Sub-National Governance and Foreign Direct Investment in Spain: The Case of Asturias

(according to governance actors)

Maria Gonzalez (University of Oviedo) & Phil Almond (De Montfort University)
Introduction

1. Spanish national context
2. Regional socio-economic context of Asturias
3. Asturias sub-national governance and MNCs: Attracting and embedding FDI
4. Tentative conclusions
1. Spanish context

• Position as low-cost manufacturing centre within EU undermined by EU expansion

• Dual labour market, high structural unemployment

• IR framework national; much sectoral bargaining is local, although largely following national concetration

• High institutional IR density and co-ordination paired with
  – low-trust employment relations, slowness to modernise HR
  – “institutional malleability” (Ferner et al 2001) - ability of MNCs
    • To negotiate outcomes of regulation at local level
    • To put in place micro-corporatist or non-union systems
Spanish sub-national governance

• In Ferner’s terms (CRIMT presentation 2011) Spain has very extensive ‘second order heterogeneity’. Its 17 regions (“autonomous communities”) have substantial devolved powers within overall national framework:
  – economic development, education, health, social assistance, etc
  – political fix: the competencies and financing of regions are continuously re-negotiated towards increased autonomy - national parties often rely on regionalist parties for parliamentary majorities
  – considerable inter-regional competition for investment, both from foreign MNCs and from large Spanish-owned businesses
    • “there is an inward investment office for each autonomous community who go competing for one market, and this is chaos” (CCOO)

• Also substantial scope for ‘third order heterogeneity’, i.e. filling in the gaps of the national business system at regional level
  – e.g. regional social parts, clustering initiatives, etc.
2. Asturias socio-economic context

- 1.06 mill concentrated in small central area
- Geographically self-contained area, negligible “cross-border” commuting. Peripheral location within Spain
- Strong regional identity, although not politically
- A large old university: “at the service of the Asturian society”
2. Asturias socio-economic context

- Strong **industrial tradition** (coal mining, shipbuilding, steel) some of it **public sector**
- Privatisation/liberalisation/globalisation created some **“false multinationals”** (e.g. steel, electricity) with substantial **regional impact**
  - “we have moved from being based on state capital to competitive MNCs which have converted Asturias into an open and competitive economy” (economic development professional)
  - effects on supply chain SMEs: “The Asturian employer wasn’t used to demands for quality and seeking new markets, they lived for many years on the large state enterprises, and didn’t worry about productivity. This was a deficit which has been corrected” (CCOO)
Asturias: Foreign MNCs mentioned at interviews by governance actors

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2. Asturias socio-economic context

- High industrial skills base &
  tertiary education rate
  but..
- difficulties of reconversion
  • low activity rate
  • Weight in Spanish
    economy falling
- EU objective 1 phasing-out
  region, funding till 2013
3. Sub-national governance and MNCs: Attracting and embedding FDI

- Regional Development Agency (IDEPA)
- Associational governance
- Regional social pact
- Promotion of clusters
Regional Development Agency (IDEPA)

- **Function**: to attract FDI, work with existing MNCs and “improve competitiveness of regional industries by improving design, innovation, quality…”
- Nominally *tripartite*, but substantially autonomous. Personnel and approach depend on ruling party
- **Extensive direct** interactions with MNCs: it controls financial incentives & has extensive coordinating capacities - “*an advantage of being a small region is that all actions are co-ordinated and meet at IDEPA*” (gov. official)
- **Unions** much more positive than *employers* on both MNCs and IDEPA’s work: “*MNCs bring knowledge into the Asturian productive system***” (CCOO)
- Some history of *subsidy-chasing firms*, e.g. Milliken (US): “*Subsidies are like sex appeal: OK for attraction, but not enough for marriage***”
- **Strategy**: aligning investment with regional priorities and cluster-building initiatives, e.g. to attract ICT services MNCs
- Little expectation of new large-scale greenfield investment (global...
Associa2onal governance

• Much talk on need to “change the (regional) productive model” across different actors
  – Renew rather than change, nobody renounces the industrial fabric; fostering entrepreneurial spirit, etc

• Quality stimulated through regional funding and certification a criterion for public contracts

• MNCs quite active in businesses associational governance (e.g. Quality Club), networking to improve their regional supply chains..

