extremely complex: multiple scientific discoveries and technological innovations, enabling new products and new processes, with impact not only on the economy but also on the society and culture.
- GVCs are reshaping in various ways and new GVCs are emerging; production is still organised on a global scale, by distributing production phases in different countries, exploiting each country’s comparative advantages, together with strong unity in data sharing, codification, management lines and long-term strategies; the digital factory sets up in territories with enabling conditions, namely infrastructure, skills, capabilities, knowledge, and institutional capacity and density.
- Regional industrial policy has a key role: regions must become hubs of knowledge and competencies, with sufficient institutional capacity to anticipate changes and provide the conditions for development.
- Four elements appear to be essential for effective regional industrial policies: capabilities (providing the conditions for the development of capabilities, especially innovative capabilities), networking for the building of complementarities (both internal and external to the region), participative governance (involving stakeholders in the policy process in order to better access to relevant information and share a vision and common strategies, so that the whole regional ecosystem is mobilised towards the agreed aims), and policy coherence, between the different policy fields that are interdependent, namely industrial, social, educational, trade, energy and so on.
- Policy coherence is also required between the different levels of government: local, regional, national and supranational. In particular, the national level, besides regulation and antitrust, has an important role to play in favouring synergies

(complementarities) between the different regions (in Europe, the European level may favour complementarities between regions in different Member States).

## 1.2. Introduction

2. This paper outlines the regional industrial policies most conducive to GVC reshaping and emergence, on the basis of an analysis of concrete experiences in regions in the OECD countries and outside. It starts by examining the current changes in the competitive context of industries, namely the new phase of globalisation together with the fourth industrial revolution, to outline the implied structural changes most likely in GVCs, and some already occurring. This is useful to define the most appropriate industrial policies at regional level, that are confronted with some successful concrete experiences in regions.

3. Overall, what emerges is that policies should aim at developing productive capabilities as already stressed in the literature, but also networking different specialisations in order to exploit complementarities, both within and outside regions. The governance of the policy process is also important, and has to be participative, and policy coherence is another feature that we stress as essential in times of deep and complex structural changes not only in the economy, but also in the society and culture.

4. This paper does not identify the policy for building, embedding and reshaping global value chains, in the sense of a set of instruments that can be successfully implemented in any context or more specifically, region. Regions are heterogeneous, and each require a specific set of instruments to develop the capabilities necessary for the reshaping of existing GVCs and the emergence of new ones.

5. We define industrial policy as a policy aimed at favouring structural changes, implementing various sets of instruments (Bianchi and Labory, 2006, 2011a, b). Instruments comprise support to investment, access to finance, promotion of export and of innovation, but also instruments aimed at providing the conditions for structural change and industrial development to take place, including the provision of public goods (infrastructure) but also human capital, without which firms do not find the skills they require. It is not about ‘picking the winner(s)’ but about providing the conditions for industrial development (Bianchi and Labory, 2011, 2018a, b).

6. Various authors have highlighted the importance of industrial policy, particularly in time of deep changes in the competitive context (for example, Warwick, OECD, 2013, for a review). In times of globalisation and industrial revolution, industrial policy is necessary because it is not only products and processes that are renewed and changed, but also the society, culture and institutions. For this purpose, industrial policy is not about specific subsidies but about a comprehensive set of instruments and actions that a government designs to position a territory in the new global geography of production.

7. Our interpretation of the changes in the competitive context is what we have called ‘digital globalisation’ (Bianchi and Labory, 2018a), namely a timeless globalisation where flows of data become prominent with respect to flows of goods and tangible capital. The capacity for data collection and analysis becomes a key asset for firms and regions, as information and knowledge can be accessed from any place in the world in real time, and networks of individuals and organisations sharing and collectively creating knowledge can operate on a global basis, maintaining rapid communication and constant interaction.

8. Technological changes are however multiple, in different scientific fields and areas, that are often converging, creating opportunities to develop new products and new processes in many different sectors. Any sector can benefit from the new technologies, and any firm in any place, if it has access to knowledge together with absorptive capacity. The latter are in great part determined by the local conditions: the presence of rapid and cheap communication infrastructure, as well as human capital with appropriate skills.
9. An important characteristic that has to be taken into account for effectiveness is that regional industrial policy should constitute a process, where policy-making aims at promoting specific development paths, providing the conditions (tangible and intangible assets) for the regional ecosystem to evolve in this orientation.
10. The identification of the proper trajectory for the future is difficult, but it is a political choice. This implies that different possible trajectories have to be contemplated, making choices and preparing for learning and adjustments in case of failure.
11. This process should involve regional stakeholders so as to realise a diagnosis of the regional ecosystem, outlining its strengths and weaknesses, and to choose a development path thanks to a shared vision of future developments.
12. Policy should indeed try to anticipate changes rather than wait for their realisation and react to them. The main reason is that structural changes take time to be realised, since they arise in the long-term, while once shocks or changes have occurred one has to react quickly. Perfect anticipation is difficult, but a policy process defining a vision and regularly adjusting or revising it according to new knowledge learnt in a dialogue with regional and external stakeholders can help provide the conditions for regional GVCs to upgrade or emerge.
13. Policy evaluation is important in such a dynamic context, so as to monitor results and learn and adjust instruments accordingly.
14. The cases analysed in this paper show that such an involvement and dialogue with stakeholders contributes to the success of industrial policy.
15. The key difficulty in this context is that policy jurisdiction (the region, the territory) is much smaller than the area of action and perspective of the businesses to which the policy is aimed. Hence the importance of policy coherence, particularly between levels of government intervention (local, regional, national and supranational).
16. This paper is structured as follows. Section 1.3 examines the changes in the competitive context, namely ‘digital globalisation’ and its effects on GVCs. Section 1.4 derives implications for industrial policy and points to the key importance of the regional level. Section 1.5 outlines four main policy elements for successful regional industrial policy. Section 1.6 analyses different concrete cases, especially in the Emilia Romagna (ER) region. The last section concludes.

### 1.3. Industrial revolution and transformation of GVCs

#### Box 2. Summary section 1.3

“Digital globalisation” is the consequence of the ongoing fourth industrial revolution, with new technological system and new production system. Globalisation continues but it is characterised by large growth of data flows, not so much of product flows as in the past



decades. As a consequence, GVCs are reshaping and emerging, in ways that have to be further researched, but with a number of clear tendencies: smart manufacturing makes the strategy of searching for low labour-cost territories less important, while territories with dense knowledge and competencies, supported by appropriate infrastructure and institutions, provide the conditions for GVC reshaping and emergence.

17. We argue that globalisation has entered a new phase that can be called “digital globalisation”, mainly as a result of the structural changes induced by the ongoing fourth industrial revolution.

### ***1.3.1. New technological system***

18. GVCs are deeply transforming in all industries and cannot be analysed without consideration of these structural changes (Bianchi and Labory, 2017, 2018a).

19. Technological developments are happening in various fields, such as biotechnologies, genomics, new materials, robotics, nanotechnologies, renewable energy, and so on. Often these new technologies converge to produce new products and processes. Examples include the sequencing of human genome, which has opened new opportunities in the health sector, including more targeted treatments of diseases. Another example regards nanotechnology, which is used in various fields of science such as organic chemistry, molecular biology, energy, environment science, semiconductor physics, food safety, etc. It allows the creation of new materials and devices with a vast range of applications, such as in nanomedicine, nanoelectronics, biomaterials energy production, and consumer products.

20. Large and rapid changes are also taking place in the field of information and communication technologies, and convergence with other scientific fields make them the essential infrastructure for economic and social activities today, namely Networks, Connectivity and Digitalisation, as well as Big Data (NCD&BD). Artificial intelligence is improving thanks to big data analytics in super computers. Data science is another example of technological and scientific convergence, between database technology and data mining, machine learning and artificial intelligence, complex system theory and network science, statistics and statistical physics, information retrieval and text mining, natural language processing and applied mathematics. Applications are numerous, from the better personalisation of products, to advertising targeting.

21. The field of robotics is also generating many innovations using Big data to develop artificial intelligence. Robots’ learning and perception improve and these machines are increasingly used in many sectors, including health (assistance to the elderly and the disabled), services (robots assisting in house cleaning, restaurant services, etc.) as well as in production (as most simple tasks in manufacturing are increasingly being performed by robots). Artificial intelligence also derives from converging scientific fields and technologies, namely IT, Mathematics, cognitive sciences, neurobiology and philosophy. Applications of AI techniques include autonomous vehicles (such as drones and self-driving cars), medical diagnosis and search engines (such as Google search) (Ross, 2013; Kelly, 2016).

