Changing industrial production systems and regional development in the New Europe

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The continuing expansion and deepening integration of the European union is redefining the map of threats and opportunities for both companies and regions in Europe. In this paper I analyze the changing geography of the production system in three industries – automobile, clothing and steel – as a product of the strategies and tactics of companies, states (at EU, national and regional levels) and trades unions, as they seek to shape geographies of production to favour their interests within this changing European political-economic space. It is argued that the end product of this process will be the creation of new and sharper forms of regional uneven development and qualitative differentiation between regions, as well as a renewed widening rather than further narrowing of regional differences in economic performance and well-being.

key words industrial production systems corporate strategies state policies regional development Europe Europeanization processes

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Introduction

Recently there has been a growing relocation of production from Western to Eastern Europe. This raises important questions as to how best to conceptualize the processes reshaping economic geographies within Europe. It also raises practical and political issues, and issues about their implications for territorial inequalities and uneven development there. For two decades there was a slow convergence in regional economic performance (Canaleta et al. 2002); but in the last decade this would seem to have been reversed as processes of European Union (EU) enlargement and deepening integration have accelerated. These gaps will further widen with the eastward expansion of the EU (Commission of the European Communities 2001). The evolving geographies of Europe’s economies have altered in response to this new map of opportunities and threats.

The argument that I advance is that changing geographies of production are a product of the inter-play of (inter alia) corporate, state and trades union strategies, as companies pursue profitability, trades unions and workers seek new employment and/or protect existing jobs, and states attempt to balance the pursuit of accumulation in their territory with the claims of equity and socio-spatial justice. These geographies are contingent outcomes of the co-evolution of the asymmetric power relationships between these individual and collective actors and institutions. Conceptually, this represents an attempt recognize the variety of ways in which agency and action and the structural determinants of capitalist economies co-evolve in particular ways. However, the context in which this co-evolution occurs is important – one of political-economic processes of Europeanization and globalization – for these are both a partial product of
the strategies of companies, states and trades unions and in turn help set the parameters that shape these processes.

The on-going evolution of the EU is of particular relevance here. The expansion of the EU and the collapse of state socialism have been critical in redefining the spaces open to companies in Europe. The enlargements into Southern Europe in the 1980s, the incorporation of the GDR following German reunification, and the expansions of the 1990s to take in Austria, Finland and Sweden, have all dramatically enlarged the extent of the EU’s territory. The forthcoming incorporation of states in Central and Eastern Europe (CEE) will further expand the EU. In practice, pre-accession trade and aid arrangements are already closely intertwining the economies of the applicants (especially the Czech Republic, Hungary and Poland, the most likely initial entrants) with those of the EU. The Single European Market programme and the creation of the Euro currency represent the latest stages in an ongoing process of deepening economic – and increasingly political – integration. Together these processes of deepening and widening constitute formative moments in redrawing the map of Europe (Martin 2001). This in turn is one moment in broader global processes, as new forms of capitalist uneven development emerge and evolve.

The evolving map offers new opportunities to both companies and regions, but they also pose potential threats to both. In particular, companies may fail if they are unable to come to terms with the new competitive terrain, while regions may be endangered if they are unable to secure and hold down a place in circuits of value creation, circulation and appropriation. Consequently, it is necessary to understand the bases of the co-evolution and (in)compatibility of corporate and regional development interests.

Conceptualizing changing geographies of economies in the EU: the social construction of production systems

Corporate competitive strategies encompass a variety of practices and approaches, which can be summarized in terms of ‘weak’ and ‘strong’ competition. ‘Weak’ competition revolves around securing competitive advantage within a given technical-organization paradigm of production by seeking cheaper sources of inputs to production than are available to competitors. ‘Strong’ (or Schumpeterian) competition involves seeking to gain advantage by redefining production paradigms via product, process and/or organizational innovations, with these often inter-linked. In addition, in both forms of competition, firms may collaborate via a variety of ‘networking’ strategies, involving subcontracting and outsourcing of production of components and services. Strategic alliances, acquisitions and mergers represent other longer-term options, which may be used in pursuit of either ‘weak’ or ‘strong’ competition. But the key point is that these are analytic distinctions. Firms may combine and simultaneously pursue elements of these analytically distinct approaches as part of their competitive strategies.

Recognizing the pervasiveness of inter-firm cooperation highlights the necessity to conceptualize production as a system organized across as well as within firm boundaries. A production system may be defined as a distinctive form of organization of production with corresponding technical (intra-firm), social (inter-firm and sector) and spatial divisions of labour and modes of (self) regulation. These modes of regulation, which constrain the behaviour and strategies of individual firms, each have their own geographies, emphasizing the ways in which production is embedded in particular socio-spatial settings (Dicken et al. 1995).

Within these constraints, firms have different degrees of power and influence with production systems, with important implications for their geographies and the economic success of firms. Some forms of networked relationships involve relatively egalitarian ‘horizontal’ inter-firm relations – most notably in the archetypical industrial districts of central and north-east Italy. More generally, however, there are complex, variable and asymmetric geometries of power and influence that link firms into production systems. While some ‘lead’ firms exercise considerable power and influence and have a choice of ‘strong’ or ‘weak’ competitive strategies, others in subordinate positions are typically constrained to pursue strategies of ‘weak’ competition. Moreover, depending upon the character of the product, the location of ‘lead’ firms within the structure of the production system can differ markedly. The locations of these firms, and decisions as to the location of different stages of production within and between firms (that is, the spatial distribution of the technical and social
divisions of labour), have important ramifications for geographies of value production, transfer and appropriation and for the developmental possibilities and trajectories of different places.

As well as companies, workers and trades unions seek to influence the location of economic activities (Herod 2001). Although in a structurally weak position relative to capital, unions can nonetheless, in specific circumstances, influence corporate (dis)investment strategies and geographies of production. However, trades unions occupy an ambiguous position in seeking to influence economic geographies. While uniting fractions of the working class, trades unions at the same time divide that class – for example, by industry, occupation, gender and territory (Hudson 2001, 217–54). Because of this, trades unions have become involved in inter-territorial competitions for employment and investment, sometimes in collaboration with companies whose interests are tied to particular places (Beynon and Hudson 1993; Hudson 2000, 201–26). In some circumstances other social and environmental groups constituted in civil society also seek to influence the geography of production systems, usually by developing countervailing sources of power to contest corporate decisions.

However, the strategies of companies, trades unions and other social groups are constrained by modes of supra-national and national state regulation. There are three main ways in which states become involved in regulation of the economy. Firstly, they define the rules and laws that define acceptable conduct in market transactions. Secondly, they seek directly to influence the actions of others in markets – for example, via financial incentives that attempt to influence the location of private sector investments and decisions as to currency exchange rates. Thirdly, they may replace the private sector as a provider of goods and services and the market as the allocative mechanism (for example, by taking industries into public ownership).

State polices can be thought of as organized ‘horizontally’ by spatial scale and ‘vertically’ by substantive domain. For example, vertically, there are distinctions between policies for labour and product markets, competition, merger and acquisition, research, technology and development, and trade. Horizontally, there are important distinctions between the supra-national EU, national states and sub-national units, linked in various ways in pursuit of economic development at different scales. It is, however, important to recognize that the national retains a key role in this new multi-scalar architecture, not least in shaping the scope and extent of local and regional economic development strategies and modes of governance (Ache and Wood 2000). The emphasis upon governance is symptomatic of the increasing involvement of a range of social actors from within civil society in formulating and implementing local and regional economic development policies. Within the EU there is a discernible move towards stressing the institutional agency of territories in enhancing their own regional economic development prospects and enhancing cohesion within complex multi-level and multi-scalar systems of government and governance, as new scales and scalar architectures of governance and regulation are created and change. (Lagendijk et al. 2000, 1)

However, ‘the region is [not] automatically endowed with the agency to modify network positions and play the games of “scale politics”’ (Lagendijk et al. 2000, 14). Moreover, there are marked differences in the capacities and capabilities of regions to exercise such agency.

