INSTITUTIONAL ASPECTS OF REGIONAL/LOCAL ECONOMIC DEVELOPMENT

A THESIS SUBMITTED TO
THE GRADUATE SCHOOL OF NATURAL AND APPLIED SCIENCES
OF
THE MIDDLE EAST TECHNICAL UNIVERSITY

BY

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IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF
DOCTOR OF PHILOSOPHY
IN
THE DEPARTMENT OF CITY AND REGIONAL PLANNING

MARCH 2002

Approval of the Graduate School of Natural and Applied Sciences

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ABSTRACT

INSTITUTIONAL ASPECTS OF REGIONAL/ LOCAL ECONOMIC DEVELOPMENT

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March 2002, 284 pages

The main aim of the thesis is to understand the influence of institutional factors on the regional/ local economic development prospects. The basic statement is that capitalist development is entering a phase in which regions becoming the primary unit of spatial organization and production and the issues of regional regulation have a crucial role to maintain economic development in the new global competition.

The scope of this study is
-to examine changing general theoretical ideas about regional development processes
-to review some of the important changes which have occurred in twentieth century affecting the environment in which regional economies operate; the implications of transformations in the global production and regulation mechanisms
-to develop a framework for analysing the institutional structure of a locality
-to discuss the institutional aspects of local economic development through the experiences of world and Turkish cases
-to search for a new model

The study will focus on a set of theoretical tools involving interdependent dimensions of

regional economic development such as regulationist theory, institutional economics, evolutionary economics, economic geography. Along these theoretical perspectives, the importance of an institutional atmosphere in the creation and maintenance of an agglomeration will be emphasised through the case of Denizli, a new growth node in Turkey.

The handling of the case Denizli will be an attempt to explain the institutional arrangement of an agglomeration.

The methodology of the study is, theoretical literature survey, comparative analysis of different related cases with reference to available literature, statistical data of different institutions and publications, field surveys and in-depth interviews.

Key Words: Local economic development, new institutionalism, institutional economics, evolutionary economics, industrial districts, socio-spatial, socio-economic geography.

ÖZ

BÖLGESEL/YEREL EKONOMİK GELİŞMENİN KURUMSAL YÖNLERİ

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Tezin ana hedefi kurumsal faktörlerin bölgesel/yerel ekonomik gelişim üzerindeki etkisini anlamaktır. Tezin temel önermesi; kapitalist gelişimin, bölgelerin mekansal organizasyon ve üretimde temel birimler olduğu bir aşamaya girmekte olduğu ve yeni küresel rekabet ortamında bölgesel düzenleme konularının ekonomik gelişimin devam ettirilmesinde yaşamsal rol oynadığıdır.

Bu çalışmanın kapsamı;

- bölgesel gelişim süreçleri ile ilgili değişen genel teorileri incelemek,
- yirminci yüzyılda meydana gelen, bölgesel ekonomileri etkileyen değişimleri ve küresel üretim ve düzenleme mekanizmalarındaki dönüşümleri incelemek,
- yerel ekonomilerin kurumsal yapısını incelemek için çerçeve geliştirmek,
- yerel ekonomik gelişmenin kurumsal yönünü dünya ve Türkiye örnekleri çerçevesinde tartışmak
- yeni bir model araştırmaktır.

Çalışma, düzenlemeci teori, kurumsal ekonomi, ekonomik coğrafya gibi bölgesel ekonomik gelişimin birbirine bağlı boyutlarını içeren teorilerden faydalanmaktadır. Bu teorik bakış açılarının yanında, yığılmanın yaratılmasında ve devamlılığında kurumsal atmosferin önemi, Türkiye'de yeni bir büyüme odağı olan Denizli örneği ile

vurgulanmaktadır. Denizli örneğinin ele alınması, bir yığılmanın kurumsal düzenlenmesinin incelenmesine bir deneme olacaktır.

Çalışmanın metodolojisi, teorik literatür araştırması, mevcut literature referanslı benzer örneklerin karşılaştırmalı analizi, farklı kurumların ve yayınların istatistiki verileri, alan araştırmaları ve derinlemesine görüşmelerdir.

Anahtar Kelimeler: Yerel ekonomik gelişme, yeni kurumsallaşma, kurumsal ekonomi,evrimci ekonomi, sanayi bölgeleri, sosyo-mekansal, sosyo-ekonomik coğrafya

ACKNOWLEDGEMENTS

I am deeply grateful to my supervisor Prof. Ayda ERAYDIN. Without her invaluable comments, encouragement and patience this study would not have been completed.

I owe thanks to several people I met in Denizli who helped me a lot during the field surveys.

Special thanks are due to my friends Çiğdem VAROL, Bilge Armatlı KÖROĞLU and Burak BEYHAN for their valuable help throughout the field surveys and also for their insightful comments on the drafts of the study.

I am very grateful to Tunga KÖROĞLU for his worthy cooperation in the arrangement of the study.

I would also like to thank to Ertuğrul ECERAL for his moral support throughout the study. Finally, I would like to thank to my family for their constant support throughout my education life.

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INTRODUCTION

I.1 Aim and Scope

The main aim of the thesis is to understand the influence of institutional factors on the economic development prospects of regions in an era of globalisation. The basic statement is that capitalist development is entering a phase in which regions becoming the primary unit of spatial organization and production and the issues of regional regulation have a crucial role to maintain economic development in the new global competition.

World capitalism is moving into a phase of development marked by an intensified regionalisation of production overlaid by a global division of labour. In this process, a significant reallocation of economic coordination and steering functions is occurring away from the sovereign state, up to the international and down to the regional levels. The combined process of global integration and regional concentration of economic activity raise important questions about appropriate forms of regulation in the new world order.

The late 1970s and early 1980s period witnessed a growing appreciation of the fact that the nationally-oriented Fordist-Keynesian political economic compromise, variations of which had become hegemonic in most 'core' Western countries after the Second World War, was reaching exhaustion (Lipietz 1987). As part and parcel of this structural crisis, many of the institutions of post-war capitalism-fordist mass production, were being fiercely challenged (Hirsch 1983). The erosion of post-world war institutions has accelerated and addressed a key question: what other economic institutions should replace the configuration of post-war regulatory regimes and Keynesian strategies? (Lange and Kulessa 1997).

The current era is marked by a profound degree of uncertainty in prevailing economic and political relations. At the root of this uncertainty are three interrelated processes; the emergence of a new information technology paradigm that is dramatically altering economic calculus of production and distribution; the phenomenon of globalisation which is increasing the linkages and interdependence between the economies of Europe, North America and East Asia; and the gradual decline of Fordist methods of standardised mass production and distribution with profound implications for the occupational structures and patterns of employment throughout these economies. The resulting dislocation raises fundamental questions about the future roles and relationships of different levels of governance –at the global, national and regional levels of the economy and society.

These developments are focusing attention on the changing role of the regions. A number of factors contribute to the increasing salience of regions in the emerging global economy. Complex systems of technology production processes and industrial organisation, and their supporting infrastructures of social and political institutions exhibit distinctive spatial characteristics. Production relations tend to aggregate over time among networks of firms following the pattern of input-output relations, or traded interdependencies, that form the basis of information exchange in the local economy.

The scope of this thesis is;

-to review some of the important changes which have occurred in twentieth century affecting the environment in which regional economies operate; the implications of transformations in the global production and regulation mechanisms and geographical reorganization of capitalism,

-to examine changing general theoretical ideas about regional economic development processes and the recent debate about institutional approach to economic geography,

-to examine the role of institutional structures in the development of dynamic local production systems through some of the success stories of industrial and regional development in 1980s and 1990s,

-to develop a framework for analysing the institutional arrangement of an agglomeration,

-to search for a new model of regional economic development through the emphasis of an institutional atmosphere in the creation and maintenance of an agglomeration through an empirical study from Turkey, Denizli,

-to speculate on region-specific policy axioms on local economic development

I.2 Theoretical Framework

Since the mid-1990s, we have seen the flourishing of a new economic geography with 'strong institutionalist' accounts (Peck 2000). Deriving much of their conceptual inspiration from the institutionalist paradigm, and their empirical evidence from many of the industrial districts that had originally featured in debates on post-Fordism, these perspectives share two common premises (Lange and Kulessa 1997).

The first offers, the local and the global are intricately intertwined in a process of institutionalisation where "local initiatives structure responses to processes of globalisation and themselves become part of the process....of globalisation" (Amin and Thrift 1994, p.257). Moreover, globalisation does not represent the end of territorial distinctions and distinctiveness, but an added set of influences on local economic identities and development capabilities.

The second contends that production is territorially embedded in social and cultural relations and dependent upon processes of cognition (different forms of rationality); culture (different forms of shared understanding or collective consciousness); social structure (networks of interpersonal relationships) and politics (the way in which economic institutions are shaped by the state class forces). Local economic development reflect how locally relevant actors can shape the course of economic evolution by mobilising 'flexible institutional strategies' through an appropriate blend of organisational support structures and embedded 'social capital' (Putnam 1993). The latter refers to institutional infrastructures such as knowledge-creating networks of trust and reciprocal ties, which complement investments in human and physical infrastructures and which sometimes draw on traditional, familial, and community-based resources.

The lineage of these concerns can be traced as far back as the late 1970s and some key research in various research programmes which took the role of economic and political institutions seriously in their explanation such as; evolutionary economics (Nelson and Winter 1982) on technological innovation, neo-Schumpeterian theory (Freeman et.al 1982) on economic long waves, industrial sociology (Sabel 1982) on labour process,

economic geography (Bluestone and Harrison 1982) on regional decline, French regulation theory (Aglietta 1979) on economic crisis, European state theory (Hirsch 1983) on political legitimacy and early work on industrial districts on local economic development.

Institutionalist outlook, which is behind all these research programmes, seeks to redefine what is considered to be 'the economic' through the progression of an emerging socio-economics (Amin and Thrift, 1995). Viewed from this lens, markets are socially constructed; economies are diachronic, evolutionary, and volatile; and economic behaviour is itself self-embedded in and shaped through a whole range of institutional habits, seemingly nonrational cultural mores, knowledge-creating networks, and place-based ties of proximity (Lange and Kulessa 1997). All of which implies a recourse to contingency and contextuality in theory formation and a key role for geography in the configuration of any institutionalist mode of inquiry, not least through the growing appreciation of 'evidence-based research' (Amin and Thrift 2000; Barnes 1999; Martin 2000).

Following these recent debates in the literature, the thesis focuses on a set of theoretical tools involving interdependent dimensions of regional economic development. **Regulationist theory** provides us with a view of economic history as a chain of distinctive periods, together with a concept of the multi-layered and political character of capitalist accumulation. These periods are defined by specific economic practices consisting of dominant sets of production relations (embodied in ensembles of leading industries), complemented by different political and quasi-political arrangements which coordinate the economy. Perhaps with much of the pioneering regulationist work assuming a national ontological focus (Boyer 1990), the theory might easily give the impression of being impoverished as a framework for urban and regional inquiry. However over the last few years, a number of reforms have been made in order to take account of urban and regional restructuring, the role of subnational regulation, the shifting nature and spatial structures of the state, and related questions of scale. Regulation approach have been most instructive in establishing a continuously evolving framework with which to enrich an institutionalist perspective (Lange and Kulessa 1997).

The regulation approach is most distinctive for its ensemble of intermediate concepts, the institutional form, emerges from "individual and or collective agency acting within and upon the historically produced social configuration" (Mouleart and Swyngedouw 1992, p.40), and allows analytical links to be made between the general logic of accumulation and more concrete expressions like firms(Lange and Kulessa 1997).

Evolutionary approach conceives of the development of technologies, markets, and institutions as pathways whose historical trajectory is governed by the complex interplay between prevailing rules of social order, and the probing and experimental character of much economic behaviour in the context of prior states of the system.

There is a potentially fruitful complementarity concerning two different levels of description. The aggregate functional and institutional regularities which are the starting point of most regulation models could possibly be shown to be emergent properties of underlying, explicitly microfounded, evolutionary models, appropriately enriched in their institutional specifications (Coriat and Dosi 1998).

One of the main concerns of this thesis is to broaden our vision about the emerging new economic geography exploring the prospects of interaction and integration of various strands of **institutionalist theories** and **evolutionary theory**, with particular emphasis on the **regulation approach** (Coriat and Dosi 1998). Through the exploration of the prospects of interaction and integration of various strands of institutionalist theories, the thesis emphasises the different levels of observation and different primary phenomena to be explained based on evolutionary and regulationist approaches.

Coriat and Dosi (1998) put the points that both evolutionary and regulation approaches have in common: They do share some methodological commitment to the understanding of dynamic patterns; they both also depart from the canonic view of the economy as a 'naturally' self-regulating system; moreover, their microfoundations (explicit in most 'evolutionary' contributions, implicit in most of the 'regulationist' ones) imply much less than perfect rationality and foresight; and finally they share a deep commitment to the idea that 'institutions matter'.

Both evolutionary and regulation approaches share the idea that a good deal of individual and collective behaviours are 'boundedly rational', context-dependent and relatively inertial over time, shape as they are by equally inertial institutions in which they are embedded (Coriat and Dosi 1998). In a word, both approaches share the view that a good deal of the reproduction of the socio-economic fabric rests on the development and implementation of organisational routines. However, most organisational routines entail a double nature: on the one hand, they store and reproduce problem-solving competences, while, at the same time, they are also mechanisms of governance of potentially conflictual relations.

As Coriat and Dosi(1998) discuss, we are very far from a consistency across levels of descriptions in economics. However, it is necesary to suggest a theory-informed dialogue between bottom-up (microfounded, and so on) evolutionary approaches and more top-down (aggregate albeit institutionally richer) regulation ones. This will help to rigorously define the bridges between micro behaviours and entities at different levels of aggregation, also will highlight potential conflicts of interpretation which are currently often confused by level-of-description issues.

Of course the thesis does not claim that straightforward links between levels of description can be made without resorting to a lot of further 'phenomenological', history-based, specifications. However it is handy, first, the consistency in principle between the levels of description; second, the fact that a good deal of higher-level properties can be understood as emerging properties from lower-level dynamics; and third, that without a lot of additional 'phenomenological' information, generic emergent properties are not enough to determine why something is something but not another thing (Coriat and Dosi 1998).

I.3 Outline

Along these theoretical perspectives, the circumstances in which regional economies operate in terms of both real world and theoretical developments in the twentieth century is analysed in the following chapter. The first part examines accumulation and regulation systems which affect regional economies from the point of view of regulation theory. Subsequent to an overview on the accumulation systems of twentieth century, the characteristics and changing structure of national state, the development of international

regulation system and the ongoing structuring of global regulation system is examined. Within this framework the regional regulation is taken up under two headings, "Traditional Regional Regulation" and "Newly Emerging Regional Regulation: New Regionalism" to emphasise the changing conditions of regional regulation.

The second part examines the development of economic thoughts and regional theories and models as ideas concerning regional growth processes are largely derived from general economic doctrine. The construction of this part is again based on a distinction emphasising the traditional regional economic development theories, which are derived from the general economic theories such as neoclassical, Keynesian and neo-liberal theories, and the various schools and models emerged in the post-Fordist debate. The attempts in the latter debate are far from a complete theory but rather an effort to understand and define the conditions of the last decades which regional economies are faced.

Third chapter aims to assess the contribution of neo-institutional theories to economic regulation of regions and discusses how the institutional approach can contribute to the new theorization of regional/local economic development and why do we need to look through the perspective of institutional approach. In the first part, the context of institutional paradigm, the concepts of institution, organisation and institutional change are examined. In the second part, the contribution of institutional paradigm to the theory of economic geography is examined through the notions appeared in the post-fordist debate of regional development models.

Fourth chapter examines the "industrial district model", which is the empirical evidence of post-fordist debates. The first part of this chapter discusses the stylised facts of the model. In the second part, the successful industrial clusters emerged in the world economic geography after 1980s is examined comparatively. In the third part institutional factors that leads to success in industrial districts are emphasised. In the fourth part, the effects of institutional factors in industrial districts are evaluated.

Fifth chapter, discusses the methodological, analytical and policy implications of institutional approach for economic geography. Evaluation of these issues also leads to the

determination of general principles for analysing the institutional environment of a regional economy.

In the fourth chapter, the answer to "why only some territories have become more successful agglomerations" will be searched by examining the dynamics behind this development -the complex set of institutional conditions which are not ubiquitously available- through the case of Denizli, which is the most celebrated example of the new growth nodes in Turkey after 1980s. The first three parts of the fourth chapter represent a descriptive analysis. In the first part Denizli is compared with metropolitan regions and new growth nodes in Turkey. The second part analyse, local economic development history of Denizli through the industrialisation stages and institutional set-up at the national level and their implications at the spatial level. The third part is an analysis based on mostly statistical data, which aims to understand Denizli's existing economic structure, putting the specialisation, agglomeration and character of production. The fourth part of the fourth chapter inquires the institutional atmosphere of Denizli with non-measurable statements. This part attempts to explain the relationships between localised institutional structures and localised economic and social change which are stated to be both reciprocal and vary due to different phases of development. It is the institutional approach, which will bring the specificity of Denizli by emphasising the different institutional spheres interconnected and the cumulative interactive effect in shaping the local economy. The last part of this chapter evaluates empirical modelling of Denizli case through theoretical implications of institutional approach and the observed facts .

The last chapter as a conclusion, provides an evaluation to what extent this thesis has fulfilled its objectives and discusses forming a framework of an analysis of a local economy from the perspective of institutional approach; extending our knowledge about the institutional aspects of local economic development; and speculating about the shaping or informing policy prospects addressing the regions which continue to cope and prosper, given the constraints within which they must work in a globalising world.

CHAPTER II

REGIONAL/LOCAL ECONOMIC DEVELOPMENT IN THE TWENTIETH CENTURY

This chapter aims to analyse the circumstances in which regional economies operate in terms of both real world and theoretical developments in the twentieth century.

The first part takes up different accumulation and regulation systems which affect the functioning of regional economies according to the regulation theory. Subsequent to the identification of accumulation systems appeared in the twentieth century, the characteristics and changing structure of national state, the development of international regulation system and the ongoing structures of global regulation system will be examined. The regional regulation is taken up under two headings as "Traditional Regional Regulation" and "Newly Emerging Regional Regulation: New Regionalism". Also, in this part European Union Regional Policies will be discussed as an example of supranational initiation on new regional regulation.

The second part examines the economic thoughts which affect the development of regional theories and models. Ideas concerning regional growth processes are largely derived from more general economic doctrine. The construction of this part is again based on a distinction emphasising the traditional regional economic development theories which are derived from the general economic theories such as neoclassical, Keynesian and neo-liberal theories, and the various schools and models appeared in the post-Fordist debate. The attempts in the latter debate are far from a complete theory but rather an effort to understand and define the conditions of the last decades which regional economies are faced.

II.1 Phases Of Accumulation And Regulation Systems

The neo-classical economic orthodoxies which had provided explanations of change in the market economies of the world for most of the twentieth century, failed to explain the major shift which occurred in the mid 1970s. What needed were better explanations and among the post-Keynesian models, Regulation Approach (RA) have attracted greatest attention.

Since its origins in 1970s Paris, the RA has been widely popularised so that it now forms one of the leading paradigms in institutional economics and evolutionary political economy (Boyer 1990, Jessop 1997a, 1997b). In their investigation of the institutionalisation of socio-economic and political life, regulationists emphasise the contingent coupling between a particular *regime of accumulation*, which represents a macro economically coherent and reproducible relationship between production, distribution, and consumption, and its associated *mode of regulation* (Peck and Tickell 1995). Mode of regulation (MoR) is often defined quite simply as the extra-economic institutions and social norms that help codify the accumulation regime.

Multi-dimensional reading of the MoR is analysable on five interconnecting levels: These are 1) the wage relation which abstracts relations between the labour process, labour force reproduction, labour market governance, and lifestyles; 2) forms of competition, or relations between autonomous and fragmented centres of accumulation and how this manifests as corporate ties and links to banking capital; 3) monetary and financial regulation vis-à-vis the dominant banking and credit system and the relative allocations to sectors: 4) the state and governance including the state's internal structures, its system of representation, patterns of intervention (for example public versus private), and the institutionalisation of its social bases of popular support; and 5) the international regime or the way in which trade, investment, monetary settlements and political arrangements help to integrate national and regional economies, nation-state and the world system.

The way of stylised arguments, as in the transition from extensive to intensive Fordism, the RA has usefully characterised different national variants of accumulation-regulation and their associated institutionalised compromises (Aglietta 1979; Lipietz 1987; Peck and Tickell 1994). "Accumulation and regulation will 'couple' together in different ways in

different places, with differing degrees of functionality and with differing politico-economic consequences. These different interactions ...may have the important effect of 'causing national and regional economies to develop along divergent paths'" (Peck 1994, p.169).

To theorize the transitions one needs to clarify, the links between regional development trajectories and national mode of social regulations and the interaction between nation-states and the globally dominant regime of accumulation. Also the international sphere, have to be reintegrated. The approach to existing institutional structures will, identify the constraints which are inherited from the decaying regime and will identify the new collective subjects.

II.1.1 Accumulation Systems

Various writers have recognized that world development in the twentieth century can be divided into four phases as shown in the Table 2 (Tickell and Peck, 1992; Storper and Scott, 1992; Capello, 1996; Chisholm 1990). A regime of accumulation is a relatively stable and reproducible relationship between production and consumption defined at the level of international economy as a whole. Three regimes of accumulation can be identified in the twentieth century: the extensive regime, intensive (or Fordist) regime and flexible regime. Together with the intervening periods of structural crises, these are illustrated in Table 2.

An extensive accumulation system was dominant globally from the late nineteenth century until the onset of the First World War. During this time, growth was achieved incrementally, through the insertion of additional productive factors into the capitalist circuit. Accumulation occurred as a result of the expansion of capitalist relations into new industrial sectors, new areas within the core industries and new countries. It was a period of rapidly growing demand and the major problem for individual units of capital was meeting demand for their goods in expanding markets. The extensive accumulation system was complemented by a mode of competitive regulation. At the level of the nation-state the mode of social regulation was economically liberal and non-interventionist. At the international level competitive regulation was characterized by British hegemony and the gold standard.

After the First World War, technical progress spread to consumer goods industries, which altered the structure of the regime of accumulation. However, there was insufficient consumer spending power to create an effective demand for increased production in consumer goods. This created structural crises during the 1930s. The core of the problem was that the competitive mode of social regulation was unable to form a social framework where wages could increase in line with productivity growth.

The period between the two world wars was one of a long transition between the extensive regime and a phase of intensive accumulation or Fordism. Technical changes often involving deskilling, brought about significant increase in labour productivity in both capital and consumer goods industries after the Second World War. This productivity growth led to a massive rise in real wages which, in turn triggered the formation of mass markets for consumer goods.

A monopolistic mode of social regulation complemented the intensive accumulation system. Monopoly conditions in the productive sphere allowed firms to maintain prices irrespective of demand. Nation-states became interventionist through social programs in order to maintain the levels of total consumption. Wage levels were determined collectively which increased the bargaining power of workers and contributed to real wage rises which again stimulated the growth in consumer demand.

This coupling of intensive accumulation and monopolistic regulation under the Fordist regime began to dysfunction from the late 1960s, although structural crises were not manifest until the mid-1970s. In the late 1960s there was a slow-down in productivity growth in the core Fordist countries as the leading industrial branches reached technical limits in the context of rising real wages. At the same time investment and capital intensification in consumer goods slowed down.

This unfolding structural crises triggered further internationalisation of production brought about increased charges on welfare states (as a result of increased unemployment) and led to a reduction in aggregate demand, which in turn caused problems of over-capacity and difficulty in debt-repayment for companies. The internationalisation of production and the growth of the export sector meant that wages were increasingly seen as a drag on economic competitiveness rather than a contributor to consumption. Consequently, real

wages began to slow down and then decline, compounding the problems of stagnating consumer demand. Keynesian demand management faltered, becoming discredited as a macroeconomic philosophy.

It is suggested that the crises of Fordism was exacerbated by 'exogenous' shocks to the system. First, Japan began to present a considerable threat to the established Fordist economies of Europe and North America. Secondly, in 1973 there was sudden and massive rise in the oil rent charged by the petroleum producing nations, which had acute inflationary consequences. Finally, international indebtness began to grow. Initially this supported export-based industries in the developed world and enabled the international financial system to cope with the new oil revenues.

In spite of the dominating position of Fordist mass production over much of the 20th century, more flexible patterns of industrial organization were always present, and even preceded the historical emergence of Fordism. However the specific forms of flexible production that are now shifting into an increasingly central position in the advanced capitalist economies have their origins in the period following World War II, and have grown to major economic prominence only since about the end of the 1960s.

Flexible production systems refer to forms of production characterized by a well developed ability both to shift promptly from one process or product configuration to another, and to adjust quantities of output rapidly up or down over the short run without any strongly deleterious effects on levels of efficiency. Both of these type of flexibilities are achieved through a variety of intersecting strategies. Within the firm flexibility may be attained through general purpose, non-dedicated equipment and machinery and/or craft labour processes. In the domain of inter-firm relations, flexibility is achieved by extensions of the social division of labour facilitating rapid changing in combinations of vertical and horizontal linkage between producers, thus leading to intensification of external economies of scale in the production system as a whole. In addition, the labour markets associated with flexible production systems tend to be typified by high rates of turnover, and by the proliferation of part-time and temporary work as well as homework.

Individual units of production in flexible production systems are usually less specialized and smaller in size than mass production units. They are technologically capable of

achieving great flexibility of production within their own spheres of operation and at the same time this flexibility is multiplied by the system effects of the social division of labour, which permits the formation and re-formation of interdependent combinations of producers. Product differentiation increases as a result, and markets become increasingly competitive.

The rise of the new flexible technological-institutional model of production has coincidentally been accompanied in the majority of the advanced capitalist countries by the electoral success of governments committed in varying degrees to attempts to dismantle the apparatus of Keynesian welfare-statism. Backed up by resurgent neo-conservative ideologies, these governments are attempting to install new policies putatively designed to reinforce economic competition, entrepreneurialism, privatisation, and self-reliance.

II.1.2 Regulation Systems

A mode of regulation is a complex of institutions and norms which secure, at least for certain period, the adjustment of individual agents and social groups to the overarching principles of the accumulation regime. In an effort to comprehend this radically indeterminate reconfiguration and rescaling of institutional performance, certain regulationist scholars have explored the conditions that might lead to particular local or regional modes of social regulation (Peck and Tickell 1992, 1995). Peck and Tickell examine how various functions of the regulatory mode may be enacted at a variety of superimposing and overlapping spatial scales.

Following this outlook, in the first section, the regional regulation in the twentieth century, is analysed through different levels, and the relations between these different levels, such as global-national, national-local, global-local.
Then in the second section, the regional level regulation will be taken up under two headings as "Traditional Regional Regulation" and "Newly Emerging Regional Regulation". This distinction will enable us to emphasise the crises of Fordism during the 1970s and 1980s and the transformation process whose effects still shaping emerging regulation systems.

Table 1. Phases of regulation and accumulation in the twentieth century

	to 1914	1918-39	1945-73	1974-present
Accumulation system	Extensive	Emerging intensive	Intensive (Fordist regime)	Emerging flexible? Protracted crises?
Mode of social regulation	Competitive	Crises of competitive	Monopolistic (Fordist-Keynesian mode)	Crises of monopolistic. Emerging neo-competitive? neo-conservative?
Dominant Economic Thought	Neo-classical	Neo-classical	Keynesian	Neo-Marxist Neo-Liberal monetarist supply-side evolutionary?
Determinants of the efficiency of econ. system			Economies of scale	Economies of scope Network externalities
Organization of production	Workshop	Factory system	Vertically integrated	Vertically disintegrated Quasi-vertical integration
Technology	Technical progress in capital goods industries	Technical progress in consumer goods ind.	Automated hardware	Information and communication technologies
Institutional Form	Micro-economic actors (firms and individuals) Governments ought not to intervene except taxation and expenditure to provide collective goods and serv.	→	Interventionalist role of state International Financial Institution Oligopolistic multi-establishment corporations Industry-wide labor unions	Enabler and facilitator role of state Supranational & subnational institutions Multinational enterprises, international subcontracting, interfirm strategic alliances, international agreements Self-help institutions, activity groups
Industrial and Spatial Development Theories	Mill and workshop complexes	→	Large firm paradigm Optimum location Hierarchy in place system	The industrial district paradigm(1970-85) The network paradigm (1985 onwards)
Regional Development Theories	Self-balance models of resource allocation	→ Location models	Growth pole theories Core-periphery theories	Uneven regional development theories Learning region
Local Development	Introvert endogenous development	→	Development driven by external forces	Development from below Local/global development

Source: Adapted and derived from; Tickell and Peck,1992; Storper and Scott, 1992; Capello, 1996; Chisholm,1990,

II.1.2.1 International and National Regulation

The development of large-scale Fordist industry in the early decades of the 20th century re[illegible]orced the connection between capitalism and the sovereign state. The connection was sealed by the peculiar national versions of Keynesian and welfare-statist policy that emerged after World War II in response to certain systemic failures of the Fordist model of industrial and social development (Scott, 1996).

The mutual advantages to be obtained from inter-national trade, and other forms of economic exchange, led to concerted political efforts over the post-war years to establish an orderly international system. The critical event of this new economic system was the Bretton Woods Conference of 1944, where arrangements for a prospective international currency system worked out. The conference also established two major financial institutions (IMF and World Bank) to carry out its mandates. In 1947, the General Arrangement on Tariffs and Trade (GATT) was established to regulate trade between the m[illegible] capitalist countries, with Japan joining later in 1955.

The growth of world's national economies was facilitated by continual lowering of tariff barriers and the removal of other institutional impediments to trade as well as by the dramatic improvements in transportation and communication technologies. The advent of large-scale container transport by land and sea, the proliferation of inexpensive international air connections, and the emergence of worldwide electronic communications systems of all sorts, reduced the costs of transacting between different countries and increased the velocity of circulation of goods and information. As a result, national economic systems have gradually, but inexorably, invaded one another's territory and have become intertwined together in extended divisions of labour. One consequence of the evident erosion of the economic boundaries between sovereign states that has been going or[illegible]s that the power of individual states to control their internal economic destiny is waning.

The efforts made over the post World War II era to establish supranational mechanisms of economic coordination go someway towards dealing with the most critical of these challenges, and many new initiatives are in progress. We seem now to be shifting into a transitional political phase on the way to a more effective global regime. The emergence

of multinational economic alliances like the European Union, NAFTA, ASEAN, and others, in which groups of countries essentially give up elements of their economic sovereignty in exchange for wider access to resources and markets under strong contractual and institutional guarantees of cooperation. Also, GATT has been reorganized as the World Trade Organization and given additional authority to pursue its free trade agendas. One further symptom of this drift is the expansion in the number of international organizations of all varieties that has occurred of late.

Characteristics of National State

In the post-war period, Keynesian Welfare National State was primary among the various spatial scales of formal political organization (with local and regional states tending to serve as transmission belts for national economic and social politics and with the key institutions at supra-national level comprising various international and intergovernmental institutions designed to promote cooperation among national states in securing the various conditions for national economic and political regeneration after the Second World War). Among the various spatial scales of economic organization, the national economy was adjudged dominant for state action, was defined and measured in terms of national aggregates, and was managed primarily with reference to targeted variation in these aggregates. The primary focus of state economic strategies and economic regulation was a relatively closed national economy, with local or regional economies being regarded as territorial sub-units of the national economy and with the international economy largely taking the form of financial and trade flows among different national economies.

Table 2. Regulation Systems

Spatial Scale	KEYNESIAN SYSTEM OF REGULATION	FACTORS BEHIND THE TRANSFORMATION OF THE REG. SYSTEM	NEWLY EMERGING SYSTEM OF REGULATION
Global System	An international regulated space. Bretton Woods financial system and GATT underwrite financial stability and global trade, acting as mechanisms which transmit Fordist features internationally. International financial institutions; International Monetary Fund Inter. Bank for Reconstruction and Develop. General Agreements on Tariffs and Trade	Factors behind the transformation of global regulation; the rise of new technologies growing internationalisation the paradigm shift from Fordism to Post-Fordism the regionalisation of global and national economies; the formation of supra-regional triad economies and the re-emergence of regional and local economies	New international financial system operates outwith control of regulators, while 'market logic' dominates negotiations over the GATT. Creation of 24 hour global markets enable capital to engage in 'regulatory arbitrage', further undermining regulation.
National scale	Central regulatory functions dispensed by Keynesian welfare state which secures conditions for mass production and consumption in a relatively closed national economy	National state in crises centrality of the sovereign state called into question by the legitimacy crisis as the state no longer able to guarantee full employment and economic growth	De-nationalization of state, as national governments cede power to supranational and local bodies. state functions shared with non-state bodies to reduce the overload De-statization of the national state decentralized forms of governance functional reorganization of state activities shift from the top-down hierarchical organization to an emphasis on promoting and steering the self-organization of interorganizational relations Remaining key role of nation state; -as the most significant site of struggle among competing global, triadic, supranational, national, regional and local forces; and -in the development and strengthening of national innovation systems and the maintenance of social cohesion
Global-national relations	Key institutions at supra-national level comprising various international and intergovernmental institutions designed to promote cooperation among national states in securing the various conditions for national economic and political regeneration after the second world war	Crises of international regimes	The internationalization of nation state The growth of supranational regimes both in number and in scope of their responsibilities Nation states cede powers to emergent supranational bodies which attempt to control internationalization of financial and productive capital. TNCs engage in regulatory arbitrage.

Table 2 (cont.)

National-local relations	Centralization and consolidation of nation state powers as governments attempt to control national economies and introduce social welfare systems. Nation states seek to ameliorate the worst effects of uneven development via regional policy	Growing conflict between local states and central government Failure of regional policy	The resurgence of regional and local governance. Reorientation of local economic activities, with an increasing emphasis placed on economic regeneration and on how best to make local or regional economies more competitive in the new world economy Growing variety of forms and strategies of state intervention Geographically specific political responses . Essential to establish new institutional arrangements and allocate specific roles and complementary competences across different spatial scales
Local scale	Local and regional states tending to serve as transmission belts for national economic or social politics Key regulatory functions around social reproduction dispensed through local welfare states	Fiscal crisis of national state transmitted to the local state, undermining local welfarism	Development of local endogenous growth potential through more active supply-side measures which are organized through regional and/or local states in partnership with regional and/or local key players. Growing interest among local states in regional labour market policies, education and training, technology transfer, local venture capital, innovation centres, science parks etc. According to another view, local states remained powerless in global economy, reacting to external economic forces, Few degrees of local freedom. An emerging trend towards trans-local linkages, reflected in increased cross-border cooperation among neighbouring local or regional states (ex. regional or local authorities engaged in vertical links with EC institutions)

Source: Adapted and derived from Peck and Tickell,1995; Jessop, 1996; Bennett, 1996

The primary object of welfare and social reproduction policies was the resident national population and its various constituent households and individual citizens and the basic units or 'elements' of the state's social basis comprised individual political subjects endowed, as citizens of the national state, with various legal, political, and social rights, and organized as members of economic-corporate organizations (trade unions and business associations) and as supporters of responsible political parties fit for government.

Although most national economies have been organized around major urban economies and have been integrated into pluri-national productive systems, the various urban and pluri-national economies associated with Fordism were primarily managed in and through the national state. Thus as objects of political management, the complex field of economic relations was handled as if it were divided into a series of relatively closed national economies. Urban and regional policy was primarily redistributive in character, pursued in a top-down manner and concerned to equalize economic and social conditions within such national economies.

In short, the construction of the national economy and its associated national state should be seen as a specific historical moment in the changing dynamic of 'reproduction-regulation'. This suggests in turn the recent transformation of the national economy and its associated national state should be related to the changing forms of accumulation and their impact on the continued feasibility and plausibility of treating economic relations as primarily national in form (Jessop, 1996).

There was the development of the national state marked by an optimistic and temperate reformism in the 1960s. From the 1970s onwards, however three successive but partially overlapping series of debates and reflections on this state form have occurred. The first series involved assertions that the modern state was in crisis. Whether due to an excess of demands placed upon it a scarcity of resources to meet them, a deficit in state capacities to pursue objectives, a loss of political cohesion, declining faith in the legitimacy of government, or simple overload, it was held that the national state was no longer functioning as expected. Among the most common suggestions here were that state functions should be shared with non-state bodies to reduce the overload on a state apparatus which had become over-extended.

The centrality of the sovereign state itself was called into question due to a legitimacy crises as the state no longer seemed able to guarantee full employment and growth, to achieve such official national economic objectives as full employment, stable prices, economic growth, and a manageable balance of payments. These crises tendencies aggravated by growing conflicts between local states and central government: and by the crises of the international regimes organized under American hegemony which meant they were less able to secure the conditions for effective economic and political performance by national state.

Moreover, regional and local economies were increasingly recognized to have their own specific problems which could be resolved neither through national macro-economic policies nor through uniformly imposed meso or micro economic policies. This prompted demands for specifically tailored and targeted urban and regional policies to be implemented from below.

There was also a crises of forms of political representation which were based on 'governing parties', 'business unionism', and capitalist associations. 'New social movements' developed to challenge the industrial logic of Atlantic Fordism and the statist logic of Keynesian welfarism in favour of alternative forms of economic and political organization and an anti-bureaucratic, autonomous, politicised civil society.

Table 3 Changes in State function at different levels of political centralization under flexible accumulation

State functions with respect to economic life	National	Regional	Local
Wage labor relation			
collective bargaining	-	+	+
(co)organizer of social security system	-	+	?
Direct intervention in economic activity			
promoting innovative capital	+	+	+
rationalization of traditional capital	+	?	?
physical social investments:			
- complementary	-	+	+
- discretionary	-	+	+
indicative planning	-	+	+
Supranational bargaining with respect to:			
international monetary or financial system	-,+		
economic co-operation (direct investments joint ventures etc.)	-	+	+

Source: Mouleart *et al.*, 1988.

As table 4 indicates, Mouleart *et al.* (1988), predict an ongoing process of disintegration between the nation-state and the economic sphere under flexible accumulation. The nation-state is seen to withdraw progressively from intervention in the wage labour relation, in planning and physical social investment and in the process of supranational economic co-operation. In contrast, the regional and local state is endowed with a considerably enhanced role in direct economic intervention, bargaining with local firms and unions and promoting innovation.

II.1.2.2 Regional Regulation

II.1.2.2.1 Traditional Regional Regulation

During the 1930s, an important distinction between the American and West European approach to regional policy came to light: in the USA, priority was given to development programmes for individual cities, areas and states, while in western Europe, the state produced a national strategy of regional development with defined foci of activity based on it. Thus the scale of regional policy in Western Europe was far greater. This is linked to the lesser development of state-monopolistic capitalism in the USA, and to the federal organisation of the state, with autonomous states.

Regional anti-disparity policies emerged in Western Europe in the post-war era as an extension of Keynesian macro-economic management. Economically, the aim was to improve what were seen as market imperfections in the allocation of resources.

Capital tended to flow to central places close to markets, a tendency exacerbated by technological changes which liberated newer industries from their ties to raw materials and waterways. This produced higher levels of unemployment and lower regional incomes in depressed regions, together with overheating and inflationary pressures in the booming areas.

Governments therefore adopted a series of diversionary policies. The main instruments were: grants and incentives to private investors to locate in development regions; restrictions on investment in booming locations; the diversion of public-sector investments into development regions; public infrastructure investment in advance of need, to create favourable conditions for growth.