### ***1.3.2. New production system***

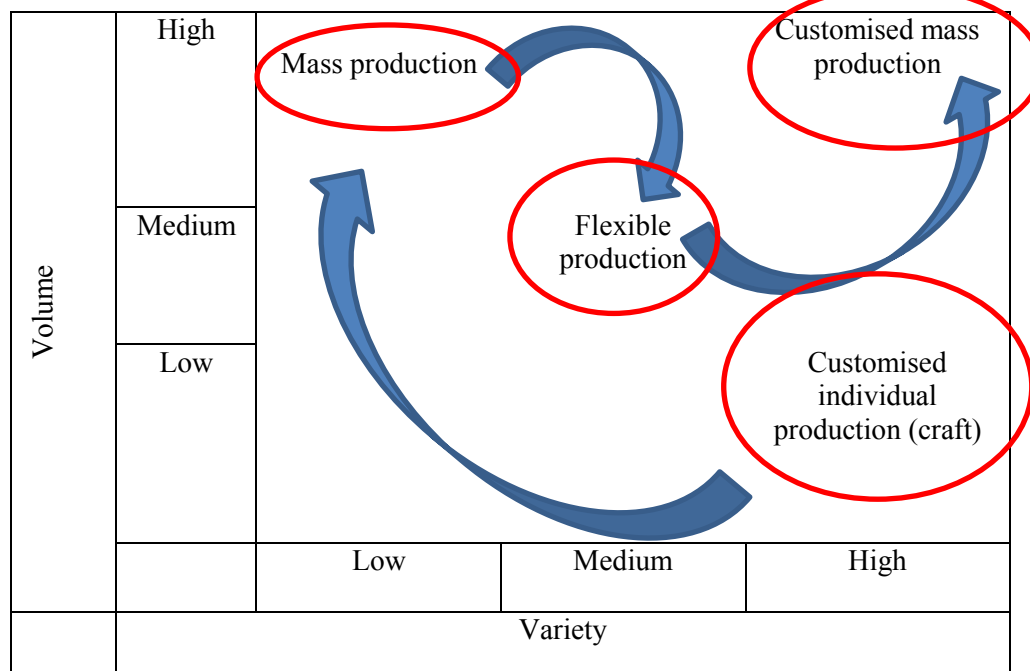
22. The technological and scientific developments that are in many ways converging are making new production processes possible. Economies of scale are maximised in the

factory, thanks to the use of autonomous robots, integrated computational materials engineering (computer models of products and production processes, which can be tested even before their physical creation), digital manufacturing, digital internet and flexible automation. Economies of scope are maximised too, since consumers are also directly connected to the factory, and can send their specific requests on products, which the digital factory processes and produces by sending precise instructions to the connected robots and machines. A new prevailing production system, or manufacturing regime, thus emerges (Bianchi and Labory, 2017a), characterised by high economies of scale and economies of scope, or mass customisation.

23. Each industrial revolution is indeed associated with a particular manufacturing regime. The first industrial revolution was the shift from craft production to the factory system. In the former system, each worker produced one good, which could be highly differentiated (economies of scope) but with very low economies of scale. The factory system introduces the division of labour, whereby each worker in the factory specialises in specific tasks of the production process, implying higher economies of scale. The latter are 'maximised' in the mass production system, introducing scientific management of the assembly line, as in the Fordist system. However, products are homogenous and there are no economies of scope. This new manufacturing regime emerges during the second industrial revolution. The flexible production system, still exploiting high economies of scale but with increasing product variety (hence economies of scope) on the assembly line, can be argued to be the production system of the third industrial revolution. In the fourth industrial revolution, mass customisation, simultaneously exploiting high economies of scale and of scope, volume combined with variety, prevails (Figure 1).

**Figure 1. Manufacturing regimes and Industrial Revolutions**

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Source: Bianchi and Labory (2017a).

24. In the mass customisation system, time to market substantially reduces not only thanks to the flexibility of adjustment described above, but also thanks to more effective and rapid development of prototypes.

25. Market interactions also change in the new production system. As already mentioned, consumers can directly interact with the factory system to ask for products with specific characteristics. There are also interactions between consumers, on online platforms, to share product experience. In this context, the service content of products becomes more valuable. For example, consumers buy cars for the service a car provides, allowing to move across places, to transport heavy objects, and so on. Ownership of the car itself tends to be less important, as shown by the booming of car sharing services. The same is true for books, which many consumers buy and read online or on their electronic device, so that the tangible value of the book reduces relative to the intangible one.

26. To some extent, leading companies offer integrated solutions rather than specific products.<sup>1</sup>

27. Production processes are no longer linear processes where phases are sequentially performed but instant processes, whereby the smart manufacturing system captures the requests of consumers and provide answers in real time. Firms can create and maintain online communities of consumers who are kept loyal thanks to the proposal of updates and targeted advertisement.

28. Big data are the strategic assets of companies: in the online community they collect data on consumers, on their preferences, past choices and purchases, which become even richer if these data can be matched with data on other choices made by these consumers, in their travels, leisure activities, purchase of other products. The companies that collect such rich sets of big data, such as Google or Amazon, namely pure platform businesses, have large market power, and have become key market intermediaries, selling an ever-increasing range of products on their online platform.<sup>2</sup>

### *1.3.3. Consequences for GVCs: GVC reshaping and emergence*

29. In the last decades, offshoring production to low-cost countries appeared as a good strategy to both reduce production costs and access to emerging markets, especially in Asia.

30. However, offshoring also created costs and disadvantages. Companies concerned often encountered quality problems. In addition, performing R&D and manufacturing in proximity generally creates positive externalities for producers, which were lost in the geographically fragmented GVCs (Bailey and de Propris, 2014). Some managers have argued that offshoring can also lead the whole business to be offshored (Jeff Immelt, see Bianchi and Labory, 2018a, p. 63).

31. Following digital globalisation, many production chains (or networks) will remain global. However, with smart manufacturing they will take a different form. In principle production can be done in any location, since the digital factory can be replicated anywhere. However, it is also costly to set up, requiring large investments in robots and machines, and appropriate conditions in the territory where it locates: particularly communication infrastructure, as well as transport and energy infrastructure, but also skills. The digital factory can take order from consumers located anywhere in the world, provided they are

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<sup>1</sup> The management literature calls this ‘servitization’ (Kowalkowski et al., 2017).

<sup>2</sup> The power of algorithm is discussed in Bianchi and Labory (2018), Chapter 4.

connected. It can rapidly produce large amounts of very differentiated goods. How much the digital factory will be replicated in different markets in the world will depend on demand and production capacity of single factories, and transport costs.

32. It is likely that simple assembly tasks will be integrated in the digital factory, making the strategy of locating assembly in low-labour cost countries less convenient.<sup>3</sup> However, production may require peculiar parts and components, that are better produced by specialised firms. Insertion in GVCs will still be an important strategy for the latter type of firms.

33. The digitalisation of the different phases of production processes favours the organisation of production on a global scale, by distributing production phases in different countries, exploiting each country's comparative advantages, together with a strong unity in data sharing, codification, management lines and long-term strategies.

34. Besides reshoring, another trend in production re-organisation that can be outlined is company focus on high phases of the production process, namely and pre and post manufacturing. Manufacturing is increasingly performed by robots in smart factories, that can be located anywhere, provided there is access to energy, high capacity Internet and materials (McKinsey, 2015).

35. The key assets for firms become its knowledge base, its technologies, experiences, together with its capacity to identify market trends, consumers' tastes, and its capacity to innovate, to renew products and services.

36. More research is needed on how digital globalisation is likely to impact on GVCs and industrial organisation more generally, analysing different firms in various sectors, especially since productive transformations are still going on. However, the consequences for territories can already be delineated.

#### 1.4. Policies for the new GVCs: policies for industrial development (in a broad sense)

##### Box 3. Summary section 1.4

Given the attractiveness of territories that are hubs of knowledge and competencies, regional industrial policy becomes paramount to favour the reshaping and emergence of GVCs. This policy consists in sets of actions aimed at favouring structural changes, by overcoming a number of barriers to the emergence and reshaping of GVCs: skill deficit, lack of investment, lack of innovation and networking capacity.

##### 1.4.1. Role of territories in favouring GVC reshaping and emergence

37. The discussion of the previous section implies that a territory providing the appropriate conditions ('milieu') for the building of smart factories will attract businesses and will grow. This means having broad band, fast and high-capacity communication infrastructure; strong research and scientific capacity, in public and private research centres and universities, with which business can integrate to build the capacity to answer

<sup>3</sup> The European Reshoring Monitor shows that many reshoring cases in Europe are linked to investment in smart manufacturing (<https://reshoring.eurofound.europa.eu>).

consumers' needs in real time; human capital, namely data scientists, engineers in various fields, as well as technicians, that can set up and work in the smart factories; and also capacity for networking, as we explain in further details below. It also means having a cohesive regional community (strong identity), so that the whole regional ecosystem can realise the transition to the new manufacturing regime.

38. Territories able to pool and develop key resources for pre and post-manufacturing phases will attract firms, which will be willing to locate their most value-creating activities in these areas if they have access to infrastructure, especially for high and rapid communication, as well as low energy costs, and also innovative capacity, with highly qualified human capital and appropriate research facilities, namely hubs of knowledge creation, consisting in dense networks of universities, research centres, and other. In this manner, ensuring the availability of R&D capabilities is very important.