In summary, the changing geographies of production are a result of the interaction of corporate, trades union and state policies, linked within complex webs of power relations. While structurally loaded in the favour of capital (especially multinationals) and states (especially powerful national states), it by no means follows that the determinants of a given decision as to the how, what and where of production within Europe (or indeed beyond it) simply follow from this as these are contested processes. The ways in which the causal powers of structural relations unfold is a contingent matter (Massey 1995, 303–4). In the next section I explore this proposition in the context of the changing political-economic space of Europe, especially linked to the ways in which the successive expansions of the EU have created both threats and opportunities for companies and places.

Changing industrial production systems in the New Europe: three examples

Clothing: the interaction of the search for cheaper labour, product market changes and changing regulatory régimes

Labour costs form some 60 per cent of total production costs in clothing (Scheffer 1994).
Consequently, the clothing industry is particularly sensitive to labour cost variations, an emblematic example of an industry in which ‘weak’ competitive strategies based on cost cutting remain pivotal. ‘Spatial fixes’ (Harvey 1982, 390–3), the geographical relocation of production to enhance or preserve the viability of a particular socio-technical model of production, have repeatedly been used as a production strategy.

The survival of clothing production in areas of Europe (especially those in North-West Europe) with high labour costs requires corporate strategies of ‘strong’ competition, based on dimensions such as design, high product quality and rapid and prompt delivery of the final product.8 However, markets for such products are limited and high volume production remains important and very sensitive to labour cost differences. The initial corporate response to increasing labour costs and shortages in North-West Europe in the 1950s and 1960s was to locate clothing production in peripheral, typically de-industrialized, regions, often with no history of the clothing industry and with large masses of women looking for work – for example the Ruhr and North-East England (Hudson 2000, 71).

The next phase of ‘spatial fixes’ involved seeking lower costs locations in other parts of Europe, both those within the EU, but more particularly those outside the EU but tied into it economically via various trade and aid schemes.9 In the 1970s and 1980s, clothing was a ‘classic’ industry in shaping the (then) ‘new’ international division of labour (Fröbel et al. 1980). There was a significant shift in clothing production from Northern to parts of Southern Europe, with a resultant growth in export-oriented inward investment, output and employment there, especially given the prospect of pre-accession aid (Hudson and Lewis 1985). With the entry of Greece, Portugal and Spain to the EU in the 1980s, there were enhanced levels of inward investment, with substantial support via EU regional policy funding (Thiel et al. 2000).

More significantly, this spatial shift provided opportunities for clothing producers in Southern Europe to access markets in North-West Europe, resulting in complex geographies of clothing production and trade. This creation of new forms of inter-firm relations was, however, dominated by major Western European clothing retailers. One indication of this is that two-thirds of total EU clothing imports are directed to retailers, either as a result of their own actions or those of their own or contracted agents. As Scheffer puts it, ‘trade in clothing and textiles appears more to be master-minded by agents in the importing countries’ (1994, 11). Key decisions about design, marketing and quality are taken by major retailers and/or sub-contracting clothing manufacturers in Northern Europe, indicative of an emerging qualitative spatial division of labour within the clothing production system in Europe.

Furthermore, such retail firms reorganized the clothing market as part of their competitive strategies. They have increasingly segmented the market socially and spatially and shortened product life cycles and blurred the established pattern of spring/summer and autumn/winter collections. Together, these changes have had marked impacts on the geography of clothing production and trade, increasing pressures for smaller batch and flexible production. They have further shifted power within the production system to the major retailers and as a result, the interface between the production and commercialization of clothing has become the pivotal point . . . since from there both upstream and downstream activities can be controlled effectively’ (Thiel et al. 2000, 111).

In the 1990s, however, new possibilities for ‘spatial fixes’ began to open up, as labour locations with even lower costs became available in CEE.10 These differentials constituted a strong attraction to companies based elsewhere in Europe. Echoing the earlier shift to sourcing from Southern Europe, major retail chains increasingly switched orders to CEE via a variety of contracting arrangements (Dunford et al. 2001), while clothing production companies located there to lower production costs. As a consequence, the clothing industry in other European countries has been restructured significantly. Clothing producers and retailers there have concentrated upon higher value-added design, R&D, marketing, planning and control activity, while outsourcing production to CEE (Pavlínek 1998; Begg and Pickles 2000). This led to further plant closures and employment decline in North-Western and parts of Southern Europe.

As well as the closure of mass production factories and branch plants, this also involved ‘hollowing out’ formerly coherent industrial districts producing high-value fashion clothing, such as Herning-Ikast in Jutland (Denmark). Companies
decentralized the most labour intensive and physically demanding stages of production to low labour cost areas in Poland, while maintaining R&D, marketing and control functions in Jutland (Dunford and Hudson 1996). As a result, between 1984 and 1994 clothing employment fell, often dramatically, in all of the then 12 EU Member States, with the exception of Portugal, where it increased by 6.5 per cent.

More recently, as production was increasingly switched to CEE, cost pressures on EU producers have further intensified, leading to further reductions in clothing production and employment. This has sharply affected ‘peripheral’ regions in North-West Europe, such as North-East England and Northern Ireland, ironically because of close links previously built up between companies with production capacity there (such as Baird and Dewhirst) and Marks and Spencer (M&S), the UK market leader. Until the 1990s, M&S resisted the general tendency to supply from abroad, instead seeking to contain costs by pressuring its UK suppliers, while maintaining quality and its reputation for clothing ‘made in Britain’. However, it then began significantly to purchase from outside the UK, seeking to use ‘preferred’ suppliers as a quality control mechanism (Crewe and Davenport 1992). By the latter part of the 1990s, intense competitive pressure in the retail clothing sector resulted in M&S sharply cutting back on the volume of orders to its remaining UK suppliers and further sourcing from CEE and Asia (Marks and Spencer 1999). Largely as a result of this change, there was a severe and rapid fall in clothing employment to 6000 in North-East England (compared to previous levels of over 20 000).

In addition, however, the changing international configuration of production and trade also impacted upon clothing output and employment in Southern Europe, as places that had experienced rapid growth in the 1980s were confronted with equally sharp decline in the 1990s. For example, by the early 1990s employment and output were falling in Portugal, particularly because German retailers switched orders to CEE. Exports from Portugal to Germany fell sharply and clothing employment in Portugal declined by almost 25 per cent between 1991 and 1995 (Thiel et al. 2000).

The geography of clothing production in Southern Europe has also been reorganized in other ways with decline in much more established areas of production. Former industrial districts have been or are being ‘hollowed out’. The geographies of their production structures have been reorganized, retaining design, marketing and HQ functions, while relocating routine production to lower cost locations in Southern and, increasingly, Eastern Europe. As early as the beginning of the 1980s, the larger or leading clothing firms in Italian districts such as Carpi and Prato initiated a far-reaching process of delocalization of selected labour-intensive and unskilled stages of production. Conversely, they concentrated increasingly upon high-quality products and those stages of production requiring skilled labour and, more importantly, upon design, marketing and brand development activities that were less sensitive to labour costs, as well as key HQ strategic functions. Similar processes of ‘hollowing out’ production to surrounding localities with abundant cheap labour occurred in the 1980s around the town of Kastoria in Northern Greece, the one authentic industrial district in Greece, producing expensive clothing from imported fur (Hadjimichalis 1998).

