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Locational Tournaments, Strategic Partnerships and the State

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Introduction

There is widespread agreement in the literature that over the past two decades, the knowledge-intensity of production has increased across a broad spectrum of industries and competition has both globalized and become more innovation-based.\(^1\) A consensus also seems to be emerging that to survive in this new competitive world, firms, regions and states must become part of a ‘learning economy’ in which learning and unlearning of habits and practices, institutions and conventions is a continuous process.\(^2\)

In a recent paper, Bengt-Åke Lundvall (1995) observed that traditional economic theory, which is concerned with the making of choices between well-defined alternatives and the allocation of scarce resources, deals less well with the uncertainties and dynamics that are integral to the learning economy.\(^3\) For Lundvall, adopting a learning and innovation perspective will thus require a shift in focus away from the allocation of existing resources in the context of a stable set of parameters, to the creation of new resources in a situation marked by continuous changes in technologies, preferences and institutions. Under such conditions, this paper argues, ‘learning to allocate’ is less important than ‘learning to learn’ and the future position of firms, regions and states will likely reflect their capacity to learn and unlearn.

This chapter looks at locational tournaments\(^4\) and strategic partnerships from the perspective of learning and innovation. Its purpose is to explore the effects of turbulence created by globalized innovation-based competition and the heightened capital mobility to which it has given rise, on the learning environment for small and medium-sized enterprises (SMEs) many of which are suppliers in what have become international production networks. It thus situates these firms in two potential learning contexts, those produced regionally, through the impact of locational tournaments on local clusters of enterprises, and those made possible through spatially dispersed strategic partnerships. The focus is primarily on Europe, but in looking specifically at changing competitive conditions in industries such as electronics and...
automobiles it confronts head-on the phenomenon of globalization and its impact on regional economies elsewhere as well.

The first section sets out a framework for analyzing the relationship between the turbulence created by accelerated capital mobility and learning and innovation within local economies. The second section examines the potential for learning and innovation by SMEs through long-distance partnering stimulated by the European Union’s research and technology development (RTD) programs in R&D-intensive industries, such as electronics, and through participation in more traditional local supplier–client relationships in the automobile industry. To set the European case more broadly, the paper makes a brief reference to the impact of foreign direct investment on the Brazilian automobile industry in recent years. The third section concludes that globalization is having a profound effect on the durability of local linkages. In some industries it also appears to be reshaping the possibilities for learning and innovation through long-distance partnerships. For the SME sector, however, it is clear that dynamic regional economies remain of critical importance in creating the capacity and accelerating the speed with which small and medium-sized enterprises are able to adjust to change. Policies to attract foreign investment must be rethought from this perspective.

**Capital mobility and turbulent learning environments**

Much of the contemporary literature on globalization regards capital mobility as inevitable or treats it as a social ‘good’, stressing the efficient use of capital that is assumed to result and ignoring the disruptive effects on employment and local development that it produces.\(^5\) By the mid-1990s, estimates placed the value of all capital account transactions at between $900 billion and $1 trillion per day or roughly $350 trillion per year (UNDP, 1994, p. 69). The value of world trade in the year 1992, however, barely reached $5 trillion – $3,640 billion in world merchandise trade and a further $1,000 billion in world trade in commercial services (GATT, 1993, p. 1). Thus, neither the needs of world trade nor foreign direct investment flows, which averaged only $140 billion per year over the period 1987–91 (UNCTAD, 1993, pp. 243–7), can account for the magnitude of capital account transactions. As much as 70 per cent of capital account transactions, therefore, are short term in nature, less than a year to maturity and most of this is probably speculative – arbitrages seeking to profit from exchange rate fluctuations or interest rate differentials. This was the background to the Asian financial crisis of the late 1990s and in retrospect it appears to have contributed to the banking crisis in the United States in the 1980s and the 1992 crisis in the European Monetary System (UNCTAD, 1998a, pp. 53–79). On several occasions, Nobel Laureate James Tobin has called attention to the fact that such capital flows