39. Investment in skills is also important because the most value-creating phases of production processes are those most intensive in skills. Firms are likely to localise in territories with dense knowledge bases (manufacturing experience and R&D capabilities) and high skills, at medium to high levels. This means that governments have an important role to play in attracting and developing skills, ensuring a good living environment (territories paying attention to the environment and with social services) for attraction of talents, and institutional density: good education institutions networked with other institutions, as well as with businesses and other stakeholders, to provide an appropriate 'milieu' or fertile ground for learning, innovations and industrial applications to emerge. As shown below, this is what the Emilia Romagna region is trying to create.

40. As a consequence, territories have to adjust to the changing context. For example, China is a country where many multinationals have set up manufacturing divisions in order to exploit low labour costs. Not only are these costs progressively increasing, as the Chinese economy develops, but also the country is realising massive investments in new technologies, infrastructure and innovation capacity. Territories only relying on low labour costs are likely to have very limited development prospects. In fact, some authors have stressed that many firms investing in China have obtained greater benefits than low-cost labour. For instance, Nahm and Steinfeld (2014) argue that US and European innovators of wind and solar energy technologies have found in China the manufacturing capabilities that they missed in their home country. More precisely, Chinese engineers were able to develop manufacturing processes for the ideas in a both rapid and efficient manner. This innovative manufacturing capability therefore appears to be a distinctive competence and competitive advantage, also exploited by Japanese producers in the motorcycle industry (Ge and Fijumoto, 2004). It is also a key competence in this stage of the fourth industrial revolution, in order to transform scientific discoveries into new products and technologies.

41. Digital globalisation may offer new opportunities for peripheral regions (Bianchi and Labory, 2017b). The latter regions may attract leaders and insert in GVCs if they develop specific capabilities in industrial activities; or they may specialise in specific intermediary or final products and services, on the basis of specific competencies, which might be linked to the territory (e.g. environment favouring the production of particular agrofood products, or cultural heritage favouring tourism) or to human capital (specific knowledge and competencies accumulated through time, helped by the education system, e.g. in fashion industry like in Tuscany in Italy, or software industry in Dublin). These firms can interact with consumers located anywhere in the world, provided they have knowledge and competencies required to develop their own platform or to use existing platforms. Whatever their size however, firms have to develop capabilities to interact with numerous

actors, not only consumers but also other firms (suppliers, producers with which they can develop complementarities in product research and development) and institutions (research and education in particular). Firms' main assets are no longer their realised products and physical capital (the 'work done' in the words of Smith, 1776), but their capability to collect and treat information, interact and create knowledge, so as to be able to adapt to the market (the 'work to be done' according to Smith, 1776).

42. The policy implication is that regional industrial policy should focus on the 'work to be done'. Using extreme stylisation we can claim that old industrial policies acted on the conditions for static competition in order to attract work done (with single actions such as subsidies, specific regulation), namely single production plants. In contrast, the new industrial policies act on the conditions for dynamic competition in order to favour the work to be done, namely the management and creative functions which govern the whole production process and the most strategic phases, pre and post manufacturing. For this purpose, it is necessary to create a smart and competent context, where knowledge is not only individually generated and acquired, but also collectively shared and transferred. This requires institutional-building, namely the construction of an educative and research infrastructure that could generate positive externalities for the growth of each part of the community, be they persons, firms and institutions, and that could generate and consolidate the systemic capacities that favour innovation and development. It is also in this manner that a territory can build and strengthen its identity. The case of the Emilia Romagna region below illustrates this type of policy.

43. Policy-makers have to understand where their territories stand in global value chains. In other words, what are the main sectors, what are the main distinctive competencies of firms and what position they have in global value chains, in order to identify the development path on which the territorial sectors are engaged, so as to either reinforce the path or embark them on new ones. Maintaining a specific path is easier, because the structural changes involved are generally less important in the former case. For example, the policy may aim at attracting external leaders for the regional SMEs in specific sectors, allowing them access to global distribution channels; if the regional industrial system comprises enterprises leading GVCs, the policy may aim at providing the conditions for the maintenance and development of the specific competencies of these firms (investment in infrastructure, education, links with universities, and so on). SMEs producing niche products also rely on specific knowledge and competencies; their specific product may be linked to the regional history and heritage, such as craftsmanship or know-how. In the latter case a policy action including the valorisation of the regional assets might be useful.

44. What policy instruments are necessary for this? Instruments must act on all the dimensions of the territorial ecosystem: firms' assets and capabilities (knowledge, R&D capacity, human capital, access to finance), infrastructure (transport, public goods, and communication infrastructure which is crucial in the fourth industrial revolution), but also society and territory: territorial planning to ensure good living conditions and smooth realisation of industrial activities, thanks to well-functioning institutions and infrastructure, and good living environment, possibly sustainable, so as to attract and keep human capital; social policy is also necessary, to ensure participation of the labour force, decent jobs and decent income, access to education and training. As already stressed, strengthening territorial identity appears to be important. By identity we mean a sense of belonging, a cohesive regional community or society, which is important for resilience (see below).

45. Policy has to be pro-active: policy-makers have to try and anticipate changes, rather than wait for changes to take place and adapt. Adaptation to shock and structural changes is necessary but policy has to try and anticipate changes in order to prepare the territory for structural changes in desirable directions. For this purpose, choices have to be made, on the basis of strengths and weaknesses and the position of the regional industry in global value chains.

46. This is complex: a large amount of information must be collected and analysed, so that a dialogue with involved stakeholders is useful (participative governance). This dialogue is useful also to ensure that stakeholders share the chosen policy aims and favour the effectiveness of policy by making choices accordingly. In this manner, the state can have a cooperative and activating role in GVC reshaping and emergence.

#### *1.4.2. Instruments for regional industrial policy*

47. There are market barriers to the reshaping and emergence of GVCs. Some of these barriers are well-known and have been addressed in innovation policies in the past: skill deficit, lack of investment and lack of innovation capacity. The latter aspects have been widely stressed in the literature (Economics of innovation, economic geography, etc.) and considered in innovation policy-making.

48. We stress another important barrier, the lack of networking capacity, which is key in order to search for and exploit complementarities between regional firms, between regional firms and other institutions, such as universities, both within the territory and outside. Networking has been stressed in the field of evolutionary theory, in the concept of innovation systems, which have been analysed first at national level but also later (and since Phil Cooke in the 1990s) at regional level.

49. GVC reshaping means the production of new products and/or processes, of higher quality or different variety. The production of the past might be transformed so that there is branching into a new activity. This requires the creation or the adoption of new knowledge, sometimes the adoption also of new technologies. Production processes are likely to be altered so that organisational changes occur. New logistics might be involved, as well as new markets. GVC reshaping therefore generally requires new transport and communication infrastructure, or investment to upgrade the existing one. Investment in tangible and intangible capital is necessary to support this reshaping. The new activities require new, different skills, that can be provided by re-training or attraction of new talents.

50. Similarly, GVC emergence requires new knowledge, innovation, as well as appropriate infrastructure and skills. It might arise through spinoffs of existing industrial or research activities in the region, or it might be imported through FDI in the region. R&D capacity is needed, appropriate skills and infrastructure.

51. If these investments are not made, GVC reshaping or emergence will not occur. The lack of investment might be due to a difficulty for firms to access to finance, which can be overcome by appropriate policy instruments, such as support to the development of capital markets, venture capital, or specific guarantees to banks providing loans to enterprises.

52. There might also be governmental barriers. The previous section outlined the complexity of the policy process, requiring the gathering and treatment of large amounts of information, identifying a territory's strengths and weaknesses, as well as possible development paths. Institutional capacity is needed for the government to be able to have an activating role. In addition, the barriers to doing business, already widely outlined in the

literature, must be avoided. These include regulatory barriers, inefficient procedures to obtain licences and permits, difficult access to basic infrastructure, and cumbersome contract and litigation laws.

53. Hence there might be barriers to GVC reshaping and emergence, mainly:

1. Skill deficit:

- skills in the workforce at all levels is important to innovate, creating new products and processes, and also to adopt new technologies, which require absorptive capacity;
- entrepreneurial skills: risk-taking, capacity to relate to other realities, capacity to absorb new knowledge

2. Lack of investment:

- tangible and intangible capital: tangible capital is essentially physical capital and infrastructure, intangible capital includes knowledge, IPR, skills;
- infrastructure: transport, communication.

3. Lack of innovation capacity:

- R&D laboratories
- skilled workforce
- higher education and research centres
- knowledge base
- access to finance (venture capital)

4. Networking capacity:

- capacity for prospection
- capacity to build links
- social capital (trust, norms and values that enable social interaction)
- entitlements

5. Governmental barriers:

- Lack of institutional capacity
- regulatory barriers
- lengthy procedures to obtain licences and permits
- difficult access to basic infrastructure
- cumbersome contract and litigation laws.