The ‘hollowing out’ of industrial districts is not necessarily a simple process, however, nor one confined to relocating production within the national territory, as the example of Benetton illustrates. Benetton emerged as a major clothing company as a result of a complex combination of marketing, organizational and process innovations. This encompassed creating a new global product image, a refined just-in-time production system incorporating both outsourcing and process innovation, and a risk-minimizing strategy of franchised outlets in more than 100 countries, while retaining key control, design and marketing functions in Treviso in Northern Italy (Crewe and Lowe 1996). The boundaries of clothing industrial districts have therefore become more permeable because of the emergence of powerful ‘lead’ firms or gruppi, a result of either organic growth or, more often, of acquisition and merger activity among local firms, and the entry of externally owned firms, especially larger firms that came to play dominant roles and shape local growth and development (Coró and Grandinetti 1999; Whitford 2001). The net result was to create more complex structures of ownership and more hierarchical relationships between firms, establish relationships with suppliers and subcontractors beyond the boundaries of the district, and fracture the former territorially bounded coherence and integrity of
the clothing production system within the district.
At the same time as long-established industrial
districts were being hollowed out and reorganized,
new clothing clusters were emerging elsewhere. In
CEE, new clusters were evolving, incorporating
innovative forms of inter-firm relations, linked into
local 'lead' production firms and in turn into
export markets in Western Europe (Dunford et al.
2001). Similar processes were evident in parts of
Southern Europe, but focusing less on large-scale
production for mass markets and more upon
specialized niche production. For example, in the
rural areas of the Ave Valley in Northern Portugal,
clusters of clothing producers focused increasingly
upon small batch production, manufacturing
products for which the main modality of competi-
tion is quality rather than price (Thiel et al.
2000).

As indicated above, reshaping the geography of
clothing production and trade in Europe crucially
depended upon political changes, and shifts in
state policies and regulatory régimes. Some of
these related to international trade in general, such
as the Multifibre Arrangement (MFA), introduced
in 1974 under the aegis of GATT (Farrands 1982),
and the WTO. Others were specifically European in
their origins and effects, notably pre-EU accession
trade and aid policies in Southern Europe, which
effectively economically integrated Greece, Portugal
and Spain into the EU prior to their political
membership (Hudson and Lewis 1985). Post-1989
there were parallel processes in CEE. Most signifi-
cantly, until the mid-1990s the changing interna-
tional division of labour in clothing within
Europe was governed and shaped by an outward
processing trade (OPT) régime. In this, Western
retailers and producers controlled the design,
retailing and overall management of production,
coordinated the shipping of textile materials for
out-processing and organized the return of the
finished commodity to West European markets. EU
producers could export fabrics and re-import
garments, with minimal trade tariffs and customs
duty charged only on the value added in the
production of the particular item of clothing
(Scheffer 1994). OPT arrangements enabled
Western European companies to overcome import
quotas applicable under the MFA and helped underpin
their competitiveness in global markets.

Having powerfully influenced the clothing trade
between the EU and countries in CEE (Graziani
1998). Indeed, Lemoine (1997, 4) argues that 'OPT
was the engine of Central and East European
manufacturing exports in the early nineties'. CEE
clothing exports to Western Europe increased by
20 per cent annually between 1990 and 1998, and
by 1998 represented 5 per cent of world clothing
exports. Furthermore, EU countries imported 18
per cent of their total non-EU clothing imports
from CEE countries17 (World Trade Organization
(WTO) 1999). Although recently there has been a
move away from OPT regulated trade, as tariff
barriers to clothing trade are removed as part of
WTO agreements to promote free trade, OPT-type
relations nevertheless seem to continue despite
these changes.18 This reflects lock-in within net-
works linking low-cost producers in CEE and buy-
ers in the EU, enabling the latter to appropriate
a greater share of surplus-value than would be
possible if production was located in high-cost
locations.

In summary, the combined result of these varied
processes is that particular core economic sites and
regions in Western Europe (headquarters of the
major clothing retailers and buyers) control the
'geographical transfer of value' (Hadjimichalis
1987) in this production system. Producers in differ-
ent European regions have varying ability to
capture and appropriate value from continent-
wide production and contracting networks. Many
peripheral regions in higher cost countries have
seen their position in the production system
challenged by emergent and distanciated contract
networks organized on a continent-wide basis.
Conversely, these same contractual arrangements
have offered opportunities for new production
structures, sometimes on a regionalized basis, to be
constructed in parts of the eastern and southern
peripheries. Clearly there is no simple or deter-
ministic correlation between the changes in geog-
raphies of clothing production and in organiz-
tional form and relations between companies in
the clothing production system. Such relations are
contingent and context-specific.

Automobile production: the interaction between a
search of labour markets to allow the
introduction of new production concepts and
practices, market penetration via inward
investment and changing regulatory régimes

There has been a considerable internationalization
of EU automobile production into, first, peripheral
regions of Northern and Southern Europe, and secondly, into CEE (Sadler and Swain 1994; Hudson and Schamp 1995; Pavlinek 1998). This partly reflects substantial differences in labour costs. Of greater significance, however, are the possibilities radically to reorganize working practices and enhance productivity levels, both in areas with no prior history of automobile production and in former automobile production areas, above all in CEE, in which there is little, if any, resistance to such changes. Production is increasingly ‘Europeanized’, with ‘an intricate network of . . . flows which reflect both the sourcing and marketing strategies of the major automobile producers, national and transnational’ (Dicken et al. 1995, 4).

The automobile production system is seen, by some, as organized within European-wide networks, encompassing a three-fold hierarchy of regions, qualitatively differentiated in terms of their role in the production system. R&D and high-level and knowledge-intensive competencies are increasingly concentrated in the core, centred on Germany,19 as routine production, especially of lower value models is increasingly dispersed to the eastern and southern peripheries. This emergent hierarchy is based upon the cumulative competencies of the actors, the density of networks of relationships and proximity to the seats of power where strategic decisions are taken . . . distributing other activities over space. (Bordenave and Lung 1996, 320)

However, creating such a regionally hierarchical Europeanized production system is complicated in at least two ways. First, ‘national champions’ still dominate in some national markets (Bordenave and Lung 1993; Hudson and Schamp 1995). Secondly, supply chains are being extended beyond Europe (Sadler 1999).

The proximate cause of these changes was the crisis of Fordist mass production in Western Europe and the collapse of the state socialist mass production model in Eastern Europe. While the latter was a consequence of geopolitical change, the former resulted from the maturing internal contradictions of Fordist production, allied to growing competition from Japanese producers using just-in-time (JIT) and lean production methods. However, in the 1980s, Japanese producers were confronted by two problems in seeking to increase their share of the EU market via exports. First, a strongly appreciating yen made exports increasingly difficult. Secondly, political resistance to growing imports, reflected in voluntary export control arrangements, limited the share of the EU market that they could acquire via importing. To increase this share, and to secure a long-term position in this market, Japanese companies were compelled to establish production facilities within the EU, either by foreign direct investment (FDI) in green-field sites or via acquisition, merger or joint ventures. In turn, however, these Japanese companies faced the problem of introducing their own ‘Japanese’ high volume flexible production (HVFP) methods in very different cultural and political settings in Europe.

These HVFP methods are predicated upon particular ways of organizing the labour process, originally quite novel in Europe, with demanding requirements in terms of recruitment, working practices and modes of labour representation. These were difficult to introduce in regions with a history of automobile production and a strong trades union culture committed to defending existing working practices and wage arrangements. Consequently, Japanese companies sought production sites with particular types of labour market and state regulatory régime and were initially attracted to the UK by national government policies, fixed capital investment subsidized via regional policy, and regional labour markets characterized by an abundance of ‘green labour’. Following the initial investment in North-East England by Nissan, with assembly beginning at its Sunderland plant in 1986 (Garrahan and Stewart 1992), there were major investments by Honda at Swindon (following its strategic alliance with British Leyland/Rover, begun in 1979) and Toyota in Derbyshire, at Burnaston (see Hudson 1995a); Nissan subsequently invested in Spain, whilst other Japanese companies invested elsewhere in Europe (discussed below).

