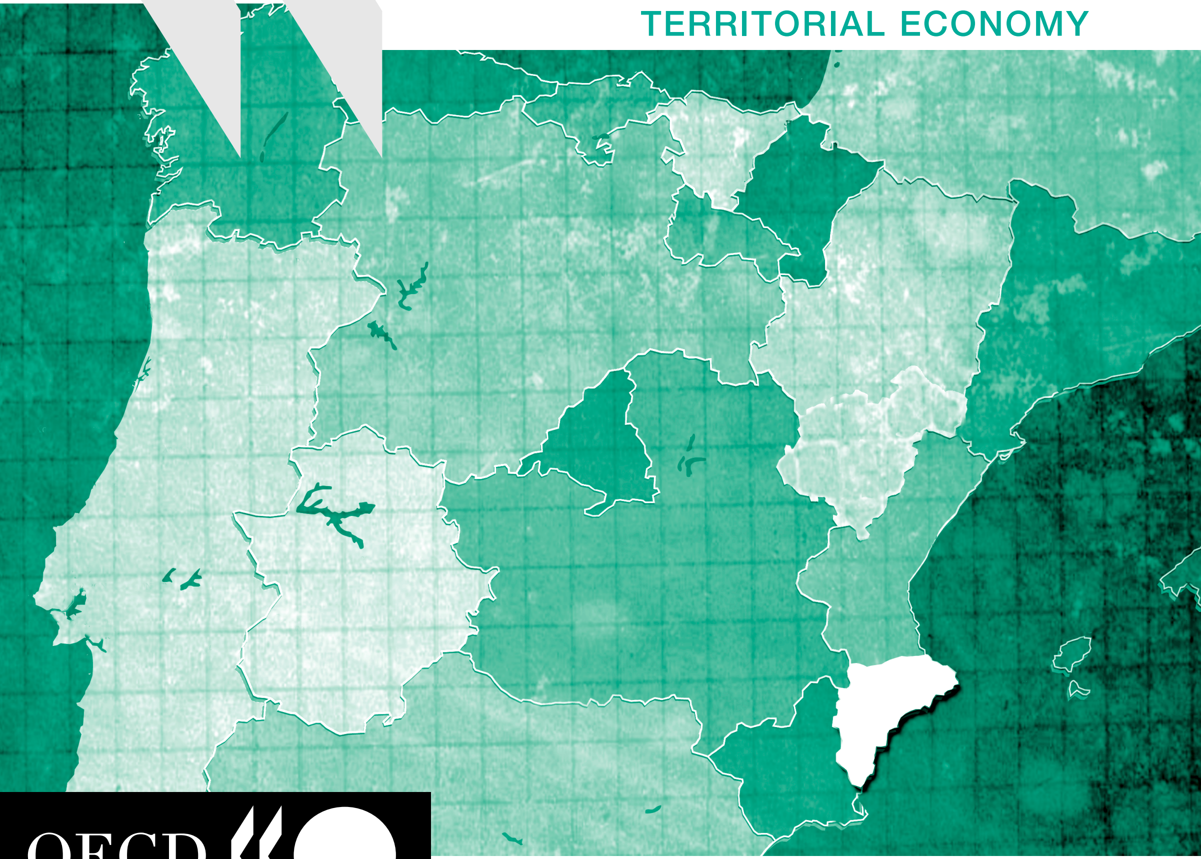
OECD Territorial Reviews

The Valencian Central Districts, Spain

TERRITORIAL ECONOMY



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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Pursuant to Article 1 of the Convention signed in Paris on 14th December 1960, and which came into force on 30th September 1961, the Organisation for Economic Co-operation and Development (OECD) shall promote policies designed:

– to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;

– to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and

– to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

The original Member countries of the OECD are Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The following countries became Members subsequently through accession at the dates indicated hereafter: Japan (28th April 1964), Finland (28th January 1969), Australia (7th June 1971), New Zealand (29th May 1973), Mexico (18th May 1994), the Czech Republic (21st December 1995), Hungary (7th May 1996), Poland (22nd November 1996), Korea (12th December 1996) and the Slovak Republic (14th December 2000). The Commission of the European Communities takes part in the work of the OECD (Article 13 of the OECD Convention).

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Foreword

The globalisation of trade and economic activity is increasingly testing the ability of regional economies to adapt and exploit or maintain their competitive edge. There is a tendency for performance gaps to widen between regions, and the cost of maintaining cohesion is increasing. On the other hand rapid technological change, extended markets and greater use of knowledge are offering new opportunities for local and regional development but demand further investment from enterprises, reorganisation of labour and production, skills upgrading and improvements in the local environment.

Amid this change and turbulence, regions continue to follow very different paths. Some regions are doing well in the current phase of the growth cycle and are driving growth. Others are less successful at capturing trade and additional economic activities. Many territories with poor links to the sources of prosperity, afflicted by migration, notably of young people, and lagging behind with respect to infrastructure and private investment are finding it difficult to keep up with the general trend. At the same time central governments are no longer the sole provider of territorial policy. The vertical distribution of power between the different tiers of government needs to be reassessed as well as the decentralisation of fiscal resources in order to better respond to the expectations of the public and improve policy efficiency. All these trends are leading public authorities to rethink their policies and strategies.

The Territorial Development Policy Committee (TDPC) was created at the beginning of 1999 to assist governments with a forum for discussing the above issues. Within this framework, the TDPC has adopted a programme of work that puts its main focus on reviewing Member countries' territorial policies and on evaluating their impact at regional level. The objectives of Territorial reviews are: *a)* identify the nature and scale of territorial challenges using a common analytical framework; *b)* assist governments in the assessment and improvement of their territorial policy, using comparative policy analysis; *c)* assess the distribution of competencies and resources among the different levels of governments; and *d)* identify and disseminate information on best practices regarding territorial policy.

The Committee produces two types of reviews:

Territorial reviews at the national level. Requested by national authorities, they analyse trends in regional performances and institutional settings, focus on policies to reduce territorial disparities and to assist regions in developing competitive advantages. They also concentrate on the governance framework, on the impact of national non-territorial policies on subnational entities and on specific aspects of fiscal federalism. The final report proposes territorial policy recommendations.

Territorial Reviews at the regional level. Requested by subnational authorities (local or regional) with the agreement of national ones, they concentrate on strategies for development of the respective entity. They in particular identify the role of key demographic, socio-economic, environmental, technological and institutional factors in explaining the performance of regions. Comparative analysis with regions of the same type is undertaken using the typology elaborated by the Secretariat. The final report proposes development policy recommendations.

Bernard Hugonnier,
Director,
Territorial Development Service

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This report presents the economic situation and development prospects of the Comarcas Centrales Valencianas, an intermediate region situated between the provinces of Alicante and Valencia, and is undertaken in the context of the new Territorial Reviews series of the OECD Territorial Development Service (TDS).

This document is based on socio-economic background information and statistics provided through reports written by: Dr. Josep-Antoni Ybarra, Departamento Economía Aplicada-Política Econòmica, Universitat d'Alacant, Spain; Dr. Julia Salom, Departamento de Geografía, Universitat de València, Spain; Dr. Juan M. Albertos, Departamento de Geografía, Universitat de València, Spain; Dr. Elisabeth Delios España, Oficina de Gestión Proyecto CONCERCOST, Desarrollo de Proyectos e Iniciativas (DPI), Spain.

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1. The Valencian Central Districts: an example of a dynamic but unstable intermediate region

According to the OECD typology, which is based on population density, the Valencian Central Districts (Comarcas Centrales Valencianas — CCV) are considered an intermediate region. In this light, the CCV illustrate some shared socio-economic dynamics with intermediate regions across the OECD as well as a certain specificity.

Common to intermediate regions

– Population density is close to the OECD average and characterised by an even geographical distribution of many small and medium-sized towns across the territory.
– The structure of the economic activity shows an important presence in the industrial sector.

Specific to the CCV

– The industrial sector is characterised by the presence of clusters of small and medium-sized firms.
– Industrial specialisation is mainly in the textile, clothing and toy sectors.

The CCV like many other intermediate regions are characterised by a positive growth rate and are performing well in terms of low unemployment rate, high export rate, and population and employment growth.

However, as with other intermediate regions, this economic success is considered unstable. CCV problems lie in the weaknesses in external accessibility, the lack of internal connections, the fragility of the service sector, of technology use and diffusion, and of the workforce skills. The CCV have lost their comparative advantages in those industrial sectors where low labour costs play an important role.

1.1. Reasons for dynamism

Common to intermediate regions

– The industrial sector is strongly oriented towards international markets.
– The presence of other important economic activities (apart from the industrial sector) such as agriculture, services and tourism.
– The workforce has a specialised technical know-how.

Specific to the CCV

– The business sector is characterised by a strong entrepreneurial spirit.
– CCV towns actively participate in a European network of cities with equal size and an equal economic specialisation.
– The CCV founded a dynamic consortium that applies for development projects at EU-level.

1.2. Reasons for instability

Common to intermediate regions

– The ties between higher education and the labour market are insufficient.
– There is a shortage of business services with regard to the industrial sector.
– There is a lack of co-operation among the different private and public actors.

Specific to the CCV

– Internal economic disparities have evolved.
– Weakness of external and internal accessibility and interconnections.
– The tourism sector strongly relies on mass tourism along the coast.
– Environmental problems persist in industrial as well as in tourist areas.

2. Proposed strategies and development policies for the CCV

Indicators reveal that the regional economy is diversifying and that diversification entails economic prosperity and stable employment. As a consequence monostructural or sectoral development strategies are not adapted to the new situation. Therefore the main objective of the CCV will be to implement complementary and intersectoral territorial strategies to increase the competitiveness of their economy.

To implement their development strategies, the CCV should take into account the two following types of strategies (general and specific).

2.1. General territorial strategies and implementation

1. *Evaluate financial and fiscal responsibilities*: Reassess the vertical distribution of tasks and financial resources. In many cases and for several policy fields the responsibility and resource allocation are not appropriate and do not respond to the needs of the local population. An assessment and eventually a reform of the financial and fiscal system may improve the regions' competitiveness.

2. *Improve industrial dynamics:*
   – Direct industrial production towards innovative high-quality products, in order to be in line with particular developments on international markets. This strategy should be implemented through policies favouring inter-firm co-operation in the local industrial fabric, mainly in the toy and textile districts. Technical and service centres financed by public as well as private money may contribute to this implementation;
   – Encourage the creation of young and dynamic enterprises by facilitating access to capital. The introduction of regional and local guarantee funds may be an appropriate strategy for this purpose.

3. *Improve the quality of education:* Pursue two complementary objectives: increase the level of education and make sure that the educational programmes are in line with the needs of the local market. Transforming regional universities and technical institutes into centres of competence can be done with the help of public-private partnerships.

4. *Promote inter-urban co-operation:* Set up inter-urban networks. This would allow small and medium-sized towns to reach the critical mass needed for better visibility at the national level. Successful alliances require good identification of the objectives and well-targeted action. Co-operation within these alliances requires an assessment of the system of raising and territorial earmarking of financial resources.

2.2. Specific territorial strategies for the CCV and their implementation

1. *Improve the accessibility of the CCV:* Increase the density and quality of transport infrastructures for better internal and external relationships. The CCV have to be linked mainly to high-speed infrastructure, and connections between the coast and the interior of the CCV need to be improved.
2. *Extend the system of service centres*: The local network of service and technology centres for small and medium-sized enterprises needs to be improved and extended. These service centres allow single firms to benefit from the development of technology and new activities. The centres may be funded through private as well as public income.

3. *Integrate real services in the CCV industrial policy plans*: Real service centres have to assume the role of activators of new knowledge and have to elaborate and distribute a complex mix of tacit and formal knowledge less related to sectorial expertise. These centres must also act as "translators" of this new knowledge to local firms. To do so, real service centres have to distribute services that help to understand all aspects of each individual enterprise and its environment.

4. *Foster the quality of training*:
   - Training must be tailored to meet demands from local SMEs, providing workers and technicians with the specific skills required. Trade and industrial associations as well as single firms must be more involved in the definition and experimentation of new forms of training. The public sector has to consider continuous investments in the "know-how" and "know-why".
   - A specific study on the advantage of installing small competence centres with specific teaching related to local industrial production, management of small business, marketing, etc. should be considered.

5. *Preserve environmental quality in the CCV*:
   - Reduce the negative effects of agriculture and industry. Strategies to cope with those impacts have to incorporate: *a)* production audits to minimise energy and resource use; *b)* environmental management systems to facilitate the adoption of environment strategies; and *c)* the Polluters Pay Principle for the use of environmental goods such as water.
   - Consider the promotion of environmentally friendly products and the exploitation of green markets in business development plans and in marketing strategy, as environmental considerations are already acknowledged to be an essential quality and competition factor.
   - Transform "mass" tourism into "quality" tourism. In the context of sustainable development, such a strategy is needed to protect the coastal districts. The strategies may follow two complementary lines: promote eco-tourism and integrate local industrial production into the local and regional tourism sector.

6. *Enhance a specific and unitary image for the CCV*:

In order to do this a communication network has to be created. The CCV's present Consortium could be an active actor in this field. Communication has to be organised on a permanent basis, and be addressed both, inside (to all Central Districts' citizens), and outside (to regional, national and European levels). The aim is to demonstrate a local specificity and in some areas, existing local excellence. In this context, the idea of a CCV specific "label" should be evaluated.

2.3. Improving territorial governance in the CCV

The implementation of territorial strategies would require more co-operation and co-ordination between public administration levels, and eventually, institutional and administrative reforms at the level of the Valencian Autonomous Region. Their main objective is to recognise the CCV as a territorial entity. In this sense, the reforms have to focus on the following points:

Evaluate the introduction of a regional law enabling the creation of districts (*Comarcas*) as functional regions without creating a new administrative level.

Devolve tasks and responsibilities to these functional regions in specific policy fields such as transport, education, and environment.

Allow the districts to have access to their own financial resources, mainly through a reassessment and redistribution of certain financial resources from the higher (region) and lower (municipalities) government levels as well as through the right to raise certain taxes and user fees.

Encourage horizontal co-operation among the districts in order to represent, strengthen and institutionalise the CCV.

At the same time, citizens, leading entrepreneurs, relevant associations, banks, etc. belonging to the Valencian Central Districts, must develop new and stronger forms of collective action in order to implement integrated local development projects. In other words, a stronger lobbying activity has to be built around well-defined projects (such as enhancement of the quality of services, transport infrastructures, etc.) and be kept focused on the complementarity of interests more than on the competition between the different CCV areas.

Part 1

Intermediate regions: trends and outlook

Introduction

Addressing the needs of intermediate regions, *i.e.* regions that are neither urban nor rural*, raises the question of a more balanced approach to regional development: essentially it means offering future societies an alternative to metropolisation. Because of their intermediate nature, these regions are vulnerable — they risk combining the disadvantages of urban and rural life. The challenge facing development strategy is to help them avoid this trap. Meeting the needs of intermediate regions will involve a combination of economic, social and environmental aspects.

Economic aspects. A territory's economic performance depends on the competitiveness, efficiency and innovative capacity of each of its parts, especially in times of severe unemployment or recession. In many intermediate regions, economic revitalisation is thwarted by a lack of skilled labour, and local economies cannot rebound using their own resources alone. Sound expansion of national economies entails promoting the heretofore ill-exploited assets of moderately urbanised regions.

Social aspects. In addition to promoting social equity, government should ensure, if job-creation measures are to have the intended effects, that these areas are provided with a minimal range of the services needed for development. Establishing a favourable context by upgrading existing services and developing those that are lacking is imperative if local populations are to remain where they are. Otherwise, there will be territorial polarisation as well as social polarisation, which is already a fact of life in most of the OECD countries (and especially in big cities). Along with a two-track society, a two-track territory will exacerbate tensions and imbalance and lessen regional cohesion and national productivity.

Environmental aspects. From a sustainable development perspective, policymaking must focus on two areas at once: to avoid overconcentration and urban sprawl, and to halt the abandonment of many regions of national territories. In the end, our societies' cultural diversity depends on it. The challenge of all aid policies

* For a more precise definition of intermediate regions, see Annex 1.

is to channel assistance towards success without necessarily copying the development models of larger entities, and, above all, taking care to preserve local particularities — an essential prerequisite of high-quality sustainable development.

The work and case studies conducted by the Secretariat over the last few years have shown that the potential of these regions is real enough, but that it has been poorly exploited. This paper attempts to offer a diagnosis of intermediate regions, to draw lessons from them, to identify best practices, and to propose recommendations for sound development.

Chapter 1

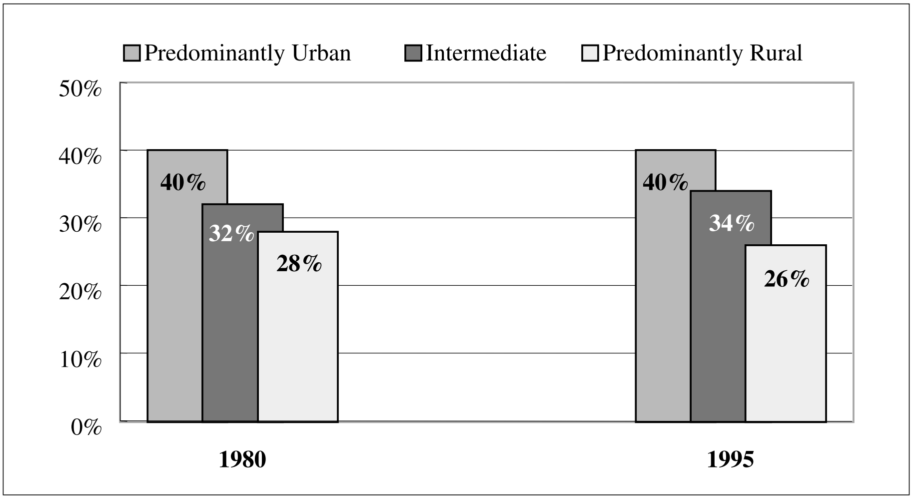
Profile and identification of intermediate regions

Intermediate regions are, by definition, a particular type of region. The pattern of intermediate settlement, where urban and rural lifestyles meet, gives them a certain common status, but it must be recognised at the outset that various subtypes can be identified within these regions. This brief overview of the profiles of intermediate regions, in terms of settlement patterns and economic activity, thus has a dual objective: to show that these regions are at the same time homogeneous and heterogeneous. It is essential to be clear about these two facets when it comes to formulating development policies. Their homogeneity allows fairly general strategies to be applied to regions of this type, while their heterogeneity makes it possible to target these policies more closely in subcategories.

1. Population and location

In assessing the importance of intermediate regions in OECD countries as a whole, and in each country individually, estimates must be made for both non-metropolitan and non-rural populations. Intermediate regions account for a significant portion of the populations of all OECD countries: in 1995, about 34 per cent of the total population lived in these intermediate regions (Figure 1). While general data of this kind are difficult to manipulate, it is interesting to note that, over the last 15 years, these regions were the only ones to see an increase in their population, at the expense of rural regions. The number of people living in predominantly urbanised regions, on the other hand, has remained relatively stable.

Figure 1. **Population distribution by type of region — OECD average**



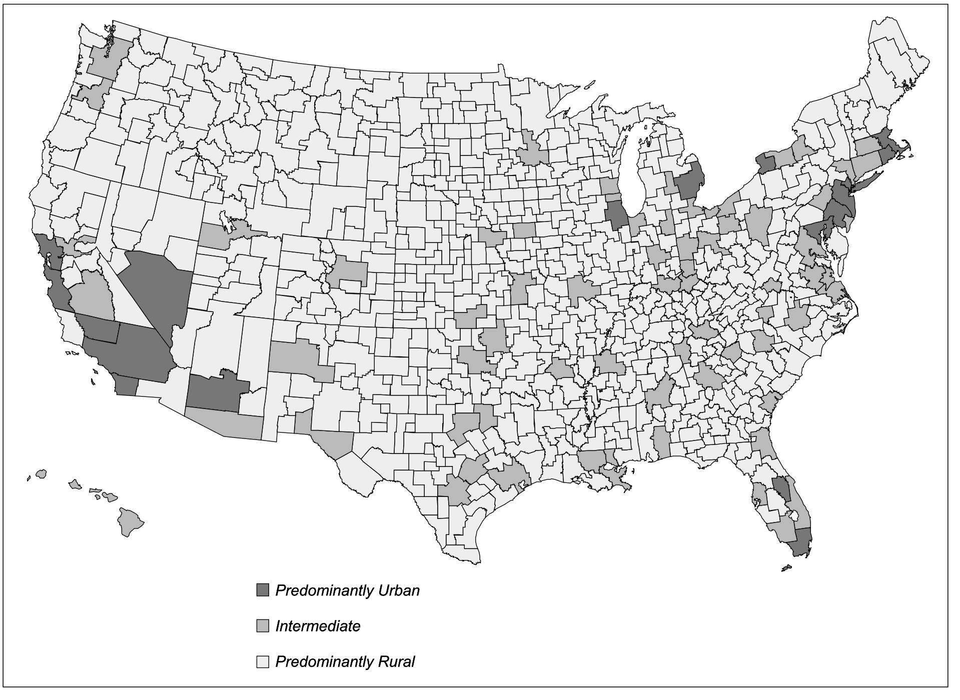
Notes:
Predominantly Urban: less than 15% of regional population is rural
Intermediate: between 15 and 50%
Predominantly Rural: more than 50%

Source: OECD Territorial Database.

The relative importance of intermediate regions varies among OECD countries. Those countries may be grouped into different types, depending on the predominance of one or another type of region. In France and in Spain, for example, population is concentrated in intermediate regions, while in Germany, Switzerland and the United Kingdom the greatest numbers are to be found in urban regions. In the United States and Canada, population is distributed fairly evenly among the three types of region, while in countries such as Finland, Norway and Turkey the bulk of the population lives in rural regions. Policies adopted at the national level, taking the entire territory as their perspective, are ill-suited to making use of this kind of information. Territorial imbalances and disparities cannot be dealt with in the same way in countries where settlement is highly dispersed as in countries where people are concentrated in a few specific locales.

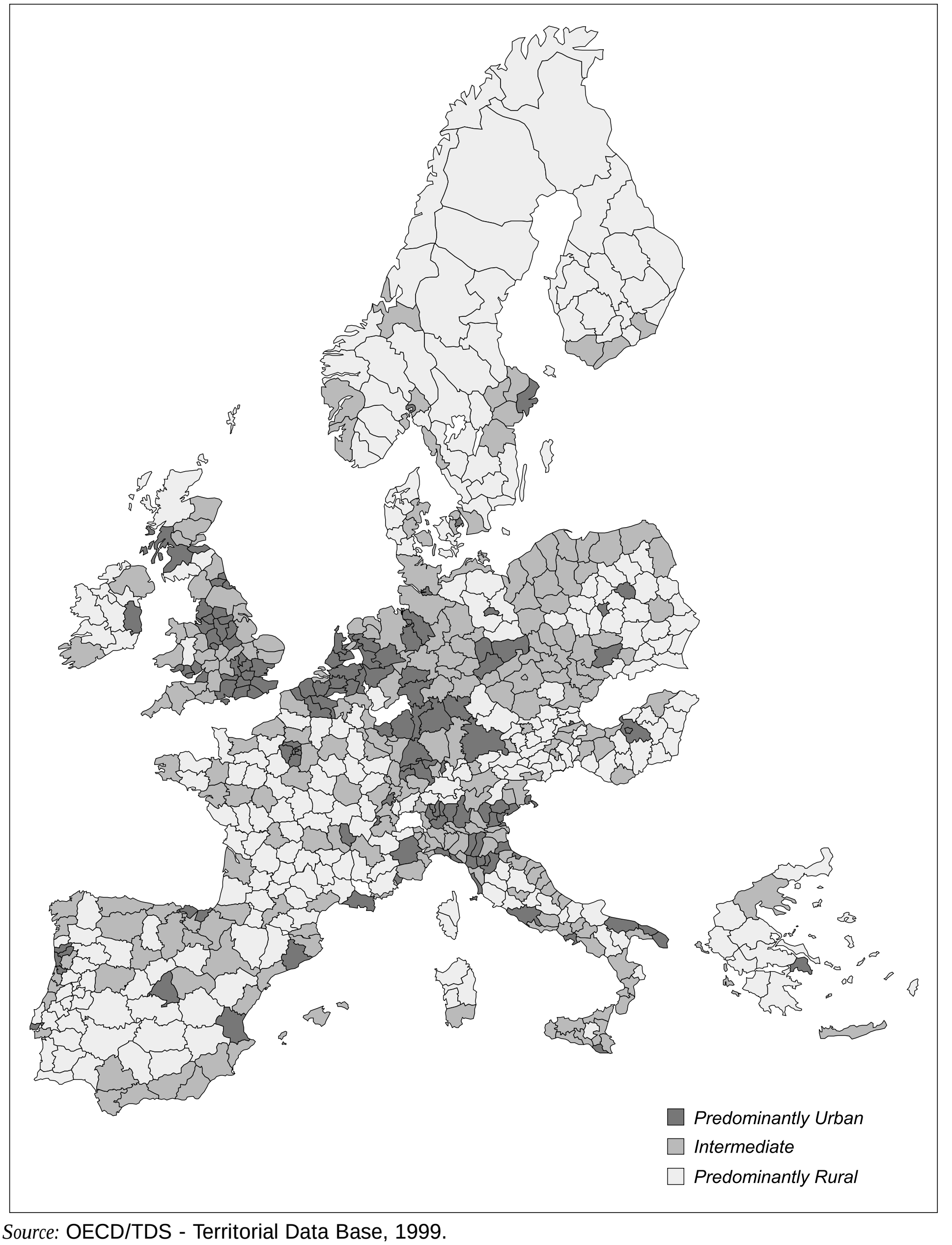
The location of intermediate regions is another essential piece of information. Knowing whether intermediate regions are distributed evenly across the national territory of OECD countries or whether they are grouped in specific areas is important in devising national and regional development strategies alike. A quick glance at Figures 2 and 3 shows a great difference between North America and Europe in this regard. While Europe's intermediate regions are to be found in all parts of national territories, such regions are missing from large stretches of Canada and the United States. In both cases, these regions account for roughly equal portions of the total population. The explanation for this finding lies in the fact that these regions are more densely populated in the United States and Canada than they are in Europe. Thus, despite their similarities, intermediate regions in fact display a broad range of settlement patterns.

Figure 2. **Types of regions in the United States**



Source: OECD/TDS - Territorial Data Base, 1999.

Figure 3. **Types of regions in Europe**



Source: OECD/TDS - Territorial Data Base, 1999.

2. Structure of economic activity

Economic activity is the second indicator used in identifying intermediate regions. In 15 Member countries, intermediate regions show a degree of specialisation in industry, *i.e.* the percentage of the workforce employed in the secondary sector is greater than at the national level (Table 1). In half of the cases, this specialisation, expressed here by major sectors of activity, goes hand in hand with overrepresentation of the primary sector. Whether mono- or bi-specialised, in industry and agriculture, it will be seen that some regions have succeeded better than others in taking advantage of their status.

Table 1. **Employment specialisation in intermediate regions, 1995**

National = 100

	Agriculture	Industry	Services
Germany	135	106	95
Australia	91	105	99
Austria (1990)	56	101	104
Belgium	96	87	105
Canada (1990)	71	111	98
Denmark	102	106	98
Spain	123	97	98
United States (1990)	72	95	103
Finland	62	111	99
France (1990)	97	105	98
Greece	119	99	93
Ireland (1990)	127	105	91
Italy	136	93	99
Japan	120	106	95
Luxembourg	100	100	100
Mexico	120	97	92
Norway	83	103	100
New Zealand	148	102	93
Netherlands	127	109	96
Portugal (1990)	94	113	91
Czech Republic (1990)	113	106	90
United Kingdom	187	149	83
Sweden	87	100	101
Switzerland	180	118	85
Turkey (1990)	78	125	125

Source: OECD/TDS - Territorial Data Base.

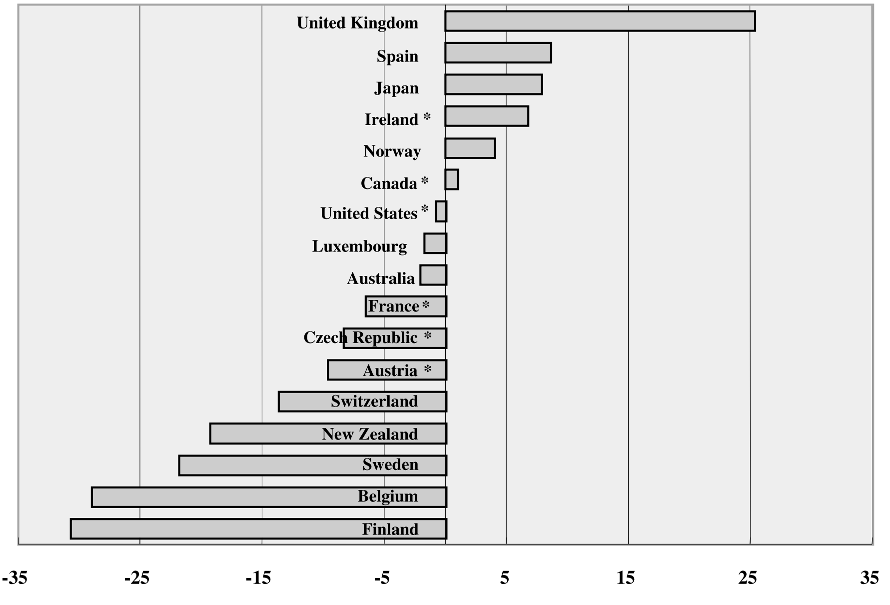
The industrial situation of intermediate regions deserves closer study. Although industry is in crisis throughout the OECD area, and while this sector has recorded a net decline in the intermediate regions of most Member countries (Figure 4), it nonetheless continues to provide employment for a significant portion (more than 20%) of the active population in these regions (Figure 5). Two figures highlight this point:

In eight OECD countries, the industrial sector provides more than one-third of employment in intermediate regions.

In 75 per cent of Member countries, industry employs more than one-quarter of the workforce in intermediate regions.

Figure 4. **Industrial employment changes in intermediate regions between 1980 and 1995***

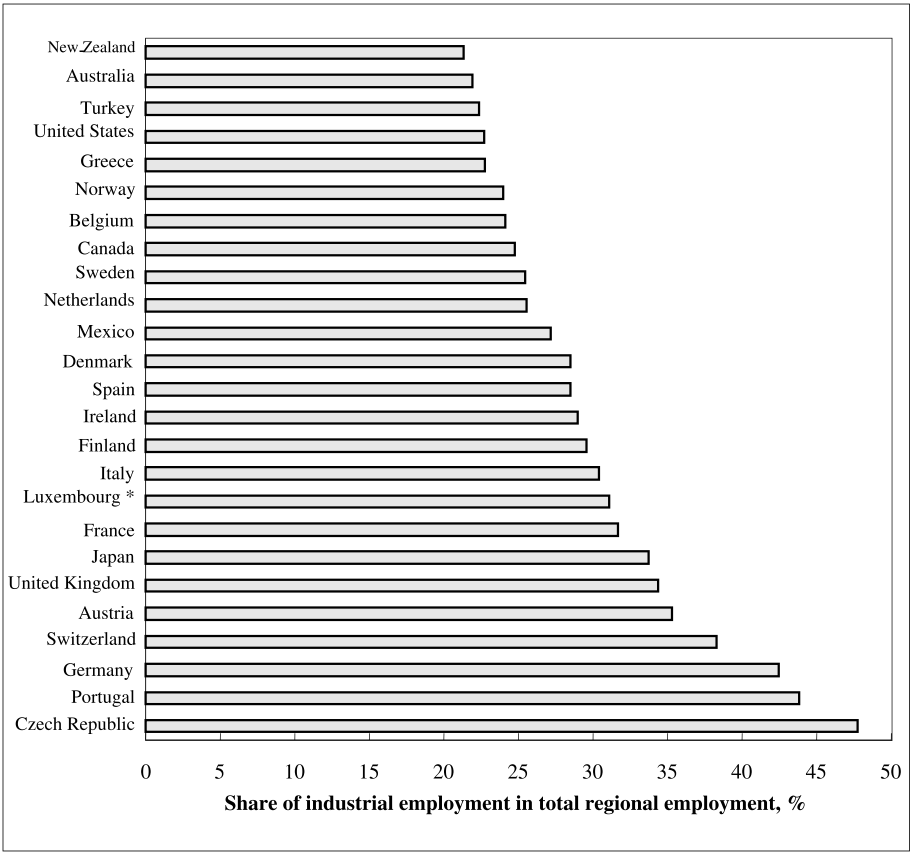
%



* For Austria, Canada, United States, France, Irland and Czech Republic, change is calculated over the 1980-91 period.

Source: OECD/TDS - Territorial Data Base.

Figure 5. **Industrial employment in intermediate regions, 1995**



* Luxembourg is considered as a whole as an intermediate region.

Source: OECD/TDS - Territorial Data Base.

Chapter 2

A mixed record for intermediate regions

The meeting of rural and urban worlds in intermediate regions produces a complex picture. This section of the paper presents an overview of results from various regional studies and the OECD Territorial Database.

1. The status of intermediate regions as a whole

Intermediate regions have on the whole performed dynamically over the last 15 years. Territorial database statistics and case studies of intermediate regions conducted by TDS in recent years have shown that, contrary to one widely held view, metropolitan regions are not the only engines of economic growth. Structural adjustment has had positive effects in some regions. Thanks to their initial potential (population density, solid infrastructure and a skilled workforce), intermediate regions have been the primary beneficiaries of such adjustment.

In most Member countries, intermediate regions have enjoyed fairly high rates of population and employment growth. In nearly half of Member countries, intermediate regions have recorded the highest population growth rates (Table 2). This is true, for example, in Austria, Canada, France, Spain, Switzerland, the United Kingdom and the United States. On the other hand, in sparsely populated countries such as Finland, Ireland, New Zealand and Sweden, the strongest growth has been in urban regions. Urban regions have also had the highest growth rates in heavily urbanised countries such as Germany, Japan and the Netherlands. Only in Belgium is growth strongest in rural regions.

When it comes to job creation, the picture is somewhat different. Fewer Member countries have recorded the highest employment growth rates as being in intermediate regions. Countries where employment has increased the most in intermediate regions are those that have the highest average growth rates nationwide (Table 3).

Table 2. **Population changes by type of region in OECD countries**

	Period	Regional Average (%)	Population change by type of region (%)		
			Predominantly Urban	Intermediate	Predominantly Rural
Germany	1980-95	4.4	5.0	3.0	3.9
Australia	1981-96	21.5	19.1	31.2	18.6
Austria	1981-96	6.5	5.4	8.1	6.0
Belgium	1980-95	2.8	2.1	5.3	8.1
Canada	1981-91	12.1	14.3	18.0	5.8
Korea	1980-95	18.3	..	..	..
Denmark	1980-95	2.1	-3.9	6.3	1.7
Spain	1981-96	4.2	3.0	7.3	-1.0
United States	1980-94	14.6	15.1	19.1	10.2
Finland	1980-95	6.9	19.4	8.2	0.6
France	1980-95	7.9	6.9	11.4	4.4
Greece	1981-96	7.9	2.8	11.0	10.4
Hungary	1980-94	-3.6	-4.3	-3.1	-3.5
Ireland	1981-91	2.4	4.7	1.3	0.9
Iceland	1980-95	17.1	..	..	..
Italy	1990-95	1.1	0.8	1.4	1.1
Japan	1980-95	7.3	11.1	6.6	1.4
Luxembourg	1980-95	11.8	-	11.8	-
Mexico	1980-95	29.9	..	..	..
Norway	1980-92	4.8	2.8	9.4	2.0
New Zealand	1986-96	10.9	17.0	6.8	11.6
Netherlands	1980-95	9.5	9.9	7.3	-
Poland	1980-95	8.5	..	..	..
Portugal	1990-95	0.3	1.3	1.8	-2.1
Slovak Republic	1981-95	7.3	18.2	6.8	4.3
Czech Republic	1990-97	0.1	-0.5	0.3	0.0
United Kingdom	1981-95	4.0	2.4	8.4	4.1
Sweden	1981-95	6.1	12.4	7.8	2.8
Switzerland	1981-95	10.9	7.8	16.5	15.3
Turkey	1980-97	40.3	94.3	32.8	29.5

Notes:
.. Not available.
\- Not applicable.

Source: OECD/TDS - Territorial Data Base.