54. The importance of relationships has been widely stressed in the literature, at both theoretical and empirical level, but mainly regarding innovation, and particularly the links between the firm and universities and research centres (see the vast literature on U-I links, e.g. the review by Perkmann et al. 2013). The importance of adopting open innovation models for firms has also been widely discussed since the work by Chesbrough (2003).



55. Regional governments can have a role in favouring the setting up of relationships of the regional firms within the region and outside, as shown by the ER region case below. For this purpose, instruments or actions supporting networking have to be implemented. The regional government can help in the prospection of potential links, by strategically choosing and establishing partnerships with external regions, taking part in international programmes such as Interreg in the European Union. In addition, the organisation of events such as international trade or research fairs, inviting enterprises with complementary activities to those of the regional firms, can be undertaken or supported by the regional government, or by an agency or organisation specifically created to take the responsibility for this prospection (the role of Aster in the ER region).

56. Section 1.6 examines various cases of regional industrial policy implemented in the past in OECD and non-OECD regions. The next section presents the main policy conclusions that emerge from these cases

### 1.5. Key policy elements that emerge from the cases

#### Box 4. Summary section 1.5

The regional industrial policy cases analysed for this paper, together with the analysis of the changing competitive context characterised by digital globalisation leads us to outline four main policy elements for GVC reshaping and emergence. First, developing capabilities for industrial development, namely appropriate skills, infrastructure, knowledge base; second, enhancing networking in order to exploit complementarities, within and outside the regional industrial system; third, policy governance should be participative; and fourth, policy coherence, between government levels but also between policy fields should be ensured.

57. Both the cases and the arguments in the first sections highlight four main elements of regional industrial policy for GVC reshaping and emergence: capabilities to develop regional knowledge and competencies, networking for complementarities, governance and policy coherence. These elements are examined below.

58. It is important to note that policy actions decided to favour each of these elements are highly interdependent. For instance, networking for complementarities includes strengthening linkages not only within the region but also between regions. The national state has an important role in favouring synergies between the different regions, calling for policy coherence between the levels of government, which might be called vertical policy coherence. As stressed above, the national state may favour horizontal policy coherence (coherence between the different policy areas, such as industrial, regional, social and educational policies) too, providing basic education favouring structural changes, as well as funding for the development of R&D capabilities. Specific actions might have adverse effects though, as shown by the case of Germany: the German Federal State has provided funding for the development of specific industries out of basic research (biotechnologies in particular, in the Bioregio programme in the 1990s). This funding was allocated through contests, where regions put together projects, that were analysed and selected by the Federal state. As a result, however, German regions competed against each other to get the funding, and developed projects that were highly intraregional, without considering possible interregional linkages and synergies (Kiese, 2013). This also points to the

necessity of policy coherence not only between policy fields but also between levels of government, in this particular case between the regional and national levels.

### ***1.5.1. Capabilities***

59. Capabilities, namely knowledge and competencies, human capital and research capacity, as well as appropriate infrastructure and institutions, are essential for GVC reshaping and emergence, insertion in GVCs without vulnerability, or leading GVCs, as already stressed in this paper.

60. Beyond basic education generally provided at national level in national education systems, GVC reshaping and emergence require new skills that can only be provided by specific training and education programmes set up at regional level. Thus, for instance, the ER region has created new technical and high-technical institutes to provide specific skills needed by the regional industry; in Styria too, the regional government dialogued with businesses and education institutions to favour the adaptation of the regional human capital to the new industrial activities. Similarly, tertiary education was developed in Shenzhen to allow the upgrading of indigenous industry, and in Ireland the availability of appropriate skills was essential for the software industry to develop.

### ***1.5.2. Networking for building complementarities***

61. Policy actions aimed at favouring networking within and outside the region appear to be essential. Within the region, they allow to exchange knowledge and competencies for higher knowledge creation and transformation of innovation into industrial applications and commercial success.

62. The literature on innovation systems has long stressed the importance of both intra- and inter-regional networks for innovation and the development of new specialisations in. Most innovative – learning – regions are generally those with most external collaborations: Baden-Württemberg has an open and international network focused on Northern Europe and the US; outside Europe California is a leading hub in the global network, also collaborating with regions in emerging countries such as India and China.

63. Bathelt et al. (2004) also showed that intra-regional cooperation without interregional links can bring lower innovative performance (In the context of clusters). In fact, both an appropriate local network (innovative milieu, Carmagni, 2014) and external links are essential to knowledge exchange and creation by providing access to new knowledge and technologies. However, there is also evidence that external links may hinder regional innovation (Aarstad et al., 2016), especially when the local industrial structure mainly consists in SMEs.

64. Boschma (2014) and Boschma and Iammarino (2009) stress that connecting both within and outside the region might be a key asset for regional innovation and development, only however if the external knowledge is related to the regional sectors. Absorptive capacity is also important for extra-regional links to generate positive effects (Cohen and Levinthal, 1990). The industrial policy implemented in the Basque region paid particular attention to this aspect in order to favour GVC reshaping.

65. This networking arises at all levels: between businesses, administrations, universities and research centres, and across different types of institutions. It enables the identification of competencies and potential cross-fertilisations, across sectors and across institutions, such as for instance between research institutions and businesses.

66. Facilitators, such as Aster in the ER region or ACStyria in Austria, can have a very positive role in favouring the emergence and in exploiting the complementarities between the economic activities of the region. Facilitators favour networking and can also have a role in the identification of complementarities not only between regional stakeholders but also between regional stakeholders and external organisations (businesses, universities or research centres outside the region or abroad). Such facilitators have to be independent from business interests, otherwise they may favour some interests over others: in Wolfsburg in Germany the dominant firm Volkswagen tended to set the agenda in Wolfsburg AG, a public-private partnership aimed at defining a strategy for GVC reshaping and emergence (Kiese, 2013). Institutional capacity is key in this respect, namely policy-makers and administrators able to dialogue with regional stakeholders and to equally consider all interests. Kiese (2013) also points to the error made by German regional (länder) governments, which asked consultants ('McKinsey & Co.' in the words of the author) to define the regional industrial strategy. The latter tended to apply their blueprints, namely generic knowledge and recipe, without enough consideration of local specificities.

67. External links can be particularly important when the regional industry lacks a critical mass to become a hub of knowledge and competencies sufficient to attract GVCs or to be a basis for local firms to set up their own GVCs.

68. More generally, some firms in any type of region may incur high R&D costs, especially in times of industrial revolution where technological changes are outstanding. Especially developing prototypes at the industrial application phase of research might be extremely costly. Hence finding partners in other regions might be profitable in order to share these high sunk costs. This is the rationale for the collaborative projects in the Vanguard Initiative (see below).

69. Collaboration is built at the level of individuals, who have diverse jobs, diverse organisational cultures, according to whether they work in public or private organisations for instance; they have varied knowledge and competencies, which require a learning process in order to be able to communicate. Calamel et al. (2011) showed the importance of policy attention to the construction of collaboration. For this purpose, attention to the building and strengthening of social capital, as in the ER region appears to be essential to create a sense of belonging, hence an identity, in the regional community.

70. Without this networking regional industrial policy is likely to fail. An example is provided by Wrobel (2008), who argues that a regional policy to develop the logistic sector in Bremen in Germany, namely the 'Innovision 2010' programme, failed because not enough attention was put on the creation of relationships and interactions between firms.

71. The search for complementarities can be implemented through the definition of platforms, defined around specific technologies (general-purpose technologies or knowledge-enabling technologies). Examples of complementarities exploited through platforms abound. For instance, Feldman (2007) analysed a platform policy implemented in Linköping in Sweden, where the Saab military technology was transformed into biomedical technology in the Berzelius science park. Asheim et al. (2007) showed the case of Preseli in Wales, where a platform based on tourism was defined, allowing the development of quality tourism linked to the Neolithic heritage existing in the region, but also to quality food and artistic and cultural production that led to the development of textile sustainable agriculture and biofuel productions in the region.

72. Trippel et al. (2015) examine the type of external links that can be built according to the type of regional innovation system (RIS), distinguishing between organisationally thick

and diversified RIS, organisationally thick and specialised RIS, and organisationally thin RIS. External links can be built either by attracting external actors to set up in the region, such as FDI, or by building extra-regional knowledge linkages.