As the automobile production system was increasingly Europeanized, competition for major inward investment projects intensified, both between and within national states. This occurred in a context of unequal power relationships between large, externally owned corporations, national states, regional development agencies, trades unions and local communities. National states sought to attract inward investment but within the constraints of an EU framework to regulate intra-EU international competition for investment, while they also defined and administered
the rules through which regions within their country compete. There was intense competition between places. For example, some 40 local authorities in the UK alone bid for the Nissan investment. Consequently, Nissan was able to extract a high price, both financially in terms of grant aid and also in securing local cooperation to ensure that a variety of ‘hard’ and ‘soft’ infrastructure requirements were met. This intense competition can on occasion create problems. For example, there is still uncertainty as to the inducements offered to Nissan by, amongst others, the now defunct Tyne and Wear Metropolitan County Council (Hudson 1995b).

Establishing new automobile plants in locations previously devoid of such production certainly offered (and still offers) advantages to companies. However, it also posed challenges for companies and for political actors succeeding in capturing such prized inward investment projects in terms of embedding factories in places. Meeting these challenges was and is a relatively straightforward process in so far as it relates to providing investment grants and loans and ‘hard’ infrastructure and even in securing desired working practices and modes of labour representation. For example, the strong tradition of industrial union organization in North-East England posed no problem to Nissan. Within the region, trades unions competed vigorously for the right to be the sole union at the new plant. The ‘winner’ of the contest was the AEEU (Hudson 1995a, 79–85). However, workers saw the single union deal as so ineffective that managers had to persuade workers to join the union and maintain an image of partnership in a region where such imagery was important.

Elsewhere, Honda secured a no-union deal at its Swindon plant. Both devised sophisticated, complex and exhaustive recruitment procedures designed, inter alia, to exclude trades union activists or people with experience of union organization from their workforces (Garrahan and Stewart 1992). In general, companies had little difficulty in securing their preferred form of labour representation in their factories.

While securing provision of appropriate ‘soft’ infrastructure and training provision in the surrounding regions was more difficult, such difficulties were not insurmountable. For example, Nissan’s requirements for suitably qualified labour-power initially were met via a direct relationship with Sunderland City Training and Enterprise Council (TEC), funded by national government and the EU. As Nissan expanded in the early 1990s, however, it became increasingly concerned as to the efficacy of these arrangements. It decided that a more broadly based and quasi-autonomous organization, externally funded, was required to underwrite the labour-power requirements of the region’s component suppliers as well as Nissan itself, thereby minimizing labour poaching between firms. The end product was the creation of the Automotive Sector Strategic Alliance (ASSA), established in 1997. ASSA seeks ‘to support the growth and competitiveness of the [auto] sector through the development of a skilled labour force, helping create job security’ (cited in Pike et al. 2000, 79). In particular, it aims to ‘cascade’ a ‘training culture’ down the tiers of the supply chain from Nissan and both encourage and support SMEs collectively to invest in training. As ASSA became more established as an institution of regional labour market governance and regulation, the new organization ensured that many of Nissan’s training requirements were met, without it seeming to favour Nissan or without Nissan seeming to lobby for special treatment. At the same time, however, both Nissan’s by now well-established presence and ASSA’s existence became deployed in marketing the region, seeking to create an image of the North-East as an automotive region, and attract future investment, in particular, more design-oriented and knowledge-intensive projects (Hudson 2000, 75).

The increasing presence of Japanese producers posed a growing challenge to established automobile producers in Western Europe, both ‘national champions’ (such as Fiat and Renault) and USA-based multinationals with a long history of production in Europe (notably Ford and GM). Their response was to establish new factories that emulated those of the Japanese producers in peripheral locations within Europe, such as that at Melfi. Melfi was established by FIAT on a ‘green-field’ site in the Mezzogiorno to allow the introduction of a completely novel (to Italy) form of work organization underpinned by substantial financial support from the Italian state (Conti and Enrietti 1995). While Melfi was established for high-volume production of low-value models (notably the Punto), such peripheral plants often had another role. This involved producing relatively low volumes of existing or new products, such as off-road vehicles and ‘people carriers’ (Ferraò and Vale 1995), as
companies experimented with new products and new ways of producing in plants that were not central to their on-going production strategies. In part this was because attempts to introduce new HVFP methods into existing plants initially encountered strong resistance from workers and trades unions. In due course, however, as lessons were learned from experimental plants in peripheral locations and workers began to accept that there seemed little choice but to accept radical changes in working practices if capacity and some jobs were to be preserved in existing plants, ‘lean’ production methods became introduced into major plants in core locations: early examples included BMW at Regensburg, VW at Embden and Citroen/PSA at Rennes (Hudson and Schamp 1995).

The opening up of CEE offered new spaces in which to relocate high-volume production of low-value models, manufacture new products in relatively small volumes, and experiment with new ways of producing and working (‘experimenting-with-the-future’ approaches: Grabher 1997, 127–9) in regions characterized by high unemployment and the widespread availability of labour of varied types. A series of inward investments in automobile assembly plants followed, both new ‘green field’ factories (mainly in Hungary, the former GDR and Poland) and joint ventures or acquisitions of existing automobile producers. Examples of the former include VW at Mosel, and GM Opel at Eisenbach, both in the former GDR, and GM Opel in Gliwice in South-West Poland, while planned new factories include BMW and Porsche at Liepzg in the former GDR, and a joint venture by Peugeot and Toyota in a new factory at Kolin in the Czech Republic. Examples of ‘brown field’ investments via acquisition include Fiat’s acquisition of FSM, which became Fiat Poland SA, Daewoo-PSO in Poland, VW’s acquisition of Skoda (in the face of competition from Renault), Suzuki’s Hungarian joint venture at Estergom (Swain 1996 1998), Daewoo’s acquisition of Ukrainian Avtozaz and Renault’s purchase of Dacia in Romania.25

National governments in CEE have actively sought to attract FDI industry, further ratcheting up the level of territorial competition for automobile investments. Fixed capital investment costs have been heavily subsidized by national state and/or EU financial support via regional policy grants and loans (Hudson and Schamp 1995; Pavlinek and Smith 1998; Smith and Ferenciková 1998).26 Often new industrial areas were prepared specifically to attract such investment, further reducing production costs there for inward investors via tax allowances: for example, the Polish government established special economic zones (SEZs – although such incentives are illegal under the terms of the EU accession agreements). Such subsidization reduces the risks to companies and lowers sunk cost barriers to exit, for whatever reason. Within a broad EU regulatory framework, national states, aided by local states and organized labour, have been active agents in ‘capturing’ mobile investments in seeking to (re)situate local economies within a Europeanized production system. Such actions, however, help define and enhance intra-European territorial competition, as an attempt to ‘ground’ an investment in one local economy necessarily involves pitting it in competition with others. Such territorial competition is further complicated by the use of national state aids to keep production facilities in EU Member States in the face of relocation pressures to lower cost regions in, inter alia, CEE.27

Such investments were both path-dependent and path-forming (Nielsen et al. 1995). Companies were able to exercise great selectivity in recruitment, with rigorous practices, and hire workers for a fraction of Western Europe wages. By introducing new ways of working and control of the labour process via the activities of foremen and more assertive managerial practices, removing the autonomy that shop floor workers had enjoyed during the state socialist era (Burawoy and Krotov 1993), ‘the frontier of control’ (Beynon 1973) has been redefined in automobile assembly and component factories in CEE. In cases in which the means of production were relatively modern (as with VW’s acquisition of Skoda), great increases in productivity were initially gained without major capital investment. In some cases, typically associated with ‘brown field’ acquisition of existing automobile plants, companies recruited workers endowed with engineering skills and/or experience of working in the automobile industry, but amenable to new working practices. In other cases of new ‘green field’ plants, companies recruited ‘green’ labour with no previous experience of the automobile industry (as at Magyar Suzuki: Swain 1998).