However, 1970s crisis showed that it was impossible to continue regional development policies based on strong government intervention and external transfer of capital. One reason was the experience of policy failures, expensive projects which did not link effectively to their local and regional economies, produce spin-off jobs or stimulate a regional multiplier effect. In many cases, regional policy was given inadequate administrative means, consisting of grants and incentives without the necessary coordination, monitoring and follow-up. Linkage to sectoral policies and to local land use planning was not always ideal, despite the efforts of states to modernise their local government structure to facilitate this. In some cases, the failure was political, either of will or the result of corruption and patronage. After all, if regions did succeed in achieving self-sustaining growth, they would no longer need regional aid and a powerful instrument of clientelism and patronage would be lost (Keating 19).

Under the conditions at the end of the 1970s and start of the 1980s, the ideas about the requirement of the state to maintain territorial justice, possibly only through a decrease in economic efficiency, were criticised by both politicians and scientists. The practical consequence was the a-fore-mentioned reduction in the scale of regional policy spending.

The opening of European and international lets has led to a shift of priorities on the part of national governments. Instead of putting resources into backward regions, they feel increasingly compelled to favour their most dynamic sectors and locations in order to maximise national competitiveness. The increased international mobility of capital makes it more difficult for governments to steer investments, since a firm is able to choose a variety of world sites and no longer feels constrained to go to a development region. Hence governments have moved to sectoral rather than regional aid, guided by national considerations. As the commitment to full employment has been abandoned, social problems, including the management of unemployment, have been separated from mainstream economic management. Social priorities themselves have also been redefined, as has the spatial geography of need. Urban problems have emerged within regions which are, overall, prosperous, so spatial problems have become more complex and policies inconsistent.

The traditional regional regulation, which guided policy between the 1950s and 1980s, was based on the state and its command of macro-economic policy and an array of

interventionist instruments. The common assumption in both Keynesian legacy and the neoliberal approach, despite their fundamental differences over the necessity for state intervention and over the equilibrating powers of the market, has been that top-down policies can be applied universally to all types of region (Dunford, 1998). Critics of this approach complained that these policies were ineffective, or merely produced dependent forms of development rather than self-sustaining growth, development alien to the needs and cultural traditions of many regions, based on the assumption that the mass production model of industrialisation was the future of everyone (Keating 1988 p.140).

In 1980s, the international context became more important marked by competitive growth rather than consensual management (Smouths, 1998). This ongoing is dominated mostly by the economic dimension and the changes in the nature of capitalist production. However, by the end of the 1980s, crisis of neo-liberal ideas and a partial return to the former ideals based on social values can be seen. During the 1980s it has become clearer that the market cannot guarantee optimum acceptance of decisions from the social point of view.

II.1.2.2.2 Newly Emerging Regional Regulation: "New Regionalism"

The new initiatives since mid 1970s were different from the previously dominant regional policy in the sense that they were the attempts to transform the ideas about what a desirable economy is and how to achieve it rather than the form of spatial economic policy (Eisenshitz and Gough, 1993). The suggestion that there is 'new regionalism' is now commonly made widely accepted. Recent claims concerning the new regionalism –that is, the 're-emergence' of the region as a unit of economic analysis and the territorial space most suited to the interaction of political, social and economic processes in an era of globalisation (Tomaney and Ward, 2000).

The New Regionalism designates a body of thought which comprises '1) the historico-empirical claim that "the region" is becoming the "crucible" of economic development; and 2) the normative bias that "the region" should be prime focus of economic policy' (Lovering 1999a,p.380). The logic of the New Regionalism as a process is inextricably tied in with the supposed transition from Fordism to post-Fordism (Webb D. and Collis C., 2000).

Sengenberger (1993) notes, the renaissance of the region has been due in large part to the perceived necessity for regional action in an environment characterised by i) the loss of macro-economic policy influence on the part of national governments in the global system; ii) the fact that regions have been the site for resolving large-scale restructuring problems since 1970s; and iii) the apparent success of some high profile dynamic regions in generating growth via regional productivity coalitions, based on local clusters of firms with strong inter-firm linkages and /or relations on trust.

It is claimed that the state has been transformed and in the process was losing its former ability to manage spatial change and development (Keating 1988, p:139). Its power and authority has been eroded from three directions: from above by internationalisation; from below by regional and local assertion; and laterally by the advance of the market and civil society, eroding its capacities in economic management, in social solidarity, in culture and identity formation, as well as its institutional configuration (Keating 1988, p.140). Specifically, a gap has emerged between the system of representation through state institutions, and decision-making that has retreated into technical and social networks. It is suggested that this leads to a divorce between 'politics' and public policy, which by implication can be filled by regional democracy (Tomaney J. and Ward N., 2000). The new regionalism is an attempt to modernise and forward-look, in contrast to an older provincialism, which represented resistance to change and defence of tradition. Yet both old and new regionalism continue to coexist in uneasy partnership, seeking a new synthesis of the universal and the particular (Keating 1988pp.72-73).

Now, the context was provided not just by the state as in the past, but also by the changing international market and the emerging continental regime. Regions are pitted in competition for niches in world markets, for investment and for technological advantage. This has profound implications for policy, as well as for politics, as competition over distributive issues within regions is replaced by competition between regions (Keating 1988, p.140).

There is a search for new mechanisms for managing the impact of economic change on territories, focused more on the contribution of regions themselves and less on the directing and planning policies of the state (Keating 1988). Policies now put less emphasis

on investment incentives provided by the central state and more emphasis on the endogenous growth, or the attraction of investment by the qualities linked to the region, like the environment, the quality of life or the labour force. Policy has also shifted from infrastructure provision to human capital and business development, tasks requiring a more refined capacity for intervention on the ground. Attraction of inward investment is still emphasised, but even here the stress has moved from grants and subsidies to promoting the competitive advantages of the region as a location to do business (Trigilia 1996). There is much encouragement of networks among producers, and of private-public partnerships to mobilise local energies and resources. Labour market policy and training are given prominence. These type of supply-side policies do not need to be managed centrally and, indeed, require a high degree of local knowledge and connections and a capacity for horizontal integration. So policy has been decentralised to regional and local institutions, themselves increasingly in competition with each other (Keating 1988p.141).

Regionalism is still closely connected with planning, especially for large infrastructure projects which, in the absence of regional decision-making, could be under-provided (because of an unwillingness to share external benefits) or over-provided (because of competition to attract complementary investment). Ports, airports, major highways, railways, universities and research centres and major industrial sites would be examples. Regions are also seen as an appropriate level for determining priorities and programming in capital investments which have repercussions for wide areas. So a regional level of planning has often been introduced within sectorally-defined functions, such as education or health, even where the primary policy responsibility lies at another level (ibid, p.81).

Some scholars address the fuzziness of 'new regionalism' (Smouths M.C., 1998). The historico-empirical claim that the new wave of regionalism represents a bottom-up movement informed by demands for greater democracy and framed by 'hollowing out' of the state has been challenged by theorisations which point to the new regionalism as a top-down centrally orchestrated movement informed by the economic need to secure an institutional basis for the continued reproduction of the process of capital accumulation. It is claimed that hollowing out of the state has been exaggerated while the forces for centralisation of control at higher levels of governance remain strong and overwhelming (Keating 1988). Also, the normative bias of the new regionalism has also been challenged (success stories). Even where phenomena such as the 'new industrial spaces' can be

identified, it is far from clear whether they signal the emergence of a 'new paradigm' (Tomaney J. and Ward N., 2000). The barriers to emulation of these systems are high, not because they probably owe a large part of their dynamism to institutional and cultural structures that have been built over a long period. Moreover, even among the new industrial spaces there are many differences, often reflecting their particular national setting making it difficult to derive a general account of their characteristics. To date there have been few efforts to undertake a general analysis of the dynamics of regional growth taking into account economic, social and political factors. Even now it is not clear whether they represent a contingent response to turbulent economic conditions or a new model of economic development for the twenty-first. In short, while there have been significant economic changes it is very difficult to generalise about their impacts on regions.

Moreover there are territories which do not have the capacity to impose their logic and will be forced into dependence on state or on the international market. Regionalism is a complex phenomenon which cannot be reduced to the notion of a 'level' in the new territorial hierarchy (Keating 1998,p.28).

II.2 Economic Thoughts And Regional Theories

"Traditional Regional Economic Theories", which had been effective until to the end of 1970s are derived from the general economic doctrines which had been effective in those periods. The economic doctrines which had been mostly effective in the development of traditional regional economic theories is taken here, generally as Neo-classical Theory, Keynesian and Neo-Marxist Radical Theories and Neo-Liberal Theories. In the post-Fordist debate, there is not a whole theory of economy and so a regional economic development theory. Thus, there are debates on models derived from various schools which are mostly based on evolving notions to understand the developments in the post-Fordist era. This section will examine the traditional regional economic development theories and the schools and models on regional economic development in the post-Fordist debate. Here the approaches of various schools are generalised for their emphasis and partly for their time sequence of entering into the debates, as Endogenous Development Approach, Evolutionary Approach and Communitarian Approach.

II.2.1 Traditional Regional Economic Development Theories

The main economic theories which had affected the formation of traditional regional economic development theories will be examined in this section. Neoclassical economic theory was dominant in the early phases of twentieth century. After the 1930s crises and especially in 1950s and 1960s Keynesian revolution had been prominent in regional growth theories. Keynesian theories was challenged by both neo-Marxist radical and monetarist supply-side approaches in 1970s and 1980s. Neo-Liberal theory had been significant from the 1970s to 1980s but has less significance as it could not be incorporated into the theory of regional economic development.

Neo-classical theory was essentially micro-economic -concerned with individuals and firms, and their behaviour. It was clearly recognized that behaviour (as buyers, sellers, producers and consumers) is conditioned by the actions of all the other micro-economic actors as they respond to market signals

Neo-classical economists concentrate on self-balance models of resource allocation. They assume that capital and labour will migrate to areas where they can get the highest possible wage or profit. Profit maximization is the main concern for individuals or firms so they will act according to this economic rationale. In this framework, there is no need for intervention because in a perfectly competitive regional economy, a balanced distribution and growth will be reached in the long-run. The analysis is based on decision-making at the micro-level of individual enterprise but put in a regional context to show the locational preferences with respect to transportation and labour costs. In this sense, the theory expects the capital to flow to low-wage areas and capital-labour ratios are expected to be highest in high-wage areas due to the substitution principle.

The strongest conclusion is the proposition that the market mechanisms provide the most efficient allocation of resources and that any intervention which 'distorts' the system away from the market optimality is undesirable. If this conclusion is accepted, then governments ought not to intervene at all, except in so far that taxation and expenditure are necessary in order to provide collective goods and services. Allocation of resources should be left to market mechanisms.

There was a strong attack on the neo-classical doctrines pertaining to an imagined world of perfect competition. Attention had been drawn to the spatial implications of monopolistic and imperfect competition and to the fact that the costs of the overcoming space provide an important reason why no real economy can function as postulated by the perfect competition model. To view the space economy in general terms is to think of the interdependence of locations and activities, the link between location and price and the role of transport costs.

In order to isolate the impact of transportation and labour costs on spatial agglomeration, many restrictive and artificial assumptions have to be made. For example Weber (1909) has assumed that the cost of labour is fixed and unlimited and transportation costs are proportional to distance. He has contributed to following regional theories by dealing with 'agglomeration factors'. Lösch (1944), on the other hand, has described an economic region as a homogeneous plain with uniform distribution of raw materials, uniform transport surface, uniform distribution of population, uniform tastes and preferences, uniform technical knowledge and uniform production opportunities. Isard (1960) has also used some assumptions, such as a fixed price for a single homogeneous product and no scale economies. In his early work he has emphasized the role of market mechanism in arranging the activities in optimal profit maximizing places in a hierarchical economic landscape. In his later work he has tried to include social, political and administrative aspects together with economic considerations.

The achievement was to have systematised the conditions required for an efficient ordering of the economic landscape, based on the principle of minimising total movement costs. These ideas have been influential in the planning of individual settlements and in some cases whole settlement systems.

Keynesian ideas of economic management dominated the 1950s and 1960s, had a profound and pervasive effect on regional economic thought. During this period, neo-classical ideas were often used as a basis for comparison with Keynesian concepts.

Keynesianism is an outcome of mature capitalism and it became popular together with the crises of 1930 when the interventionalist role of state was seen to be crucial in achieving stability and continuous growth of capitalist systems. During this period legitimate state

intervention was seen necessary for the 'promotion of economic growth, the maintenance of full employment and the redistribution of income' (Friedman, 1983). Keynes has claimed that as capital is accumulated, new capital investment opportunities are exhausted and as a result capital accumulation and progress slows down. He believes that aggregate demand created by consumption and investment are necessary for continuous development and growth. Keynesian view of regional development became prominent in the post-war period, drawing upon Keynesian thinking and the work of the other scholars, and emphasizing the disequilibrium nature of regional growth processes.

Marx was the first person who analysed capitalism itself in creating imbalances. In the 1950s the process of uneven development and also theories based on imperialism, i.e. dependency theories started to be discussed. Agglomeration of economic activity in certain areas at the expense of others is accepted by all of them but the reasons are explained from different points of view. Instead of spaceless supply and demand constraints and capital and labour flows, historical development of physical and material conditions and the dynamic social and spatial structures started to be considered in analysis.

The idea of 'cumulative causation' was provided by Perroux in the early 1950s, followed later that decade by Mrydal (1957) and Hirschman (1958). Perroux was much influenced by Schumpeter's emphasis on innovation as the basis for development and the associated idea of 'propulsive industry'. Myrdal calls the negative effects of growth centers 'backwash effects' and the positive ones 'spread effects'. Hirschman, emphasized the trickling down effect of growth poles in the long-run. North, elaborated a growth process propelled by exports.

The disequilibrium, cumulative causation model of regional growth postulates that favoured regions will inexorably and inevitably forge ahead, while other regions decline in relative and perhaps even in absolute terms. This positive theory suggests that if a government employs measures to concentrate new investment in a limited number of centres it will be possible to create the multiplier and scale effects which will ensure continued self-sustaining growth (Rodwin, 1963).

Relations of core-periphery have been analysed by many authors. For example Rodwin has proposed a strategy of 'concentrated decentralization' for economically backward regions. According to Friedmann development originates in a small number of centres due to its interactions in the communication plane. He has emphasized the hierarchical relationships, ranging from the province to the world. He has also stressed the tensions between core and periphery in diminishing the authority-dependency relations. In other words, he gives importance to institutional and organizational framework of society and includes cultural and political processes in the process of economic development.

Imbalance theory as a whole has been successful in analysing the 'traps' in the development process and the impotence of internal and external economies. It has also emphasized the uneven development in the free working of the capitalist market. In most development theories, state is given an important role in correcting the imbalances created by the market and this was easier in 1950s and 1960s because the competitive position of regions were much more similar and growth potentials were larger.

Nevertheless, the idea of unequal exchange clearly has certain attractions, in that the source of underdevelopment is located externally to the country in question, within the operation of global capitalist system. In this sense the blame for the poverty of the poor lies largely with the rich. Furthermore the doctrine has a clear and ready extension from the international setting to the relationships of regions within nations. Peripheral regions and smaller cities, it is held, suffer a net loss of resources, while the centre (usually the capital) is regarded as being a net beneficiary.

Since the early 1970s, the ascendancy of Keynesianism has been challenged in two fronts. One has been mounted by economists persuaded of the virtues of monetarism and the importance of the supply-side of the economy. Keynesian consensus emphasized the role of demand management to the virtual exclusion of supply-side issues. In the regional context, regional economies were viewed as dominated by the exogenous demand for their products or by the exogenous injection of demand through government intervention. So far as supply-side issues were considered, they were treated in neo-classical terms - population as an exogenous factor and the mobility of (homogeneous) capital and labour in response to differing rewards but tending to equality in equilibrium. Supply-side issues of a more disaggregated nature were largely ignored, as also the question of technological

change and the role of the entrepreneur in fostering economic growth (Chisholm,1990). Although there has been remarkable growth in supply-side practice at the regional level, nobody has yet fully formulated ideas of regional growth in supply-side terms.

The other challenge has been mounted by radical-minded scholars persuaded of the merits of the writings of Marx and others in that tradition. In neo-Marxist radical approaches which were significant in 1970s and 1980s, Marxian concepts are used by many authors in regional analysis from different perspectives. According to Massey (1978) the first category is the group of theorists who use the general laws of historical materialism and study the spatial effects. In this group Holland (1976) has analysed the inevitable tendency of capital to concentrate in certain locations. Lipietz (1977) has studied the law of value which is shaped over space. Lipietz analysed the laws of motion of capital over space to explain uneven development. He has studied the unequal exchange between different modes of production to show regional disparities. Regions dominated by peasant and artisanal 'petty commodity production' are in a disadvantageous position compared to regions dominated by 'capitalist commodity production' and developed technical and organizational structure. Castells (1977) has considered urban space as the place of consumption and the region as the place of production. He claims that the dominant mode of production, which is the monopoly capitalism, structures social life as well as space by segmenting space in various ways. The result is the concentration of large multi-regional and multi-national enterprises in favourable locations. This brings about regional inequalities with respect to production. Castells' formulation is criticized due to the neglect of mutual dependence between production and consumption and over-estimation of the urban instead of the spatial representation of the social relations of production.

The second group of theories explain unequal regional development through dependency, unequal exchange and imperialism theories (Massey,1978). The theorists share the idea that development and underdevelopment are interrelated. Inequalities are considered to be necessary for continued capital accumulation and the reproduction of the capitalist mode of production. Inequality is analysed in the international or national levels in terms of developed and underdeveloped nations or regions.

These theories have been criticized mainly with respect to the division of the world into static core and periphery regions. In addition, the newly industrializing countries in the

East in 1970s, the vulnerability of the developed economies in the face of oil crises and the new industrial division of labour (Smith, 1986). Another criticism is due to the fact that they have not developed a theory of development.

Various theorists adapted the dependency paradigm to geographical space to explain the uneven geographical development in capitalist mode of production. According to Soja (1978), capitalism needs to create, intensify and maintain regional inequalities to survive. He also tries to formulate dialectical relationships between spatial and social rejections of production. Smith (1986) tries to establish the uneven development under capitalism due to different historical conditions.

In sum, in the neoclassical and Keynesian models, the regional growth or decline is perceived to be related either to the availability of factors of production, such as land, labour, capital and enterpreneurship and the relaxation of supply constraints by attracting capital and labour or the role of external markets which create demand on the products of a region and multiplier -accelerator effect of basic industries in a region. They overestimate the characteristics of regions in causing growth or decline. These models perceive factors of production in quantitative terms, excluding continuously changing material and physical conditions due to new technologies and production processes. They also disregard the dynamic social structure which leads to modifications in the material and spatial structures and which at the same time is shaped by the modifications themselves. Artificial assumptions are necessary to show how equilibrium conditions are reached but they are unable to explain why imbalance occurs all over the world and whether this problem can be settled at all. Neo-marxist critique goes a good deal further. It is asserted that the technical relations of production and consumption can only be understood by reference to the social relations, the sets of relationship constituting a mode of production.

Monetarist supply-side approach of neo-liberal theories which were significant in the 1970s and 1980s, suggested that supply can create its own demand at the regional level. In this respect technological leads and lags become crucial, as does the role of entrepreneurial talent. The dynamics of regional growth and decline is explained as the intersection of the interests and responses of entrepreneurs and firms on the one hand and the interests and responses of workers and inhabitants on the other.

A more recent line of analysis revolves around the new spatial and international division of labour -mediated by the multi-establishment, multinational enterprise - in which the various phases of the production process are differentially allocated across space in relation to their varying technological and skill characteristics. In this view, advanced technical and managerial tasks are typically allocated to core regions, and routinized, low-skill, labour intensive activities are allocated to the periphery. Trade then occurs between different regions but within the large firm (Storper and Scott, 1992).

In contradistinction to the traditional theory of trade, comparative advantage is only rarely a matter of pre-given endowments. Comparative advantage is more frequently humanly created in the very process of trade, and one of the important ways in which this occurs is through a trajectory of regional development in which industrial agglomerations with their stocks of external economies are steadily brought into being.

Whereas many kinds of commodity chains are spread out across the globe, as described by the theory of the new spatial/international division of labour, the most rapidly growing industries today are often strongly associated with particular industrial agglomerations. In any one of these agglomerations, semi-manufactured outputs, subassemblies and other kinds of inputs are made within the local industrial network, are then passed on to plants in other locations and other agglomerations. In most industries today, a combination of agglomeration of key activities coexists with dispersal of other elements of the commodity chain; in brief, the 'roundaboutness' of the division of labour is both functional and spatial. Accordingly there can be no absolute opposition between the theory of agglomeration and the theory of the new spatial/international division of labour.

As we enter a new millennium the classical paradigms of social and economic development seem to have exhausted themselves. The paradigms of the Left, ranging from neo-Keynesian to Marxist, are impaired by an exaggerated and naive faith in the capacity of the state. Less credible is the neo-liberal paradigm of the Right, whose adherents are unable or unwilling to recognize the shortcomings of the market as a mechanism for promoting economic development and social welfare. For all their differences the classical paradigms are afflicted by dualisms -state versus market, public versus private, etc.- which need to be transcended rather than affirmed in a one-sided fashion. In contrast some of the

more eclectic 'third wave' conceptions of development consciously try to eschew such binary thinking so as to open up inquiry regional processes and intermediate institutions that were marginalized by the inordinate attention devoted to 'state' and 'market' (Morgan, 1997).

Over the past two decades, innovation- understood in the broad sense to include product, process and organizational innovation in the firm as well as social and institutional innovation at the level of an industry, region and nation- has assumed an ever more central role in theories of economic development.

A new school of economic theory has developed over the past few years which has tried to build on some of Schumpeter's key insights: that capitalism is an *evolutionary* process driven by technical and organizational innovation; a process in which firms face a greater degree of uncertainty and instability than is ever admitted in neo-classical theory; a process in which social institutions other than the market play a major role.

Within economic geography a number of tentative efforts have been made to utilize some of the insights of evolutionary economic theory, especially with respect to learning, innovation and the role of institutions in regional development.

II.2.2 Main Schools and Models Of Regional Economic Development In The Post-Fordist Debate

The policy measures were almost clear in the Traditional Regional Development Theories. Regional policy presented itself as a means of influencing the distribution of resources, particularly mobile investment between regions. However, it is after 1980s, it became obvious that to control every aspect is not possible The effects of the internationalisation of the economy, the geographical mobility of investment and production, the large corporations and transnationals and bureaucratic government transform the local economies into an unstable state. The coherence of local economies and the mobility of capital and trade are the two conflicting processes that the new approaches in the post-Fordist debate have to struggle. Changing notions about welfare and the relation between economy and society are at the base of the new approaches.

Over the last twenty years, regional economists, geographers and planners have devoted a considerable part of their time and energy to the search for a 'new' model of regional development. Conceptually, against the individualism of the orthodoxy (e.g. the centrality of homo economicus), the new approaches recognize the collective or social foundations of economic behaviour, for which reason it can be described loosely as an institutionalist perspective on regional development (Amin, 1999). However, these endeavours are neither an approach with a coherent economic theory behind it nor sufficient to become a theory of regional economic development. Rather, these attempts have been mostly dealed with the discussion of new notions appeared to explain the complex transformation process of the world economic, social, political and spatial conditions. Since the notions in the literature are evolutionary, there is not a consensus on the policy orientations also. Moreover, normative biased explanations do not make way for generalisations.

In the climate of crisis in 'traditional' regional policy, starting in the 1980s, an appeal on (endogenous) local and regional initiatives of economic development was made. Both in policy agenda and in academic circles, strong voices reassert the value of local and regional development potential as an alternative to national-state led regional economic policy. The first generation debates were local and regional based, emphasising the indigenous dynamics for competitive advantage. There was not a clear reference to the relations with other localities and regions. Than, it is realised that having a competitive advantage at a given time is not sufficient for localities to adapt to the changing world conditions. So the second generation debates gained prominence which can be named as evolutionary approach, emphasising adaptation, innovation and learning. The first and second generation debates have economy based view-point mostly dealing with the supplying of firms' economic rationalities. As a reaction to the local-based economic view which evaluate social structures within economic structures, third generation debates have brought the community based behaviour emphasising the social base as important as economic base.

Although all the approaches on regional economic development appeared in the post-fordist debate are meshed for some of their point of departures, three strands are identified in this section to examine in more detail, which are evaluated according to their time sequence in entering to the post-Fordist debates; first generation approaches depart from endogenous development which witnessed the development of "industrial district" and

"new industrial spaces" as identifying models, second generation evolutionary approaches which can be identified by various contributions in the generic name of "territorial innovation models", and third generation more communitarian based approaches emphasising the "local economic initiatives" in the framework of 'social economy'.

II.2.2.1 Regional Endogenous Development Approach

Regional Endogenous Development Theory combines the three dimensions of development; the economic dimension, found in the concept of economic growth using inputs that are at least partly available or generated locally; the socio-cultural dimension, which reflects cultural needs and community identity; the political dimension, relative to political decision-making and involvement of regional groups and individuals in the policy process.

Endogenous inputs can be defined in a;

-technical-economic way; looking at natural resources, human resources, entrepreneurial experiences, existence of an industrial structure, technical education etc. (Garofoli 1984)
-they can include wider socio-cultural fabric of growth coalitions involving the educational system, chamber of commerce, professional associations, leading to the definition of territory in terms of 'clustering of social relations, the place where local culture and non-transferable local features are superimposed (Garofoli 1992 p.4)
-They involve in the first place the institutional dynamics of all groups whose needs are structurally alienated, and who gradually manage to establish their bottom-up development models. Another important dimension of the plurality in interpretation of endogenous development is the relation of endogenous development factors and how significant the endogenous portion of the development asset should be (Garofoli).

The issue of spatial scale is an important debate in the endogenous development literature. How 'far' should a locality or a region go in its endogenous strategy? It offers a new conception of space: territorial space replaces functional space or an internal dynamics of development replaces space as a 'simple' support of economic functions. In the territorial approach, in addition to (or in interaction with) the usual economic attributes privileged by anterior theories of regional development, space is 'upgraded' with a new content of

socio-cultural values and traces of the local history. Economic space is now differentiated, and contains the milieu of human community where the members are mutually linked by economic, cultural and historical values.

The growth coalition model is the most celebrated conception of institutional dynamics within a locality or a region seeking to reconcile the global with the local: which institutional forces should be geared towards the appropriate (but usually 'exogenously' pre-cooked) endogenous development strategy? How can socio-political forces be adopted to the 'right' model? There is 'institutional instrumentalism' to accomplish the economic growth targets (Mouleart and Sekia 2000).

Different schools and models in the context of endogenous development approach will be examined below. Regulation, Flexible Specialisation and Californian Schools, Industrial District and New Industrial Spaces Models are the ones that take the lead in this debate.

II.2.2.1.1 Regulation, Flexible Specialisation School and Californian Schools

In the regulation school, historically and geographically-specific politics and institutions (that is mode of regulation); labour market rules and inter-firm relations which force industrial systems down one or other of the pathways of quasi integration are the main points.

The regulationist school, in line with its institutional tradition, modelled some of the archetypes of industrial relations accompanying the successful application of technological innovation. It gave a social and territorial content to the concept of 'technological paradigm' and system of innovation (Leborgne and Lipietz 1988).

In the flexible specialisation school the main theoretical claims are about institutions, division of labour, possibility of industrial divides. The model is rich and provocative, but drawn on Italian and German examples as their principal empirical supports do not cover all forms of regionalised, competitively successful, flexible production, cannot be accepted as the general explanation for these phenomena.

In 1980s Scott attempted to theorise the relationship between the division of labour, transaction costs and agglomeration by the case of Los Angeles clothing industry. Then in

1986, 1987 Storper and Christopherson study the strong process of vertical disintegration, on Hollywood's film and television industry, and Storper and Scott (1987) study the France and Italy cases. The argument emerged, rooted flexibility in the division of labour in production and linked that to agglomeration via an analysis of the transaction costs associated with inter-firm linkages.

The coverage of the model, meant to be greater than the initial version of the flexible specialisation model, in that it allowed any mix of firm sizes, any sector, any mixture of interlinkages. Defined the model around three groups of sectors found to account for increasing proportions of employment, output and value added in industry-high technology, revitalised craft production, producer and financial services.

As the debate proceeded they realised that the linkage-transactions cost model was incomplete. Toward the end 1980s, they became more sensitive to the possibility that the agglomeration was a source of industrial dynamics. They held that agglomerations, once in place, constituted industrial communities where endogenous dynamics of knowledge and technology development appeared.

This latter point brought them to the questions of institutions. Though agglomerations could be theoretically accounted for the way that potential external economies were realised, there was no assurance that markets alone, nor even various forms of contracts, could successfully coordinate the nexus of transactions in an industrial agglomeration. Such transactions -in labour markets, in inter-firm relations, in innovation and knowledge development- tended to have points of failure in the absence of appropriate institutions.

In these two respects –evolution and institutions- they attempted to go beyond the initial Williamsonian framework to argue that the "institutional arrangements" of agglomerations (Cooke and Morgan 1990; Storper and Scott 1989, Scott and Storper 1991) –that is the nexus of transactions on their economic performance- were themselves outcomes of broader institutional environments and themselves generators of future choices for pathways of development.

So they come 'full circle' to rejoin the initial authors of the flexible specialisation thesis, albeit with a somewhat different point of entry and without quite the same perspective on

the role of institutions in development as a whole. In addition they came to realise the central importance of the new economics of technological change and its core notions of evolution and path dependency for the problem of the role of the region in post-Fordist capitalism.

In any case, the problem staked out by the flexible production school remains (Storper 1995): what are the sufficient conditions for the existence of the observed agglomerations of productive activity which grew so strongly in the 1980s? The Californian school came up with an explanation but it was partial, emphasised the importance, complexity and geography of input-output relations. But the localisation of such I-O relations, that is the localisation of traded interdependencies, is inadequate to the task of explaining the link between flexible production and the resurgence of regional economies in contemporary capitalism.

The Californian School's explanation also suffered from the same problem as that of the flexible specialisation school: the central aspects of its theory could not distinguish between 'good' agglomerations and 'bad' ones. Vertical disintegration, high transaction costs and agglomeration could be found both in high-wage, technologically dynamic industries and in low-wage technologically-stagnant ones.

II.2.2.1.2 Industrial District and The New Industrial Spaces Model

From the mid 1970s, Italian scholars called attention to the different development model which characterised the North-East Centre (NEC) of their country, dubbed the 'Third Italy' by Bagnasco (1977) (Beccatini, Bellandi, Brusco, Russo, Sforzi, Solinas, Dei Ottati, Regini, Piore and Sabel). The industrial system of that region were made famous by Piore and Sabel (1984) which they were the first to capture as a model that of flexibility plus specialisation. Generalising from Italy to certain other cases (notably German), they then placed the success of such forms of production in macro-economic and historical context and postulated the possibility of an 'industrial divide' separating a putative era of flexible specialisation from that of post-war mass production (Storper 1995).

Discussion of industrial districts as a model for endogenous regional economic development have often proceeded on an ideal typical level and have led to public policy

attempts to reproduce the experiences of successful districts elsewhere. The experience of these regions suggests that a flexible production base combined with effective national and international marketing organizations can generate significant rounds of economic growth. The pattern of regionalized growth has been shown to be dependent upon a high trust regulatory environment with its associated cooperative relations between economic actors and with its extensive utilization of collective services and institutions.

Storper and Scott (1988) combines insights from the literature of industrial districts, flexible production systems, social regulation (Boyer 1986, Lipietz 1986) and local community dynamics and they named their model as "new industrial spaces".

Table 4 Propulsive Industries and New Industrial Spaces

Propulsive sector	Typical Features	Cited examples
Craft industries a) labour intensive e.g. clothing, furniture	Exploitation of , 'sweatshop' labor, often high level of immigrants. Subcontracting and out-working	New York, USA Los Angeles, USA Paris, France
b) design intensive e.g. jewellery	High quality products. Extreme social division of labor	Jura, Switzerland Southern Germany Emilia-Romagna, Italy Central Portugal Jutland, Denmark
High technology industry	Segmented local labor markets with 1)skilled managerial cadres and 2)disorganized and malleable fractions of the labor force	Route 128, Boston, USA Orange County, CA, USA Silicon Valley, CA, USA M4 Corridor,UK Scientific City, France Austin,TX, USA Boulder, CO, USA Cambridge, UK Grenoble, France Montpellier, France Sophia Antipolis, France
Office and business services	Preferentially based on white collar labor- including low-wage female labor. Very diversified and prone to agglomeration	London, UK New York, USA Tokyo, Japan

Source: Tickell and Peck, 1992.

New industrial spaces involve more than agglomerated production systems, but also social regulation system providing
-coordination of inter-firm transactions and the dynamics of entrepreneurial activity
-organization of local labour markets and social reproduction of workers
-dynamics of community formation and social reproduction' (p.29)

A large number of new industrial spaces have been identified. As table shows, these are almost associated with one of the propulsive sectors of flexible accumulation. Research into agglomerations of propulsive industries has tended to concentrate on the reviewed craft industries and on high technology sectors, leaving the financial and business services in the realm of assertion. This is regrettable not only because these services have long and relatively stable economic geographies, but also because they are subject presently to contradictory locational pressures.

II.2.2.2 Evolutionary Approach-Territorial Innovation Models

To identify the intangible aspect of a territorial or regional economy that underlies innovative, flexible agglomerations of both the high and low tech variety, the first insight came from the evolutionary economics pioneered by Nelson and Winter (1982) and redefined for the case of technology by Dosi and others. They claimed essentially that technologies develop along pathways or trajectories, which describe choice sets that are totally different from those of orthodox economics. Unlike the orthodox model, it is virtually impossible to predict outcomes from a starting point, even if actors are rational and the outcomes reflect no single optimum.

So the relationship between starting point and end point is no longer clear, no longer highly predictable, no longer amenable to some claims about efficient resource allocation made in orthodox economics. Beyond the external economics –as-accidents-of-history, there are reasons why producers tend to follow certain pathways. There are significant technological spillovers in the economy: knowing how to do one thing is frequently consequent upon knowing how to do another, or key to doing other things (Romer 1990). This idea draws on the seminal work of Perroux in the 1950, who noted that an economy consists of 'spaces' or fields of endeavour in part having to do with the density of non-traded technological connections between them (for example common types of knowledge

or similar types of machines, or knowledge of how to work similar types of basic materials or inputs) (Perroux 1950).

The new economics of technological change suggested in the 1980s, that there are knowledge or 'common practice' spillovers such that technological excellence comes in packages or ensembles (Lundvall 1990b; Lundvall and Johnson 1992; Beije 1991). Since such excellence lies frequently on knowledge or practices which are not fully codifiable, the particular firms who master it are tied into various kinds of networks with other firms, both through formal exchanges and through untraded interdependencies. The latter include labour markets, public institutions, and locally or nationally derived rules of action, customs, understandings and values (Dosi and Orsenig 1985).

Evolutionary economics holds that technological change is an endogenous property of economic systems and that it is not principally the result of allocational adjustments but of interdependent actions in which the signalling knowledge development and doing the best one are central (Dosi et al. 1990). The evolutionary economists point out that such a framework necessitates a change in focus of attention in economics generally.

The evolutionary economists working on technological change discovered territory-nations and regions. In theoretical terms, they began to reason that the technological spillovers and their untraded interdependencies would be territorialized under certain conditions, notably where the technological trajectories were particularly open, that is had wide margins of potential variation, thus increasing the uncodifiability and tacitness of knowledge development on the importance of communicational clarity and common interpretation in understanding information (Lundvall 1990b; Lundvall 1992).

The argument can be summarised;
-Technological change is path dependent
-It is path dependent because it involves interdependencies between choices made over time -Choices are sequenced in time, not simultaneous, and often irreversible.
-These choices have a spatial dimension, which is closely tied to their temporal uncertainty and interdependence.

Territorial Innovation Models are developed from the theories of evolutionary economies, endogenous growth, development theory, systems theory based basically on the concepts of agglomeration economies, externalities and networks.

From the late 1970s on, students of regional development investigated the regionally uneven distribution of high technology industries and the apparently better propensity of some regions to develop 'high tech' economic basis than others (Malecki 1984, Glasmeir 1986).

Their point of departure was technology, mostly high technology and regional development. Two branches can be reviewed. The American school of high technology regional development sought the conditions for growth in Silicon Valley and Route 128 (Markusen et al. 1986). Besides research university –spin off processes, a list of secondary factors said to be present in successful high tech regions, among which were a 'high quality of life', good infrastructure. A second branch of the American school might be called 'regional politics' approach (Markusen). It holds that regional coalitions secure resources that push for the transfer of high technology resources.

An alternative European approach has been developed by GREMI group principally Franco-Italian-Swiss regional economists. Their central theoretical notion is that of the milieu (Aydolat 1986; Camagni 1991; Maillat et al. 1990; Maillat et al. 1993).

The milieu is essentially a context for development, which empowers and guides innovative agents. The milieu is something like a territorial version of what the American sociologist Mark Granovetter labelled the 'embeddedness' of social and economic processes (Granovetter 1985). The milieu is described variously as a system of regional institutions, rules and practices which lead to innovation. Many of the milieu theorists use the 'network' as their principle organisational metaphor. For some, the milieu is itself a network region. For others, the network concerns the input-output system, and the milieu provides members of the network with what they need for coordination, adjustment and successful innovation.

GREMI Authors distinguish between three functional spaces for the firm; the production, the market and the support space. It is the support space that empower the enterprise to face uncertainty. The support space is constituted around three types of relationships 1)qualified or privileged relations with regard to the organization of production factors 2) strategic relations between the firm, its partners, suppliers and clients 3) strategic relations with agents belonging to the territorial environment.

Recent research agenda of GREMI stresses the concept of apprenticeship, which means that the innovative capacity of the different members of the milieu depends on the capacity of learning.

GREMI group has never been able to identify the economic logic by which milieu fosters innovation. The milieux school returns, again and again, to the properties of milieux, but they do not specify the potential mechanisms and process by which such milieux function, nor precisely what the economic logic of a milieux would be –why localisation and territorial specificity should make technological and organisational dynamics better.

Another track in territorial innovation models is "Theory of Regional Innovation Systems" which insists on the role of collective learning, which in turn refers to deep cooperative relationships between members of the system. Rather than a result of a research activity, innovation is a creative process; the interaction between agents of the process, the cumulative aspect of and increasing returns to the innovative process and the "problem-solving" orientation. Innovation is not only a technological but also an organisational process. There are two interpretations of the region as an innovation system in this theory; either as a subsystem of national or sector-based systems, or as a reduced version of the national system of innovation, with its own dynamics.

An intermediate synthesis in the debate on the territorial innovation model has taken the name "The Learning Region" (Cooke, Morgan, Asheim) recently. The model integrates innovation systems literature, institutional evolutionary economics, learning processes and the specificity of regional institutional dynamics.

Morgan (1997) defines the model as, "to connect the concepts of the network or associational paradigm-like interactive innovation and social capital to the problems of regional development in Europe' (p.492)

Morgan highlights the state of knowledge in evolutionary economics which could be connected to new theoretical departures in regional development by stressing its two main propositions: innovation is an interactive process between firms and the basic science infrastructure between the different functions within the firm; and innovation is shaped by a variety of institutional routines and social conventions(p.493). Morgan cites Lundvall (1994) "knowledge is the most important strategic resource and learning the most important process". Then Morgan underscores the importance of the growing interests of economic geographers, planners etc. in innovation dynamics: "Within economic geography a number of tentative efforts have been made to utilise some of the insights of evolutionary economic theory, especially with respect to learning, innovation and the role of institutions in regional development"(p.494).

Morgan especially refers to Storper's work emphasising the association between organisational and technological learning with agglomerations, based on traded (input-output relations) and untraded interdependencies (labour markets, regional conventions, norms and values, public or semi-public institutions).