Table 3. **Employment changes by type of region in OECD countries**

	Period	Regional Average (%)	By type of region (%)		
			Predominantly Urban	Intermediate	Predominantly Rural
Germany	1992-96	37.2	28.1	52.8	99.6
Australia	1981-96	21.1	20.1	32.1	13.8
Austria	1981-97	11.4	-2.1	5.6	26.1
Belgium	1980-95	12.8	13.4	8.9	23.9
Canada	1981-91	16.5	13.9	26.0	14.0
Korea	1980-95	48.9	..	..	..
Denmark	1985-95	-1.3	10.3	-7.7	-2.2
Spain	1986-96	14.6	21.6	12.9	4.0
United States	1980-95	28.1	22.4	34.4	27.0
Finland	1980-95	-9.2	5.3	-9.2	-16.3
France	1980-95	2.7	1.0	5.5	0.8
Greece	1981-95	14.2	25.9	20.7	1.6
Hungary	1992-96	-10.7	..	..	..
Ireland	1981-91	1.3	2.7	1.0	0.1
Iceland	1980-95	34.0	..	..	..
Italy	1980-95	-1.9	..	..	..
Japan	1980-95	14.9	23.2	12.4	4.5
Luxembourg	1980-95	20.3	-	20.3	-
Mexico	1980-95	51.3	..	..	..
Norway	1980-95	35.9	71.0	33.6	28.6
New Zealand	1986-96	19.1	24.2	15.4	20.5
Netherlands	1985-95	32.2	30.0	49.6	-
Poland	1992-96	-0.6	..	..	..
Portugal	1980-95	10.8	..	..	..
Slovak Republic	1990-95	-8.5	-26.7	-3.6	-6.2
Czech Republic	1980-91	1.1	3.0	0.4	0.2
United Kingdom	1981-96	5.9	3.7	12.6	6.7
Sweden	1980-95	1.6	10.8	1.2	-1.8
Switzerland	1980-95	6.6	10.0	-1.0	3.9
Turkey	1980-90	26.0	62.0	26.8	20.8

Notes:
.. Not applicable.
- Non applicable.

Source: OECD/TDS - Territorial Data Base.

While the appearance of numerous moderately urbanised regions, with their internationally competitive production systems, may contradict the idea that the level of development depends on the degree of urbanisation, many of these regions have tended to stagnate or decline. While the proportion of intermediate regions with employment gains is greater than the proportion where employment has dropped, in most Member countries many intermediate regions have in fact seen their job numbers fall. For example: in the United States, 27 out of 69 intermediate regions are seeing a decline in job numbers, in France 13 out of 31, in Canada 17 out of 38, in the United Kingdom 8 out of 27. In Austria, Japan, Sweden, and Switzerland the proportion of declining regions is greater: 8 out of 12, 15 out of 22, 5 out of 6 and 21 out of 32, respectively. In interpreting this finding, care should be taken not to compare regions that are at the beginning of a downturn with others that are at the end of this cycle and that, by other indicators, are beginning to recover. The speed and amplitude of decline is another factor that must be taken into account.

2. The status of specific categories of intermediate regions

In light of the diversity and variability of regional socio-economic settings, a more detailed assessment will require differentiating among regions according to their economic structures.

2.1. Predominantly agricultural regions

In regions where agriculture plays an important role, a key characteristic is the concentration of population, economic activity and services in the regional capitals. While the rural exodus is slowing on the whole, there is still significant migration within these regions. In particular, the major urban centres, *i.e.* the medium-sized cities, are growing at the expense of smaller towns and rural areas, and tend to monopolise the provision of services. One aspect of demographic decline, therefore, is that the population tends to become consolidated in medium-sized towns.

While it may appear contradictory, the decline of the small towns is often a direct result of their increased accessibility. St. Flour in the Auvergne, with its 7 500 inhabitants, is a good illustration of this process, whereby the intermediate levels within the urban hierarchy are declining. Construction of a motorway, making the regional capital of Clermont-Ferrand more accessible, has meant stiffer competition for businesses in St. Flour: people can now travel more easily and farther to do their shopping, and activities that were traditionally dispersed, such as retail businesses, have become more concentrated.

In Galicia, in north-western Spain, a similar process is underway. In one farming zone that is suffering from a decrease in population, two medium-sized towns, Lugo and Ourense, have grown in relative importance, both in terms of population and services (they account respectively for 29 and 40 per cent of commercial licenses in their province). With improved communication and increased personal mobility, these two cities are extending their catchment area in a way that bolsters their service industries and makes them more attractive as a place to live.

Medium-sized regional centres are increasingly the focus of regional economic diversification and job creation in intermediate zones that were traditionally agricultural. These centres can offer a critical mass of services and infrastructure that businesses need, together with the environmental advantages that more and more city dwellers are looking for. It is thanks to the concentration of know-how and services in these medium-sized centres that predominantly agricultural regions have often been able to develop an agro-food industry. Brittany in France and Aragón in Spain are examples of such success.

At the same time, certain indicators of growth and diversification into tertiary activities tend to conceal a heavy dependence on public sector employment and a lack of business/producer services, which may expose the zone to sudden shocks in the case of cutbacks in the public service, and may limit an area's chances to attract businesses seeking to relocate.

2.2. Highly specialised industrial regions

In heavily industrialised regions, the environment is less adaptable and less able to withstand shocks and offer alternative employment opportunities. Industrial restructuring has been particularly traumatic for intermediate regions that grew up around one single industry. The more mobile segments of the population (youth and the more highly skilled people of working age) have been the first to leave. Other groups have tended to stay behind, for a number of reasons: difficulty in selling their home, which can restrict mobility; family and cultural resistance to the idea of moving; highly specialised skills but low educational levels that make the shift to a new occupation difficult; and the intensity of family and community support networks.

In terms of adaptability, these zones have both advantages and drawbacks. On one hand, they generally have a well-developed transportation and telecommunication infrastructure base, and a plentiful supply of industrial workers with specialised skills. On the other hand, these skills are not readily transferable and the local fabric of businesses that are not dependent on the declining industrial mainstay is thin. Moreover, such zones are generally unattractive to new firms because of environmental degradation and the presence of industrial wastes. The only places in the region capable of adapting swiftly are the regional capitals and the medium-sized towns, where the economic structure is less concentrated on one single activity. It is generally to these centres that individuals and businesses will first migrate. This trend has been observed in many OECD regions. In France, the regional capitals in many former mining zones are slowly recovering, while the smaller towns remain dependent on public sector jobs and welfare programmes.

Attention should also be drawn to the case of industrialised intermediate regions built around small and medium-sized towns (SMSTs) that have developed particular niches by adopting more flexible production processes, drawing upon available skills and making use of modern technologies. The Jura arc of Switzerland, Northern Italy, and the Vendée in France are examples of such regions. In general, their industries have targeted fairly narrow market segments where technical expertise and the local business culture represent comparative advantages. Sometimes, then, an industrial heritage can be a real asset.

These endogenous developments have only been possible with assistance from outside, in the form of domestic subsidies, direct or indirect, and foreign investment, which in many cases has established new plants in these regions, attracted by the presence of a specialised labour force.

2.3. Regions with a developed tourist industry

Intermediate regions with tourist amenities have shown strong population growth in several countries over the last ten years. In the United States, counties that are retirement or vacation destinations recorded high rates of net in-migration (14.6%) over the period 1990-96. In the United Kingdom, the migration rate into districts classed as “resort, port and retirement” areas outstripped that for the “New Towns”, a traditionally high-growth category.

The existence of a tourist industry can help to retain population and economic activity in areas that would otherwise have suffered bouts of structural adjustment. Well endowed with services and easily accessible, small and medium-sized towns in these regions are a magnet for individuals and businesses seeking to escape from the major urban centres. They also attract “new populations” such as retirees.

Chapter 3

Factors of growth and reasons for decline

Identifying the factors of growth and reasons for decline is something of a challenge. The strengths and weaknesses described in this section reflect global trends affecting most intermediate regions. Not all regions are caught up in these trends, of course, and some do not exhibit all of the factors discussed.

1. Strengths in common

– *Intermediate regions are specialised regions that participate in the world system.* It was noted earlier that intermediate regions are generally specialised in the industrial sector. Their specialisation has represented an asset, and one that some regions have been able to exploit better than others. Often organised in local productive systems, successful regions have taken advantage of their local output potential and know-how to move into new niches. In this way they have been able to capture a particular segment of the world market. Many intermediate regions, for the most part those with local production systems, are active exporters. They often sell half of their output abroad and account for a significant share of trade, both domestically and worldwide. In Italy, for example, industrial districts represented about 30 per cent of total output in 1994, 43 per cent of manufacturing jobs and 43 per cent of domestic exports. In Sweden, one region alone (Borås) supplied nearly 46 per cent of domestic textile and clothing production in 1997.

– *Small and medium-sized towns (SMST) are an asset for intermediate regions.* Job creation and population growth rates vary sharply not only among different types of region (urban, intermediate or rural) but even within the same type of region. Growth in intermediate regions is often linked to the dynamism of their SMSTs. With their concentration of facilities, infrastructure and services, small towns offer all the advantages of urban life. Moreover, their smaller size saves them from some typical big-city nuisances (crowding, pollution, stress) and allow them to offer a better quality of life, combining the pleasures of "country living" with the excitement of the city. The growing importance that modern society places on lifestyle, makes these places attractive at two levels: the national and the regional. In recent years, growth rates of SMSTs, both those located close to metropolitan regions and those in more remote intermediate regions, have often been higher than those of the larger cities in most OECD countries. Moreover, within intermediate and rural regions, SMSTs have grown faster than rural areas. Networking among the cities has enhanced their performance and their potential.

– *A technically skilled and specialised workforce*. A strong industrial tradition has produced a local workforce with the skills and technical know-how that give some regions a competitive edge in terms of incremental innovation. As well, with their emphasis on practical skills, specialised university institutions in intermediate regions have won a high reputation in the business world.

– *The importance of small and medium-sized enterprises (SMEs)*. In many of the OECD's intermediate regions the proportion of SMEs is higher than at the national level. SMEs have the advantage of flexibility and they can respond more nimbly by shifting production. In productive systems where change and instability are increasingly the order of the day, these are essential features.

– *Quality of life, natural and cultural heritage*. Because of their hybrid character, combining aspects of urban and rural life, these regions have all the advantages of city life and the pleasures of country living. They also have, generally speaking, a significant tourism potential: extensive forests, proximity to the seaside, urban heritage, sporting facilities.

2. Weaknesses in common

– *Shortcomings in amenities and business services*. Weakness in the tertiary sector is a key problem in intermediate regions. Since the outsourcing of services is a key element of business strategies for becoming more modern, flexible and innovative, it would be good for intermediate regions to promote development of this sector, which is the fastest-growing in most OECD countries.

– *Technological weaknesses*. The reduced size of most businesses is not conducive to technological development. Technology transfers and innovation are also held back by the lack of co-operation among the owners and managers of competing SMEs. Moreover, the "loan gun" approach of the entrepreneurial culture often found in intermediate regions tends to downplay the role of education and management skills, and to discourage the dissemination of innovative technologies.

– *Shortage of people with high levels of qualifications*. Holders of university and post-graduate degrees are proportionately less numerous in intermediate regions. The local labour force is generally less well-educated.

– *Inadequate links between universities and the labour market.* The education systems in these regions betray gaps in the areas of management, business administration, trade and commerce, and are not well-adapted to producing recruits for the labour market.

– *Lack of local co-operation.* While the lack of co-operation is a major problem in all regions, it is especially acute in intermediate regions. It is here that the need for local co-operation is the greatest. This would allow medium-sized regional entities to gain a higher profile and more influence domestically and internationally. For example, inter-city co-operation could be very useful. These problems relate to both vertical and horizontal co-operation, and they concern the private sector as much as the public. They need to be addressed in terms of governance.

– *Sharp internal disparities.* Disparities within intermediate regions take different forms: between urban and rural areas, between coastal and interior districts, between central and peripheral zones. Most often these disparities will divide a region into two subregions, marked by differing levels of performance (north-south, east-west, etc.).

Chapter 4

Shifting trends in intermediate regions

Despite a generally satisfactory picture, the performance of intermediate regions shows some signs of instability.

1. Unstable growth

Intermediate regions show some signs of running out of steam, and their performance has been uneven over a 15-year timeframe. The regions that performed the best two decades ago are not the same ones that are doing so now. These fluctuations have prevented regions from developing a solid basis for growth and a coherent and consistent approach to policy. They are continuously being side-tracked by emergencies. These fluctuations tend to undermine the foundations for their growth and plunge regions into cycles of instability and weakness that are not particularly conducive to a climate of well-being and social cohesion.

2. Economic diversification

Against a backdrop of generalised industrial decline and shifting market trends in most OECD countries, intermediate regions are moving increasingly into services. The focus is increasingly on the areas of business services and tourism development. While the economic structure of intermediate regions includes facilities for specialised output and the provision of private and public services that could meet the needs both of businesses and of individuals, the record is not positive: in most regions, job creation in the tertiary sector has not been sufficient to offset the decline in industrial employment.

3. Job insecurity

The increased emphasis on flexibility and diversification in the labour market in intermediate zones has brought with it a sharp increase in seasonal and temporary jobs. This insecurity has its greatest impact on women and young people.

4. The problem of adapting to constant technological change

The speed of technological progress puts intermediate regions in the impossible position of constantly catching up. Adapting output to the latest technology is simply beyond the reach of most businesses, particularly SMEs. Intermediate regions are saddled with outdated technologies and obsolete skills.

5. Loss of competitive advantages

Competition from emerging countries where labour is cheaper means that intermediate regions in OECD countries can no longer count on differences in production costs to keep them competitive. Competitiveness now depends on the quality of manufactured goods, on design and innovation. Few regions are up to this challenge. Parts of the Swiss Jura that continue to make watches despite strong competition from Hong Kong are one example of success. By promoting a technical and entrepreneurial culture devoted to quality, these regions have been able to seize and hold a narrowly circumscribed portion of the world market by adapting their output. Their businesses have focused on originality, luxury and design in order to forge new competitive assets and to refurbish the image of their brand names.

Only a steady and long-term policy can influence these trends in the right direction and help these regions escape from uncertainty and vulnerability.

Chapter 5

Development strategies and examples of best practice in intermediate regions

Intermediate regions face severe structural and institutional problems that call for an innovative and strategic policy approach. These problems can be summarised as follows:

– One-industry regions locked into sectors that are in long-term decline now face difficult choices between diversification and specialisation.
– The entrepreneurial tradition is strong, but it lacks the institutional support that small and medium-sized enterprises need.
– Co-operation is lacking at all levels, horizontal and vertical, public and private, among enterprises, among municipalities and among cities.

Any strategy or policy aimed at the development of intermediate regions must address two basic prerequisites:

– *Improving training and education*. The availability of a skilled workforce is one of the most frequently cited factors behind business location decisions. Yet not all intermediate regions can afford to sponsor local training facilities. There are two things that local communities can do to provide vocational training. The first is to adopt a strategy of co-operation with higher education establishments in other regions, or to promote partnership with industry, employees and unions (Box 1). The second is to take advantage of the opportunities offered by new information technologies, particularly remote learning, teleconferencing, etc. The return from investment in communication technologies goes well beyond vocational training. At a time of rapidly shrinking product lifecycles, swift access to information is a key determinant of economic growth and invaluable for competing and anticipating developments.
– *Enhancing accessibility*. While infrastructure alone cannot create growth, a lack of infrastructure can slow it. The main transport networks often bypass intermediate regions and their smaller and medium-sized towns (SMST). Experts believe that SMSTs could attract new economic activities and revive existing ones if they were more accessible. Development policies should give priority to feeder and

secondary systems that provide links to high-speed networks. Linkages of this kind are indispensable for keeping SMSTs competitive in a global marketplace.

Long-term strategies for dealing with the major problems confronting intermediate regions can be addressed in terms of intermediate regions as a whole, on one hand, and in terms of specific intermediate regions, on the other. In the first case, policies and strategies will involve all intermediate regions, while in the second case they will be targeted at different categories of regions (as defined by the predominant economic activity).

Box 1. **What university facilities are best for intermediate regions?**

When it comes to competitiveness, access to knowledge is probably even more vital than infrastructure. Disadvantaged intermediate regions need to address the challenge of the information society if they are to enhance their ability to innovate and move into new economic niches. Experience suggests that investment in university facilities in small and medium-sized towns of intermediate regions can take a number of forms. Creating general-purpose institutions is risky from three points of view. First, they are exposed to heavy competition from the major university centres, where there is cross-pollination between general and specialised curricula. Second, the potential student body in the recruitment area may be too small to support a high-quality institution. Finally, the cost of supporting such establishments, in a context of decentralised management, may quickly outstrip the capacity of fiscally strapped local and regional governments, and may discourage private donors who might be interested in supporting such facilities.

These regions should be encouraged to consider developing specialised universities. Such an approach will only be sustainable, however, if it encourages the creation of specialised courses that are sufficiently unique and attractive, and if suitable research laboratories support it. Adding the element of teaching and research to the local economic fabric is an additional asset.

Course development through partnership with larger universities is perhaps the best approach for creating local synergy and fostering a centre of gravity for research. There are other possibilities open to small and medium-sized towns for offering high-quality instruction in intermediate regions. A slightly different approach would be to develop a multi-campus university. This would have to be supported by investment in new teaching methods. Exploiting the potential offered by new technologies, particularly distance education, and introducing more flexible programmes based, for example, on the concept of the open university, with short and adjustable learning modules, are examples of measures for sustaining high-quality university education in disadvantaged intermediate regions.

1. Global policies

1.1. Strengthening local production systems and industrial districts

- Supporting innovative local industries. At a time of globalisation and increasing flexibility in labour markets, businesses must be able to adapt swiftly to sudden and fierce competition. To re-orient industry towards high-quality products and certain niche markets may well be the key to survival.
- *An example of best practice.* Reeling from South Asian competition and the stranglehold that Italians and Germans exert over the high end of the textile industry, Swedish textile companies in 7H Region near Gothenburg have had to adapt their traditional production techniques in order to survive. They now produce new textile goods specialised for use in greenhouses, armaments, construction and automobiles. Their success owes much to heavy investment in research and development and to the co-operative agreements they have signed with major European and North American manufacturers.
- Specialising local production systems. The objective here is to focus efforts on a limited field, *i.e.* small businesses belonging to the same industry but specialised in different phases of the production chain. Creating clusters of such businesses and their suppliers can help to develop a local pool of skilled labour. This type of clustering can also attract buyers and suppliers and reduce unit costs by sharing certain activities such as marketing and technical services. By operating in close proximity to each other, businesses can also subcontract to potential competitors for orders that exceed their own capacity, because they will be more aware of the reliability, standards of work and overall capacity of various possible subcontractors. These features encourage a kind of flexible specialisation for producing highly differentiated goods with high value added and at the same time keeping local wages high and unemployment low. Firms in these districts often exhibit a rapid pace of innovation in products and procedures and new technologies spread swiftly. Silicon Valley in the United States and Bio-Valley in Switzerland are cases in point.
- *Example of best practice.* In Italy, local industrial districts account for 29.7 per cent of total employment (43.3% of employment in manufacturing) and in 1994 they produced 42.9 per cent of Italian exports. Between 1981 and 1991, employment rose by 19.7 per cent, while the increase for the country as a whole was only 5.6 per cent. This trend was particularly noticeable in business services, which grew by 64.4 per cent over the same period. Recent studies show that, even at times of recession, job creation, real wages and returns on investment have all been consistently higher in industrial districts than elsewhere. This record is even more striking when it is recalled that many of these districts are specialised in making goods such as textiles, clothing and footwear that are

often considered vulnerable to low-cost imports. Sassuolo in Emilia-Romagna, for example, is Europe's largest producer of ceramic tiles. Carpi, where there are 2 068 knitting and clothing establishments with an average of 5 workers, produces sales of US$1.3 billion. Another well-known textile-producing district, Prato, with 5 990 firms and 38 080 employees, produces 64 per cent of the country's woollen cloth exports. These examples show that even at a time of intensifying international competition it is possible to maintain solid economic health and employment in so-called sunset industries.

1.2. Fostering the creation of dynamic firms

– Facilitating access to financing is a strategy often employed by regional and local authorities to promote business development. One particularly cost-effective approach is the mutual guarantee systems that some countries have created at the regional level. By being part of such a system, a small company can gain considerable weight and reputation.
– *Example of best practice*. Regional consortia have been formed in several countries (*e.g.* Italy, Canada, Sweden, United States) to provide guarantees for bank loans to individual companies. It is the consortium, and not the bank, which decides whether or not to provide a guaranty for a given company, after examining the loan application and discussing it with the applicant. If the business is not in a position to repay, the co-operative takes over the liability to the bank. These consortia have a high success rate, and for the one in Modena in Italy the default rate is only 0.03 per cent.
– Creating business incubators to give start-up SMEs access to essential infrastructure at a better price.
– Providing training facilities in support of entrepreneurship. Creating dynamic and innovative enterprises requires not only offering direct financial incentives (which do not necessarily enhance a company's competitiveness) but also providing indirect help in terms of business organisation, access to capital, economic competitiveness, human resource quality and training and innovation capacities. Entrepreneurial support is only useful if it is accompanied by training programmes for entrepreneurs to help them become more innovative and creative. Unfortunately there are few examples of best practice in this area to be found in intermediate regions.

1.3. Marketing and image

Advertising campaigns are increasingly successful in attracting foreign investors, domestic businesses, new residents and tourists. An effective campaign of this kind can also help one-industry intermediate regions to attract tourists and win recognition for local brand names. There are sound reasons for focusing regional efforts on the tourism sector. When it is recognised that the tourism industry is growing at exponential rates and that intermediate regions have a significant and unexploited potential here, the need for suitable policies to address the situation is obvious.

1.4. Inter-city networks policies and horizontal co-operation

Intermediate regions lend themselves to the development of inter-city networking. Co-operation of this kind benefits from the high density of SMSTs located close to each other. An association of four cities of 50 000 inhabitants each can carry the same weight as one city of 200 000, provided that co-operation is based on a few, carefully selected objectives. Such co-operation is extremely important and can allow SMSTs to enjoy facilities and services that they would never be able to afford on their own. Co-operation between neighbouring towns of similar size would be more successful yet if the various towns in the network were specialised.

Co-operation implies a form of governance where capacities and policies can be shared by several local entities, without the need to create an additional administrative layer. Realistically, co-operation must at least initially focus on a few carefully selected objectives. There has been some experimentation with city networks in certain countries, but bureaucratic rigidities and historical rivalries have cut them short. Yet setting up such networks would allow towns in these regions to attain the critical mass necessary to develop infrastructure, share the available human and material resources and enjoy better access to domestic and international markets.

Generally speaking, economic development needs to go hand in hand with new methods of governance. Institutional reforms are essential, especially for introducing a regional policy focused on horizontal co-operation among neighbouring entities. With such reforms, inter-city co-operation can thrive in what might be called "living basins". Investment options relating to the infrastructure of daily life (neighbourhood and local business facilities), and to local economic development should be designed with this point in mind.

Moreover, reforms are needed to transfer decision-making and financial authority from central government to the regional and local level. The issue here is to identify the level of government best suited to ensuring good governance. In many OECD countries both forms of co-operation are being discussed and tried out. Decentralisation experiments are intended to strengthen empowerment at the regional level. The responsibilities transferred in this way vary from country to country. To be effective, such measures must allow for more independent management of local and regional finances, especially the right to tap into the local revenue base by levying charges and taxes. Regional or central government supervision may be the best way, at least initially, to ensure sound overall management and avoid abuses.

2. Specific policies

2.1. In agricultural regions: encourage the agro-food industry and invest in R&D

To the extent that proximity to supply remains a locational factor for agro-food industries, such industries can enhance the job-creation potential of the less-advantaged intermediary regions. This potential may however be unstable. It can only be preserved if there is substantial investment in research and development, in updating production methods and tailoring output to the international market, and above all if due regard is given to promoting sustainable development.

Moreover, in many agricultural regions specialised niche activities can often be a source of employment. Measures to this end should encourage better exploitation of local traditions and the historical and cultural image of the region, *i.e.* its specific local amenities.

2.2. In tourist regions: Reinvent resources and offer quality local services

Planners must be aware that today's development potential has less to do with intrinsic resources than with the ability to create resources continuously. The resources attached to a site are never defined once and for all, nor are they inherent — in this sense they are renewable. The steady drawing power of a tourist site depends on its capacity to reinvent its resources in line with shifting demand and to preserve its comparative advantage in what is a very competitive business. The opportunity to invent tourist resources is in most cases underestimated. Development policies for intermediate tourist regions should encourage the constant search for new and original initiatives. Restoring heritage sites, developing local crafts, hosting festivals, fairs and cultural events are examples of such possibilities. SMSTs in tourist regions should work together to promote attractions and festivities that will be complementary to each other and will create tourist circuits embracing all such towns. By expanding and diversifying tourism products, such networks help to bolster the appeal of the entire region, to the great benefit of its towns. This strategy is well suited to intermediate regions where the existing transportation infrastructure allows tourists to move easily between different attractions.

Moreover, the benefits derived from tourism resources go far beyond the more-or-less seasonal impact of exploiting local attractions. It has been shown that in Western Europe many retired people migrate to "tourist sites" (coastal towns, spas, holiday home clusters, the outskirts of natural parks, and so on). The concentration of retirees will have a direct impact on the development of certain kinds of services (health and culture), of course, but more generally on maintaining a satisfactory level of accessibility and service. In regions where the tourist potential is high, policies should be aimed at continuously upgrading local services. Such policies have the greatest chance of success in intermediate rather than in rural regions, because facilities can be maintained at lower cost where there is a reasonable population density. The Scottish Highlands are a typical case of successfully combining the advantages of tourism with the development of retirement communities.

2.3. In industrial regions: promote entrepreneurship through enlarged co-operation systems and improved education systems

Promoting a spirit of enterprise in traditionally industrial intermediate regions is a good way to enhance their competitiveness. To encourage self-reliance the authorities should create industrial zones, support business training, ease restrictions and regulations that stifle new SMEs, finance business start-up programmes and, above all, offer business advisory services. More general awareness campaigns can be very effective. Government incentives should also encourage networking while at the same time fostering greater openness on the part of the local business community. Networking is very important when it comes to industrial diversification or adjusting to new products and new markets.

Business incubators can also help to foster a spirit of enterprise and encourage networking in a region, and can promote co-operation among SMEs in a number of areas, including investment in R&D. In all "successful" experiments, drawing local firms into broader business networks and, more generally, into high-quality information circuits has been an essential ingredient. A well-trained labour force is also an essential underpinning for success with such strategies.

To conclude this section, it must be recognised that there is no magic formula, either locational or socio-economic, that will ensure growth. Neither a particular geographic situation, nor proximity to natural resources nor a favourable sector mix would appear to guarantee success. Experience with intermediate regions in OECD countries as a whole has failed to identify any criterion or group of criteria that can be said to be indispensable.

Although certain economic and functional characteristics are obviously important assets in determining a region's overall performance, case studies show that much of the explanation must be looked for elsewhere. More intangible factors such as organisational skills, institutional structures, entrepreneurial spirit, regional identity, community participation and democratic local management are all being increasingly recognised as ingredients of success. As Nobel prize-winning economist Douglas North has noted, there is no secret alchemy for converting labour, capital and technology into economic success. Social well-being relies on institutions, formal and informal, explicit and implicit. Social capital is as important as financial capital in promoting economic growth. Italy's industrial districts and some of the "clusters" found in the United States are proof of this. For intermediate regions where local production systems are most firmly entrenched, then, it is important not to overlook the role of civil society in ensuring sound local governance.

Chapter 6

Questions for the future

The situation and trends apparent in many regions of Member countries raise a number of questions for which answers have yet to be found. To do so will require further examination of intermediate regions where local problems and practices can be compared.

1. How can the economy of intermediate regions be made more competitive internationally?

Intermediate regions seem to be engaged in a process of diversifying their economic base. The outcome of this process is still far from certain. Before pressing ahead with diversification, policy makers need to address two questions. The first question concerns the nature of diversification: which of the many economic tracks should the region select to ensure medium- and long-term economic growth for itself? The second question relates to the advantages and drawbacks of diversification: will such an approach place regions at risk of seeing their comparative advantages misidentified and poorly exploited? What can intermediate regions do to retain their existing advantages, in terms of competitiveness and the reputation of the specialised niches they now occupy?

2. How can intermediate regions participate in the new economy?

The engines of economic growth have changed. In recent years, competitiveness has come to be assessed in terms of know-how, human capital, innovation, and networking. Intermediate regions seem to have been left behind by this movement. Moreover, the relative decline of the industrial sector has hit intermediate regions especially hard. Two key questions suggest themselves here. How can innovative technologies be used to revive industrial output? How can training programmes be adapted to the needs of local workers and businesses in the area of information and communication technologies?

3. How can inter-city co-operation be promoted in intermediate regions?

Inter-urban co-operation, especially among small and medium-sized towns beyond the metropolitan areas, is regarded as a tool for enhancing the competitiveness of these towns. The synergies of economics and infrastructure that these networks are assumed to create should help these towns to offset their weak points. Yet in many Member countries, such networks are still a goal rather than a reality. The major obstacles to creating such networks can be summarised in the following questions: How can locally elected leaders be persuaded to turn their efforts to co-operation rather than competition? How can a solid foundation for such co-operation be laid? What institutional reforms are needed to make the most of these networks and ensure their continuity?

4. How can tourism support local industries?

Most intermediate regions have some degree of tourism potential. This potential, however, may benefit only part of the region, where the necessary amenities are to be found, and this can have the effect of creating or exacerbating internal disparities. Intermediate regions would do well to use tourism to help boost their industrial output. How can a region's attractiveness for tourists be extended beyond its natural, cultural or historical assets to promote a higher profile and recognition for the region's industrial products?

Conclusions

- *Do not abandon the industrial sector*. With the adoption of a determination not to abandon industry, it must be recognised that intermediate regions in the OECD countries can no longer hope to compete on the basis of costs and prices. Their competitive advantage now lies in their knowledge, skills, creativity and product quality. To survive, traditional sectors will have to capture new market niches where quality is the uppermost consideration, and adopt policies that promote innovation, organisational flexibility (essential for adapting to shifting demand) and effective commercial techniques (seeking out markets further afield, for example). Finally, they will have to adjust to new and innovative technologies. The maintenance of a dynamic industrial sector will itself be of help to the services sector — some studies have shown that every new industrial job creates several service jobs.
- *Invest in tourism*. Tourism is booming. It will be the most important industry of the 21st century. This is good news for intermediate regions, since statistical estimates show that the flow of tourism is shifting increasingly towards cultural and urban attractions. The historical and cultural heritage of intermediate regions is a potential waiting to be exploited. In regions of this kind, there are two possible ways of proceeding: turning local industrial features into tourist attractions, and promoting eco-tourism. Together with an appropriate advertising campaign, these two approaches would help regions, on one hand, to develop a "brand" image and a distinctive profile for local products and, on the other hand, to create new opportunities for areas outside the major tourist routes.
- *Bring intermediate regions into the new economy*. Thanks to new technologies, intermediate regions can now aspire to ever-greater integration in the international economy. This calls for investment in electronic commerce and the establishment of Web sites to make local businesses and their products more widely known.
- *Promote institutional reform at all levels*. Decentralisation and co-operation among municipalities are the watchwords here. Such reforms will require targeting the basis of co-operation and decentralisation and setting clear objectives for the medium and long term. Renewing the forms of governance is essential for ensuring the sound implementation of any development strategy.

Annex 1

Regional typology

The OECD Territorial Development Service has identified three types of space, on the basis of population density: Predominantly Rural, Intermediate and Predominantly Urban (Box 2). This is a simplistic indicator, but it is highly relevant for dealing with the diversity of territorial spaces. It also has the virtue of being easy to use, and is available for all Member countries and at all levels of territorial organisation.

Box 2. **Regional typology**

1. Territorial levels

The system of territorial breakdown distinguishes between two subnational levels:

Local communities.

Regions.

Local communities generally represent the smallest administrative unit in the country, and can be used to define the nature of settlement patterns in different regions.

Regions, in most countries, are the second subnational administrative level in the hierarchy (departments in France, provinces in Italy, counties in the United Kingdom, for example).

2. Structural characteristics

This regional typology is based on the degree of rurality according to the share of regional population living in rural communities, i.e. communities with a population density below 150 inhabitants/km^2 (500 inhabitants/km^2 in the case of Japan).

3. The typology

In terms of these criteria, regions are classed as:

Predominantly rural: more than 50 per cent of the regional population lives in rural communities.

Intermediate: between 15 and 50 per cent of the regional population lives in rural communities.

Predominantly urban: less than 15 per cent of the regional population lives in rural communities.

The intent of a typology of this kind should be clearly understood. Regions belonging to any one type will be similar, but not identical. On the basis of objective criteria, the typology offers a working framework that is helpful for comparing the situation and performance of different regions, with a view to identifying the "best practices" in development policy and formulating targeted strategies suitable for different regional and local contexts.

Part 2

Regional audit: the Valencian Central Districts**

** Information and statistics contained in this part are based on original reports written by Dr. J.A. Ybarra, Departamento Economía Aplicada-Política Econòmica, Universitat d'Alacant, Spain; Dr. J. Salom, Departamento de Geografía, Universitat de València, Spain; Dr. J.M. Albertos, Departamento de Geografía, Universitat de València, Spain; Dr. E. Delios España, Oficina de Gestión Proyecto CONCERCOST, Desarrollo de Proyectos e Iniciativas (DPI), Spain; and on OECD databases.

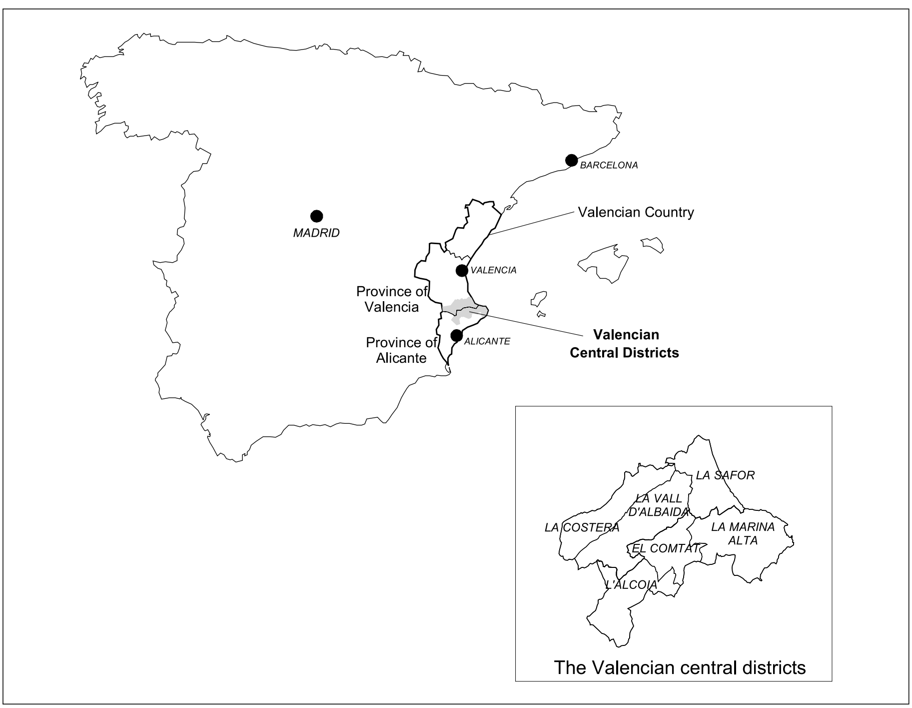
Chapter 1

Settlement, accessibility, and labour market

1. Settlement and population

The Valencian Central Districts — Comarcas Centrales Valencianas (CCV) — are located in the central part of the Valencian Autonomous Community (NUTS 2), between the provinces (NUTS 3) of Alicante and Valencia (Figure 6).

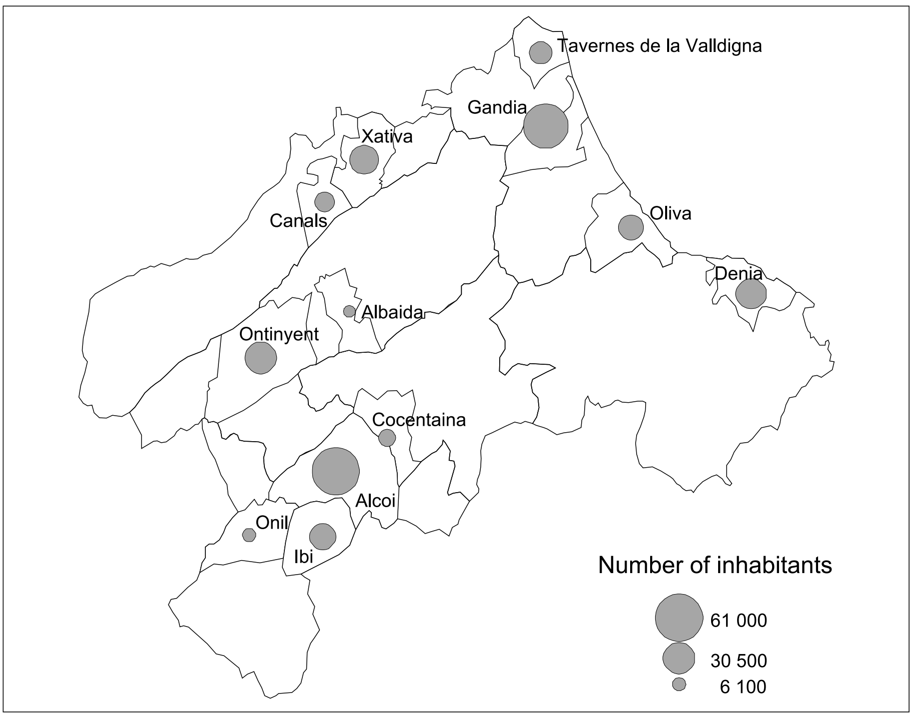
Figure 6. **Location of the Valencian Central Districts**



Source: OECD/TDS Territorial Database, 1999.