These plants in CEE have helped redefine ‘best practices’ and productivity norms in Western Europe, as the principles of ‘lean’ production were incorporated in varying degrees, albeit in
hybridized forms adapted to local circumstances, into all major assembly plants in Europe, with the effects cascading down supply chains to become incorporated into first tier suppliers and other companies located further down supply chains. Furthermore, as well as leading to new intra-company links between plants in emergent Europeanized production systems (themselves often part of global systems), HVFP methods required new forms of inter-firm relations. Increasingly major assembly companies focused upon design, R&D, marketing and final assembly, and outsourced component production, increasingly seeking links with first tier component suppliers that would provide modules and subassemblies.28 This, coupled with an emphasis on JIT delivery, and engineering in quality from the outset, redefined the anatomy of the component sector within Europe.

The increasingly stringent requirements of assembly companies helped trigger a surge in acquisitions and mergers and product and portfolio swaps within the components sector, as first-tier suppliers either emerged, merged or consolidated their positions around particular product market segments (Sadler and Amin 1995). These changes in the corporate anatomy of the supply chain and the switch towards JIT production also led to changes in production geographies. Sometimes JIT involved production in one place and a re-regionalization of production. For example, supplier parks were established adjacent to Nissan’s Sunderland factory, Ford/VW’s joint venture to produce people carriers at Setubal in Portugal (Ferraõ and Vale 1995) and SEAT’s factory at Matorell, near Barcelona. Such examples lend support to claims about a transition from former ‘global outpost’ forms of branch plant investment to embedded performance plants (Hudson 1995b).29

Often, however, spatial clustering was simply a necessary response to inadequate transport infrastructures and logistics systems. Referring to the supplier park established adjacent to the Fiat plant at Melfi, Mehl notes, with a degree of irony, that the aspired close spatial relationship with suppliers can be seen as a tribute to particular Italian circumstances: strikes in the transport sector, bad road and rail linkages [that] make more difficult the production-synchronous delivery from larger distances. (Mehl, cited in Hudson and Schamp 1995, 227)29

In other circumstances, co-location of suppliers and assemblers without the provision of a specific supplier park represents a type of ‘pseudo-JIT’ to cope with problems of poor transport and communications infrastructure rather than synchronous production (Hudson 2000, 156–8). Suppliers establish warehouses from which assembly plants can be supplied ‘JIT’ from buffer stocks. Examples of this include the GM and VW assembly plants at Eisenach and Mosel, respectively (Schamp 1995).

More generally, Western European component producers have invested in CEE in response to assemblers locating there. For example, following VW’s acquisition of Skoda, several suppliers (including ITT, Bosch, T&N, Rockwell-Golde, VDO and Lucas) followed it there via a series of acquisitions and joint ventures. These moves reflected two considerations (Hudson and Schamp 1995). First, to secure access to the market for Skoda’s component supplies; secondly, the attractions of low wages, skilled labour and relatively high productivity, allied to favourable exchange rates. More generally, automobile producers established in core locations in Europe, but shifting some production to peripheral locations, prefer maintaining links with and sourcing from existing suppliers via the latter, establishing new, typically ‘green field’, component plants (Hudson and Schamp 1995). In addition, the need to meet ‘local content’ criteria in applicant countries in CEE has sometimes led to the incorporation of indigenous component production via joint ventures with foreign assembly companies. For example, Daewoo established 15 Polish–South Korean joint ventures in component production in Poland to ensure that it met the minimum target of 60 per cent ‘local’ (EU) content (Havas 2000, 252).29

Echoing the impacts of earlier rounds of Japanese investment on the supply chain in Northern Europe, inward investments in the component sector have helped transform the complex web of supply networks in CEE. However, the power of companies such as VW and GM-Opel has led to the emergence of sharp asymmetries of power within reconstituted supply chains. Some domestic component producers have been integrated into newly established supply networks. For example, many Czech firms have become ‘first tier’ suppliers to VW.31 More commonly, however, local producers incorporated into these networks generally manufacture less complex and lower value components, with ‘high tech’ and high-value
components being imported (for example, Magyar Suzuki imports such components from Japan). Furthermore, as in parts of Western Europe, such as Spain, many other ‘local’ producers have been excluded because of component investment from the EU. Consequently, many well-established plants have been excluded from supply networks, with important implications for their sustainability and for regional development, as the degree to which the newly (re)constructed automobile production systems are ‘embedded’ in these regions varies sharply. In Eastern as in Western Europe, there is a range from ‘global outpost’ export-oriented branch plants to regional production systems that involve closer links between assemblers and their suppliers in more ‘embedded’ sophisticated ‘enclave’ economies (Hudson 2002). In the latter cases, however, exclusion from or inclusion in these supply networks is determined by the requirements of multi-national auto producers, driven by corporate interests rather than those of regional development.

Equally, however, production systems were often constructed on a pan-European basis (not least because EU ‘local content’ rules relate to the EU rather than any specific region in it), offering different possibilities for inward investment as a source of regional development. For example, Bosch’s alternator plant at Miskin, near Cardiff, is one of only two that supply the entire global market with particular types of alternator (Sadler and Amin 1995, 48–50). VW supplies its assembly plant in Bratislava in Slovakia with components from suppliers in Germany via train on a daily basis, while metal stamped parts are delivered from Opel’s plant in Zaragoza to that in Eisenach by train (Schamp 1995). Subject to appropriate logistics arrangements, therefore, ‘deadline proximity’ (Ferraõ and Vale 1995) and producing JIT does not necessarily require co-located production.

There is, however, a further twist in the tale (and tail) to processes of Europeanization. Despite over-capacity and problems of profitability, there has been great resistance to acquisitions and mergers between European producers in a sector of ‘national champions’, with considerable resistance to cross-EU border merger and acquisition (Hudson and Schamp 1995). The failure of the strategic alliance and proposed merger between Renault and Volvo in the early 1990s exemplified the difficulties of such cross-national mergers (Malmberg 1995, 186–8; Savary 1995, 163–7). However, in the 1990s the profitability of Japanese producers slumped because of stagnating domestic demand and slowing export growth. This led to strategic alliances and other links between Japanese and non-Japanese producers – and the increasing dominance of the pursuit of shareholder value rather than stakeholder interests, expressed in the internal labour market of companies in the notion of ‘jobs for life’. The strategic alliance forged in 1999 between Renault and Nissan was of particular significance in Europe. Renault took a major stake (38.6 per cent, later increased to 44.4 per cent) in the share capital of Nissan, as part of a still-evolving strategic alliance intended to solve Nissan’s deeply rooted profitability crisis (Burt 2001). Although in principle a strategic alliance, in practice Renault became the dominant partner.

This link-up led to competition between the companies for investment to produce the new generation of Nissan Micra. Despite claims that Nissan’s Sunderland factory was by some distance the most productive – in terms of vehicles per worker – plant in Europe (Hudson 2000, 147), it is located outside the Euro-zone. As a result of (inter alia) this, it is unprofitable. This led, early in 2001, to a growing belief that Nissan was considering shifting future Micra production to a Renault plant in France (Flins, near Paris). There were economic (in terms of costs) and political (in terms of demonstrating that the Renault–Nissan relationship created jobs in France) attractions for Nissan in switching production to one of Renault’s existing factories in France. This would lead, however, to significant job losses both in Sunderland and in component supply plants in the northeast and elsewhere in the UK.