73. The ways in which external links matter for GVC reshaping and emergence is summarised in Table 1.

**Table 1. Importance of external links**

<b>Policy actions</b>	<b>Examples</b>
<b>1. Attracting external firms to the region</b>	
<b>Relocating firms within the country</b>	<p>Many cases; examples: Swedish regions (Neffke et al., 2014); Fredin et al. 2015 show that the relocation of Swedish ICT firms to the lagging region of Blekinge (old industrial region) has led to the development of a dynamic ICT cluster there in the 1990s.</p> <p>Southern Italy after WWII: state-owned firms were induced to create divisions in this region, but they tended to create cathedral in the desert, due to a lack of development of general capabilities, as well as institutional failure</p>
<b>Attraction of foreign firms (FDI)</b>	<p>Software industry in Ireland (see case in this paper)</p> <p>Emilia Romagna (FDI welcome if multinationals set up research centres in the region)</p> <p>Condition for success is development of autonomous capabilities (see Shenzhen case below; also Norwegian regions benefitted from FDI because these capabilities were developed, particularly through the role of universities – see Isaksen and Karlsen, 2010; Isaksen, 2015).</p> <p>Otherwise regions might become locked-in external networks (MacKinnon, 2012), and external firms do not embed or anchor in the region.</p>
<b>Attracting human capital, individual actors</b>	<p>Florida (2003) outline that the arrival of members of the creative class such as scientists, artists, designers, etc., namely talented people can help the development of the region, if it is open, diverse and tolerant.</p> <p>Saxenian (2006) has shown that the development of ICT industries in Asia has often been triggered by returnees that had studied and initiated activity in other countries.</p> <p>Drori et al. (2009) outline a positive impact of transnational entrepreneurship on the institutional environment of less developed regions.</p>
<b>2. Building external linkages</b>	
	<p>Tödling et al. (2006) show different knowledge sourcing mechanisms depending on the degree of formalisation (market links, research collaborations or informal links) and interactive learning that takes place.</p> <p>Boschma and Iammarino (2009) show that trade linkages may favour the exploitation of related variety, with a positive impact on regional growth.</p>

Linkages among actors based on social or cognitive proximity may also play a role, such as for instance the relationships between former colleagues, exchange of knowledge in conferences and trade fair.

Trippel et al. (2015) on role of external links according to type of RIS:

Organizationally thick and diversified RIS: low need for external knowledge, high attraction of external knowledge

Organizationally thick and specialised: high need, low attractiveness

Thin RIS: high need, low attractiveness

### ***1.5.3. Governance***

74. As already stressed, policy-makers must have a capacity to understand the evolution of the regional ecosystem and identify the possible evolutionary trajectories. This is not easy, but a dialogue with stakeholders of all sides (firms, workers, education institutions, research institutions, etc.) appears to be useful to obtain information and make appropriate choices: this kind of participative governance process was adopted in regions such as Emilia Romagna and Styria. In addition, being directly involved, stakeholders are more likely to mobilise towards the aim of the policy, so that they make decisions accordingly, and policy effectiveness can be higher.

75. Such participative governance processes have been outlined as essential for the success of policies in the case of resilience to shocks like disasters or economic crisis (Bristow and Healy, 2014a, b, on regional resilience; Alexander, 2010; Özerdem and Jacoby, 2006, on resilience to disasters). Adapting to an industrial revolution certainly requires regional economies to be resilient, and industrial policy implemented to favour such adaptation is in fact a policy for resilience. The complexity of changes involved in these deep structural changes make dialogue with stakeholders and shared vision more likely to favour an effective adaptation of the regional industry and of the whole socioeconomic system. The examples provided in Section 1.6 also confirm this point.

76. Good governance has been stressed as a key factor for the effectiveness of policies in general (OECD, 2006, 2012).

### ***1.5.4. Policy coherence***

77. In addition, regions are inserted in multi-level governance systems, with other policy levels both above (national and supranational) and below (local systems, cities). The coherence of policy between the different policy levels is important. For instance, the actions adopted at local level should be coherent with the regional industrial policy, favouring the development of capabilities at local level. In addition, the actions at higher levels should be coherent too, in order to strengthen the industrial paths initiated at regional level. Thus, national education and research systems should be designed and adapted to the emerging competitive context and business needs. Actions at national level should also favour the identification and exploitation of complementarities between the knowledge and competencies of the different regions.

78. Especially in times of industrial revolution the regulatory framework generally has to be changed: new jobs emerge, new technologies and industrial sectors, that might require new regulation. For instance nowadays the issues of privacy and preservation of personnel

data on online platform has been subject to new regulation (European Directive entered into force in May 2018), and antitrust authorities are controlling the competitive behaviour of online platforms (cases of Google, Facebook in the EU).

79. Policy coherence is also important between the different areas of policy: human capital, social and labour policies, trade and innovation policies, fiscal and monetary policies, etc., as stressed in the next section.

80. The different cases analysed below also show that policy coherence is important for GVCs to reshape and emerge. Thus, the ER region has undertaken a joint definition and coherent implementation of labour, social, innovation, environment and trade policies. All policy actions have to work in the same direction, namely the aim of strengthening a development path or embarking on a new path. For instance, social policy favours both the participation of all the regional community in the development process and the enhancement of social capital, which is the basis for networking; human capital policy develop the skills while territorial and environment policies favour functioning infrastructure and institutions, and sustainable living and working environment for the attraction of talents and industrial activities. Table 1 also show for instance that FDI attraction works if coupled with measures to develop autonomous capabilities for development at local level, which can be done via supporting the role of universities, as in Norway.

81. Overall, the main instruments for the promotion of GVC reshaping and emergence can be summarised in the following table (Table 2). The table is not exhaustive but provides supposedly main examples.

**Table 2. Instruments for the Promotion of Emergence and Reshaping of GVCs**

<b>Objectives</b>	<b>Instruments: main examples</b>
<b>Capabilities</b>	
Investment in R&D	Support to private R&D (subsidies, knowledge transfer, etc.) Public R&D Support to patenting Support to internationalisation and participation in international research projects for universities (for instance, information pooling and support to applications in European projects) Creation of R&D labs, R&D facilities
<b>Infrastructure</b>	Communication, adapting to the needs created by the transition of manufacturing regimes (4G and 5G connections, big data, etc.); for instance the Big Data Centre in Bologna in the ER region Energy: development of renewable energy sources, actions to minimise energy costs compatibly with sustainability Transport: renew transport infrastructure in sustainable manner Environment: develop protection and preservation, preparation to disasters linked to climate change
Improvement in the capacity of regional firms	Support to SMEs (access to finance, venture capital, real services, favouring collaboration between SMEs, clusters, etc.)

inserted as suppliers in GVCs	<p>Brokering and platforms between suppliers and buyers</p> <p>Technological standards</p> <p>Cluster policies (e.g. Styria, Lahti, Basque Region)</p>
Human capital: skills	<p>Specialised training on-the-job and in universities (such as technical institutes providing new skills)</p> <p>Partnership between groups of firms and education institutions (e.g. MUNER in ER region, Bianchi and Labory, 2018b)</p> <p>Training opportunities for talents coming from outside the region (entrepreneurs, highly-skilled workers)</p> <p>Building education institutions and connecting them to industry and to foreign institutions (Shenzhen)</p>
Support to high value-added production phases (R&D and commercialisation)	<p>Access to GPTs and KETs</p> <p>Financing of joint research projects between firms and universities and research centres</p> <p>Other instruments for technological transfer: spinoffs, mobility of university students and researchers in firms,...</p> <p>Events (conferences, seminars) on the new technologies and their potential applications</p> <p>Diffusion of information at regional level on the knowledge and competencies present in the region (and outside)</p> <p>Expert groups with knowledge of the strengths and weaknesses of regional industries aimed at identifying potential complementarities</p> <p>Development / attraction of strategic sectors: strategic in the value chains (e.g. key input) or strategic due to cross-fertilisation with many sectors (e.g. creative and cultural industries) (e.g. Styria, ER, Shenzhen)</p> <p>SME policy (favour growth, groups; specific instruments to favour their access to finance and tangible / intangible resources)</p> <p>(measures taken by all European regions in the cases)</p>
Commercialisation	<p>Development of democases as in Vanguard</p> <p>Support to the financing of prototypes resulting from collaborative R&amp;D projects</p> <p>Technological transfer programmes (for instance, supporting spinoffs from universities)</p> <p>IPR law</p>
Access to financial resources	<p>Consulting on financial operations</p> <p>Public guarantee</p> <p>Attraction of venture capital</p>
<b>Networking</b>	
Search for complementarities	<p>Maps of industrial and service activities, competencies and knowledge (ER, Lahti, Styria)</p> <p>Maps of competencies and knowledge base of universities and research/technical centres (ER, Lahti, Styria)</p> <p>Use of coordinators (expert groups) to identify potential complementarities (Basque country, Styria, ...)</p>

	<p>Collaborative projects between firms, between firms and universities (Norway)</p> <p>Promote clusters and sectoral / inter-sectoral platforms (Lahti, Styria, Norway, ER; also Linköping in Sweden and Preseli in Wales)</p>
Networking	<p>Facilitators: private or public agency, consortium between regional main stakeholders, that prospect potential complementarities and facilitate their exploitation, by organising conferences, seminars or forums, specific collaborative projects, information exchange and training programmes to raise absorptive capacity (ACStyria, ASTER); attention should be paid to asymmetry between actors (Large firms versus SMEs);</p> <p>Financial incentives to the creation of relationships (e.g. financing of collaborative projects)</p>
External linkages	<p>Attraction of external firms (via R&amp;D support in ER)</p> <p>Assistance to investors arriving in the region</p> <p>Information on the global market (Styria, ER)</p> <p>Partner search (participation in international fairs, meetings with partner regions, ...)</p> <p>Support to relationships in the value chain</p> <p>Export promotion</p> <p>Participation in Interreg projects (EU)</p> <p>Macro-regions as forums for knowledge exchange with a view to identify and exploit complementarities</p> <p>Specific initiatives of associations of regions like Vanguard</p>
<b>Governance</b>	<p>Involvement of regional stakeholders in definition and implementation of policy (Basque country, Styria, Lahti, Norway, ER)</p> <p>Learning and adaptation in the policy process (all cases)</p> <p>Monitoring and evaluation (all cases)</p>
<b>Policy coherence</b>	<p>Mobilise all policies: act on all parts of the socio-economic system</p> <p>Joint definition of actions in the different policy areas to ensure coherence</p> <p>Coherence between levels of governance (e.g. not like German Federal contests, favouring competition between Länders, against interregional linkages)</p>

## 1.6. Cases of Regional Industrial Policy

82. Cases found in the literature generally focus on the emergence of one particular sector or cluster; analyses of the overall evolution of industry in regions (or mapping of regional ecosystems' changes) is more difficult to find, although it would be useful because the industrial development path does not concern one industry only but the whole mix of industries in the region.