The CCV are not considered an official "region" in the sense that they do not correspond to an administrative region. Their territory is more than 3 000 km^2 with a coastal zone of about 90 km^2. They are an assemblage of six districts divided into 149 municipalities (65 belong to the province of Alicante and 84 to the province of Valencia). Twenty-three municipalities have over 5 000 inhabitants, and only 7 have over 20 000. The Central Districts are situated around two main cities: Gandia (83 741 inhabitants) on the coastal area and Alcoy (73 023) inland (Figure 7).

Figure 7. **Main cities in CCV, 1996**

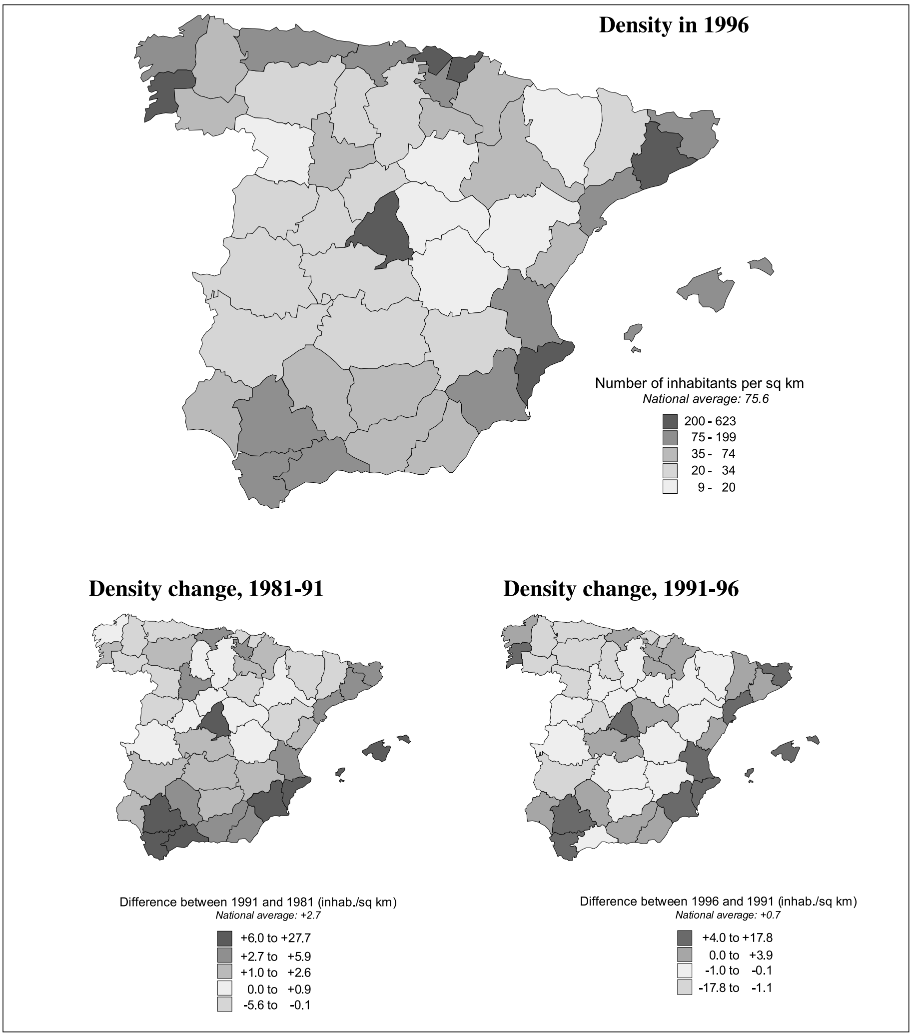


Source: IVE, Census 1991 and Register of inhabitants 1996.

Based on the settlement structure, the CCV constitute an intermediate region. According to the OECD regional typology, an intermediate region is a region where population concentration, *i.e.* the proportion of the population living in rural municipalities, lies between 15 and 50 per cent. Another characteristic is the presence of small and medium-sized towns and the absence of a big metropolitan centre.

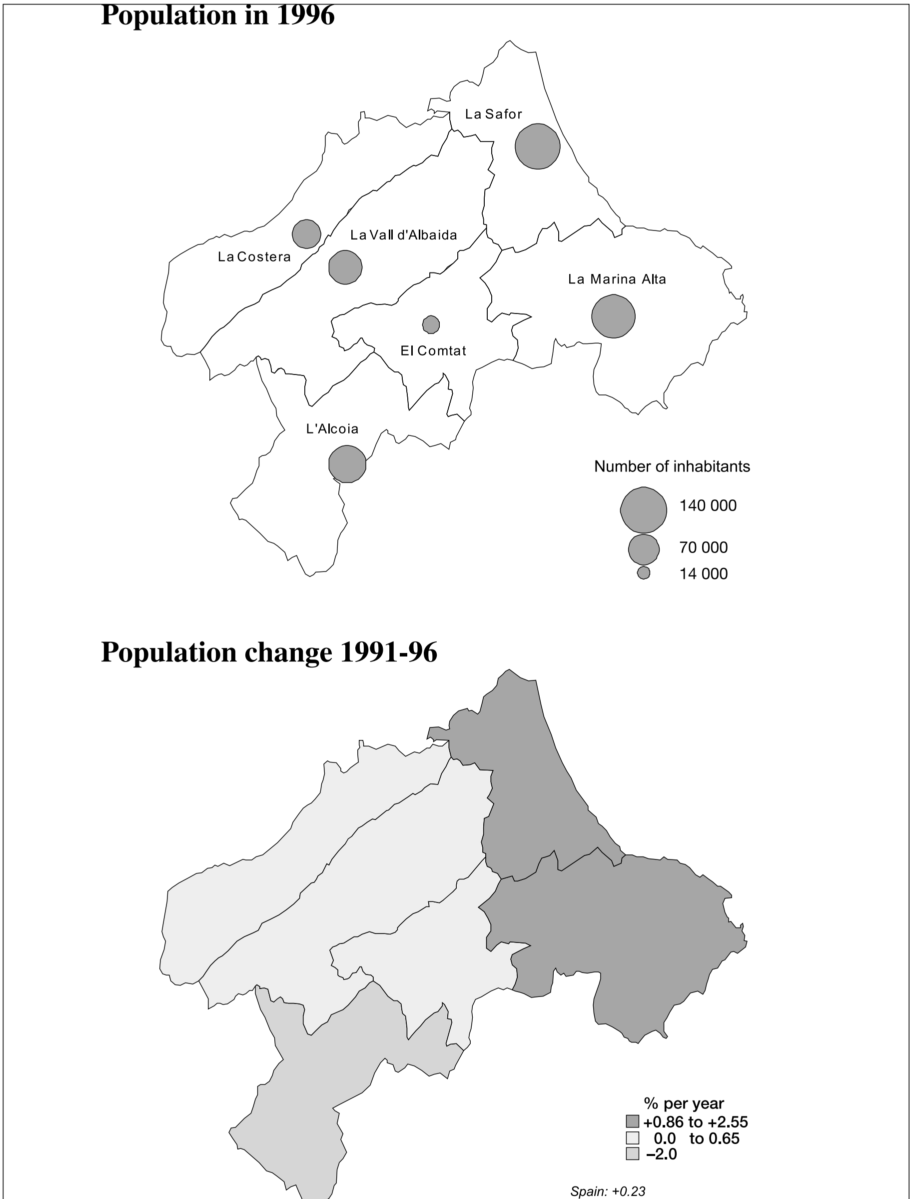
According to this classification, the province of Alicante is, like the CCV, an intermediate region, while the province of Valencia is an urban region (*i.e.* the percentage of the population living in rural areas is less than 15). In general terms, the two provinces are more dense (more than 195 inhabitants/km²) than the CCV (162 inhabitants/km²) (Figure 8 and Annex 2). They are also different in terms of dynamism: the growth rates of the two provinces are very high (Figure 8). In the CCV, after an intense growth in the 60's and the 70's, the overall population has stabilised at around 500 000 inhabitants. Between 1991 and 1996, the population grew at an annual rate of 0.40 per cent, which was below the average rate of the Valencian Autonomous Community (0.65%).

Figure 8. **Population density, Spain**



Source: OECD/TDS - Territorial data base, 1999.

Figure 9. **Evolution of population in CCV**

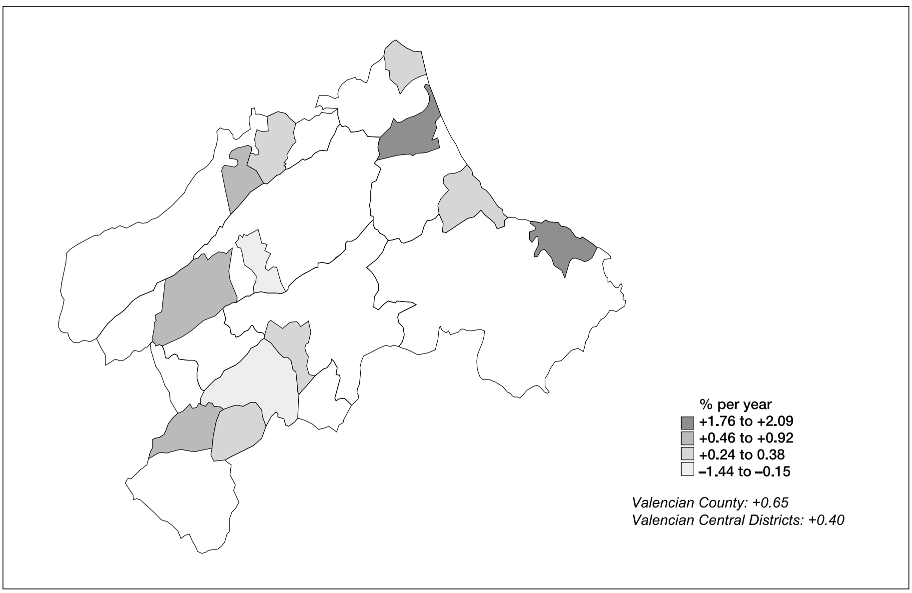


Source: IVE, Census 1991 and Register of inhabitants 1996.

The evolution of the population inside the CCV shows important disparities between inland and coastal territories. As a whole, the population of the inland districts is declining: Although Costera, Vall d'Albaida and Comtat have an annual growth of less than 0.2 per cent, the population is decreasing in Alcoià (-2.03% per year). On the other hand, coastal districts have an annual growth of 0.86 per cent in Safor and of 2.55 per cent in Marina Alta (Figure 9).

Figure 10 shows that the highest growth in the CCV does not always occur in the largest cities. Even if the two main coastal cities have the highest growth, Alcoy, which is the largest city in the CCV, is declining, while, in the inland part, three small and medium-sized towns are growing.

Figure 10. **Urban population growth**

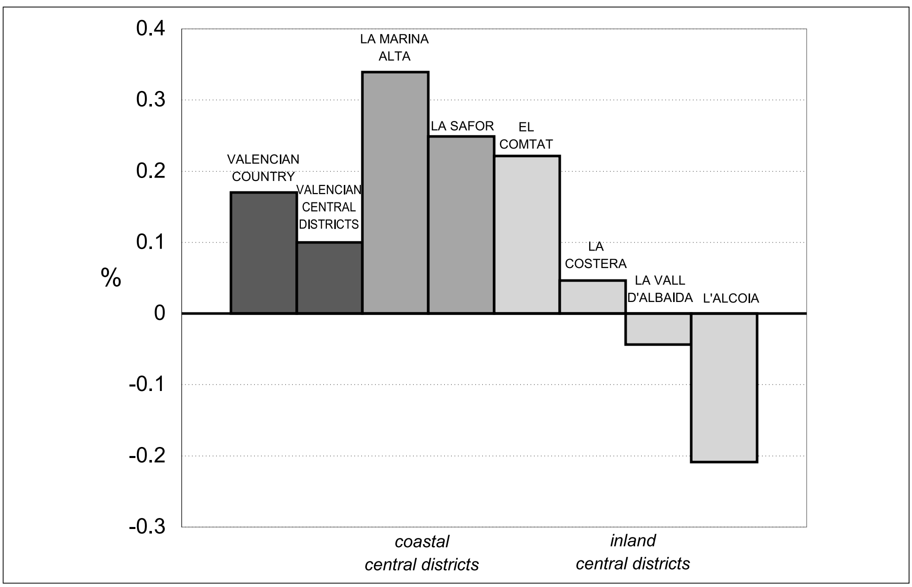


Source: IVE, Census 1991 and Register of inhabitants 1996.

These differences between districts can be explained mainly by migratory (internal and external) dynamics, as natural growth has decreased for the whole CCV as a consequence of the gradual fall in the national birth rate. Inland districts as a whole have negative migratory flows, especially in Alcoià and Vall d'Albaida (only Comtat has a positive flow having captured people from Alcoià). On the contrary, in coastal districts there is a positive migratory flow, mainly composed of foreign people going to Marina Alta and of nationals going to Safor (Figure 11).

The considerable negative migratory flows of Alcoià and Vall d'Albaida show, more than a re-distribution of the population in the area, a net loss, which reflects recent economic problems, the persistence of high unemployment rates and difficulties encountered by traditional sectors in diversifying the economic structure. Moreover, the population loss in inland districts regards mainly young and qualified people (55.3% have a secondary or university education). Educated people account for 34.7 per cent of the whole inland population. On the other hand, the positive evolution of coastal areas can be related to higher economic dynamics, especially in sectors such as construction and tourism and also to a higher attractiveness for retired people and foreigners due to climate conditions.

Figure 11. **Yearly rate migratory flows in CCV, 1991-1995**



Source: IVE, Survey on residential variations 1991-95.

Another problem common to all the Central Districts is population ageing. In 1996 the Dependency Rate was above the regional average (Table 4). People of 65 years old and over represented 16.7 per cent of the total population in 1996. The ageing rate has generally increased (from 76.2% in 1991 to 104.1% in 1996) and particularly in Comtat and Marina Alta. Two different types of explanatory factors can be given. In Comtat it is the result of the ageing of their own population while for Marina Alta it is the consequence of migration of retired people attracted by the environmental quality of the area.

Table 4. **Age structure and ageing population in CCV**

	1991					1996				
	0 to 14 (A)	15 to 64 (B)	65 & over (C)	Rate of depen- dency (%) (A+C)/B	Rate of old age (%) (C/A	0 to 14 (A)	15 to 64 (B)	65 & over (C)	Rate of depen- dency (%) (A+C)/B	Rate of old age (%) (C/A
Valencian Country	19.9	66.5	13.6	50.3	68.6	16.3	68.4	15.3	46.1	94.0
Valencian Central Districts	19.4	65.9	14.8	51.8	76.2	16.0	67.3	16.7	48.5	104.1
Inland Central Districts	20.0	66.0	14.0	51.5	70.1	16.7	67.5	15.8	48.1	94.6
Coastal Central Districts	18.7	65.7	15.6	52.1	83.7	15.3	67.1	17.6	49.0	114.7
Costera	20.4	65.7	13.9	52.2	67.9	17.3	67.4	15.3	48.4	88.3
Vall d'Albaida	20.4	66.2	13.3	50.9	65.4	16.9	68.0	15.1	47.0	89.1
Safor	19.3	66.5	14.2	50.4	73.3	16.3	68.1	15.6	46.9	96.1
Comtat	18.0	64.4	17.6	55.2	97.9	15.7	65.1	19.2	53.6	121.8
Alcoià	19.9	66.4	13.7	50.7	69.0	16.3	67.9	15.8	47.3	96.7
Marina Alta	17.8	64.8	17.3	54.2	97.0	14.2	66.1	19.7	51.3	138.0

Source: IVE, Census 1991 and Register of Inhabitants 1996.

2. Accessibility and infrastructures

The CCV have both external and internal accessibility problems.

Airports. Most urban centres of the Central Districts are at about 60 minutes from the two international airports of Manises (Valencia) and L'Altet (Alicante). The airport of Valencia hosts more national flights, while, as a consequence of the tourist flows directed to the southern part of the coast, Alicante has more international charter flights[1]. Direct connections to the most important capital cities in West Europe are secured. However, it is necessary to stop over in the Madrid or Barcelona airports for other destinations.

Ports. Four ports are available in the CCV. The port of Valencia (inter-oceanic) is facing a recent process of expansion and has become one of the main centres of transportation of merchandise containers in Spain (one third of all the national traffic). The port of Alicante, on the other hand, is facing a certain decline. A third commercial port, in Gandia, is specialised in the importation of wood and paper. In the past it was the principal external connection for the Central Districts; nowadays it has a very small volume of commercial traffic. Finally, the port of Dénia is becoming the reference for the transportation of passengers (tourists) to the Balearic Island (mainly Ibiza), only 70 km away.

Railways. The railway system in the Central Districts functions mainly as an external connector and not as a local integration network. There are two different contractors: The national railway (RENFE) and the *Generalitat Valenciana Railways* (FGV) which is controlled by the regional government. The lines managed by RENFE connect the city of Valencia to Gandia and to Xàtiva (through the line Valencia-Madrid) and Xàtiva to Alcoy, (passing through Ontinyent and Cocentaina). FGV, on the other hand, operates only alongside the coast from Alicante to Dénia. The lines connecting Xàtiva and Gandia to Valencia have had a high level of investments and are the most efficient and competitive compared to road transport.[2] Much less efficient are the RENVE line from Xàtiva to Alcoy,[3] and the FGV line connecting Dénia and the coastal municipalities of Marina Alta[4] to Alicante.

Roads. Some parts of the Central Districts do not have an adequate road network. The three main communication axis are, horizontally: in the north, the motorway Madrid-Valencia (crossing the district of Costera), considered the principal external link for inland districts and, in the south, the motorway Madrid-Alicante (easy accessible from Ibi, in Alcoià); vertically: the littoral corridor between the French border and Alicante (composed of the motorway A-7 and the national road N-332). External accessibility problems have mainly affected the inland districts of Alcoià, Comtat, Vall d'Albaida[5] and the interior part of Marina Alta (access to the motorways is quite difficult because of mountain passes). On the coast, Safor and Marina Alta have a good external accessibility through the littoral corridor. Internal communication problems exist between inland and coastal districts. Communication between Vall d'Albaida and Safor is very difficult, while in the south, there is no adequate access between Alcoià-Comtat and Marina Alta. The general picture can be summarised as follows:

– The parts of the Central Districts located in the province of Valencia have a better road network than those situated in Alicante.
– The road network in the coastal areas of Safor is more dense than that of the other districts.
– There is a certain disconnection between inland and coastal areas.

Telecommunications. The Central Districts as a whole have a rate of telephone lines similar to the regional average (40% of inhabitants in CCV and 39.7% in the Autonomous Community). The higher rate is in the coastal district (43.7), particularly in Marina Alta (47.5), due to the tourist activity. In inland areas, the average (35.6) is below the regional one, Vall d'Albaida having the lowest rate (33.5 lines per 100 inhabitants).

3. Labour market and internal disparities

3.1. Unemployment and working conditions

The labour market of the Valencian Central Districts as a whole is characterised by relatively low activity rates (49.4%), slightly below the regional average (50.9%). These activities are brought about, on the one hand, by a limited incorporation of women in the labour market (31.1%), and on the other, by the persistence of a high unemployment rate (even in periods of economic peaks). Despite this, unemployment rate in CCV has been constantly decreasing (especially from 1995). Compared to a decade ago, it has decreased by almost 35 per cent, coming below the average of the Valencian Community at the end of 1998 (Table 5 and Figure 12). Coastal districts show an even better situation, with an unemployment rate of 8.5 per cent, whereas that of the inland districts is still below the regional average (despite negative peaks in Costera, Alcoià and Comtat, about 13% -- Figure 13). Unemployment in CCV especially affects women (the rate is double that of men), young (25% of unemployed are looking for their first job) and people over 45 years old (mainly due to the recession which occurred at the beginning of the 90's).

Table 5. **Unemployment rates**

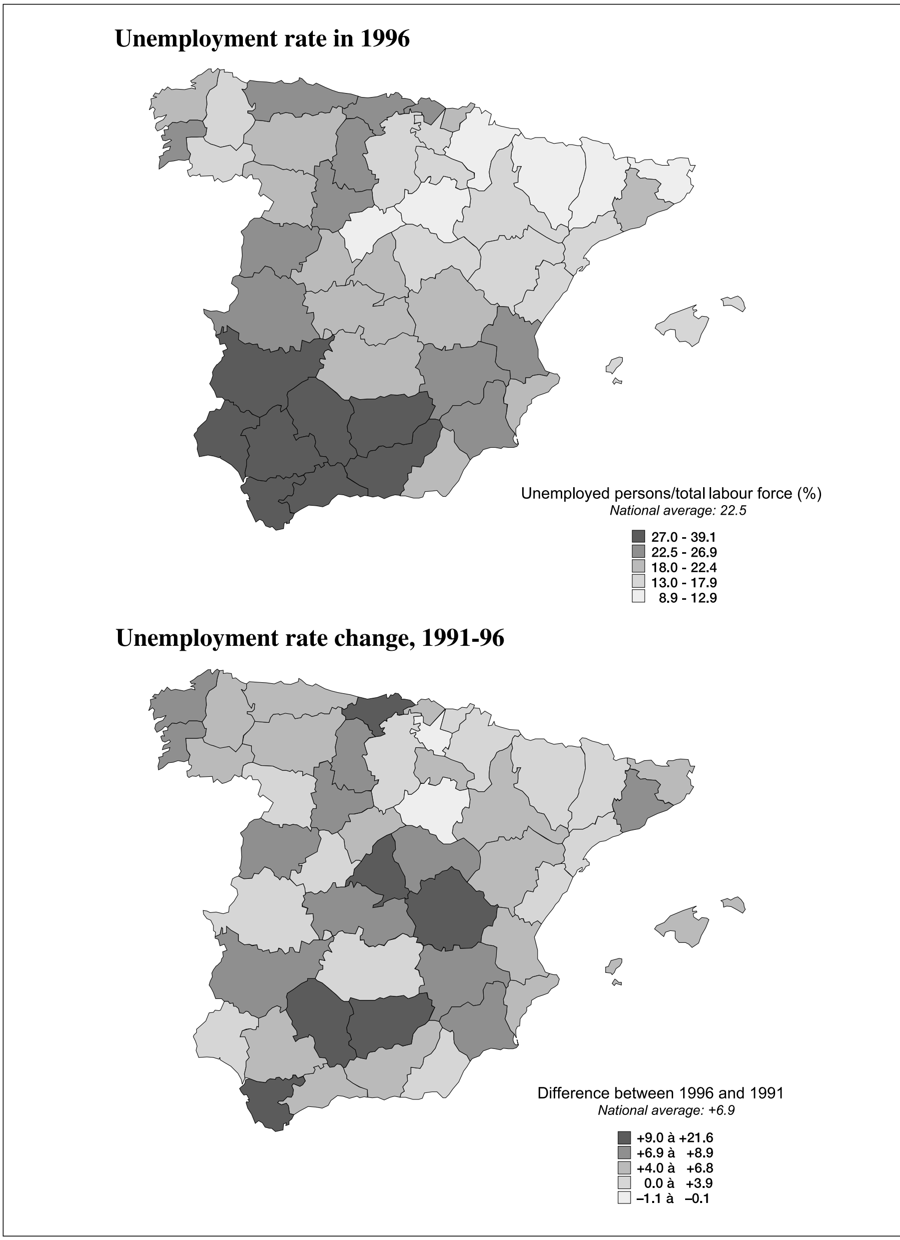
	1991	1998	Δ 1991-98
Valencianas Central Districts	13.1	10.2	-2.9
Valencian Community	14.1	12.8	-1.3
Spain	16	20.6*	4.6

* In 1997.

Source: Consellería d'Ocupació, Industria i Comerço (Ministry of Employment, Industry and Trade).

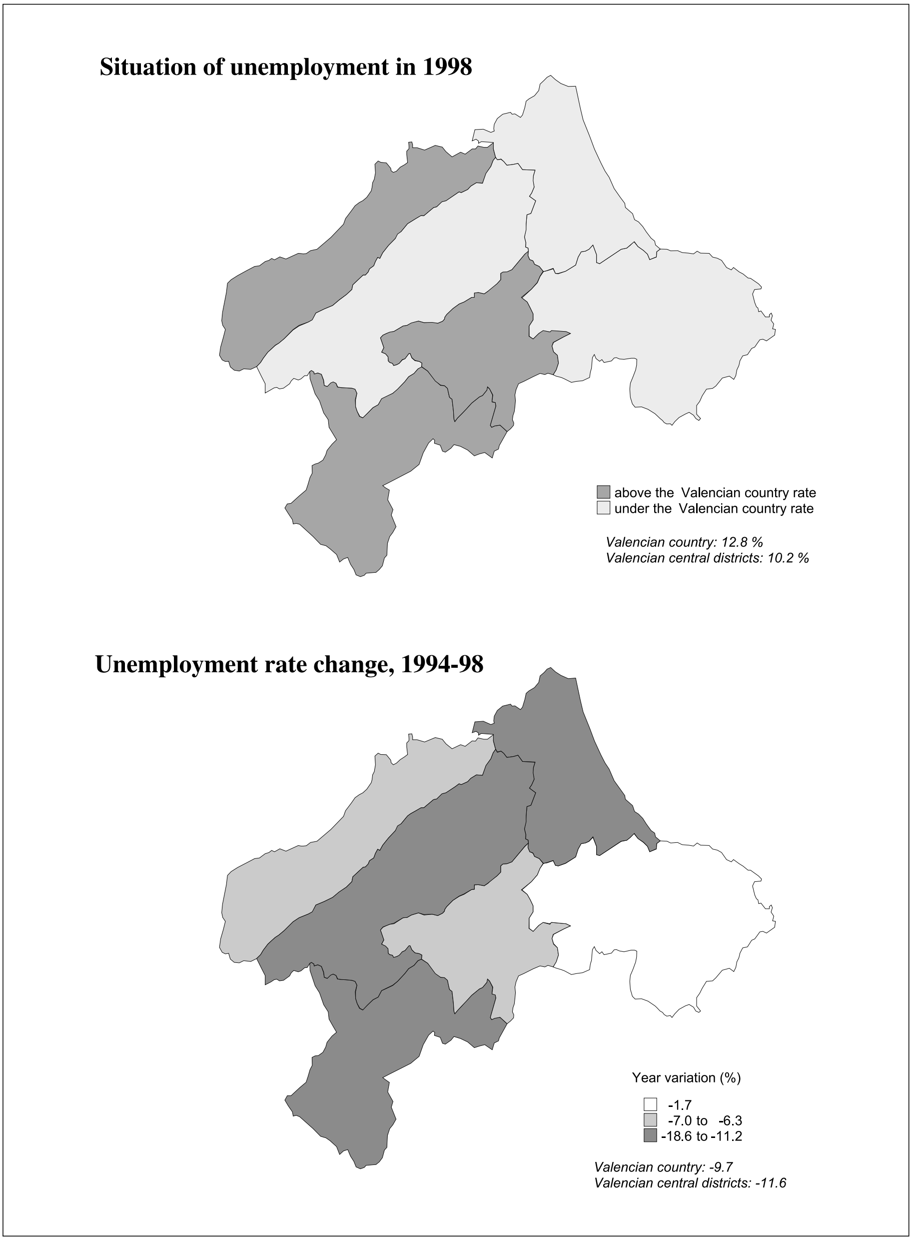
Working conditions and level of wages in the Central Districts do not differ within the area and are similar to those of the neighbouring districts of the Valencian Community. One problem specific to the CCV is the precariousness of employment, due to the high number of seasonal, temporary and part-time jobs (especially related to tourism and the processing of oranges in the coastal areas). Changes in labour legislation during the last few years have worsened this situation. Precarious jobs have increased from 10-12 per cent in the period 1978-82 to the current 45 per cent (well above the national average). This problem is nevertheless mitigated by the fact that the seasonal periods in different economic sectors are not coincident, thus permitting a certain complementarity.

Figure 12. **Unemployment rate and change, 1991-1996**



Source: OECD/TDS - Territorial Data Base, 1999.

Figure 13. **Unemployment in CCV**



Source: Ministry of Employment, Industry and Trade.

3.2. Economic activities and their spatial distribution

The rate of employed people in the industrial sector is higher than in the Valencian Country and the rest of Spain (Figure 14). Agriculture is also an important part of the economy in the Valencian Central Districts (Table 6). In 1995, 43.3 per cent of land was dedicated to crops.[6] Provision of services in Central Districts is not as developed as in the total Valencian Community or as in Spain, even if the touristic sector is very developed in the coastal districts.

Figure 14. **Sectoral employment structure, 1991**

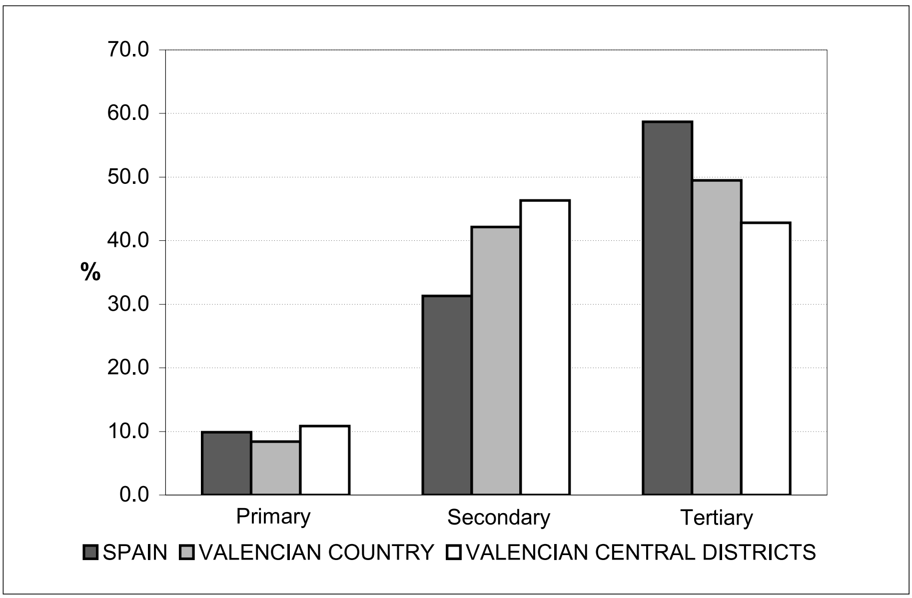


Table 6. **Distribution of employees according to economic activities, 1991**

%

	Total	Agriculture	Mining industries	Manufactures	Electric energy products	Construction	Trade	Other Services
Valencian Country	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Valencian Central Districts	13.2	17.0	8.8	14.2	9.7	15.7	13.2	10.1
Valencian Central Districts	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Inland Central Districts	52.8	32.5	39.4	78.3	49.3	38.4	38.5	47.4
Coastal Central Districts	47.2	67.5	60.6	21.7	50.8	61.6	61.5	52.6
Costera	12.3	12.1	13.9	14.7	11.6	9.5	10.7	12.1
Vall d'Albaida	15.6	13.2	13.2	25.8	17.4	10.6	8.3	11.6
Safor	27.0	48.3	47.2	14.3	27.3	28.2	32.0	29.7
Comtat	20.3	2.9	8.4	31.9	16.6	13.4	16.2	19.9
Alcoià	20.3	2.9	8.4	31.9	16.6	13.4	16.2	19.9
Marina Alta	20.2	19.2	13.4	7.4	23.4	33.4	29.4	22.9

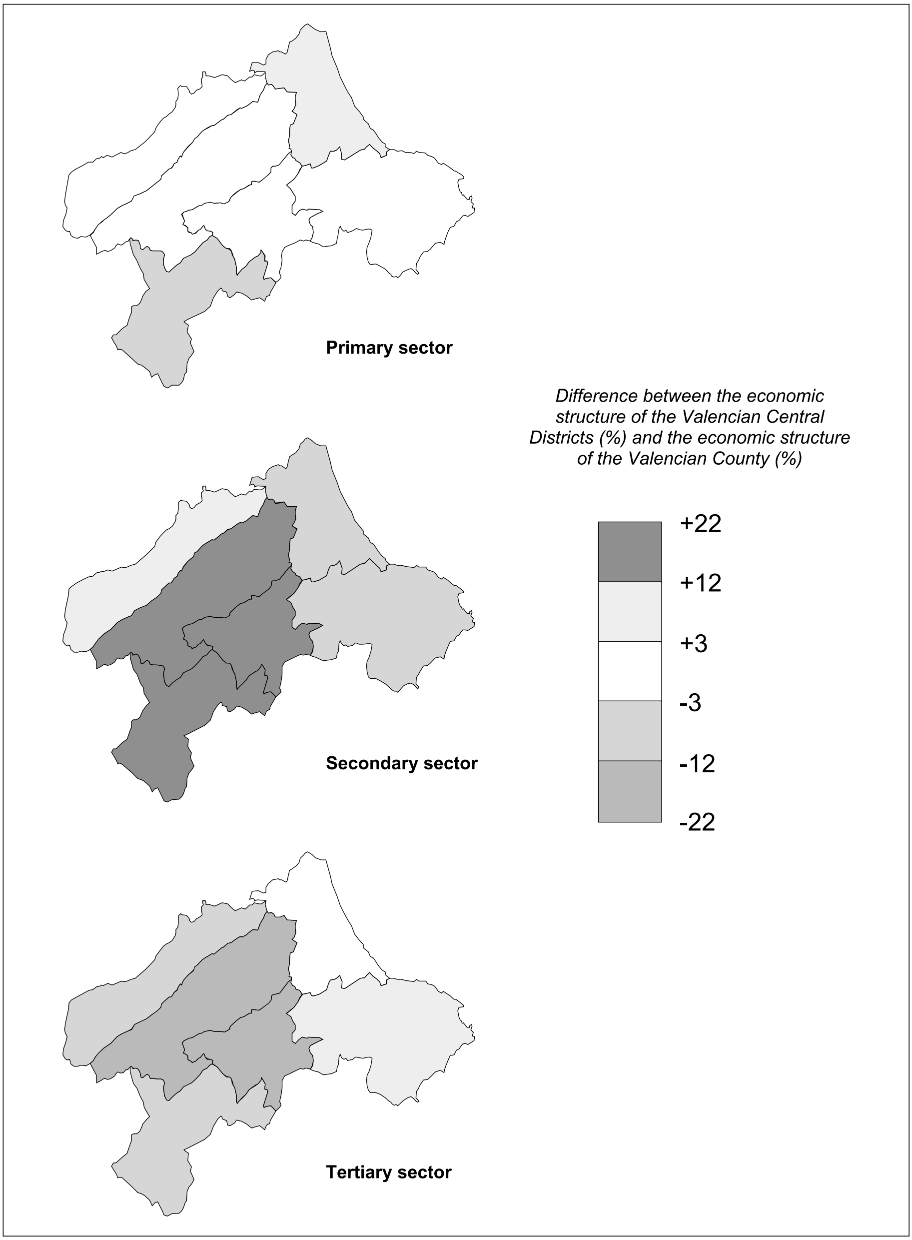
Source: Census 1991.

The Valencian Central Districts do not however represent one single labour market. Their territory is segmented into several local markets, where employment and residents are organised around the main urban nuclei.[7] The sub-division between the areas around the cities of Alcoy and Gandia corresponds to that of the economic structure:

– an inland territory highly specialised in industrial activity (45% of employed in 1991);
– a coastal area with a high development of services (56% of employment) and construction (16%), connected to the tourist industry (Figure 15).

A further division exists between irrigated agricultural activity of the littoral area (where most of the crops are citrus fruits) and an unirrigated and less developed inland territory (where most of the surface is dedicated to olive and fruit trees) (Table 7). Another three towns, Ontinyent (34 199 inhabitants), Dénia (33 809), and Xàtiva (28 924), act as commercial centres for the provision of services and supplies to the population.

Figure 15. **Territorial economic structure in CCV, 1991**



Source: Census 1991.

One of the most important features of the Central Districts compared to the regional context is their relative equilibrium between territory on one hand and population and activities on the other. In fact, in the last five years, the CCV (14.4% of the Valencian regional surface), have had a concentration of 13 per cent of the total population, 11 per cent of industrial investment and almost 15 per cent of secondary and tertiary establishments. As said, this relative equilibrium is exceptional within the broader regional context, where the main metropolitan area has a concentration of 33 per cent of the population in 2.7 per cent of the territory (while inland districts, 40 per cent of the regional territory, only accommodate 3.5 per cent of the population).