II.2.2.3 Communitarian Approach

The idea that local communities can serve their own needs through the 'social economy' has been gaining momentum throughout Europe and North America in recent years. In part, this is a reflection of the dramatic rise in the numbers of third sector organisations attempting to create jobs and provide services at a local level independently of the conventions and institutions of state and market. In part it is also a reflection of an emerging belief in the academic and policy community that third sector solutions might be necessary and desirable in localities characterised by persistent unemployment, market failure, and state withdrawal.

In theoretical terms, the above attempts are related to the themes local autonomy, community and enterprise that constitute the vision of desirable economy. This vision take

different names in the discussion of scholars from a variety of disciplines. Keating (1998) used the term meso-corporatism to explain the configuration of public and private actors that take place in development coalitions applied at the 'meso' level between the central state and the localities. Eisenchitz and Gough (1993) called the new initiatives in the name of "bootstraps strategy", which defines locality as a unified organic entity by economic means and social ends. The locality becomes both more of a community, through collaboration between local institutions and interests, and more enterprising through competing more effectively with the world outside. Communitarianism perspective (Tam, 1998) stresses the transformation of prevailing attitudes and conditions in society in order to build inclusive communities with respect three principles: First, any claim about what is to be accepted as true can only be validated under conditions of cooperative enquiry. Second, common values validated by communities of cooperative enquirers should form the basis of mutual responsibilities to be undertaken by all members of those communities. Third, power relations at every level in society must be reformed so that all those affected by them can participate as equal citizens in determining how the power in question is to be exercised. Community economic development (CED) (Filion, 1998) approach, similarly emphasises the promotion of social equity, advanced social objectives and the achievement of community survival in the face of economic adversity. CED is differentiated from mainstream economic activity both by the priority it gives to social objectives over the profit motive and by the participation of producers, consumers or the community to the decisionmaking by CED organisations.

Collaborative approaches shift the task of urban planning from 'building places' to fostering the institutional capacity in territorial political communities for ongoing 'place-making' activities, by widening stakeholder involvement beyond traditional power elites, recognising different forms of local knowledge, and building rich social networks as a source of institutional capital through which new initiatives can be taken rapidly and legitimately (Healy, 1998). The existence of a rich 'institutional capital' is seen to allow rapid mobilisation to new circumstances and enables flexible responses to be designed and developed.

Whether the social economy might provide an *alternative* to the profit-driven mainstream that is capable of reconciling economic provision with genuine social need and social participation is an important question. The potential for such a reconciliation has been identified by Amin and others (2001), among the following areas: *Environmental*

valorisation; theorists of the sustainable economy argue that the growing imperative to 'green' industry, develop 'clean' technologies and to manage the natural and built environments, offers considerable scope for new markets and jobs, many of which could be developed by local communities, *Active labour market policies;* based on life-long learning, bridging tacit and formal knowledge, linking education and training, and so on, *Welfare needs beyond state provision*; new welfare theorists argue that instead of simply privatising provision, the creation of a social market centred around the voluntary sector, non governmental organisations and community agencies could be an effective way of delivering services to communities marginalised by the market or missed by the state, *Upgrading the informal economy*; theorists have therefore argued for more supportive policies towards informal economic activity might allow greater potential for improved employment conditions, *Non-monetary metrics of exchange*; to allow the trading of personal and domestic services among low-income groups.

However, for all the potential that the recent successful examples in Western World demonstrate, there is another body of research which shows that only a very small number survive for more than one or two years or can be said to represent a 'social economy' that is in any real sense an alternative to the 'mainstream' economy (i.e. not constrained by market pressures). In addition, the reasons for the success of projects that do endure to make a positive contribution remain largely under-researched and unknown.

As a conclusion, we can say this form of regulation would thus necessarily be highly fragmented, emerging only in those communities that both experience difficult economic circumstances and can muster the leadership essential to local economic development initiatives. In practice local community-based economic development ventures often encounter serious difficulties, accounting for their small scale and high failure rate and therefore for the marginality of the movement. It follows then that this form of development emerges as an appealing solution to present economic and social problems but as a solution whose capacity to alter prevailing trends has yet to be investigated rigorously (Filion,1998).

Table 5 Main Schools and Models Of Regional Economic Development In The Post-Fordist Debate

APPROACHES-Main Contributors	MODELS	Main Statement	Weakness
ENDOGENOUS DEVELOPMENT APPROACH -Regulation and Flexible Specialisation School (Piore and Sabel 1984, Lipietz 1988) -Californian School (Scott, Storper and Christopherson 1986,1987, Storper and Scott, 1987) -Industrial District Model; Bagnasco, Beccatini, Bellandi, Brusco, Russo, Sforzi, Solinas, Dei Ottati, Regini, Garofoli	"Industrial District" "New Industrial Spaces"	-Economic, socio-cultural, political dimension -Territorial space, local history	-Overdefined a general flexibilization of production as a particular model of flexible specialisation within vertically disintegrated, small firm industrial systems. -Empirical alternatives do not cover all forms of regionalised production as a model -Could not answer what are the sufficient conditions for the existence of the observed agglomerations of productive activity which grew so strongly in the 1980s
EVOLUTIONARY APPROACH Evolutionary economics (Nelson and Winter 1982, Dosi) New economics of technological change (Lundvall) -American School of high tech Malecki 1984,Glasmeir 1986, Tödtling 1982, Markusen. -European GREMI Group Aydolat 1986; Aydolat and Keeble 1988; Camagni 1991; Maillat et al. 1990; Maillat et al. 1993 -Saxenian, Porter -Cooke, Morgan, Asheim	"Territorial Innovation Models" High Tech Regions Innovative Milieux Regional Innovation Systems Learning Regions	-Technological change as an endogenous property -Innovative flexible agglomerations -Path dependency	-Not able to identify the economic logic by which milieu fosters innovation. -They do not specify the potential mechanisms and process by which such milieux function, nor precisely what the economic logic of a milieux would be They do not specify the potential mechanisms and process by which such milieux function, nor precisely what the economic logic of a milieux would be
COMMUNITARIAN APPROACH Gough and Eisenschitz, Keating, Tam, Etzioni, Healey Filion, Amin, Hudson	"Local Economic Initiatives"	-Local autonomy, community and enterprise -Place-making -Achievement of community survival	-Form of regulation is fragmented -Marginal -Appealing solution to present economic and social problems but inefficient as a solution to alter prevailing trends.

CHAPTER III

INSTITUTIONAL APPROACH TO REGIONAL/LOCAL ECONOMIC DEVELOPMENT

As it is discussed in the previous chapter, the limitations of the traditional models for regional/local economic development have given way to the searches for new theorizations. The theoretical agenda connects with an attempt to redefine the nature of economics and what is regarded as the 'economic'. Essentially, the new emerging model is rooted in socio-economics[1] which has been derived from a number of different strands of work in the social sciences (i.e institutional economics, institutional sociology, evolutionary economics). The aim of this new approach is to identify the territory with the role of the process of institutionalisation.

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[1] Etzioni ( ), puts the general principles of socio-economic approach in social sciences as;
-The independent variables in any proposition member of socio-economic theory have to include at least one non-economic variable and one economic one. Without it the proposition will be the proposition of economic theory. Similarly if all independent variables are non-economic, we are dealing with sociological, psychological, or socio-psychological propositions but not in socio-economics
-Core substantive assumptions: i) competition is a subsystem embedded within a societal context that contains, values, power relations, and social relations. The societal context both enables and restrains competition. That is, socio-economics assumes that self-interests are not necessarily or automatically complimentary and harmonious; societal source of order is necessary ii) individual choices are shaped by values, emotions and knowledge. There is no prior assumption that people act rationally, or that they pursue only or largely self-interest or pleasure.
-Methodological approach: Inductive studies are coequal in their methodological standing with deductive ones. E.g., a study of how firms actually behave has the same basic merit as treating the firm as an analytic concept or mathematical model. Inductive inputs and deductive derivations are assumed to correct, and thus balance one another.
-Socio-economics is both a positive and normative science. I.e., it openly recognises its policy relevance and seeks to be self-aware of its normative implications rather than maintain a mantle of an exclusively positive science.
-Socio-economics does not entail a commitment to any one ideological position, implied in terms such as political economy and social-economics, but is open to a range of position that share a view of treating economic behaviour as involving the whole person and all facets of society.

Recent years have seen the emergence of several economic theories which share the common preoccupation of developing an alternative to neoclassical theory based on an understanding of economic change as a historical, institutionally embedded process. Two alternative research programmes can be distinguished, on the one side, various strands of institutionalist theories, and on the other side, an emerging evolutionary theory of economic dynamics.

This chapter aims to evaluate the explanatory power of neo-institutional theories for the economic regulation of regions and will discuss how the institutional approach can contribute to the new theorization of regional/local economic development and why do we need to look through the perspective of institutional approach.

In the first part, the context of institutional paradigm, the concepts of institution, organisation and institutional change will be examined. In the second part, the contribution of institutional paradigm to the theory of economic geography will be examined through the notions appeared in the debate of post-fordist regional development models.

III.1 Institutional Paradigm

It is now widely accepted that research in the field of economic change and especially in the transition of economic systems, has to recognise the important role played by institutions. Whereas classical theory seeks to analyse an economy at a particular moment and takes little cognisance of peculiarities of time and place, institutionalists examine process and seek to explain why some economies have advanced and others have not. Unlike orthodox neoclassical theory, institutionalist approaches share in common the view that the rules of behaviour, traditions, and other non-formal and formal institutions are considered important determinants of human action. Institutions are regarded not as neutral but as relevant variables which inevitably have to be included in any economic analysis (Lange and Kulessa 1997).

Although there is little agreement as how to analyse and explain economic change, there is a rich and growing body of economic literature which tackles change and evolution, whereby increasing returns are the norm rather than the exception (and, with that, also the

possibilities of lock-ins), history counts, and agents are presumed to be less than perfectly rational and knowledgeable (Coriat and Dosi, 1998).

On the one hand there are the New Institutional Economics (NIE), which are regarded as a significant addition to neoclassical theories (North). On the other, there are the early contributions of Old Institutionalism, which now serve as the reference point for the revival of the research tradition (Veblen, Douglas, Hodgson). In addition there is now emerging an evolutionary approach to institutional change (Table 6).

Table.6 Institutional Paradigm and the Main Contributors

INSTITUTIONAL PARADIGM	Main contributors
Old institutional economics	Veblen 1949,1953 (American) Innis (Canadian)
New institutional economics	Williamson North Scott
Contemporary institutional economics	
*Veblenist institutional economics	Dougless Hodgson 1993,1994
*Evolutionary economics	Nelson and Winter 1982 Storper 1997
*Economic sociology-socioeconomics	Granovetter 1985 Grabher Amin and Thrift

Veblen's works is generally considered to be the earliest tendering of an explicitly institutionalist approach to economic behaviour. Veblen challenged the methodological individualism inherent in orthodox neoclassical economics. And yet he found the emphasis on collective classes over individually oriented consciousness and action to be a major frustration (Maclead, 2001). He developed an evolutionary approach, which focused on institutions as the "settle habits of thought common to the generality of men" (Veblen 1919 p.239). Hodgson (1993, p.125), has interpreted this to mean the routinized thought processes that are shared by a number of persons in a given society. This, of course, assumes a hugely broad conception of institutions extending beyond formal organisations, which represent a particular subset of institutions that involve strategic coordination (Maclead, 2001).

III.1.1 New Institutional Economics

New institutional economics (NIE) is a development of neo-classical economics to include the role of transaction costs (the costs of finding out what the relevant prices are, of negotiating and of concluding contracts, and then of monitoring and enforcing them) in exchange and so take account of institutions as critical constraints on economic performance. NIE starts from the reality that information is rarely complete, and that individuals have different ideas (or mental models) of the way in which the world about them works. Individuals make choices on the basis of their mental models. In consequence there is not one determinate equilibrium which will obtain; but multiple equilibria can occur. Institutions are broadly defined as means of reducing these information and transaction costs. Institutions are thus crucial determinants of the efficiency of markets (Harris and others, 1995). The broader claims of NIE, resting on the view that the past can only be made intelligible as a story of institutional evolution, are that it provides a basis on which to develop 'a dynamic theory of social change' (Sjötrand 1993).

It has become clear that the new institutional economics is radically undersocialised as an approach –a deficiency for which it paradoxically overcompensates by producing a radically oversocialised idea of society as a set of bureaucratic hierarchies in opposition to markets (Granovetter 1985). Thus more attention is started to be paid to explanations couched in terms of a new institutional sociology, with its emphasis on 'embeddedness'. In this view, socio-cultural processes are creative in institutionalising the political rules and the conventions (property rights, contract law, and such like) whose own presence underpins the existence of markets and the embeddedness of local/national economies (Gertler 1997). Polanyi's notion of 'embeding' which looks at the role of interpersonal and interorganisational networks in generating trust and dissuading malfeasance in economic behaviour, has been popularised by Granovetter (1985). 'Embeddedness' refers to the fact that economic action and outcomes, like all social action and outcomes, are affected by actors' dyadic relations and by the structure of overall network of relations (Grabher 1993:4). Thus this approach stresses the importance of seeing economic action as social action; understanding networks which function between markets and hierarchies on a semi-permanent basis; and tracking the processes of institution-building (Granovetter 1985). Recently, this approach has informed work into the social context of industrial development (Amin and Thrift 1994; Grabher 1993). In particular, writers such as Lorenz

(1990;1992) have stressed the importance of relations of trust, or what Storper (1993) more generally has referred to as 'untraded dependencies'.
The proposition that in a sense 'institutions count' in shaping economic coordination and change is certainly shared by all breeds of 'evolutionists', that is evolutionary research programme relate to the various strands of institutionalism. They argue that the links are indeed profound (Veblen is a historical symbol of this intuitive relationship) (Coriat and Dosi, 1998).

"As Veblen suggested, the evolutionary paradigm provides a basis for encapsulating both continuity and change, both inertia and novelty....it is biased toward dynamic rather than equilibrium-oriented modes of theorising.....Institutionalists bring a different perspective to the analysis of learning by seeing it, in part, as a transformative and reconstitutive process, involving the creation of new habits, propensities, and conceptual frameworks (Hodgson 1998a, p.175).

Evolutionary approaches can be characterised in terms of the following features (Groenewegen and Wromen, 1999);

-the unit of analysis is not the isolated, atomised individual, but the individual in interaction with the environment; procedural rationality replaces substantive rationality;
-the economy is basically an open system, subject to pervasive uncertainty, so that end states are hard to predict;
-institutions influence learning and selection processes in terms of initial conditions (history matters), lock-ins and trajectories;
-attention is paid to different selection mechanisms working simultaneously: efficiency and power.
-the methodological imperative is dynamics. That is the explanation of why something exists rests intimately on how it became what it is (Coriat and Dosi, 1998).

There are growing number of contributions which share some or all of these features; such as the flourishing number of formal models and historical interpretations of economic growth as an evolutionary process propelled by technical change which have followed the seminal work of Nelson and Winter (1982), the diffusion of innovations fruitfully analysed, from different angels, as an evolutionary path-dependent process, and

exploration of learning itself as an evolutionary process at the levels of both individuals and organisations

Although one is still lacking any systematic mapping between classes of institutional arrangements of the economy and classes of interaction mechanisms/adjustment rules that one finds in evolutionary theories (Coriat and Dosi, 1998), there are signs of a mutual attraction and new connections between institutional and evolutionary economics (Hodgson 1993). In general, institutions have been regarded as basic elements in social evolution; they form selection environments for innovations, and they store and transmit knowledge from one period to another. In particular, routines are often regarded as basic elements in both institutional and evolutionary economics. Furthermore, in evolutionary economic theory it is generally assumed that evolutionary processes are embedded in institutions.

III.1.2 What is Institution, Organisation, Institutional Change

In examining institutions and the relationship between institutional and economic dynamics. recent literature has served to problematize what is meant by, and thus how we define, institutions. The concept of institution is used in many different ways.

For most institutional economists an institution is identified by (a) the individuals who think and act and by (b) the rules that provide repetition, stability, and a predictable order. Moreover, there are (c) folk views explaining and justifying those activities as well as the rules connected to them. Most particularly institutional economists tend to distinguish between habits, which involve individuals; routines, which involve groups; and institutions which are composed of habits and routines (Amin and Thrift 1995).

In Sjöstrand 1993, from the perspective of institutional sociology, an institution is tentatively defined as a human mental construct for a coherent system of shared (enforced) norms that regulate individual interactions in recurrent situations. Then institutionalisation is the process by which individuals inter-subjectively approve, internalise, and externalise such a mental construct.

In actor-network theory, institutions are viewed as able to stabilise over a certain period, against a background of uncertainty, characteristics which most importantly, will include

skills, tacit knowledge and formalized information. Granovetter (1985) argues that economic behaviour is clearly embedded in networks of interpersonal relations. Actor-network theorists combines the insights of economics, that it is things that grow actors into relationships, with the insights of sociology, that actors come to define themselves and others through interaction. When these insights are combined, than it becomes clear that 'actors come to define one another in interaction –in the intermediaries they put into circulation' (Callon 1991). The different types of intermediaries can be used to build networks in and through which it is possible for actors to exert power. This approach emphasises the intermediate forms of governance which illustrate the power of networks and the information they carry (Amin and Thrift, 1995).

According to North (1993), it is necessary to distinguish clearly institutions from organisations. Institutions are the rules of the game of a society, or, more formally, are the humanly devised constraints that structure human interaction. They are composed of formal rules (statute law, common law, regulations), informal constraints (conventions, norms of behaviour and self-imposed codes of conduct), and the enforcement characteristics of both. Organisations are the players: groups of individuals bound by a common purpose to achieve objectives. They include political bodies (political parties, the senate, a city council, a regulatory agency): economic bodies (firms, trade unions, family farms, cooperatives); social bodies (religious structures, clubs, sports associations); and educational bodies (schools, colleges, vocational training centres).

North (1995) suggests some points for the ways to transform prevailing economies into successful economies from the fundamental characteristics of institutions:

1) Institutions are made up of formal rules, informal norms, and the enforcement characteristics of both, and it is the admixture of rules, norms and enforcement characteristics that determine economic performance. While the formal rules can be changed overnight, the informal rules change gradually. Since it is the norms that provide the essential 'legitimacy' to any set of formal rules, revolutionary change is never as revolutionary as its supporters desire, and performance will be different than anticipated. More than that, societies that adapt the formal rules of another society will have very different performance characteristics than the original country because both the informal norms and the enforcement characteristics will be different.

2) It is polities that shape economic performance because they define and enforce the economic rules of the game. Therefore the heart of development policy must be the creation of polities that will create end enforce efficient property rights.

After putting the characteristics of the institutions North suggest some implications of this description in the developing world as;

1) Political institutions will be stable only if they are supported by organisations with an interest in their perpetuation. Therefore an essential part of political/economic reform is the creation of such organisations.
2) It is essential to change both the institutions and the belief systems for successful reform since it is the mental models of the actors that will shape choices.
3) Evolving norms of behaviour that will support and legitimise new rules is a lengthy process and in the absence of such reinforcing norms polities will tend to be unstable.
4) While economic growth can occur in the short run with autocratic regimes, long run economic growth entails the development of the rule of law and the protection of civil and political freedoms.
5) Informal constraints -norms of behaviour, conventions, and codes of conduct- are a necessary (but not sufficient) condition for good economic performance.
6) It is adaptive rather than allocative efficiency which should be guide to policy. Allocative efficiency is a static concept with a given set of institutions; the key to continuing good economic performance is a flexible institutional matrix that will adjust in the context of evolving technological and demographic changes as well as shocks to the system.

To understand institutional change, one possible starting point is to analyse how institutions are reproduced over time. Institutions then have to be reproduced continuously, and their reproduction is often incomplete. Through the idea of reproduction, dynamics is introduced into the theory. Reproduction does not imply that institutions are replicated over time (that is, simple reproduction) but that the core of the coherent system of shared norms is preserved, allowing for some changes in the positions, roles, and functions of different actors (that is, extended reproduction or (re)production. Simple reproduction of institutions occurs when actors have a common perception and definition of a situation and act according to the aroused norms. Such a process is, of

course, very much favoured if the interests of the single actors correspond to the ones stored in the institutional setting and if (especially additional) individuals are wholly socialized to the prevailing norms. Otherwise, one could expect "distortions," foregoing both extended reproduction and a "swapping" of institutions (and even deinstitutionalization) (Sjöstrand 1993).

North presents five propositions that define the essential characteristics of institutional change:

1. The continuous interaction of institutions and organisations in the economic setting of scarcity, and hence competition, is the key to institutional change
2. Competition forces organisations continually to invest in skills and knowledge to survive. The kinds of skills and knowledge of individuals and their organisations acquire will shape evolving perceptions about opportunities and hence choices that will incrementaly alter institutions.
3. The institutional framework dictates the kinds of skills and knowledge perceived to have the maximum pay-off.
4. Perceptions are derived from the mental constructs of the players.
5. The economies of scope, complementarities and network externalities of an institutional matrix make institutional change overwhelmingly incremental and path dependent.

According to Sjöstrand (1993), another possible starting point when discussing institutional change is to try to identify its potential sources. An "innovation generator" is needed, as is a "selection mechanism." Here a gap and a mismatch between microlevels and macrolevels in institutionalisation processes are suggested as the initiating force. This gap or mismatch is explained by the distance between, on the one hand, the experiences and thoughts of the many single individuals on the microlevel and, on the other hand, the content and regulations embedded in the more formalised institutions on the macrolevel, reflecting a more holistic perspective on society. These macro-institutions are continuously (re)produced by the individuals in their daily activities and interactions on the microlevel. As previously indicated by the use of the prefix (re), this reproduction is usually extended (that is, imperfect), and thus over time it now and then undermines the ruling institutions on the macrolevel.

III.2 Institutional Approach to Economic Geography

Although the bulk of writings within institutionalist economics and economic sociology may have been somewhat tacit about the role of space in enframing the institutional landscape of capitalism –institutionalism appearing more fluent in the language of history- the raw ideas have certainly proved instructive for recent thinking in economic geography (Maclead 2001). It permits the exploration of the evolution of particular institutional architectures giving rise to distinctive local, regional and nationally instituted 'configurations of capitalism' (Boyer 2000). The idea that successful reproduction of capitalist economic systems can not proceed in the absence of institutionalised agencies and collective action holds not only at the level of national economy but also at the level the regional economy, where because of the specialization, agglomeration, and place specific character of production, peculiar forms of institutional order often present themselves (Storper and Scott, 1992). "If institutional path dependence matters, it matters in different ways in different places: institutional-economic path dependence is itself place dependent" (Ron Martin 2000, p.80). This axiom holds centre stage in the new institutionalist accounts of urban –regional change (Maclead 2001).

In this emerging institutional paradigm, institutions are very broadly conceived, to include not only formal organisations, but also more informal conventions, habits, and routines which are sustained over time (and through space). As such, institutions act to stabilise a range of collective economic practices in a particular territory. More generally, this means taking seriously the contention that the economic life of firms and markets is territorially embedded in social and cultural relations and dependent upon: processes of cognition (different forms of rationality); culture (different forms of shared understanding or collective consciousness); social structure (networks of interpersonal relationships); and politics (the way in which economic institutions are shaped by the state, class forces, etc.) (Amin and Thrift 1995).

To present institutionalism as a theoretical totality or closed model, seems artificial. In economic geography, main contribution of institutionalism, -institutionalism taken as a hybrid and incomplete project, has been to open a mesolevel understanding of the economic life of different cities and regions, their relative prosperity, their trajectories, their potential for development (Amin 2001). This it has done by demonstrating that the

economy is an instituted process, and by offering an expanded understanding of what counts as the economic and its guiding influences.

We have moved on from the simplicities of land, labour, and capital accounts of economic location and economic potential, as well as the macro/structural insights of Marxist, Ricardian, or Keynesian theory explaining the systemic role of the wage relation, money, investment, savings, technology, and labour relations (Amin 2001). There are alternative viewpoints on appropriate notion of economies of agglomeration in economic geography from the original Weberian formulation in terms of minimum transportation costs and industrial organization to the Marshallian external economies and to the innovation process oriented views also with counter debates which argue that 'it is time to shed 'agglomeration economies' and concentrate on the nature of the network externalities. However, recently, as a result of the rise of a new institutional economics and a new institutional sociology (Amin and Thrift 1994) local agglomeration has come to be treated in new ways. We now have a better sense of how economic success or failure are also the product of past habits and routines, cognitive and knowledge frames, architecture of innovation, business support systems, inter-subjective and network relations, corporate power, the regulatory environment, and governmental policies.

Certain institutionalist perspectives currently at the vanguard of economic geographical discourse and urban-regional inquiry is reviewed in this section. I will discuss the contribution of institutionalist paradigm to the theory of economic geography in the context of questions concerning regional economic development, by examining the two determining tracks in the recent debate; one track is based on the discussions on agglomerations and proximities through the notions of "localised capabilities", "institutional thickness", "embeddedness", "network externalities" and "governance" and the other one is based on the discussions on regional innovation through the notions of "knowledge" and "learning".

III.2.1 Institutional Approach to Agglomeration and Proximity

Storper and Walker (1989) emphasised the importance of geography as a key to understanding processes of economic development and social development as a whole. By this perspective territories are defined as socially created congeries of human activities,

around which form important geographical boundaries that shape social action and the exercise of power.

Following this debate, Amin and Thrift (1995) put the particular importance of place-centredness referring to the problems of integration and coordination in integrated global production filieres. They give three reasons for their statement: The first one is pointing to the face-to-face contact needed to generate and disseminate discourses, collective beliefs, stories about what world production filieres are like and at which knowledge structures can be tapped into. Secondly, they emphasise the role of centres acting as places of sociability, of gathering information, establishing coalitions, monitoring and maintaining trust, and developing rules of behaviour and their necessity to enable social and cultural interaction. And thirdly, they put the importance of place-centredness by its role in providing a critical mass of knowledgeable people and structures, and socio-institutional networks, in order to identify new gaps in the market, new uses for and definitions of technology, and rapid responses to changes in demand patterns.

The debate on the relation of geography, economic development and socio-spatial aspects, has generally moved the literature on industrial agglomerations towards a new approach based on a recognition of the importance of an institutional atmosphere in the creation and maintenance of agglomerations. Attention has increasingly turned from 'economic' reasons for the growth of new industrial agglomerations, such as product specialisation, and vertical disintegration of the division of labour, to 'social' and 'cultural' reasons such as intense levels of inter-firm collaboration (Amin and Thrift 1994); a strong sense of common industrial purpose; social consensus, extensive institutional support for local business; and structures encouraging innovation, skill formation, and the circulation of ideas (Hirst and Zeitlin 1991; Sabel 1989, 1992; Salais and Storper 1992; Storper 1993). The recognition of socio-cultural aspects in turn, given renewed impetus to the study of territorial embeddedness as found in the literature on industrial districts and other localised industrial complexes (Amin and Thrift 1994).

All the analyses of post-fordist localised industrial dynamic models show that the temporal viability and stability of these forms depend on the capacity of the local actors involved to develop a collective dynamics of proximity (Dupuy and Gilly 1996). Proximity can be conceived considering a given configuration of the economic

relationships existing among agents (Kırat and Lung 1999, p.29). Proximity dynamics (Dupuy 1995) is a complex process, involving strategic interaction between actors, leading to the constitution of types of knowledge and collective reference points in an uncertain environment. This concept refers to geographic proximity, which represents the most intuitive meaning, and indicates the positioning of agents within a predetermined spatial framework. This type of proximity must therefore remain distinct from a physical proximity which would represent the outcome of 'natural' constraints in that it is a social construction, built as much by the installation and development of transportation and communication infrastructure as by architectural aspects and technical imperatives (Kırat and Lung 1999, p.29). Such dynamics cannot, however be achieved solely in terms of pure market logic; they must also integrate 'invisible' forms that support social relations such as conventions, norms and collective knowledge (Dupuy and Gilly, 1996:1603).

Agglomeration is a strategy whereby producers ease the tasks of transactional interaction because proximity translates into lower costs and wider opportunities for matching needs and capabilities. Amin and Thrift (1994) emphasise that agglomeration alone does not necessarily lead to the formation of efficient transactional interrelations. They give three reasons: First, breakdowns of information exchange occur where one party holds privileged information that can be traded on opportunistically. Second failures of trust underpin and intensify this tendency; that is in the absence of formal and informal means of ensuring that other parties to a transaction are likely to abide by a given set of standards, it becomes rational to be hesitant about doing so oneself. Third, where these problems prevail, fine-tuning of input-output flows is difficult to achieve and, in the absence of durable agreements at all levels of the production hierarchy, firms are encouraged to develop buffer stockpiles of critical inputs. All of these problems can be kept at bay by institutional infrastructures or social practices which increase information exchange and trust, and limit the probability that opportunistic behaviour will benefit those who practice it (Storper and Scott 1992).

III.2.1.1 Localised Competences/Capabilities

Maskell and Malmberg (1999b), define localised capabilities as 'the specific combination of localised factors which influence the distribution of economic activity between and within each country or region'. They establish well the relation between agglomeration and localised capabilities by the statement; "the market selection mechanisms ensure that

firms located in areas where the localised capabilities are specially suited to accommodate and satisfy their needs will have a better chance of survival and growth than similar firms located elsewhere", (p:).

In traditional location theory (Weber, 1909), a distinction was made between two types of production input. On the one hand, there are factors of economic importance for the operation of a firm for which the costs differ significantly between locations, so-called localised materials. On the other hand, there are materials and other production inputs which in practice are available everywhere at more or less the same cost, which are called the ubiquitous materials. Weber used the distinction between localised materials and ubiquities to determine the degree of market-pull on the location of industries; the larger the element of ubiquities in the final product, the more strongly would the potential savings in transportation cost pull the industry away from the sources of raw material towards a location near the customers (Maskell and Malmberg 1999b).

Maskell and Malmberg (1999b) determines two processes that traditionally shifts the relative importance of locational factors. There may have been a cease in demand for a formerly important factor, perhaps caused by some innovation in the production process, leading to the use of new inputs or a change in the magnitude of various existing inputs. Alternatively, the supply of a localised input may have changed: natural deposits may have become exhausted while new sources are discovered elsewhere; labour has become scarce where it used to be abundant; suppliers have relocated; the geographical concentrations of demand have shifted, etc.

As a repercussion of the ongoing globalisation they put a third process that has recently emerged which actively converts formerly localised inputs into ubiquities. A large domestic market is no advantage when transport costs are negligible; when the loyalty of customers to local suppliers is dwindling; and when most trade barriers are eroded. However, firms are progressively stimulated in order to increase their competitiveness precisely because of the drive towards globalisation and the resulting homogenisation of formerly critical factors of production. No firm can build competitiveness on ubiquities alone, and little economic progress would be made anywhere if everyone were able to exactly the same in all places at once (Maskell and Malmberg 1999b).Thus, firms might differentiate themselves by their location and –as a consequence by being able to utilise

dissimilar territorially specific resources and localised capabilities(Maskell and Malmberg 1999b).

Oinas and Van Gils (1999) extends this debate to explain the competitive advantage by emphasising the resources external to the firm. Firms or units derive resources from various larger "entities" in which they are a part: larger corporations, networks, industries, sectors, regions. They participate in coevolution processes in such entities. Evolution as part of a larger whole leads firms and other actors to adopt certain aspects of the larger entities, and to share common characteristics with other actors forming a part of that entity. A degree of homogenisation emerges among the actors involved. The acquired characteristics may affect their transformation, perception, use and access to resources. And that may function as a competitive advantage for the various actors when they create a distinction in regard to other actors.

Oinas and Van Gils (1999), identify four fundamental collective competences (resources) in economic activities:

1.Technical competences refer to the ability to develop and implement technological solutions, design products and processes, and to operate machines and facilities effectively

2.Economic competences refer to the ability to find economically efficient solutions to activities carried out in business organisations. Here it is more focused on strategic decision-making capabilities under competitive pressures and (relative) economic efficiency.

3.Organisational competences make a collective of individuals in an organisation to function as a co-ordinated entity. Collective entities have to set up certain fixed procedures but they also have to maintain a sufficient degree of flexibility. This is successfully done, by finding a balance between stabilising and dynamising routines.

4.Institutional competences enable economic actors to make use of external resources in specific institutional environments so as to function effectively there. Institutional environments, through their cultural (beliefs, norms and the related cultural practices) and political (laws, rules, regulations) aspects, condition economic action. The notion of institutional competence relates centrally to three of the types of entities: industries, sectors and regions.

They put the relation between production, firm and place as 'Well functioning and organised markets for products and production factors must be seen as a specific (non-tradable) localised capability. Localised capabilities thus link the concepts of regions and countries to the concept of the firm'.

Maskell and Malmberg (1999a) point out that a region can lead to sustainable regional competitive advantages only if the resulting localised capabilities are:
-valuable (they must allow firms in the region to create profit);
-rare (they cannot be in abundant supply)
-not subject to substitution; and
-imperfectly imitated (meaning that firms and policy-makers in other regions cannot readily copy them).

Localised capabilities which firms locate and build their competitiveness in interaction with, are primarily based on (Maskell and Malmberg 1999a);
-the region's built environment
-the natural resources accessible in the region
-the region's specific institutional endowment and
-the knowledge and skills available in the region

The importance of institutional endowment for enhancing localised capabilities is emphasised by North (1994) as 'Firms interact on markets which are social constructions, embedded in territorially specific institutions which define and secure property rights and enable economic transactions'. Maskell and Malmberg (1999a) define the institutional endowment broadly by, embracing all the rules, practices, routines, habits, traditions, customs and conventions associated with the regional supply of capital, land and labour and the regional market for goods and services. It also includes the entrepreneurial spirit, the moral beliefs, the political traditions and decision–making practices, the culture, the religion and other basic values characterising the region. The geographically specific institutional endowment epitomises the results of previous rounds of economic activity while at the same time comprising the setting for new rounds of localised knowledge creation. The relations of causality between localised capabilities and localised knowledge creation function both ways and form a decisive element in the formation of the competitive advantages experienced by firms in some regions and not in others.

The regional institutional endowment might be created, transformed, eroded and recreated through the economic history of the region, but at each point in time it has a directional effect on the efforts of firms in the region by supporting and assisting some types of knowledge creation while hampering or preventing others. The institutional endowment simultaneously spurs and confines the development of firms in the region, thereby exerting a strong –but never deterministic- influence on the future of the region (Maskell and Malmberg 1999a).

III.2.1.2 Institutional Thickness/Network Density

Amin and Thrift (1995) defined the complex set of institutional endowment of a place, which are not ubiquitously available as "institutional thickness". They explain precisely why only some territories have been able to become centres of agglomeration by creating and consolidating institutional thickness, and also making it work to secure dominance over other competing localities.

Martin (2000) highlights a useful distinction which economists have drawn between the institutional environment and institutional arrangements. The former relates to 'soft institutions' and their articulation with the more formal regulations of competition, trade, and welfare which govern socio-economic behaviour. Institutional arrangements, on the other hand, refer to particular organisational forms such as markets, firms, unions, government agencies, welfare regimes, and such like which are simultaneously a source, a medium, and an outcome of the institutional environment.

Local institutional thickness, as Amin and Thrift (1995) defined, is the combination of factors including inter-institutional interaction and synergy, collective representation by many bodies, a common industrial purpose, and shared cultural norms and values. It is a 'thickness' which both establishes legitimacy and nourishes relations of trust. It is a 'thickness' which continues to stimulate entrepreneurship and consolidate the local embeddedness of industry.

Amin and Thrift (1995 p.102), determine the factors that contribute towards the construction of institutional thickness as;

-A strong institutional presence, that is plethora of institutions of different kinds (including firms; financial institutions; local chambers of commerce; training agencies; trade associations; local authorities; development agencies; innovation centres; clerical bodies; unions; government agencies providing premises, land and infrastructure; business service organisations; marketing boards) all or some of which can provide a basis for the growth of particular local practices and collective representations. However, although the number and diversity of institutions constitutes a necessary condition for the establishment of institutional thickness, it is hardly a sufficient one.

-High levels of interaction amongst the institutions in a local area. The institutions involved must be actively engaged with and conscious of each other, displaying high levels of contact, cooperation, and information interchange which may lead, in time, to a degree of mutual isomorphism. These contacts and interchanges are often embodied in shared rules, conventions, and knowledge which serve to constitute the 'social atmosphere' of a particular region.

-The third factor must be the development, as a result of these high levels of interaction, of sharply defined structures of domination and/or patterns of coalition resulting in the collective representation of what are normally sectional and individual interests and serving to socialise costs or to control rogue behaviour.

-The development amongst participants in the set of institutions of a mutual awareness that they are involved in a common enterprise. This will almost certainly mean that there is a commonly held industrial agenda which the collection of institutions both depends upon and develops. This will usually be no more than a loosely defined script, although more formal agendas are possible. This agenda may be reinforced by other sources of identity, most especially various forms of socio-cultural identification (such as region, gender and ethnicity).

These four determinants of institutional thickness will in the most favourable cases, produce six outcomes.

1) Institutional persistence, that is local institutions are reproduced.

2) The construction and deepening of an archive of commonly held knowledge of both the formal and tacit kinds.

3) Institutional flexibility, which is the ability of organisations in a region to both learn and change.

4) High innovative capacity, which is not jut specific to individual organisations but, is the most common property of a region.
5) The ability to extend trust and reciprocity.
6) Finally, and least common of all, is the consolidation of a sense of inclusiveness, that is a widely held in common project which serves to mobilise the region with speed and efficiency.

For sure, institutional ensembles represent some of the explanans but they are not in and of themselves the full explanation (Maclead 2001). Besides the discussion of Amin and Thrift on the importance of institutional thickness, Hudson (1999) emphasises that there are no simple relationships between the existence of local institutional thickness, guarantees of local economic regeneration and growth, and the socially progressive and transformatory content of the politics pursued through it. Rather, the relationships between localised institutional structures and localised economic and social change are ones that both are reciprocal and vary between places and over time. Local institutions may be important in some circumstances is fostering change, in others in resisting it.

Hudson (1999) discusses localised institutional thinness may have held greater emancipatory and radical transformatory potential. Similarly Maskell and Malmberg (1999a), point to the fact that a region has previously been lagging behind, and thus has not developed such structures, might in certain cases turn out to become an 'advantage of backwardness'. The absence of physical structures and social institutions adjusted to yesterday's level of technological and organisational development may become an advantage when trying to implement those of today or tomorrow.

Hudson emphasises that particular combinations of local economic growth models and localised institutional structures, which play an important regulatory role, evolve in such a way as to provide a stable localised basis for production and social reproduction. Whilst this stability may be sustained for longer or shorter periods of time, in the end serious disjunctions will emerge between the growth model and the regulatory framework and a localised crises erupts. This is resolved –or attempts are made to resolve it-via searching for a new stable combination. Here, what Hudson pointing out is that whether localised institutional structures can be developed which would allow more of a smooth and

incremental adaptation of local economic and social life to the broader exigencies of national state policies and global political-economic change.

The work on institutional thickness, mainly through successful regions, have made the imitation of these successful concentrations the main concern of many policy-makers. However, Maskell and Malmberg (1999a) emphasise the enduring differences in specialisation and the persisting disparities in generated income between regions through long periods of time suggest the existence of strong barriers preventing localised capabilities from being instantly imitated. Diericks and Cool (1989) identify three important factors which might hamper imitation namely; asset mass efficiency, such as large stocks of R and D, experience based knowledge and specialised labour force, time compression diseconomies that indicate the need for long periods of experience in creating certain capabilities and interconnectedness of asset stocks as the complex webs of national, regional and local institutions as well as between institutions on each levels.