83. The cases presented below are not extremely recent. The reason is that cases have been chosen on the basis of the lessons they bring regarding regional industrial policy, and only old cases allow us to assess whether a policy has been successful.

84. Recent industrial policy is presented only for the Emilia Romagna region in Italy (first case below), because the policy is the result of a continuous process that has unfolded over the last decades.

85. Other cases include the Lahti region in Finland, different clusters in Norway, the Basque region in Spain, the Styria region in Austria, Dublin in Ireland and Shenzhen in China. The case of Chile is also mentioned, although it appears that the country has just started to adopt a regional approach in policy-making.

86. The cases are briefly presented, and only main policy instruments adopted are outlined. It is important to note that many regions appear to implement policies in line with the policy suggested in this paper. One example is Brainport Eindhoven in The Netherlands (De Kinderen, 2018).

### ***1.6.1. Emilia Romagna***

87. The Emilia Romagna region has implemented industrial policy continuously in the last decades (Bianchi and Labory, 2011b). An important industrial policy has been the one implemented from the early-1990s on, aimed at transforming the region into a regional innovation system. For this purpose, the regional government met stakeholders, namely businesses and their associations, workers and their representation, education and research institutions, etc., in order to discuss the challenges faced by the regional industrial system and defined appropriate measures to favour its adaptation to changes in the competitive context.

88. Hence the industrial policy process is characterised by participative governance.

89. After the financial crisis industrial policy was mobilised to react to the shock and create new jobs to substitute the ones that were lost. In 2015, a new industrial policy was defined to favour the adaptation and evolution of the regional industrial and wider system to the changing context: the new context is the fourth industrial revolution (Bianchi and Labory, 2018a, b).

90. The industrial policy was defined in the Labour Pact, adopted in 2015. This is interesting, since a labour law usually regards the social field rather than the industrial field of policy. However, this fact is a sign of policy coherence: social and industrial policies have been jointly defined in order to be more effective. Promoting industries, through a support to innovation or to firm growth in the case of SMEs contributes to both industrial development and job creation. If combined with appropriate training and education policy, more jobs will be created because businesses will find appropriate skills for GVC reshaping and emergence. In fact, the pact jointly considers innovation, human capital, social and territorial policies (Bianchi and Labory, 2018a).

91. As a consequence, the ER industrial policy displays policy coherence, particularly here coherence between policy fields, which is another important policy element.

92. The ER industrial policy has not been focused on specific industries. More precisely, it has been focused on the main broad sectors of the regional industrial system. However, their definition is so broad that all industrial activities are considered in the policy. Two major reasons explain this. First, focusing on specific sectors implies leaving some parts of the regional system behind, creating double speed adjustment that create

fragmentations and do not favour growth. Second, the belief of the regional government and stakeholders is that the fourth industrial revolution can benefit all businesses, whatever the sector: some will adopt smart manufacturing techniques, others will only benefit from the improvement in ICTs and hyperconnection, or only use online platforms; other businesses will use the other technological developments that are so numerous and varied, as previously stressed. Adoption of new technologies arises when businesses find a complementarity between their activity and the technology, to upgrade their existing products or create new ones. Fully exploiting regional complementarities requires to consider all the regional activities, otherwise some opportunities might be missed.

93. A mapping of knowledge and competencies in all regional sectors was performed in order to comprise all activities in the promotion of development. This mapping was the basis for the identification of the main sectors in the region and the smart specialisation strategy. These are Mechanical Engineering & Automotive, Agro-food, Housing and Construction, Fashion, Health and Wellness, Culture and Creativity and Tourism. Twenty-seven GVCs were identified in the five main sectors and seven associations, called Clust.ER, have been created to allow all the regional actors of the GVCs belonging to them to meet and interact, as well as define common goals, towards appropriate reshaping and even emergence of GVCs.

94. Regarding the development of capabilities, an important action has been the 2010 educational reform, which stressed technical and professional training, as well as research and its translation into industrial applications (Bianchi and Labory, 2018a). The region has four universities, in Bologna, Ferrara, Modena and Parma, as well as some divisions of the Milan Polytechnic and of the Catholic University of Milan. Overall these tertiary education institutions, together with important national research institutes located in the region, and ten technopoles created in the last years (in the various areas of specialisation of public and industrial research related to the main sectors of the region), contribute to a high R&D capacity.

95. Networking in order to favour complementarities characterises the education and research system (Bianchi and Labory, 2018c). Universities and research centres are related in networks also comprising the main industrial sectors of the region, particularly in the technopoles. The network of Polytechnics is also highly connected to sectors and provides the technical skills that are in high demand in the region. Education networks are therefore complementary because this is felt to particularly favour the industrial application of research, which is the focus of innovation policy.

96. Social measures such as support to the most vulnerable persons are also part of this industrial policy programme. The regional government is indeed convinced that these measures are very important in times of industrial revolution, which risks creating social fragmentation. The 'inclusiveness' of growth advocated in the EU is understood in this sense.

97. Hence the industrial policy element regarding networking for complementarity, outlined in the previous section, constitutes an important focus of the industrial policy implemented in the ER region.

98. Industrial policy action aimed at raising capabilities also include access to infrastructure: appropriate transport, communication and energy infrastructure. Green sectors and renewable energy sources are promoted. Following Industry 4.0 and data as the raw material of the new era, another important infrastructure has been recently added.

99. Regional policy-makers consulted universities, firm managers and other stakeholders and realised that competencies and potential facilities regarding big data were substantial in the region. Bologna, the capital of the region, made an application in a European contest to become the host of the Data Centre of the European Centre for Medium-term Weather Forecasts (ECMWF), also supported by the Italian national government. The city won in 2017. A Big Data technopole has been created in proximity, including the research facilities of the CINECA (national supercomputing consortium), the CNAF (National computing centre of the Italian nuclear physics research centre) and private research centres. Overall, the European centre and the technopole constitute one of the largest big data infrastructures in Europe, competing for excellence at world level, and allowing both research at the frontier and industrial application of research.

100. Networking for complementarity in the region indeed has the characteristic of not being confined within its borders, but it extends much beyond, to other Italian regions and in foreign countries. In times of deep structural transformations, complementarity can be found anywhere, and the critical mass of knowledge and competencies of the region is likely not to be enough to fully exploit them.

101. Hence the regional government has favoured the development of linkages with other regions and has encouraged the participation of regional businesses (and other institutions such as universities) in these initiatives. Even the big data technopole is included in a national network of big data centres, that the ER region contributed to create.

102. The region has six partner regions, with which it develops close relationships in all fields (3 European regions: Hessen, Wilkopolska and Aquitaine; and three extra-EU regions: California, Gaudeng and Guangdong), and it is member of various Interreg programmes, such as Adrion with regions bordering the Adriatic and Ionian seas, the Italy-Croatia programme, the Alps programme, etc. These programmes finance research and development projects in fields of common interest (e.g. marine technologies for SMEs in the regions bordering the Adriatic Sea), so that complementarities can be exploited.

103. The ER region is also member of the **Vanguard Initiative**, an association of the most advanced EU regions, created in 2013. Vanguard is really focused on networking for complementarities. Its approach is bottom-up, starting from business initiative, with a view to create links and favour learning and knowledge creation along the value chain, with the concrete aim of promoting industrial applications of research. The association invites businesses of the different member regions to propose pilot actions in five main fields, namely advanced manufacturing for energy applications (ADMA Energy), 3D Printing, Bio-Economy, Nano-technology and Efficient and sustainable manufacturing. These actions are financed by Vanguard's budget, made of the contributions of the member regions.

104. From a policy instrument point of view, this intense networking for complementarity is also supported by a 'facilitator', namely the ASTER agency. It was created in the 1990s to favour interactions within the regional innovation system. It was re-organised in 2001 as a consortium gathering all the regional actors of the innovation system: universities, research centres, business associations and the regional government. Its primary aim is to favour technological transfer in the region. However, its role has extended to the promotion of extra-regional links, since it is involved in the management and realisation of projects within the Interreg programmes the region is part of, as well as in Vanguard.