Table 7. **Surface of land using sprinkler irrigation or trickle irrigation in CCV, 1992**

	Hectares	% on V.C.	% on V.C.D
Valencian Country	16 160	100.0	0.0
Valencian Central Districts	3 175	19.7	100.0
Inland Central Districts	1 082	6.7	34.1
Coastal Central Districts	2 093	13.0	65.9
Costera	176	1.1	5.5
Vall d'Albaida	107	0.7	3.4
Safor	1 353	8.4	42.6
Comtat	381	2.4	12.0
Alcoià	418	2.6	13.2
Marina Alta	740	4.6	23.3

Source: IVE, 1992.

Notes

1. The airport of Alicante had, in 1998, 4.9 million passengers (77% of international traffic), and the airport of Valencia had 1.9 million passengers (26% of international traffic).

2. Less than one hour to Valencia with trains running every 15-30 minutes.

3. There are only four trains a day with a journey time of 73 minutes (compared to 45 minutes by road). After many years of constant reduction in the number of passengers, improvements were agreed by RENFE and the regional government in 1998. This has stabilised the number of passengers at 10 000 a month. This level of traffic is very low and endangers the future continuity of the line.

4. Seven daily services with a journey time of 137 minutes (Dénia-Alicante), compared to 50 minutes by highway.

5. The tunnel of Olleria (C-3316), recently constructed, has improved the accessibility of Vall d'Albaida (connecting it to Costera) but it did not affect Alcoià and Comtat, separated by the mountain pass of Albaida (N-340).

6. With a predominance of irrigated crops (68% of the land).

7. (Gandia, Alcoy, Xàtiva, Moixent, Tavernes de la Valldigna, Ontinyent, l'Olleria, Banyeres, Ibi, Castalla and Dénia). Commuting flows between different districts exist, the most important being from Marina Alta and Costera to Safor, mainly directed to the construction sector.

Chapter 2

The economy in the CCV

1. Industry

1.1. Main characteristics

1. *An industrial specialisation mainly oriented towards manufacturing industries*: Approximately one third of the CCV workforce is employed in the manufacturing industries compared to less than 30 per cent in the Valencian Community. The main specialisation sectors are, in order of importance, textile and clothing, food, drinks and tobacco, wood and furniture, non-metallic mineral products, toys and metallic products (Table 8). The most relevant manufacturing activities are the textile, clothing, and toy industries. Employment in textile and clothing in the Central Districts accounts for 40.1 per cent of employment in the same field in the whole Valencian Community (6.8% in Spain), while the toy industry in the Central Districts accounts for 72 per cent of the regional employment in the sector (45.4% in Spain).

2. *An industrial structure mainly dominated by small and medium-sized enterprises*: Small enterprises (less than 20 employees) make up 88.1 per cent of the total but account for only 35.01 per cent of employment. Medium-sized establishments (20 to 99 employees) make up 10.51 per cent of the total and 36.31 per cent of employment. Finally, establishments with more than 100 employees make up 1.41 per cent of the total but account for 28.71 per cent of employment.

3. *A clear territorial specialisation between sectors of activity*:

– Manufacturing industry is mainly concentrated in inland districts (Costera, Vall d'Albaida, Comtat and Alcoià). These Districts have a long-standing tradition of industrialisation in traditional sectors of consumer goods. On the other hand, the coastal area is more geared towards provision of services and construction connected to the tourist industry (Table 9).

Table 8. **Specialisation of the Valencian Central Districts**

	Total	Energy	Wate	Steel Industry	Non-metallic minerals	Non-metallic mineral products	Metallic Products	Chemical Industry	Machinery & equipment	Electric and Electronic materials	Transportation Materials	Food, Drinks, Tobacco	Textiles & Clothing Industry	Shoes & Leather	Wood & Furniture	Paper & graphic arts	Rubber & Plastic	Toys	Other industries
Valencian Country	100.0	0.5	0.3	0.3	0.6	7.0	2.3	11.3	2.4	1.1	1.1	20.5	11.9	8.3	19.3	5.5	4.1	1.2	2.51
Valencian Central Districts	100.0	0.5	0.4	0.1	0.3	5.5	1.8	9.8	1.8	0.5	0.8	18.9	27.0	1.6	15.4	5.1	4.1	5.0	1.2
Inland Central Districts	100.0	0.3	0.1	0.1	0.2	3.6	1.8	8.7	2.2	0.4	0.4	13.6	35.9	0.9	12.7	5.6	4.7	7.1	0.9
Coastal Central Districts	100.0	0.9	1.0	0.0	0.6	9.6	1.8	11.0	0.9	0.6	1.7	30.4	7.2	3.2	21.4	4.0	2.9	0.4	1.7
Comtat	100.0	1.0	0.0	0.0	0.0	3.2	0.0	5.4	2.9	0.0	0.0	16.6	47.9	0.0	9.3	6.7	2.2	1.3	1.0
Alcoià	100.0	0.0	0.2	0.3	0.0	1.7	1.2	0.0	3.3	0.4	0.3	8.1	37.3	0.5	7.2	5.7	5.4	15.7	1.3
Marina Alta	100.0	2.0	1.2	0.0	0.0	8.1	1.2	0.0	0.5	0.0	1.9	24.5	10.2	5.7	22.6	3.6	2.9	0.9	1.2
Costera	100.0	0.7	0.0	0.0	0.0	5.6	2.2	9.2	1.1	0.5	1.8	21.2	15.8	2.3	30.2	6.1	1.8	0.0	0.0
Vall d'Albaida	100.0	0.3	0.0	0.0	0.6	5.5	3.0	5.1	1.0	0.6	0.0	16.6	42.2	1.1	11.6	4.7	6.3	0.0	0.9
Safor	100.0	0.0	0.8	0.0	1.0	10.9	2.3	9.8	1.3	1.0	1.7	35.3	4.7	1.1	20.3	4.3	2.8	0.0	2.2
Employed																			
Valencian Country	100.0	2.1	0.4	1.6	1.5	11.3	3.3	9.0	2.9	1.2	5.0	18.0	12.9	7.0	12.3	4.0	5.0	1.6	1.1
Valencian Central Districts	100.0	1.0	0.4	0.2	0.4	7.6	1.6	7.2	1.9	0.4	1.0	13.3	33.2	3.0	12.1	4.3	4.3	7.4	0.7
Inland Central Districts	100.0	1.1	0.4	0.2	0.2	5.4	1.5	6.5	2.1	0.3	0.7	5.5	43.6	3.0	9.1	4.4	5.3	9.9	0.7
Coastal Central Districts	100.0	0.7	0.5	0.1	1.0	13.6	1.9	9.1	1.1	0.8	1.8	34.1	5.1	3.0	20.3	4.0	1.5	0.5	0.7
Comtat	100.0	0.4	0.0	0.0	0.9	3.9	1.1	2.7	3.1	0.1	0.1	4.1	64.7	0.1	6.7	9.0	1.2	1.0	1.0
Alcoià	100.0	0.3	0.1	0.6	0.0	1.3	1.7	10.2	4.7	0.6	1.3	6.0	28.8	0.4	2.6	0.4	7.1	26.4	0.9
Marina Alta	100.0	1.9	1.1	0.1	0.8	10.5	1.1	8.4	1.1	0.1	3.9	31.5	8.6	7.5	15.6	2.9	2.5	1.7	0.8
Costera	100.0	3.8	0.1	0.0	0.1	5.0	1.0	8.5	0.6	0.2	0.8	7.0	30.7	11.3	25.3	4.7	0.6	0.3	0.1
Vall d'Albaida	100.0	0.3	1.1	0.0	0.3	10.1	1.8	2.4	0.4	0.2	0.1	4.4	61.9	0.8	5.1	2.6	7.6	0.2	0.7
Safor	100.0	0.2	0.2	0.1	1.0	15.1	2.3	9.5	1.1	1.1	0.9	35.4	3.5	1.0	22.5	4.6	1.1	0.0	0.7

Source: IVE, Commercial and Industrial Establishments Survey.

– Territorial differences can be observed also in the size of enterprises. The northern districts, in the province of Valencia, have a higher presence of small and medium-sized firms. On the other hand, the southern districts in the province of Alicante have a higher presence of larger firms (Figure 16) specialised in textile and clothing in La Costera; food, wood and furniture industries in La Safor; and textile and non-metallic mineral products industries in Vall d'Albaida.

Table 9. **Distribution of employment according to economic activities in CCV, 1991**

%

	Agriculture	Mining Industries	Manufactures	Elec. Energy products	Construction	Trade	Other Services
Valencian Country	8.4	0.3	29.8	0.8	11.1	20.3	29.3
Valencian Central Districts	10.8	0.2	32.3	0.6	13.2	20.3	22.5
Inland Central Districts	6.7	0.2	47.9	0.6	9.6	14.9	20.2
Coastal Central Districts	15.5	0.3	14.8	0.7	17.3	26.5	25.0
Costera	10.6	0.3	38.5	0.6	10.2	17.7	22.1
Vall d'Albaida	9.1	0.2	53.4	0.7	9.0	10.9	16.6
Safor	19.4	0.4	17.0	0.6	13.8	24.1	24.7
Comtat	10.2	0.2	41.3	0.5	14.0	14.7	19.0
Alcoià	1.5	0.1	50.7	0.5	8.8	16.3	22.1
Marina Alta	10.3	0.2	11.8	0.7	21.9	29.6	25.5

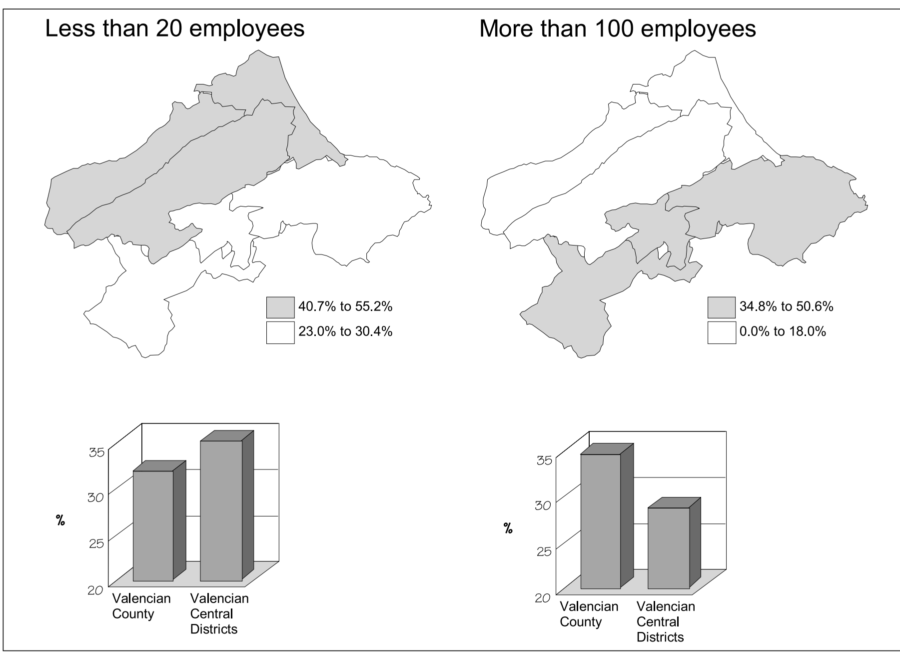
Source: Census 1991.

4. *A concentration of activities organised in a classic cluster structure*:

– In the last two decades, mainly in inland districts, there has been a process of scaling down the size of enterprises, organising production through an increase of sub-contracting (Table 10). In the inland industrial area 53.4 per cent of enterprises declare subcontracting part of their production, and 9.5 per cent think increasing sub-contracting has been one of the main actions of entrepreneurial strategy taken recently that has raised their competitivity. This process has been implemented especially in the textile and toy sectors. One of the principal outcomes has been the creation of inter-enterprise networks at the local or district level (approximately one third of the sub-contracted industries are located in the same area).

– The two most consolidated clusters deal respectively in textile-clothing and toy[8] production. The former includes the territories of Alcoià, Comtat and Vall d'Albaida[9] where the production process is desegregated according to the different phases and where services to industry are mostly located in Alcoy. The latter, more limited from a territorial point of view, is situated in la Foia de Castalla, (a sub-district of Alcoià) and is included in the municipalities of Ibi, Onil, Castalla and Tibi[10]. In this case sub-contracting mainly concerns the fabrication of moulds, pieces and components in plastic and rubber, and metallic products. Co-operation initiatives have also been set up especially for commercialisation at national and international levels. Again, the offer of specific services is mainly concentrated in a single town, Ibi.

Figure 16. **Distribution of number of employees according to size of establishment in CCV, 1991**



Source: Commercial and Industrial Establishments Survey.

Table 10. **Industrial enterprises using subcontractors in CCV**

	A	B	C
All Industrial Sectors			
Total central districts	46.9	8.2	62.1
Inland Districts.	53.4	9.5	65.9
Coastal Districts	32.3	3.2	38.5
Costera	30.0	5.0	30.0
Vall d'Albaida	43.9	22.2	63.6
Safor	16.7	0.0	25.0
Comtat	56.3	6.3	86.7
Alcoià	66.7	12.8	64.9
Marina Alta	53.8	7.7	44.4
All Central Districts			
All sectors	46.9	8.2	62.1
Non-metallic mineral products	25.0	8.3	25.0
Metallic products, machinery and equipment	38.5	0.0	85.7
Food, drinks and tobacco	42.9	7.1	50.0
Textiles and clothing industry	62.3	11.3	64.6
Wood, cork and furniture	34.6	0.0	50.0
Rubber and plastics	50.0	0.0	75.0
Toys	70.0	20.0	100.0

Notes:

A. Percentage of industrial enterprises declaring subcontracting part of the production process.
B. Percentage of enterprises declaring having slightly increased recently subcontracting and that consider subcontracting as one of the main actions of modernisation undertaken.
C. Percentage of enterprises subcontracting within the Central Districts.

5. *A production mainly directed at export*:

– After an initial period of consolidation where regional and national markets were crucial in the 60s, growing exportations have been the trend, following the pattern of the Spanish economy, and they have been intensified since the incorporation of Spain into the European Union in 1986. Nowadays, approximately a quarter of the enterprises in the Central Districts export more than half of their production abroad (Table 11). This proportion is even more important for the textile, the rubber and plastic sectors and especially the toy industry. The most important markets in the early 80s were the Arab countries and the Near East. Today they have been almost completely substituted by the European Union. On the other hand, other sectors, such as the wood and furniture industry, are mainly directed at the national market, while only a few enterprises have a regional market area (*i.e.* food and drinks).

Table 11. **Importance of foreign markets in the industry of the Valencian Central Districts**

	% of enterprises sending more than 50% of production to foreign markets
Valencian Central Districts	23.4
Inland Central Districts	25.2
Coastal Central Districts	16.7
Costera	10.0
Vall d'Alaida	31.7
Safor	27.8
Comtat	25.0
Alcoià	26.3
Marina Alta	0.0
All industrial sectors	23.4
Non-metallic mineral products	25.0
Metallic products, machinery and equipment	7.7
Food, drinks and tobacco	21.4
Textiles and clothing industry	26.0
Wood, cork and furniture	16.0
Rubber and plastics	33.3
Toys	40.0

1.2. Job creation and inward investments

1. Regarding average annual job creation, it can be observed that:

– After quite high employment levels in the late 80s, in the period 1993-1995, the Central Districts were affected by a recession that was more severe than at the regional level. The most negative effects were generally registered in the newly industrialised areas on the coast, while inland districts apparently showed a better performance. Despite recent positive signals, the Districts have not yet been able to catch up with the precedent situation. (Table 12).

– The effects of the recession vary in different areas and some of them are recovering better than others. This is the case for some of the main centres on the coast (such as Gandia and Oliva), certain sub-areas in Alcoià dedicated to the toy industry (*i.e.* Ibi and Onil), part of Comtat, (which benefited from a re-location of enterprises from Alcoy) and Costera (due to its proximity to the area of Valencia).

Table 12. **Evolution of average number of jobs created in manufacturing per year in CCV**

	Yearly average of jobs created: % on Valencian Country			Yearly average of jobs created % on Valencian Central Districts		
	1988-92	1993-95	1996-97	1988-92	1993-95	1996-97
Valencian Country	100.0	100.0	100.0			
Valencian Central Districts	15.7	15.4	15.2	100.0	100.0	100.0
Inland Central Districts	12.5	13.6	12.5	79.5	87.8	82.4
Coastal Central Districts	3.2	1.9	2.7	20.5	12.2	17.6
Costera	2.2	1.1	2.7	13.9	7.4	17.5
Vall d'Albaida	5.5	6.3	4.1	34.9	41.0	27.2
Safor	2.0	1.0	1.8	12.4	6.4	12.2
Comtat	1.0	1.7	2.1	6.4	10.9	13.6
Alcoià	3.8	4.4	3.7	24.2	28.5	24.1
Marina Alta	1.3	0.9	0.8	8.1	5.9	5.4

Source: Consellería d'Ocupació, Industria i Comerço (Ministry of Employment, Industry and Trade).

2. Investment dynamics give a more positive image of the Central Districts:

– Especially of the inland area where the average annual investment during the recession decreased less than that of the region, and where later recuperation is clearer. In fact, in inner districts, where the most consolidated industrial areas are situated, the investment level is now above that existing before the recession, (from 7.5% of regional investment in the period 1988-1992 to 10.4% in 1996-1997).

– In general, parallel evolution of investment and employment shows that industry in the totality of the Central Districts is increasing its intensity of capital, getting closer to the average regional values.

From a sectoral perspective, the overall picture is not uniform:

– Recent job creation in textile and clothing industries is almost 40 per cent of all the industry-generated employment, whereas their proportion over total employment is only one third. Since the late 80s, annual job-creation has been stable for the textile industry and it has increased by 14 per cent for the toy industry; while annual investment in the textile sector has increased (in real terms) by 16 per cent and in the toy sector by 4 per cent.[11]

– Other sectors, that are smaller in volume or less concentrated from a territorial point of view, such as the wood and furniture industry[12] (in Costera and Safor) show a negative evolution (present investment and job creation levels are below a fifth of those registered by the late 80s) or perform poorly in relation to the area average. This is the case for the paper and graphic arts industry, food and drinks industry and non-metallic mineral production.

– Direct foreign investment in Valencian Central Districts is, as in the rest of the Valencian Community, relatively small. The existing foreign investments are usually directed to the metropolitan area of Valencia (*i.e.* Ford Motors) or to the axis Valencia-Castelló, where there are better infrastructures and accessibility. It has concerned mainly the food and drinks sectors, in enterprises located in Safor and Marina Alta, while, in the textile and toy industries some multinationals[13], mainly interested in qualified labour, have set up small co-operation projects in Alcoià.

It seems, therefore, that the recent positive cycle tends to deepen existing sectorial specialisation, increasing hegemony of activities that have already achieved high levels of work concentration, business capacity and know-how.

1.3. Services to enterprises

The following give some explanation for the low level of services directed at enterprises.

1. *There is a lack of demand for advanced services,* despite the fact that almost the totality of enterprises of the CCV hire external assessment services, there is a lack of demand for advanced services (Figure 17):

– Fiscal, labour and accounting services are made use of by 91.4 per cent of firms, and 75.5 per cent hire finance and insurance services. A number of enterprises also require transport services (44.9% for regional, 55.8% for national and 46.3% for international transfers), maintenance of machinery and equipment services (42.5 %) and publicity services (37.4%). On the other hand, the demand decreases considerably for more complex or advanced services such as: training or personnel selection (18.4% of enterprises); rationalisation of production or technological development of products and processes (9.5 and 6.8%); and market research (5.4%).

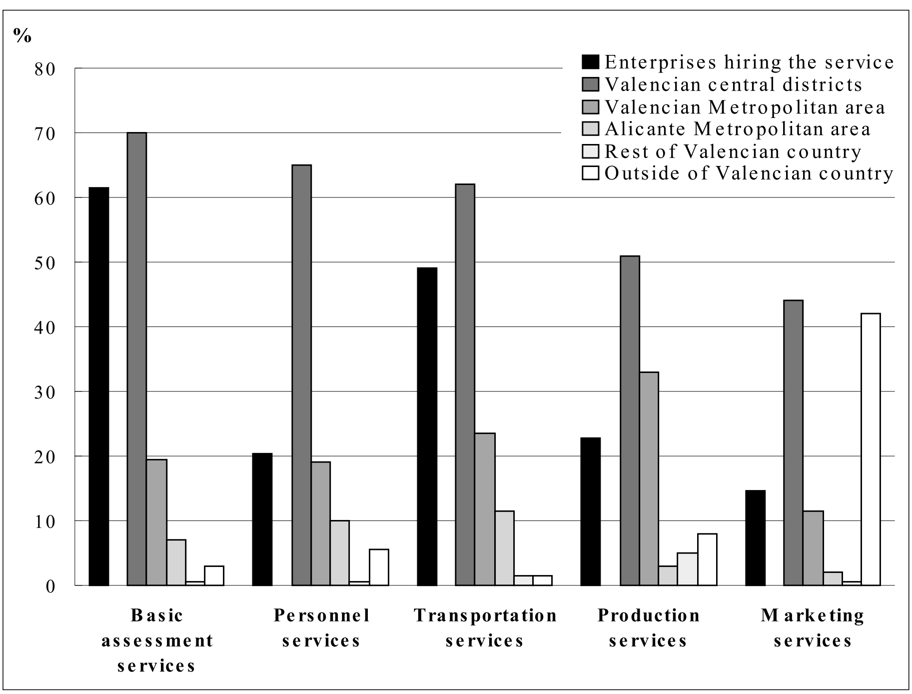
2. There is a lack of services on offer, especially those requiring a higher know-how:

– There is a certain lack of qualified service even at the regional level. This is the case for market research, (hired in 42.9% of the cases outside the region), publicity services (16.9%), rationalisation of work (13.3%), quality control (10.0%) and selection of personnel (9.1%).

– Legal, fiscal, and accounting services or finance and insurance services can be obtained within the Central Districts by only 60.7 per cent and 69.9 per cent of the firms. The phenomenon is more evident when considering services such as selection of personnel (obtained by only 54.5% of enterprises) and technological development of products and processes (36.4%). Slightly better is the situation concerning technological services, due to the presence in the territory of the Textile Technological Institute (AITEX) and Toy Technological Institute (AIJU) used by 51.9 per cent of enterprises.

Figure 17. **Degree of external hiring of advanced services**

According to type of service and location of supplier



3. *There is a lack of coherent territorial organisation in supply of services*:

– In the CCV, the provision of services is organised mainly at district level. Since inter-district contracting relations are almost non-existent, the majority (more than 90%) of enterprises have to hire services outside the Central Districts, in the metropolitan areas of Valencia, for Costera, and in Vall d'Albaida, Safor and Marina Alta, or Alicante, for Marina Alta, Alcoià and Comtat.

– It therefore seems obvious that the lack of supply and the scarce demand at a local (and even at a regional) level are mutually reinforced in order to ensure slow levels of external hiring of advanced services.

2. Agriculture

2.1. Main characteristics

The principal characteristics of the agricultural sector in the Valencian Central Districts are the following.

1. *A territorial specialisation between production systems*: Most of the irrigated surface (86.5%) is concentrated in the coastal area and Costera where most of the crops are citrus and other fruit trees, vineyards, and vegetables. On the other hand, in the mountain districts of Alcoià and Comtat, most of the surface is dedicated to olive and fruit trees in unirrigated land. Vall d'Albaida has an intermediate position. Regarding livestock, cattle is relatively important only in some inland districts (which concentrate 7.6% of the units in the Valencian region) while poultry farming has a relative importance in Vall d'Albaida (15% of the regional poultry farming register).

2. *A significant presence of small size farms*: Except for Alcoià, farms in the Central Districts are smaller than the regional average (88% of farms have less than 5 ha and only 2% more than 10 ha). Fragmentation is especially high in the irrigated areas of Safor (0.8 ha on average and 93% of farms with a spread of less than 5 ha), Marina Alta (1.5 and 88.9%) and Costera (1.8 and 86.9%).

3. *A high rate of part-time agriculture*: Only half of the farmers are employed full-time in agriculture. The rest consider agriculture as a secondary activity. This phenomenon is common in both unirrigated and irrigated areas. The importance of part-time agriculture also explains the existing mechanisation rate which is above the regional average (20.2 machines per 100 ha and 34.4 per 100 farms).

4. *A structure based on farming co-operatives*: Farming co-operatives in the Valencian

region represent 70 per cent of agricultural surface and a market share rising from 40 per cent to 100 per cent depending on the product. In the Central Districts their number represents almost 20 per cent of the total in the region and they are the principal actors for the production and commercialisation of citrus fruits, and for products from olive trees and vineyards etc. which do not take up irrigated land (Table 13).

Table 13. **Farming co-operatives in Valencian Central Districts, 1994**

	Cooperatives	
	Number	% on V.C.
Comtat	26	3.94
Alcoià	9	1.36
Marina Alta	32	4.85
Costera	22	3.33
Vall d'Albaida	26	3.94
Safor	16	2.42
TOTAL Valencian Central Districts	131	19.85
TOTAL Valencian Country	660	100.00

Source: IVE, 1994.

5. *A production mainly geared towards exportation*: Although certain inland products such as olive oil, table grapes and raisins are of relevance to exports, the main export concern comes from irrigated agriculture (oranges in particular) from the coastal areas. The production-commercialisation-transportation chain was the most important aspect of the local economy until the advent of the tourist industry and it still has an important weight in the labour market and on family incomes on the coast. In 1992, commercialisation of food and agriculture products occupied 18.5 per cent of workers in the sector within the whole Valencian region (11.1% in La Safor).

6. *A capacity to adapt to changing markets*: In irrigated areas, recent tendency is the expansion of citrus fruits and the introduction of tropical fruit cultivation. These products have also been extended to the warmest areas in the inland districts as an alternative to declining vineyards[14]. This process is associated, in many cases, with the introduction of new irrigated land, using subterranean waters and techniques such as drip or basin irrigation. On the other hand, in the unirrigated areas of Alcoià and Comtat, the most important process has been the intensification of fruit and olive tree cultivation.

3. Tourism

3.1. Main characteristics

Tourism is an essential part of the whole Central District's economy. Disparities also exist in this sector. A first differentiation can be made between coastal and inland districts; further differences can be made between the northern districts, belonging to the province of Valencia, and the southern districts, belonging to the province of Alicante. Generally speaking, the main characteristics of the sector are the following.

1. *Overall tourist presence is increasing*: In the period 1987-1996, national demand has increased by 60 per cent. However, since the crisis in the early 90s, the tourist industry, mainly on the Valencian coast, has not recuperated its capability of attracting foreign markets (hotel stays have decreased by 25%).
2. *Tourist demand is higher in the coastal areas*: In 1996, the coast of Alicante accounted for more than 63 per cent of all overnight stays in the region, while the Valencian side accounted for only 23.5 per cent. Foreign demand, (mainly from England, Germany and France) was 18 per cent of the total. The Province of Alicante had a larger share (more than 22% on the coast and less than 15% inland) than the province of Valencia (10% on the coast and less than 8% inland). On the contrary, national demand[15] (more than 80% of the total), was more oriented towards the coast of Valencia (92%) than of Alicante (77%).
3. *Tourism is mainly seasonal*: The seasonal tourism rate in the Central Districts is higher than in the rest of the Valencian region. Peak periods are July and August (28% of the total overnight stays). After the summer period, there is a second peak at Easter (8.2%). Moreover, one of the clearest trends during the past years is the reduction in the average length of stay (from one month to one week). This phenomenon especially affects the coastal areas, whereas inland tourist presence is more homogeneous and stable due to the lower specialisation.
4. *Types of tourism change depending on different areas*: In Safor, family national-tourism is predominant (mainly in rented apartments); a smaller presence of younger tourists, also exists (usually staying in campsites). In Marina Alta, tourists are more diverse: there is family tourism but foreign resident and sport tourism (nautical, scuba diving) are more relevant; congress tourism is also quite important. On the other hand, inland districts have mainly short-medium stay regional-tourism; summer tourists (both national and foreign) are usually lodged on the coast and only go inland for day trips or short organised excursions.

5. *Important investments are geared towards housing and real estate activities*: On the coast, most of the income generated in other activities has been invested in the tourist sector. National investments (principally in Safor) have been directed towards holiday apartments and second homes, while international capital (in Marina Alta) has been principally dedicated to real estate activities. In inland districts, the relationship between tourism and other sectors is quite scarce and the development of lodgings, routes and other tourist activities is mainly provided by foreign resources.

6. *Tourist infrastructures are more numerous on the coast*: Due to the predominance of seaside tourism, most infrastructures are located in coastal districts, and mainly in Marina Alta (Figure 18). On the coast, the supply of lodgings is principally concentrated in the areas of Gandia and Dénia. Apartments constitute the main resource but a certain specialisation according to municipalities (*i.e.* hotels in Gandia, campsites in Oliva, etc.) exists. In inland districts on the other hand, the supply of lodgings is quite limited; it is concentrated in the main urban centres and it is more related to business than to tourist activities. In the Central Districts there are also well-organised golf courses and a large number of tracks, picnic areas and trekking routes. While the golf sector is very developed, the rest is not well organised and offers very limited services.

3.2. Natural and cultural assets

The Valencian Central Districts are characterised by a high degree of environmental diversity as a consequence of the different coastal and mountain ecosystems. The most important resource (which characterises the image of the region), is the coastal area where sand beaches are found together with steep areas, a continuation of inland mountain systems. Moreover, the concentration of mountains has acted as a natural frontier favouring the development of a wide range of endemic species, giving the area a high ecological value. Four of the eleven natural parks existing in the Valencian Community are located in the Central Districts, (three on the coast, one inland):

1. The natural park of the Pego-Oliva Marsh, located between Safor and Marina Alta, is an area protected by the Ramsar Agreement. It stretches over approximately 1 000 ha. Despite its international status and the preservation policy undertaken by the regional government, over the last few years many attempts have been made to exploit the area for agricultural and urban use, especially from the municipality of Pego (Marina Alta).

2. The Montgó Natural Park, located between Dénia and Xàbia, is formed by a mountain massif (753 metres high), connected to the coast through a plain

that ends at the St Antoni Cape. The park has a very rich flora. Nevertheless, the pressure from the construction sector is very high as a consequence of demand for residences linked to tourist activity. In the lower parts of the massif there are also some farms.

3. The Natural Park of Penyal d'Ifach is situated in Calp and consists of a calcareous mass of 332 metres high that reaches into the sea. Besides the beauty of the cliffs, the protected 45 ha. have a very important plant and vegetal singularity as well as archaeological remains.

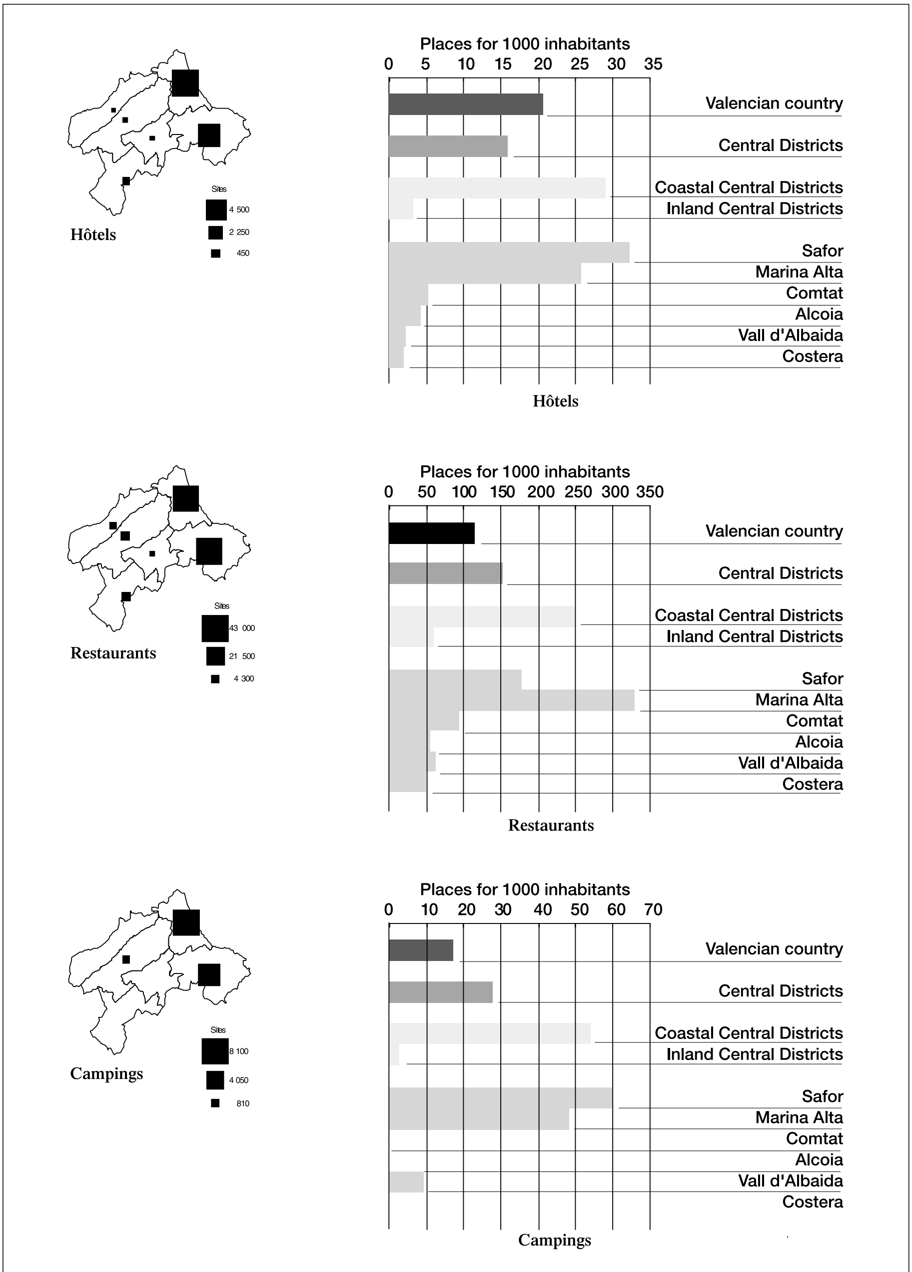
4. The Natural Park of Carrascar de la Font Roja is one of the few examples of an inland-protected area. The park is located between Alcoy and Ibi in the Menejador Mountains. It has a rich fauna and one of the last and most important examples of Mediterranean oak and holm oak forests. In Pozos and Cavas de Nieve there are also archaeological remains. Its conservation from exploitation has only been possible because of its difficult and steep terrain.

Other valuable natural areas[15] exist, but they are not protected due to strong opposition from the local population and councils and are being affected by intense human exploitation.

The Central Districts also have a rich variety of other attractions, notably:

– *Cultural and archaeological heritage.* There are 22 museums, abundant civil, military and religious architecture, and prehistoric paintings.
– *Folklore.* Historical and popular representations (such as Moors and Christians) are very numerous and constitute a strong attraction mainly for national and regional tourists.

Figure 18. **Tourist infrastructures in Valencian Central Districts, 1995**



Notes

8. The only large enterprise in the area is FAMOSA (Fábricas Asociadas de Muñecas de Onil Sociedad Anónima).
9. We can distinguish two further sub-areas: on one hand, Alcoià and Comtat, a single functional area, and on the other hand, Vall d'Albaida, with its local dynamics.
10. Foia de Castalla is an administrative area of 393.27 km^2 and 37 000 inhabitants. This sub-district, based on toy and subcontracting industries, has shown different trends compared to the rest of Alcoià, which is mainly orientated towards the textile sector. In fact, the population of Foia de Castalla is slightly increasing (over 0.6%,), in contrast with the negative trend of Alcoià as a whole (–2.03%). Moreover, the migratory flows in Foia de Castalla are positive. The unemployment rate decreased by 46% in the period 1995-1999 and the working population in the industrial sector represented 58% of the total in 1991. It is important to point out that the first technological institute established in the Valencian Community, AIJU, is located in this area.
11. Moreover, it seems that these two sectors are following divergent courses. The process of intensification in the use of capital is at a more advanced stage for the textile and clothing sectors, where there has been an investment per job created of 3.5 million pta. in the period 1988-92, and 4.4 million pta in 1996-97. On the contrary, the toy industry, much more work-intensive, has the opposite evolution (from 2.7 to 2.5 million pta per job created).
12. Such as the English Cortadauls Textiles or the German Shäfer Shop.
13. The reduction of vineyards has been influenced, from the mid-80s, by both regional (Experimental Plan of restructuring and rationalisation of vineyards) and EU policies (incentives to the abandonment of vineyards).
14. Mainly composed of tourists from the Valencian Community (44.5%) and Madrid (23.1%), followed by Catalonia (9.3%), and the two Castilles (4.5%).
15. Such as the Xeresa Marsh, in Safor and the Serra de Mariola, north of Alcoy.

Chapter 3

Strengths and weaknesses of the economy in the CCV

1. Industry and services to enterprises

1.1. Strengths

Comparative advantages that allow the maintenance (and the expansion) of industrial activities are principally to be found as a consequence of their spatial concentration and cluster structure and mainly in the textile and toy sectors. Main strengths of the CCV industrial sector can be summarised as follow:

– A high local entrepreneur capacity and enterprise flexibility allowing adaptation to new ways of organising production and commercialisation of products according to markets.