Another important point for institutional thickness or institutional endowment of a region is the deterioration problem. Maskell and Malmberg (1999a) discuss that capabilities can deteriorate for a number of reasons, thereby undermining the competitiveness of the firm located in the region. A decline in formerly strong localised capabilities can be the consequence of various specific and local reasons which can be gathered under the headings of asset erosion (Diericks and Cool 1989), substitution (Porter 1990) and lock-in situations (David 1985, Arthur 1989).

Asset erosion describes the process whereby hitherto important institutions in a region are no longer reproduced at the same pace or to the same degree. Substitution represents a special form of asset erosion where new technology rapidly devalues former investments in, for instance, skills, education and infrastructure, thus undermining the region's capabilities (Maskell and Malmberg 1999a).

Normally, a region gradually develops its physical, social, institutional and cultural structure in correspondence to needs of existing industry. Even if we assume that each round of building new institutions or improving the old is based on, and perfectly adjusted to, the most advanced technological, organisational or market knowledge available at the time, there is always a risk that the resulting institutional endowment in the long run will

become an obstacle to future development and perhaps even develop into a regional lock-in. Such obstacles may be physical but they seem more often to be social and cultural (Maskell and Malmberg 1999a).

At this point Maskell and Malmberg (1999a) suggests the importance of un-learning process of firms and regions which will often necessitate the disintegration and removal of formerly important institutions which now hinder further development. They take the attention to the possible regional lock-ins as this un-learning process might jeopardise the interests of some individuals or larger groups with the power to prevent or impede the process. Similarly Glasmeier (1994) emphasise the individual self-interest and limited information flows which can inhibit a local complex's ability to transform institutions.

Hudson (1999) reminds that there can be no localised solution that impacts equally on all social classes and groups in an area. In this sense, the myths of socially undifferentiated proactive localities seeking to pursue their own interests are dangerously misleading ones. What is necessary to do is specify whose interests are to be prioritised in seeking to formulate and implement local solutions and create appropriate localised institutional structures to facilitate this process. On the other hand, it should be emphasised that there are no 'local' solutions to 'local' problems and no amount of localised institutional and cultural change on its own will guarantee local economic prosperity (Hudson).

III.2.1.3 Embeddedness

Embeddedness is recognised as having four basic forms –cognitive, cultural, political, and structural (Zukin and DiMaggio, 1990; Grabher 1993). Cognitive embeddedness identifies the bounded rationality of economic actors and place-based knowledge. Cultural embeddedness recognises the importance of shared collective understandings in decision-making and goal formulation amongst firms doing business in a place. Political embeddednes recognises the place-based impact on firms' business decisions of struggles with non-market institutions that might just as easily foster them (Heidenreich and Krauss, 1998) or constrain them to the point of failure (Glasmeier, 1991; Grabher 1993b).

At the heart of the embeddedness thesis, however, is structural embeddedness which identifies the manner in which business enterprises are incorporated into local, place-

based networks that facilitate and promote information exchange and learning (Maskell et al 1998; Asheim 1997). In particular, the role and impact of asymmetries between business enterprises remains largely unexplored in this literature despite the central role it has been identified as playing in network relationships (Taylor and Leonard).

Structural embeddedness has been recognised as having four essential characteristics reciprocity, interdependence, loose couplings and asymmetric power relations (Grabher 1993a). Reciprocity refers to recurrent transactions between networked firms that are more than simply repetitive and involve relationships that do not have immediate equivalence in each transaction but achieve some approximate balance over the life of an exchange relationship. Interdependence reflects the elements of trust and mutual orientation in long-term exchange relationships that enable firms to exchange resources and information that are crucial for high performance but are difficult to value and transfer via market ties. It is central to network learning and local innovation capacities. Loose couplings, or integrated separateness (Lundvall 1993), recognises the ability of firms networked in a place individually to shift their partners while maintaining an essentially stable district framework of interaction. Asymmetric power relations area counterweight to the coziness of network collaboration with collaboration and co-operation within networks being undermined by practices of dominance and exploitation between unequal exchange partners (Grabher 1993b; Taylor 1999).

In the literature there are criticisms on the the concept of 'embeddedness' as it being imprecise and ill-defined (Taylor). In the model of local growth it has directed attention to the nature of relationships between firms and their socio-spatial environments that are neither well understood nor particularly well conceptualised (Oinas, 1997). The assumptions implicit in the model is, however, that 'embedded' equals 'local'. Oinas (1997,p.29) has argued that there is no reason for this to be so and that entrepreneurs and business people can be embedded in social relations at different spatial scales. Nevertheless, there is no clear understanding of what aspects of social relations lead to the cultural and political embeddedness of firms.

Furthermore in the criticisms of embeddedness model, the symmetrical properties of trust, reciprocity and loyalty in buyer/supplier relationships are argued as being either temporary or even illusory, and to be fundamentally at odds with the existence and impact

of power asymmetries within and between firms (Bresnen 1996; Pratt 1997; Baker 1996; Taylor 1999). The model is seen by some as an ahistoric, idealised and romanticised view of inter-firm relationships that inappropriately extends notions of flexibility, policy driven, functionalist and is perpetuated by selecting case studies on the dependent variables (Hudson 1999; Staber 1996; Lovering 1999).

Already it has been recognised that embeddednes cannot be replace market mechanisms entirely. Co-operation, it is argued, must be tempered by competition. A balance is needed to avoid lock-ins, to avoid paternalism in labour markets, to stimulate the knowledge economy and to prevent 'institutional overload' obscuring economic imperatives.

The case can be argued, however, that economic relationships involve more than a dynamic tension between collaboration and competition, they also involve the more brutal exercise of power, through the control of resources, the manipulation of relationships or the exercise of discipline (Taylor, 1995). Taylor (1998) ,determines that power inequalities can be seen leading to exclusion. First, they restrict firms' freedom of action. Power inequalities limit the forms transaction and buyer-supplier relationships open to firms according to their positions in inter-firm networks This restricts the ways they are able to do business and, thus, their possibilities and potential to accumulate capital. Second, power inequalities can create lock-ins and the ossification of transaction relations (Amin and Robins 1991; Amin 1993; Grabher 1993b; and Glasmeier 1991). Indeed the creation of institutions in a place can be seen just as much as a way of protecting the status quo of doing business in a place (and so promoting lock-in) as it a mechanism for the generation of dynamic development. Third, power inequalities lead to uneven spatial development –a well recognised inherent characteristic (Hudson 1999; Massey 1984). Just as some economic local economic systems are 'winners', others are 'losers'. Finally, the power inequalities of class lead to exclusion in business communities through its shaping of boards of directors and the strategic decision-making role they have. (Hambrick, 1994).

While the local embeddedness model has been accused of being policy-driven theory in the context of the industrial west (Lovering 1999), it is very clearly seen as a way of promoting socially and culturally sensitive economic growth in the developing country context (Taylor 1999). There is a major implicit shift in the focus of the embeddedness model. Though recognised first as a competitive strategy for the incorporation of places in

a global economy, here it is subtly translated into a coping mechanism to counter the underdevelopment of places by global economic pressures.

Now in the developing country context the focus is on the creation of 'social capital' and the creation of seemingly appropriate non-economic and non-political institutions as the underpinnings of successful economic growth (Putnam, 1993). Such institutionally driven research is relatively new (Schmitz and Musyck, 1993; Honig, 1998). Tentative conclusions from empirical research show, however, that in developing countries where scale economies are lacking, there is a greater need for inter-firm collaboration (Yeung 1998). The major lending institutions, however, have recently been pushing for 'good governance' to create an 'enabling environment' for economic growth in the developing world, so it can be assumed that such studies will be of growing importance as these policy initiatives mature.

Embeddedness model of local economic growth needs to be more sensitive to the dualities of process operating within local economies; for example inclusion versus exclusion; powerfulness versus powerlessness; flexibility versus lock-in; stability versus instability; and coping versus competitiveness (Taylor 1999).

III.2.1.4 Network Externalities

Networks are introduced as intermediate organisational forms between markets and firms, when these fail in efficiency and efficacy. When markets are not able to serve for co-operative relations, especially trust, demand or supply specificity, possibilities for co-operation, are at the basis of a choice for supplier-producer and buyer-subcontractor network relationships: extended family networks, cooperative networks etc. have formed the organisational structure of local small production systems (Hansen 1992 p.100-101). Obviously, the regions with already established networks of various types and the socio-cultural environment that supports the networking among different units believed to have advantageous position in contemporary era.

The emerging interpretative framework of the new real world situation as 'the network paradigm' (Capello, 1996) is embodied in three main theories;

-cooperation agreements among firms (synergy networks, complementarity networks, strategic networks),
-local/global developments of local areas (*local networks*, density of relations, informality, openness; *trans-territorial networks*; greater formalization of relationships, network selectivity and closure),
-the new management of territory by firms.

Common success factors of these theories emerge as the basic features of the network paradigm are (Capello, 1996);
-competence of firms and local territorial systems in decision-making processes,
-dynamic efficiency of industrial and territorial production systems,
-flexibility of production systems required by high degrees of uncertainty and market volatility,
-synergy and integration among firms and local areas, with the aim to exploit network externality advantages as much as possible.

Network forms is the product of forces that have matured in the course of time and of relationships that are peculiar to particular contextual circumstances (Amin and Hausner, 1997). Networks differ in terms of the strength of their ties (Grabher 1993), and the differences play a significant part in defining both the importance of the network for actors and its adaptive qualities.

Amin and Hausner (1997) emphasised the difference among networks characterised by strong and weak ties. While the network characterised by strong ties of association may secure unity of purpose and rapidity of response, as in the case of say, a network of clientalist relations cultivated by a politician or a business boss, it is likely to foster relations of dependence, as actors are deprived of alternative connections as well as the capacity to improve or innovate. Thus, a network of strong ties risks becoming an inadaptive network if contextual circumstances change. In contrast, a network of loose alliances, such as say, periodic meetings between community organisations working in a similar field, is one that brings together a variety of agendas and rationales, and is probably difficult to mobilise as a single unit. On the other hand, loose alliances in representing variety of capability spread across relatively self-governing actors, are likely to offer a wider pool of possibilities to draw from when circumstances change.

Amin and Hausner (1997) also points to the power dimension of networks. Relations within and across networks are seen to be somehow more reciprocal and more egalitarian, because they rely on interaction. Not all networks are non-hierarchical, mutually beneficial or discursive, therefore it is important to distinguish between different types of power relations within the network form. Rob van Tulder and Winfried Ruigrok (1997) focus on industrial complexes, to distinguish one important dimension of power relations. This is the bargaining position of 'partners', which they differentiate in terms of the relations of dependency between actors. They distinguish between five types of relationships, reflecting different links of association with 'core' firms:

- relations of independence, resulting in cooperation or competition;
- relations of independence, resulting in compliance;
- relations of inderdependence, resulting in coalition;
- relations of dependence with core firm influence, resulting in direct control;
- relations of dependence without partner influence, resulting in structural control.

This example usefully illustrates that the bargaining position of actors differs enormously from one network to another in accordance with the power of individual actors over others. Hence, usefulness of exploring the nature of interaction between actors, beyond simply recognising the existence of ties (Amin and Hausner, 1997).

What counts also, importantly is the *institutional set-up* of networks, which we could define as the enduring collective practices and organisations within networks. This includes formal rules and institutions of regulation and governance, as well as the embedded cultural and social practices, and conventions which constitute the reproductive framework of networks. Institutional set-up, thus, defines the enduring qualities of networks, their stability and degree of coherence, their collective efficacy, and above all their overall governance structure. Institutions –hard and soft- constitute webs and nodes of networks, the channels of collective organisation and communication, as well as the points of intersection and encounter. In a sense, they are the architectural frame of networks (Amin and Hausner, 1997).

Mouleart and Sekia, (2000) suggest that network design principles in territorial development should include;

- targets responding to human needs satisfaction
- communication and decision-making based on inter-cultural communication

- innovative institutionalisation principles (shared responsibilities, direct democratic control on key functions rotation in main functions);
- integration of scale and power links.

III.2.1.5 Governance

The discussion about 'networks' leads to the even contemporary discussion about 'governance'. Since the academic literature on governance has various theoretical roots such as, the choice between market and hierarchy (and intermediate forms) initiated by Coase and others in institutional economics, organisational and development studies, political science and public administration (Stoker, 1998), the improvement of the 'urban growth coalition' and the local governance debate at the regional and urban level (Le Gales 1998; Storper 1997; Mouleart et al. 1996), there is a wide array of notions of governance. In practice, it is usually accepted that governance is "a code for less government" and reflects a search for reductions in the resource commitment and spending for government in the period of recognised financial limits, as well as declining institutional capacities in the changing world conditions (Eraydın 1999). However, governance has a wider meaning that can be generalised as "different modes of coordination of interdependent activities" (Jessop, 1993:29) and "creating conditions for collective action" (Stoker, 1998).

Jessop (1998) defines three different forms of governance: the simplest type of governance stems from selective formalisation of interpersonal networking among the individual actors who build their relations based on past familiarity with others. The partnerships formed are more targeted and partners share an imagined community interests. Secondly, as the mode of co-ordination among the formally autonomous organisations in order to secure a joint outcome, which is mutually beneficial for all the partners. Third type of governance depends upon the mutual understanding and co-evolution of different institutional orders and to secure agreed societal objectives. The relations are the means to realise an inter-systemic consensus, inter-organisational arrangements and relevant activities in order reach specific objectives and to respond continuous changes in the external world.

In terms of regional policy, governance means less centralised decision-making and creating self-organisation that should be based on collective action. The importance of self-governing networks of local actors, a change from individual to collective interests (Ottati 1994), a new deal between the different groups or parties, the new roles of government such as 'mediator', 'enabler' or 'catalytic agent', public-private partnerships, local government led partnerships, and support by cultural aspects and norms embedded in regions are the structural characteristics of regional governance (Eraydın 1999).

Jessop (1997) identifies three levels of 'embedded' social organisation relevant to governance. These are;

- the social embeddeness of interpersonal relations (Granovetter 1985)
- the institutional embeddedness of inter-organisational relations (Grabher 1993, Powell and Di Maggio 1991)
- the 'societal' embeddedness of functionally differentiated institutional orders in a complex, de-centred societal formation.

The notion of governing capacity is introduced, that is to say the capacity to plan and execute a development project. The nature of the project differs from region to region depending on the balance of social forces. In regions with strong regional governments, political forces may lead the development project. In other cases leadership is determined by the combination of internal pressure, from firms, unions, social movements and political forces, and external circumstances. In some cases, the external circumstances are decisive and the region then has no capacity to impose its priorities (Keating 1998,p.26).

There is special emphasis on self-governing capacity, which indicates the local actors and institutions formed by them as the major proponents of self-fed development process. In the self-governing networks different local actors take place. Obviously individual firms are the main actors that are tied to each other by various networks. However there appear several formal and informal institutions acting as catalytic agents. How a successful self-organisation and self-evolving system can be achieved depend upon certain conditions, such as, mode of coordination adopted, the constitution of the objects of governance and the environment within which relevant actors coordinate their activities to achieve their objectives.

Jessop (1997) determines the points that should be included in any attempt to build effective governance mechanisms:

-simplifying models and practices which reduce the complexity of the world and which are congruent with real world processes as well as relevant to the objectives of the actors concerned;

-developing the capacity for dynamic social learning about various casual processes and forms of interdependence, attributions of responsibility and capacity for actions, and possibilities of coordination in a complex, turbulent environment;

-building methods for coordinating actions across different social forces with different identities, interests and meaning system, over different spatio-temporal horizons and over different domains of action; and

-establishing both a common world view for individual action and a system of meta-governance to stabilise key players' orientations and rules of conduct.

III.2.2 Institutional Approach to Territorial Innovation: "Learning" and "Knowledge Creation"

The connection between institutions and change becomes rather obvious once the importance of knowledge and learning for the structure and change of the modern economy has been realised (Johnson and Nielson 1998). This is reflected in the increasing importance of concepts like the 'knowledge based economy' and the 'learning economy'.

Recently the common agreement is that, contemporary capitalism has reached the stage at which knowledge is the most strategic resource and learning the most important process. This is a dynamic vision of the economy as a learning process (Johnson and Lundvall 1993) which is distinct from the conventional conception in terms of an allocation mechanism that leads to equilibrium. Lundvall (1995) remarked that the term 'learning economy' signifies a society in which the capability to learn is critical to economic success. Gradually a knowledge-based economy is materialising, where the competitive edge of many firms has shifted from static price competition towards dynamic improvement, favouring those who can create knowledge faster than their competitors (Porter 1990; Chandler 1992). Carter (1994) characterises the shift towards a knowledge-based economy by three elements:

-the growing importance of economic transactions focused on knowledge itself

-the rapid qualitative changes in goods and services
-the incorporation of the creation and implementation of change itself into the mission of economic agents

Capitalism is seen as an evolutionary process, driven by technical and organizational innovation; a process in which firms face a greater degree of uncertainty and instability than is ever admitted in neo-classical theory, a process in which social institutions other than the market play a major role. Morgan (1997) suggests two propositions that have contributed to the debate about the nature of capitalism as a learning economy; (i) innovation is an interactive process -between firms and the basic science infrastructure, between the different functions within the firm, between the producers and users at the inter-firm level and between firms and the wider institutional milieu- and this process should be conceived as a process of interactive learning in which wide array of institutional mechanisms can play a role, (ii)innovation is shaped by a variety of institutional routines and social conventions.

Malecki (1991) relate these propositions to territory by suggesting such routines partly rooted in the local and regional institutions and the milieu so that specific regional trajectories may emerge. Local firms and networks becoming increasingly interlinked with global markets, with corporate markets, with corporate hierarchies as well as networks increasingly shaping the innovation process and consequently local and regional development is shaped within specific local conditions and histories (Tödtling, 1999).

These propositions associated with the evolutionary approach give way to some new theoretical departures in the field of regional development. In the base of this new debate there is the nature of learning process and the concept of knowledge, so it is important to understand what learning and knowledge is.

Hudson (1999) puts that, learning both presupposes and produces knowledge but knowledge is not an undifferentiated entity and it exists in a variety of forms. There is, in particular, a critical qualitative difference between information, which is codifiable (and so commodifiable and tradable) knowledge that can be transmitted mechanically or electronically to others and in principle can become ubiquitously available; and tacit

knowledge in the form of know-how, skills and competencies that cannot be so codified and ubiquified. Maskell and Malmberg (1999b) emphasise the need to have tacit knowledge in order to use codified knowledge. On the other side, Amin and Cohendet (1999,p.93) put the relation among codified and tacit knowledge by indicating that the "behaviour of firms is guided by organisational routines which mobilise both forms of knowledge". Amin and Thrift (1994), emphasise the significance of place-specific tacit knowledge within key nodes of command and control and representation in a global economy which is enhanced by the technological facilitation of information flows simultaneously.

Learning processes determine the creation of knowledge. Maskell and Malmberg (1999a) emphasise learning processes are inherently interactive in nature and generally characterised by uncertainty. Most new knowledge emerges from problem-solving, often on a trial-and-error basis, and as such it is normally arrived at incrementally.

Learning processes can be internal to an actor (actor can be seen either as an individual or as a collective actor such as a firm, a corporation, even a network) or they can take place in inter-actor processes (Oinas and Van Gils, 1999). In the latter case, new elements to actors' learning processes are integrated from other paths followed by other actors. Relatedness –similarity and complementarity- between the new elements and the pre-existing resource-bundles condition the directions (depth or scope) learning can take. (Oinas and Van Gils, 1999) In most cases, similarity and complementarity are needed for learning. Similarity creates the cognitive basis for creating novel combinations, for actualising potential complementarities.

Maskell and Malmberg (1999a) put the two implications of the general character of learning processes as;

- "History matters". In order to cope with the uncertain and incremental character of learning processes, firms develop various routines and procedures. Success will tend to make such routines extraordinarily durable, and this, in turn, will tend to establish path-dependent 'learning trajectories'.
- "Proximity matters". The interactive character of learning will in itself introduce geographical space as a necessary dimension to be taken into account. The more tacit the

knowledge involved, the more important the spatial proximity between the actors taking part in the exchange.

These two implications of general character of learning put forward the understanding of the contemporary emergence and reproduction of spatial agglomerations of related firms, in which the path-dependent and interactive character of knowledge creation is a key. Maskell and Malmberg (1999a) stress the empirical works which suggest that a certain interchange of tacit knowledge (Nelson 1987, Von Hippel 1988) taking place at a local level, where firms share the same values, background and understanding of technical and commercial problems. They suggest that, such ability to interchange, otherwise purely internal information, constitutes an important part of the competitive advantage of spatial agglomerations of related firms and industries. Also the region's distinct institutional endowment that embeds knowledge and allows for knowledge creation which –through interaction with the available physical and human resources- constitutes its capabilities and enhances or abates the competitiveness of the firms in the region.

Hudson (1999) emphasises the increasing complexity of the knowledge-base upon which the totality of the production process depends is increasing the social division of labour in knowledge production and resulting in growing numbers of collaborative long-term relationships between firms. As a result, know-who is becoming of growing importance in the production of know-how (Lundvall and Johnson, 1994). This growing emphasis on knowledge and learning therefore also links in with claims as to new forms of relations between companies, based on co-operation, trust, and the sharing of knowledge for mutual benefit. Trust-based relationships are emphasised (Lorenz 1992, Storper 1995) which are primarily built as trust is not a commodity readily available on the market. When building trust-based relationships between firms, some forms of tacit knowledge might eventually be exchanged (Sako 1992). In another context Maskell and Malmberg (1999b) propose four distinctive stages in this process:

-the transfer of knowledge involves the employment of a very old-fashioned, precapitalist exchange mechanism: barter.

-the patterns in one transaction save some or all the search costs by keeping in contact with each other, thus initiating a 'dyadic', stable relationship.

-the accumulated sunk costs align the incentives and make the partners in a dyadic relation behave as if they trust each other.

-the dyadic partnerships interconnect in building network-relations through which each participant might access knowledge while benefiting from the trust-enhancing investments made by the initial sinking of costs in one or a few relationships (your-friend-is-my friend)

Also, considerable emphasis is placed upon new forms of network relations, both 'horizontal' relationships between small and medium-sized enterprises (SMEs) and 'quasi-vertical' relationships between big firms and their suppliers and/or customers, which stress the sharing of R&D, of knowledge and the products of learning to the benefit of all partner companies in the network (Hudson 1999).

It is also emphasised that there are some limitations to the comparative advantages of agglomerations as learning environments (Amin and Cohendet, 1999). One is the tendency to ignore the relational proximity provided by global links of reciprocity, such as the networks of transnational corporations, that also constitute a rich source of informal learning. Another is its inadequate appreciation of the power of organizational environments in combining the fruits of tacit knowledge with science and technology (e.g. design and quality-conscious high performance companies), as well as its underestimation of the normal transaction cost savings associated with size. A third limitation is the under-appreciation of the variety of possible learning outcomes (Odgaard 1998, quoted in Amin 1999), which are in part influenced by differences in actor-network rationalities and cognitive frames (e.g. craft networks of incremental learning based on trust and reciprocity versus networks of problem-seeking learning based on reflexive knowledge). Finally, at times it is not clear whether the strengths of dynamic networks derive from their learning capabilities or their ability to anticipate change and adapt (Hudson 1996 quoted in Amin 1999).

After discussing the concepts of knowledge and learning and their spatial implications, it is now important to put forward the different ways, types or sources of learning processes. The learning that has changed the nature of both international competition and industrial organisation in the post-fordist age are the ones that are active, systematic, integrative, and generative (Senge 1990). Rather than the passive processing of information or passive accumulation of experiences, knowledge creation, diffusion and transformation are actively and systematically conducted and embodied in the whole organisational process of production (Florida and Kenney, 1993).

There are, however, several strands to the learning literature, which highlight different aspects of, and ways of learning: learning-by-doing (Arrow, 1962); learning-by-using (Rosenberg 1982); learning-by-interacting (Lundvall 1992); and learning-by-searching (Boulding 1985;Johnson 1992). Perhaps the most influential of these within recent debates has been Lundvall's emphasis on learning-by-interacting, informed by a concern to understand how (predominantly small) companies in open economies can remain competitive in an environment of rapid technological change and uncertainty. It essentially focuses upon companies learning about and adapting to 'best practice' via interaction with other firms and institutions as the route to competitiveness (Hudson 1999).

Jin and Stough (1998) define the sources of learning by emphasising the different levels of institutional arrangements that promote the learning capability of various agents. The levels of learning include:

(i) Individual and organisational learning; The learning capability of an organisation depends in part on the knowledge and skill base of its employees. Students of human capital and human resources are pointing out that the effective supply of well-trained workers by the education system is important for a nation to compete in international markets (Porter 1990; Thurow, 1992). This conclusion is also valid for regional development.

The effectiveness of individual learning in an organisation depends on several factors. The first one is the amount and quality of on-the-job training provided by the firm. The second factor is the employee's motivation to learn. Both these factors depend on social, cultural and institutional factors. Some countries and regions have cultural norms supporting learning, whereas others do not (Vogel, 1992). Though cultural norms for learning are important, a more influential factor comes from the nature of the employment relationship. A short-term contractual employment relationship decreases the employer's incentives to provide training and employee's motivation to learn firm-specific knowledge and skills. In contrast, a long-term employment relationship promotes both the motivation for employers to provide training and the motivation for employees to learn firm-specific knowledge and skills. A firm with a commitment to long-term employment preserves its learning capability by retaining its experienced workers when it faces economic recession and therefore achieves a learning advantage when the economy recovers.

Learning by monitoring is a practice through which deficiencies of products and processes are identified and eliminated on the spot by reducing production bottlenecks.

(ii)Transactional learning; is the type of learning that occurs in the marketplace. The simplest form of transactional learning happens when people are exposed to new ideas about new products and new ways of doing business in international markets. The second form is learning by using new equipment (Rosenberg 1982). Investment in machinery has proved to be essential in long-turn productivity growth (DeLong 1992). New machines embody new knowledge, whereas their use facilitates the generation of new skills, expertise, and insights about opportunities for improvement (De Long 1992). The third form happens when people exchange economic knowledge at specific time and places (Hayek 1945), or exchange technological knowledge about specific products and processes, either in the marketplace, local restaurants (Saxenian1994) or professional conferences (Lynn et al 1993). The learning capability of firms in a given region is greatly influenced by the extent and intensity of the spillover of knowledge in that region. The fourth form comes from the movement of knowledge workers, including experts in engineering, marketing, and management across firm boundaries and regions.

(iii)The Network Learning: However the patterns of transactional learning are facilitated not only by impersonal markets, as implicitly indicated (Porter 1990, Von Hippel 1984) but also by geographically clustered and socially constructed markets. Structurally, learning is enhanced by inter-firm networks in the market that facilitate knowledge exchange and knowledge synthesis among suppliers and producers (Fruin 1992, Gerlach 1992). Culturally, information exchange is facilitated by the various forms of social capital, especially the cultural norms of trust, co-operation and reciprocity (Fukuyama 1995; Hansen 1992; Lorenz 1992). Without these spatially concentrated institutional structures and cultural norms, the market in the neo-classic sense can help little in facilitating and stimulating co-operative learning.

(iv) Spatial Learning: Spatial learning is the kind of learning that results from the spatial configuration, accessibility, mobility, and exchange of externalised information, knowledge, competencies, and learning capabilities. In the Fordist age, the spatial impact was conceptualised in theories of industrial location based on the consideration of transport cost and economies of agglomeration. Whereas learning in the Fordist age

happened most frequently in the education and R&D systems either in the public sector or within the firm, spatial learning in the age of Fordism most frequently took place in the agglomeration, attraction and movement of human resources in an industrial space. Consequently, other than its traditional role in enforcing contracts and property rights, and in the provision of public infrastructure, the focus of local government was on the production and reproduction of necessary knowledge and human capital through the public provision of education.

The spatial form of learning encompasses not only individual and organisational learning in the regional context but also transactional and network learning within a region. The importance of the spatial dimension of learning and knowledge creating is at first reflected in the existence of what Scott (1996) calls "spatial transaction costs", especially, when it is related to the creation, diffusion, appropriation, and exchange of tacit, localised, relational, and externalised knowledge, expertise, and capabilities. According to Scott (1996), the spatial transaction costs generally decrease with the geographical distance between two transacting parties. This is especially true when people engage in a frequent exchange of tacit, localised and relational knowledge, expertise and capabilities. The spatial impact of learning is further reflected in the role of regional and communal governance in either reducing the transaction costs or overcoming the market failure in the creation, diffusion, and appropriation of externalised knowledge, expertise, and capabilities. Combining these two spatial and/or regional impacts on learning with the fact of an increasing reliance of externalised competencies and capabilities in the post-Fordist age, it is to predict the increasing importance of the spatial element of individual, organisational, transactional, and network learning and knowledge creation.

Concerning regional policy, Oinas and Van Gils (1999) discuss that there is no one kind of "regional learning" –and no way of boosting it. There are a several kinds of resource-activity bundles in firms and regions, based on which learning can take place in diverse (but not random) constellations of actors involved and toward an array of (but not infinite) directions. It is the role of policy to recognise the variety –and to support the search for successful realisations of the potential offered by each specific context.

From the policy dimension, the main question becomes how to improve the national/regional innovation systems in order to create conditions for innovative activities.

Especially the literature on national innovation system (NIS) explains the roles of different institutions and actors. In the work that leads to innovation and the discussions on the Regional Innovation Systems (RIS) follow the same kind of understanding at the regional level (Cooke, Uranga and Extebarria 1997 and 1998). Programs and policies to ensure innovative basis receive increasing importance (Gregersen and Johnson 1997). In this context, both learning process and the end products of knowledge are assumed something that can be manipulated (Eraydın 1999). In fact, although learning is defined as path dependent process, the literature is increasingly full of material that explain how the technological base can be supported and the new institutions to be introduced, etc. However, by far, no answer to the question what the role of social dynamics and democratic decision-making in innovation trajectories should be (Mouleart and Sekia, 2000).

State's policy in creation of an institutional setting that ranges from direct subsidies, public education and training facilities, public Rand D spendings, infrastructure facilities, financial support, regulation, standards to public procurement are all considered a part of NIS. In certain areas both the actors and their relations supported by informal networks and national, regional and local institutions enable some region to have an advantageous position in the innovative activities. They constitute knowledge centers such as universities, research institutes, contact research organisations and technology transfer agencies and deeply affected by governance structure of business associations, chambers of commerce and public economic development, training and promotion agencies and government departments. Institutions in the sense of common habits, routines, established practices rules or laws that regulate relations and interactions between individuals and groups shape the interactive learning process (Gregerson and Johnson 1997).

CHAPTER IV

INDUSTRIAL DISTRICT MODEL

The 1980s literature on spatial development and industrial geography present many success stories identified as 'industrial districts'(Brusco 1982; Sabel 1989; Piore and Sabel 1984; Amin 1989; Pyke, Beccatini and Senberger 1990; Capecchi 1989; Beccatini 1991; Storper 1990 and 1993). Industrial districts composed of interdependent networks of firms in north-east central Italy, West Germany, Scandinavia, the USA and Japan are usually classified as Marshallian or high technology districts. These districts stand out not only for their flexible and innovative response to the demands of changing markets but also for the complex balance of cooperation and competition between industrial firms which makes possible the recombination of resources (Zeitlin,1989).

While the first examples were from advanced parts of the world, beginning from 1990s, it is possible to observe the presentation of success stories also from the developing countries, although they are still in limited number (Eraydın 1997). There are examples from Latin America especially from Brazil (Schmitz 1995;Storper 1990), South Korea (Park and Markusen 1995), Mexico (Rabelotti, 1995 and 1997), India (Cawthorne 1995), Turkey (Eraydın 1998a, 1998b).

The empirical success of the industrial districts both at national and international levels, has consolidated the economic validity of this organizational model. Although there are increasing doubts on the sustainability of growth in these regions and their future development patterns (Harrison 1994b; Cooke 1996; Staber 1996) and questions whether textbook formulations are supported by actual evidence (Rabelotti 1995), they are still in the agenda of both advanced and developing countries. Additionally, a range of complementary literatures on spatial agglomerations in different forms began to be named

as, as "learning regions" (Florida 1995), "innovative milieu" (Camagni 1991) or "regional systems of innovation" (Cooke, Uranga and Etxebarria). They are usually accepted as the spin offs or advanced forms of industrial districts in the changing economic conditions of 1990s, where information, knowledge and innovation became the prominent factors of success (Hassink, 1997).

This chapter examines industrial district model with reference to institutional factors, which in the literature has been discussed as one of the main determinants of the model. The first part of the chapter discusses the stylised facts of the model presenting an overview of the industrial district literature. In the second part, some of the industrial district cases from different parts of the world is examined comparatively. The third part discusses the institutional factors that leads to success in industrial districts. And, in the last part, current problems of industrial districts and future prospects are provided.

IV.1 Stylised Facts of the Industrial District Model

In his original formulation Marshall envisioned a region where the business structure comprises small, locally owned firms that make investment and production decisions locally (Markusen 1999). Scale economies are relatively low, forestalling the rise of large firms. Within the district, substantial trade is transacted between buyers and sellers, and often entails long-term contracts or commitments. Although Marshall did not explicitly say so, linkages and/or cooperation with firms outside the districts are assumed to be minimal.

What makes the industrial district so special and vibrant, in Marshall's account, is the nature and quality of local labour market, which is internal to the district and highly flexible. Individuals move firm to firm, and owners as well as workers live in the same community where they benefit from the fact that 'the secrets of industry are in the air'. Workers are committed to the district rather than to the firm. Labour out-migration is minimal, while in-migration occurs as growth permits. The district is seen as a relatively stable community which enables the evolution of a local cultural identity and a shared industrial expertise.

The Marshallian district also encompasses a relatively specialised set of services which are tailored to the unique products/industries of the district (Morgan 1999). These services include technical expertise in certain product lines, machinery and marketing, and maintenance and repair services as well. They include local financial institutions offering so called 'patient capital', willing to take longer-term risks because they have both inside information and trust in the entrepreneurs of local firms.

In brief, Marshallian industrial district, is identified by the following features (Rabelotti 1997): with regard to its economic structure, spatial proximity of firms, specialisation in the same sector or filiere, division of the production cycle in phases, differentiation and customisation of the products; with regard to the social structure, existence of a system of values like labour ethic, high risk and saving propensities, sense of community, existence of an institutional network favouring the diffusion and tranmission of values.

Beccattini (1979) introduced the concept of industrial district, which is developed as the Italianate version of Marshallian industrial district. He defined the industrial district: 'as a socio-territorial entity which is characterised by the active presence of both a community of people and a population of firms in one naturally and historically bounded area' (Beccattini 1990, p.38). Becattini emphasised the socio-economic origin of the concept.

According to Beccatini firms within industrial districts are strongly rooted in the territory, 'any single unit of production which operates within a district is to be considered at one and the same time both as an entity possessing its own history which in principle is disconnected from its territorial origin and as a specific cog in a specific district'(Beccattini 1990, p.38).

Another important feature of industrial districts that Becattini borrowed from Marshall, is the concept of 'industrial atmosphere' referring to the; concentration of a large number of skilled and specialised people which favours a process of mutual training and learning by doing and the existence of very strong specialisation, spatial proximity and cultural homogeneity which aids the fast diffusion of innovations and know-how.

Unlike the passivity of Marshall's firms, Italianate districts exhibit frequent and intensive exchanges of personnel between customers and suppliers, and cooperation among

competitor firms to share risk, stabilise markets and share innovation (Markusen 1999). Disproportionate shares of workers are engaged in design and innovative activities. Activist trade associations provide shared infrastructure –management, training marketing, technical or financial help- as well as providing forums to hammer out collective strategy. Local and regional governments may be central in regulating and promoting core industries. Trust among district members is central to their ability to cooperate and act collectively (Harrison 1992; Saxenian 1994), although critics argue that the power of large corporations to shape Italian industrial districts has been understated.

As for growth and stability, as long as agglomeration economies remain and are not replicated in other locales, both Marshallian and Italianate industrial districts retain good long-term prospects for growth and development. Although more standardised functions may be hived off and driven elsewhere by inflated regional costs, innovation will ensure the revitalisation of these 'seedbeds of innovation'. But other hypotheses have been advanced. Agglomerative specialisation and success in one industry, especially when associated with some degree of market power and/or dominance over region factor markets, can actually impede the development of other sectors whose presence might diversify the economy and counteract maturation or instability in the original sector.

Externalities have been widely used as a concept to capture several economic effects of clustering, both in a static and dynamic perspective (Rabelotti 1997). In industrial districts the reduction in transaction costs can be explained by geographical proximity and socio-cultural homogeneity. The stability of many relationships and the importance of building a reputation decrease the risk of opportunistic behavior. In the districts a delay in delivery or bad quality production immediately becomes common knowledge and a bad reputation negatively influences future relationships. Moreover, in industrial districts, firms facing some problems with their partners can easily find a new enterprise able to satisfy their needs. Another important aspect characterising transactions in industrial districts is the possibility of easily recycling investments in transaction-specific assets, like specific knowledge or machines (Dei Ottati 1986). Investments can in fact, be used in similar transactions with different partners or sold to other firms without excessive losses.

Moving from static to dynamic external economies, Stewart and Ghani (1991) identify three types of dynamic effects of industrial growth; changing attitudes and motivations,

skill formation and changing knowledge about technologies and markets. The first type of externalities refers to a sort of demonstrative effect on attitudes which induces economic agents to adopt new technologies or introduce new products or new forms of organisation.

The second type, human capital formation, is generally acknowledged to be an important source of externalities. In an industrial district where a mass of skilled and specialised workers is concentrated, the training process takes place in a spontaneous and socialised way, both at the formal and informal level (on-the-job-learning), generating an overall positive incentive to work. The last type of dynamic externalities is related to technology transfer through interactions between firms outside of the market, which can generate technological upgrading in many different forms. Spatial proximity facilitates the movement of skilled labour bringing knowledge of new, improved technologies.

The effects generated by dynamic external economies can be interpreted as increases in collective learning. Referring to the concept of 'learning by doing' incorporated by Arrow (1962) in the theory of growth to make technical progress endogenous. In industrial districts the investment of each economic actor in product and process innovations, in information collection or in marketing generate a collective learning effect which increases the rate of growth of the entire system's collective efficiency.

A further effect of dynamic external economies has been introduced by Camagni (1991), who stresses the role played by the districts in the reduction of uncertainty in innovation processes, due to imperfect information, difficulties in precisely defining the effects of innovative decisions, problems in controlling the reactions and behaviour of economic actors.

Other than Marshallian and Italianate versions of industrial district model there are also some characteristics derived from the industrial clusters appeared in less developed countries (LDCs). The characteristics derived from the different versions of the industrial district model is summarised in the Table 7.

Table 7. Characteristics of Industrial District Model, Italian Industrial Districts, Industrial Clusters in LDCs and the Dynamic Factors That Effect the Performance of Industrial Clusters

	Characteristics of Industrial District Model	Characteristics of Italian Industrial Districts	Characteristics of Industrial Clusters in LDCs'	Dynamic Factors
Spatial factors	Socio-territorial entity (Marshall) "Industrial atmosphere" (Becattini, Bagnasco, 1979) Spatial proximity	Small urban dimension (Bagnasco,1988) Strong urban-rural linkages(Camagni and Capello 1990)	Geographical concentration	'Industrial atmosphere', as barrier to exit, locking the local system Crises in the system area
Socio-cultural components	An entity possessing its own history Cultural homogeneity A system of values like labour ethic, high risk and saving propensities, sense of community	Process of transformation from rural to industrial areas Social cohesion and common cultural background Important role of family Strong labour ethic High social mobility	Long historical tradition Common social identity Strong family ties Sense of community ethnic identities	Change in social environment with time (attitudes and motivations) Eroding strong family ties Weakening trust
Economic elements	A cluster of mainly small and medium enterprises Very strong specialisation Division of the production cycle in phases Differentiation and customisation of the products A large number of skilled and specialised people	Lower labour and land costs Flexible organisation of labour	Small and medium scale enterprises Specialised industries	Change in external conditions (technological innovation, change in the international market) Change in internal conditions (lack of skilled labour force, an increase in wages, lack of infrastructures) Increasing differentiation Skill formation New products

Table 7 (cont.)