### *1.6.2. Finland: the Lahti region*

105. Finland has implemented industrial policy, both at national and regional level, to develop new GVCs and reshape existing GVCs. The case of this country immediately outlines an important aspect of regional policies for GVCs: Finland has about 5.5 million inhabitants, which is the size of many regions in other EU countries: in Italy for instance, Emilia Romagna has 4.5 million inhabitants and Lombardy, 10 million. The meaning of region in Finland is therefore different from the meaning of a region in Italy.

106. This raises the issue of the critical mass necessary for complementarities to emerge and be identified.

107. The Lahti region in Finland is a case of policy favouring the reshaping of GVCs. Harmaakorpi (2006) shows that this reshaping was promoted by a particular attention of policy-makers on the reduction of the cognitive distance between old industries and new ones. In this case, industrial policy was implemented through the creation of platforms dedicated to complementarities (or related variety), namely the identification of potentially complementary industrial activities in the region. Instruments used were an analysis of the strengths and weaknesses of the region, involvement of stakeholders, and also the consideration of possible complementarities with activities in other regions (in this case, industry in the Helsinki region). Ylä-Antilla and Palmberg (2007) show that Finland is an example of coherence between the regional and the national levels of industrial policy-making. The national level defines a long-term vision of industrial development for the country, outlining the importance of particular sectors or clusters (ICTs, health, forest and energy technologies in the White Paper of 1993). The regional level implements the national policy in partnership with regional stakeholders, by defining precise actions and steps for specific developments.

### *1.6.3. Norway*

108. This case is one of emergence of new GVCs in a region thanks to the search for and exploitation of complementarities and the building of new competencies from the knowledge and competencies accumulated in the past.

109. Lillebrygfeld Halse and Bjarnar (2011) analyse an example of reshaping of the GVC in the shipbuilding sector in Norway. In 2010, the regional sector comprised 200 firms in the maritime sector, including 17 dealing with passenger transport, 14 shipbuilding firms, 15 firms specialised in boat design and 155 component suppliers. The main products were offshore transport boats and fishing boats.

110. GVC reshaping occurred in the 1970s, when the demand for fishing boats reduces and the oil extraction activities grow in the country. The regional shipbuilding sector reshapes and develops production of boats for offshore platforms. The structure of the local cluster evolves towards hierarchy, some firms grow and become leaders on which most regional firms highly depend. These leaders delocalise headquarters and strategic decision offices to the capital of the country; the regional firms also develop links with foreign firms, such as Rolls Royce Marine. However, some regional firms also set up GVC with foreign subsidiaries.

111. However, in so doing regional firms lose an important asset: the industrial commons, the shared know-how that was so important for the survival and development of this sector in the region. As a consequence, in more recent years some firms have reshored, bringing production back to the region in order to better exploit the local knowledge base and competencies, and the complementarities between firms and assets.

112. The Norwegian case also provide evidence on the role of universities in GVC reshaping and emergence. Thus, Isaksen and Karlsen (2011) show the role of universities in the upgrading of GVCs in two cases: Tromsø, where the university has played an active role in the development of a new sector in the region, namely marine biotechnologies, and Agder, where the industry for gas extraction equipment developed thanks to regional policy aimed at training technicians and engineers for that industry. They highlight that the university has four important role in GVC reshaping and emergence: (1) helping the development of new industries, through spinoff creation from its innovation or the provision of license; (2) contributing to the attraction of investment and FDI with human capital training and research; (3) helping the diversification of existing industry through the diffusion of new technologies; and (4) promoting upgrading by favouring incremental innovations, in joint research projects and training programmes with the regional firms.

113. Thus, Norwegian universities favour GVC reshaping and emergence through their training and research activities, and joint research projects, training programmes, consultancy projects, or other forms of agreement that are tailored to the needs of the regional firms. Regional authorities implemented actions to favour these U-I links because businesses in many cases did not realise the opportunities that could be created by such links.

#### ***1.6.4. Basque Country Spain***

114. This is case showing the importance of the involvement of regional stakeholders, in a democratic and participative process, in order to mobile them towards the chosen industrial development path. It is also a case where regional policy-makers have been able to identify and favour possible complementarities between existing regional competencies and new technologies. It is also an interesting case because it outlines an important aspect, and difficulty, of industrial policy, which the long-time horizon required, contrary to what regional politicians might prefer.

115. Parrilli et al. (2010) discuss a case of GVC reshaping in the Basque country in Spain. The furniture sector in that region was able to reshape thanks to the adoption of new technologies and processes, which the regional industrial policy actively promoted. In particular, the policy comprised measures aimed at reducing the technological gap between local and external producers, by analysing the new knowledge, the absorptive capacity of regional firms and the learning processes necessary to adopt the new knowledge. Absorptive capacity is raised by hiring new staff with the appropriate knowledge base and competencies, as well as training, R&D activities, and technical assistance provided by research centres, labs and universities. The meeting of regional firms with external firms and other organisations with new and complementary knowledge sources was also favoured by the organisation of events and forums between innovation structures and local firms.

116. All these policy instruments contributed to the ‘institutional density’ previously outlined as key for GVC reshaping and emergence.

117. The regional industrial policy focused on favouring learning processes, which are essential in manufacturing transition (Bianchi and Labory, 2017).

118. This case offers two major lessons regarding regional industrial policy for GVC reshaping and emergence. First, long-term horizons are necessary, since the successful reshaping in the Basque region took about ten years to be realised. Second, exploiting

complementarities requires precise actions to reduce the distance between knowledge bases of old industries and new applications. Such measures were taken in the Basque region.

#### *1.6.5. The Styria region in Austria*

119. The Styria region in Austria has implemented successful industrial policies that have favoured the transformation of existing value chains and also the emergence of new GVCs. This offers a case of successful transformation of an area of declining industries into new industries, based on diversification. The regional authorities have not attracted one particular sector that could be complementary to the dominant sector in the region and could help its upgrading, but they have chosen to attract different sectors in the region. The latter were carefully chosen on the basis of criteria of potential complementarities that they could offer to the reshaped and the emerging GVCs.

120. Styria was a declining region in the 1980s, due to the difficulties of the local steel industry characterised by a large state-owned firm. Nowadays the Styrian industry has developed into six new sectors that are so dynamic that the region has become a leader of economic development for the country.

121. The regional industrial policy has been organised around specific sectors, or clusters, in the sense of considering all the firms member of the sector and favouring their interactions.

122. The policy has comprised four main instruments: creation of a facilitator; creation or strengthening of external links (FDI attraction and export promotion); strengthening of regional capabilities and conditions, particularly infrastructure, training and research (with university-industry links); important investments financed by both the regional and the national governments.

123. The facilitator is an organisation called ACStyria, created at the beginning of the 1990s. This facilitator has contributed to local networking, favouring links between SMEs and between SMEs and leaders. The declining steel industry has left the room for a dynamic automobile industry, with different leaders in the region, including SFT, which realises high-value added components, AVL List, a company specialised in design and in the production of advanced internal combustion engines and created as a spinoff from the University of Graz; as well as external leaders such as Eurostar (producing the Chrysler Voyager and Magna).

124. This reshaping of GVC has been helped by other public organisations, such as the regional government and the Agency for regional development (SFG), which help the strategic development, provided financing that added to national financing and provided services to local businesses. The industrial association Steiermart (IV) provided technical assistance to firms, as did the Institute for technological and regional policy. The regional industrial and engineering research centres created relations with the firms in the automobile sector.

125. External links and export promotion were developed by the Büro für Internationale Forschungen und Technologie Kooperationen (BIT).

126. An important policy instrument was therefore the strengthening of regional institutional density to favour networking and knowledge transfer and creation.

127. The facilitator is interesting as it is in many ways similar to the Aster organisation in Emilia Romagna. Its direction comprises industry representatives, politicians, scientists

and trade unionists. ACStyria provides a long-term strategic development vision for the automobile cluster and finances collaborative projects between regional firms.

128. Regional industrial policy has focused on building R&D capabilities, networking for complementarities, democratic governance and policy coherence.

129. The other sectors that were attracted or developed in the region were as diversified as wood, biomedical, clean technologies, new materials, food technologies and creative industries. However, these sectors present potential complementarities: for instance, clean technologies and creative industries find applications in all other regional sectors.

#### ***1.6.6. Irish software industry in Ireland***

130. The development of the software industry in Ireland shows the importance of both external links and building autonomous capabilities for regional industrial development to arise. Crone (2002) discusses this case.