– A clear understanding of the importance of human capital. In order to maintain the necessary level of innovation it is important to obtain qualified labour through theoretical training and apprenticeship.

– The presence of the Textile Technological Institute (AITEX), and the Toy Technological Institute (AIJU), that act as centres of expertise and provide training, playing a key role in the modernisation of industrial activity and in stimulating innovation. The textile association (ATEVAL) also provides occupational and continuous training, and co-ordination to textile industries.

1.2. Obstacles to development

The industries of the Central Districts, and especially toy and textile sectors, are making a great effort to adapt to an environment characterised by increasing globalisation and higher competition levels. Pressure is put on these sectors by newly industrialised countries, especially from Southeast Asia. Thus, local enterprises are being forced to start a process of modernisation and changes in production practices as well as having to focus more and more on design, quality and differentiation of the products.[16] In this process, some obstacles could be identified:

– Some functions, especially those regarding technological development and commercialisation of products, can not be developed in an efficient way by each single enterprise due to the small size of enterprises. While horizontal co-operation networks are being set up only by the toy industry, in other sectors the common practice of vertical sub-contracting remains, and companies' general attitudes are mainly focused on competition (rather than on co-operation).
– Local supply of advanced services is scarce in both qualitative and quantitative terms, thus restraining the competitiveness of local products on international markets.
– A problem of accessibility persists in the Central Districts, particularly in the inland industrial area, despite recent amelioration.
– Quality basic infrastructures for industrial development are also relatively scarce. This is the case, for example, in energy, electric and water supply.
– Finally, there is a certain lack of quality industrial areas, (especially in Alcoy) and of a co-ordinated land use planning above municipal level.
– Problems of toxic or dangerous industrial waste exist (especially dyeing and pigments on the textile sector, preservatives in the wood sector, or industrial oils in all the sectors). Industrial waste treatment in the region is still rare and very often these substances are discharged into the urban water treatment nets that, obviously, are not adequate for their treatment.

2. Agriculture

2.1. Strengths

Co-operatives and other specialised organisations have an important social impact on the local communities and have been an engine for aggregation, modernisation and job creation.

– Co-operatives in particular have implemented collective action and strategies related to production, collection and commercialisation of products and have permitted diversification of risks (regrouping different seasonal products and operating in different markets). They have also been promoters of innovation and transformation in agricultural practices providing financial support to farmers through bank loans and guaranteeing the commercialisation of production. One of the main successes has been the introduction of new irrigation systems.
– Also important are Agricultural Service Extension Agencies (*Agencias del Servicio de Extensión Agraria*). They are dependent on the regional government and are specialised in the provision of services related to: exploitation tech-

niques; introduction of innovation; promotion and distribution of products; assessment and training activities. These agencies constitute a dense net situated in the most important district and sub-district centres.

2.2. Obstacles to development

Some of the problems affecting the agricultural sector in the Central District are quite common to traditional agricultural areas. Others are more related to local characteristics. Generally speaking they can be summarised as follow.

1. *Lack of qualified labour*: Farmers lack education and technical qualifications. Only 0.78 per cent of the labour force has some kind of qualification and 30 per cent of the employed in the sector are illiterate (this rate goes up to 43% in inland districts). The average for the whole CCV population is 10 per cent.
2. *Ageing of farmers*: Farmers in the Central Districts have a high average age (49% of the workers are 55 years old or over — slightly above the regional average). Age is even higher in the most productive areas, especially in Safor and Marina Alta (Table 14). This limits long-term projects and makes introducing innovations and new practices difficult.

Table 14. **Percentage of farmers of 65 years old and over, 1989**

	%
Comtat	19.7
Alcoià	18.3
Marina Alta	24.0
Costera	21.8
Vall d'Albaida	16.8
Safor	27.9
Inland Central Districts	19.3
Coastal Central Districts	26.2

Source: Agriculture Register, 1989.

3. *Lack of environmental care*: The most important environmental problems are related to the use of fertilisers and pesticides[17] and to irrigation practices. In the Central Districts, the concern related to the use of water is particularly relevant due to the conformation of the land, the distribution and the type of sectoral activities. The excessive use of irrigation waters, (due to traditional

techniques and out-dated infrastructures) is drying up resources (with negative effects also on the tourism industry). Over-exploitation of subterranean wells is also causing the intrusion of salt waters and a consequent loss of quality due to salinisation. Although the newly introduced crops require low water consumption, the adaptation process is very slow. In 1992, according to local experts' estimations, four to five per cent of all irrigated surfaces were using drip irrigation methods. Moreover, the process of expansion of cultivated land is having a serious impact on the landscape[18] and is intensifying the process of deforestation, started in the 70s. Olive oil mills (in Vall d'Albaida, Comtat and Safor) generate important quantities of solid and liquid waste in the process of olive crushing and, in some districts (such as Vall d'Albaida), cattle raising is generating problems of organic waste.

Moreover:

– Co-operatives have high financial costs that increase the general costs and reduce competitiveness. Moreover, the general concentration of demand in large distribution organisations has caused a certain marginalisation of the local products.
– The predominance of small-holdings and part-time agriculture does not favour the gathering of national and EU grants.
– The specialisation of the coastal area in crude products for direct use has prevented the development of food and agriculture manufactures[19]. Also, a decrease in consumption of fresh products is forcing producers to look for new markets and/or to reorient the production.
– The lack of a unified brand or label, or a guarantee of origin and quality for the commercialisation of oranges (which is the most important and appreciated local product) is threatening their international commercialisation. The only products with a guarantee of origin and quality are cherries from Mountain of Alicante and recently, white muscatel wines. El CEDER-Aitana thanks to the LEADER II programme is now commercialising olive oils with the name of Mountain of Alicante.

3. Tourism

3.1. Strengths

– Tourism on the coast is highly developed and well connected to national and international circuits. At a national level, the Valencian coast is well appreciated (Gandia especially is considered as "the beach of Madrid"). The coast of Alicante is linked more strongly to international tourism, especially through foreign enterprises that control part of the sector.

– The tourist expansion has favoured, through demand, the development of the construction sector and associated industrial activities (furniture, wood, metallic products and construction materials, etc.), and services (food trade and retailers, etc.).
– The seasonal nature of the agriculture and tourist sectors has permitted the existence of a complementarily labour market. In fact, mainly young people and women complement their income working both in agriculture and tourism-related activities. This has lowered the precariousness of employment, but has had indirect negative effects with regard to the professionalism and qualifications of the labour force.

3.2. Obstacles to development

The particular tourist structure and type of accommodation offered has promoted the seasonal nature of tourist demand and has favoured the image of highly urbanised holiday zones, specialised in mass low quality tourism. Moreover, these areas are characterised by the highest humidity and rain levels of the Valencian littoral area and this fact has been detrimental to the possibilities of changing the seasonal nature of the tourist demand through the promotion of third-age winter tourism.

– Cultural and archaeological resources are, in general, not greatly exploited. The main problems regard: mismanagement between different administrations (that has caused restriction to development and a considerable deterioration of sites due to conflicting policies).
– Lack of co-ordinated promotion policies, of information centres and of qualified interpreters. Moreover the lack of a vertebrate network of offices and tourist information points causes a dependency on existing infrastructures on the coast, making a clear touristic characterisation of inner districts difficult.
– There is a low ability to exploit the environmental attractiveness of the area. Even when there is a clear possibility of developing specific eco-tourism policies (*i.e.* natural parks) strategies to attract visitors are mainly focused on "sun and beaches".
– Consolidated activities, such as agriculture or mass tourism, put excessive pressure on the environment, not allowing the development of quality. Solid urban waste generation has reached a high and will increase in future years, especially in coastal districts as a consequence of tourist pressure. Processing plants are scarce and often they do not guarantee appropriate treatment. Dumping is the more frequent practice. Wastewater is often poured directly into the sea, through submarine pipes.

– The difficulty of road and train communication and a deficient road signalling between the littoral area and inland in the CCV makes the development of rural tourism extremely difficult.

Notes

16. They have brought product and process innovations, new business management practices, new concern about quality and certification of products and processes, and a shift from low price/quality products to higher price/quality.

17. The Ministry of Agriculture is encouraging farmers to implement what is called "integrated agriculture", a practice in between traditional and biological agriculture. It consists of reducing the environmental impact through the reduction of nitrogenous fertilisers and the use of less aggressive fertilisers and pesticides. Few farmers are responding because it is considered of low profitability.

18. An example is the marsh area of Pego-Oliva. Internationally protected as a Ramsar area, new crops are being introduced by farmers from Pego. Only very recently, water pumps used for rice cultivation have been closed.

19. The existing enterprises are forced to obtain oranges or to import them in concentrated form from neighbouring areas.

Chapter 4

Social capital

1. Development organisations

In the Central Districts there is a large number of very active organisations. However their limited decision-making power, limited financial resources, legal restrictions and conflicts on territorial competencies, have often prevented the implementation and co-ordination of development activities.

Several townhalls have promoted the creation of consultative or co-operation councils among different economic, social and institutional actors. Some examples include:

- The Social and Economic Council of Gandia (created in 1994 and composed of trade associations, trade unions, cultural associations and enterprises).
- The Social and Economic Council of Ontinyent (composed of the more representative local economic and social actors).
- The Council for Economy and Promotion of Alcoy (created in 1998 and composed of enterprises, unions, educational institutes and the local government).
- The Social and Economic Council of Ibi (created in 1998 and composed of the trade association, IBIAE, the director of the high school of the municipality, the unions, the technological institute, APROIBI, and political parties represented in the municipality).

The Chamber of Commerce and Industry of Alcoy, and two branches of the Chamber of Commerce of Valencia, in Gandia and Ontinyent, also provide services to enterprises[20] and act as consultative and co-operation bodies for public administrations. Other very important and active organisations are APROIBI (Asociación de Promoción Económica de Ibi)[21], CREAMA (Consorcio para la Recuperación Económica y de la Actividad de la Marina Alta, located in Dénia[22]), CSI (Centro de Servicios Integrales) in Gandia, ADEXA (Asociación de Empresarios de Xàtiva) and ATEVAL (the Textile Association that offers entrepreneurial information, training courses, organises international fairs, etc. located in the CCV).

In July 1996, the Investment Society of the Central Districts (*Societat d'Inversions de les Comarques Centrals Valencianes*) was created (by entrepreneurs mainly from Alcoià, Comtat and Vall d'Albaida) to promote and support business initiatives that could not be implemented by single enterprises because of the high level of technology, investments or risk required. Its objective is to promote economic development and industrial diversification in the Central Districts maintaining most of the generated added value in the area. Projects undertaken (or under study) concern the optic fibre sector, natural gas provision, trade, and the management of several municipal services in Ibi and Alcoy.

Finally, another two organisations have been created to manage European Union rural development initiatives:

– The Centro de Desarrollo Rural (CEDER) Aitana, located in Cocentaina, in charge of the LEADER programme in the province of Alicante;
– The Asociación para el Desarrollo y Diversificación de la Economía Rural (ADDER) in Vall d'Albaida, located in Ontinyent.

2. Trade associations and unions

Trade and business associations are quite numerous[23] but generally their action is limited to their specific sector. These associations provide negotiating power, legal and administrative services, training courses, information on financing, organisation of events, etc. The bigger associations are often structured at provincial level[24], rarely at district level. A federation of trade associations at Central Districts level has been created in order to permit a more efficient exchange of information and services and, above all, to increase lobbying power in the European Union and the regional government.

The most important trade unions in the CCV are the Unión Sindical de Comisiones Obreras (CCOO) and the Unión General de Trabajadores (UGT). Both are structured at district level, and are present in all the Districts' main towns (Gandia, Alcoy, Dénia, Xàtiva, Ontinyent, etc.). Their involvement or co-operation with other associations or institutions is quite limited. Apart from their own specific activities, trade unions provide consultancy activities and a relevant part of the supply of occupational and continuous training through FOREM (Fundación Formación y Empleo, created by CCOO), IFES (Instituto Formación y Empleo, created by UGT) and ATEVAL.

3. Voluntary organisations

The most important and active voluntary organisations in the Central Districts are ecologist associations in Gandia and in Alcoy. These associations try to keep a certain control of the territory and to assess the environmental impact of proposed development projects. For example, the Samaruc group denounced in March 1999 the existence of non-controlled dumping in the marsh of Pego-Oliva and the group La Carrasca took several actions to defend the natural park of Serra de Mariola. These groups have also opposed the construction of part of the coast-inland highway to protect the area of El Morquí.

4. Job agencies

The National Institute of Employment Agencies (INEM) has traditionally covered this role in the Central Districts.[25] INEM was lacking as a job agency since it was mainly dedicated to the management of unemployment benefits. Recently INEM tasks have been transferred to the regional government, which is planning the creation of a Valencian Institute of Employment. Currently, the most important job agency in the Valencian Community is the Fundació Servei Valencià d'Ocupació, created in November 1995 on the initiative of the regional government and integrated due to the participation of trade organisations and trade unions.[26] There are also a large number of temporary job agencies.

5. Educational, technological, professional and service institutes

5.1. Technological and service institutes

Inland industrial districts have traditionally been very attentive to the needs of improving labour skills and spreading technological innovation. For this purpose, two technological institutes (AITEX and AIJU) were created during the mid-eighties to serve, respectively, the textile and the toy sector. AITEX is located in Alcoy and has a technical unit in Ontinyent; AIJU is located in Ibi. Situated, in both cases, in the core of the main industrial areas their aim is to promote technological development and enterprise modernisation. They receive help from the Valencian Government, through IMPIVA (Institute for Small and Medium Valencian Industries), and they are organised as a trade association. Both institutes have become a reference for the firms in the sectors due to their high degree of integration in the enterprise fabric. The services they offer are various: analysis and testing of materials and products, certification and endorsement of products and processes, quality control, training and qualification of labour, support for commercialisation, technological development of products and creation of enterprise networks.

Also important is the European Centre of Enterprises and Innovation (CEEI), created by the regional government and located in Alcoy. It is a non-lucrative association (member of the European network of CEEIs), which participates in regional and several local administration bodies and in several economic, financial and business associations. Its objectives are the creation of new enterprises and the diversification of existing ones. Services offered include orientation and basic knowledge support, technological and financial assessment (in co-operation with the Technological Institutes), and administrative services.

Finally, similar in scope, the Centre of Integral Services to Enterprises, (created by the Townhall of Gandia and financed by European funds) has the objective of supporting and promoting the creation of new enterprises, (especially those with an innovative character) and new activities.

5.2. Education institute

In the Central Districts there are two University Schools: the *Escola Politècnica Superior* of Alcoy[27] (Technical Industrial Engineering) and the *Escola Universitària* of Gandia[28], branches of the *Universidad Politécnica* of Valencia. Two other Schools are going to be created in Xàtiva (dependent on the *Universidad Politécnica* of Valencia) and in Ontinyent, the *Escola Universitària d'Empresarials* (dependent on the *Universitat de València-Estudi General*). Recently, the *Universidad Politécnica* of Valencia decided to create, in Alcoy, a degree in Textile Design with the support and resources of the School, AITEX and the local enterprises. Distance learning university centres (UNED) also exist in Gandia, Dénia and Ontinyent. Historically, there have been strong relationships between educational institutions and social and economic agents[29] and their environment, but mainly at a district or local level.

5.3. Professional training institutes

The availability of "initial" training is mainly concentrated in the main cities of the Central Districts, (Gandia, Xàtiva, Alcoy and Ontinyent).[30] Both the number of centres and the number of students are below regional average. On the other hand, the availability of "continuous" training is more dispersed (but a wider choice is available in larger centres)[31] and it has subject to a considerable growth during the 90s[32]. The most important centres of training in the CCV are the Centre of Tourism for Professional Qualification "Marina Alta", located in Dénia, and the Centre of Tourist Development "Alqueria del Duc", in Gandia. They are dedicated to continuous and occupational training in the hotel and catering sector and they co-operate with hotel and catering associations in the area offering specialised manpower for temporary jobs. Since 1993, the ATEVAL training centre offers continuous training services for enterprises belonging to the textile sector.

Notes

20. Business information, supply of training courses, assessment in the creation of enterprises and international trade, organisation of international fairs, sub-contracting, etc.

21. APROIBI is a local development agency. It is an administrative organ that is dependent on the Ibi Townhall, and aims at economic development. The Townhall of Ibi designates its employees and the people in charge of the Administration Council. Its funds come from the Townhall budget and also from other public administrations.

22. And also in Ondara, Benissa, Calp and Xàbia.

23. Confederación de Empresarios de la Vall d'Albaida (COEVAL), located in Ontinyent; DATO Asociación, located in Alcoy; Asociación de Empresarios de Ibi (IBIAE); Asociación de Empresarios de Xàtiva (ADEXA); Asociación de Empresarios de la Safor (AES) and Círculo de Economía de la Safor, both located in Gandia; Asociación de Empresarios de Benissa; Asociación de Empresarios de Onil (ONILAE); Asociación Textil (ATEVAL); etc.

24. For example the Confederación de Empresarios de la provincia de Alicante (Confederation of Businessmen of the province of Alicante).

25. With offices in Gandia, Xàtiva, Ontinyent, Alcoy, Ibi and Dénia. It is interesting to note that this territorial division does not correspond to the traditional district structure, nor to functional local market areas.

26. During 1998, the Foundation had 8 000 enterprises and had 150 000 workers registered.

27. The School of Alcoy (1 265 students in 1995-96), incorporated into the Universidad Politécnica in 1989, has expanded its range of degrees from one in Textile Engineering to degrees in Mechanics, Electricity, Industrial Chemistry and Industrial Electronics. In 1993 a degree in Telecommunications was included and in 1995 the range widened, as a result of the Ley de Reforma Universitaria (University Reform Law), with degrees in Industrial Design and Industrial Organisation.

28. The Escola Universitària of Gandia (490 students in 1995-96) was created in 1993, offering two new degrees: Technical Engineering in Forest Exploitations, and Technical Engineering in Image and Sound. In 1995 the range included a Technical Engineering in Telecommunications, and in 1998 a degree in Tourism.

29. The Escola Politècnica of Alcoy was established more than a century ago as a professional training centre for the textile industry. The Escola Universitària of Gandia was also created to train professionals according to local productive needs.

30. The most requested courses are Administration, Trade and Sanitary, followed by Electronics, Automation and Metal. Others, such as Textile or Wood are specific to the areas of Alcoy and Ontinyent (the former) and Gandia (the latter).

31. Alcoy, Dénia, Gandia, Ontinyent and Xàtiva, followed by Dénia and Canals.

32. The most requested training concerns Services to Enterprises, Administration, Trade, Hotel and Catering, and Tourism.

Chapter 5

CCV institutional context and current territorial policies

1. Multilevel governance and partnerships

Excluding the European Union and the Spanish government, the principal institutions concerned with planning and promotion of economic activities in the Central Districts are:

– *The government of the Valencian Autonomous Community*. It creates regional development plans, decides on investments and infrastructures and manages EU grants through the Operative Programme of the Valencian Community.

– *Provinces.* The territory of the Central Districts is shared between the province of Alicante and the province of Valencia. The province acts in two ways: on one hand, as a local entity, the provincial government is competent in the co-ordination of municipal services, the assistance and juridical co-operation to town councils and the provision of supra-municipal services; on the other hand, the province, representing the government of Madrid, is the basic state and regional administrative unit and therefore concentrates on political and institutional functions.

– *Municipalities.* They are competent, according to legislation for "promoting all sorts of activities and providing as many services as needed to contribute to satisfying the needs and aspirations of the neighbouring community".[33] This means that local Councils are allowed to implement all sorts of activities[34] aimed at the development of their community. This wide range of important functions is however restrained by municipalities' reduced financial and technical possibilities.

Outside the classic institutional hierarchy, there are other important administrative bodies.

– *Mancomunitats de Municipis* (Associations of Municipalities). In the Central Districts there are 12 *Mancomunitats.*[35] Grouping different municipalities (according to various needs), their scope is the provision and co-ordination of obligatory services (such as waste collection and treatment, water supply and sewer systems[36], social and cultural services, etc.), or of services requiring a certain critical mass in order to be effective or profitable. Some of them also implement local development projects.

Moreover, from the mid-90s, there have been several initiatives directed at establishing co-operation between the different public institutions and economic and social associations of the Central Districts in order to overcome the administrative divisions of the area. The principal purpose was to establish synergies to overcome the situation of relative political marginalisation from the major metropolitan areas of the region, (Valencia and Alicante) and to reach a certain critical mass in order to better react to the new economic dynamics brought about by the ongoing process of globalisation.

At the end of 1997, the European Union (DG XVI) approved a grant to develop the CONCERCOST project (Co-ordination, integrated management, and sustainable development in coastal zones), within the TERRA programme (destined to co-finance pilot projects of co-operation and territorial management in specific areas). The authority responsible for the project is the association of municipalities of Costera-Canal and is integrated by the municipalities of Alcoy, Cocentaina, Dénia, Gandia, Ibi, Oliva, Ontinyent, Tavernes de la Valldigna and Xàtiva, and by the *Mancomunitats* of Safor and Vall d'Albaida. The objectives of the project are to:

1. Establish a model of integrated management between the economic and social sectors of activities and different territorial levels of government in the CCV; and
2. Apply mechanisms of integrated management and exchange of information through:
   - Integrated Territorial Action Plans (aimed at achieving social cohesion and sustainable economic development);
   - Establishment of networks (to overcome localisms and to enhance co-operation, complementarity and territorial specialisation among the municipalities involved).

In February 1999, a larger entity, the Consortium of the Net of Cities of the Valencian Central Districts (composed of all the above-mentioned municipalities and associations) was constituted with the following objectives:

- Favour social cohesion, balanced and sustainable economic growth and cultural promotion of the Valencian Central Districts through actions and programmes established by its directing organs.
- Promote the territorial and functional integration of the Valencian Central Districts through the elaboration and implementation of actions in respect to current legislation.

2. Economic development policies

The Valencian Community is considered an Objective 1 region of the European Union, and as such has been receiving funding from the EU since 1989. These grants are mainly directed at supporting the industrial sector and rural development through LEADER and PRODER Programmes.

2.1. Industrial policies

Policies developed by the regional government, and implemented through IMPIVA, have been twofold. They have promoted the creation of a network of support services for innovation and enterprise modernisation (this has permitted the creation of the technological institutes, AITEX and AIJU, and the European Centre of Enterprises and Innovation of Alcoy). On the other hand, IMPIVA has maintained a series of programmes directed at supporting innovative projects by enterprises, through grants to cover part of the investment needed. The industrial policy developed by the regional government has favoured the industries of the Central Districts. Table 15 shows that inland Central Districts, (especially the areas specialised in textile and toy industry of Alcoià, Comtat and Vall d'Albaida), receive proportionally more grants than correspond to their industrial weight in the area.

Table 15. **Grants of IMPIVA to innovative enterprise projects in CCV, 1985-94**

	Grant (1985-94)		Industrial Employment	Index of co-operation of the grants
	Million Ptas.	%	(%)	
Valencian Country	17 133	100.0	100.0	1.00
Valencian Central Districts	3 759	21.9	15.6	1.41
Inland Central Districts	3 156	18.4	11.3	1.63
Coastal Central Districts	603	3.5	4.2	0.83
Costera	302	1.8	2.6	0.67
Vall d'Albaida	953	5.6	3.9	1.43
Safor	456	2.7	2.9	0.93
Comtat	361	2.1	1.0	2.20
Alcoià	1 540	9.0	3.9	2.32
Marina Alta	146	0.9	1.3	0.63

Source: IMPVIA, Generalitat Valenciana.

2.2. Rural development

The first phase of the LEADER programme developed in Mountain (Alicante) in the period 1992-95 was mainly focused on support to rural tourism[37] (Tables 16 and 17). The second phase of the programme, started in 1996 (Table 18), incorporated three new areas in the Valencian Community, two affecting the CCV, including respectively, municipalities of the Districts of Costera and Vall d'Albaida.

Table 16. **Programme LEADER I: Distribution of agreed investments in CCV, 1992-95**

(%)

Action	Spain	Valencia country	Mountain
1. Technical support to development	1.98	0.86	0.67
2. Professional training-help to employment	3.94	0.77	1.25
3. Support to rural tourism	51.19	74.03	81.59
4. Support to SME, craft and local services	20.33	17.34	5.71
5. Appreciation and commercialisation of local agricultural products	16.17	2.87	4.02
6. Others actions (cultural promotion, support to associations, etc.)	2.03	1.29	3.24
7. Equipment and groups	4.36	2.85	3.52
TOTAL in absolute value (Million PTA)	64 092.49	4 481.95	1 790.69
Average investment per program (Million PTA)	1 232.5	1 494	..

The PRODER Programme covers the entire district of Vall d'Albaida (34 municipalities, 721.6 km², and 78 626 inhabitants) and focuses mainly on technical support and financing activities.

It concerns:

– renovation and development of population nuclei with predominance of rural activity (FEOGA-Orientation);
– renovation and development of population nuclei without rural activity (FEDER);
– promotion of agro-tourism (FEOGA-Orientation);
– promotion of local tourism (FEDER);
– support to small enterprises, craft and service activities (FEDER);
– services to enterprises in rural areas (FEOGA-Orientation);
– improvement of agricultural and forest surfaces (FEOGA-Orientation).

Table 17. **Leader Montaña in Valencian Central Districts: Origin of funding, 1992-95**

	Total investment			European Union			Valencian government			Private investment		
	Fore-seen (A)	Agreed (B)	B/A (%)	Fore-seen (A)	Agreed (B)	B/A (%)	Fore-seen (A)	Agreed (B)	B/A (%)	Fore-seen (A)	Agreed (B)	B/A (%)
1. Technical support to development	10.79	12.058	11.8	6.5	7.235	11.3	4.29	4.823	12.4	0.0	0.00	0.00
2. Professional training-help to employment	20.02	22.211	10.9	11.96	13.269	10.9	8.06	8.942	10.9	0.00	0.00	0.00
3. Support to rural tourism	976.95	1461.064	49.6	369.33	446.809	21	197.6	22.808	-88.5	410.02	991.447	141.8
4. Support to Small and Medium Enterprises, Craft and local services	37.83	102.348	170.5	16.9	18.619	10.2	7.02	0.000	0.0	13.91	83.729	501.9
5. Appreciation and Commercialisation of local agriculture products	21.45	71.969	235.5	7.54	7.935	5.2	1.95	0.000	0.0	11.96	64.034	435.4
6. Other actions (cultural promotion, support to associations, etc.)	29.25	57.968	98.2	15.34	16.994	10.8	1.95	0.000	0.0	11.96	40.974	242.6
7. Equipment and groups	56.81	63.076	11.0	37.57	41.682	10.9	19.24	21.394	11.2	0.00	0.00	0.0
TOTAL (million Ptas)	1153.1	1 790.693		465.14	552.542	18.8	240.11	57.967	-75.9	447.85	1 180.18	163.5

Source: P. Esparcia-Noguera, 1995.

2.3. Agricultural development

Due to the different territorial characteristics it is necessary to distinguish between policies directed at unirrigated agricultural areas and those concerning irrigated agriculture. Regarding unirrigated crops, the main strategy currently implemented is diversification of production.[38] However, foreseeable policies include:

- Introduction of alternative cultivation (*i.e.* cereals and sunflowers).
- Improvement of production techniques in profitable traditional crops.[39]
- Extension of the presence of co-operatives in unirrigated areas (where they are less numerous).
- Exploitation of environmental grants (*i.e.* through the conversion of non-profitable agricultural terrain into forest).

Regarding irrigated crops, the main strategies implemented are:

- Improvement in the quality of products (through innovations in fertilisers, phytosanitary treatments, etc.) and create a quality image to facilitate their commercialisation.
- Adaptation of the variety of products to the requirement of the markets.
- Increase in the use in traditional irrigated land of water-saving irrigating techniques (drip irrigation, localised irrigation, micro-aspersion, use of residual waters).

2.4. Environmental policies

At the moment in the Central Districts, there are no co-ordinated specific policies directed at a sustainable exploitation of local environmental resources or at creation of eco-industry (despite the fact that some sectors such as eco-tourism or marketing of natural cosmetics and medicinal herbs, can represent an important source of development). The most important initiatives have been developed by the towns of Alcoy and Gandia, both committed to the elaboration of a local Agenda 21. The City Council of Alcoy has developed a pilot project called "*Ecodesarrollo*" (Eco-development) aimed at creating job opportunities for young and students in the "green" sector.[40] Gandia, on its side, has been developing studies to diminish the harmful aspects of development (mainly regarding noise pollution and the management of marsh areas) and to improve its urban environment for tourism (Tourist Excellency Plan).

3. Spatial development policies

As Objective 1 region of the European Union, the Valencian Community also receives funding to support the creation of infrastructures. The most important projects concern the Valencia-Cartagena gas pipeline[41] and transport communications.

3.1. Communication policies

The regional government (in co-operation with the European Union, the national government and the provincial governments), has developed action plans in order to improve the regional communication network.

Roads

In addition to roadwork undertaken with the First Road Plan of the Valencian Community (1988-1993), other ongoing improvements set up by the Second Road Plan (1995-2002) include the construction of the Central Highway and its connection to Safor.[42] These projects have recently been restarted after a long delay as a consequence of budgetary restrictions.

Railways

Local administrations are promoting the extension of the Valencia-Gandia (RENFE) line to the city of Dénia (passing through other coastal municipalities). The increasing number of travellers using the line Valencia-Gandia (5 million during 1998) and the additional demand that this extension would generate have caused positive reactions from private enterprises, the Ministry of Promotion and the regional government.

Telecommunications

A regional government plan, IRTA (in co-operation with private enterprises and partially funded by FEDER) has given a new impulse to the expansion of standard and digital telephone lines in the region. The prevision is to attain 43 lines per 100 inhabitants (with a level of digitalisation for the entire Valencian Community of 64.5%) by the end of 1999. However, it seems that the real evolution will be slower.

3.2. Rehabilitation of historic centres

After the approval of the General Plan of Urban Arrangement in 1989 by the regional government, the main examples of urban rehabilitation policy have been implemented in Alcoy and Gandia.

The city of Alcoy set up a plan to rehabilitate its historic centre and to create new green areas in its periphery. The plan also included the improvement of basic infrastructures. Regarding the regeneration of the city centre, five projects on restricted areas were selected. Of all the projects only one is finished (*Barri de la Sang*, with about 150 new houses to be either sold or rented to young couples and university students). Despite efforts, the process of depopulation and commercial degradation in the city centre has not stopped. On the other hand, the construction of peripheral gardens has improved quality of life in the areas concerned. Also the rehabilitation of old industrial buildings (built at the beginning of the century) has been successful (now they host the Polytechnic School and other public and private activities).

Moreover, the city of Gandia set up an Urban Renovation Plan for its historical centre, in the period 1990-94. The project included: rehabilitation of the area and construction of houses, shops and hotels; improvement of roads and outdoor facilities; creation of pedestrian zones and a programme of reintroduction of traditional trade in the historic centre. Overall the project has been successful and private investments and commercial activities in the area have increased. Renovation of degraded urban areas continues today in El Raval (an old Arab site), and in the historic centres of Benipeixcar and Beniopa (today part of Gandia).

Notes

33. Law 7/85, Bases de Régimen Local, Art. 25.

34. Regarding for example: urban planning, heritage, environment, health and social services, social exclusion, cultural and sport activities or facilities, education, etc.

35. The most important as number of associated and functions, are Mancomunitat de la Vall d'Albaida (34 municipalities, 81 012 inhabitants and 721 km^2), Mancomunitat de La Safor (31 municipalities, 136 681 inhabitants and 428 km^2), and Mancomunitat de La Costera-Canal (14 municipalities, 56 177 inhabitants and 544 km^2).

36. In municipalities of less than 5 000 inhabitants.

37. The programme involved an investment of over 1 800 million pta., including 45 municipalities, 1 043 km^2, and 35 614 inhabitants.

38. This should in fact diminish the risks related to low consumption, saturation of markets and global competition.

39. *I.e.* reconstruct or introduce new varieties of vine, introduce more profitable olive collection and treatment, etc.

40. Creation of an enterprise specialised in eco-maintenance and eco-tourism, in order to answer local demand.

41. This project guarantees the gas supply to the enterprises. The total length of the stretch is 205 km., and has two sections: Paterna-Ontinyent (92 km) and Ontinyent-Callosa de Segura (113 km.). Its total cost is 60.690 million ECU. The Community funds 39.23 per cent of the total (23.810 million ECU).

42. Converting the North-South inland corridor (between the N-430 and the city of Alicante) and the C-320 into two motorways.

Chapter 6

Benchmarking and best practices: comparison of the CCV with the 7H and Modena regions

The first five chapters of the regional audit provide a detailed overview of the region. They help to single out the assets and liabilities of the Valencia Central Districts and make it possible to assess regional policies and their impact on the area. This essential aspect of a regional review must be complemented by an analysis in which the region is compared with others of the same type. Regional reviews conducted by the Territorial Development Service are unique in that their focus is on such comparative studies. The analysis identifies factors that explain why the region under study grew at a different pace, helps in understanding changes observed in the region, thereby emphasising what sets the region apart from other regions. All comparative studies are aimed at selecting the best possible development strategies and helping civil servants and elected officials to share "successful development practices". The degree to which a comparison is operational and relevant depends on the regions selected for the purpose of the audit.

1. The regions chosen for comparison

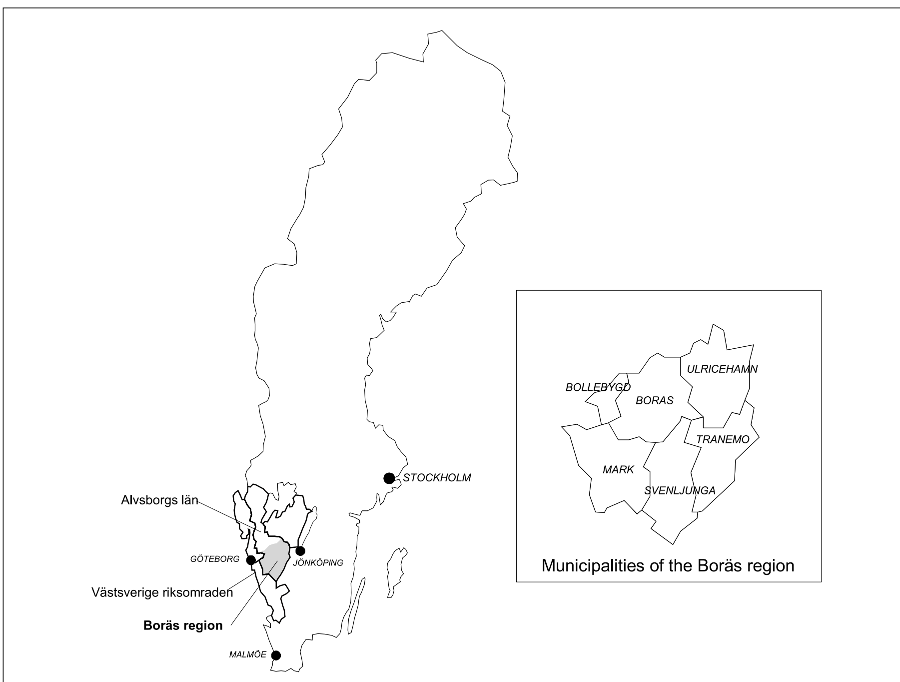
When selecting regions to be used in a comparison it must first be ascertained that their profiles resemble that of the region under examination. A regional profile must provide a simple and objective outline. The data serving as a basis for the comparison must be available in as many countries as possible. This holds true in the case of two indicators, namely the settlement structure and economic patterns.

Based on the above two indicators and according to the OECD typology, the CCV constitute an intermediary region in terms of population concentration, *i.e.* the proportion of the population living in rural municipalities is above 15 per cent but below 50 per cent. In so far as specialised economic activity is concerned, the CCV form an industrialised region. In recent years, TDS has conducted several regional studies in Member countries. Of the regions analysed, two have profiles that correspond to that of the CCV, namely the 7H Region in Sweden and Modena in Italy.

A comparison of the CCV with those two regions entails:

1. Showing that all three regions share common problems.
2. Identifying the specific features of the CCV relative to the other two regions:
   – singling out the liabilities of the CCV in relation to the other two regions;
   – assessing the potential and best performances of the CCV in comparison with the other two regions;
3. Explaining performance differentials between the three regions:
   – assessing the policies implemented by the regions;
   – identifying sound development practices in the regions;
4. Suggesting development strategies for the CCV in the light of the experiences of other regions.

Figure 19. **Location of the 7H Region in Sweden**



Source: OECD/TDS - Territorial Data Base, 1999.