In the end, Micra production remained at Sunderland, but on terms that were very favourable to Nissan. It acquired a £40 million grant from the UK government, agreement by UK suppliers to price in Euros (thereby shifting the risks of currency fluctuation to them) and, most significantly, agreement to 24 hour three-shift working in the Sunderland plant, dramatically reducing the turnover time of fixed capital invested there. Simply the threat of reconfiguring the geography of corporate production in the wake of the new strategic alliance secured enhanced surplus-value production at Sunderland. At the same time, Nissan made clear that it would enhance component sourcing from the Euro-zone, further intensifying the
pressure on component suppliers producing in the UK. In short, the new corporate anatomy of automobile production in Europe led to in-situ changes at Sunderland and to changes in the supply network – and in turn again re-defined productivity norms, with important implications for the geography of the automobile production system and for regional development in Europe.

Steel: the interaction of merger and acquisition, EU expansion and changing regulatory regimes in redefining the anatomy of production

Even more so than automobiles, steel has been an industry of ‘national champions’ in Western Europe. Paradoxically, it can also be seen as an industry of great symbolic significance in the context of the EU. The 1951 Treaty of Paris was specifically concerned to establish a cross-national regulatory regime for the coal and steel industries via the creation of the European Coal and Steel Community. While there was early pan-European regulation, however, this gave no encouragement to cross-national mergers. There were several reasons for this. Firstly, steel was seen as central to national armaments and defence industries. Secondly, in many national states, steel was a public sector/nationalized industry. Thirdly, steel was a key input to a range of other manufacturing industries. While there was increasing acquisition and merger activity within national boundaries in Europe in search of scale economies of production, especially from the late 1970s, often involving selective product and portfolio swaps, there was very little evidence of cross-border mergers. There were several reasons for this. Firstly, steel was seen as central to national armaments and defence industries. Secondly, in many national states, steel was a public sector/nationalized industry. Thirdly, steel was a key input to a range of other manufacturing industries. While there was increasing acquisition and merger activity within national boundaries in Europe in search of scale economies of production, especially from the late 1970s, often involving selective product and portfolio swaps, there was very little evidence of cross-border mergers. The most publicized cross-border merger – between Hoesch and Hooghoven to form Estel – collapsed in 1982, but was notable for its rarity (Hudson 1994). For some three decades, the steel industry has been characterized by global over-capacity and crises of profitability, with periodic trade disputes, especially involving the USA, often with the EU. In this context, steel companies within Western Europe explored ways of combating corporate crises of profitability, including diversification out of steel (for example, into electronics, automobiles or financial services), product diversification and upgrading product quality. In many areas of bulk steel production, however, the response to crisis was to cut capacity and jobs to increase levels of capacity utilization and thereby reduce unit production costs. The scale of job losses has been very severe. Between 1975 and 1995, employment in iron and steel in the EU fell by 65 per cent from 991,000 to 326,000. Given the historical geography of the industry, these job losses were highly concentrated in particular regions and cities and towns within them. This led to a series of often fiercely contested plant closures and job losses (Hudson 2000, 201–26). Many of these steel producers were publicly owned, which further politicized the processes of cutting capacity and jobs, especially as these cuts were increasingly part of rationalization processes designed to enable state-owned steel companies to be privatized. By the 1990s, there were intensifying pressures on state finances, and privatization was seen as one way of helping contain them. However, privatization, the disciplines of the market and the need to demonstrate shareholder value in turn further increased financial pressures on steel producers in the EU.

While one initial response was further acquisition and mergers within national boundaries – notably in Italy, following the privatization of Finsider and the subsequent merger and rationalization activities of Ilva and Falck in the early 1990s (Hudson 1994), and in Germany, as first Krupp and Hoesch merged and then Krupp/Hoesch merged with Thyssen in 1999 to form the (then) third largest steel company globally. Such mergers were a prelude to further rounds of capacity and job cuts and portfolio rationalization, but also to the newly merged companies seeking to expand beyond their home national territories. For example, ThyssenKrupp concentrated all iron and steel production and most of its hot strip production at Duisburg, with consequent cuts in employment and capacity in Dortmund (historically the centre of Hoesch’s operations). In addition, however, ThyssenKrupp embarked upon a round of acquisition and divestment activities. Between 1999 and 2001, it acquired businesses with annual sales of 3.7 billion Euro and disposed of assets with annual sales of 2.5 billion Euro as it sought to reposition its portfolio of activities within and beyond steel and within and beyond Germany. For example, its automotive division acquired several companies to reinforce its position in the manufacture of vehicle bodies, engine development and electrical and electronic assembly activities. Within iron and steel, it increasingly focused its activities on the production of carbon and stainless steel flat products for automobiles and ‘white goods’
markets, including a major investment in ‘the world’s most advanced stainless steel mill’ in China, which began production in 2001 with an annual capacity of 270 000 tonnes (Betts 2002).

As well as moves to internationalize beyond Europe, there were increasing pressures for cross-border mergers within Europe to create companies that could better cope with international competition, further rationalize production and take advantage of the emerging single European market. One of the more prominent of these was the merger between British Steel and Hooghoven to form Corus. This was a prelude to post-merger rationalization. Following earlier significant job cuts announced in 2000, in 2001 Corus announced plans for a major rationalization of production in the UK. These involved further big reductions in employment and capacity, especially concentrated at Llanwern in South Wales and Teesside in North-East England. This was a direct response to changes in the volume and composition of demand for steel in the UK, coupled with the appreciation of sterling against the Euro, making export to other EU markets unprofitable. It seems likely that in future Corus will seek to reduce its dependence on steel (for example, expanding aluminium production) and, within steel, move into CEE and continue to extend its operations beyond Europe, with further reductions in capacity and employment in the UK. This is especially so given the merger between Usinor (France), Arcelor (Luxembourg) and Aceralia (Spain) to create Acelor, the biggest steel producer globally, which has redefined the corporate anatomy of steel production in Europe.

The pressures to redefine the corporate anatomy and geographies of steel production in Europe were enhanced by events in 1989 and the subsequent attempts to rationalize technically very inefficient steel production in CEE, especially as Poland became a serious candidate for EU entry. Despite marked reductions in employment – from 156 000 in 1975 to 140 000 in 1989 and to 92 000 in 1996 (Bolger 1997) – labour productivity in steel production in Poland lagged behind that in Western Europe. Within Poland, acquisition by Western steel companies is seen as the route to transform the industry. Following sporadic but inconclusive discussions with Western companies since the early 1990s, the Polish government became increasingly anxious to secure privatization via this route, especially of the major plants of HiL at Nova Huta, near Kracow and Huta Katowice, as these account for some 66 per cent of total production capacity. For example, as Stenning puts it, referring to HTS, the company that operates the HiL plant: ‘In May 1997, HTS was converted to a state-run joint stock company, since when it has been actively seeking foreign investment’ (2000, 108). In an attempt to secure privatization via acquisition by Western European companies by 2001 (Wagstyl 1998), capacity and employment were further reduced, while undertaking fixed capital investment to modernize capacity and improve productivity. For example, the HiL plant employed 32 000 in 1989 but, by 1999, employed just 12 000, while it invested over £200 million in modernizing the plant between 1995 and 1998. In January 2000, plans for a further 8000 redundancies were announced. Even so, as yet, attempts to persuade Western steel companies to acquire the Polish plants have failed. While an Austro-Dutch consortium of Voest Alpine and Hooghoven agreed to acquire HTS in 1998, it subsequently (in 1999) stalled negotiations because of concerns over the future viability of the company. The merger between British Steel and Hooghoven further complicated the situation and the future of the HiL plant and HTS remains unclear.