131. The Irish software industry was developed in Dublin thanks to both an important influx of FDI and the development of an indigenous industrial base. Within the software industry, two types of GVCs expanded in Ireland, namely the GVCs of multinationals which established low-end activities in the country, as well as indigenous GVCs which produced niche software products. The region attracted FDI thanks to the availability of skills at reasonable costs and a good IT infrastructure. The industrial policy of the state played a role to develop autonomous capabilities since it encouraged the production of software products by indigenous firms, since these products are more value-adding than software services. The Irish industrial policy provided resources: financial, particularly venture capital, as well as specific services that were lacking such as IPR lawyers and marketing consultants, or training. Institutions were created for this purpose, particularly the National Software Directorate, an agency which provided a common strategy to all firms in the software industry and lobbied the government to push for the necessary support and institutional adjustment. The Centre for Software Engineering is another institution created, linked to the university (the Dublin City University), and helped in the diffusion of best practices in the industry besides technical assistance. It also provided formal and informal networking between professionals, engineers and researchers, and managers.

#### ***1.6.7. Shenzhen***

132. The Chinese industrial policy is interesting in that it has been rather centralised at national level, but at certain important stages it left autonomy to regions to decide on how to develop specific capabilities.

133. Shenzhen is an example. The Chinese government encouraged industrial development from the 1980s with the introduction of some elements of market economy in the socialist system. In this phase FDI were strongly encouraged to bring in industrial knowledge and competencies. Shenzhen, which has a favourable localisation being at the border with Hong-Kong, was made a Special Economic Zone, providing special conditions to attract FDI.

134. Shenzhen did not have any universities in the 1980s. However, the government was increasingly concerned about the upgrading of the local industries, and R&D capabilities were progressively developed in the region, although the policy of FDI attraction to access new knowledge and competencies was continued. The Shenzhen university was created in 1983, and the Shenzhen Polytechnic in 1993; external universities from other regions and abroad were also attracted, so that many of them established divisions in the city-region.

The Shenzhen Technological Park was also created in 1985, and in 1996 the Shenzhen High-Tech Industrial Park. These parks favoured the development of R&D in many fields, they did not specialise on specific high technologies.

135. From 2000 the Chinese industrial policy shifted focus from FDI attraction to developing indigenous capabilities. For this purpose, regions or city-regions were given some autonomy to implement specific actions.

136. For instance, seven strategic emerging industries were defined in 2010, in various fields such as energy generation, biotechnologies, new materials, new energy vehicles, that would have to upgrade and develop R&D capacity. One of these strategic industries was the light-emitting diode (LED) industry in Shenzhen. According to Yang (2015) this led to over-capacity and the municipal government had to end supporting policy. The LED industry in Shenzhen is thus a case of lack of policy coherence between the regional and national level.

137. However overall Shenzhen has been able to develop autonomous capacity to upgrade its GVCs, and new GVCs have also emerge. This autonomous capacity has been developed by a mix of imported and indigenous knowledge and competencies, as well as coordinated national and regional industrial policies (Prodi et al. 2017, 2018).

#### **1.6.8. Chile**

138. Economic development in Chile is uneven across regions. For example, metropolitan areas are responsible for over 80% of the country's patent applications. Antofagasta, where copper mines are located, is three times more productive than the country average, and almost ten times more productive than the least productive region in the country.

139. The country is one of the most centralized countries of the OECD, despite measures taken in the last decade to increase decentralisation and adopt policies fitted to each region's specificities. Thus, regional development agencies were created in 2006 (Santarcangelo et al., 2018), aiming at identifying priority sectors in the different regions. The governance process of these new regional policies was participative, involving national, regional and local government plus other stakeholders. However, they have been unevenly supported by the different central governments that have been elected.

140. In Chile, like in most Latin American countries, policy towards GVC reshaping and emergence has so far been national. A regional focus has only recently been adopted, starting from the Antofagasta region, where a pilot programme has been adopted in a dialogue with stakeholders (Araneda Urbina, 2018).

141. Although not based on systematic evidence, a conclusion from this case is that action at regional level, implementing industrial policy as defined in this paper, is important to avoid uneven development.

### **1.7. Conclusions**

142. In the context of digital globalization regional industrial policy is essential to spur industrial development in territories, by providing the conditions for business to connect and interact with producers and suppliers of complementary products and services, as well as with institutions with complementary knowledge and competencies (e.g. research capacity, human capital training), both within and outside the region.



143. The new industrial policies act on the conditions for dynamic competition in order to favour the management and creative functions which govern the whole production process and the most strategic phases, pre and post manufacturing. For this purpose, it is necessary to create a smart and competent context, where knowledge is not only individually generated and acquired, but also collectively shared and transferred. This requires institutional-building, namely the construction of an educative and research infrastructure that could generate positive externalities for the growth of each part of the community, be they persons, firms and institutions, and that could generate and consolidate the systemic capacities that favour innovation and development.

144. Digital globalisation offers new opportunities for all regions, not only most advanced ones that have the research capacity to favour the adoption of the new technologies and to develop new ones. Lagging regions can attract leaders and insert in GVCs if they develop specific capabilities in industrial activities; the local industries, even if low tech, might also find new opportunities if they adopt the new technologies to upgrade and renew their products and also to connect to global markets. For this purpose, looking for and exploiting complementarities within and outside the region is key.

145. This paper has identified four major policy elements that regional industrial policy should have. First, developing capabilities for industrial development, namely appropriate skills, infrastructure, knowledge base; second, enhancing networking in order to exploit complementarities between specialisations, within and outside the regional industrial system; third, policy governance should be participative, involving regional stakeholders to gather all the necessary information and knowledge about the local GVCs so as to identify a vision of industrial development for the region, and appropriately define sets of instruments and actions to embark the regional socioeconomic system on the chosen growth path; and fourth, policy coherence, between government levels but also between policy fields should be ensured.

146. This policy requires strong government capacity. Structural changes in times of industrial revolution are complex and require vision, institutional building, capacity for dialogue with stakeholders. Participative governance appears to be most likely to improve the effectiveness of policy.

147. The main strategic elements of the new regional industrial policy include the following points. First, GVC reshaping and emergence requires industrial policy to promote a diversity of sectors, possibly with potential complementarities; the Styria region in Austria made such a choice, as did the ER region. The latter region however defined broad sectors so that all industrial activities of the region could be included and could find complementarities. Second, providing the conditions for knowledge transfer is not sufficient: policy instruments must include action to reduce the cognitive distance, increase the absorptive capacity and prospect new knowledge sources; human capital policies are key in this respect. Third, promoting external linkages is essential, especially if the region has small dimension that prevents its reaching a critical mass in networking and knowledge exchange and creation. Fourth, policies for GVC reshaping and emergence require large public and private investments.

148. The policy implementation process of the new regional industrial policy has four main characteristics. Policies for GVC reshaping and emergence:

- have long-term horizons; this might be a problem when politicians and policy-makers are short-sighted; continuity of policy is necessary for it to be effective;

- are processes implemented over long-time period and requiring trial and error, learning and adaptation just as industrial development processes;
- require pro-active policy-makers, that are able to dialogue with regional and extra-regional stakeholders in order to anticipate changes and make choices (leadership);
- require participative governance processes, multi-level and coherent.

149. A common denominator of these elements is the search for complementarities, between knowledge, competencies and development paths. Policy must be informed by a precise diagnosis of regional assets (resources, potentialities, strengths and weaknesses). The complementarity between resources, but also between resources and institutions are important: institutions define the rules, the laws, hence the rights of individuals. Rights represent the capacity of individuals to take part in the development process, through access to education, to health and the ensurance of decent living conditions; they are the capabilities in the sense defined by Amartya Sen (1982) or the entitlements defined by Dahrendorf (2008), namely socially defined means of access, not only to good and services but also to rights (to vote, to be educated, etc.; in other word, civil and political rights).

150. In times of deep structural transformations involving not only industry, but also the whole socio-economic system the risk of social fragmentation is high. In fact, inequalities have increased in the last decades, and social welfare systems have become less strong and universal. New jobs are emerging in the fourth industrial revolution, which have to be considered in labour law; for instance, Uber drivers and riders delivering food and goods acquired on online platforms.

151. The reshaping and emergence of GVCs implies that some jobs disappear, while new ones are created. The unemployment rate rises, more or less temporarily.

152. Labour policy has to be carefully thought, because labour contracts and working conditions allowed by this policy has an important impact on the society. For instance, favouring short-term and precarious contacts in low-skill occupations make the individuals concerned unable to have long-term life projects such as building families and having children, unless a social policy provides guarantees. In addition, opportunities and incentives for on-the-job learning are generally low for individuals with such contracts.

153. GVC reshaping and emergence require a multilevel industrial policy made of regional industrial policies that are coordinated at national level in the sense that the national level favours the identification of specialisations and the exploitation of complementarities between regions. The national (and supranational, European in the EU) level has an important role to play also to provide the rules of the game, regulation and antitrust, besides an international framework for the collaboration and discussion of global challenges.

154. The EU framework and policies provide additional opportunity for the building of complementarities, since they favour interregional collaboration, which in these times of deep structural changes might be crucial for EU cohesion.

155. Further research is needed on the evolution of productive processes following digital globalisation in order to provide more detailed examples and policy recommendations.

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