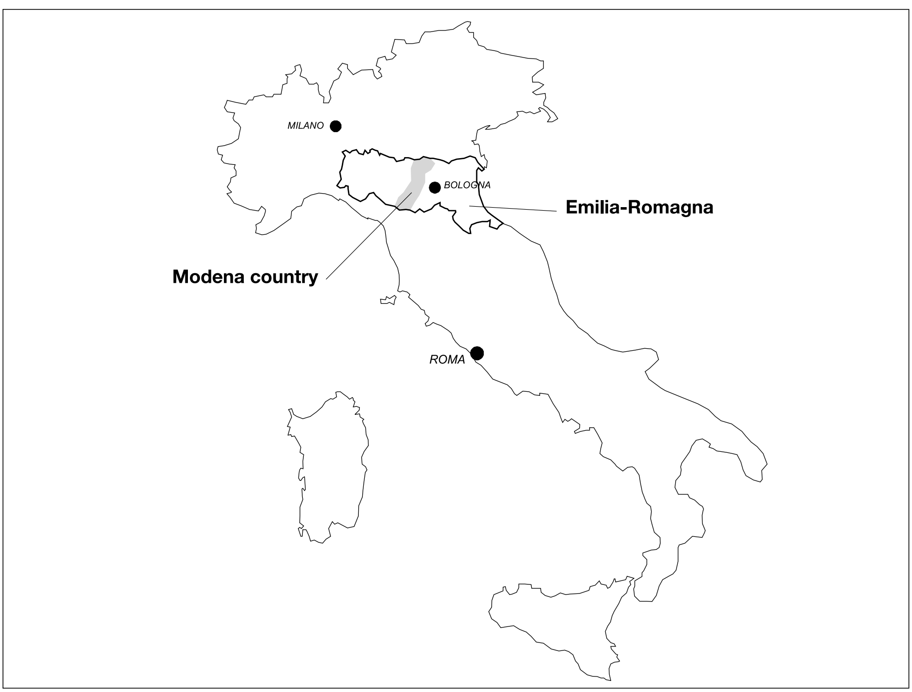
2. The description of the regions

2.1. Administrative structure

The CCV and 7H are not official "regions" in the sense that they do not correspond to an administrative and political subdivision recognised by the central government. We recall that the CCV are a group of municipalities located on both sides of the border separating the provinces (NUTS 3) of Alicante and Valencia, in the Valencia autonomous region (NUTS 2). The 7H Region is located in the Vaestsverige region (NUTS 2) and is part of Alvsborg county (NUTS 3) (Figure 19). Modena, on the other hand, is an Italian province (NUTS 3) and therefore an official entity. It is part of the Emilia-Romagna region (NUTS 2) (Figure 20).

In order to provide an indication of the regional and national environment of the three regions, general statistical data — on the population, employment, unemployment and resources — is included in Annex 2.

Figure 20. **Location of Modena Province in Italy**



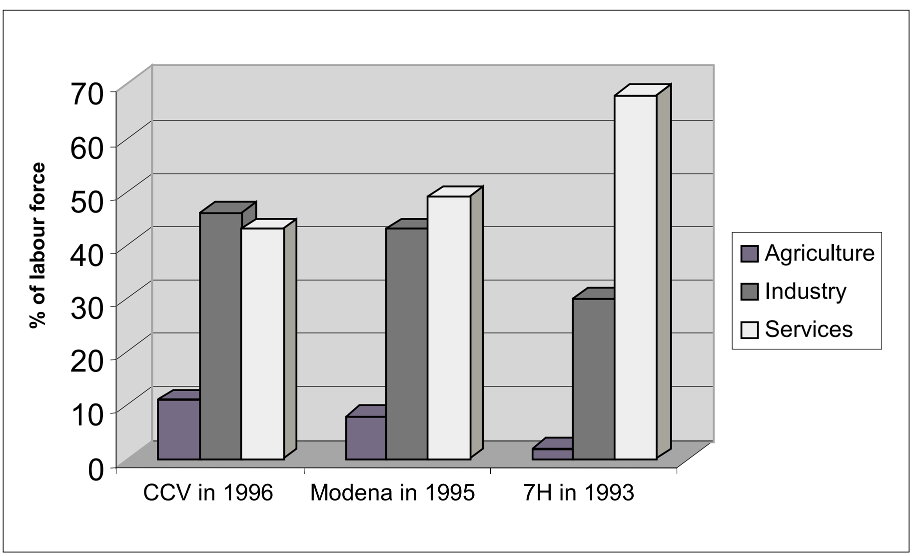
Source: OECD/TDS - Territorial Data Base, 1999.

2.2. The population and economic structure

With populations of less than 600 000 each, the three regions have in common the fact that they do not include a major metropolis and that their urban systems are polycentric, consisting of small and medium-sized towns with a population of no more than 100 000 each (except for the city of Modena). The population density in all three regions is higher than the national average. In addition, they are located close to major metropolitan areas, although they enjoy a certain degree of autonomy and a distinct economic identity.

The three regions also have similar profiles in terms of their economic structure, in particular from the standpoint of industrial specialisation. Their economy is characterised by a degree of industrialisation that is higher than the national average and by a weak service sector (Figure 21). In the 7H Region, some 30 per cent of the local labour force is employed in the manufacturing sector. In the CCV the sector accounts for close to 45 per cent of employment, and in Modena 31 per cent of all jobs are in manufacturing. In terms of industry, all three regions are specialised in textile and clothing. Mechanical engineering also plays a significant role. In addition, the commercial sector is large in the three regions, with the added feature that 7H is becoming a focal point for mail-order distribution in Sweden.

Figure 21. **Structure of the economy**



Source: OECD/TDS - Territorial Database, 1999.

3. CCV: situations and trends comparable to those of the other two regions

3.1. Common assets

1. *Many small and medium-sized firms*: In Modena, there are a considerable number of small businesses that have fewer than 10 employees, resulting in an average of one firm for every 12 or 13 people. In the 7H Region, almost 19 per cent of all employment is provided by firms with fewer than 10 employees and the number of medium-sized firms (10 to 50 employees) is higher than the national average. In the CCV, firms with fewer than 20 employees account for close to 34 per cent of all businesses.
2. *A strong entrepreneurial culture*: Entrepreneurial spirit is evident in all three regions. Although political support varies — in Modena there is a significant programme of assistance to SMEs and SMIs, while more needs to be provided in the 7H and CCV regions — many individuals work free-lance or are self-employed within small, often family-owned firms in the three regions.
3. *Considerable co-operation among firms*: In all three regions firms have been developing connections both within and outside their sector. In the CCV, two districts (or clusters) are well consolidated: they are those of textile and toy manufacturing. SMEs and SMIs set up subcontracting networks, frequently at the local level. In the toy industry, networks are being developed outside the industry to help manufacturers distribute their products nationwide or internationally. In Modena, the economy is structured around industrial activities or districts consisting of a large number of small independent firms linked together by a variety of factors (subcontracting, suppliers, etc.). These networks ultimately add up to the equivalent of a large company operating throughout the region. They combine economies of scale with an unequalled degree of flexibility. In 7H, the situation is mixed. Even though it appears that manufacturing firms are part of a common structure in which they share information, it also seems that, in the textile industry, most large firms perform all stages of manufacturing themselves. Whatever the case may be, it seems that, in all three regions, links between firms are essentially vertical and result from subcontracting practices. Actual horizontal links of a co-operative nature exist but are rare.
4. *A technically skilled workforce:* Because of a strong industrial tradition, the workforce has acquired certain skills and a know-how that gives each region an overall competitive advantage, in particular in textile and clothing.
5. *Quality of life, natural and cultural heritage*: There are extensive natural and cultural amenities in all three regions. In the CCV, the seashore offers significant potential for tourism. Nearby large forests are another asset of the CCV

and 7H Regions. The 7H Region is popular because of its beautiful, far-reaching landscape of lakes and forests. There are outstanding sporting facilities in the immediate vicinity of Modena. In addition, urban cultural heritage is significant in the three regions.

6. *Low unemployment*: In Modena, unemployment averaged less than 7 per cent in 1994, well below the national average for Italy. In the CCV, the 10 per cent rate in 1998 was far less than the national average of 20.6 per cent, or than the average for the Valencia region (12.8%). In the 7H Region, the unemployment rate is near the average for Sweden, and close to 12 per cent in the main city of Borås.

3.2. Common weaknesses

1. *Lack of local territorial co-operation*: A shortage of territorial co-operation is an essential issue for the three regions. Co-operation is lacking at the vertical and horizontal levels, and in both the private and public sectors. The reason for this lies primarily with governance in the three regions. In 7H and the CCV, experts have characterised the manner in which municipalities are run as “individualistic”. In Modena, the problems are reportedly different, with a weak co-operation mainly between the town of Modena and other municipalities of the region. In Modena, at the level of local districts, co-operation among municipalities seems to operate normally.
2. *Weak technology*: The small or medium size of enterprises prevents them from promoting technological development. The “loan gun” approach of the entrepreneurial culture tends to downplay the role of education and management skills, and to discourage the dissemination of innovative technologies. In the 7H Region, however, the situation has reportedly improved with the appearance there of computer firms.
3. *Shortages of highly qualified employees*: The proportion of university graduates is lower in the 7H Region and the CCV than in the two countries as a whole. In Modena, the situation is different, in part thanks to the presence of the University of Modena and its economics department, even though the problem of how to adapt education to the local labour market remains to be solved there. Institutions of higher learning in the three regions emphasise practical scholarship and enjoy a good standing within the business community. However, they are too small to provide the highly educated employees needed by the local economy.
4. *Insufficient links between universities and the labour market*: The university system in the regions is well suited to the needs of general education and the textile industry but falls short in the fields of management, public administration, trade and commerce.

4. CCV: weaknesses compared to 7H and Modena

1. *Lack of access to the CCV*: Even though the region is close to two international airports (Valencia and Alicante), it has poor connections to these facilities. In general, the region does not have good links to rapid ground transport networks. While the northern part of the region, on the Valencia side, is served by the national motorway system and rail transport, the same does not hold true for the southern part of the CCV, on the Alicante side. Internal disparities add to the problems caused by the lack of access. Conversely, both the Modena and the 7H Regions are strategically located and have outstanding road and rail transport systems. The development of the mail-order business in Borås, in 7H, has come about because the region is easily accessible and there is an enduring tradition of salesmanship there.
2. *Inadequate internal transport systems*: The CCV have a twofold problem regarding internal transport. The districts on the Valencia side enjoy better connections than those on the Alicante side, and those near the coast seem to have better transport systems than those located inland. In addition to the differences at infrastructure level, there are problems with the links between the provinces of Valencia and Alicante as well as between the coastal and inland districts.
3. *Shortage of business services*: Because the subcontracting of services plays a key role in enabling businesses to modernise, gain flexibility and innovate, it seems necessary to promote this practice in the CCV. Modena appears to have invested in this field, since business services is the only sector that continued to grow (by 7%) from 1991 to 1994.
4. *Significant internal disparities*: There are two major internal disparities in the CCV. The first is between quite dynamic coastal areas and inland districts. The second concerns the districts located in Valencia province, which have better facilities, as opposed to those in Alicante, where the situation is not as good.

5. CCV: assets compared to 7H and Modena

1. *Setting up a network of European cities:* In order to increase their potential and visibility[43] in terms of Europe and the rest of the world, the CCV have been canvassing support for setting up a network of cities of the same size and with the same economic activities.
2. *Ability to draw funds from the European Union*. The CCV have created a consortium for the purpose of proposing development projects. This has had a positive impact and enabled the region to obtain financial assistance from the European Union.

6. Conclusion

The structure in the three regions resembles that of many non-metropolitan areas, where the juxtaposition of specialised manufacturing and private and public services, commonly found in small urban areas, corresponds to the needs of the community and the country. In this type of region, the trend towards a more diversified economic base renders solutions based on single-industry approaches somewhat risky. From this point of view, the regions are faced with a difficult problem due to the fact that they are at once “ordinary” and diversified. Should policies seek to gradually identify and promote various economic alternatives and, if so, which ones and in what manner? In fact, it may well be that the ability of each region to provide stable jobs, limit unemployment and achieve an above-average degree of prosperity and rate of economic growth depends on its “ordinary” but diversified nature. In that case, measures taken should seek to reinforce that.

However, a scattered approach presents the risk that the region’s comparative advantages may not be clearly singled out or be harnessed inadequately and selectively. The inevitable decline of the public sector as the provider of stable jobs, income and social transfer — combined with intensified global competition in both prices and products — tends to make this risk more acute. Accordingly, the regions will have to make their economies increasingly competitive at the international level in order to have sustained growth, employment and income, while government support gradually declines.

Annex 2

The regional and national contexts of the three regions

Spain

Table 18. **Spain: Territorial indicators of demography, employment and gross domestic product**

Regional units Provincias + Ceuta y Melilla	Number of Provincias	Area km² Regional shares	Population density inh./km²	Percent of rural population	Population 1996 inhabitants regional shares
National	52	504 734	78	30%	39 270 100
Communidad Valenciana	3	23 298	168	15%	3 913 100
Alicante, intermediate provincia	1	5 827	227	17%	1 324 597
Valencia, urban provincias	1	10 809	198	12%	2 136 095
Valencia central district		3 352	162		541 534
Predominantly Rural provincias	19	49%	27	77%	17%
Intermediate provincias	25	44%	82	32%	46%
Predominantly Urban provincias	8	7%	416	6%	37%

Regional units: Provincias + Ceuta y Melilla	Population change (%)	Natural balance1 (%)	Net migration2 (%)	Unemployment, 1996 Unemployment rate[6]		
	1981-96	(%) 1981-96	1981-96	Total	Female	Youth, 1991
National	4.2	5.4	-1.2	23	30	31
Communidad Valenciana	7.3	4.9	2.4	22	29	27
Alicante, intermediate provincia	15.3	7.1	8.2	22	30	25
Valencia, urban provincias	3.4	4.2	-0.8	23	30	31
Valencia central district				10.2*		
Predominantly Rural provincias	-1.0	2.6	-3.6	24	33	33
Intermediate provincias	7.3	5.9	1.4	23	31	33
Predominantly Urban provincias	3.0	6.0	-3.1	22	28	28

* In 1998.

Regional units: Provincias + Ceuta y Melilla	Employment, 1996 Regional shares	Employment Structure, 1996 Agriculture	Industry	Services
National	12 937 600	8	29	62
Communidad Valenciana	1 358 300	6	36	58
Alicante, intermediate provincia	3%	6	30	64
Valencia, urban provincias	6%	6	37	57
Valencia central district	1.5*	11	46	43
Predominantly Rural provincias	16%	18	26	56
Intermediate provincias	45%	10	28	61
Predominantly Urban provincias	40%	2	32	66

* In 1991.

Regional units: Provincias + Ceuta y Melilla	GDP per capita in US$ PPP's of 1990 National=100			Gross Domestic Product Change, 1981=100		Employment Change, 1986=100	
	1981	1991	1996	1991	1996	1991	1996
National	9 096	12 035	12 765	136	146	117	115
Communidad Valenciana	100	99	97	134	143	121	121
Alicante, intermediate provincia	102	93	89	132	141	115	122
Valencia, urban provincias	97	102	100	140	150	126	123
Predominantly Rural provincias	82	79	80	129	136	110	104
Intermediate provincias	98	95	94	136	145	116	113
Predominantly Urban provincias	111	116	117	140	151	121	122

Notes:
Natural balance: Birth rate less Death rate.
Net migration: Population change over 1981-1995 less Natural balance.
Dependency ratio: Population aged 0-14 and over 64 to Population aged 15-64.
Participation rate: Labour Force in percent of Population aged 15-64.
Labour Market Pressure ratio: Population aged 5-14 to Population aged 55-64.
Unemployment rate: Unemployed in percent of Labour Force.

Source: OECD/TDS - Territorial Data Base.

Sweden

Table 19. Sweden: Territorial indicators of demography, employment and gross domestic product

Regional units: Län	Number of Provincias	Area km² Regional shares	Population density inh./km²	Percent of rural population	Population 1996 inhabitants regional shares
National	24	410 929	21	43%	8 834 00
Vaestsverige	4	29 927	59	38%	1 765 500
Aelvsborgs Län	1	11 395	39	55%	449 600
7H Region		5 172	36	57%	185 000
Predominantly Rural Län	17	89%	12	65%	49%
Intermediate Län	6	10%	70	28%	32%
Predominantly Urban Län	1	2%	265	9%	19%

Regional units: Län	Population change (%)	Natural balance1 (%)	Net migration2 (%)	Unemployment, 1995 Unemployment rate[6]		
	(%) 1980-95	1980-95	(%) 1980-95	Total	Female	Youth
National	6.1	1.5	4.6	9	8	20
Vaestsverige	7.8	2.0	5.8	9	9	21
Aelvsborgs Län	5.7	1.6	4.1	9	9	22
7H Region	4*			11**		
Predominantly Rural Län	2.8	0.3	2.5	9	8	21
Intermediate Län	7.8	1.8	6.0	9	8	20
Predominantly Urban Län	12.4	4.0	8.3	7	6	15

* 1985-90

** In 1993

Regional units: Län	Employment, 1995 Regional shares	Employment Structure, 1995			
		Female	Agriculture	Industry	Services
National	4 076 600	48	4	25	70
Vaestsverige	811 700	57	4	30	86
Aelvsborgs Län	187 100	51	4	33	62
7H Region	44 070		3	29	68
Predominantly Rural Län	47%	47	5	29	64
Intermediate Län	31%	48	3	25	70
Predominantly Urban Län	22%	48	1	17	81

Regional units: Län	GDP per capita in US$ PPP's of 1990 National=100		Gross Domestic Product Change, 1990=100	Employment Change 1980=100	
	1990	1995	1995	1990	1995
National	16 957	16 880	102	112	102
Vaestsverige	98	96	100	114	103
Aelvsborgs Län	55	57	105	113	91
Predominantly Rural Län	109	110	102	111	98
Intermediate Län	73	72	101	112	101
Predominantly Urban Län	120	122	105	114	111

Notes:
Natural balance: Birth rate less Death rate.
Net migration: Population change over 1981-1995 less Natural balance.
Dependency ratio: Population aged 0-14 and over 64 to Population aged 15-64.
Participation rate: Labour Force in percent of Population aged 15-64.
Labour Market Pressure ratio: Population aged 5-14 to Population aged 55-64.
Unemployment rate: Unemployed in percent of Labour Force.

Source: OECD/TDS - Territorial Data Base.

Italy

Table 20. **Italy: Territorial indicators of demography, employment and gross domestic product**

Regional units: Provincie	Number of Provincias	Area km² Regional shares	Population density inh./km²	Percent of rural population	Population 1996 inhabitants regional shares
National	103	301 337	190	21%	57 300 700
Emilia-Romagna	9	22 124	177	23%	3 923 500
Modena, Urban Provincie	1	2 689	226	14%	608 800
Predominantly Rural Provincie	20	27%	67	29%	10%
Intermediate Provincie	52	50%	155	56%	41%
Predominantly Urban Provincie	31	22%	422	15%	49%

Regional units: Provincie	Population change (%)	Natural balance1 (%)	Net migration2 (%)	Unemployment, 1995 Unemployment rate[6]		
	(%) 1980-95	1980-95	(%) 1980-95	Total	Female	Youth
National	1.06	0.01	1.05	12	17	34
Emilia-Romagna	0.4	-2.0	2.4	6	10	17
Modena, Urban Provincie	1.6	-1.2	2.9	4	7	10
Predominantly Rural Provincie	1.1	-0.2	1.4	13	20	37
Intermediate Provincie	1.4	0.0	1.4	13	18	37
Predominantly Urban Provincie	0.8	0.1	0.7	11	15	31

Regional units: Län	Employment, 1995 Regional shares	Employment Structure, 1995			
		Female	Agriculture	Industry	Services
National	20 009 630	35	7	32	60
Emilia-Romagna	1 672 154	41	9	35	56
Modena, Urban Provincie	279 330	41	8	43	49
Predominantly Rural Provincie	9%	33	12	28	59
Intermediate Provincie	39%	35	10	30	60
Predominantly Urban Provincie	52%	36	5	35	61

Regional units: Provincias + Ceuta y Melilla	GDP per capita in US$ PPP's of 1990, National=100			Gross Domestic Product , Change1981=100		Employment Change, 1986=100	
	19810	1990	1995	1990	1995	1990	1995
National	13 111	16 257	17 025	125	132	104	98
Emilia-Romagna	17 052	20 167	21 867	117	127	..	..

Notes:
Natural balance: Birth rate less Death rate.
Net migration: Population change over 1981-1995 less Natural balance.
Dependency ratio: Population aged 0-14 and over 64 to Population aged 15-64.
Participation rate: Labour Force in percent of Population aged 15-64.
Labour Market Pressure ratio: Population aged 5-14 to Population aged 55-64.
Unemployment rate: Unemployed in percent of Labour Force.

Source: OECD/TDS - Territorial Data Base.

Part 3

Development strategies and policy recommendations for the Valencian Central Districts***

**. Part III is based on reports written by Ms. D. Mazzonis, Director of ERVET, Mr. H. Blöchliger, BSS Consulting, Mr. J. Cinq-Mars, Director of the OECD Pollution Prevention and Control Division, Mr. Mario Pezzini, Director of the OECD Territorial Reviews Division.

Introduction

In 1997, the Secretary-General highlighted the role the OECD can play in advising governments on ways to maximise the benefits of economic development, whether local, national or global, and, at the same time, in ensuring that economic growth is consistent with global objectives of sustainability.

The obstacles that threaten the achievement of these goals are evident at the sub-national level. International economic integration is increasing the interdependence of nations, thereby modifying (and to some extent weakening) the traditional policy instruments through which governments influence the process of economic and social change, while simultaneously exposing territories to challenges for which they are often ill-prepared. The rate of change itself gives rise to feelings of insecurity as people feel themselves caught up in transformations that make the prospects of the places where they live and work increasingly uncertain.

Top-down, technocratic strategies alone appear unable to generate a reassuring vision of the future on which an overall development strategy can be based. Each area faces its own mix of challenges and has its own dynamic. Against this background, the local level has some clear advantages as a locus for policy intervention.

There remain, however, important practical questions to be addressed. These can be divided into two main categories: those relating to policy interventions themselves (the targets and objectives of territorial policies), and those relating to governance (the distribution of responsibilities and management of territorial policy).

In fact, the effectiveness of policies depends not only on their relevance and the accuracy of their targets, but also on the overall institutional setting, most notably with respect to legal, constitutional and bureaucratic frameworks. Success in territorial policymaking therefore depends to some extent on the existence of a supportive system of governance.

Chapter 1

Policy measures to strenghten local production systems in the Valencian Central Districts

1. The CCV production systems

1.1. Characteristics of the industrial sector

The Valencian Central Districts are characterised by the presence of deeply rooted small and medium-sized firms forming several small business production systems. The main features of the traditional development pattern of the CCV industrial districts can be summarised as follows:

– a large number of SMEs with both horizontal and vertical specialisation;

– a wide range of integrated competencies located in specific areas around small towns;

– a specific unified local labour market;

– a relational system that allows production to be co-ordinated efficiently inside a technical or sectorial cluster, both through competition and co-operation assets.

In this context local enterprises have in common with other European industrial districts the advantage of external economies, given the fact that they share a wide range of technical competencies and an ability to respond in a flexible and rapid way to market requirements. Knowledge about production, legal aspects, norms and standards, technologies and markets, exports, and so on, are "accumulated" locally and, to a certain extent, shared by the community. They also have in common other important features such as a balanced socio-economic situation, and an important role played by local institutions: regional government, municipalities, local banks, entrepreneurs associations, service centres, technical schools and universities.

More specific to the CCV is the important role of traditional industrial families and local leaders, (*i.e.* the textile industry of Alcoy), even more relevant than in other districts such as in Emilia-Romagna and Tuscany. Innovative actions at district level (on technological and organisational aspects) appear, like in those above-mentioned Italian regions, to be catalysed only by relatively young entrepreneurs. Moreover, entrepreneurs associations are quite weak due to excessive sectionalism and lack of links, both with regional and national associations, and between local actors and economic sectors inside the CCV.

1.2. Weaknesses of the industrial sector

In the CCV (as well as in Emilia-Romagna) the problem that local actors have been confronted with in the last few decades was how a structure of small specialised production units could protect and increase employment and, consequently, what kind of employment and industrial policy would ensure it. Furthermore, to what extent were local systems capable of evolving new techniques of production or new products? And, consequently, to what extent would measure of employment and industrial policy need to change the characteristics of the local fabric or, on the contrary, should its structure based on many small complementary firms be respected?

Three observations related to these questions have been pointed out by experts:[43]

– The first has to do with competition. In the structure of local productive systems there are, in each phase of the process of production, many firms competing with each other and no seller or buyer squeezing power. The stimulus to innovate derives from competition.[44]

– The second observation concerns co-operation in the relationships between clients and subcontractors. Whilst in classical large firms, research and development departments work out projects in detail and then transmit them to production through hierarchical channels, in small firms a single idea goes through all the phases of its development in a continuous confrontation, inside, among technicians and workers and, outside, with subcontractors and clients. Small firms reconnect conception and execution in a way that keeps production costs under control and enables a series of modifications and adjustments to be made to the product.

– A final observation has to do with the mechanism that regulates the delicate mix of competition and co-operation, which, of course, is permanently threatened by all sorts of conflicts between different groups within the local economy. At the very heart of these local productive systems in small firms

> there are two types of social institutions. On the one hand, there is the set of social relations that co-ordinate the actions of people and firms.[45] On the other hand, time has incubated institutional mechanisms for the local resolution of collective conflicts.[46] Co-operation mechanisms are necessary in the production of highly specialised products and services in an environment of rapid technical change. Controlled competition — within as well as among firms — stimulates and makes possible innovation.

The underlying idea is that local productive systems of small firms can be both dynamic and slow.

They are dynamic because they are extremely capable of maximising initiatives and ameliorating existing skills to produce those continuous improvements in product differentiation and those 'incremental' innovations that are crucial in high-conception industries.[47] They are also dynamic because they are able to quickly orient production on a few successful items within a wide range of new and seasonal products. Local small firms have flexible equipment that minimises downtime during changeovers. Moreover, they have an organisation of labour in which the tasks are less strictly defined and workers are more actively involved in problem solving (multi-tasked and multi-skilled workers). As such, they can manage to "reduce the risks" of choosing designs that do not fit any of the requirements of the market. These requirements are the result of product-led competition in which there are winner and loser "design making firms". The latter[48] have a second chance: with production methods of 'quick response' they can try to arrange their production under the influence of early-season sales experience. In this case, the nearer it is possible to get to the start of the retail season, the smaller will be the degree of error in design. In short, lead time reductions permit manufacturers to delay any decision that narrows the range of future possible decisions, so that options are kept open until the latest information is available.

However, domestic local productive systems in small firms do have specific disadvantages that come from the fact that they are slow. As far as technical breakthrough and the rapid acquisition of completely new skills are concerned, they need more time to adapt their working practices. They are locked in a particular organisational and technological trajectory. Consequently, community and regional leaders are looking for tailor-made policies to deal with problems such as the introduction of electronics in mechanics or CAD and CAM systems in clothing, the adaptation of water leather-cutting machines for small batches of production, the diffusion of information about prevailing trends in fashion,[49] standards and quality requirements for export products in distant markets, and — more generally — all the initiatives that usually imply huge expenses in applied research and marketing.

1.3. Strategies to strengthen the production system

This perception of local productive systems as "strong and slow giants" suggests two contemporary fronts for action:

– It is necessary to diffuse new skills, and

– It is necessary to provide services that are not yet available (at least with the right quality and in time) at the local level.

The first front is actually the more problematic one. It has to do with the fact that in the local productive systems of small firms the ability to innovate depends on the collaboration of hundreds of people with different roles, but who play their role simultaneously, with a high level of competence and knowledge of the production process. In the past, large firms contributed to the diffusion of these skills in the local fabric and played the role of a sort of pedagogue.

Nowadays, in order to facilitate the diffusion of skills and develop employment, local productive systems should focus on qualified technical high schools.

To do this, some obstacles have to be faced. First of all, national legislation regarding secondary education is extremely slow in reforming curricula and structures, and moreover it sometimes lacks general outline and principles. Secondly, local experimental courses and personal teachers' engagement have often produced valuable initiatives and even great enthusiasm, but they remain too limited in numbers to reach the desirable sedimentation of new skills in the whole social fabric. Finally, vocational courses are often too short to provide the basic knowledge to be able to use new technology, such as electronics applied to mechanics, or new organisational principles, in a creative way.

The second front for action concerns those services that help firms to improve their methods of management and take advantage of the opportunities offered by new technologies. Why should a policy to provide and diffuse these innovative services be needed?

Given their size, small firms are not able to internalise some expertise — as well as some phases of production — and so they buy them instead. They can obviously rely on the market to establish backward and forward relationships, but in some cases the appropriate supply does not yet exist: no private firm is prepared to provide the necessary information and yet its widespread use is essential for the welfare of the community and the growth of employment. The local productive system as a whole needs greater knowledge and expertise. The system's capacity to innovate depends on the collaboration of hundreds of firms with high competencies, but the system finds this hard to acquire. Therefore:

Consortia among firms should be created so as to internalise, in a collective way, the expertise that is missing.

However, the creation of consortia seems to be a necessary but not a sufficient factor. There are two different reasons to explain why the market or market-driven consortia do not always produce the services required.

The first reason is related to ignorance: the fact that although the need for some services is there, the awareness of it is not. Thus, there is insufficient solvent demand to sustain either a private supply of services or the creation of a network that attains the scale for an efficient provision of them. The second has to do with the role of market incentives in promoting the supply of information. In short, it is difficult for private firms to sell on a commercial basis a non-rival good, easy to codify and to transfer. Every firm is ready to use it, but few or none to pay for it, and the advantage of producing it does not compensate for the cost. For these reasons:

Agencies to adapt transfer technologies and information to small firms should be created.

The aim of these agencies is to facilitate and accelerate the introduction and diffusion of new techniques and thus meet the basic problem of the shortage of expertise and the market's inability to respond to this shortage.

In short, strategies to enhance the CCV production system should focus on:

– Qualified technical schools to facilitate the diffusion of skills and develop employment.
– Centres to adapt transfer technologies and information to small firms, diffuse new skills and to provide services that are not yet available (at least at the right quality and in time) at the local level.
– Consortia to internalise in a collective way the expertise that is missing.

2. The roles and functions of polytechnic institutes and community colleges

In the early 1980's, the popular public sector role was transferring and commercialising technologies and innovations focusing on the latest technologies and university-based research. It soon became evident that this approach neglected the large majority of small and medium-sized enterprises, whose requirements for technology and innovation were to modernise, and to effectively adopt already commercially available technologies and proven production innovations. Universities were to a large extent unable to play this role. The need for technology and innovation among small and medium-sized enterprises was more apparent to regional institutions of higher education (the non-research-oriented technical colleges), which in many places are closer to local industries, more apt to be called upon to fill their requirements, and generally better positioned to help them innovate and modernise.

In the 1990's, when recognition of the relevance of human resources as a determinant of the development process became more widespread, technical colleges emerged as critical factors and key institutions in technology based development. The institutions described are given a variety of titles[50], yet they all have one feature in common: educating to the level of technical education[51] that succeeds compulsory education but precedes the baccalaureate degree (*e.g.* certificates, diplomas, and associate degrees).

Economic development has become a core mission for the technical college, promoting inward investment, and the expansion, retention, and modernisation of existing industries.

The economic value of technical colleges is based on an inherent flexibility that allows them to respond quickly to the demands of the workplace caused by growth, technology, and/or economic readjustment. In most US states, community colleges have co-operated with regional economic development agencies and participated in their planning and recruitment activities for decades. British experts note that perhaps the biggest change in the British education system *"has been the incorporation of Further Education Sector Colleges, marking them out as powerful locally based agencies with a key mission, in terms of skills, but with an ever-widening scope to contribute to local and regional economic development in their own right"* (Kypri & Clark, 1997).

The widely decentralised and applied technical colleges, in many regions, are the leading source of technological expertise and know-how and the core of regions' knowledge infrastructure.

This regional focus presents the technical college with the opportunity for cluster specialisation, which some colleges have seized upon. In their regional focus and commitment the programmes and services of technical colleges are intended for local and commuting students and nearby firms.

The contribution of technical colleges to the development of human capital to meet skill requirements stems from the difficulty to separate needs for investments in new technology from investments in training and skill upgrading.

Since innovation cannot take place without suitably trained personnel, successfully adapting the workforce to change is an important way of increasing competitive advantage. While many firms rely on the companies from which they purchase equipment for training in the use of the equipment, they realise that applications of new equipment generally go hand in hand with changes in process and management and that the training requirements are much broader than those offered by the suppliers. Thus, any investment in new technology requires a concomitant investment in education and training.

In short, entrepreneurial technical colleges address technology development and skill needs of companies in their regions by:

– *Providing education, as a gateway to the workplace*. Throughout the OECD countries, skill shortages have emerged as significant barriers to growth. The most common and important contribution of technical colleges is maintaining a sufficient flow of appropriately skilled individuals with the right credentials into the work force to feed a manufacturing base that is looking for higher than compulsory education but not necessarily university credentials.

– *Upgrading skills and retraining to adapt to technology*. Historically, most SMEs lack the scale to justify the costs of customisation and are reluctant to request and invest in training because they fear losing the more skilled employees to higher-paying larger companies. To reduce costs and establish career ladders among SMEs, some colleges have resorted to collaborative approaches, *i.e.* organising firms with similar needs together into networks. Networks serve the dual purposes of allowing SMEs to acquire services at lower costs and creating learning communities among companies.

– *Facilitating interaction and learning among different organisations*. A growing role for technical colleges is one of regional technology intermediary. In these situations, colleges serve as change agents and advisors for industry, helping firms to assess their operations and develop and implement plans, and ensure that the work force has the requisite skills. They also play the role of hubs, hosting technology centres or operating business incubators on a more moderate scale than the ambitious classic technopolitan centres. In the United States, for example, Illinois and North Carolina have placed and supported small business development centres in the community colleges and Alabama has established its technology extension programme in centres that are partnerships with seven technical colleges. While these agencies gain access to SMEs by virtue of their association with the college, the college benefits by exposing faculty and students to real industry problems and, frequently involving faculty and students in projects as consultants or interns. Further education colleges in Great Britain work closely with 82 Training and Enterprise Councils (TECs) in England and Wales and 22 Local Enterprise Companies in Scotland, which were created in 1990 and made responsible for youth training, employment training, SME consultancies, and work-related further education. Since 1995, TECs have administered a Further Education Competitiveness and Development Fund to allow the colleges to be more responsive to local labour markets, employers, and individuals.

– *Fomenting strategic alliances to enhance the learning companies' and learning communities' concepts*. These alliances, like many of the most successful corporate consortia, are not simply two-way relationships; they are complex relationships, involving multiple members, with the colleges taking on the role of "system integrator." They include: *a)* more formal and reciprocal agreements among the member organisations and businesses; *b)* more clearly defined expectations for economic development and roles; *c)* long-term strategies; and, perhaps most importantly; *d)* alliances not with individual customers but with business associations. Moreover, it is becoming common for development agencies to bring potential business investors to the colleges, and most inward investment trips abroad include technical college administrators. For example, US and Irish colleges have industrial liaison officials who work closely with development offices in planning continuing education and customised training.

Recommendations

Technical colleges are acknowledged as vital ingredients in regional technology and innovation strategies. Just how far a college is able to extend its reach beyond its traditional student-client base towards a newer and less conventional business-client base depends on a number of factors, *i.e.* college and business leadership, national and state policies and regulations, budgets, alternative sources of technology training and assistance, degree of flexibility and autonomy, and entrepreneurial energy. The trend appears to be toward a more expansive role for colleges, not a lesser role. Technical colleges, which are regionally committed and connected, possess a store of technical expertise and knowledge, and are able to adapt quickly to change, are better able to successfully bridge the gap between civic and economic, individual and industry interests than most institutions. The major evidence is the views of employers, especially SMEs that are looking to a contract with technical colleges for an increasing range of services.

There are some general principles that appear to enhance colleges' ability to respond to and promote technology-based economic development. Those principles are:

– Encourage and facilitate alliances with other organisations;

– Nurture business leadership;

– Broker business networks;

– Permit flexible scheduling;

– Allow and reward faculty for staying current with technology in the work place;

– Provide incentives for specialisation that match local needs;

– Support innovation and entrepreneurial activities;

– Include colleges in regional planning effort.

3. The roles and functions of real service centres

The notion of real services is recent in economic policies. It is closely connected to the industrial districts and it is derived from the Italian experience. Real services involve supplying companies, in return for payment, with those goods and services they require, instead of giving them the money they need to go out and buy them on the market. Real services are used to indicate services that have an impact on substantial (structural) features of company behaviour.

"*Real services*" include those service activities to manufacturing companies that are expected to increase the competitiveness and market opportunities of user firms. The provision of these services transfers to user firm's new knowledge and triggers learning processes within them, thereby modifying in a structural, non-transitory way their organisation of production and their relation with the market. Therefore, real services are supposed to contribute to the speed and quality of economic development (Bellini, 1998). "Real" is sometimes used as opposed to "financial". The idea behind this distinction is that small firms would be unable to identify the need and retrieve the necessary information, even if financial assistance would be provided.

Real services must:

– Induce learning, *i.e.* a learning process is activated within the customer company. Yet this learning is a process which is not appropriated to one single company, as labour mobility among SMEs is high. Learning is addressed to individuals and to the company culture.
– Have positive "externalities of consumption", in the sense that, also as a consequence of imitative mechanisms, higher standards are introduced within the companies and in inter-company relations. Again the collective level is of crucial importance to the success of the exercise.