• ... rather than through employer associations [“Sector collective agreements only negotiate wage increases”]

• ‘False MNCs’ collaborate with Regional Training Council providing practical experience to vocational students - as do most large and many small firms in the region – ‘new MNCs’ do not.. “They have their own systems”

• Unsurprisingly then, as to HR skills, strength of local training always emphasised
  – little spill-over from MNCs acknowledged but on management techniques (economic dynamism, IB performance and quality control discipline.. Modernisation force)
Regional social pact

• **ACEBA**: tripartite pact on Competitiveness, Employment and Well-Being (2008)
  – expresses system for attracting-embedding. Specifically charges IDEPA
    • with finding new investment
    • with identifying difficulties which could lead to investors leaving the region and attempting to find solutions, including lobbying firms at HQ level
    • with feeding back problems of investors to regional governance actors
    • with the development of clusters

• Also covers regional strategy for knowledge society, employment/training and social protection
Promotion of Clusters

• Cover majority of private-sector regional GDP
• Creating a greater level of inter-firm cooperation mainly among SMEs and also between SMEs and large firms (Social Pact)
  – “we consider it to be fundamental to develop a culture of cooperation, which until now has been very under-developed in Asturias” (interview, regional development actor)
• “Perhaps the biggest error that was made with previous attempts, was to copy models from other regions which had different characteristics. I refer, for example, to the Basque model, where clusters policy is very developed and there is a much stronger culture of cooperation”
• Ingredients for positive sum agglomeration within value chains not yet in place
## Attracting, impact, embeddedness

| Attracting (perceived own strengths) | • HR: productivity, highly skilled, relatively cheap, industrial culture, low mobility  
| | • Natural resources & infrastructure (transport & digital comms, energy)  
| | • Quality of life  
| | • Institutional (small region): one agency, high admin co-ordination = high speed response, minimal bureaucracy  
| | • Reputation: already having foreign MNCs; does not promise what cannot do; strategy of “tailoring to needs” |
| Impact of MNCs | • Perception of their having superior management systems: admiration for their emphasis on continuous training and on evaluation, and having their own systems for both. Substantial spill-over to local providers (quality-led)  
| | • Reservations: “MNCs have a motherland and they concentrate there most of their the high VA activities”; “developing local SMEs may be more important for the economy”; dependence-avoidance: k-intensive firms are not expected, nor actively sought |
| Embeddedness | • Good HR supply  
| | • Willingness to co-ordinate the spill-over of MNCs ideas into local firms  
| | • Different types of investment:“false MNCs” much less k mobility than ICTs  
| | • Top managers being local or going native key to renew commitment  
| | • Powerful trade unions and local press keep tabs on promised investment |
Tentative conclusions

• Spain:
  – Regional autonomy creates ‘whipsawing’ negotiations
  – Regional industrial policy governance is highly politicised
  – National state provides still a lot of funding for economic development and designs general industrial policy

• Asturias:
  – Relative geographical unity of economic, political and cultural space and strong social actors enables initiatives with an Asturian frame of reference: greater level of co-ordination?
  – Initiatives to improve industrial fabric
    • public initiatives, e.g. clusters policy, attracting IT firms to brownfield sites, creating new greenfield sites
    • some established associational initiatives, e.g. quality
    • embeddedness through supply chain initiatives, good HR supply (also: directors being local or going native, historical ties, etc)
Thank you
A dual labour market

- Some workers in fixed-term contracts, with very low termination payments (8 days per year), typically in low-productivity industries
- Others with permanent contracts with large protection (45 days per year)
- Firms adjust to the cycle through the quick creation and destruction of fixed term contracts
- Over the last 25 years, 35% of the active population has been fluctuating between fixed-term jobs and unemployment

Figure 14: Employees with a temporary contract in EU27, by country, 2008 (%)*

Note: * Proportion of total number of employees.
Source: Eurostat, 2009
A convulsive labour market: Employment and Unemployment rates (CES 2010)
A stable framework of IR actors

- Employers’ associational density: 70%
- One umbrella employers’ association (CEOE)
- Trade union density: 20% - low in EU. By EU standards high presence at the workplace
- Clear dominance of general national unions of which CCOO & UGT are by far the most representative (duopoly): 76.1% workplace elections’ seats. Regional unions only in Galicia and Basque Country.
- Both employers and unions organised by industry and regions

**Figure 5: Companies with employee representation in the EU27, by country (%)**

Source: ECS 2009
A stable Collective Bargaining Structure

2009: **5002** agreements affecting **1,381,000** firms and **10.2 million workers**

By % of workers covered, most important are (provincial and national) sector agreements

- **8.4%** of agreements are sector-province, affecting **54.3%** workers
- **0.6%** of agreements are sector-national, affecting **26.8%** workers
- **0.6%** of agreements are sector-regional, affecting **9.3%** workers
- **76.1%** agreements are firm-level agreements, affecting **11% workers**
Stable National Social Concertation
Collectively agreed wage increase (in firm-level agreements and above) and Inflation

- Inflation and agreed wage increases show strong correlation and downwards trend
- 1988-93 wages purchasing power increased notably
- 2002-06, if we consider the real average remuneration, wages lost purchasing power most years
- In 2007 the trend reversed
Most recent instance of Spanish Social Concertation

2010 Agreement

• For 2010 - up to 1% wage increase
• For 2011 - 1% to 2%
• For 2012 - 1.5% to 2.5%
2. Asturias socio-economic context

- Service economy
- Still powerful metal sector, mining-energy