Interlinkages	Process of mutual training and learning by doing Fast diffusion of innovations and know-how An intense set of bacward, forward, horizantal and labour market linkages balance between competition and cooperation (Brusco,1990). Face-to-face relationships	Network of middlemen	Linkage between traders and producers Subcontracting between large and small firms Informal sharing of information, know-how, tools and equipment among firms	Weakening social links and trust
	Characteristics of Industrial District Model	Characteristics of Italian Industrial Districts	Characteristics of Industrial Clusters in LDCs	Dynamic Factors for the Performance of the Industrial Districts
Institutions and policies	The existence of large number of local agents Regional agencies Existence of an institutional network A network of public and private local institutions	Political homogeneity Industrial policy 'from below', at local or regional level Business service centres The entrepreneurs' and artisan associations Agencies providing real services Local credit provision (loan guarantee consortia) Strong integration between local banks and industry Collaboration between public and private bodies	Industrial strategy elaborated and managed at the central level Schemes for encouraging subcontracting Initiatives for creating quality control centers, training institutions or research and technology centers Sectoral and business associations Private institutions play a very minor role	New forms of organisation Economic actors having different reactions to change

Adapted and arranged from Rabelotti (1997)

IV.2 Structural Comparison of Some Successful Industrial Districts

This part aims to put forward that there is no single pathway to the emergence of industrial districts. It should be emphasised that evaluation of the institutional aspects of different industrial district cases from different parts of the world needs a broader understanding, which will take into account the ways in which the forms are both geographically distinctive and embedded in national and international contexts. Country-specific framework, state industry policy networks, local macro-regulative context are the important determinants of the local institutional dynamics. Following this, in the first part, before discussing the institutional factors that are emphasised in the success of industrial districts, some of the selected cases will be compared by their;

-spatial, economic, political and social conditions

-the phenomena of networking, the informal interaction common among firms

-national differences in state-industry policy networks

The selected cases from the literature for comparison are: the regions that can be classified (i) as having design intensive craft-based production; NEC Italy industrial districts which have a rich production culture and institutional environment, Baden-Württemberg which has an innovative regional network architecture, Swiss Jura Arc which is an old industrial district and lived a transition to a technology district; and (ii) as having high technology production; Californian High Technology Districts which has a system of innovation, maturity succession, Japanese Technopolis and South Korean Industrial Districts which are the initiatives of national government. The spatial, economic, political, social, institutional, cultural features, policy networks, regional systems and success factors of the selected cases are summarised in the Table 8.

One of the variables for comparing the structural features of the selected cases is the main type of networks in the production system. Storper (1991) and Maillat and others (1995) identified the main types of networks as the governance of the production systems. According to this identification the first type concerns a compact network in which the overall design of the project is devised collectively, there is no systematic lead firm and hierarchy. NEC Italy and Swiss Jura Arc can be considered in this type with their agglomerated network of mostly small units.

The second type concerns a network with a coordinating firm or firms, which controls the project in collaboration with all the partners responsible, there is some hierarchy. Baden-Württemberg with a small and large firm agglomerated network, and the Californian High Technology District with small and large firm agglomerated network could be included in this type.

The third type concerns a network with a leader firm which has taken the initiative for an innovation project and which controls all the operations. Power is asymmetrical, there is considerable hierarchy. Japanese system could be considered in this type with a dispersed network of some large units. The fourth type is the vertically integrated firm. South Korean system could be considered in this type. There is no network type of organization.

While comparing the production systems it is important to consider the national differences in state- industry policy networks. Waarden (1991), defined the state- industry policy networks by the nationally specific characteristics of the actors involved: organized societal interests and state agencies. At a very high rate of generalization, the terms 'strength' or 'weakness' of state and societal interests have been used and various types of policy networks have been classified related to these. In the table, policy networks are defined according to this classification. For France and Italy, strength of state is strong but strength of societal interests is weak and called *state corporatism* . For Germany strength of state and strength of societal interests are strong and this type of network could be called *neo-corporatism.* For USA, the strength of state and societal interests are weak, this is called *liberalism.* For Switzerland the strength of state is weak but the strength of societal interests is strong this is called *liberal corporatism.* For Japan, strength of state and societal interests is strong and this could be called as *meso-corporatism.* For South Korea strength of state is strong, this is a state intervention.

The distribution of key production skills and competences, by which is meant the stock of knowledge and practice which is key to the particular technological dynamism, are based on socially constituted identities (Storper, 1991). The identities of key skill groups is normally associated with recognized important mobilisers. These key resource mobilisers do not exist in isolation and so their relations to other groups in the production system and regional society are crucial to whether their competences get used to promote learning and technological dynamism. In the table, the conventions of identity and participation of key

groups are determined. For Baden-Württemberg we can say local identity and closed system; innovation is gradual, because the system is closed, there is little expansionist tendency and all resources are concentrated on improvement within the traditional field. For NEC Italy and Swiss Jura Arc we can say local identity and open system; where there is tendency for local competition, overproduction, and necessity for periodic overhaul of the system. For South Korea we can say national identity and closed system; which is a system based on large numbers, but with relatively fixed hierarchy whose role is to introduce innovation by establishing standards. For California and Japan we can say national identity and open system; which is a scientific entrepreneurial system with high rates of entry and failure in early technological stages and consolidation around major companies as base technologies stabilize.

There are different key mobilisers in each of the cases. In Northeast-Central (NEC)Italy, all the local policies implemented for small firms (consortia, industrial estates, credit policies) were the logical consequence of a policy of alliance with middle classes against big capital (Belussi 1996). In the USA, professional culture is strongly imparted by the university training system. In Baden Württemberg, a state government coordinate the specialization by sharing up the infrastructure of innovation with its own authority and resources. In Japan, technopolises developed by the command of national government. There is Technopolis Foundation and the projects at the regional level are financed by local administry, economy and university. In South Korea there are state agents at national (like Korean Institute of Technology) and sub-national levels. In Swiss Jura Arc, there is the support of Swiss Federation.

Jin and Stough (1998) emphasise the difference that nations exhibit dominant forms of the social construct of trust which in turn give rise to the emergence of different aspects of dominant forms of industrial organisation. In the NEC Italy, people rely heavily on family and communal ties to build trustful relations (Fukuyama, 1995). In the USA, trust in human relations depend more on the confidence in the state protection of property rights and in the enforceability of contracts (Jin and Stough, 1998). The emphasis on competition have given rise to the dominance of spin-offs as a way of destroying competencies and learning capabilities in established firms and as a way of rapidly building learning capabilities in emerging capabilities (Saxenian, 1994; Storper 1993). In South Korea, while the distrust of workers is the rule, trust is a fundamental feature

between different levels of management in the hierarchical networks constituted by the chaebols (owned by an individual and his family) to the point that such trust is mainly embedded in kinship relationships (Castells, 1997).

Table 8. Comparison of Some Successful Cases of Industrial Districts

FACTORS CONDITIONS	**BADEN-WÜRTTEMBERG**	**EMILIA-ROMAGNA**
SPATIAL	Geographical proximity Skilled and versatile labour	Geographical concentration Non-metropolitan mainly rural area Sectoral specialization
ECONOMIC	Product differentiation Company specialisation Flexibility in production	Design intensive and craft based industries Dense clusters of very small firms Flexible specialization Exported outputs Firms partake of a local vertical division of labour Market the local products as final output with a mark
POLITICAL	Liberal tradition- independent state	Ideology of economic independence Socialist ideology Bottom-up approaches to local policies
SOCIAL/ BEHAVIORAL	Entrepreneurial spirit	Possibility of entry into the key technology mastering group Experience in organizing independent Existence of high levels of loyalty among econ. agent
INSTITUTIONAL Central govern. Local governm.	Infrastructural services support for science and research financial support to enterprises vocational training research institutes	Commercial agents organizing the production activities Trade unions Entrepreneur associations Regional public agency Technical schools
CULTURAL	Former peasent tradition Skilled labor based on the protestant work ethic	Entrepreneurs released from agriculture (share cropping) Entrepreneurs which are the previous workers of large plants in the region Women homeworkers
SUCCESS FACTOR	Innovative regional network architecture	Production culture, flexibility, rich institutional environment
REGIONAL SYSTEM	Local identitity - closed system / somehierarchy agglomerated network of small and Large fyrms Flexibly specia but also large firm supply chain	Local identitity - open system / no hierarchy-compact network - agglomerated network of mostly small fyrms
POLICY NETWORK	Strength of state is strong and strength of societal interests is strong ⇒ neocorporatism	Strength of state is weak but strength of societal interests is strong ⇒ liberal corporatism

Table 8. (cont.)

FACTORS CONDITIONS	CALIFORNIAN HIGH-TEC. DISTR.	SWISS JURA ARC
SPATIAL	Geographic proximity High technology district Local accumulation of skilled man-power	Geographical and cultural proximity Old industrial district Accumulation of information
ECONOMIC	High technology New firm formation Innovative small firm Well developed and highly flued capital Low social wage and overhead costs	Adopt a network type organization (accounted for by SME's) New production firms Transition dynamic Trade specialization Historically formed relational capital
POLITICAL	Pioneering new product policy Policy of localized industrial complexes	Political cohesion Adoption of common rules
SOCIAL/ BEHAVIORAL	Break away from technological adaptati. The new appl. of exis. scientific knowledge Technol. experimenta. Social approval when formal knowledge applied to entrepreneurial activity	Face to face contacts Interpersonal relati. Growing awareness of collective actions Learning by practice, by user and producer and by interaction btw. different phases of production
INSTITUTIONAL Central govern. Local governm.	Motivating and mobilizing the talent of to do new things	Support of Swiss Federation Merger of three local laboratories University Technical colleges (engineering courses)
CULTURAL	Prior industrial or institutional experience Engineer turned entrep Scientific professional culture and clan relationships	Established industrial culture Common cultural background
SUCCESS FACTOR	High technolo. District Innovation, Maturity,succession	Transition from an industrial district to technology district
REGIONAL SYSTEM	National identitity - open system / - agglomerated network of small and large producers	Local identitity - open system / no hierarchy-compact network - agglomerated network of mostly small fyrms
POLICY NETWORK	Strength of state is weak and strength of societal interests is weak ⇒ liberalism	Strength of state is weak but strength of societal interests is strong ⇒ liberal corporatism

Table 8. (cont.)

FACTORS CONDITIONS	**SOUTH KOREAN NEW IND. DISTR.**	**JAPAN TECHNOPOLIS**
SPATIAL	Satellite industrial districts Large firm conglomerates (chaebols)	Headquarters functions and R&D centers in the core regions Simple production stages relocated to the periphery
ECONOMIC	Mass production processes High-tech industries Scientific engineering labor Large multinationals Branch plants	Introduction of technology into all sectors Economy dominated by large corporations Establishment of high-tech indust. Entrepreneurial target group are domestic high-tech enterprises that will move prod. away from core regions and establish new production plants
POLITICAL	Key role of national government Laws to promote industrial dispersio Export promotion policies Tax incentives Import controls Training subsidies	The key role of national government Technopolis Law and Program Provision of tax incentives for enterprises
SOCIAL/ BEHAVIORAL	Most plants linked with external parent firms, suppliers and export markets	
INSTITUTIONAL Central govern. Local governm.	Necessary infrastr. for new complexes by the central government State agents at national and subnational levels Little local R&D	Foundation or relocation of research institutions Financial suport of the institutional infrast. Technopolis Found. University
CULTURAL	Tradition of independence and industriouness	Ensuring attractive living conditions
SUCCESS FACTOR	New industrial districts	Technopolis program Nation-wide policy for technology & reg. Dev.
REGIONAL SYSTEM	National identity-no network-vertically integrated firm	National identitity -system open-dispersed network -some large units
POLICY NETWORK	Strength of state is strong ⇒ state intervention	Strength of state is strong but strength of societal interests is weak ⇒ mesocorporatism

IV.3 Institutional Factors That Leads to Success in Industrial Districts

After putting the variety of industrial district literature, in this part, the institutional factors that are emphasised to have prominent role in the emergence and evolution of industrial districts will be discussed through the role of central government, role of partnerships among central government, local government and private enterprises, role of local institutions (finance, education and training, real services).

Role of central government

In the industrial district literature, there is strong emphasis on local institutions indicating the positive impact of the transfer of certain government functions on local development. However, some of the studies also indicate the strong impact of macro economic regulations on administrative systems (Amin and Thrift 1992; Cooke and Morgan 1994; Staber 1996) and the continuing importance of central government in supporting growth in specific regions. The catalytic role of central government between local enterprises and local governments are emphasised.

Similarly, region specific measures and incentives provided by central governments emphasised as quite important (Eraydın 1999). Special tax treatment appears to be the common characteristic of many industrial districts and almost all high-tech regions (Steed 1987; Stöhr and Pönighaus 1992; Scott and Angel 1988; Fujita 1988; Masser 1989; Castells and Hall 1994; Scott and Storper 1987; Harrison 1994a, 1994b, Lin 1997). Rather than direct funds national or local governments motivate firms to invest in certain regions by providing tax incentives (Harrison 1994b).

In Emilia Romagna and Baden Württemberg, while the local institutionalisation is important in the provision of opportunities, still small enterprises with innovative activities are supported by both federal government and local governments by different kinds of institutions (Cooke and Morgan 1994).

In Baden-Württemberg the financial support that enterprises, firms and potential investors are receiving from the state is based on clear political guidelines of the state government. They are designed to avoid favouring particular economic sectors, to avoid granting

continuous subsidies that merely keep declining industries alive and to avoid supporting projects and measures that may have detrimental environmental impacts. They are to promote only such projects that are to be implemented within the state. These policies effectively favour small and medium sized firms. State support for small and medium sized firms has included efforts to enhance vocational training, to encourage counselling, training and cooperation, to promote the establishment of new firms, to open international markets to small and medium sized firms and to improve their access to information and research.

Similarly, it is possible to observe the importance of central government in South Korea example (Park 1996), both in the emergence and development of the industrial districts. The central government policies and programs such as the tax incentives, financial support schemes, import controls, facilities in education and infrastructure provision programs are important in generating impetus for development in industrial districts (Park and Markusen 1995).

Although in the industrial districts of USA the government policies seem less important, a special version of government corporation synergy is achieved by the special rules of subcontracting (Eraydın). This model of subcontracting which is not regulated by market norms can be seen in Southern California (Castells and Hall,1994).

In Swiss Jura Arc, the state asserted fiduciary control and transferred ownership to the individuals who had no prior history in the region or in the industry. In the early 1980s the SMH Company, which was given complete licence by federal state to reconstitute large segments of the industry, created an entirely new production system that promotes an industry image based on fashion and operates the industry on the basis of mass manufacturing practices, subcontracting, and new distribution strategies can be defined as public sector response to restructuring.

Role of partnerships among central government, local government and private enterprise

In recent decades local authorities play an increasingly active role even in the very centralised countries (Castell and Hall 1994). In most of the successful examples the changing role of central governments are given as 'mediator', 'enabler' or 'catalytic

agent' without sole comment functions (Capecchi 1989), whereas local government led partnerships are accepted as the most important agents of governance in the performance of industrial districts (Piore and Sabel, 1984). The provision of several services have shifted from central government to local governments and even the local institutions formed by the collaboration of private entrepreneurs.

The private enterprise-central government-local partnerships are important in many fields. One of the ways of supporting the development of medium and large enterprises is to develop industrial estates, science parks and technoparks (Eraydın 1988a; Massey, Quintas and Wield, 1992). These types of partnerships are also important in technological development efforts. In Baden-Württemberg case these institutions, that are usually called 'technology centers', are specialised on technology transfer and technological improvements and provide support to industrial firms. The most important institution is Steinbeis Foundation. This foundation provides consultancy in terms of new technologies and support research on technological adaptation and transfer. According to Schmitz and Musyck (1994) Baden Württemberg experience shows that the services directly provided by the public organisations are not very effective, instead the semi-public institutions that work in close collaboration with entrepreneurs had been more influential in innovative activities. The existence of public, semi-public and private enterprises creates the competitive environment and enable the firms to choose the most appropriate technology for themselves. In fact, the literature on industrial districts emphasise the importance of organisational capacity at the local level (Zeitlin, 1992) and the role of central government to initiate this cooperative action.

Role of Local Institutions

Several studies indicate the critical local institutions in promoting the growth process. The critical institutions differentiate according to various types of industrial districts but the literature makes clear the ones that are related to finance, education and training, technology and the provision of real services.

Finance

In the development process of the industrial districts in the Third Italy it is possible to identify the importance of local banking facilities (Beccatini, 1991). The main characteristics of the financial system in these regions are the availability of the many financial institutions with the small industry support programs including cooperative banks, banks owned by municipalities and commercial local banks. Due to reciprocal relations between local banks and small enterpreneurs the return payment of credits are very high in these regions. These banks provide risk capital for the firms that are engaged in new products and production process (Schmitz and Musyck, 1994).

In Baden-Württemberg there are also local financial institutions that provide guarantee for small firms when they apply to commercial banks for large amounts of credit. The capital of these institutions are formed by the membership fees and it is used as a fund of guarantee. If these committees of these local institutions approve the applications for credit they are sent to commercial banks under their guarantee schemes. That is how small entrepreneurs with strong projects have been able to reach credits without any collateral. Also, due to reciprocal relations between banks and small entrepreneurs the return payments of credits are very high in these regions

In high technology industrial regions and especially in Silicon Valley of USA, the venture capitalists, some of which were ex-businessmen by technical training, became the integral part of enterprise development and reduced the capital leakage from the local economy by facilitating the recycling of available capital (Oakey 1985). This supply side financial interaction caused high technology firms to flourish in the earlier periods of Silicon Valley development and accelerated the pace of technological innovation (Saxenian 1990 and 1991, Florida and Kenney 1990). In fact venture capital investing is dependent upon tremendous information sharing between venture capitalists, entrepreneurs and consultants. A wide range of related actors operate as networks to locate deals, organise companies, establish investment syndications etc.

In the developing country industrial districts venture capital is also provided for small firms, but here family circles are more important than the public and non-public institutions (Eraydın 1998a; Saraçoğlu 1993). In these industrial districts active self-help

organisations, sometimes supported by prominent families, facilitate trust and collaboration between local entrepreneurs (Erendil 1998; Schmitz 1995). The same is true for North East Italian districts, where the families are defined as "communitarian families" (Storper 1993).

Education and training

The proactive measures in investing in human resources are a general feature of the industrial districts (Schmitz and Musyck 1994). Key features of the training programs are that they are very practically oriented and codetermined by the private sector. Private local firms and their associations play a major role in designing the content, in carrying out, and in monitoring the training.

It is claimed that socialisation is enhanced where specialised educational institutions and training establishments are set up in the community (Scott and Storper 1987; Lyons 1995) and teaching programs are endogenous elements of the overall process of local reproduction (Capecchi 1989; Schmitz and Musyck 1994). Of all support measures for small industry in developing countries, managerial and technical training has been the most widely used. The reason is, providing training is easier than most other measures. It is certainly easier than changing the context in which small enterprises operate (Schmitz and Musyck 1994).

The analysis of education opportunities indicates special characteristics of the programs followed in industrial districts (Eraydın 1999). Firstly, it is possible to find out that there have been education programs both directed to workers and also to entrepreneurs. Secondly, these programs are designed by the collaboration of local and central government institutions and they are mainly interested in satisfying local needs. It is usually claimed that if local entrepreneurs finance local education programs, they can better serve for local objectives and can be even less costly.

In the 1970s, especially in Italy local education programs had been initiated by the municipalities, business associations and entrepreneurs in order to overcome the discrepancy between needs and available schemes and have been very useful for them in upgrading their technologies and innovations capacities. The existence of technical

schools is the most important point in explaining the development of flexible specialization in the mechanical engineering industry of Emilia-Romagna (Schmitz and Musyck 1994). The region is able to coordinate the activities of the organizations which administer professional training: these organizations can be part of the public sector (municipality) or the private sector (unions, artisans, associations, professional organizations, etc.). Different types of training available include; training for employers with low or higher levels of formal education, but also includes schemes aimed at enterpreneurs or would be enterpreneurs. The main advantage of this regional structure of educational and training services lies in the fact that coordinated solutions can be found for local problems. (Capecchi, 1987) insists on this flexible character of the provision of education and training which draws on the resources of various public and private institutions but is geared to the needs of local industry.

In Germany while the in-factory type of education was important up to 1970s, after these years many new education and technology centres are founded (Schmitz and Musyck, 1994). The different experiences show that the education should not be only under the responsibility of central and regional institutions. Education that is shaped by the demand of industrial enterprises has to be revised continuously in order to meet the changing needs. The local education and training system is geared toward the needs of local industry and that the private sector plays an important role in financing and organizing the training. Baden-Württemberg has a long tradition in providing such education and training and the emphasis on the applied and the practical has not occurred at the expense of academic institutions and basic research. The region boasts a high number of universities and research institutes.

At the level of higher education mention must be made of the fachhochschulen (polytechnics) since their cirrucula are closely linked to the needs of local industry. These schools are of particular relevance for those aiming for careers as engineers or managers in the specialized local enterprises. For the majority of the workers the vocational training colleges (Berufschulen) are of greater importance. They cater for apprentices who work three days a week in a local firm and spend two days at college. This is the well-known German dual system of vocational training. The chambers of industry and commerce play a key role in this dual training system particularly in the design and supervision of courses and in the examination of apprentices.

There is however, a recognition that is dual system is insufficient to prepare workers for the rapidly changing skill requirements which come with the adoption of new technologies and organizational methods. Professional and industrial associations as well as chambers of industry and crafts have therefore created, since the mid-1970s, a number of training and technology centres. Their function is to organize seminars and courses for retraining or updating of know-how. The above institutions and courses both cater to the local industry but they are not specifically geared to the needs of small industry. As regards small-scale industry, the most important institutions are the craft chambers (Handwerkskammern) and theri branch specific divisions (Innungen). They preside over training for all skill levels, from the apprentice to the Meister (Master Craftsman who employs apprentices).

In Swiss Jura Arc (Glasmeier 1994), regional firms are experimenting with programmes to resolve skilled labour shortages. Several machine-tool firms have joined together to develop a firm-certified curriculum. Enrolment in the programme leads to an industry-approved certificate. Upon completion, a graduate is considered qualified to work in all participating firms. Workers can move between firms in search of a satisfying working environment.

One crucial institution is identified as universities. There is a strong emphasis on universities as active agents in the formation of high technology industrial districts, whereas in the growth of craft-base industrial districts the contributions of universities are spelled less. Universities play different roles in the development of high-tech regions; such as to generate knowledge both in basic and applied science (especially the research oriented-universities), to train the labour force that is crucial for new technologies and to act as entrepreneurs by supporting the spin-off of their research into a network of industrial firms and business ventures (Castells and Hall, 1994). Beyond their direct role, they provide cultural amenities to attract new engineers and scientists.

Real Services

The policy of real services is a significant element of the competitiveness of industrial districts. It is not just an element of support for the small firm model but a fundamental element of the local industrial structure (Schmitz and Musyck 1994).

Real services can be wide ranging (Table 9). They can include the translation of tenders advertised in the foreign countries, the provision of information regarding the technical standards enforced by law in various foreign countries for a set of products, or the provision of testing facilities for raw material used in the production (testing the quality of silk or steel for ex.).

Over the last 30 years, numerous industrialised countries and regions have developed business service programs to increase the knowledge recognition, transfer, and assimilation capacity of small and medium-sized businesses (Glasmeier 1999, p.74). In addition to 'conventional' services such as accounting, legal, payroll, and simple marketing services, which are designed to reduce the costs of conducting business, so-called 'real services' have been identified as activities that explicitly attempt to improve the competitiveness of businesses (Bellini 1998; Brusco 1992; Cook 1997; Morgan 1997). The primary distinguishing characteristic of conventional versus real services is the extent to which the latter's provision is explicitly targeted toward altering the behaviour of the recipient firm (Brusco, 1992). In other words, real services have as their intent altering firms' behaviour over time to increase their capabilities and therefore their effectiveness. This may often and does include services and capabilities for which firms are not consciously aware that they need or are missing in their daily and longer-term business practices.

Table 9 Examples of real business services

A.FINANCE	Advisory services for non-ordinary financial operations (merger and acquisitions; leverage and management buy-out; local stock exchange quotation; financial restructuring)
B.PROMOTION (market internationalisation)	Assistance for tenders of the EU, World Bank, etc
	Assistance to direct investment abroad
	Assistance to inward investors
	Legal and financial assistance
	Market information or other economic information
	Organisation of and participation in trade fairs and other promotion events
	Partner search
	Quality certification
C.TECHNOLOGY (product/process innovation)	Analysis and certification laboratories
	Assistance on environmental and quality systems
	Assistance on patent and license matters
	Assistance with grant applications
	Assistance with in-house R&D activities
	Assistance to subcontracting with research institutions
	Competitive intelligence (technology benchmarking, technology maps, information on emerging technologies)
	Demonstration centres and test factories
	Energy audits
	Innovation diagnosis
	Materials engineering
	Participation in and organisation of technology exhibitions
	Partner research
	Productivity assistance
	Review of current and proposed manufacturing methods and processes
	Technology brokerage
D. INNOVATION IN ORGANISATION AND MANAGEMENT	Assistance in enterprise creation
	Interim management
	Logistical assistance
	Organisational consultancy
E. COMMUNICATIONS	Advanced series for data and image transmission
	Assistance to communication strategies
	Assistance in telecom network connections
	Assistance in the implementation of electronic data interchange systems and programs
	Database searches

Source: Glasmeier et al. 1998

Sometime in the mid-1990s, centres of real services provision became linked with concepts of learning regions, signifying places with unique characteristics that set them apart and somehow privileged their status relative to other regions (Maskell and Malmberg 1997). Perhaps because of this emphasis, the introduction of many service programs emphasised and built upon the information system embedded in the local sectoral milieu, resisting the need to turn attention toward the firm rather than the regional supply system (Bellini 1998). Rather than seeing the problem of competitiveness on of

firm learning tendencies and behavioural proclivities, processes inherently internal to the firm, emphasis has been placed on supplementing deficiencies presumed to exist within the local milieu (Feller et al. 1996). Less attention has been paid to the development of a better understanding of the demand side of the problem (Glasmeier et al., 1998).

In Emilia-Romagna, the pioneering organization of such services was set in a wide approach to local policies, contextually to the provision of low cost industrial sites for the localization of small firms and the articulation of a policy, co-organized with the entrepreneurial associations, of low rate interest credit for investments. The centres were created during the 1980s as tools for assisting firms through the provision of intangible and collective goods, tailored for the needs of local industrial clusters. Small firms lacked internally certain strategic functions that required to be performed such as the presence of large-scale facilities like laboratories for quality control,R&D activities, marketing services, departments for the testing of the performance of new technologies and so on. The idea was the creation of an intermediate governance structure capable of providing these services. They were expected to work also as a 'social catalyst', inducing firms and institutions to cooperate.

In Emilia-Romagna this net of centres is coordinated by Ervet (Table 10), a regional public agency. Service centers are focused on the existing sectoral point of the local industrial structure -agriculture machinery and engineering activities (Cesma), clothing (Citer), tiles (Centro Ceramico)- and some horizantal activity related to technology transfer (Aster), quality control (Cermet), subconracting (Resfor), export (Svex), and diffusion of automation (Democenter). It is important to observe that social actors are involved in financing and managing these activities.

The provision of real services in Baden-Württemberg is most pronounced in technology transfer. Support for the provision of technology services was particularly strong during the 1980s. In Germany, regional governments took the lead in making innovation policy a central concern for regional government. There was a clear recognition at the regional government level that innovation is costly and risky.

Table 10 Ervet System and Shareholding

ERVET SERVICES		ENLARGED SYSTEM	ERVET SHAREHOLDERS
Sectoral	Functional		
CERCAL-Emilia-Romagna Center for the upgrading of shoe industry	ASTER-Centre for the technological development of Emilia-Romagna	*Financial tools* FIT-Regional holding company for technological innovation	BOLOGNAINNOVAZIONE-Scientific and Technological Park of Emilia-Romagna
ESMA-Service centre for farm machinery	CERMET-Regional centre for research, technological consultancy, products and quality assurance, quality systems processes and certification	*Training agencies* CETAS-Centre for the training of agro-food experts from developing countries *Promoting and service company* DEMOCENTRE-Service centre for the circulation of industrial automation SPOT-Promotion and transfer of services for the upgrading of metal and mechanical industries	AGENZIA POLOCERAMICO-Analysis and research on advanced ceramic products ASE-Economic development agency IDROSER-Water resources for the development of Emilia-Romagna LEONARDIA-Techno-scientific park for industrial automation PROMO-Company for the promotion and management of Modena's business district
CITER-Emilia Romagna textile information centre	RESFOR-Subcontracting network Service Centre for the upgrading of subcontracting in Emilia-Romagna	*University Consortiums* CENTRO CERAMICO-Centre for ceramic research, testing and investigation	PROMORESTAURO-Promotion and enhancement of the historic and artistic property SALIND-Agency for industrial initiatives and locations SIPRO-Productive actions agency
QUASCO-Service centre for the upgrading and development of the building industry	SVEX-Service centre for export development	*Conventionalised institutes* CEMOTER-Centre for earth moving machines and off-road vehicles	SOPRIP-Provincial productive settlements agency

Source: Cooke and Morgan, p:111

Indeed, there are several institutions which provide or arrange advice at various stages of searching for or introducing new processes and products. The key actor is the Steinbeis Foundation which has the multiple task of working on technology policies strategically, acting as a centre which advises entrepreneurs who can help them, and providing specialized assistance itself through its technology transfer centres located throughout the region. Such services are provided by over 100 Steinbeis Transfer Centers. The operating costs for these services are almost totally covered by the fees charged by the centres.

The Foreign Trade Foundation (Shiftung Aussenwirtschaft) is an institution created jointly by the chambers of industry and commerce, industrial associations regional government. The Foundation's main task is to facilitate exports of small and medium sized enterprises.

In view of the high export intensity of the region's industry the Foreign Trade Foundation seems an important initiative but studies of its effectiveness are not available.

IV.4 Current Problems and Future Prospects of Industrial Districts

If the 1980s saw the celebration of the 'industrial district model, the 1990s seems set to deliver a more sceptical view on account of the fact that many of these local agglomerations are under duress (Morgan 1999). The 'industrial districts' have inspired policy-makers throughout Europe and North America to rethink the ways in which they design and deliver regional policies (and to consider the potential of endogenous over exogenous development, innovation-related networks, public-private orchestration, decentralised governance structures, a skilled and versatile workforce etc.).

Even if the industrial district model is under duress at this point in time, many of the practices and policies which it embodies-like the stress on collective entrepreneurship for example- are beginning to resonate way beyond the districts themselves and are consistent with the more robust theories of technological innovation and regional development (Morgan 1999). Collective entrepreneurship- territorially based production network, which at a minimum embraces inter-dependent, specialised firms and a panoply of intermediate institutions engaged in the provision of common services –credit, training, research, quality control, export promotion and market forecasting, etc. –most of which would be beyond the financial reach of a single firm acting alone (Sabel 1989; Pyke and Sengenberger 1992).

One of the key challenges of the industrial district model is regulation (Morgan 1999). One of the recurrent regulatory problems in this model is how to strike a sustainable balance between competition and collaboration. What mechanisms are available for conflict resolution when the district has none of the command structures, none of the control mechanisms and none of the centralised authority to settle internal disputes?

The districts draw not on the hierarchical rules of command and control systems but, rather on their social capital, which consists of high-trust relations, norms of reciprocity and networks of civic engagement (Sabel 1992; Putnam 1993). The burden of regulation is carried by an unwritten social constitution which encourages firms, their associations and

local public bodies to realise their interests through joint solutions to common problems, with the result that the districts avoid the aggressive form of competition (Morgan 1999).

Without wishing to deny that social capital is a fundamentally important resource for regional development –a resource that is too often ignored by both market-based and state-led recipes for regional renewal- we have to ask what is the current situation in the key districts today? In the case of Emilia Romagna, for example, the small firm networks are being destabilised by external takeover in the food-packaging sector, by the growth of subcontracting to lower-cost regions and countries in the knitwear sector and by fears that the fragmentation of the local machine tool industry may be a weakness, necessitating mergers in the future (Cooke and Morgan 1998). Others go further, and suggest that what we are seeing is 'the crisis of the cooperative form' in the Italian industrial districts, as new corporate hierarchies begin to displace the traditional collaborative ethic among hitherto symmetrically powerful firms (Harrison 1993,1994).

Morgan (1999) also suggest that Baden-Württemberg's stock of social capital needs to be more consciously nurtured because it is not immutable construct. The Land government committed to what is calls 'dialogue-oriented market-based industrial policy', a policy which seeks to involve all the main economic parties. Cooperation is seen as a vital part of the solution: the process (collaboration) is perceived to be integral to the product (competitive renewal). The novelty of this approach should not be exaggerated, indeed its key feature is continuity-in-change. The schemes may be novel but the strategies embodies two principles which have a longer lineage in the region.

The first concerns the role of the state. Recommendations of the Future Commission, which embody a view of the state as the 'innovative enquirer', organising and guiding a future-oriented dialogue in both the classical industries and the emerging new technology sectors.

The new strategy is also predicated on Selbstverwaltung –the deeply ingrained and highly regarded principle of self-governing organisations. Although the regional state has begun to assume a much more active role in the process of industrial renewal it is at pains to emphasise that it is not trying to substitute its own role for those self-governing groups (e.g. firms, trade associations, chambers of commerce, trade unions etc.). The regional

government is now obliged to strike a better balance between competition and collaboration in the corporate sector. While it continues to respect the sovereignty of the firm, it is trying to encourage Mittelstand firms to recognise the limits of autonomous action because this is no longer a viable option for many of these firms. To this end the regional government is offering new incentives for smaller firms to collaborate amongst themselves, with their suppliers and with the region's technology transfer institutions.

In the longer term, the Commission sees the need to pioneer new product markets. Shorter term, the strategy stresses the need for new forms of collaboration at home. To this end the government has launched a series of sectorally focused Joint Initiatives, the delivery mechanisms for the long-term strategy contained in the Future Commission's report. The government claims that the key point about these Joint Initiatives is that they are more than mere talking shops: rather, they seek to win binding agreement on concrete measures from government, industry and trade unions in each of the sectors concerned. Through the medium of the 'model project', in which a small number of firms are invited to collaborate in a well-defined problem area under the moderating role of an intermediate institute, it is hoped that the transfer of know-how can be rapidly disseminated beyond the actual participants since the results must be made available to other firms in the sector.

On the institutional front, where Baden-Württemberg is generally thought to be well endowed, the intermediate institutions have been given a heavy responsibility for brokering the collaboration process and disseminating the results to a wider population of firms. But these institutions were never as well networked as the conventional image would have us believe. The pressure to earn revenue induced a great deal of rivalry and this in turn rendered them somewhat proprietorial, with the result that small firm clients did not always receive impartial advice or the most appropriate forms of assistance (Cooke et.al 1993). More generally, it seems that the role of these intermediary institutions has been greatly exaggerated. The fact that so many intermediary institutions exist in the region should not lead us to assume that they are all equally effective. Indeed much more research is needed to establish their precise contribution to technological and organisational innovation in the Land.

Another pillar of Baden-Württemberg's economy –the dual training system- will also have to adjust to the new era. Throughout Germany there are growing fears that this system,

geared as it is to the provision of highly specific occupational skills, may be too rigid to cater for the 'polyvalent worker' of the 1990s. As we have seen, the trend towards cross-functional working practices sets a high premium on hybrid skills, and the dual training system will have to be re-fashioned to take account of this trend. Equally important, a better balance needs to be struck between traditional and emerging skill requirements.

It is clear that each of the key elements of the regional economy –large firms, the Mittelstand sector, intermediary institutions, the dual training system and the unions- is under unprecedented pressure.

Examination of a fuller range of contemporary industrial districts reveals no single path to their emergence, there seem to be a plurality of paths to the creation of flexible, innovative local economies, like any other form of economic development (Zeitlin,1989). Moreover, in the 1990s there have been important changes in the characteristics of industrial clusters, which are shaped under the deregulatory forces and the volatile global economic conditions (Eraydın 1999). The different industrial districts followed the distinct paths of evolution and these changes inevitably reflected themselves as shifts in the attributes of governance in these areas. In fact, the industrial clusters that were the typical examples of the flexible specialisation literature of the 1980s have experienced different trajectories that varies between decline and prosperous development.

CHAPTER V

METHODOLOGICAL AND ANALYTICAL IMPLICATIONS OF INSTITUTIONAL PARADIGM FOR ECONOMIC GEOGRAPHY

This chapter discuses the methodological and analytical implications of institutional paradigm for economic geography and attempts to determine the framework of an analysis which will examine the institutional environment of a regional economy to open way for developing region-specific policies for economic development.

Through institutional paradigm the complex economy is understood as a microcosm of criss-crossing organisational and institutional forms, logics and rationalities, norms and governance structures (Amin and Hausner, 1997). It is difficult to grasp in anything like its entirety by individuals and it escapes the reach of a central organisation. But somehow, each economic system does possess a paradoxical 'unity of diversity' that is characteristic of most vital organisms (Amin and Hausner, 1997).

The theoretical implications have consequences for the method of research. At this point the question "how can the researcher develop an understanding of complexity without reducing it to simple abstractions or ideal types" gains importance. Theoretically informed empiricism can help to escape from contingency and complexity, making the approach policy-relevant in a pro-active sense (Plummer and Taylor, 2000). Translating convoluted theoretical concepts on local economic development into testable hypotheses and empirical models that can be used to generate place-specific specifications of processes around which policy interventions can be framed (Fingleton 1999). A modelling strategy can be articulated and a set of research design criteria that allow us to translate between the realm of the 'theory' and the world of 'facts' can be proposed (Plummer and Taylor, 2000).

What would be the analytical implications of such an ideal evolutionary-institutionalist research programme is another question. First concern is which method of investigation is relevant for understanding the process of evolution?

Gronewegen and Vromen (1999) suggests that operationalisation of the concepts relevant for understanding evolutionary processes demand in each particular case a specification of the initial conditions, of the increase or decrease of variety, of the forces of selection (economic efficiency, political power), of the perception of efficiency by the principal actors, of the objectives of the actors, their power base and their interdependencies.

Campbell and Lindberg (1991) offer a schema on how to structure such an analysis along several steps. First the pressures for change that are due to alterations in the conditions should be analysed bearing on economic efficiency like changes in technology, state policies and the power of different actors in the system. These changing conditions affect the strategies of economic actors in the systems such as firms, labour unions and research institutes. At the same time policies of the state are affected by changing domestic and international political-economic conditions. The state being an important actor in the evolution of governance regimes, adapts its strategies like the other actors in the economy do. The strategies selected by the different public and private actors result in a change in the varieties generated by the system.

The other mechanism of 'collective selection' consists of activities like trial and error, negotiation and bargaining and coercion. What is the nature of the existing governance regime, for example, who are the dominant actors, what are their relationships? Special attention should be paid to the cultural context in which the existing governance regime operates, in which the new variety of strategies emerging and in which the selection process takes place.

Gronewegen and Vromen (1999) suggests, when those elements, which in reality are interdependent, are analysed step by step, the research can result in a thorough understanding of the process of evolution.