Services can be identified according to the origin of the competencies and to the extent of the market where they operate. Four types can be identified:

– "Inward innovators" are those service providers that "import", into the local system, exogenous competencies and therefore have an impact on the local industry by adding opportunities, knowledge, relations, etc. These are the typically successful services that organise and bring the lacking expertise into the system.
– "Outward innovators" are those local service providers that have developed a specialised and innovative expertise and are "exporting" it to other areas and sectors. They have an impact on local industry by increasing the width of actual and potential networks. Moreover they are relevant for industrial policy makers at supra-local levels (starting with the regional level).

Box 3. **Most relevant real services**

Finance

– Advisory services for non-ordinary financial operations (merger & acquisitions; leverage & management buy-out; local stock-exchange quotation; financial restructuring).

Promotion – Marketing - Internationalisation

– Assistance for tenders from the EU, World Bank, etc.; Assistance for direct investments abroad, to inward investors;
– Legal and financial assistance;
– Market information or other economic information; Quality certification.

Technology - Product/process innovation

– Analysis and certification laboratories;
– Assistance on environmental and quality systems, on patent and license matters, on applications for grants, on in-house R&D activities, on subcontracting to research institutes;
– Competitive intelligence (technological benchmarking, technology maps, information on emerging technologies);
– Energy audits;
– Innovation diagnosis, materials engineering, and review of manufacturing methods and processes;
– Partner search;
– Productivity assistance;
– Technology brokerage.

Innovation in organisation and management

– Assistance for enterprise creation;
– Interim management;
– Logistical assistance;
– Organisational consultancy.

Communications

– Advanced services for data and image transmission;
– Assistance with communication strategies, with telecom network connections, with the implementation of electronic data interchange systems;
– Data base search.

– "Satellites" are providers of standardised (and mostly technical) services that operate on the local market. They do not actually enhance knowledge, but they serve a function of externalisation, reducing fixed costs more than triggering economies of scope.
– "Displaced" actors, on the other hand, are operating in the area, possibly exploiting some localisation advantage or other externalities, but do not have an impact on the local system, as they operate in a wider market starting from exogenous competencies.

The most relevant real services are those provided by inward and outward innovators. The following services (see Box 3) are suggested as potential bearers of that kind of strategic relevance for regional industrial policy with specific reference to SMEs.

The target group for real services should be groups of firms rather than single firms. These services aim to transfer new technology to a social fabric where it was formerly absent.

The type of services to be provided should be selected according to a wide range of considerations ranging from the ability to generate profit, to the degree of ease with which the new techniques can be assimilated and incorporated within the firm. The notion of simply asking firms what they need should be dismissed. The provider should embark upon a lengthy analysis designed to pinpoint the opportunities and bottlenecks and identify needs which the individual entrepreneurs are unaware of or are unable to define with precision.

The pro-active character of real service providers is not limited to analysis and decision but also to the personalised form they should take. Although servicing collective needs, services are offered to individual companies and should, in that respect, be tailored to their needs. New techniques need to be introduced in the most painless way. There has to be an awareness that once the new techniques have been understood and adopted, they will grow further, provide benefits, be reinvented, undergo positive and perhaps not so positive change, in line with the development needs of the district and the creative input made by each individual.

At what price should the relevant agencies sell these services and how should an assessment be made as to the effectiveness of public money supplied to the agencies? The return on outlay can probably be evaluated by cost-benefit analysis. The costs involved include all public money earmarked for the agencies plus the financial costs entailed in making private investments earlier than planned. The benefits to be gained are those resulting from the introduction into the productive system of a set of new techniques. Thus, the price should be a combination of availability of public funds, propensity of firms to use real services offered and political conviction for the role of real services for community income maximisation.

3.1. General recommendations

Real services are an appropriate instrument in the current context of regional competition and globalisation, in particular for SME support in the manufacturing sector. However they are neither standardised, nor easy to design and implement. A significant amount of knowledge and experience has been accumulated and some "best practices" are clearly identifiable, but a "second generation" of real services is on its way.

– *Test the receptiveness of the ground and adopt high quality services:*

This proposition also suggests, for the reproduction of real services, the need for national (or supra-national) schemes at least in the early stages of activity. Transferability from developed to less favoured regions should be undertaken with particular caution. It is very difficult to assess the effect these services have on each local firm and on the industrial culture of the district. The typical indicators, like numbers of firms receiving support, employees attending training or enquiries in databases, are insufficient to capture the essence of the collective nature of the service. But if indicators only take efficiency into account, there is a danger of missing the real role of services.

– *Reproduce services and keep strategic functions under control of some central body (especially those that are crucial in guaranteeing quality standards):*

In general one may agree on the point that "the private market may deliver too few manufacturing services while political entrepreneurs may deliver too many". Selection will help in concentrating resources, in forcing efficiency, especially in governmental and quasi-governmental agencies, and in clarifying the market for client SMEs.

– *Select "excellent" services and/or service providers:*

Obviously co-operation is favoured by geographical proximity, institutional co-ordination and physical opportunities (sharing of space and facilities), but international communication and co-operative experiences (like those sponsored by the European Union) widen substantially the scope of possible linkages, that are nowadays only partially exploited. This trend can and must continue, with active encouragement by public policies.

– *Create networks as the most efficient way for real services to maximise their contribution to regional development:*

From technology transfer to export promotion and internationalisation assistance, from training and education to financial services, etc. Integration is needed to make the best out of the specific role of services, as described in the previous pages.

– *Integrate real services into the broader industrial policy plans.*

3.2. Specific recommendations for the CCV

Nowadays, challenges facing industrial districts are more and more related to the external environment rather than to sectorial aspects. Knowledge is in constant evolution and a broad "in time" diffusion of new information among firms is vital for their survival. This could explain why a service centre such as AIJU (Instituto Tecnológico del Juguete), which has demonstrated flexibility and rapidity in grasping changes, is considered highly successful (even compared at the international level). In reality, the role of service centres is more than that of spreading innovation. They should be able to keep firms' traditional know-how and upgrade and re-elaborate it into a sort of evolving new codified knowledge to be diffused, enabling what could be called "interfirm socialisation". The role of service centres will be that of gathering the most advanced knowledge but at the same time, learning how to translate, transfer and diffuse it among the broader community of firms. In fact, in order to flow in the districts and create benefits to the industrial sectors, new information needs "translation" capabilities. In the CCV, for example in Alcoy, firms have demonstrated that they do not always value this type of information and therefore they do not make use of it. In other words, if local banks, for example, are not induced by clients to innovate their own financial products, they will simply continue in the traditional way, thus loosing opportunities.

In all these cases, local advanced service centres can play an important role. Firms can of course refer to expertise outside their territory but the question of "trust" and proximity should encourage firms to address local expertise. In fact the success of local systems of SMEs (and this is very true in the CCV) is strictly related to the increase, in the firms and in their territory of both codified and semicodified knowledge (that include not only academic and scientifically developed activities, but also new forms of practices, management, logistics, financing, etc.).

1. *Prove and translate new knowledge and develop a CCV network of advanced service centres. These centres should:*
   - Act as local activators of new knowledge and translate it to local firms;
   - Elaborate and distribute a complex mix of tacit and formal knowledge less related to sectorial expertise;
   - Support advanced innovation projects and applied research among firms that are involved in complementary activities;
   - Distribute services that help to understand each aspect of the enterprise and its environment.

   The access to external tacit and codified knowledge depends on the extent to which effective communication among innovators takes place through the innovation system. In this context the properties of economic systems, conceived as communication networks into which information flows, explain the capabilities to spread or generate new technological knowledge. As seen, service centres have a new role to play (for example, Democenter of Modena, Cermet in Bologna and AIJU in Ibi are demonstrating), but they have to be supported by quality communications infrastructures in order to enhance connectivity effects.

The Valencian Central Districts lack good transport, telecommunications and also logistic infrastructures. While the local public debate is mainly focused on the need to improve transport networks (roads, trains, etc.), little attention is given to the other needs, even if it is well known that these aspects are extremely important in scattered markets such as the CCV, where local SMEs do not have enough resources to organise adequate services themselves.

This implies that local service centres should focus more on specialised logistic and telecommunication services. Yet the creation of dedicated infrastructure factors and special markets in the supply of new services does not end in logistics and telematics. Environment management, diffusion of new materials and testing processes, and product certification are all relatively new activities that technical centres in the CCV have to embody more systematically.

2. *Rationalise and modernise logistic and telecommunication infrastructures:*

   Another aspect of services infrastructure, which needs more support in the CCV, is training. Despite a certain satisfaction with the existing structures (this is the case of the tourist training centre in Gandia, the polytechnic of Alcoy, and the training activities related to AIJU in Ibi), CCV economic actors feel the need for new forms of training at "technical school" and at "university" level[52]. The main shortcomings of professional training in the Central Districts can be identified as follows:

   – Inadequacy of the training available compared to the real needs of the labour market (there is a high demand for specialised workers from the traditional industrial sectors, while available training tends to be related to administration or health sectors, which are already saturated).

   – Rare participation by enterprises in the training process and in the implementation of training programmes.

   New training activities should be developed within training centres in collaboration with technical centres. Since both of these have a role in diffusion of knowledge, it is very important to avoid overlapping that can undermine their efficiency. Thus the former should develop consolidated knowledge, while the latter should distribute it.

3. *Customise training activities:*

   – Training must be tailored according to demands from local firms, providing workers and technicians with the new specific skills required;

   – Trade and industrial associations and firms must be involved in the definition and experimentation of these forms of training, also providing logistics and courses.

The actions described are necessary conditions for enhancement of further industrial development in the Central Districts. Nevertheless, investments in these activities are particularly expensive. In this context, public help becomes a key factor. The launch of such initiatives can be supported with funds coming from IMPIVA or other resources from the regional and local governments. Often after initial steps are taken by the public sector to support new initiatives, private funds follow thus allowing their implementation with mixed capital.

4. *The public sector has to consider continuous investments in the "know-how" and "know-why"*:

   Without appropriate funding, the provision of services in the industrial districts concerned will remain "conservative". Services will tend to reflect the general state of knowledge of the district itself and not the leading edge of new technologies, new management and organisation systems, etc.

4. The roles and functions of consortia and trade associations: the Italian example

Generally speaking, in areas with a high concentration of small/medium-sized firms, a variety of different policy approaches has already been tried. In many cases, the choice of policy measures has been similar and rather traditional: financial incentives of every kind for all industrial enterprises and a priority focus on smaller firms.[52] In other cases, there has been a more innovative effort. Local institutions as well as autonomous quasi-public agencies have been created to formulate effective policy tailored to local needs. One such example consists of making industrial parks and sheds available at low cost to small firms. Another attempts to create loan consortia so as to improve small firm access to financing. Of particular interest is the creation of public and private centres or network hubs, which offer "real services" to small firms.

There are some valuable experiments to be analysed. This analysis concentrates on the Italian experience to assist and to help SMEs. Two interesting strategies should be mentioned: the so-called 'consortia' and the role played by the trade association for small firms. Consortia have a structure that is fixed by law. They are non-profit associations of enterprises that must be registered. Their aims vary from buying raw materials to common market activities. The most usual forms are the loan assessment and guarantee consortia and the export promotion consortia.[53] In the last 20 years some national laws have sustained consortia by means of tax reductions, subventions and low-interest credit[54], and today several thousand of them exist in Italy.

National efforts, however, only partly explain the wide diffusion of these organisations, which is also due in large measure to the active participation of trade associations. In regions such as Emilia-Romagna trade associations have often played the role that in Denmark has been assigned to brokers. Their extraordinary ability to act as a catalyst[55] is not only based on the large number of practitioners dealing every day with the problems of member firms; it also relies on a well-established reputation earned through long experience in providing a wide range of services to small firms.

They began by offering services relating to matters such as book-keeping and the preparation of pay packets, then broadened their field to include areas such as the calculation and payment of indirect taxes, income tax declarations, and insurance contributions.[56] Recently, these organisations have branched out still further: they now promote professional training courses, establish associations for the purchase of raw materials, help companies take part in trade fairs and exhibitions, maintain contact with governmental bodies that promote trade, and co-ordinate the demand for credit with banks to secure low-interest loans.

Some figures may help to give an idea of the importance that these organisations have assumed in certain areas. In the province of Bologna, which has a size and a number of inhabitants comparable with a county and approximately 27 000 small firms of less than 20 employees, one of these organisations, the CNA, has about 17 000 member firms, 41 local offices, and 500 employees. In Bologna, CNA prepares 22 000 pay packets each month for some 5 000 firms, keeps the books of 10 000 firms, prepares the income tax declaration for almost all its members, and organises some 80 training courses a year on subjects ranging from management and business administration to informatics and foreign languages.

CNA and other trade associations also identify co-operation opportunities, suggest ways in which firms can link their complementary skills, create contacts among potential partner firms, motivate the firms to co-operate and mediate critical phases in the process of establishing a network. This has happened with informal as well as formal networks.

Table 21. **Formal Consortia in Emilia-Romagna, 1991**

Type of consortia	Provinces								
	Bologna	Modèna	ReggioEmilia	Parma	Piacenza	Ravenna	Forli	Ferrari	Total
Production, Selling & Buying	44	91	29	34	17	40	49	45	347
Loan Guarantee	4	3	1	1	3	1	7	5	25

In the 1950s, the CAN in Bologna promoted a large assessment and guarantee consortia, which today has 7 500 member firms and guarantees some $12 million in loans. It has promoted 41 consortia for production, and common buying and selling that today have 8 000 member firms, and 42 industrial parks with a total surface area of 3.6 million in which 1 030 small firms are located.

As a conclusion, it is clear that all the above-mentioned activities do more than simply stimulate networks. The trade association is directly involved in providing services. Instead of reducing the expense of keeping accounts and preparing pay packets by asking financial assistance from the national or regional governments, the organisations themselves have set up offices to perform these functions at a lower cost. The associations may follow this line in order to swell their membership but, in any case, the result is that the entire local fabric is provided with skills that would otherwise not be available or which would be much more costly. This suggests two things in particular. On the one hand, the nature of these associations is gradually moving from lobbying and network stimulation to the provision, first, of "common or garden" services — book keeping, for instance — and then towards riskier areas of activity, for which they need to acquire expertise that is rare on the local market. On the other hand, it points out the crucial problem of the provision of services for local productive systems of small firms.

Box 4. **Inter-firm co-operation: the example of Carpi**

In Carpi, many of these forms of co-operation concern stable informal relations in a common project involving the exchange of skills amongst firms, subcontractors and retailers — research on a new style, use of new materials, new processes, systems for total quality; testing of new commercial strategies; renting of under-exploited machines; small innovations in and adaptation of existing technologies, and so on.

Other forms of co-operation concern joint ventures in which firms interested in projects with technological dis-homogeneity from their current specialisation prefer to take part in the development of newcomers than to risk organisational confusion.

Particular care should be given to formal consortia among firms that are located in districts like Carpi. Consortia exist in different fields, providing different business functions: show rooms, data bases covering the supply of subcontracting work, as well as market research, etc. Their target is to share the costs of services that a small firm, by reason of its size, cannot internalise, and the market is not able to supply at reasonable prices. Large overheads require volume production and this is attained without losing the production flexibility and design responsiveness of every single small firm. Consortia are not-for-profit associations of firms which must be registered and have a board of directors elected by the assembly of members.

A first example is given by Video Moda. In Carpi there are 750 final firms, each one designing on average 147 models per year: a buyer cannot visit all of them. On the other hand, every small firm may not be able to pay its own agent to reach every single buyer. So, buyers visit the Video Moda office where they are shown slides and videos of a sample of member firms. They are then directed on to the firms in whose products they are interested. There is no attempt at quality control and at formal broker service: the office is purely an information centre. It conducts research on clients and on Italian agents. In its first full year of operation, 1988, it was visited by 200 buyers, 30 per cent of whom were from abroad.

A second example is "*Centro Dati Abbigliamento*", which performs a similar role for sub-contractors. From a desk located in the Carpi Chamber of Commerce, a single clerk runs a database on the sub-contractors who have joined the consortia. When a final firm calls, the Centro matches the final firm's requirements (type of machine, level of quality, kind of yarn, etc.) to the data bank and gives the names of five suitable sub-contractors with the capacity to fulfil the order. There is no quality control or evaluation mechanism because the Centro sees its task as that of a clearing house rather than a broker.

A final example is given by the "Financial Consortium" in Carpi province. As is well known, banks prefer to secure loans with property, not through an assessment of potential competitiveness. Past accomplishments and property can be measured with precision, whilst information for measuring entrepreneurial capacity is not economically supplied in the market, particularly in the case of small firms. In fact, the information does exist, but the market does not provide trust to back it. The consortium provides an insider's assessment of entrepreneurial ideas at low cost, a strong incentive to pay back loans, and a means of recovering loan defaults. Member firms pay a fee that is combined with public contribution from local governments. They elect a board of 18 members composed of entrepreneurs. Any member firm that desires a loan goes to the local branch of the trade association and obtains a report prepared and assessed by fellow business people: only their peers have the intimate knowledge of the individual and the industry. The report is forwarded to the board of directors of the financial consortium and referred to a subcommittee. If accepted by both the subcommittee and the board the application is sent to the bank with a loan guarantee. This method has changed the attitude and practices of banks with respect to artisanal enterprises.

5. Conclusion

This chapter has focused mainly on the important role that polytechnics, technical and real services centres can play in enhancing the CCV industrial economy. Obviously, these industrial development tools do not cover the whole range of public intervention. Apart from the classic idea of providing subsidies, urban and spatial planning are often seen as effective ways to economic development.

In any case, in order to be effective, these different policies have to be implemented together in a balanced mix that obviously is never easy to define. Financial incentives; infrastructure planning, integration and management; environmental management; research and technological development, are all important and priority actions that need to be enhanced and co-ordinated with other more general policies (for example subsidies for new training of unemployed workers) by the regional government in collaboration with other existing government levels and local organisations.

Notes

43. Among others, Mr. Sebastiano Brusco, Mr. Vittorio Capecchi, and Mr. Charles Sabel.
44. In fact, "lazy" subcontractors are rapidly excluded from the market. Moreover, buyers cannot impose prices on sellers and reduce their profits (and vice-versa), thus the latter are able to make the necessary investments.
45. A population that is used to living in the same area develops a sense of belonging to a socio-cultural entity: a "community" that such populations estimate positively and to which it adheres with affection. Interests, beliefs, and common rules are sedimented and translated into "conventions", and these conventions encourage and regulate the particular relations of co-operation among firms and inside the firms.
46. Local as well as regional "tables" around which a wide range of associations (trade associations of large or of small firms, unions, associations of co-operatives, associations of municipalities) arbitrate disputes.
47. In fact, in markets for clothing, footwear, furniture, toys, and micro-mechanics differentiation of demand and competition about quality, variety of types, and fashion is clearly increased, with a resulting differentiation and multiplication of products.
48. As well as "Pronto Moda" type of firms: "fashion taker firms" who decide to take their main design decisions and to prepare their own collection only after having looked around at prevailing fashion trends.
49. Of course, if properly used, fashion trend information can improve the development of product design; but also, if collected systematically and quickly, after the season starts, they can help reduce the risk and reinforce the advantage of quick response methods of production.
50. Community colleges (e.g. Canada and United States), technical colleges (e.g. Denmark, United Kingdom and United States), further education colleges (e.g. United Kingdom), technical and further education institutions, or TAFE (e.g. Australia), polytechnics or Fachhochschulen (e.g. Austria, Belgium, Germany, Netherlands and New Zealand), and institutes of technology (e.g. Ireland and Finland).
51. This is in line with several other regions in Europe where new approaches to public technical schools are being tried.
52. These funds -- no-security loans, low-interest credits for investments, easy-term credits for working capital -- are no different from the SME support programmes provided at the national level, except for the fact that they are not usually limited to small enterprises and can involve larger funding amounts.
53. There are 350 export promotion consortia grouping together some 7 000 firms.
54. L. 675/1977, L. 83/1989, L. 317/1991, etc.
55. The brokerage role can be played equally well by employees of state agencies, or by the service centres that act to bring firms into collaborative relationships, sometimes with the help of universities.
56. As a result of the popularity of the services provided to their members, trade associations have attained levels of expertise that often outstrip those of private consultants, and yet prices have often remained lower.

Chapter 2

Promoting sustainable development in the CCV

1. Introduction

Regional development is often analysed or viewed with considerations limited to the economy. In some cases, failing to protect and conserve the environment and its resources has had devastating social and economic effects on various regions and communities. The collapse of the fisheries of the Grand Banks of Eastern Canada and the mismanagement of the Po watershed which resulted in massive algae blooms in the Adriatic are two often-cited examples of development that resulted in social disruption from an unsustainable management of the environment and of its natural resources. It is therefore crucial to include environment parameters in any development plan to achieve a long-lasting and improved quality of life for citizens.

The need to protect the environment naturally imposes certain costs to industry or agriculture by requiring investments to treat their effluents, and their wastes, or by modifying the production processes. In fact, this is a matter of internalising production costs. Environmental activities, can however, reduce operating costs by improving resource utilisation and process efficiency, by reducing waste, risks of getting fined, and cleanup costs. In addition, the environment presents positive potential economic benefits for regional development. Tourism, for instance, requires a high level of environmental quality, otherwise the use of some of a region's amenities like its beaches, its parks or even its historic attractions become less interesting for visitors. More recently, the development of green or ecodesigned products is finding specific niches in the market. The requirements for environmental protection have convinced some companies to seek a certification (ISO 14000) that their operation is environmentally safe and that their products present the same environmental safety (ecolabel).

The development of areas like the Valencian Central Districts is situated in a framework dictated by regional, national and even international policies and legislation. This framework is meant to be supportive of regional development but in some cases policies are not integrated and may lead to inefficiencies and their modification is often not under the purview of regions. On the other hand, in many countries, regions present significant differentiating assets such as culture, traditions, geography, natural resources and even language. These differences warrant the development and the adoption of a regional approach within a national strategy for economic, social and environmental development. Moreover the role and the influence that regions can have on their development become more and more important as we are seeing an increasing devolution of powers and responsibilities from national to regional administrations and local communities. It is at the regional level, for example, that the integration of sector policies is most likely to happen and to affect its citizens.

Regional development requires a regional perspective which takes the view that to ensure a harmonious development it is essential to consider the whole region and not only the individual factory, farm or municipality. Without this perspective, one is bound to obtain a development that imposes costs or limits the development of another portion of the region. For instance, developing an industrial centre in a natural area could prevent the development of tourist activities. In other cases, it could increase water abstractions to a level where agricultural activities downstream would be severely limited.

Regional development also requires a vision. In the context of the CCV where tourism, agriculture and industry are well developed, considerations should be given to adding value to products more than creating greater volume of goods and services. Looking for greater volume implies competing with regions or countries where production costs are lower, while improving quality or developing new products implies having an edge on the market. Pushing for greater quality in products and services has to be a constant goal and has to be an underlying theme in every regional policy or development initiative. This is consistent with the need to protect the environment and its natural resources.

It is in this context that this chapter will examine the need to ensure the environmental protection and the conservation of natural resources in view of development of the major economic activities of the CCV region, namely industry, agriculture and tourism. This chapter will also examine ways to further the implementation of approaches favouring sustainable development in the region in order to meet the needs of the present without compromising the ability of future generations to meet their own needs as defined in the Bruntland Report (WCED, 1987).

2. Current pressures on the CCV environment

The Valencian Central Districts can be roughly subdivided into three areas: the hinterland where most industrial activities occur, an intracoastal region occupied primarily by agriculture and a coastal area where the majority of tourist activities take place. Of course, these sub-regions are not exclusively devoted to these specific activities as each one presents a variety of economic activities but each seems to be characterised by a dominant one. This section will identify the potential risks to the environment which could result from increased industrial, agricultural and tourist activities and from a lack of policy integration.

2.1. Industry

The most important industries located in the hinterland are found in the towns of Ontinyent, Xativa, Alcoy and Ibi. The textile industry is the largest sector but several smaller industries related to toys, food, drinks, tobacco, wood, furniture, non-metallic mineral products are also present. The introduction of new technologies, production processes and management approaches have enabled textile industries to grow in the 90s even though there has been increased competition from developing countries.

Increased industrial activity of the type present in the Central Districts can generate more aquatic and atmospheric pollution, and increased wastes. Depending on the production process and on the material inputs, the aquatic effluents of textile industries usually need extensive treatment as pigments and dyes impair water quality. Wastewater is in some cases discharged into municipal sewage systems but unfortunately municipal water treatment plants are usually not designed for removing certain industrial contaminants. For other industries the problem is similar, as aquatic effluents usually carry contaminants resulting from manufacturing, all of which are usually inefficiently treated by municipal plants. It is also well known that untreated effluents from wood treatment plants are considered hazardous to health. Industrial aquatic pollution can affect the drinking quality of water, its ability to sustain aquatic life, its usefulness for food production and agriculture and the visual appearance of streams. Depending on the manufacturing process, some discharged chemicals can be toxic, bioaccumulative and persistent in the environment. Ensuring that the aquatic effluents of industrial plants meet the regulatory requirements, respect the environmental capacity of the environment and are compatible with other economic activities, is essential. This is especially important when planning enhanced industrial activity that may increase pollution loading in streams and as a result increase the cost of treating water for consumption. Although data is not available to quantify the state of their degradation, the Serpis, Clariano, Albaida and Cányoles rivers are badly polluted in some parts.

The majority of firms present in the area are of small to medium size. Their size does not seem to have been a problem in ensuring their dynamism in their own market, especially in the textile sector. However, in terms of addressing water, atmospheric and waste pollution issues, this has meant that expertise had to be developed in each firm and that air, water and waste treatment facilities had to be built at each site. There are advantages or economies of scale in regrouping industries for the purpose of reducing pollution abatement costs or facilitating the recycling of wastes. Future industrial development should include grouping together plants of similar nature in order to share both the expertise and the equipment that would ensure adequate protection of the environment.

Recommendations

– Develop and implement corporate environmental strategies;

– Build appropriate facilities to treat air emissions, water effluent and wastes;

– Set up a waste separation process and recycle wastes;

– Minimise energy wastes and conduct energy consumption audits to reduce consumption and costs;

– Conduct factory/plant manufacturing audits to minimise energy and resource use and to ensure that environmental protection is integrated into industrial activities (life-cycle assessment);

– Implement an environmental management system.

2.2. Agriculture

Agriculture is mostly located in the intracoastal area but there are different types of agricultural production in the mountainous area of the hinterland. The majority of goods produced are citrus fruits and other fruits, olives, vineyard products, and some vegetables and cereals. Livestock, pig, sheep and poultry production is relatively limited compared to fruit and vegetable production.

The expansion of agricultural activity can intensify deforestation in some areas. In the coastal area, near Pego, the enlargement of rice production is attained by draining a protected wetland. The impacts of these activities are a destruction of natural habitats, reduction of biodiversity, limitation of the water retention capacity of soils in the region, and finally, modification of the traditional landscape.

Due to a shortage of regular rainfall, most of the crops rely on artificial irrigation or basin irrigation. Water comes primarily from the aquifer that also serves as a source of potable water for localities situated on the coastal region. Excessive drawing of water from these sources can cause salinisation of the underground supply and impair water quality. Adopting drip irrigation is new in the region and offers the potential of significantly reducing the quantity of water required for crops and for supporting an expanding production. This new approach could reduce the drawing of water in the coastal area thereby preventing further salinisation of the aquifers and limiting the costs of treating water for human consumption.

Traditional agriculture, prevalent in the region, tends to rely heavily on pesticides and fertilisers to increase yields as opposed to new organic production techniques and agricultural practices. Concern has risen from findings linking these chemicals to health and environment problems. Some of them contain substances that have the ability to act as hormone disrupters causing loss of fertility, carcinogenesis and mutagenesis. Their widespread application to crops means that they could have repercussions for both the natural environment and for health. The accumulation of nitrites as a residue of agricultural production in the aquifers, especially in the coastal area, impairs water quality and requires more sophisticated and costly municipal water treatment facilities in order to meet the standards for human consumption. The EU is currently examining new regulations or taxes on pesticides that could change the way food is produced.

Since livestock, sheep and poultry husbandry is limited in the region, the traditional environment problems of water and air pollution associated with it do not appear to be significant. However, in some areas like Vall d'Albaida, organic waste from livestock is generating problems. The production of olive oil is also generating important quantities of liquid and solid wastes.

Finally, in many places agriculture is becoming a secondary activity, simply a source of revenue and no longer a way of life. For some landowners this has meant that land has become property for speculation encouraging land use that may not be compatible with regional landscape development.

Agricultural production has to be done in a manner which keeps a clean environment, diversified and renewable for future generations.

Recommendations

– Reduce water consumption by installing drip water systems where appropriate;
– Review agricultural practices with a view to reducing pesticide and fertiliser consumption;
– Conduct an energy consumption audit to minimise energy consumption;
– Revise the agricultural development plans to increase the crop value of land to prevent a decrease in the value of the land and its change to non-agricultural activities.

2.3. Tourism

Most tourist activities occur on the coastal area where beaches attract a large number of visitors. The town of Gandia is candidly referred to as Madrid's beach. This area is 100 km long but it is in Gandia that the concentration of tourists congregates. The region also boasts a diversified landscape with natural parks, mountains in the interior and numerous archaeological and historical sites. However, these amenities have not had much impact in drawing people away from the beaches. As a result, tourism is concentrated in the summer months. The rest of the year, due to wetter and cooler weather the area receives few tourists and in many places on the coast, facilities are closed for the "low season".

The concentration of tourism both in time and in space on the coastal area is a source of environmental problems that can be summarised as a massive use of resources and emissions as the region is not accustomed to receiving such large numbers of visitors.

The development of facilities to host visitors has created an urbanised zone on the coast and has caused the disappearance of components of the natural environment. Further expansion of the coastal municipalities and related infrastructures like roads are developed at the expense of natural areas and agricultural areas. A wetland near the town of Pego is currently threatened by agriculture and by the possibility of developing a golf course.

This concentration forces municipalities to construct and operate infrastructures for water, wastewater and waste treatment fit for a larger population than the resident one. In cases where such infrastructure exist, they represent significant investments that are under-utilised for the majority of the year and in other cases where such equipment is not available, environmental problems will occur as untreated wastes will be released into the environment. One example is the direct discharge of sewage into the sea via an underwater pipe. Additional tourist pressure could aggravate this problem and cause degradation of the beaches that are the main interest for tourism. Similarly, increased tourism on the coastal area would require more water from the aquifers and would potentially augment the already existing salinisation process. Additional environmental infrastructures are certainly required in some municipalities but attention should be given to diversifying tourism opportunities in the interior as a means of lessening the pressure on the coast. Zoning or enforcing existent bylaws for protecting natural areas should be a priority since these areas, if properly managed, offer possibilities for activities and tourism other than for the traditional beach and sun seekers.

Other problems associated with high-volume tourism are noise, air emissions and important consumption of energy in buildings and transport. Interestingly, excessive noise in some towns is causing social problems and one local politician has told the investigation group that it is causing segregation amongst youths and older visitors to the area.

It is interesting to note that the numbers of foreign visitors have diminished in the region in the 90s even in a period of worldwide tourism expansion. Although the national demand has filled this gap, it would be useful to find out the reasons for this decline. Certainly competition and a greater supply of tourist destinations are important considerations but perhaps the current massive type of tourism present in the region has exceeded its carrying capacity and is less appealing to the foreign market. According to the World Travel &Tourism Council, this economic sector will double in size in nominal terms between the years 1995 and 2005 and considering its importance for job creation, it would be opportune to analyse this discrepancy with attention.

Recommendations

– Conduct an environmental audit to identify major sources of water and energy consumption and waste production;
– Consider joining a network of green hotels;
– Analyse the impact of the development of retirement homes on the environment, including natural habitat encroachment;
– Identify the maximum tourism development threshold for the coastal area;
– Develop the required specialised services for retired people who have migrated to the region.

3. Environment economic development opportunities

For many decision-makers, protecting the environment and its resources is considered a hindrance to economic development, as it requires the internalisation of production costs. But environmental activities can reduce costs by:

– Improving resource utilisation rates and process efficiency;
– Reducing wastes; and
– Using risk management to avoid fines and clean-up costs, reduce legal costs and judgements, and decrease insurance and overhead costs.

It is also an essential component for ensuring sustainable development and, additionally, the environment market offers new possibilities for business development. It is worth examining these possibilities for the economic sectors analysed in this regional review. However, since opportunities are not limited to only one sector, this section will present value-creating opportunities in various sectors present in the regions. Finally, efforts to promote and protect the environment contribute to the development of an image or a trademark of quality for the region's quality of life, its products and services.

3.1. Environmental management systems

During the 1980s, increasing competition forced companies to improve the quality of their products. Many firms implemented total quality management systems and sought to obtain a certification for the improved systems put in place like the ISO 9000 certification. In the mid-90s companies started a similar movement but with the desire to achieve a high level of environmental performance. Likewise, they obtained certifications from recognised international organisations like the ISO 14001 or the EMAS certifications. The ISO environmental management certification, adopted in 1997, has the greatest number of registrations in the world: 7 887 (78% more than the previous year — December 1998). The rate of certification is progressing steadily and its potential for impact on the market is evident as the European Commission publicly supports environmental management systems. Moreover, if an environmental certification becomes the production norm in a globalised market, exporting companies will eventually have to follow the same rules as those followed by large environmentally certified companies that often require suppliers to follow the same rules. In addition, numerous government agencies, although not seeking an ISO or EMAS certification, are putting in place the principles of EMS.

Apart from obtaining public recognition of their environmental management and reducing their potential environmental risks, companies in certain countries are obtaining preferential terms from banks and insurance companies as they present less potential liabilities. The implementation of the principles and practices required by environment certification, is a means to integrate environmental considerations throughout the business. It also presents a potential competitive advantage and certainly improves the corporate image of a business, especially important when dealing with foreign markets.

Recommendation

- Implement environmental management systems. For numerous firms operating in the CCV, it could be a market advantage for certain market niches and would facilitate the development and adoption of a corporate environment strategy. It would also associate those firms with other foreign exporting firms that have already adopted those systems.

3.2. Green products/ecolabels

As companies are obtaining EMS certification for their operations, they are also seeking certification for their products through ecolabels. An independent party who has evaluated the life-cycle of the product for its environmental acceptability usually grants the certification while some companies are self-declaring the environmental quality of their products. Systems vary according to different countries, as third party ecolabels for products have to meet certain environmental criteria and are evaluated by expert groups. The ecolabel trend follows a movement to implement eco-design in industry as a new environmental approach after the policies to deal with end-of-pipe solutions of the 60s and 70s and those of prevention of the 80s and the 90s. Eco-designs require the consideration of all the phases of the development of a product from the extraction of the raw material for its production to their transformation; the manufacturing of the product, its use and disposal or better its recycling. The ecolabels are also a means of communicating to the consumer the environmental characteristic of a product. In most cases, the product which meets environmental criteria for ecolabels can be easily recyclable, contains recycled materials and/or renewed materials, minimises the risks associated with materials and substances, optimises logistics, saves energy, uses renewable energy, and its production is based on a strategy of durability.

Numerous companies have put on the market, products that are eco-designed and that offer interesting commercial opportunities because of their characteristics and the brand positioning of these products. For example, high performance clothing apparel made for outdoor activities are made with recycled plastics. They appeal to outdoor enthusiasts who are looking for environmentally acceptable products and who wish to make a contribution to protecting the environment in their purchasing behaviour.

Suggestion

– *A glass recycling company located in the CCV could explore the advantages of obtaining this kind of certification, as its products are similar in concept.*

Recently, some firms have introduced the concept of providing services rather than selling products. The often-cited example is that of Xerox, which provides photocopying services to enterprises, which formerly had to purchase photocopiers. This innovative approach allows the manufacturer to build more durable, upgradable and recyclable products. Less known is a company in the USA called Evergreen that leases "carpet services". In this case, carpets are leased to building owners and as the carpet wears out, they are replaced by new ones while the manufacturer recycles the old ones. Having the possibility to recover their products enables these manufacturer to design and build the products with recycling in mind, thereby reducing the amount of waste and ensuring an improved client relationship.

Institutions like large corporations or governments are increasingly adopting or considering "green purchasing". This includes buying green products as a means of using their purchasing power to minimise the environmental impact of their purchases and to support the development of cleaner production and products.

Recommendation

– Consider green markets in business development plans and in marketing strategy both for the domestic and the export markets, as environmental considerations are already acknowledged to be an essential quality and competitive factor.

3.3. Environmental technologies

Environmental regulations already require that firms set up systems to prevent pollution from their discharge into the air, water and from their wastes. This calls for a more effective use of raw materials and energy and minimisation of emissions and waste. The technology adopted by firms to meet these legal requirements is part of the overall technology that companies have to have in their bundle of expertise. Such technology already constitutes a field of business in its own right both in domestic and foreign markets. It is not foreseen that its demand will slow as companies are striving to become more eco-efficient and to support sustainable development. A recent study report from the UNEP (United Nations Environmental Programmes) has estimated the world market at $300-600 billion annually for pollution control and $250 for energy conservation over the next 20 years.