There is, however, some evidence of inward investment into CEE. For example, in 2000 US Steel, the largest USA steel producer, announced it was acquiring VSZ in Slovakia, the highest quality steel producer in CEE. This was described as ‘the most significant foreign investment in Slovakia since Volkswagen in 1992’ and as US Steel’s ‘first significant steel making investment for 13 years’ (Anderson and Bowe 2000), intended to establish it as the prime supplier of sheet steel to automobile producers in CEE. This is indicative of an emerging tendency towards more globalized steel companies, and of the linkages between strategies of Europeanization and globalization in steel and between automobiles and steel, but within an European steel production system further reduced in scale.

**Conclusions**

In this paper, I sketched out a framework for understanding the geographies of economic and regional change in an increasingly integrated
Europe. This focuses upon production systems in three different industries, constituted via the co-evolution of corporate strategies, the policies and regulatory frameworks of the EU and national states, and local and regional economic development and regeneration strategies. This has shaped the ways in which the geographies of these production systems have been reworked in and beyond the boundaries of the evolving New Europe, especially as a consequence of the continuing evolution of the EU. I have explored how such organizations and institutions have sought to both shape and use spatial differentiation within Europe in pursuit of their various interests. Geographies of production systems are seen as an outcome of the co-evolution of the relationships between these individual and collective actors and institutions. Furthermore, there is considerable variety in the organization of production and use of spatial differentiation within and between production systems.

The spatial reorganization and rescaling of the economy of the New Europe is clearly a complex process, not amenable to simple generalization. The changing geographies of production systems can be interpreted as evidence both of decline and growth in the importance of the regional scale. Within an industry, new clusters are created in some places, while in others existing clusters are breaking up and established industrial districts are ‘hollowing out’. Furthermore, while there are tendencies towards the creation of Europeanized systems of automobile, clothing and steel production, linking diverse locations within the continent, there are important differences in their geographies. Even so, there is increasing qualitative differentiation in technical and social divisions of labour within and across these systems, with a general tendency for more sophisticated and higher value-added activities to locate in core regions, with routine production dispersed to peripheries, especially those of the east and south.

In this context, a variety of regional development organizations in numerous regions are seeking to shape these evolving production systems to favour or protect ‘their’ territory. Some regions can certainly exert a powerful influence, as can some national states within Europe, in securing high value-added and knowledge-intensive activities for ‘their’ territories, based on ‘strong’ inter-territorial competition. Others are in a much weaker and more vulnerable position, and seek to compete via subsidy and the price of labour in a ‘weak’ mode of inter-territorial competition. In terms of FDI, they accept what they can attract, which typically may not be their preferred choice. In addition, many peripheral regions in North-West Europe that were at one time the location of such routine activities increasingly are being squeezed from two directions. They are unable to compete with the Eastern and Southern peripheries on cost, and unable to compete for higher value-added activities and functions with ‘core’ regions. Their future, and that of their long-term unemployed inhabitants, is bleak.

Therefore, while regions are important political subjects in the intensifying inter-territorial competition within and beyond Europe, it remains an open question as to whether this will narrow or exacerbate regional inequalities in economic performance and well being. Past convergence in regional economic performance in the EU between the 1960s and 1990s was largely a result of convergence in broad sectoral (primary/secondary/tertiary) structures, with no evidence of intra-sectoral convergence (Canaleta et al. 2002). While the eastward expansion of the EU will recreate opportunities for further inter-sectoral convergence (CEC 2001), this will only be temporary (although it could nonetheless be prolonged). Furthermore, it is already clear that evolving intra-sectoral and intra-industry spatial divisions of labour are magnifying the qualitative differences between regions in relation to economic performance and their positions within production systems. Such differences will increase as the combined effects of EU deepening (Martin 2001) and enlargement create greater opportunities for companies and for some regions successfully to ‘play the games of “scale politics”’ while many more lose out in this competition.

The conclusion to be drawn from the simultaneous co-evolution of diverse tendencies in the spatial organization of production systems, therefore, is that the increasingly integrated New Europe will continue to be characterized by new forms of combined and uneven development. As such, renewed divergence in the map of regional economic performance and well being can be expected. Because of – rather than despite – processes of Europeanization and globalization of production systems, and of multi-scalar inter-territorial competition, there will continue to be great diversity in national and regional economic
organization and performance. Understanding this diversity is a central task for analysts of the changing nature of the geographies of production systems and of regional economies in a still enlarging Europe.

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Notes

1 For a fuller elaboration of this position, which seeks to combine aspects of political economy and evolutionary institutional approaches in the social sciences to facilitate understanding of the evolution of economies and their geographies, see Hudson (2001).

2 Production systems therefore involve conceptualizing the economy as constituted through complex and recursive flows rather than in terms of linear flows – for example, in terms of production filières, commodity chains or value chains. Perhaps the best known stylized recognition of this is Gereffi’s (1994) distinction between ‘buyer-driven’ and ‘producer-driven’ commodity chains – with the former characterizing consumer goods sectors (such as clothing) requiring relatively simple, typically labour-intensive, manufacturing processes in which the dominant actors are major retailing chains, the latter characterizing more complex consumer goods (such as cars), capital goods (for instance, aircraft), or basic manufactured materials (such as steel), which require capital-intensive and technically sophisticated high-volume manufacturing and in which the ‘lead’ firms are core manufacturing companies that produce the final product. While this dichotomization is too simplistic, not allowing for more complex power geometries of governance, it nonetheless is useful in drawing attention to differences between firms and industries.

3 For a fuller discussion, see Hudson (2001, 76–91).

4 Clearly, in certain spheres, especially related to monetary policy and movements of capital, the regulatory capacities of national states have been markedly reduced – though even in these cases (not least, the Euro), this is often a result of political decisions by national states. More generally, however, national states remain significant sites of regulatory power within Europe and the ‘hollowing out’ metaphor denotes one aspect of a broader set of changes of state re-organization. These encompass changes in the forms and modalities of national state involvement in more complex multi-scalar architectures of governance and regulation within Europe, rather than some simplistic diminution in national government’s regulatory role (Jessop 1997).

5 The growing emphasis upon regional action reflects political processes of decentralization to regions to enhance their powers as political subjects and claims that the economic performance of firms depends upon external resources, in particular on their close interaction with other firms, facilitated and enhanced by spatial proximity and co-location (Hudson 2001, 268–81).

6 Nonetheless, the combined effects of these intellectual and political developments has been to focus attention upon the cultural and social resources of regions, and processes such as learning, that are claimed to underpin collective behaviour and economic success at the regional level, reflecting cultural and institutional turns in economic geography (for example, Morgan 1995; Storper 1995; Hudson 2000, 92–108).