There are also co-evolutionary processes that should be analysed. The essence of the co-evolutionary point is that what happens in each partly autonomous domain of the system

(for example, technology or institutional structures) shapes and constraints what is going to happen in the other ones. Hence, the overall dynamics is determined by the ways each domain evolves but also by the ways the various domains are coupled with each other (Coriat and Dosi 1998). The nature of learning processes, too, ought to deserve priority attention.

The analysis of the process of evolution suggested above, results in extremely complicated multi-disciplinary research. It involves tight and troublesome interchanges between empirical investigations, 'appreciative theorising' and formal modelling efforts. It is likely also to involve major adjustments in the building blocks of institutionalist/evolutionary theories themselves (Coriat and Dosi 1998). At this point what we should develop a guiding framework for analysing the institutional atmosphere of a local economy.

Firstly we need a scheme of interpretation of the functioning of the main elements of institutional environment of a regional economy. The concept of institution should be understood in a sufficiently broad sense that takes into account the ways in which regional institutional forms are both geographically distinctive and embedded in their national and regional contexts. Institutional variability should be approached neither as a basic national model (from a top-down perspective) nor as evidence of the redundancy of national models (form a bottom-up perspective). Rather, the framework of institutional process should hold just as much for top-down state institutions and policies (the effects of which vary from place to place) by which higher level entities (forex. institutions, established mechanisms of interaction, etc.) shape/generate 'lower level' behaviours as for the bottom-up elements of modes of social regulation (custom, habits, norms and the like) shaping/generating higher-level entities and also the effects of supranational regulation should be integrated. Adaptation ability of localised institutional structures to the broader exigencies of national and state policies and global political economic change and changing relations within and between scales is important at this point.

Organizations involved in regional economic coordination are manifold: large enterprises, professional organizations, support networks, involving partners in other communities chambers, unions, local authorities, regulatory agents at higher spatial scales or political levels, national and global lobbies, national and global governance institutions public planning and policy agencies, grassroots movements etc. But inter organizational

relationships also include informal socialization between agents who are in a position to affect them in a positive or negative way. Multi-dimensionality of behaviour within organizations and of the relationships between them should be considered. Reproduction dynamics should be included as endogenous elements in the argument.

Moreover, agents, institutions and institutional structures have a history, a story of institutional evolution would enhance a dynamic view of social change. To understand institutional change, starting point is to analyse how institutions are reproduced over time. The history of the region, view of social structure and social organisation, the power relations and the spatial scales must be included in the analysis. The analysis should take into account the tension between social progress and structural determination (power relations, institutional rigidity etc.).

To grasp the intuitive features of informal networks underlying territorial dynamics, the analysis should be held in terms of inter-individual relations with inter-organisational analysis. The parties involved are linked together by a series of relationships, which have some characteristics. Torre (1998) defines four criteria of distinction: *horizantality* (co-operation relationships among partners from different market areas, connections among direct competitors) and *verticality* (buying-selling relationships, producer-user relations or subcontracting), *formal* (the relations of co-operations standardised by the signature of a contract between the two parties), and *informal* (co-operations in the workplace, exchanges of tacit knowledge or technical exchanges between engineers), *voluntary* (market exchanges but also exchanges of information) and *involuntary links* (the spread of know-how happens through technological externalities that is outside-the-market relations context), *market* (buying and selling of goods and services and patents and licence exchange) and *non-market relationships* (informal co-operations, as well as involuntary connections of a horizantal kind).

Dupuy and Gilly (1996) put that, the interaction between agent and environment results from the transformation of a fluid, evolving world into reasonably stable representations. Based on a detailed analysis of the differences and similarities of the interactions, one can construct the interpretative frames actors use in analysing problems and in selecting strategies.The manner in which knowledge acquired is, therefore is a conceptual construction based on elements of experience. In such an approach, learning is considered

to be a process which arbitrarily combines existing experiences for the creation of new concepts in order to solve specific problems. Therefore, the analysis should suggest a difference between static approach, which allows a presentation of the parties involved and of their links, and dynamic functioning, which integrates interaction among parties, and their development in time (Torre 1998).

Table 11. Key actors of regional/local economic development

Key leaders/participants of development action	Mobilizing resources	Development projects
Supranational government	vocational training organizations	Infrastructure
National government	training/retraining activities	Urban redevelopment
Sub-national government	high schools	Land/sites
(region, county, province)	advice for SME & start ups	Sector specific/ production
Local government (general)	national promotion	Employment/training
University/research	general advice	New technology
institutions	guide to sources of finance	Start-ups/SME assistance
Local chambers	grants to firms	Finance
Development agency	international promotion	General development
Local cooperatives	provision of land or sites	
Research institutions	loans to firms	
Regional labour syndicates	provision of premises	
Consulting organizations	local promotion	
Local banks or capital	business directory	
lenders Professional	support of cooperatives	
associations	register of premises	
Liasion Units	managed workspace	
Training centres	financial guarantees	
Technology centres	joint venture private sector	
Private firms	joint venture public sector	
	tax/rent free periods	
	promotion of development	
	agencies	
	university/technical college	
	science parks	
	promotion in technical press	
	competitions	

By the principles put above, it is suggested that to conduct an analysis approaching from structural features and relational dynamics would be helpful to understand the institutional environment of a regional economy. The framework of such an approach is summarised below:

Analysis of structures

-The effects of national institutional system.

-The effects of supra-national institutional system.

-The role of international, national and regional actors and organisations (Table 11).
-Partnerships, group of firms-associations, local institutions (finance, education, training, technology) special purpose agencies, self-help organisations
-The effects of conventional (accounting, legal, payroll, simple marketing services) and real services (activities that explicitly attempt to improve the competitiveness of businesses).
-The firm and entrepreneur structure

Analysis of relational dynamics

Proximity dynamics
-The features of local milieu that affect the ability of firms to upgrade their competitiveness.
-Mechanisms behind, and competitive effects of, spatial agglomeration of related firms and industries.
-Generation and dissemination of discourses, collective beliefs, stories and effects on the development of knowledge structures
-Social and cultural interaction; sociability, coalitions, monitoring, gathering information, establishing and maintaining trust, developing roles of behaviour
-Localised capabilities which influence the distribution of economic activity within the region. The ways of modification or reconstruction of localised capabilities by the deliberate and purposeful action of individuals or groups within or outside the area
-Spatial characteristics of externalised competencies and capabilities that are, the support of sustainable inter-firm cooperative networks, the existence of civic traditions and the multiple inter-linkages among social, professional, ethical and communal ties
-Links between companies, the (local) state and institutions in civil society, the effects for the creation of regional competitive advantage.
-The extent of resource relatedness in the region; similarity (interchangeable in terms of physical capital and in human and collective competencies) or complementarity (association between dissimilar resources which can be put to function together in economic activities).

Organisational dynamics

-The relationship between the localised institutional structures and localised economic and social change (in terms of historical trajectory); fostering change or resisting it? Or if there is the lack of institutional thickness does this give the region greater emancipatory and radical transformatory potential?

-The presence of institutional variety, which it constitutes a constantly changing portfolio of possible organisational solutions to the problems of collective response to changed economic circumstances.

-Existence of a common culture (values, ways of behaviour, tastes, expectations, language, dialect, etc.) with its people living in one naturally bounded area; The decisive features of the social culture, the norms of reciprocity and expressions of approval and disapproval.

-The collective and interdependent forms of action (a framework of action defined by a community of persons, which enables them to produce successfully in a certain way) in the region.

-Financial aspects of development; informal credit, self-financing, informal credit linked to other transactions

-Governance potential

Social dynamics: Territorial embeddedness

-Different forms of rationality; different forms of shared understanding or collective consciousness, in decision-making and goal formulation amongst firms doing business; networks of interpersonal relationships.

-The processes of reciprocity, interdependence, loose couplings or integrated separateness and asymmetric power relations.

-The level of co-operation and competition in the market mechanism of the region. Lock-ins, paternalism in labour markets, institutional overload obscuring economic imperatives due to lack of balance between cooperation and competition.

-Barriers and constraints preventing firms from engaging themselves in inter-organisational co-operation at the regional level.

-The relations between firms: a close business environment, local rivalry, penalising opportunity; existence of a shared trust as the part of the business culture; the local beliefs about the good behaviour, the rules of the game accepted by the whole.
-The exclusion mechanisms which lead to power inequalities.
-The degree of self-awareness of region's firms. Do firms copy others?

Technological Dynamics: Innovation and Learning

-Specific regional trajectories which promotes technological change. Technological changes realised at the production level or initiated by suppliers or customers?
-The learning procedures generally been working in the region; learning-by-doing, learning-by-using, learning-by-interacting, learning by searching.
-Forms of learning take within firms and other organisations; know-what, know-why, know-who, know-how.
-Sources of learning coming from different levels of institutional arrangements that promote the learning capability of various agents such as individual learning; organisational learning; transactional learning; network learning; spatial learning; learning infrastructure
-The collective goods provided, that are crucial for the learning capabilities of the firms (local transportation and communication infrastructure, systems of education, professional training and R&D and institutional infrastructure)
-The potential of tacit knowledge in the form of know-how, skills and competencies.
-Knowledge creation processes (investment in R&D, development and adoption of leading-edge technology or low-tech learning such as developing resource management logistics, production organisation, marketing, sales, distribution, industrial relations etc.).
-The role of workers in increasing productivity and product quality at the same time enhancing the quality of work, creative processes that is suffused throughout the entire workforce.

CHAPTER VI

DENİZLİ CASE: INSTITUTIONAL ASPECTS OF LOCAL ECONOMIC DEVELOPMENT

In this chapter, the answer to "why only some territories have become more successful agglomerations" will be searched by examining the dynamics behind this development - the complex set of institutional conditions which are not ubiquitously available- through the case of Denizli, which is the most celebrated example of the new growth nodes in Turkey after 1980s.

The purpose of this study is to contribute to the explanatory power of economic geography which explains by a preliminary modelling attempt, differential growth of a local economy, with an institutionalist approach.

VI.1 Methodology

Institutional theory provides the researchers with an escape from the inherent tension between contingency and causality by neither neglecting the empirical facts nor disregarding the fact that empirical facts are not independent of the theoretical and conceptual frameworks. The point here is, we need to formulate the presuppositions of institutional theory and look at the empirical evidence that supports competing theories of local economic growth.

This case study does not claim that its empirical modelling is strong enough to prioritise and identify the presuppositions of institutional approach in a way which will in turn offer policy relevant propositions. The comprehensive handling of the case is a starting point for future research. In this respect, the methodology of the case should be taken as an

attempt to form a framework to analyse a local economic development with reference to institutional aspects. Following these points the methodology of the case can be characterised as;

-emphasising the relationship among different scales especially the national level within a descriptive historical perspective

-descriptive, with quantitative data and observation

-comparative, with different cases

-inquiring institutional atmosphere with non-measurable statements

-inadequate and unfinished for offering policy frameworks; inadequate, in terms of phenomelogical cases for decreasing the gap between the theory and the real facts sufficiently, and unfinished, in terms of support of quantitative models which would ensure some kind of rigour to the work.

VI.1.1 Empirical Modelling of the Case Study

Two analytical stages have been completed to facilitate the analyses of the regional economy with an institutional approach; descriptive/comparative analysis and factual analysis

I. Descriptive/Comparative Analyses

The designation the descriptive analyses aim;

-to discuss the fact, Denizli as a new growth node in Turkey

-to examine the interactions among local-national scales in the historical process

-to determine the differences and similarities between the stylised facts of industrial district model and world cases with Denizli case

Denizli as a new growth node in Turkey.

The crisis and restructuring processes of capitalist development have transformed the world production systems and economic policies after the 1970s, and put the spatially clustered, sectorally-specialised development model with emphasis on specific historical and socio-spatial contexts in the agenda. These developments had its reflections in Turkey after the 1980s.

Liberal policies and export oriented-industrialisation throughout the 1980s encouraged the development of the spirit of entrepreneurship and a more outward looking business environment in Turkey. Within this environment, based on the combination of some traditional artisanal knowledge and the appropriate socio-spatial conditions, some medium sized Anatolian cities have attempted to take advantage of opportunities that the new macro-economic policies have offered. The less developed areas of the previous periods exhibited rapid increases in manufacturing activities, with considerable export capacities during the 1980s. Provinces such as Denizli, Gaziantep, Konya, Kayseri, Çorum, Kahramanmaraş began to be called as the new growth nodes (Eraydın, Özcan, Erendil, Pınarcıoğlu) as they respond to the favourable conditions of the 1980s and show a relatively high growth rate, especially in the textile sector. From the side of overall distribution of industrial activities in Turkey the dominance of metropolitan areas has not been changed However, the development of these new nodes in the last decade was very important to show the potential of areas outside the major industrial concentrations in Turkey (Eraydın, 1999). Denizli is taken as the case in this study as it has been considered to be the most celebrated example among the new growth nodes.

Comparative Analyses

The specific combination of localised factors influence the distribution of economic activity between regions. Localised capabilities are the resources, institutions and social and cultural structures. It is hard to determine the framework of localised capabilities, as it is the complex interlinkage of various local factors. However, for the aim of comparing regions, the localised capabilities will be simplified and only the macro statistical data will be used to determine the localised capabilities.

The economic performance and the socio-economic atmosphere of Denizli is analysed with reference to both the traditional metropolitan industrial centres; Istanbul, Izmir, Ankara and Adana and some of the new industrial growth nodes; Çorum, Gaziantep, Kahramanmaraş, Kayseri and Konya, using the economic and social variables by statistical data available officially. These variables are;

-socio-economic development level,

-manufacturing industry indicators, labour indicators

-agglomeration and diversification indexes, subcontracting relations

-demographic structure, human capital and education
-organisational capability, culture and life quality

Interactions among local-national scales in the historical process

According to regulation school, past can only be made intelligible as a story of institutional evolution. A region's existing social and economic structure is the end point of the historical evolution of various dynamics. Hence, in order to understand a region, there is a need to understand the dynamics, spatially accumulated through its history, that is historically and geographically- specific politics and institutions.

Regions had been part of nation-states in the last century. Each nation-state has a specific institutional system that is, specific social practices across space and time. Here the point is that, how localised institutional structures had been developed and whether this structure had allowed a smooth and incremental adaptation of local economic and social life to the broader exigencies of national state policies and global political-economic change.

In Turkey as the fate of spatial units are very much related to the trajectory of national socio-economic evolution, Denizli's local economic development is analysed through the industrialisation stages of Turkey and institutional set-up at the national level and their implications at the spatial level. These industrial stages are taken at the national level;
-From the Establishment of the Republic to 1960
-From 1960s to 1980- Planned Period
-After 1980- A New Mode of Regulation

Parallel to the national-local historical socio-economic interaction, historical and relational analysis of some leader firms or group of firms which had been effective in the industrialisation process of Denizli is examined following the historical analysis, to see how national-local interaction have shaped the local industrial atmosphere.

Stylised facts of industrial district model and the real situation

Although the period of the new growth nodes' arrival in Turkish economic geography more or less coincide with the industrial district model of world economic geography, it is a matter of question whether these new growth nodes satisfy the conditions of the idealised industrial districts of the literature.

The ideal-type of industrial district, as described in the literature may be summarised by stressing four stylised facts (Rabelotti 1997);

1.a cluster of mainly small and medium spatially concentrated and sectorally specialised enterprises;

2.a strong, relatively homogeneous, cultural and social background linking the economic agents and creating a common and widely accepted behavioural code, sometimes explicit but often implicit;

3.an intense set of backward, forward, horizantal and labour market linkages, based both on market and non-market exchanges of goods, services, information and people;

4.a network of public and private local institutions supporting the economic agents in the clusters.

It is seen from the different industrial district cases of world brought some significant differences between the reality and the model. The main question refers to the adequacy of the model of industrial organisation proposed by the literature on industrial districts in representing the real situations analysed. The stylised facts presented with particular evidence for the economic and institutional factors, also represent the reference point for the comparison. Through empirical research the extent to which the core characteristics of the 'model', the experiences of Third Italy and European industrial districts and industrial clusters in LDCs correspond to the Denizli case is examined.

Given that the first key factor of spatial concentration and sectoral specialisation is the initial condition explicitly satisfied by the selection of the case study. Some background information about the performance and the structure of the Denizli industry is investigated in this context;

-Sectoral Composition

-Analysis of Firm Structures

-Production Organisation

-Knowledge and Technology Development

The analysis refers the intensity and the quality of backward, forward and horizantal linkages, linkages in the labour market and institutional linkages as well as the collective effects which derive from them. Also cultural and social background is investigated in the empirical research.

Moving from static to a dynamic approach, in other words from snapshots of given district characteristics at a given point of time to a study of development process through which those characteristics have been generated, is crucial to an understanding of the differences between districts (Rabelotti 1997). In fact, districts may differ because they are in different stages of development or follow different development trajectories. The study is also taking into account the possibility that some internal characteristics of the districts may change and this may impact the organisational form of the system. (growth path, stages of development). It also tries to investigate how clusters and heterogeneous economic actors within industrial districts react to radical changes and how these reactions influence clusters' trajectories of development is one of the main concerns.

II. Factual Analyses

The designation of the factual analysis aims;
-to analyse the institutional atmosphere of Denizli through the presuppositions of institutional theories
- to examine the gap between the theories of institutional approach to economic geography and the world of the 'facts' through the case of Denizli
- to discuss whether institutional approach to the analyses of local economic development advances our knowledge of the studies of space economy.

The theoretical discussions examined in the previous chapter imply that institutional grounded theories of local economic growth do not readily and easily lend themselves to translation into testable proportions and measurable parameters (Wolfe, 1999). Moreover, there is little to be gained from reducing institutionalist thought to a series of testable hypothesis or normative assertions (for example, that institutional presence or local associational networks are necessary or sufficient for regional economic success) (Amin 2001). Instead, its real test lies in the question whether it advances our knowledge of the

workings of the space economy, through its powers of abstraction of what constitutes and orders economic life.

The normative concern here is to understand the institutional arrangement of Denizli's local economy by statements derived from the theoretical discussions. Within this framework, this side of the study attempts to explain the relationships between localised institutional structures and localised economic and social change which are stated to be both reciprocal and vary due to different phases of development. Also, the different institutional spheres which are interconnected and have a cumulative interactive effect in shaping economic structures is examined. These considerations are taken under four questions:

Institutional Change: "Institutional Thickness" A Crucial Aspect of Development or a Barrier to Adapting Changing Conditions?

It is important to understand institutional change as the geographically specific institutional endowment epitomises the results of previous rounds of economic activity while at the same time comprising the setting for new rounds of localised knowledge creation. The regional institutional endowment might be created, transformed, eroded and recreated through the economic history of the region. This reproduction process implies that the core of the coherent system of shared norms is preserved, allowing for some changes in the positions, roles, and functions of different actors.
Local institutions may be important in some circumstances in fostering change, in others in resisting change. It was claimed that some institutional structures, which were crucial in the early phases of growth process, could act as barriers for the development of new forms of innovation (Raco 1999, Amin 1999). The key to continuing good economic performance is a flexible institutional matrix that will adjust in different phases.

The industrialisation and institutionalisation process of local economy in Denizli is examined in this study by different phases: Initial Phase; Growth Phase: Collaboration (Between 1980-1990), Maturation Phase: Merging? (Between 1990-1998); Crises Phase: Spliting? (After 1998)

Institutional Interplay: Overlap? Overload? Incapability?

Presence of institutions and levels of interaction amongst them determines the institutional endowment of a region. It is stated that many institutions in the same field can create various problems of domination and conflicts (Glasmeir 1994) which is defined by "institutional overload" situation. Besides, there are certain examples that identified the incapability of institutions in solving emerging problems (Schimitz 1998).

The assessment of local agents is complex because of the many overlaps between an actor's activities and difficulties of defining the actors in any one field. Here it should be asked such questions as; which activities are pursued by which agents, how the agents work together in partnership (government leadership, co-finance and collaboration with other sectors; private sector, chambers of commerce). Organisation of the state, organisation of the business interest, the distance between business and state and the local economic partnerships are the main focuses at this point. Public-private partnerships, change from individual to collective interests, self-governing networks of local actors, new deal between the different groups or parties even between the conflicting groups of the earlier periods are the important aspects that should be searched to determine the institutional interplay. The concretised titles here are:

-Industry Support Units; real services, other quasi-governmental organisations, finance, technology and education

-Interest Associations; chambers as quasi-governmental bodies and interest associations, labour unions, voluntary associations, public-private partnerships

Institutional Conflicts-Power Struggles: Domination or Coalition?

The case can be argued, however, that economic relationships involve more than a dynamic tension between collaboration and competition, they also involve the more brutal exercise of power, through the control of resources, the manipulation of relationships or the exercise of discipline (Taylor, 1995; Allen, 1997). So analyses needs to address both sides of the dual, the mechanisms , processes and circumstances of inclusion and exclusion. Within this proposition, the study refers the power inequalities, the level of freedom of action, protection of the status quo, lock-ins, the effects in the strategic decision-making of local economic institutions and firms.

Local Embeddedness: Acting as Resistance to Change or Function as a Mechanism to Cope With?

In the previous chapter it is discussed that the concept "embeddedness" is imprecise and ill-defined. In the criticisms of embeddedness model, the symmetrical properties of trust, reciprocity and loyalty in buyer/supplier relationships are argued as being either temporary or even illusory, and to be fundamentally at odds with the existence and impact of power asymmetries within and between firms (Bresnen 1996; Pratt 1997; Baker 1996; Taylor 1999). Against the background of these critics some points (Taylor and Leonard; Oinas 1997, p.30) could be helpful that will ensure a deeper understanding of local embeddedness in the context of this study and will complement the whole analyses;

-the various ways in which firms are embedded, and the ways in which these different embeddedness are related to each other and to economic outcomes;

-nature of inter-firm and enterprise/institution relationships

-the degree to which firms' embeddedness in local social relations enhances or hinders processes of change in both firms and their local environments

- the inclusionary and exclusionary tendencies of embeddedness

- relationships between firm embeddedness and labour market conditions

-interplay of power and reciprocity in complex economic systems, and the processes of institutionalisation as they shape growth

These points are included implicitly in the following titles;

-Networks of Interpersonal Relations- Family, Kinship, Friendship, "Hemşehri" Religious Community Relations

-Entrepreneurial and Labour Structure

-Informal Conventions-Habits, Routines

VI.1.2 Literature Survey, Official Data Collection

Background of this case study is based on a comprehensive literature survey and official data collection:

-Literature survey; books, research reports, articles, thesis

-Local resources; local press, periodicals of chamber of trade and chamber of industry, local institutions' published data (Chamber of Trade, Chamber of Industry, exporters' union)

-Central government's official data; Data of State Institute of Statistics (SIS);
-Research of central government institutions; The research of The State Planning Office and State Institute of Statistics on "New Industrial Growth Nodes: Denizli and Gaziantep" (This research had been conducted in 1996 covering all the firms in Denizli), National Productivity Center (The Project of Increasing Productivity in Denizli), 8th Five Year Development Program of State Planning Office (Regional Development Commission Report)

VI.1.3 Field Survey

The fieldwork of this study was carried out in Denizli and organised in three steps:
First step of the field survey had been conducted in 1996, in which the investigation had the aim of understanding the region by visiting the main local institutions such as municipality, chamber of trade, chamber of industry etc. and getting information about the local economic institutions and firms in the region for further research.

Second step conducted in 1998, had the aim of deepening the understanding of the local economic and institutional atmosphere with in-depth interviews based on a control sheet distributed to a sampling of producers from different sectors but mainly textile and on a number of open interviews to key informers and to authorities of local economic institutions.
Content of the in-depth interviews made with firms and institutions have been designed to understand both the structural characteristics of the local economy such as production, export, technology transfer, knowledge transfer, labour, education, regional development and also relational characteristics such as relations among firms, firms-local institutions, firms-local authorities, firms-central government, firms-international institutions, among institutions, institutions-entrepreneurs, institution-other local institutions, institutions-central government, institutions-international institutions. Also the social and cultural structures, behaviours, routines, solidarity and trust relations were among the main concerns during the meetings.

Third step conducted in 2001, is a follow-up, especially for understanding the effects of macroeconomic crises on the local economic atmosphere and understand the reactions of different actors, firms and institutions, again with in-depth interviews based on a control

sheet. This time content of the in-depth interviews made with firms and institutions have been designed to follow the developments in the recent period (the conditions of firms, restructuring of the institutions and firms), the effects of macro-economic crises (transformations in the regional traditional behaviours, such as solidarity, trust), new formations and mechanisms (coalitions, splits, problem-solving initiations)

The criteria of selecting sample firms for the field survey in 1999 was mostly due to structural characteristics of the local economy such as; sectors, scale (small, medium, large), leader firms, production organisation (subcontracting, integrated), entrepreneurs from different generations (1st generation after1920, 2nd generation after 1940, 3rd generation after 1960), firms established in different periods (before 1980, between 1980-1990, after 1990), special conditions (follower, begin from small scale then become a large scale firm, etc), randomly selected firms

However, the criteria of selecting sample firms for the field survey in 2001 was due to the effects of recent developments such as; firms taking place in the new formations (coalitions, organisations), problem-solving initiations in the crises period, successful and unsuccessful firms in the crises period, entrepreneurs taking active role in the new institutional formations, firms from different scales and randomly selected firms

Firms and Institutions Interviewed in 1998 and 2001 are listed in Appendix I
Three forms of control sheet have been designed for the field survey (Appendix II)
1.Control sheet (A) for firms (deepening he understanding of the case)
2.Control sheet (B) for firms (follow-up of the case)
3.Control sheet for interview with firms

VI.1.4 Methodological Deficiencies

Discursive frameworks of economic geography mostly use the 'close dialogue' of in-depth interviews with business people as a chosen methodology (Plummer and Taylor 2001). However this methodology is criticised as being left untested in any rigorous way. Counter to this kind of methodological design, mathematical models of the economists based on stylised facts (Clark 1998) gained importance in some tracks of 'new economic geography'. This quantitative approach is also criticised by others, as being unrealistic

(Martin 1999). An alternative 'third' way is emerging that transcends the supposed dualism between the 'hard' quantitative models of economics and the 'soft' qualitative geographical ways of knowing (Plummer and Sheppard 2000).

While this study attempts to make use of both quantitative and qualitative approaches, it is not possible to ensure identifying, prioritising and refining of the processes adequately due to the comprehensiveness of the handling of the case and the lack of adequate data.

I suggest that the methodology for further research of a local economy which will give us the perspective to build axiomatic, and more better, applicable policy frameworks should be in the mode of well-designed iterative cycle of applying soft (qualitative) and hard (quantitative-mathematical) techniques, which will in turn nourish our grasping capacity and decrease the level of gap between the theory and the real facts.

IV.2 Denizli As A New Growth Node in Turkey: Comparative Analysis Of Denizli's Existing Socio-Economic Structure

The economic performance and the socio-economic atmosphere of Denizli will be analysed with reference to the traditional metropolitan industrial centres, Istanbul, Izmir, Ankara, Adana (henceforth MRs-metropolitan regions) and some of the new industrial growth nodes, Çorum, Gaziantep, Kahramanmaraş, Kayseri, Konya (henceforth NGN-new growth nodes), using the macro economic and social statistical data available.

Before entering into detail, it is important to note the increase in the socio-economic development level[1] of NGNs after 1990s. Table 12 shows the socio-economic development level of MRs which had been in the first orders, and NGNs which demonstrates prominent increase in their order among the provinces of Turkey. Denizli decreased its order among provinces from 22th in 1945 to 26th in 1965 then reached to 21th order in 1985 and to 16th order in the 1996. It can be observed that all the NGNs increased their order among the provinces of Turkey. However, when only the province centres are taken into analysis it is seen that the central districts of the NGNs perform

[1] Socio-economic development level is determined with a similar method in two different studies by using factor analysis with various variables about demography, employment, education, health, industry, agriculture, finance, infrastructure etc. The study of Çalışkan, Özelçi and Varol (1997),

higher levels, and Denizli as being in the 7th order nearly reaches to central districts socio-economic development level of MRs. This means that the socio-economic structure of districts of Denizli and the districts of the other NGNs are rather underdeveloped compared to the province centres.

Table 12. Socio-economic development level of MRs and NGNs among provinces of Turkey

1945*	1965*	1985*	1996**	Level of province centres**
1.İstanbul	1.İstanbul	1.İstanbul	1.İstanbul	1.İstanbul
2.Ankara	2.Ankara	2.Ankara	2.Ankara	2.Ankara
3.İstanbul	3.İstanbul	3.İstanbul	3.İstanbul	3.İstanbul
7.Adana	8.Adana	10.Adana	9.Adana	5.Adana
16.Gaziantep	20.Gaziantep	18.Kayseri	15.Kayseri	**7.Denizli**
20.Konya	21.Konya	**21.Denizli**	**16.Denizli**	11.Konya
22.Denizli	22.Kayseri	29.Gaziantep	24.Konya	12.Kayseri
25.Kayseri	**26.Denizli**	30.Konya	25.Gaziantep	13.Gaziantep
44.Çorum	46.Çorum	47.Çorum	44.Çorum	42.Çorum
45.K.Maraş	53.K.Maraş	53.K.Maraş	50.K.Maraş	46.K.Maraş

*Çalışkan, Özelçi, Varol, 1997**SPO, 1996

MRs accounted for *50* per cent of total manufacturing employment in 1988, decreased their share to *45,24* per cent, with a share of 28,02 per cent of the total population in 1997. NGNs accounted for *7,20* per cent of total manufacturing employment in 1988 and increased their share up to *9,84* with a share of 10,23 per cent of the total population in 1997. Denizli has the highest increasing share of employment from *1,25* per cent in 1988 (less than the 1988 values of Gaziantep, Kayseri, Konya) to *3,02* per cent in 1997 (the highest share among the NGNs). The share of enterprises in MRs in 1988 was *61,86* per cent of total enterprises, their share decreased to *50,63* per cent in 1997, while the share of enterprises in NGNs increased from *6,74* per cent in 1988 to *11,69* per cent in 1997. Again, Denizli shows the highest increase in its share of enterprises in total enterprises, increased from *1,31* per cent in 1988 (less than the 1988 values of Gaziantep and Konya) to *3,75* per cent in 1997 (the highest share among the NGNs). When examining the share of value added we again see a decrease in the share of MRs, from *50,40* per cent in 1988 to *43,87* in 1997. There is an increase in the share of NGNs, from *4,27* in 1988 to *5,37* in 1997. Denizli has the second highest increase after Kayseri in its share of value added among the NGNs.

determines the socio-economic development level for the periods, 1945,1965, 1985 and the study of SPO (1996) determines the existing socio-economic development level of provinces of Turkey.

Table 13. Share of Manufacturing Industry Indicators by Years

	Share of n.of plants %		Share of employment %		Share of value added %	
	1988	1997	1988	1997		
İstanbul	41,82	33,54	30,57	28,44	27,82	24,80
İzmir	10,64	9,74	9,24	9,55	13,83	12,07
Ankara	6,93	5,35	5,78	4,22	4,46	4,07
Adana	2,47	1,97	4,41	3,03	4,35	2,93
Denizli	**1,31**	**3,75**	**1,25**	**3,02**	**0,72**	**1,27**
Kayseri	1,10	1,62	1,78	2,18	0,87	1,52
Gaziantep	1,52	2,73	1,35	2,01	0,78	0,87
Konya	1,83	2,18	2,15	1,51	1,60	1,27
K.Maraş	0,33	0,56	0,37	0,66	0,18	0,29
Çorum	0,65	0,85	0,30	0,46	0,12	0,15

SPO, 2000

Industrial district model is based on the small and medium sized enterprises. Table 14 shows that between 1992-1997 the SMEs in MRs had decreased. Except Çorum SMEs in NGNs demonstrate important growth rates. Denizli's growth rate is the highest with 161 per cent and 3rd order among the provinces.

Table 14. SME (10-249) Growth 1992-1997 (%)

Level among provinces		
3	***Denizli***	***161***
9	*Gaziantep*	*58*
18	*Konya*	*30*
27	*Kayseri*	*15*
29	*K.Maraş*	*12*
46	*Çorum*	*-2*
52	İzmir	-8
53	Adana	-8
55	Ankara	-11
61	İstanbul	-18

SIS

GDP per capita values for NGNs are below the Turkey average except Denizli. However, when the GDP per capita growth between 1990-1997 is examined it is seen that Çorum, Denizli and Kayseri has growth rates above the Turkey average (Table 15).

Table 15. GDP per capita and GDP per capita growth

Level among provinces	GDP per capita (1997-at 1987 prices in million TL)		Level among provinces	GDP per capita growth 1990-1997 %	
6	İzmir	2830959	*13*	*Çorum*	*35*
7	İstanbul	2792142	***18***	***Denizli***	*32*
11	Ankara	2286296	*19*	*Kayseri*	*32*
15	Adana	2057308	20	Adana	31
16	***Denizli***	***2053464***	40	İzmir	19
32	*Gaziantep*	*1486354*	44	İstanbul	16
34	*Çorum*	*1394222*	*51*	*Gaziantep*	*12*
40	*Kayseri*	*1295779*	53	Ankara	12
43	*Konya*	*1241942*	*57*	*Konya*	*10*
51	*K.Maraş*	*1045767*	*64*	*K.Maraş*	*2*
	Turkey average	1802763		Turkey average	20

SPO, 1999

Exports per capita values (1993-1994) indicates that Denizli has a high level among the provinces of Turkey (7th order), after İstanbul (1st order) and İzmir (2nd order). Also as NGNs, Gaziantep (10th order) and Kayseri (14th order) have values above the Turkey average. Other NGNs, Konya, K.Maraş and Çorum have values below the Turkey average (Table 16).

Table 16.Exports per capita 1993-1994 (dolar)

Level among provinces		
1	İstanbul	1184
2	İzmir	840
7	***Denizli***	***182***
8	Ankara	175
10	*Gaziantep*	*167*
12	Adana	149
14	*Kayseri*	*116*
30	*Konya*	*23*
39	*K.Maraş*	*14*
42	*Çorum*	*13*
	Turkey average	86

SPO, 1996

When examining the agglomeration index[2](Table 17) of sectors it is seen that in textile sector, Denizli is in the 4th order after Istanbul (1th order) and İzmir (3rd order). Gaziantep (7th order) and Kayseri (8th order) also shows significant values in the agglomeration of textile sector. Agglomeration index values of paper industry indicates the 9th order for Denizli after İstanbul (1th order), İzmir (2nd order) and Ankara (4th order), other NGNs do not show significant values for paper industry. Non-metallic products industry agglomeration index has significant values for Çorum (8th order) and Denizli (11th order) after Istanbul (1th order), Izmir (4th order) and Ankara (6th order).

Table 17. Agglomeration index of sectors

Level among provinces		Textile Industry	Level among provinces		Paper Industry	Level among provinces		Non-metallic products industry
1	İstanbul	37.73	1	İstanbul	48.45	1	İstanbul	15.39
3	İzmir	8.71	2	İzmir	12.28	4	İzmir	7.43
4	**Denizli**	**6.22**	4	Ankara	6.97	6	Ankara	4.85
6	Adana	5.37	**9**	**Denizli**	**2.20**	*8*	*Çorum*	*3.81*
7	*Gaziantep*	*4.23*				**11**	**Denizli**	**2.62**
8	*Kayseri*	*2.60*						

Diversification index[3] (Table 18) gives the diversification of industrial sectors, in terms of employment values, in the provinces. The lowest values indicate the highest diversification of industrial sectors. It is seen that MRs have the highest diversification index values, also as a NGN, Kayseri has a high diversification of industrial sectors. Other NGNs have lowest diversification index values, Denizli is among the provinces having lowest diversification of industrial sectors followed by K.Maraş and Çorum.

[2] Agglomeration Index= (employment in sectorA in provinceX/total employment in province X)/ (employment in sectorA in Turkey/ total employment in Turkey)

[3] Diversification index= (the sum of the positive values of the share of employment [in 10+ firms in 1996] of the sectors in the province) – (the shares of that sectors in Turkey)

Table 18. Diversification Index

İzmir	14.42
İstanbul	19.78
Adana	25.56
Kayseri	23.58
Ankara	31.36
Konya	36.53
Gaziantep	38.83
Denizli	42.54
K.Maraş	45.76
Çorum	51.85

SIS

Producer services agglomeration index[4] (Table 19) indicates the development level of industrial activities via employment shares of producer services. It is seen that the MRs have the highest values among the provinces of Turkey which indicates their historically accumulated industrial experience. Denizli is in the 14th order among the provinces of Turkey after Konya (8th order). The other NGNs show lower orders among the provinces.

Table 19. Producer Services Agglomeration Index

Level among provinces		
1	İstanbul	33.15
2	Ankara	15.89
3	İzmir	8.05
5	Adana	2.76
8	Konya	1.72
14	***Denizli***	**1.08**
18	*Kayseri*	0.98
21	*Gaziantep*	0.88
37	*K.Maraş*	0.48
39	*Çorum*	0.42

SIS

The extent of subcontracting relations indicates the type of production system, i.e flexibility. The industrial district literature emphasise the flexible production systems for the new industrial nodes which grew up after 1970s. When examining the subcontracting relation in textile sector in Turkey (Table 20), it is seen that Denizli is in the 1st rank

[4] Producer services agglomeration index= (employment in producer services in province X / total employment in province X) / (employment in producer services in Turkey / total employment in Turkey)

among provinces while Istanbul (3rd) and Izmir (13th) from MRs, and K.Maraş (12th) and Gaziantep (14th) from NGNs have significant values in subcontracting relations in textile sector. In metal goods sector, while MRs are having significant values, except Konya NGNs do not show important amounts of subcontracting relations. Denizli is in the 26th rank which is equal to the Turkey average.

Table 20. Subcontracting Relations

Level among provinces	Textile Firms with sub-contracting relations		Level among provinces	Metal goods firms with subcontracting relations	
1	***Denizli***	***0,77***	2	Ankara	0,22
3	İstanbul	0,75	4	İstanbul	0,18
12	*K.Maraş*	*0,20*	6	*Konya*	*0,14*
13	İzmir	0,20	7	İzmir	0,13
14	*Gaziantep*	*0,19*	18	*Çorum*	*0,06*
21	Adana	0,13	21	Adana	0,05
33	Ankara	0,07	***26***	***Denizli***	***0,04***
42	*Konya*	*0,04*	30	*Gaziantep*	*0,03*
43	*Kayseri*	*0,03*	36	*Kayseri*	*0,01*
47	*Çorum*	*0,02*		*K.Maraş*	*0*
	Turkey average	0,15		Turkey average	0,04

SIS

Labour wages can exhibit either the comparative advantage of the region from one side but also the way of growth, such as "low road to growth" or "high road to growth". While Ankara, Adana and Konya have average wages above the Turkey average the other provinces are all below the Turkey average. Denizli has the lowest value (less than half of Turkey average) after Gaziantep. It can be said that although the lower wages give comparative advantage to the industry of Denizli, this is a low way of growth with under-qualified labour and can have negative effects in the long-run economic development of Denizli.

Unemployment shares in total population indicates the sufficiency of economic activities for the population of the region. NGNs have lower values in this indicator than the MRs except Istanbul. It can be said that Denizli has no significant problem of unemployment as being in the 57th order among the provinces.

Table 21 Labour Indicators

Average Wages in Manufacturing Industry (1996 prices)		Level among provinces	Unemployment per total population in Turkey (registered in)	
Ankara	342,983	3	Adana	0,032
Adana	336,850	7	Ankara	0,022
Konya	*295,406*	23	İzmir	0,015
İstanbul	266,824	25	*Kayseri*	*0,014*
İzmir	230,032	26	*K.Maraş*	*0,014*
Kayseri	*170,594*	47	*Çorum*	*0,011*
K.Maraş	155,361	48	İstanbul	0,010
Çorum	*125.842*	53	*Konya*	*0,009*
Denizli	***112,473***	**57**	***Denizli***	***0,008***
Gaziantep	*98,688*	66	*Gaziantep*	*0,006*
Turkey average	273.277			

SIS

Besides economic indicators social and cultural indicators are very important to analyse the existing development level of a region and to have an idea about the future potential for development. Here, the social and cultural atmosphere of Denizli will be analysed by the demographic structure, human capital and education capacity, organisational capability and culture and life quality indicators comparatively with the statistical data available.