In many countries, environmental technologies are considered an industrial cluster with high development potential and their commercialisation will become more and more important from the point of view of industrial policies, the development of SMEs and foreign trade. The export of technologies includes technical assistance, training and information and in-country demonstrations in the fields of industrial pollution prevention; recycling and waste management; advanced air, water and field monitoring technologies; and air pollution control and greenhouse gas reduction technologies.

Moreover the expertise that will be gained could also be marketed and as a result expand the importance of the service sector in the region, and that of the knowledge economy. The transfer of technology can be directed to other domestic and foreign markets including developing countries under the framework of bilateral or international agreements. As said, the market for environmental technologies and expertise is huge and its potential justifies an adequate analysis.

Recommendation

– Develop expertise in environmental technologies associated with the most important industrial sectors present, like textiles and toys.

3.4. Sustainable tourism

Tourism is a vital part of the national and the local economy. It presents immense growth potential in the coming decades with tremendous benefits such as job creation and income generation. However there are also considerable threats to the environment in its broad sense, including the natural, social and built-up environment. Tourism was once perceived as a clean non-resource, free from environmental impact but this view is now being increasingly questioned.

Since this sector is highly important to maintaining the livelihood of a significant portion of the population in the CCV, the issue of how to manage it is highly important.

The challenge is to develop a tourism programme that will attract visitors and enhance the economic welfare of the host community, while promoting environmental protection and respecting the local heritage and culture. The coastal area is already developed intensively and in some places to the limits of its capacity. On the other hand the hinterland would be amenable to a type of tourism based on the supply of a variety of quality products reflecting the region's landscape, heritage and culture. The amenities in this part of the CCV are diverse but each one on their own cannot compete with the beaches and the sun of the coastal area to bring any significant economic benefit. However if developed and promoted as a network of attractions, these amenities together could constitute an attractive tourist package. Examples of such networks include routes linking historical sites, cultural buildings and monuments, panoramic vistas, hiking paths, ecological areas and wetlands, etc. The role of these routes is to exemplify the unique characteristic of a region to the visitor who, otherwise, could not perceive it by visiting only one or two of its sites. Complementary elements of such routes often include local food and diverse accommodation such as bed and breakfast facilities or farm hostels. Excellent interpretation panels at each sites and informative brochures are also essential. From this type of tourism development, a number of enterprises can result: local shops, historical building restoration firms, specialised regional food and wine shops, art boutiques, etc.

Developing a network of rural tourist amenities needs a clear vision and careful planning to be successful. Since it relies on multiple sites and diverse attractions, it needs the involvement of multiple stakeholders. Partnership with experts in various fields from educational institutions, from businesses, from environmental NGOs and others has to be developed to guarantee that the planning and the implementation phases are successful. Only through such participation can a sophisticated tourism, respecting the environment and the social character of the region be achieved. This partnership would also ensure that the various policies related to the environment, industry, agriculture and tourism would be developed complementarily. Due to the level of sophistication of this type of tourism, it would be necessary to develop training programmes for staff employed in the new businesses. This would ensure that new jobs created would be filled by local people and not by entrepreneurs from the outside.

However every tourist project is not necessarily desirable. Each community should examine its characteristics including its location to see if it is acceptable and sustainable with its socio-cultural, environmental and economic aspects. Renewable and non-renewable resources must be taken into consideration in planning and they have to be managed with a long-term perspective. Social aspects are also key determinants in deciding how to manage tourist development as the seasonal influx of tourists in an area often causes social disruption and inconveniences in habits of local habitants, traffic congestion, noise, etc. Finally, income generated from tourist activities must find its way back to the local community in order to maintain its support.

In deciding to develop specific tourist activities, attention should be paid to establishing some threshold or limits that should not be exceeded. They are:

– The physical carrying capacity, *i.e.* the absolute numbers of tourist that a resource can cope with.
– The ecological carrying capacity *i.e.* the level of visitors beyond which unacceptable ecological impact will occur, either as a result of the tourists themselves or the amenities they require.
– The host social carrying capacity, *i.e.* the level beyond which unacceptable change will start affecting the social way of life of the residents.
– The tourist social carrying capacity, *i.e.* the level beyond which visitor satisfaction drops unacceptably as a result of overcrowding (Hoffman, 1998).

Of course all these thresholds need to be monitored to ensure the protection of the basis of the activity.

Failure to uphold these limits or carrying capacity could adversely affect the perpetuation of the activity by negatively affecting the tourists' enjoyment of the site and decreasing its overall value.

Recommendations

– Diversify the tourist product and promote a network of attractions in order to create an attractive tourist package.
– Create partnerships with experts in relevant fields and develop training programmes for employees in these new businesses.

3.5. Bio-agriculture

The agriculture sector in the region is an important one economically and socially. In order to increase its economic importance, it is necessary to examine ways of improving the value added that can be obtained through changes from traditional practices. The characteristics of the nourishment function will change over the next few decades. The current trend towards the consumption of natural foods and an increase in the variety of foodstuffs will continue. The aspects of health and quality are becoming more and more important for consumers. Supermarkets are carrying more and amore organically produced products.

In some countries, farm environmental management plans have been drawn up for each active farm. Such plans assess the farm's production methods and practices in relation to environmental protection and propose improvements. In some cases they also consider different produce to access new markets such as organic produce and other related produce that generate a higher value added.

During the assessment visit to the region, two novel productions: aquaculture and seaweed recycling were pointed out. The greater demand and prices for fish products could be a sector worthy of further analysis for expanding the food sector in the region and to develop new fields of expertise. However, aquaculture is not always pollution free and careful monitoring of its impact on the environment should be done. Finally, recycling seaweed is an interesting way of reducing wastes resulting from the cleaning up of beaches and putting this organic matter to good use.

Recommendation

– Set up farm environmental management plans.

Suggestion

– Use the expertise gained in recycling sea weed in other locations presenting this problem and where waste elimination presents a serious challenge, such as on islands or in places where space is at a premium.

4. Furthering sustainable development in the Central Districts

The notion of sustainable development given by the Bruntland Commission is for many vague and difficult to apply. Its application poses a challenge essentially because its objectives are global and long-term and, its implementation rarely has any spectacular effects in the short term. Because of these characteristics, decision-makers may feel that it is still a theoretical concept. However, it should be interpreted as an integral part of the foundations of development and support the maintenance of a region's comparative advantage.

"In essence, sustainable development is a process of change in which the exploitation of resources, the direction of investments, the orientation of technical developments and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations… (It) is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

This concept is particularly relevant for application at the region level since it is based on social, economic and environmental considerations, which are in most cases region-specific; that is certainly the case in Spain where regional diversity is so evident. The concept recognises the need to have a mix of approaches that correspond to the region's characteristics and state of development for each of these considerations.

4.1. Eco efficiency: a strategy for firms

Firms in all sectors are increasingly aware of the need to reduce their environmental impact. There are examples of firms having adopted the kind of goals and having implemented strategies to effectively achieve a reduction of their burden on the environment. One of the ways of achieving this is to implement, at the production site, eco-efficiency targets and to develop the actions needed to reach those targets.

The World Business Council for Sustainable Development (WBCSD) has been the main promoter of the concept of eco-efficiency especially at the firm level. It has described the concept as a needed bridge between the macro-level concept of sustainable development and the micro-level of corporate behaviour. Because the concept of sustainable development comprises notions of society and quality of life, the role that firms can play in that respect is more difficult to identify, but on the basis of a regional perspective, some roles are more readily identifiable.

According to the WBCSD definition, eco-efficiency is reached by:

- The delivery of competitively-priced goods and services,
- That satisfy human needs and bring quality of life,
- While progressively reducing ecological impact and resource intensity throughout the life cycle,
- To a level at least in line with the earth's estimated carrying capacity.

The last two elements of the definition are more difficult to achieve especially at the firm level and, WBCSD is working to find practical approaches for resolving these difficulties. However, it proposes the following recommendations for firms implementing eco-efficiency as a strategy:

- Minimise the material intensity of goods and services.
- Minimise the energy intensity of goods and services.
- Minimise toxic dispersion.
- Enhance material recyclability.
- Extend product durability.
- Increase the service intensity of goods and services.

Studies have shown that in various firms, material and energy efficiency improvements pay for themselves in less than a year. Often these result from changes in practice or from very minor investments. Firms that have achieved a reduction of toxic dispersion by eliminating them from their products or processes have found tangible benefits in waste management costs and problems.

Strategies for improving eco-efficiency are just as applicable in agriculture as they are in other production sectors. Improvements can come from changes in farm practices, such as the use of natural predators for pest control, from the introduction of improved plant and livestock varieties and improved land management.

Examples of eco-efficiency improvement are less common in the service sector than in the manufacturing industry. This may be partly because the different environmental impacts of service provision are less obvious than those of manufacturing. However, as we have seen, the different environmental impacts of tourism in the region are a concern for elected officials at the municipal level. Applying an eco-efficiency approach could be beneficial.

Complementary to increasing eco-efficiency at the firm level, enterprises could consider implementing environmental management systems like EMAS and ISO 14000. For products, attention should be given to ecodesigned ones in relation to their environmental impact and their market potential as well as their potential for maintaining competitivity.

It is obvious that resolving contamination and environmental degradation improves the wellbeing of the communities and ensures the preservation of some economic development potentials that rely on clean environment or preserved ecosystems. However, the need for expertise can also benefit a region from a social point of view as it encourages local firms to acquire or develop this new field of expertise. In turn, this contributes to increasing the knowledge base of a region and possibly creates job opportunities. In the case where youths are leaving the region for jobs in remote cities, it becomes important to rejuvenate the workforce by creating jobs based on new technologies and new fields of expertise such as the environment. It also ensures that firms remain competitive in their own markets while abiding to regulations and contributing to sustainable development. One could argue that the much promoted concept of life-long learning for employees could also be applicable to firms that would constantly learn new technologies and management approaches in order to increase their performance and remain ahead of competition by anticipating changes to come. In the case of the CCV, this may require much exchange of information between firms as the success of one often relies on the co-operation it has with other regional firms.

4.2. Local Agenda 21: a strategy for local authorities

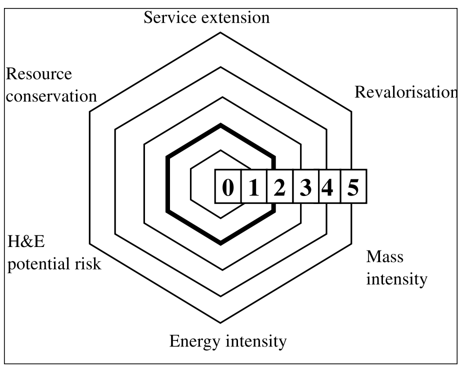
As the eco-compass provides business with a tool to steer its action in the direction of sustainable development, so does Local Agenda 21 offer municipalities a

Box 5. **The Eco-Compass**

Dow Europe has developed an interesting tool to facilitate the evaluation of improvement projects and to envision a sustainable future: the eco-compass. It is used as part of a creative process to identify more eco-efficient alternatives to existing products and as a communication device.

This tool has six poles that are meant to comprise all environmental issues. Each pole represents an important environmental dimension. None of the dimensions are independent of the others. Energy intensity often corresponds with material intensity. Revalorization often saves resources. By using the eco-compass, firms are able to assess new projects or products on a life-cycle assessment approach and identify where improvements would be required.

An existing product is arbitrarily assigned a score of 2 on each scale. The assignment of scores in each of the six dimensions is often qualitative. Product innovations are scored relative to the existing product, resulting in a graphic display of their strengths and weaknesses. The ideal product scores 5 on all six objectives, covering the entire surface area of the hexagon.



framework for moving in this direction. It also provides practical tools that have been tested in many different locations and a network of partners to exchange information and to share ideas about implementing actions towards sustainable development.[57]

In fact, municipalities have the important responsibility of furthering sustainable development. This is twofold as they are carrying out operations themselves and influencing the development of their community through their land-use planning and other policies and regulations.

The heating and cooling of urban buildings, the consumption of electricity by local industries and businesses and the transport of people and goods to, from and within urban centres are all energy intensive activities. These produce greenhouse gases and other noxious emissions, take up land, cause congestion and many other nuisances that affect the quality of life of citizens. In addition, municipalities often control the mechanisms to change energy consumption patterns through land-use planning which determines the density mixture and physical layout of residential and commercial neighbourhoods.

The costs of managing and transporting wastes, finding the land necessary for landfills, operating incinerators and managing their emissions, are major issues faced by all OECD urban centres. There are no perfect solutions and none are free. The problems are local but also have global repercussions when one considers the resources and energy required for producing and disposing of goods. Aggressive waste separations and composting programmes have become more widespread and are generally supported by citizens in most countries. However as we have seen earlier, they have not succeeded in achieving a decoupling of waste generation from growth in wealth. New strategies to reverse this trend are needed and local authorities have a key role in developing and supporting the implementation of programmes in that respect.

Sustainable communities are about ensuring a better quality of life for everyone, now and for generations to come. Communities striving for sustainability seek to balance social progress, environmental protection, and prudent use of natural resources and maintenance of high levels of prosperity. Municipalities commonly seek to reach any one of these objectives but the concrete challenge of sustainable development is to address all of these in an integrated framework. In short, municipalities must bring together individual objectives for environmental, social and economic policies under the aegis of sustainability.

Achieving sustainability like any other major societal programme requires a sense of vision to articulate and communicate objectives. A vision is meant to initiate change and prepare the ground for innovation and evolution. Without a clear, understandable and convincing vision, progress will not be achieved. It has to set in motion a movement towards the achievement of its goals without unduly restricting the means to reach them. It must also be practical so that it can be operationalised at each level of the administration and within the environmental, economic and social sectors.

For such a process to succeed, the participation of all stakeholders is essential at the beginning when the objectives are defined, as well as during its implementation. With the help of indicators, progress can be monitored and adjustments to the policies can be made. Finally, incentives and rewards are an essential component of the drive to sustainability as they serve to recognise the effort and the performance of leaders whose actions will serve as an example for other stakeholders.

5. Conclusions

Balancing economic, social and environmental requirements of citizens in the face of constant changes is a demanding act. This is especially true when many of the changes are brought about by external factors beyond the reach of those in charge of managing municipalities and other communities. But the challenge for policy developers and decision-makers at the regional level is to find ways to instigate viable economic activities which generate wealth locally, which enhance local competitiveness, and which are compatible with the environment, culture, customs and ethical values of communities concerned.

Achieving this difficult task requires the participation of all major stakeholders of the community, business, municipalities, regional institutions and representatives of the civil society. As mergers of firms are nowadays a frequent means to improving their profitability, mergers of the minds of various stakeholders in a community is an equally sure way of moving towards sustainable development and a better standard of living for the long term. This requires vision, leadership and a strong sense of community.

Sustainable development is based on the integration of economic, social and environmental considerations. For this reason communities have to integrate them in a spatial dimension that is conducive to mutually beneficial initiatives. Such is the case for building capacity to improve the environmental performance of enterprises that contributes to improving the environment, to creating job opportunities and to finding new markets for local businesses. Another example is to promote tourism development in the interior of the CCV region to decrease the current pressure on the coastal area and to favour tourist activities based on the rich cultural heritage of the area. From an environmental point of view, protecting the water resource by using a watershed perspective including the coastal, the infra-coastal and the hinterland sub-regions ensures the conservation of a resource for which the quantity and the quality are of utmost importance. A watershed approach is often seen as a natural way of delimiting a region for planning purposes.

Notes

57. A particularly useful organisation giving support to these initiatives is the International Council for Local Environment Initiative.

Chapter 3

Implementing the CCV strategies by improving territorial governance

1. Production and institutional weakness of the Valencian Central Districts

1.1. Territorial governance and economic development in the CCV

As outlined, the Valencian Central Districts (Comarcas Centrales Valencianas — CCV) are part of the Valencian Autonomous Community (VAC)[58]. They consist of six Comarcas (*albeit* the Comarca has no legal function within the VAC), divided between the two provinces of Valencia and Alicante.

With the Constitution of 1978, although municipalities gained some political autonomy, the centre granted most of the power to the newly created Autonomous Communities. This existing strong centralisation at the regional level could be one of the reasons for the CCV lacking the "critical mass" of financial resources to promote its own solutions to its development issues or for lobbying at the regional level.

One of the main ideas enhanced by local actors in the Central Districts is overcoming the present feeling of isolation of the CCV, their population and their enterprises through a closer collaboration in the field of general economic and industrial policies.

At first sight, and from a strictly static economic point of view, the concept of "economies of scale or scope" of all six Comarcas is rather unclear. The coastal Comarcas and the inland Comarcas are very distinct regarding their economic structure. A closer institutional and business collaboration therefore would probably have no visible advantages. However:

– There are dynamic economic reasons in favour of a closer industrial integration.

– Several local experts and businessmen have pointed out that the educational system does not comply anymore with the evolving needs of the CCV businesses. The need for highly qualified, flexible and dedicated people is a precondition for economic success and development. Adapting the educational system to real needs requires a strong collaboration between different public and private sectors.

– The level of infrastructures supporting the economic activities of the CCV (communications and logistic, energy supply, wastes and water treatment, etc.) is insufficient, especially those concerning transport communications. In fact: *a)* there is a lack of easy road accessibility mainly to the inland districts; *b)* the internal road network has a number of bottlenecks[59], *c)* rail connections are good along the northern coast, but quite poor in the remaining Comarcas. Again, to solve this problem a strong collaboration between different public and private sectors is needed.

– Land use planning in the CCV suffers from a lack of co-ordination which leads on one hand to an excessive supply of land and on the other hand to surfaces that are too small for industrial purposes, and a kind of "wasteful competition" between the municipalities for attracting new businesses and the respective resources.

1.2. Provinces, municipalities and the lack of an intermediate level

The CCV, seen from a purely institutional point of view, are rather weak. The "Comarca", as a legal territorial entity, does not exist. Although Comarcas have strong historical connotations, the Autonomous Community does not recognise them — unlike the Autonomous Region of Catalonia — as a responsible political entity. And although there are many private actors (such as business associations or trade unions) organised at the Comarca level, for any kind of political action these associations have no official counterpart at the Comarca level. The CCV, thus, lacking a proper institutional background, have no political or financial power.[60]

The CCV are split by provincial borders. This could give rise to the classical problem of border regions struggling between the lack of attention from the next government level up, and the lack of co-ordination between two different policy units. However, during the assessment it became clear that the CCV do not suffer much from their position. The provinces within the VAC have little political power and therefore can not develop policies that overlap at the common border. They are primarily executive bodies performing certain policies on behalf of either the VAC (like road construction) or the municipalities (like co-ordination of land use planning). Therefore, there is more of a psychological than an institutional problem: seen from the respective provincial centres, the CCV as an entity simply do not exist. Nevertheless, the provincial borders are not completely irrelevant for political representation: elections and electoral districts in the VAC are defined at provincial level. In their respective provinces, the Comarcas belonging to the CCV represent only a minority of votes.

The decentralised character of the Spanish State has made no difference to the region-municipalities relationship. Whereas after democratisation in the 80's many responsibilities and resources were transferred to the Autonomous Regions, there was no parallel movement from regions to municipalities. The percentage of financial resources available to the municipalities has remained at a level of around 10 to 12 per cent of total public expenditure since the end of the 80's. At the same time, the level of the Autonomous Regions rose from zero to around 25 per cent. This contrasts with other similar or federal countries where the share between central, regional and local government is roughly one third each) (OECD, 1996: Table 122[61]).

In the CCV region the lack of an intermediate level between the municipalities and the VAC appears to be a problem. The municipalities are too small to co-ordinate public services that are above purely local and supralocal interest, and the VAC being too distant, does not adapt its policies to local needs. Therefore co-operation requirements are not provided for by existing partnerships (organisations like the *Mancomunitats* or co-operation of private actors) in several policy fields. Provinces might fill this gap, however the present setting appears to be inadequate. On one hand, there may be a lot of redundant work as the vertical "distance" between region and province is not large enough, on the other hand the province may still be too far removed from its counterparts, *e.g.* the municipalities.

2. Strategies to strengthen the production system

2.1. Industrial policy

As already pointed out, the local economic tissue of the CCV is composed mainly of clusters of industries that are strongly integrated but also monostructural by nature. Once a given sector is hit by an economic crisis, the area concerned will suffer severely. One strategy for coping with such a problem — instead of diversifying the area's economy thus losing the advantages of the existing structure — would be to group together with the adjacent areas that have different economic sectors. As different industrial sectors usually have different economic cycles the "downs" of one sector may be counterbalanced by the "ups" of the other ones.

Thus, one may see this collaboration as a sort of "territorial insurance" as it works like a wider portfolio or a financial fund on a territorial basis. If there are no explicit financial equalisation schemes between Autonomous Regions or Comarcas, then such collaboration makes sense from a dynamic efficient point of view.

The instruments necessary for such a "territorial insurance" would of course have to be developed. There might be, for example, some financial institutions like banks or insurance companies which would cover the whole CCV territory thus reducing the implicit risk of a downturn for one given Comarca.

Recommendation

– Create or strengthen local/regional partnerships at CCV level that show, to financial institutions, the CCV as a single entity with a diversified industry sector into which investment brings long-term advantages.

2.2. Education

The Polytechnic School of Alcoy is part of the University of Valencia. Among other course, the university offers business as well as technical studies that are directed at the local business sector. However, the curricula apparently have various shortcomings. With respect to the specific needs of the industrial sector in the area, the curricula:

– are too long;

– do not promote information technology as well as language skills;

– are theory-biased instead of promoting practical skills and comprise virtually no traineeships.

During the assessment visit, some suggestions for overcoming the drawbacks of the present educational system were discussed with relevant local actors. One proposal consisted of founding an important technological education and research centre in Alcoy. This centre would be much larger than the present one and attract people from even farther away than the CCV. The present polytechnic school has about 2000 students and attributes around 200 diplomas a year. The optimal number of students was considered to be around 3 000. The centre would be co-financed (in a kind of Public-Private-Partnership) by the University of Valencia, the municipalities, business associations and some larger firms that have a stake in the educational system. School fees and the stake that firms would have in the project, would both ensure that more attention would be paid to the needs of students and industry, whereas the stake which municipalities and the university have would ensure that overall standards and the societal objectives of education would be maintained.

Nevertheless, the number of students itself is no guarantee of the quality of the educational system. On the contrary, in most countries it is more often the small educational entities that have a strong aura and excellent ratings. Increasing the number of students often leads to a degradation in educational quality.

Furthermore, larger school entities are not necessarily cheaper than smaller ones. Extensive research on Swiss Polytechnic schools shows that economies of scale are reached rather quickly, after less than 100 to a few hundred students (Office Fédéral de la Formation Professionnelle et de la Technologie, 1998) — depending on the respective studies. Cramping together more students, and correspondingly decreasing the number of educational entities, is therefore not always an effective solution.

Whereas size hardly matters for purely educational purposes, it can matter for applied and fundamental research, and for customer services. Scientific excellence strongly depends on a certain number of researchers forming a critical research mass. One might call this the "minimal size for research competencies". If one supposes that education and research are strongly interrelated and that professors who teach usually do research as well, then one can assume that the larger the number of students, then the larger the number of professors who do research. In this sense, a larger university or polytechnic has a greater chance of achieving scientific excellence than a smaller one, and therefore the enlargement of the polytechnic school with more than just the CCV extension could raise the quality of education.

The idea of "critical mass" has been crucial for the recent reform of the Swiss polytechnic schools.[62] Polytechs are required to form "centres of competence" for which they are unique in the whole country. The "centres of competence" are mainly built around local comparative advantages and the specific industrial structure in the vicinity of the respective polytechnic school. These polytechnics may, *e.g.* excel in machinery, the financial sector or tourism. Students are attracted from much farther away than the vicinity of the school; some schools even have a considerable percentage of foreigners. The crucial thing is that, with their size and their excellence, they are able to contribute smoothly and flexibly to the needs of the local business structure. The polytechnics are therefore often co-financed by the respective municipalities, they get additional grants from the business community, or they perform applied research projects for customers such as firms, associations or regional or the national administration.

Recommendations

– Evaluate the possibility of enlarging the existing polytechnic school towards a supraregional "centre of competence". This enlargement would be based on the following cornerstones:

1. A "centre of competence" in Alcoy that attracts students from all over the CCV or even farther away. The same could probably be done for a business school specialised in tourism in Gandia that could attract knowledgeable people from the tourism sector from all over Spain.

2. Schools and curricula are not entirely dependent on the University of Valencia (and were only integrated in 1989). Curricula should develop independently from the existing university degrees, or at least be additional to the university's current curricula, and should be specialised in specific studies relevant to the business sectors concerned.
3. Cost recovering partially or totally through school fees; additional funds from municipalities (possibly Comarcas), business associations and large firms. Applied research projects may further contribute to the school's funding.
4. Creation of such an educational entity requires an institutionalised regional partnership at the CCV level and probably beyond.

2.3. Infrastructures

Public administrations, and particularly the regional government, have elaborated investment plans in almost all infrastructural aspects (Second Road Plan, Programme IRTA II, Directing Plan of Treatment of the Valencian Community, etc.) that could partially solve the existing problems and guarantee a greater respect of the environment, thus fostering sustainable development.

However, the present phase of budgetary restrictions and a lack of agreement by the municipalities involved do not permit clarification of the time scale for their implementation. Quarrels due to environmental reasons also exist. In fact it might be arguable, for example, that instead of promoting road construction that leads to additional traffic and air pollution, one should favour reconstruction and improvement of the railway system.

This problem of lacking infrastructure concerns two important aspects:

– The Central Districts lack a strong, unified commitment to a certain infrastructure policy. There is no organisation at the CCV level that could act as an "*interlocuteur valable*" for the different interested groups and which would negotiate with the Autonomous Region in Valencia. Neither has the Government in Valencia a defined and strong counterpart in the CCV.

– The CCV have no proper financial means and competencies to build and operate their own infrastructure. This also includes public transport — trains as well as buses. If the Autonomous Region turns down a certain project, the Central Districts have no comeback. The municipalities are too small to get involved in infrastructure activities at this level.

At present, what is missing is an institution located between the purely municipal and the regional levels. This institution could on one hand organise and possibly finance infrastructure development in the Comarcas such as roads or public transport, and on the other hand act as a lobbyist towards the VAC. As for education, this inter-Comarcas infrastructure partnership could be made up of public entities such as municipalities, *Mancomunitats* or the regional government in Valencia, as well as private enterprises from the specific sector.

Recommendations

– Build up a functional partnership at Comarca level aimed at enhancing infrastructure investments, with two main activities:
  1. Funding and co-ordinating infrastructure responsibilities such as road construction and/or putting into place a public transport system above the municipal level;
  2. Organising lobbying activities towards the regional government in order to get the appropriate level of regional infrastructure investment.

2.4. Land use planning

Land use planning at the municipal level and competition among municipalities for new businesses should not be considered wasteful. However, a certain co-ordination is always necessary at any level of government. Furthermore, as outlined, there may be externalities caused by the different environmental impacts of industrial plants that are not confined to single municipalities. On the other hand, land use decision-making at the provincial or Autonomous Region level may perhaps not be the most "efficient".

A body co-ordinating land use planning at the regional level that is close enough to the municipalities' needs is lacking. Many countries have so-called "planning regions" that serve as an intermediary between local and regional governments. Those regions are functional in the sense that their only task is co-ordinating land use planning and that they cover a surface considered as "appropriate" from a territorial — not a political — point of view.

Recommendation

– *Evaluate and introduce the idea of a "land use planning region" that assumes planning and co-ordination tasks from the regional as well as from municipal governments.*

3. Strategies to overcome the institutional weakness of the CCV

3.1. Comarca: a new functional entity?

The previous sections pointed out that the CCV in one way or another lack the "critical mass" and the competencies to apply appropriate policies. Gathering together on a new territorial basis will increase the potentialities of the Central

Districts as a whole. A stronger institutional commitment or institutionalised partnership is probably necessary in order to underpin the need for a stronger economic and social unity in the CCV, expressed by several local actors. This may be reached through a process of decision-making and common solution-finding based on the Comarca: on Comarca level, in collaboration with other Comarcas or in collaboration with the municipalities or the Autonomous Region in Valencia.

There is by no means a need for an additional government level. New governments tend to use up more tax money. A new administrative burden will simply eat away the possible gain from an institutionalised regional co-operation. Furthermore, there is a general tendency towards streamlining administrations, which is strongly opposed to a new government layer.

Nevertheless, it could be useful to rearrange and reassign responsibilities between government layers. Some policy fields like education, infrastructure, and land use planning require a territorial extension that lies beneath the region but is clearly beyond municipal responsibility. Intermediate units such as the Comarca could better balance the politico-territorial distribution of the VAC. Comarca's tasks would be restricted to the selected policy fields, therefore they would be considered as a functional, not a political entity.

Spanish law has adopted this kind of functional region but leaves the decision to the Autonomous Regions. *Comarcas* in an institutional sense were introduced, *e.g.* in the Autonomous Region of Catalonia. Article 46 of the "Statute of Autonomy of the Valencian Community" defines "*Comarcas*" as administrative circumscriptions of the *Generalitat* and local entities determined by the association of municipalities for the supply of services and management of common issues. They are created subject to a decision by the Valencian Parliament. Introducing the Comarca would therefore require this decision from parliament.

The Comarca would be the core for extended intra-regional co-operations and partnerships. These partnerships would arise voluntarily and be flexible, according to the optimal territorial extension. The resulting partnership pattern would be different for every policy field, as in the *Mancomunitats*, *e.g.* the single Comarca for directive land use planning, the six CCV-Comarcas (or even more) for managing higher education, two or three Comarcas for a regional public transport system, all CCV Comarcas for structural policies or for environmental purposes, etc.

In conclusion, disposing of selected, tailor-made responsibilities could be an efficient way to cope with regional or local needs:

- The Comarca policy tasks would be restricted to those for which there is a real need. For all other policy fields, the current task distribution within the VAC remains unchanged.
- Functional regions on the Comarca level can easily adapt to their optimal extension by collaborating with each other or with other levels of government.

Collaboration may even take place across regional and national borders. Technological change that modifies economies of scale and scope will be reflected in the extension of the functional region.

Suggestions

– *Evaluate the introduction of a law — comparable to the one in Catalonia — which allows for creating Comarcas (as partnerships for specific policy tasks: functional regions for planning, education, public transport, etc.) with financial resources and clearly defined responsibilities.*

– *Allow for vertical co-operation (Region-Comarca and Comarca-municipalities) and define the rules for horizontal collaboration.*

3.2. Mancomunitats: an example of horizontal co-operation and functional integration

Mancomunitats are inter-municipal, horizontal co-operation forms of several municipalities. They are designed to organise municipal tasks and responsibilities for which a single municipality would be too small (*Mancomunitats* are comparable to the German and Swiss "*Zweckverband*", the French "*syndicat*" or the English "special body"). *Mancomunitats* are based on the following principles:

– *Mancomunitats* are based on a voluntary and not on a compulsory basis. Every municipality may decide freely to take part in a *Mancomunitat*. The *Mancomunitat* of the Vall d'Albaida consists of 34 municipalities all of which adhered voluntarily to the *Mancomunitat*.

– *Mancomunitats* and their municipalities can collaborate across the borders of upper level governments. For example, the municipalities of the *Vall d'Albaida Mancomunitat* collaborate across Comarca and even provincial borders.

– *Mancomunitats* are functional along a "*géométrie variable*": although they provide several services such as waste disposal, social services, culture, etc., they do not provide these services for all municipalities. Some municipalities participate in only a few of these services, overlapping the "borders" of different services.

A municipality joins a specific *Mancomunitat* service if its share of the cost is lower than providing the service alone. The voluntary nature of the *Mancomunitat* thus leads to an optimal level of economies of scale and scope. Because economies of scale and scope are different for every function, the resulting pattern of functional regions is very diverse: it may appear that no functional region has the same shape.

What conclusions can be drawn from the *Mancomunitat* example?

– Functional collaboration on contractual grounds can work very well and often replace additional government layers or upper government interference.

- New information and new technologies changing the pattern of economies of scale and scope can easily be integrated by adapting the size of the functional region.
- Political borders can never be "optimal" in the sense that they can only by coincidence encompass the optimal territorial extension of a certain public service.

Mancomunitats allow lower government levels to take advantage of economies of scale and scope without upper level interference. They are an efficient means of reaching the optimal territorial extension for the provision of public goods. The functioning of the *Mancomunitats* is an example of the flexibility that is needed when implementing different policies. They show that this flexibility can only be reached if the co-operating entities are not too large, that the entities are to be allowed to co-operate across higher level (district, provincial, regional or even national) borders, and that these entities need a certain amount of financial autonomy in order to fund larger projects.

Horizontal co-operation has of course severe limits as long as it depends on voluntary collaboration. Too many municipalities may render the body ungovernable due to sheer size or to the strategic behaviour of participating communities (an outcome often seen in special bodies in Switzerland where success of the body depends on a minor fraction of the members). Furthermore, horizontal co-operation only works if every municipality gains an advantage from collaborating. Any kind of negative externalities are difficult to handle through horizontal co-operation.

However, the *Mancomunitat* system (which in other countries has been replaced by either centralisation or by the merger of municipalities) is noteworthy. The idea of the "functional region" as an image for flexible co-operation could be well maintained for selected policy fields and institutional processes at the Comarca level.

Recommendations

- Preserve and enlarge the idea of Mancomunitats as a system of efficient local partnerships, and give municipalities the right institutional and financial incentives to provide public service through such partnerships.
- Evaluate the idea of collaboration and Mancomunitat-like partnerships at Comarca level and between Comarcas, in order to render the CCV more visible and eventually to provide public services to the population of the CCV.

3.3. Municipalities: a need for more municipal autonomy?

The municipal level can play a key role for specific policy fields in the CCV. But the lack of adequate in-house financial resources contrasts with the amount of responsibilities. The duties, tasks and responsibilities the VAC municipalities have to assume are mainly the same as in other countries: local services, local infrastructure, some welfare services and, depending on municipal size, public transport.[63] Earmarked project resources from the regional government bridge the resulting discrepancy between responsibilities and resources.[64] Because earmarked funds always specify the target for which the money has to be spent, they largely reduce municipal autonomy. Therefore, despite their nominal independence, due to the responsibility-resources gap, the municipalities mainly execute tasks on behalf of upper government levels.

A striking example of the discrepancy between formal and real autonomy due to lack of financial resources are infrastructure investments by the municipal collaboration bodies called *Mancomunitats*: if the municipalities or the *Mancomunitat* try to implement new infrastructures, they heavily depend on earmarked resources from the VAC. Those resources amount to 75 to 80 per cent of total cost; the municipalities are only able to furnish 20 to 25 per cent (of which a part is recovered by user fees). The *Mancomunitat* has to present a detailed project to the region, which may reject it, and funding with it. This vertical dependency reduces markedly the *Mancomunitats*' autonomy — and it is an additional burden for the regional administration in Valencia, which has to evaluate and select appropriate municipal projects. It did not come as a surprise that most of the municipal actors interviewed were in favour of an increase in the share of autonomous financial resources.

Suggestion

– Evaluate the possibility of reducing the resources-responsibility gap at the municipal level, either through an increase in the tax share of the municipalities or an increase in unconditional grants from the regional government.[65]

Conclusions

The CCV is a socio-culturally-homogenous entity quite distinct from the surrounding regions. The Central Districts economy, as a whole, is rather successful. Most political, social and economic actors from the different territorial units (municipalities, *Mancomunitats*, trade unions, business associations, etc.) have the impression that some policy fields, mainly the fields of education, transport infrastructure and land use planning, are not run to the satisfaction of the region. Some of those policy fields are considered crucial for stable long-term economic development.

The greatest problem in the Central Districts is probably lack of critical mass. The CCV currently lack institutional coherence — they can neither assume specific responsibilities, nor can they be politically influential and therefore attract public resources from the Valencian Autonomous Community. There is no institutional layer between the municipalities and the region that would enable flexible collaboration both horizontally as well as vertically *e.g.* a “CCV partnership”. There is no institutional level from which relevant partnerships could be formed or which could serve as a basis for a flexible functional collaboration across municipal or provincial borders. All the included recommendations are based on these facts.

Notes

58. The entire VAC is divided into three provinces.
59. Mainly the road between Alcoy and Ontinyent (one of the main intra-CCV connections) which is overcrowded and slow.
60. In some of the interviews it was said that the CCV, despite their economic success, felt neglected by the decisionmakers in Valencia or Madrid.
61. However, the revenue statistics underestimate the effective financial power of sub-central governments because they do not comprise vertical transfers.
62. Some three years ago.
63. Pujadas: Ordenacion y planificacion territorial.
64. According to a comparative research on the spending power within federations: of all federations and semi-federations, Spain was the country where the lower level of government depended most on transfers from upper level governments. Overall, 77% of the revenue of Spanish lower level governments stems from transfers granted by upper level governments.
65. This suggestion is in line with Art. 9 of the European Chart of Local Self-government.

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