7 Home working in such areas may allow labour costs to be held down (especially when the workers are women from ethnic minorities, both legal and illegal migrants), but production organized in this way will generally be on a relatively small scale.
9 Note that this extended south of the Mediterranean to
the countries of the Maghreb (see Joekes 1982).
10 Labour costs per standard minute in CEE were under
0.25 DM, compared to at least 0.35 DM in the UK and
0.75 DM in Germany (Dicken 1998).
11 One consequence of this is that for a time in the 1990s,
in terms of employment, clothing – a predominantly
female-employing sector – became the largest manu-
facturing sector in North-East England. Many of the
women subsequently losing their jobs were the sole
or main household wage earner (Hudson 2000, 88).
12 Other clothing retailers, such as Hennes and Moritz,
have also sought to source globally in search of low
cost garments at the lower end of the quality spec-
trum. While Asia remains the main source of textile
imports to the EU (WTO 1999), with lower labour
costs, CEE offers significant advantages in terms of
time and distance to Western European markets.
13 It is worth noting that this aggregate decline conceals
both intra-sectoral and inter-regional variation in
the patterns of change in the Portuguese clothing
industry.
14 Hadjimichalis and Papamichos (1990) argue that such
delocalization tendencies also reflected growing
resistance by women, children and marginalized
workers to ‘super-exploitation’ in industrial districts,
in strong contrast to the dominant image of these
districts as characterized by egalitarian, progressive
industrial relations.
15 These observations are based upon fieldwork in and
16 In 1972, Benetton introduced in-house dyeing at the
final stage of production, crucially allowing piece
(rather than batch) dyeing and so the dyeing of
individual items to order.
17 This placed CEE second only after Asia as a source of
clothing imports.
18 This is indicated in evidence from interviews with
clothing firms in CEE (Dunford et al. 2001).
19 For example, GM’s R&D centre at Russelsheim,
responsible for all its R&D outside the USA, employs
7000; BMW employs more than 6000 at its R&D centre
at Munich, whilst both Ford in Cologne and Mercedes
and Sindelfingen, near Stuttgart, employ more than
4000 in their respective R&D centres (Hudson and
Schamp 1995). Renault established its main R&D
centre at Guyancourt in St Quentin, near Paris, while
there is also evidence of further concentration of R&D
associated with other companies in France and Italy
(Conti and Enrietti 1995; Savary 1995).
20 There was also controversy surrounding the actions
of Derbyshire County Council in attracting Toyota.
21 However, strong and active union organization
unexpectedly emerged amongst women employed
by some component suppliers located adjacent to
the Nissan plant. This emphasizes the importance
of acknowledging the potential for the actions of
organized labour to shape geographies of economies
and influence trajectories of local economic develop-
ment (see Herod 2001; Hudson 2001).
22 Indeed, Nissan was actively courted by the Thatcher
government as a way of showing companies in
the UK how to reshape labour relations and work
practices.
23 In Pecks’ (1996) terms in the workplace rather than the
workplace.
24 ASRA’s membership comprises Nissan and over 40
suppliers within the North-East, with Board member
representation from Nissan, local authorities, local
Learning and Skills councils, further and higher edu-
cational organizations, the ONE North East Regional
Development Agency and Sunderland Business Link.
25 An indication of the extent to which inward invest-
ment rapidly came to dominate automobile produc-
tion in much of CEE is that foreign-owned companies
and joint ventures (including components produc-
tion) accounted for 85 per cent of automobile produc-
tion in Hungary, 82 per cent in Poland and 67 per cent
in the Czech Republic (Zemplinerová 1998, 337). The
major inward investing companies in 1999, in rank
order, were VW, Fiat, Daewoo and Renault – the
subsequent bankruptcy of Daewoo was a sharp
reminder of the dangers involved for host territories
in CEE.
26 Often this has been in locations with attractive
exchange rates in terms of exports to the West. In the
longer term, Eastern Europe offered the promise of
market expansion, but in the short-term the attrac-
tions of producing there – notably low cost labour –
militated against any significant market growth based
on rising levels of material consumption there.
27 Examples include the UK government’s subsidies to
Nissan and Rover, the Italian government’s subsidy of
40 million Euros to FIAT for developing a new
model at Melfi, and the Free State of Saxon’s subsidy
of 100 million Euros to VW for the Mosel and
Chemnitz (former Trabant) works. Eastern Germany
is a particularly sensitive location. Article 92(2)(c) of
the EC Treaty authorizes ‘aid granted to the economy
of certain areas of the Federal Republic of Germany
affected by the division of Germany, in so far as such
aid is required in order to compensate for the
economic disadvantages caused by that division’.,
Justification of aid requires a cost-benefit analysis in
which the site is compared with another location in
the EU, but increasingly national governments use
CEE as the comparator. The political sensitivities
associated with such national government aid, and
tensions between the EU and national levels, were
recently emphasized by German Chancellor Gerhard
Schröder. Speaking at the opening of VW’s new
Dresden factory, he attacked EU attempts to limit
national states’ capabilities to offer selective assist-
ance to secure such investments to depressed regions,
such as those of Eastern Germany, stressing that this was central to the national states economic responsibilities (Simonian 2001).

28 In this they echoed the behaviour of ‘lead’ companies in the clothing production system.

29 Equally, well-grounded fears about disarticulated branch plant economies and of dependency, external control and profit repatriation remain. Commenting, (unusually) publicly, in the aftermath of the collapse of Daewoo in 2000 and its subsequent impacts on the indebted Daewoo-FSO car plant near Warsaw, Marek Belka, Poland’s Finance Minister and Deputy Prime Minister, stressed: ‘We know that this debt comes from the fact that the company raised the prices of its supplies and lowered the prices of goods sold abroad or to the Daewoo chain’. More generally he added: ‘if we see a company that’s increasing its production and sales . . . while regularly reporting losses, it will have to reckon with an audit’ (cited in Reed 2001). This highlights the continuation of processes of transfer of value both between locations within Europe and from Europe to other places within the overall automobile production system.

30 Subsequently there have been considerable improvements in road transport links in particular, facilitating both extended commuting to the factory and facilitating component delivery from other parts of Italy, but the clustering of suppliers around the assembly plant remains (Interviews at Melfi with Fiat managers, July 2001).

31 There are marked similarities between VW’s component supply policies and those Japanese assemblers in Western Europe, which prefer to source from existing but appropriately restructured supply chains (Hudson 1995a, 73-6).

32 In referring to ‘embeddedness’ here, I am aware that this relates only to the character of linkages in the supply chain and that this is at best one dimension of the more complex processes of ‘embedding’.

33 The life of the Treaty of Paris was 50 years, so that it expires as the EU is on the verge of expanding into CEE, with the restructuring of the Polish steel industry in particular presenting a major challenge.

34 Examples include the so-called Phoenix mergers in the UK in the 1980s (Hudson 1994).

35 Often merger proposals faced strong political opposition. For example, in 1990 Arbed (Luxembourg) and Cockerill (Belgium) were forced to abandon plans to merge their flat products division in the face of strong political opposition in both countries.

36 In 1980, global over-capacity was estimated at 200 million tonnes and by 2000 still stood at 85 million tonnes: Ekkehard Schulz, Executive Board Chairman, ThyssenKrupp (cited in Bettis 2002).

37 According to the International Labour Organization, in two of the current CEE applicant states, Hungary and Poland, it fell from 222 000 to 106 000: Bolger 1997).

38 For example, in January 2002 it announced a, alliance with Sumitomo to supply sheet steel to the automobile sector (Hijino and Marsh 2002).

39 Automobile producers in the EU lobbied – unsuccessfully – against Aceror, on the grounds that it would be in a position to raise sheet steel prices. These concerns were dismissed by the EU Commission on the grounds that there was substantial over-capacity in steel and that the major automobile companies possessed considerable purchasing power (Guerrera 2001).

40 Documents submitted to the EU by the Polish Government in 1998 envisage total employment in steel in Poland falling further from 82 000 to 49 000 following EU entry, with these cuts concentrated on Hil and Huta Katowice (Stenning 2000). At an OECD meeting in December 2001, the EU offered to make capacity cuts of 13–16 million tonnes by 2010, from a proposed global capacity reduction of 97 million tonnes. It is unclear as to whether this refers to the existing EU of 15, so that any cuts in CEE applicants would be additional to these, or whether it assumes Polish entry (Marsh and Alden 2001).

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