Examining the demographic indicators it is seen that the ratio of population increase in MRs show higher values (except Adana) than NGNs. Denizli has a ratio higher than the Turkey average and in the 28th order among the provinces after K.Maraş (21th order), Gaziantep (23th order) and Konya (25th order). Kayseri and Çorum have population increases less than the Turkey average. Share of urban population (1997) is also highest in MRs while Gaziantep and Kayseri having higher orders (6th and 11th). Denizli's (64th order) share of urban population is the lowest among the NGNs. However, the rate of migration (1985-1990) demonstrates higher values for MRs and also for Denizli. Konya, Kayseri, K.Maraş and Çorum indicate negative values for the rate of migration.

An important indicator for the social atmosphere of regions is the share of population born in the same provinces. 1990 values indicate that while the NGNs show higher shares of population born in the same province, the MRs' values are low. It is not surprising that MRs' population is heterogeneous due to their economic attractiveness. Nevertheless, the

homogenous population in NGNs can be an indicator of social solidarity which is emphasised in industrial district literature.

Table 22. Demographic structure

Level among provinces	Population 1997		Level among provinces	The ratio of population increase		Share of population in the same province (1990) %	
1	İstanbul	9198809	5	İstanbul	34.54	*K.Maraş*	*95*
2	Ankara	3693390	17	İzmir	20.38	*Çorum*	*94*
3	İzmir	3114859	19	Ankara	18.58	*Konya*	*90*
5	*Konya*	*1931773*	21	*K.Maraş*	*16.85*	***Denizli***	***87***
6	Adana	1682483	*23*	*Gaziantep*	*15.45*	***Gaziantep***	***86***
15	*Gaziantep*	*1127686*	*25*	*Konya*	*13.69*	*Kayseri*	*84*
17	*K.Maraş*	*1008107*	**28**	***Denizli***	***11.74***	Adana	75
18	*Kayseri*	*974035*	29	*Adana*	*11.61*	Ankara	54
23	***Denizli***	***816250***	46	*Kayseri*	*4.44*	İzmir	54
37	*Çorum*	*578187*		***Çorum***	*-7.22*	İstanbul	37
				Turkey average	6.04	Turkey average	74

Table 22 (cont.)

Level among provinces	Share of urban population (%) 1997		Rate of migration 1985-1990 (‰)	
1	İstanbul	92	İstanbul	99
2	Ankara	*89*	İzmir	59
3	İzmir	*82*	Ankara	24
6	*Gaziantep*	*77*	Adana	16
9	Adana	*76*	***Denizli***	***15***
11	*Kayseri*	*70*	*Gaziantep*	
26	*Konya*	*59*	*Konya*	*-17*
42	*K.Maraş*	*55*	*Kayseri*	*-19*
52	*Çorum*	*50*	*K.Maraş*	*-43*
64	***Denizli***	***47***	*Çorum*	*-62*

SPO 1996, 1999

As human capital indicators high school, university and master and Phd graduates, students in technical schools and academic personnel values are analysed. It is seen that in all these human capital indicators MRs have the highest values. Among NGNs Kayseri has the highest values. When Denizli is analysed it can be said that, Denizli's human capital indicators are above the Turkey average but not adequate to comment that it has a developed level.

Table 23. Human Capital and Education Capacity

Level among provinces	High School Graduates in Total Population (1997)		Level among provinces	University Graduates in Total Population (1997)		Level among provinces	Student number in official technical schools (1999-2000 Ministry of National Education)	
1	İstanbul	68.15	3	Ankara	57.85	1	İstanbul	154296
3	Ankara	65.74	10	Konya	31.16	2	Ankara	63250
5	İzmir	60.97	13	İzmir	27.64	3	İzmir	50214
8	Adana	60.97	18	İstanbul	24.50	6	Adana	23575
10	Kayseri	56.01	25	Kayseri	21.85	*7*	*Konya*	*20529*
33	***Denizli***	**42.77**	35	Adana		*9*	*Kayseri*	*16852*
46	*Konya*	35.97	**39**	**Denizli**	**12.4**	*16*	*K.Maraş*	*12438*
48	*Çorum*	35.21	50	Çorum	7.6	***21***	***Denizli***	***10778***
49	*G.antep*	35.10	60	K.Maraş	5.6	*24*	*Gaziantep*	*10318*
54	*K.Mara*	33.28	63	Gaziantep		*35*	*Çorum*	*6562*
	Turkey average	10.14		*Turkey average*	23.30		Turkey average	10524

Table 23 (cont.)

Level among provinces	Master and Phd Graduates in 10.000 population (1997)		Level among provinces	Academic personnel per 10000 population (1997)	
1	Ankara	7.9	1	Ankara	42,64
8	İstanbul	2.8	7	İzmir	15,76
10	İzmir	2.2	8	İstanbul	15,15
13	Adana	1.6	*14*	*Kayseri*	*9,83*
18	Kayseri	1.1	*21*	*Konya*	*7,46*
20	**Denizli**	**1.1**	24	Adana	6,97
33	Antep	0.3	***29***	***Denizli***	***6,05***
			39	*Gaziantep*	*4,02*
			40	*K.Maraş*	*3,80*
			65	*Çorum*	*1*
	Turkey average	0.73		*Turkey average*	5,87

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Cultural and life quality level is examined through the cinema audiences, internet users and car ownership. It is seen that the MRs except Adana have the higher values in these indicators. Adana is only in car ownership above national average. Most of the NGNs are below Turkey average in cultural and life standard indicators. Denizli ranks high in car ownership values while showing lower performances in cinema and internet indicators. This can be interpreted by the rapid income increase in the province. Among other NGNs

Konya and Kayseri have higher values especially in internet users. Çorum, K.Maraş and Gaziantep show low levels of cultural and quality of life indicators.

Table 24. Cultural and quality of life level

Level among provinces	No of cinema audiences in 10000 population (1998)		Level among provinces	No of internet users in 10000 population (2000)		Level among provinces	Car ownership in 10000 population (1997)	
3	İstanbul	5423	6	İstanbul	42	1	Ankara	1373
7	İzmir	2543	*16*	*Konya*	*21*	2	İstanbul	985
8	Ankara	2529	*19*	*Kayseri*	*21*	3	İzmir	889
10	*Konya*	*2350*	23	Ankara	21	*9*	***Denizli***	*721*
23	***Denizli***	***1023***	29	İzmir	19	*11*	*Adana*	*697*
36	*Kayseri*	*431*	***30***	***Denizli***	***19***	*15*	*Kayseri*	*607*
40	Adana	388	*34*	*K.Maraş*	*8*	*32*	*Konya*	*446*
49	*K.Maraş*	*213*	40	Adana	8	35	*Gaziantep*	*404*
50	*Gaziantep*	*184*	*52*	*Çorum*	*7*	*42*	*Çorum*	*339*
52	*Çorum*	*148*	*70*	*Gaziantep*	*3*	*55*	*K.Maraş*	*228*
	Turkey average	*868*		*Turkey average*	*14*		*Turkey average*	*385*

SIS

Organisational capacity is analysed from social security and association numbers. The share of active population under social security is higher in Ankara (1th order) and İzmir (3rd order) among MRs, and in Kayseri (8th order) and Denizli (11th order) among NGNs. The other provinces except Çorum (41th order) and K.Maraş (62th order) are above the Turkey average. The share of retired person in total population can be taken as the indicator of organisational tradition of a region. MRs, except Adana, show high values in the share of retired persons, while most of the NGNs are below the Turkey average except Kayseri (8th order) and Denizli (29th order). When the number of associations (per 10000 population) is examined it is seen that Denizli has a higher value (14th order) than the MRs after Ankara (5th order), and NGNs. Adana, Gaziantep and Maraş have values below the Turkey average.

Table 25. Organisational Capacity

Level among provinces	The share of active population under social security (ssk+ bağkur) 1997		Level among provinces	The share of retired person in total pop. (ssk+bağkur+e mekli sandiği) 1997		Level among provinces	Number of associations per 10000 population 1997	
1	Ankara	48.64	6	İzmir	12.77	5	Ankara	18
3	İzmir	44.88	10	Ankara	11.16	**14**	***Denizli***	***17***
8	*Kayseri*	*38.10*	12	İstanbul	10.65	29	*Kayseri*	*13*
11	**Denizli**	**35.40**	27	*Kayseri*	*8.44*	34	İstanbul	13
21	Adana	29.77	**29**	***Denizli***	***8.25***	37	*Çorum*	*12*
26	*Gaziantep*	*27.44*	31	Adana	8.28	38	*Konya*	*12*
34	*Konya*	*24.23*	43	*Çorum*	*6.68*	46	İzmir	11
38	İstanbul	22.35	49	*Konya*	*5.80*	57	Adana	9
41	*Çorum*	*19.94*	56	*Gaziantep*	*4.92*	64	*Gaziantep*	*6*
62	*K.Maraş*	*13.24*	68	***K.Maraş***	*2.88*	66	*K.Maraş*	*7*
	Turkey average	22.35		Turkey average	7.09		Turkey average	11

SIS

Technological capabilities and innovativeness is strongly emphasised in the industrial district literature for the adaptation to the continuously developing world markets and for the continuous success once a region achieved a breakthrough in its economic development. Examining the number of patents, firms having R&D departments, and supported technological projects, it can not be said that most of the NGNs have a developed level. Kayseri is seen to be the most developed province among the NGNs. Denizli seems to be in the lower levels among provinces. Although Denizli was exhibiting higher performance in economic indicators, the low level in technology indicators give a message about the fragility of Denizli's economy in the long run.

As a conclusion it can be said that, MRs although continue their dominance in industrial activities, NGNs experienced a relative development in terms of manufacturing industry indicators. However, diversification and producer services indexes emphasise that industrialisation of NGNs is in development process. Additionally, the macroeconomic indicators GDP per capita and share of value added values, confirm the underdeveloped level of NGNs compared to MRs, although they performed high growth rates in these indicators during the last decade. Evaluating the Denizli's position in this comparative analysis, it can be said that Denizli shows the higher performance among the other NGNs for the development of its economic structure. From the figures Denizli's industrial

structure can be defined as a mono-sector based on textile industry, having extensive sub-contracting relations. During the last decade Denizli can be said to have high performance in terms of manufacturing industry indicators and export activities among the other NGNs. However, Denizli's social development speed is not at the same level with its economic development.

Table 26.Technological capability and Innovativeness

Level among provinces	Number of patents (per 1000 firms 1995-2000)		Level among provinces	Firms having R&D department (per 1000 firms)		Level among provinces	Projects supported by TIDEB (per 10000 population -2000)	
3	Ankara	673	2	Ankara	151	3	İstanbul	0,55
6	*Kayseri*	*495*	10	İstanbul	60	4	Ankara	0,48
13	*Konya*	*307*	11	*Kayseri*	*60*	7	İzmir	0,30
14	İstanbul	274	13	İzmir	49	*9*	*Gaziantep*	*0,19*
31	İzmir	207	16	*Gaziantep*	*39*	*10*	*Kayseri*	*0,17*
33	*K.Maraş*	*125*	23	*Konya*	*28*	*13*	***Denizli***	***0,13***
37	Adana	103	**28**	***Denizli***	*21*	19	Adana	0,07
46	*Çorum*	*72*		*Maraş*	*0*	*21*	*Konya*	*0,05*
54	*Gaziantep*	*45*		*Çorum*	*0*	*31*	*K.Maraş*	*0,02*
55	***Denizli***	***45***				*32*	*Çorum*	*0,02*

SIS

VI.3 The Evolution Of Denizli's Local Socio-Economic Development History Within The Framework Of Turkey's Socio-Economic Development History

It is known that, weaving artisanship had been important in Denizli region, at least since 2000 years before today. In the antique period, Laodikeia (Denizli), had been an important textile centre of Anatolia and had been famous for its textile products. Besides, the related activities such as dying, felt making and manufacturing of carpets had been important in the region. In its weaving history, the region transformed from woollen weaving to cotton weaving due to the cotton production that had became widespread in the region.

In the Ottoman Empire period, Denizli's administrative hierarchy was in the second degree as being districts (Sancak) of other provinces, first İzmir, then Aydın. Nevertheless, the town and particularly the surrounding subdistricts and villages (not appropriate for agriculture) had been important places for artisanal weaving of cotton textiles for which supplies had come from agricultural cotton production in the Agean

Region (Cillov 1949, Mutluer 1995). The 1891 census suggests 190 looms at the the centre of Denizli, 185 looms in Tavas, 784 looms in Sarayköy and 640 looms in Buldan. There were also timber ateliers in Çal, flour factories in Denizli and Acıpayam, and tile factories in Buldan and Sarayköy. The general manufacturing censuses of 1913 and 1915 did not mention any industrial enterprise in Denizli (as part of the province of Aydın) but underlined the fact of the extensive home production of textiles. Until the 1950s, the centre of Denizli was not the most important place for textile production in the province. The main places for this production were a district centre, Buldan and the sub-district centres, Babadağ and Kızılcabölük.

After this short introduction of the economic structure of Denizli before the establishment of Republic the next sections will explain the evolution of Denizli's local socio-economic development history within the framework of Turkey's socio-economic development history.

VI.3.1 From the Establishment of the Republic to 1960

1923-1929 Open Economy

In the early years of the Republic, agriculture was the primary channel of integration into the world economy since the economy was characterised by the export of agricultural products and the import of manufactured goods. The development policy of the government was to create a suitable environment and provide direct support for private capital accumulation.

Many basic industries were founded and infrastructure developed by the state during this period, in the absence of a national capitalist class who could invest in private enterprise. The largest investment occurred in textiles, in which Turkey had a comparative advantage, followed by iron and steel, cement and paper industries. Industry growth realised in this period had been 8.5 % (Boratav,).

The privileged groups in this period were merchants and landowners whose influence on the state was quite evident in the policies followed (Aydın,). Also national and foreign groups were having shares in firms founded by the state (Özcan 1995).

In this period, institutional structure had been establishing countrywide due to the measures taken to encourage the use of domestic products in production through the support of the state. In this respect, in 1925, chambers of commerce and industry started to be established to control and direct industrial activities. Chamber of industry and commerce in Denizli had been established in 1926.

A state incentive scheme "The Law for Encouragement of Industry" was put into act in 1927 and various incentives were provided to producers in tax exclusions and provision of land. However, while this law was supporting big establishments (using at least 10 horse power and employing four or five people per year), in Denizli, only a few firms in the food sector could take advantage of the incentives provided by this law.

According to 1927 manufacturing statistics, there were 1581 establishments, 56.9 % of which were very small family production units, employing only 1 person. The percentage of establishments employing more than 10 workers was 1.8 %. The sectoral distribution was like that; 43.1% agriculture-based industry, 26.8% textile, 17.6% mining and metal goods.

1930-1939 Etatist Period

The world crisis of the 1930s in the capitalist world was the main force behind the policy decisions given in this period. The idea of economic development through stimulating private enterprises was given up under the conditions of the world economic crisis. The state attempted to industrialise the country through joint investment with foreign capital as well as through the establishment of State Economic Enterprises (SEEs) in the negative effects of the world depression. Large scale Import Substituting Industrialisation (ISI) type of production units were established by the state with a view to complement private enterprise rather than supplementing it (Aydın). The state entered into economic areas where private enterprise failed or was not strong enough, such as the building of infrastructural establishments, main industrial institutions, electrical power stations, railways and the iron and steel industry. There was a substantial growth rate in industry which reached an annual growth rate of 11.6 percent (Boratav) in this period. This growth mainly depended on the production of light consumer goods, such as textiles and food.

The production of consumer goods, such as sugar, wheat and textiles and intermediary goods such as iron and steel, paper and chemical goods were encouraged and the state supported the traditional interest groups in industrial capital accumulation.

In this period, 20 new factories had been established by the state. However, none of them was in Denizli. In 1937, the printing and dyeing factory founded in Nazilli (a district of Aydın, neighbouring city of Denizli) was an important state establishment for the region. The producers in Denizli took their fabric to this factory to be dyed or printed and with this connection, communication with tradesmen were also possible in the district.

After 1930s first initiatives of transforming textile from home production to workshop production had been seen in a few enterprises (only 10) in Denizli. However, one of the most important impediments for a more wide transformation was the Law of Profit Tax. According to this Law, the looms in the workshops were taxed while the looms in houses were not. Besides, textile producers either worked as subcontractors for merchants who provided the cotton yarn or worked independently by buying the cotton yarn from merchants within a credit system, also hindered the development of production in the capitalist sense.

For the easy provision of yarn and to eliminate the merchants who were engaged in selling yarns and subcontracting, a cooperative had been established in Kale, the first time in the region, in 1935. Then in the same year in Buldan, and in 1936 in the centre of Denizli and in Kızılcabölük, cooperatives had been established.

1940-1945 War Economy

During the 1940-1945 period, the effects of the Second World War were felt as stagnation in all sectors. In this period, industry declined in the country and annual growth rate were realised as –6.5 per cent (Boratav,).

The state tried to prevent black market conditions in cotton yarn provision by giving the responsibility of distributing of cotton yarn to a state establishment (Sümerbank) in 1941. This distribution was made through cooperatives, which also served the function of marketing the products of members in more favourable terms. The number of textile co-

operatives in the province thus increased to 16 in 1946 (Table 27) (Cillov 1949). Most of these co-operatives was maintained by small producers. With these co-operatives, small producers in Denizli were forming one of the first attempts of collective action in Denizli (Pınarcıoğlu 2000). This was also influential in enabling capital accumulation for the foundation of bigger establishments in the following periods. Although the black market could not be prevented completely and some producers or tradesmen bought the share of small producers with relatively higher prices, this control has decreased the importance of intermediaries to a certain extent and helped the accumulation of capital in the hands of producers (Mutluer, 1995).

Table 27 Small artisan cooperatives in Denizli in 1946

	number of members	number of looms
Denizli	634	819
Buldan 1	1073	2031
Buldan 2	244	273
Kızılcabölük	1149	1262
Babadağ	1803	1990
Other districts	1804	2663
Total	6527	9038

Source: Cillov 1949

On the other hand, various laws had effected the formation of enterprises negatively. In 1941, the Law for Encouragement of Industry and in 1944, "Extraordinary Income Tax" and "Tax on Transactions" brought requirements tougher than the previous tax system and the small textile workshops that were opened in the previous period were closed down and returned back to home production.

In the 1940s, production was organised in various districts, such as Babadağ, Buldan and Kızılcabölük and to a lesser extent in the province centre. In the beginning of 1940s there were around 10.000 looms in the province and 90 percent of them were in these three districts (Yurt Ansiklopedisi,)

The government's control on the distribution of cotton yarns in the country, negatively affected the textile producers especially those of Buldan and Babadağ. The lack of enough cotton yarns brought about the first migration tendencies for the producers particularly from Buldan and to a lesser extent from Babadağ. Buldan producers who largely worked

for Istanbul and created a close relationship with merchants there started to migrate there where they would gradually build a substantial place for themselves in textile trade and production later on. For Babadağ producers who basically worked for Anatolian merchants this migration was less dominant. Only a small number of producers preferred to migrate mostly to Denizli (Pınarcıoğlu, 2000).

1946-1953 External and Internal Liberalisation and 1954-1961 Interruption Readjustment

The main characteristic of the world economy after the Second World War was the internationalisation of capital. "International Keynesianism" of the USA in this period was applied to redistribute income so that new markets and cheap labour could be utilised. The 1950s also witnessed the strengthening of Turkey's integration into the world economy. After the introduction of multi-party democracy in the late 1940s, Turkey became a member of NATO (North Atlantic Treaty Organisation) in 1951. Marshall aid came to Turkey and ensured that Turkey played the role of food and raw materials supplier in the new international division of labour. However industrial sector was not completely neglected. As the 1950s were a period of expansion of world capitalism, foreign capital came to invest, in co-operation with Turkish capital, in luxury consumption goods. In proportion with the rise in importance of the domestic market, the private sector moved into the industrial sector while the state sector concentrated in the production of intermediate commodities as inputs for the private sector. Industry growth rate in the country was 9.20 % (Boratav) in this period.

Liberal trade policies were ended in the 1954-1961 period due to lack of external funds and demand for export goods. Import substitution policies again began to be applied, the share of public and private investments increased while the industry growth had been realised as 4.30 % (Boratav, 1989).

The most significant developments in these periods were the mechanisation of agriculture and the rapid urbanisation, which also accelerated the growth of the small firm sector. Capital investment from agriculture and commerce to industry occurred in this period through merchants and large landowning families (Tezel, 1975). As Okyar (1979) points out, a different pattern of industrialisation began to emerge in the 1950s through the

growth of private entrepreneurship. This saw the early development of many small and medium-sized private businesses flourishing in local economies (Özcan 1995).
Denizli was thus emerging as the main production and trade centre in the province and attracting some producers mainly from Babadağ who wanted to develop their production. A cotton yarn factory established by the state in 1953 brought an important advantage to the centre of Denizli to be the primary place of textile production compared to other districts. This investment helped small producers which had had difficulty in finding yarn in the 1940s. Besides, the first modern factory-based industrial production by employing 500 people had been initiated in the province. Furthermore just before this factory, Denizli centre got electrified and this gave a chance to use electrical looms.

In this period also a cotton gin factory, a textile factory, two food factories, and a machine spare parts factory had been established in the province centre.

VI.3.2 1960s to 1980- Planned Period

The economic depression at the end of 1950s in Turkey was followed by a military intervention in 1960. Under a new constitution, state planning was introduced in 1961. Turkey became linked to western institutions through the World Bank and the International Monetary Fund, and it signed an association treaty with the European Community in 1963. Domestic politics remained volatile with a further military intervention in 1971. Following these years the Turkish economy had a double shock: the first was the impact of increased oil prices on the import bill. The second was the decline in the remittances of Turkish workers from abroad. Turkey used foreign credits and funds in great amounts during the period of 1975-1979 due to the economic crises. During the late 1970s, it also experienced an increasing level of political instability.

The first development plans envisaged and encouraged import-substituting industrialisation which was aimed at the production of consumer goods that were previously imported. State intervention was pervasive in the protection of national industries against foreign competition; in the production and provision of certain basic goods and services; and in the provision of legal, bureaucratic and institutional structures to regulate the process of industrialisation, labour relations and income distribution. Measures were taken to ensure the enlargement of the internal market for the

sustainability of import-substituting industrialisation. Foreign currency earnings from the export of primary products, external credits and workers' remittances mainly from Germany were the most important sources to finance the easy stage of import-substituting industrialisation (Aydın).

Between 1970 and 1974, the export of semi-manufactured goods began to increase. Industrial investments and the development of skills were supported by government policies. As a result of the importance given to vocational training schools, many skills improved. However, import-substituting industrialisation required imitation of already standardised technologies. In some cases joint ventures, or partnerships with foreign firms, were local capital's only channel of access to technology. But the level of direct foreign investment was very low and domestic capitalists were not especially keen on foreign capital anyway (Özcan 1995).

There has not been any real pressure on the industrial sector to improve its productivity and international competitiveness as the firms are continuously protected by tariff walls and overvalued currency, productivity and international competitiveness have not been priorities of industrialists who have been quite satisfied to chase after exemptions, tax returns, cheap credits and other privileges offered by the state (Aydın). This is partly because the state in Turkey does not have sufficient organisational capacity to check and control the way encouragement credits, tax returns, and exemptions have been used, and partly because of the state's concern to please many sections of the business community through populist policies.

Domestic production of consumer durable goods and food processing accelerated and large firms developed a network of marketing through small businesses in different parts of the country. As a result, many small and medium-sized towns had an increasing number of small businesses. The growth of medium-sized firms occurred through capital accumulation in the hands of the local bourgeoisie by using cheap government credits and public bids.

As the development of Turkish industry during the years of import substitution encouraged domestic production, the urban population increased rapidly. Regional policies and the regional plans were consistent with the import substitution policy that

became the basis of industrialisation in the 1960s. They mainly tried to define the industries that can have comparative advantage in the domestic economy, with limited emphasis on export promotion.

1970s denoted important changes in regional policies. While economic incentives for supporting disadvantaged areas and economic assistance to manufacturing projects were initiated, the emphasis on public sector investments was faded in favour of private enterepreneurship. The regional development is seen as "a cooperative effort of defining natural resources of regions and supporting the most advantageous fields of activity in these areas". This new perspective and the lack of administrative capacity and institutionalisation to implement regional plans and the incentive schemes were defined as the major tool for reaching the regional objective of convergence (Eraydın).

In the 1970s, the first substantial efforts at industrialisation in the private sector emerged in Denizli. There had been two important changes in this period. The first one was the inclusion of Denizli among the provinces having priority for development between 1973 and 1981 by the State Planning Organisation. As a result, public investments in Denizli, particularly in its manufacturing industry were sharply increased. Public investment in fact doubled in real terms in this five year planning period (1973-1978) compared to the previous one (1968-1972). The share of manufacturing industry in these public investments increased to 40 per cent.

The second important development was the establishment of multi-partner workers' enterprises which were established by Turkish workers abroad (after 1960, a large amount of Turkish people had gone to West Europe to work and Denizli is one of the provinces with more than 35,000 workers), especially working in Germany and contributions of various capital groups in the district. The government supported these enterprises as a model for the development of backward regions and to cope with the problems of emigrant workers abroad appeared because of the crisis in the world economy caused by the oil shock. Through this scheme, the state supported private producers to set up the first modern factories in several sectors in the province. The incentives, such as exemption from customs duties, investment discounts and investment credits with low interest rates as well as credits and technical support enabled the establishment of 19 worker firms, in sectors as varied as food, chemical, glass, electronics industries; only two of them were in

textiles (Table 28). One of the biggest of them was in the field of electronics with 11.650 partners, and the second biggest was in the field of engine parts production with 7.150 partners.

Table 28 Worker firms in Denizli

Name and sector	No of partners
Bir Emek (electronics)	11650
Uygar Motor (motor parts)	7150
Acıselsan (cellulose)	4684
Şirintaş (glass products)	4025
Timgaş (flour)	3560
Astaş (nut and bolt)	3040
Ege Cam (glass products)	2422
Akkent (food)	2000
Yedesan (leather)	1215
Gibsan (cotton yarn)	630
Yonga (furniture)	554
Depstaş (plastics)	557
Süllür (lime)	497
Ege Teknik (oxygen gas)	400
Gimek (fodder)	400
Dorsan (chipboard)	352
Denizli Holding	327
Bayraktar (brick)	111
Yumaş (marble)	70

Yurt Ansiklopedisi; Mutluer 1995

Worker firms have contributed to the development of various sectors through a large amount of capital flow into the province. Although these firms seem not to have been successful and many of them closed down in a short period of time while others faced subsequent local acquisition later on (Mutluer 1995), this brought new capital stock, technology and know-how to Denizli as well as encouraged local entrepreneurship.

The total number of establishments in Denizli increased sharply from 34 private establishments (of more than 10 employees) with 1,800 employees in 1971 to 95 establishments with 5,600 employees in 1979.

There had been important developments in sectors other than textiles. Besides emigrant workers' investments, capital accumulation of local entrepreneurs had been mobilised during the 1970s. Basic metal and fabricated metal industries became the most important, built upon the other artisanal tradition, metal milling and processing in Denizli. These

investments were concentrated in different sorts of metals (copper, aliminium, iron, enamel) rods, wires and plates, as well as kitchenware equipment. The rest were mostly composed of food and chemicals, and to lesser extent, manufacture of wood, paper and clay products. Apart from these, there were around 1,700 small establishments with less than 10 employees in the province in 1980 (Pınarcıoğlu 2000).

VI.3.3 After 1980- A New Mode of Regulation

In the second half of the 1970s, the introverted, interventionist, import-substitution oriented industrialisation model, coupled with world crisis of the 1970s deteriorated the economic development of Turkey. This crisis brought a radical transformation of economic policies by the stabilisation and structural adjustment program (SSAP) introduced in January 1980. The prevailing objective of the program, which was implemented under IMF-World Bank support, was to change the system of incentives away from import substitution under state direction toward export orientation with an overall emphasis on market-oriented policies (Şenses, 1994).

One of the main intentions was to gradually cut back the state by way of privatising the State Economic Enterprises (SEEs) and limiting state expenditure. Plans and programmes were designed to emphasise a development strategy, which would give priority to export-orientation industrialisation. Industrialists have been supported by policies like tax rebates and export credits, so that the competitiveness of Turkish products in the world market is ensured and export business becomes profitable for capitalists (Aydın). Turkish exports increased remarkably after 1980 and exports to industrial countries started picking up after 1984.

In this period, despite the low level of investment in the manufacturing sector, the share of manufactured goods in total export shown a significant increase. However, as Aydın () has emphasised, the increase in the export of manufactured goods was not the result of a structural transformation of Turkish industry, but a result of continual devaluation, decreasing real wages and encouragement subsidies given to exporting activities (some of the encouragement funds given to exporters are: rebate of indirect taxes, cheap credit through Eximbank, duty free imports, premium paid from 'the export encouragement fund' and 'the price stability fund', and exemption from 'institutions tax').

While such measures decreased the cost of production in manufacturing industry and decreased the prices of exported commodities, they also increased the public debt as subsidies were financed by borrowing. Despite an increase in the quantity of exports of manufactured goods no significant change occurred in the nature of products exported. A brief look at the exported commodities reveals that they mostly consisted of textiles, processed food and leather products, glass and metal works. This can hardly be construed as a real technological transformation of the economy (Aydın). The poor performance of manufacturing investment in SSAP is generally attributed to three factors: 1)heavy real currency depreciation,2)high rates of interest, and 3)macroeconomic instability, increasing in its intensity in the late 1980s (Şenses 1994).

The adverse impact of financial liberalisation on manufacturing investment could be observed also from the allocation and terms of credit to this sector. Given the underdeveloped state of the domestic capital market and its dominance by government securities, investors had to resort increasingly to commercial banks to meet their financial requirements. The oligopolistic structure of the banking sector allowing commercial banks to operate with very high spreads meant unduly high real lending rates.

The availability of alternative profitable sectors in services (most notably in trade) as well as the proliferation of new financial instruments with higher real rates of return in the short term were among other factors with an adverse impact on manufacturing investment climate characterised by lack of "innovative entrepreneurship and modern management" and investors' preferences for "short run financial investment in stocks, bonds and other instruments, or deposits with financial institutions, with quick returns at the neglect of long-term real investment in plant and equipment" was not conducive to growth in manufacturing investment (Şenses 1994).

Turkish exports began to face a tough market, due to quotas of the OECD countries and the effect of the Gulf crisis, which harmed the Turkish economy in many ways. In addition, capacity utilisation and technological development reached its limits in the late 1980s. While the agriculture and manufacturing sectors were losing support, the commercial and banking sectors gained through the government policies of the 1980s.

The Turkish economy entered its down turn cycle in the early 1990s with increasing inflation rates, business closures and budget deficit.

As part of export oriented development program several fiscal rearrangements are made. During 1990-93 new regulations related to floating exchange rate and mobility of capital were brought, which aimed to integrate the Turkey to the global economy. However, this integration deteriorated the capacity of the earlier mechanisms and necessitated new active fiscal management policies, which was not followed by the governments. As result, the distortion of the balance in the public finance and the wrong policies to deal with increasing interest rates caused the crisis of 1994.

The period after financial crisis has been again devoted stabilisation policies and reforms for recovery. The aim was to change the high rate of inflation conditions and to increase the private sector investments especially in productive sectors. Since the early 1990s the strategy adopted by business enterprises was to invest at minimum levels and to direct all their savings to treasury bonds with high interest rates.

Growing macroeconomic instability after the mid-1980s, as characterised by sizeble public sector deficits and high rates of inflation, has led to a further deterioration of the investment climate and relegation of the industrialisation objective to the background. There is an urgent need to increase investment in manufacturing sector. Similarly, manufactured exports are heavily concentrated in the textiles and clothing sectors, which are likely to be threatened by the twin pressures of increased competition from low-wage developing countries and increased protectionism in industrial countries.

Valuable experience was gained in export markets, there was a big boom in manufactured exports, which was reinforced by efforts to improve quality of products and increase price competitiveness. However, the shortfalls in new investment were reflected by the absence of structural change within the manufacturing sector toward capital- and skill-intensive activities.

After 1980s, the export oriented policies have created the favourable conditions for the rapid transformation of industry in Denizli. The growth experienced especially in textile sector is related to the state incentives, fiscal and monetary measures in promoting exports

as well as the potential the region possesses related to the past experience of industrialisation and the capital accumulated in the hands of various family or capital groups in the 1970s. The incentives given to producers have led to a rapid renewal in technology after 1985. Especially the shift to automatic looms enabled the utilisation of computer-aided design and manufacturing facilities in the textile sector and in turn, the ability to respond to international demand rapidly (Erendil,1998).

In the beginning of the 1980s, some of the relatively large firms in Denizli, acted as leaders in passing to exporting stage, by the help of the trade firms in Istanbul. In the meantime some small firms wanted to take part in the export market and courageously began their "trial and error" process. In fact, the main dynamism in exports would come from these small firms. With these initiatives Denizli achieved to capture a niche in global towel and bathrobe markets. Facing the increasing exports demand for towel and bathrobe products for exports, small producers of other products were shifting to this production as subcontractors in the second half of the 1980s (Pınarcıoğlu, 1998).

Table 29 Exports registered at the Denizli Chamber of Commerce, 1980-1994

Years	Total exports	Textile and clothing export (thousand US dollars)	Textile and clothing/ total exports	Textile and clothing exports of Denizli/ those of Turkey
1980	2,574.6	994.3	38.6%	0.2%
1983	19,864.7	10,331.0	52.0%	0.7%
1985	20,095.6	16,044.4	79.8%	0.7%
1988	81,208.2	58,565.5	72.1%	1.5%
1990	120,112.5	80,383.1	60.5%	1.6%
1992	154,999.0	93,765.0	60.5%	1.8%
1993	174,816.4	128,676.3	73.6%	2.4%
1994	262,284.4	216,566.7	82.6%	3.5%

Pınarcıoğlu 2000

The Table 29. indicates that between 1980-1985 period the share of textile and clothing exports in total exports of Denizli and in textile and clothing exports of Turkey had been increased more than twice. This increase pattern in exports had been continued in the following years reaching 82.6% of textile exports in total exports of Denizli and 3.5% of textile exports of Turkey.

In the beginning of the 1990s, the state had decreased the minimum investment requirement to be eligible for an investment incentive certificate. This shift in the

regulation of the state in favour of smaller firms, has given an opportunity to a large number of medium-sized firms in Denizli to benefit from these incentives. In this decade Denizli's textile and clothing industry has become one of the provincial textile centres with the highest investment incentives in the 1990s. With these certificates (which have enabled producers to import machinery) not only large but also medium-sized firms therefore have had an important support to update their machinery in the 1990s. Apart from these firms, it is reported that some firms too small to be eligible for certificates have attempted to equip themselves with second hand looms.

Between 1990-1995, 138 new firms in textiles and clothing have been set up, many of which have been small firms. 83 of them were set up between 1994-1995. Besides textile sector, the basic metal industries, fabricated metal industries, non-metallic mineral products industries have shown a development.

The macro economic problems after 1997 caused the deepening of crises conditions in the whole country and also in Denizli. The national economy slowed down, GNP per capita decreased 6.4 per cent in 1999. During 1997-1999 industrial production reduced 3.9 per cent (Eraydın 1999) due to decreasing demand in domestic and international markets and exports are negatively affected. In Denizli, although the income from exports and quantity of exported goods increased in the per cent of 5-10 and 17-10 during 1998-2000, export prices decreased in the rate of 9-10 per cent in the same period (Uslu, 2001). Between 1995-1999, 40 per cent of weavers, 30 per cent of textile dyers, 25 per cent of ready-made producers had deleted their registers from the chamber of industry. It has been estimated that 11.000 workers lost their jobs.

VI.3.4 Historical and Relational Analysis of Some Leader Firms

While national industrialisation stages and institutional set-up have been shaping the institutionalisation process of a local economy -from a top-down perspective, leader firms have been important in this process from a bottom-up perspective.

In Denizli, leader firms or group of firms have played an important role in all stages especially for starting up the growth process, in generating growth motivation and for transformation. These leaders were the ones who could access tangible and intangible

resources more easily through political affiliations, support of local institutions such as chambers of industry and trade in utilising the local advantages in relation to the reputation gained through years (Erendil,1998). The ability to reach these resources is generally related to the capital assets owned by the firms supported by family assets and the experience gained in dealing with directly with production and marketing.

The leader firms in Denizli can be specified with some family groups; groups based on "hemşeri relations" such as groups formed due to being from the district Babadağ; and leaders which have strong social communication due to close friendships. In 1970s due to capital shortages, people from the same district or various large family groups came together to establish firms, which would be separated once they feel strong enough to work independently. The actors or leaders who gave the first impetus to growth by favourable conditions of the 1980s were determined in the 1970s.

In the following figures, and in (Table 30) some of these groups, which have been effective in the industrialisation process of Denizli and have been effective in the development of different sectors is examined.

Figure 1. The Powerful Family Groups Of The Region: Partnership Solidarity And Trust Depending On The Family Relations (1)

The founder family of the firm A had been dealing with coppersmith business and the family developed the first rolling machine and established the first rolling mill in Denizli. With copper milling they began to iron milling which will then be one of the most important sectors in Denizli. The leader entrepreneur of the family firm has no formal education other than primary school but has a special artisanal talent. At the initial stage he became partners with one of his relatives who is an engineer. This initiation made them to join the artisanal and technical sides of the work and they started mass production by establishing a cable factory in 1970. Then they establish an electro-copper factory in Istanbul with having the aim to establish the more modern and bigger one in Denizli later. They realised this aim and established a cable factory, which achieved them to become the fifth biggest factory in Turkey. Then to support the firm they established a bank. But in 1982 because of the negative macroeconomic conditions of the country they take out the factory and the bank from their hands. Then they entered to a new sector and established a plastic factory. Then in 1985, they again established a cable factory which was the second biggest factory of Turkey. They had been the company which has the largest capital asset in Denizli. This firm employ 300 workers recently. They also established a textile factory by following the trends of the 1980s.

Figure 2. The Powerful Family Groups Of The Region: Partnership Solidarity And Trust Depending On The Family Relations (2)

Another important family group B, had a history at tanner occupation and leather manufacturing which are the traditional sectors of Denizli. Then with 6 partners from the same family, they began to cotton trade; they were buying cotton from the market and then selling it as cotton gin. Then they come together with the other families in Denizli and established a flour. Then they establish a fodder factory which is the greatest of Balkans and Middle East and the first private fodder factory of Turkey. At the establishment phase they consulted to the state planning office to decide in which sector to invest as they were thinking of enlarging their investment in flour sector but when they learned that state is giving incitement to the fodder sector they had changed their mind.

Then two cousins of the family had separated in 1996 and shared the factories. One cousin Ba with his five children became the one track of this family group, having the cotton gin factory. This group then establish a multi-partner yarn factory with some other families of Denizli. Then in 1973 they entered a new sector and established a cardboard factory.

Because of a marriage between the family A, the family Ba became the partner of the cable factory established by the family A in 1985. In 1991, the family Ba and the family Bb established a big yarn factory with the name of the family.

The other cousin with his three sons which are all engineers had been running in another track taking the fodder factory. They had continued investments in the sectors based on agriculture and animal husbandry. After 1994 because of the economic crises lived in the country they decided to have variations in their production and decided to establish the yarn factory with the other group of their family, Ba.

Totally 750 people are working in the factories of the family group B. There is a strong solidarity between Ba and Bb and they collaborate in the recession periods. There are frequent borrowing processes among the companies in the group and they make each other use loan money. Instead of taking credits from banks and dealing with bureaucracy they give each other loan without any contract. They tell that they do this kind of agreements also with the firms in Denizli out of their group which they find close to themselves.

Figure 3. Family Firm Act As A Leader In The New Initiations For The Region

Family C had been in the yarn trade in its history. They are 5 brothers, and recently 2 of them are in the construction and iron-steel sectors in İzmir and 3 of them in textile and marketing sectors in Denizli. With the leadership of this family in 1974, the first printing and dyeing factory in Denizli had been established with 100 partners from Denizli. Their aim was to process the unbleached cotton fabric produced in the region by printing and dyeing. This initiation had encouraged the textile production in the region to increase the level of quality and to bring a standard, which in turn will support the export-oriented production.

This firm then attained its own trade mark and developed their specialisation in home textile, ready-made clothes etc. The leader entrepreneur tells their future perspective as "we reach to the optimum level, after this, increasing capacity means risk and we will invest in technology from now on".

Figure 4. Group of Firms from Babadağ: Partnership And Solidarity Defined By Hemşeri Relations

Family D have its origin from Babadağ and their historical occupation is textile. In 1948, 48 firms in Babadağ had collaborated and they did some good work together in the conditions of that period. Then in 1958 a group separated from this collaboration and established a firm which had been continued till 1968. It should be noted that many of the founders of this group became the leader firms in the following years. Family D was one of the initiators of this group and they came to Denizli in 1960. When they came to Denizli they separated from their partners and established their own family company.

In 1978 they again collaborate with 8 firms and 22 partners and establish a textile firm with the aim of increasing quality and to impede unfair competition. While the factory of family C was producing 5000 metres of printed cloth, the factory of the partnership established by the family D began to produce 60.000-100.000 m. In this period there had been a boom in the joint stock and limited companies. This initiation had been a good example for the other entrepreneurs in Denizli and made them think, "they come together, they produced in high quantities and they make high turnover".

This partnership then again began to be loosen, entrepreneurs began to separate from this firm to establish their own firm. This is defined as "to extract son" in the region. The firms, which had been extracted from this collaboration, recently have nearly 5000 employment totally and in the firm of family D there is 450-500 employment. Family D has also been divided between three brothers. One stayed with the name of the firm, which is established with multi-partners and created its own trademark, and the other brothers established their own textile firms. The latter two brothers continue their collaboration by having common production units among their firms, such as, dyeing unit.

Figure 5. Firm Extracted from the Group of Firms from Babadağ: The Entrepreneur as One Of The Social Leaders Of The Region

Entrepreneur E has his origin from Tavas, a district of Denizli, and his family had a history on hand weaving in their village. He began his business life with trading in Denizli. Then he established a textile firm with his friends from Babadağ in 1972. In 1978 he was one of the initiators of the group that is mentioned in family D. The motivation for this initiation was to buy yarn from same place and subcontract to the weaver and to act together with the firms doing the same production. They were 40 firms at the beginning. However, most of the firms did not accept the establishing principles which was based on the usage of common capital and only 8 firms remained in the group. Entrepreneur E had been in the management and marketing departments of this collaboration. Then in 1988 he separated and established his own firm on embroidery production. Now this firm has 160 employment.

Entrepreneur E has a kind of social leadership in the region as he had been the initiators of some associations, foundations, social organisations and he is now the member of the Municipality Assembly, member of the Assembly of Chamber of Industry, member of TUSİAD (in Denizli 8 firms are member of TUSİAD), and member of so many non-governmental organisations mostly in Denizli and also in Turkey. He is a social man leading the activities in Denizli and he is also active in communitarian moves.

The examples given up to now are the groups who have been powerful and who have had leadership in the economic activities of Denizli. Family A, B and C entered to industry in the period of first generation entrepreneurs. And the first and second generation in these families also continue their family occupation. These groups are all powerful in the local economic institutions such as chamber of trade, chamber of industry, exporters' association. They are powerful groups due their solidarity and trust relations among their members.

There are some successful entrepreneurs out of these groups from second generation who contribute to the economic life of Denizli, by acting individually (Figure 6).

Figure 6. Second Generation Successful Entrepreneur

Entrepreneur F has a family coming from the traditional occupation of iron-steel rolling and he is the first one in the family dealing with another occupation, in textiles. He had a high education abroad on Japanese management systems. When he returned to Denizli he began his business life with textile exporting. After his trading experience, he entered the industry sector by establishing a textile factory by adapting Japanese management system to Denizli's conditions. He began the production of a special cloth and exported it by processing this cloth as towel and bathrobes. Then he enlarged his companies by establishing dyeing factory, a marketing company, a foundation, a joint-venture with foreign producers, and a media group. And these companies became a holding in 1997. He had this success by catching a niche with a special cloth in the world market. Original firm structure adapted from Japanese system, providing foreign capital for the textile sector and entering to close relationship with foreign markets had been good examples for the other producers of the region. The entrepreneur is an active man in local social activities, have lots of memberships in local, national and international, associations, foundations and non-governmental organisations both in industrial and social areas. However he has no activity in local formal economic institutions. And he is so much uncomfortable that certain groups have domination in local economic institutions.

It is important to note here that, because this example is out from the traditional industrial groups of the province, the solutions to problems generated in a different way. For example, the entrepreneur F states that, in crises periods, they passed to a vigilance state to slow down the production, and start a saving process. In the last crises period, they started a "voluntary proposal system", in which the administration demanded at least one proposal from each worker for increasing the productivity and saving. He stated that this system worked very good, and so many proposals and projects had been applied and this had contributed to decreasing of production costs. This inside firm strategy as a solution to decrease the effects of macroeconomic crises is different from the traditional industrial groups who develop strategies mostly on the base of solidarity among the members of the group.

Table 30. Industrialisation History of Some Leader Families

FAMILY A Denizli Copper Milling	FAMILY B Denizli Leather Manufacturing and Tanning		FAMILYC Denizli Yarn Trading	FAMILY D Babadağ Weaving	ENTREPRENEUR E Tavas Hand weaving
1930 copper mill	Ba (cousin) 1950 cotton gin factory	Bb(cousin)	1940-1967 yarn trading	1948 in Babadağ partnership with 48 firms	
	fibre factory	1965 feed factory		1960 come to Denizli and establish a family firm	1971 trading 1972 multi-partner textile firm with his 12 friends
Plastics factory (workers' enterprise)	1973 cardboard factory (workers' enterprise)	Production of agricultural materials animal husbandry	1972 textile printing and dyeing factory ⇒	*Mobilised the textile potential of the region*	
1980 cable factory 1985 cable factory	*cable factory*		1977 investment in Istanbul 1981 ready-made clothes, home textile production	1978 collaboration with 8 firms and 22 partners and establish a multi-partner firm ⇔	He is one of the initiators of multi-partner firm with family
⇔	marriage and partnership with the family A in the cable factory	*partnership among two groups(Ba and Bb) in yarn factory*		*firms began to seperate from this collaboration "son extraction"* →	1988 establish his own firm on embroidery
Enter to the textile sector	1991 yarn factory			three brothers (Da, Db, Dc) of family D also seperated and establish their own firms on textile	Take duty in regional economic institutions and member of so many regional and national associations and non-governmental organisations
	⇔	1991 yarn factory		Db and Dc continue their collaboration by having common units for production. They don't have any relation with Da	
				Da's third generation sons take responsibility in the firm, Daa in production and Dab in marketing	
THE POWERFUL GROUPS OF THE REGION BY PARTNERSHIP SOLIDARITY AND TRUST DEPENDING ON THE FAMILY RELATIONS			ACT AS A LEADER IN THE NEW INITIATIONS FOR THE REGION	PARTNERHIP AND SOLIDARITY DEFINED BY HEMŞERİ RELATIONS	ONE OF THE SOCIAL LEADERS OF THE REGION

VI.4 Proximity Dynamics: Spatial Agglomeration of Related Firms and Industries

Spatial agglomeration of related firms and industries in Denizli will be analysed in this part by examining the sectoral composition, firm structure, production organisation and knowledge and technology development by making use of statistical data mostly obtained from a central government's research[5] on Denizli in 1996, and from other resources and researches.

VI.4.1 Sectoral Composition

Regions tend to specialise in particular types of economic activity, and patterns of specialisation are once in place they are durable. This statement is related to the advantages of sharing the same production environment, the concentration of specialised activities and interactive relations among them as each segment of production benefited from the locally embedded interaction systems and inter-organisational learning process among actors that are spatially linked and they were able to overcome the difficulties related to competitiveness. In this section sectoral specialisation and evolution of this specialisation will be examined by statistical data.

Denizli is largely dominated by textile and wearing apparel sector with a share of 66% of total enterprises and 71% of total workers. The other sectors' share in total enterprises and total workers in the province are followed as; manufacture of metal products and machinery 9,6 % and 3,2 %, manufacture of food 6,7% and 8,6%, basic metal industries 5,8% and 0,9%, manufacture of non-metallic mineral products 5,0% and 2,2 %, manufacture of chemicals 3,8% and 11,0%, manufacture of paper and paper products 1,7% and 2,1%, and manufacture of wood and wood products 1,4 % and 1,1% (Table 31). The value added share of the sectors are 49,33 % textile and wearing apparel, 16,3% manufacture o metal products and machinery and 13,7% non-metallic mineral products (DPT 2000, p.216).

[5] This research on "New Industrial Growth Nodes: Denizli and Gaziantep", had been conducted by State Planning Organisation (DPT) and State Statistic Institution (DIE), by an interview given to all firms in these two provinces in 1996.

When the share of sectors according to the number of enterprises in 1979 observed it is seen that there was no enterprise in wood, paper and non-metallic mineral industries. While the textile industry increased its share nearly three times between 1979-1996, basic-metal industry's share decreased significantly in this period. Also the food, chemicals and metal products industry's shares decreased between 1979-1996 period.

Table 31.The Share of Sectors in Total Industry in 1979 and in 1996

Sectors	Share of enterprises in 1979* (%)	No. of enterprises 1996	%	No.of workers 1996	%
Total	100	416	100	27897	100
31 Manufacture of food	12,4	28	6,7	876	8,6
32 Textile and wearing apparel	22,7	274	65,9	21306	70,9
33 Manufacture of wood and wood products	-	6	1,4	140	1,1
34 Manufacture of paper and paper products	-	7	1,7	704	2,1
35 Manufacture of chemicals	11,3	16	3,8	504	11,0
36 Manufacture of non-metallic mineral products	-	21	5,0	1697	2,2
37 Basic Metal Industries	26,8	24	5,8	1017	0,9
38 Manufacture of metal products and machinery	13,4	40	9,6	1653	3,2

SIS 1996, *SIS 1979 in Yurt Ansiklopedisi

The establishment date of existing firms will give an idea about the evolution of industry and sectoral composition in the province. It can be followed from the Table 32 that the establishment date of existing firms going to before 1960s are very few, only 1% of the total firms. The firms established before 1960s are from food, textile and chemicals industries. Between 1960-1979, it is seen that there is a move in most of the sectors. 14% of the total firms had been established in this period. The share of firms established in this period according to sectors is like that; 18 % of firms in food sector, 6 % of firms in textile sector, 50% of firms in wood products sector, 14 % of firms in paper products sector, 25 % of firms in chemicals sector, 24 % of firms in non-metallic products sector, 33% of firms in basic metal industries sector, 35 % of firms in metal products sector. Between 1980-1989, the share of firms established in food, textile, paper products and basic metal industries are showing an increase. 29 % of the total firms had been established in this period. The share of firms established in this period for sectors is like that; 32% of firms in food sector, 28 % of firms in textile sector, 43% of firms in paper products sector, 13 % of

firms in chemicals sector, 24 % of firms in non-metallic products sector, 50% of firms in basic metal industries sector and 35 % of firms in metal products sector.

Most of the firms in Denizli are established between 1990-1996 period, the share of firms established in this period is 56 %. Especially the share of firms established in textile sector is very high (65 %). The share of firms established in this period for other sectors is like that; 43% of firms in food sector, 50% of firms in wood products sector, 43% of firms in paper products sector, 56 % of firms in chemicals sector, 52 % of firms in non-metallic products sector, 17% of firms in basic metal industries sector and 35 % of firms in metal products sector.

Table 32. Establishment date of existing firms (10+) according to sectors

	31	32	33	34	35	36	37	38	TOTAL
Before 1960	2 (7%)	2 (1%)	-	-	1 (6%)	-	-	-	**5 (1%)**
Between 1960-79	5 (18%)	16 (6%)	3 (50%)	1 (14%)	4 (25%)	5 (24%)	8 (33%)	14 (35%)	**56 (14%)**
Between 1980-89	9 (32%)	78 (28%)		3 (43%)	2 (13%)	5 (24%)	12 (50%)	12 (30%)	**121 (29%)**
Between 1990-96	12 (43%)	178 (65%)	3 (50%)	3 (43%)	9 56%)	11 (52%)	4 (17%)	14 (35%)	**234 (56%)**
No. of firms in 1996	**28**	**275**	**6**	**7**	**16**	**21**	**24**	**40**	**416**

DPT, 1996

Although Denizli had been a centre of artisanal hand weaving for centuries, textile production in the capitalist sense had began with the establishment of cotton gin and yarn factories in the province after the 1950s. With the development in technology first transformation had been lived by passing from black looms to electrical looms and then from home and workshop type of production to factory production. These developments had been the initiatives for establishment of the enterprises dealing with the intermediary processing such as printing, dyeing, sewing, starching, fitting embroidery etc. Also in the last decade ready-made cloth production gained importance with the incitements of government for this sector. Leather tannery, had been one of the traditional sectors in the

province which had quite a long history. However, although Denizli is supplying the 70 % stout leather demand of Turkey (DSO, 1997) the technological level of this sector have left in the 1950-60's level.

Basic metal industry had been a traditional sector in the province especially in the rolling sub-sector. However, the small rolling workshops had lost their importance after the establishment of integrated enterprises in Iskenderun and Aliağa (Mutluer 1995) and the number of these rolling workshops have been decreased significantly. The traditional artisanal occupations coppersmith and ironsmith in the province have been nearly ended. Still, Denizli is known as the centre of decorative iron-pherforge production with its quality in production. Other than these, an electro-copper factory established in 1985 is the largest enterprise of Denizli.

Manufacture of metal products and machinery is relatively a newly developing sector having a 20-30 years of past in the province. The first initiative of this sector had been by the establishment of a cable factory in 1968. Recently, his sector has a variety of sub-sectors such as, kitchen equipments, agricultural machinery, rim, engine casting parts, metal pipes, wire, knot etc.

Non-metallic mineral products is another relatively developed sector in Denizli with marble processing, tile and brick, glass processing and concrete pipe factories established after the 1960s and 1970s, making production mostly for the construction sector. Food industry was the sector that first factories in Denizli had been established. Especially the flour factories had initiated the food industry in the province and recently the products have been diversified such as milk products, beverages, spices, dried fruits and fodder. Manufacture of chemicals is a sector that shows development in recent years especially in plastic products. Wood and wood products and paper products industries in Denizli are not developed sectors. However, a cardboard factory takes place in the 500 biggest enterprises of Turkey.

VI.4.2 Analysis of Firm Structures

Evolution as part of a larger whole leads firms and other actors to adopt certain aspects of the larger entities, and to share common characteristics with other actors forming a part of

that entity. A degree of homogenisation emerges among the actors involved. In this section the firm structure in Denizli will be examined.

The industry in Denizli is based mostly on small and medium sized enterprises. In 1996, there are 5923 micro enterprises (employing less than 10 workers), 356 small and medium enterprises (employing 10-99 workers) and 61 large enterprises (employing more than 100 workers). When the evolution of the shares of size distribution of firms observed, it is seen that the share of micro enterprises of Denizli in Turkey's total micro enterprises had shown an increase from 2,56 % in 1980 to 3,10 % in 1996. The share of small and medium enterprises (10-99) in total enterprises (employing more than 10 workers), had decreased from 88.8% in 1980 to 70.3% in 1990 than increased again to 85.4% in 1996, while the share of large enterprises (100+) had increased its share from 11.2 % in 1980 to 29.8% in 1990. However, it is seen from the table that the share of large enterprises gradually decreased (to 14.6 % in 1996) within the total number of firms after 1990.

Table 33. The size distribution of firms according to years

Years	Number of firms				Share of firms (%)		
	10-24	25-99	100+	TOPLAM	10-24	25-99	100+
1980	66	37	13	116	56,9	31,9	11,2
1985	43	54	17	114	37,7	47,4	14,9
1990	29	37	28	94	30,9	39,4	29,8
1995	92	95	49	236	39,0	40,3	20,8
1996	204	152	61	417	48,9	36,5	14,6

Table 33 (cont.)

	Micro Enterprises (employing less than 10 workers)	No of enterprises	Share %	No of employment	Share %
1980	Denizli	4540	2,56	11266	2,48
	Türkiye	*177034*		*454931*	
1985	Denizli	4651	2,53	10983	2,33
	Türkiye	*183575*		*472061*	
1992	Denizli	4869	2,61	11572	2,12
	Türkiye	*186575*		*545809*	
1996	Denizli	5923	3,10	13868	2,62
	Türkiye	*190845*		*528310*	

The increase in the SMEs is related to the expectation of high international demand and high profits in the sector which is specialised in the production of particular standardised goods; i.e. bathrobes, towels and bedsheets. The SMEs in the 1980s were in a more advantageous position because the total production capacity of firms with export relations was not enough for high demand and the firms which started business as dependent subcontractor firms had future prospects for growth and the possibility of forming export relations independently. However, it is seen that in the 1990s, the situation is not the same when the large number of firms (either big or small) competing on similar products are considered.

96 per cent of micro enterprises (0-9) and 90 per cent of small enterprises (10-24) registered in the chamber of industry in 1997 were established after 1990. When large enterprises (100+) are considered, it is seen that 60 per cent of them were established between 1980-1989. The four of the biggest firms with more than 500 workers were established in the 1970-79 period, reflecting the leadership pattern and the "followers effect" in the textile sector in Denizli (Erendil 1998).

Table 34. Establishment date of firms (registered to Chamber of Industry) according to size distribution

	0-9	10-24	25-99	100+
Before 1960	0	0	1	2
Between 1960-79	1	3	9	9
Between 1980-89	2 (3%)	12 (8.3%)	33 (21%)	37 (60%)
Between 1990-97	65 (96%)	129 (90%)	115 (73%)	14 (23%)
Total	68	144	158	62

Compiled from the data obtained from Chambers Union 1993,1995,1997 In Erendil (1998)

During the export growth, the initiator firms in the local transformation process have shown remarkable progress and evolved into large leaders in the network. The growth of production and export quantity is mainly dependent on the performance and the market opportunities of these leading firms, which diffuse production by means of dependent subcontractors and specialised firms. When the share of exports of the large enterprises considered, the polarised structure of production can be seen. The first 10 enterprises with highest export values in textile sector, has a 84.18 per cent share in the textile export values of Denizli, and 70.44 per cent share in the total export values of Denizli (Erendil 1998).

Table 35. The share of exports according to size-group of firms

	Firm Size	No.of enterprises	Export share %
Total Industry		148	44,32
	10-24	203	13,43
	25-99	152	25,00
	100+	61	53,99
Textile		112	61,86
	10-24	127	17,60
	25-99	97	43,09
	100+	50	69,07

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In Denizli, 12 firms are included in the list of 500 biggest firms (which is declared every year by the Istanbul Chamber of Industry) in Turkey in 1999 (Table 36). These firms are generally from textile sector, also one from basic metal, two from non-metallic mineral products, and one from paper products. These are the firms, which are established in the period 1970-1985.

Table 36. Firms in Denizli which have been in the 500 biggest firms in Turkey

Name of the firm (sector)	Order in the 500 biggest firms				(Date of establishment) and no. of workers
	1993	1995	1997	1999	
ER-BAKIR (electrolit and copper)	237	154	133	127	376
MENDERES (textile)	-	326	154	165	(1984) 1758
DEBA (textile, printing, dyeing)	244	191	154	253	(1972) 836
TÜMTEKS (textile)	451	202	167		(1986) 706
KÜÇÜKER (textile)	421	287	167	275	(1977) 1022
ÖRSAN (textile)	434	389	-	-	(1984) 419
DENİZLİ ÇİMENTO (cement)	310	-	336	441	
ABALIOĞLU (textile, fodder)	288	349	353	241	(1974) 443
BOYASAN (textile)	-	431	-	-	(1985) 317
ABALIOĞLU (textile)	-	428	-	317	
GÖKHAN (textile)	-	-	403	378	(1984) 450
DENTAŞ (cardboard)	424	302	-	379	479
OZANTEKS (textile)	-	-	465	417	(1973) 830
DENİZLİ CAM (glass)				414	700

DTO 1999, ISO 1999

In textile sector there are various types of firm typology due to the complex production organisation of the sector. Erendil (1998), determines the firm typology in the region as big integrated firms, subcontracting firms and subcontractor firms. Big integrated firms are the ones which either internalise one more stage such as, dyeing, printing, fitting and embroidery, in addition to fabric production and/or sewing or which internalise almost all

specialised complementary stages of production. These firms are generally in exporting relations.

One type of subcontracting firms, include the stages of fabric production and sewing although either stage can be subcontracted when the capacity of the firm is not enough for demand. These firms could have different sizes but mostly engaged in export relations. The other type of subcontracting firms, produce fabric and subcontract all the other stages to other firms. These are mostly the small and medium sized firms in their initial years of establishment. Another subcontracting type of firms, which are specialised in some complementary tasks (embroidery, dyeing, printing), but also includes an additional fabric production or a sewing unit. And lastly as subcontractor firms, there are firms, which provide the cotton yarn or fabric and subcontract all the other stages of production. These are small marketing firms, either for national or international markets.

Subcontractor firms are in three different types: firms producing only fabric which are mostly small and medium sized firms;firms performing only the assembly stage, which are mostly the medium-sized firms and; firms performing tasks other than only assembly such as cutting, quality control, packaging which are mostly the medium-sized firms.

VI.4.3 Production Organisation

The production organisation in successful industrial district cases are characterised with flexible production systems. This type of organisation refer to forms of production characterized by a well developed ability both to shift promptly from one process or product configuration to another, and to adjust quantities of output rapidly up or down over the short run without any strongly deleterious effects on levels of efficiency. Both of these types of flexibilities are achieved through a variety of intersecting strategies. Within the firm, flexibility may be attained through the use of general purpose non-dedicated equipment and machinery and/or craft labour processes. In the domain of inter-firm relations, flexibility is achieved by extensions of the social division of labour facilitating rapid changing in combinations of vertical and horizontal linkage between producers, thus leading to intensification of external economies of scale in the production system as a whole. In addition, the labour markets associated with flexible production systems tend to

be typified by high rates of turnover, and by the proliferation of part-time and temporary work as well as homework.

Individual units of production in flexible production systems are usually less specialized and smaller in size than mass production units. They are technologically capable of achieving great flexibility of production within their own spheres of operation and at the same time this flexibility is multiplied by the system effects of the social division of labour, which permits the formation and re-formation of interdependent combinations of producers. Product differentiation increases as a result, and markets become increasingly competitive.

In Denizli, production organisation before 1980s was in the form of units acting as complementing parts of the same production organisation. After 1980s textile production organisation in the province lived a transformation process due to the capital accumulation possibilities, technological change, markets oriented and type of products. With the development of exports in the 1980s, the limited capacity of exporter firms faced with high demands of the export markets created extensive subcontracting relationships among the industry, within a completely different framework from those previous activities directed to the domestic market.

However, the increase in the number of SMEs is not related to disintegration of large enterprises with the aim of gaining flexibility as stated in the regulationist perspective or they do not appear in the form of technology and knowledge intensive specialised stage firms with dense inter-firm relations of a complementary nature as stated in productive specialisation debate. Firms with relatively smaller size and lower technology was engaged in standard low quality production for either domestic market or the east European countries. Small enterprise business systems faced certain difficulties in the late 1980s due to the quality of production stayed behind the international market requirements and the need for quality improvement.

Beginning from the second half of 1980s, especially textile and clothing firms that produce for the upper segments of the European market followed the integration strategy by establishing vertically integrated production organisation and specialised in relatively higher quality-high value added products. Inadequate quality of the services supplied by

the firms in the market and difficulty of obtaining them on time due to inadequate supply activated the tendency of big firms with high profits and capital assets to integrate all those complementary services in the firm. This tendency of vertical integration of big firms is also supported by state regulations of tax exemptions to firms that invest in capital assets.

Nevertheless, subcontracting in Denizli has an important role in production organisation. Table shows the percentage share of subcontracting production in firms according to their size distribution and sectors. It is observed that 52% of firms (employing more than 10 workers) in Denizli have subcontracting production, the per cent value of subcontracting production in total production is 28.39. In textile sector, 68.4% of firms have subcontracting production with a 40.46% of production value in total production value.

Table 37. The percentage share of subcontracting production value to total production value in firms according to size distribution and sectors in 1996

Sectors	Size distribution of firms	No. of firms	% of subcontracting production value in total production value
TOTAL		217	28,39
	10-24	110	56,43
	25-99	76	30,31
	100+	31	26,01
31		1	10
	10-24	1	10
32		188	40,46
	10-24	93	69,28
	25-99	67	34,46
	100+	28	39,74
33		1	10
	25-99	1	10
35		5	39,01
	10-24	5	39,01
36		3	15,89
	10-24	2	100
	25-99	1	5
37		11	9,35
	10-24	6	48,46
	25-99	4	21,80
	100+	1	5
38		8	3,84
	10-24	3	35,45
	25-99	3	8,64
	100+	2	3,08

There is a high level of specialisation on a certain type of product due to the high level of profits and continuous demand. The followers' effect is very important in the process of concentration on a standard type of product and the use of similar technology as well access to similar markets. The data of chamber of commerce (Table 38) reflect the high level of specialisation on a certain type of product. Towel and bathrobes constitute the 62.42 per cent share in total exports. Shirts, pants, jackets, kitchen equipment and copper rod are the exported products, which have significant share in total exports.

Table 38. The share of exports registered in the chamber of trade according to products

Name of the product	Share in total exports (%)		
	1993	1996	1999
Bathrobes	38.97	40.08	31.22
Towels	18.78	26.57	31.20
Shirts, pants, jackets	5.66	6.62	7.29
Kitchen equipment	9.58	4.58	4.85
Fabric	0.79	2.34	3.52
Bed sheets	2.25	3.42	3.38
Underwear, pyjamas	2.85	1.73	3.08
Copper rod	4.53	0.70	2.96
Cotton yarn	0.60	0.49	2.35
Iron			1.07
Other			9,08

DTO, 1999

IV.4.4 Knowledge and Technology Development

Agglomerations constitute industrial communities where endogenous dynamics of knowledge and technology development appeared. The increase in the core competencies in one firm will increase the learning capability of the other networked firms through their co-operative sharing of knowledge and capabilities. Therefore, inter-firm networks can be seen as the institutional arrangements that internalise the potential positive externality of information, knowledge, and complementary competencies to promote learning capability. As it is stated in the last section, flexible production systems are technologically capable of achieving great flexibility of production and product differentiation

In Denizli, after 1980s, the export relations have led to a better access to information and know-how about modern technologies in all stages of production. Due to the relations with international companies, firms are forced to adapt to international standards with the

use of technology in production and communication. In the early 1980s, large enterprises renew their technology with 2-3 years old second-hand machinery imported from some European countries such as Italy. The SMEs had bought the old machinery of the large enterprises at low prices, which led the entry of new firms to the sector (Eraydın 1994). With the experience gained from exporting, investments in new technology had been increased for entering into European market. Also after 1985 the export incentives forced producers to increase productivity and quality by investing in new technology.

It is seen from the table that 65.60% of total firms (10+) in all sectors use imported machine in 1996. In textile sector this share increases to 79.60%. It can be observed from the table that, the source of technology in the province is mainly the imported machines. Competition on similar products in the same market forces the producers to update their technology continuously. On the other hand, it is seen that imitation of technology and products of leader firms do not lead to innovations in the use of technology and differentiation in product types. Share of firms using technology sources such as licence, know-how, royalty and technical assistance agreements seems to be very low.

Table 41 indicates the technology development activities between 1990-1996. It is seen that technology development activities mostly take part in developing the existing product. It can be said that growth trend is not dependent on the nature of the product, i.e. its uniqueness or the difficulty of duplication in other places. On the other hand, it is observed from the table that firms adapting of product and production technology have higher shares which indicate that the growth trend is the result of the learning and adaptation potential and making use of available resources within changing conditions.

However, it is told that especially the first generation entrepreneurs don't do feasibility while making investment, they give decision according to the behaviours of the other entrepreneurs they know; they don't consider the researches but believe what they see. It can be observed from the Table 39 that, only the 34.10% of total firms do feasibility research. Also share of firms doing projection and modelling is few. Quality control is relatively a more developed research activity in firms.

Table 39. Research activities of enterprises

	No of enterprises	Feasibility	Quality control	Projection, modelling	Other	None
Total	416	34,10	79,80	30,80	0,70	18,00
31	28	35,70	78,60	10,70	-	17,90
32	274	32,50	80,70	31,80	1,10	16,80
33	6	33,30	83,30	33,30	-	16,70
34	7	28,60	85,70	42,90	-	14,30
35	16	50,00	68,80	37,50	-	25,00
36	21	47,60	85,70	28,60	-	14,30
37	24	20,80	62,50	16,70	-	37,50
38	40	40,00	85,00	42,50	-	17,90

DPT,DİE 1996

Technology and standards used in the firms are rather low. However, in the field research it is observed that the firms are in an effort to develop their standards. From the Table 44 it can be seen that the share of firms having computer aided design and production is 33.9%. Production with standards is 23.60% for TSE, and 7.90% for ISO9000. Internet usage for marketing is a newly developing process in the region, only the 9.90% of firms benefit from internet facilities. Modern management techniques, such as TQM, is seen in the large firms which have production for international markets. 20.7% of firms apply TQM.

Firms applying TQM, emphasise the inside-democracy as their management principle. They state that the employers are free to offer new developments either in the management of the firm or in the production processes. There is no hierarchy but the understanding of group in the management. They put their firm understanding as professional management, export and quality.

Technology is followed mostly through national and international fairs, publications and catalogues and from the experiences of other enterprises in the region (Table 43). The contact with foreign firms is established either by correspondences or by face-to face meetings. Cooperation with central and local institutions is rather low. This however is not the process of dispersing the relevant knowledge and experience equally in the local economy by an institution such as the chamber, but an informal process from which relatives or close friends or exporter firms could mainly benefit.

Collaboration with universities has always been rather weak. Only if firms were not able to solve some of their problems within the factory, they tried to have contacts with universities or public research institutions.

When R%D activities of the firms observed it is seen that the share of firms having regular R&D is only 12.2% (Table 44). Since most of the enterprises are small and medium size, usually innovative works were not a separate departmental activity, share of firms having separate R&D units is 11.8%. Provision of R&D services from public institutions are not developed while the share of firms benefiting the private institutions for R&D services are higher.

The experience on technological improvement and innovation showed that the innovation capacity does not rest only in formal Rand D activities, but also on the local accumulation of knowledge. Locally embedded relations had important contribution to the innovation-exploring attitude. Engineers and skilled labour and especially entrepreneurs have been well integrated to production activities and felt themselves responsible for improving production processes and products (Eraydın 1999).

It can be concluded that technological development in Denizli is not at a promising level for future development. There are two main reasons for this situation. One is the attitude of entrepreneurs, which depend on the learning-by-doing process, which they see as the guarantee of imitating the path of leaders in terms of product and process technologies. The desire to gain wealth in a short period of time is a hindrance to develop long-term strategies and risk-taking. The other basic reason is related to macro-environment such as the insufficient development of support institutions and distrust to national and local conditions.

Table 40.The sources of technology used in the main production units

	No of enterprises	Machine provided from Turkey		Imported Machine	Self accumulation of knowledge	Product imitation	Licence, know-how, royalty agreements	Technical assistance agreements	Other
		Foreign Technology	Domestic technology						
Total	416	15,90	35,60	65,60	6,00	1,00	0,50	3,10	1,90
31	28	32,10	71,40	25,00	21,40	-	3,60	10,70	-
32	274	13,50	19,00	79,60	1,80	-	0,40	3,30	2,60
33	6	16,70	50,00	50,00	-	-	-	-	-
34	7	14,30	42,90	57,10	-	-	-	-	14,30
35	16	18,80	75,00	37,50	6,30	6,30	-	6,30	-
36	21	19,00	76,20	57,10	4,80	-	-	-	-
37	24	16,70	75,00	12,50	20,80	-	-	-	-
38	40	17,50	60,00	50,00	17,50	7,50	-	-	-

DPT,DİE 1996

Table 41. Technology development activities between 1990- 1996 %

	No of enterprises	No technology development activity	Development of existing products and quality	Product diversifi cation	Product imitation	Adaptation of product	Design of new products	Adaptation of product. technology	Development of new prodn. process
Total	416	17,60	67,60	48,40	5,10	10,10	26,60	26,10	11,70
31	28	12,00	72,00	48,00	-	-	24,00	20,00	12,00
32	274	20,90	63,10	44,20	4,80	11,60	25,70	28,50	10,40
33	6	-	50,00	50,00	16,70	-	33,30	16,70	16,70
34	7	-	85,70	14,30	-	-	28,60	42,90	14,30
35	16	14,30	71,40	64,30	-	7,10	21,40	14,30	14,30
36	21	5,90	88,20	64,70	11,80	11,80	23,50	29,40	11,80
37	24	20,00	60,00	50,00	-	5,00	20,00	15,00	5,00
38	40	10,50	86,80	68,40	10,50	13,20	39,50	21,10	21,10

DPT, DİE 1996

Table 42.Technology and standards used in the enterprises

	No of enterprises	Computer aided design and production (CAD, CAM)	Total Quality Management (TQM)	Production with TSE standard	İSO 9000	Internet usage
Toplam	416	33,90	20,70	23,60	7,90	9,90
31	28	25,00	28,60	21,40	3,60	7,10
32	274	35,40	19,70	15,00	5,50	10,60
33	6	33,30	-	16,70	-	16,70
34	7	85,70	-	14,30	-	14,30
35	16	25,00	18,80	50,00	6,30	6,30
36	21	38,10	23,80	42,90	4,80	4,80
37	24	8,30	12,50	29,20	12,50	8,30
38	40	37,50	32,50	62,50	30,00	10,00

DPT, DİE 1996

Table 43.How technology is followed

	No of enterprises	Fairs		Following publications and catalogues	Cooperation with institutions, TUBİTAK, KOSGEB, MPM, TSE	Make use of the experiences of other enterprises in the sector	Other
		National	International				
Total	416	67,00	46,50	72,90	19,10	62,00	1,30
31	28	64,00	28,00	64,00	12,00	72,00	-
32	274	67,90	51,40	73,10	14,10	60,20	1,60
33	6	100,00	33,30	100,00	-	33,30	-
34	7	57,10	14,30	57,10	-	85,70	14,30
35	16	35,70	42,90	71,40	42,90	64,30	-
36	21	88,20	64,70	88,20	29,40	52,90	-
37	24	30,00	10,00	55,00	30,00	75,00	-
38	40	81,60	47,40	78,90	44,70	63,20	-

DPT, DİE 1996

Table 44. Firms having R&D activities

	No of enterprises	Enterprises having regular R&D activities %	Type of R&D activity			
			Basic research	Applied research	Experimental development	None
Toplam	416	12,2	5,00	7,00	6,70	86,50
31	28	30	3,60	3,60	3,60	89,30
32	274	8,3	2,20	4,00	3,30	92,00
33	6	-	-	-	16,70	83,30
34	7	-	-	-	-	100,00
35	16	21,4	12,50	18,80	25,00	62,50
36	21	-	14,30	19,00	14,30	81,00
37	24	-	12,50	4,20	8,30	83,30
38	40	10,7	15,00	22,50	20,00	60,00

DPT, DİE 1996

Table 45. Provision of R&D services

	No of enterprises having R&D	From the R&D unit in the enterprise	University	KOSGEB	Other public institutions	Chambers	Private institutions	Other
Total	49	28,60	12,20	18,40	8,20	12,20	38,80	10,20
31	3	33,30	-	-	33,30	-	-	-
32	17	29,40	11,80	11,80	5,90	5,90	52,90	17,60
33	1	100,00	-	-	-	-	-	-
35	6	-	-	16,70	-	16,70	33,30	16,70
36	4	25,00	-	-	-	-	25,00	25,00
37	3	-	-	100,00	33,30	66,70	33,30	-
38	15	40,00	26,70	20,00	6,70	13,30	40,00	-

DPT, DİE 1996

VI.5 Institutional Environment

The aim of this thesis is to emphasise the increasingly turning attention from 'economic' reasons for the growth of new industrial agglomerations, such as product specialisation, and vertical disintegration of the division of labour, to 'social' and 'cultural' reasons such as intense levels of inter-firm collaboration (Amin and Thrift 1994). That is to put successful reproduction of capitalist economic systems can not proceed in the absence of institutionalised agencies and collective action holds not only at the level of national economy but also at the level of regional economy, where because the specialization, agglomeration, and place specific character of production, peculiar forms of institutional order often present themselves (Storper and Scott, 1992).

Within this framework, this part attempts to explain the relationships between localised institutional structures and localised economic and social change which are stated to be both reciprocal and vary due to different phases of development. Also, the different institutional spheres which are interconnected and have a cumulative interactive effect in shaping economic structures will be examined.

VI.5.1 Institutional Change: "Institutional Thickness" A Crucial Aspect of Development or a Barrier to Adapting Changing Conditions?

The industrialisation and institutionalisation process of local economy in Denizli is examined by four phases (initial, growth, maturation, crises) which is designed according to the industrialisation and institutionalisation history of the region by emphasising some conditions (collaboration, merging and splitting) which are suggested to be more dominant during each phase.

VI.5.1.1 Initial Phase

The people of Denizli and its districts such as, Buldan, Babadağ, Kızılcabölük had been earning their lives from hand weaving and artisanal weaving for centuries. This had prepared a production culture and a base for the development of textile sector in the region.

Before 1950s, the main places for textile production were the district centre of Buldan and subdistricts of Babadağ and Kızılcabölük. In these places almost all households were artisanal textile producers as there was not enough agriculture potential due to the topographic characteristics of these places. Piecework and family labour in house-looms establish and express membership in social groups, particularly the family and neighbourhood. The producers with the high level of kinship ties among themselves, established some kind of local identity. The open-ended, elastic but durable nature of reciprocal relations launched the long-term reliability and flexibility of the production organisation. Also the organisation of relations with other provinces of the country had been undertaken by these places, such as by weekly open markets of textiles where merchants from other provinces traded and gave subcontracting orders.There are some legendary historical evidences about the production culture which is told for years with a feeling of proud of local people (Figures 7, 8 and 9).

Figure 7. "Babadağ Senedi"

"Babadağ Senedi" was a kind of informal paper note used among the artisans and merchants for creditor-debtor contracts in Babadağ. On these paper notes, it had been written the quantity of the loan given, the due date, for what it is given and the names of the creditor and debtor. This had been known as more valuable and trustable contract among the people in business relation, than a formal cheque or a promissory note. This tradition has its reflections also today among the Babadağ businessmen in the form of mutual trust, having business relations without contract, such as while giving loan money, subcontracting etc.

Figure 8. Strike in Babadağ

Another story told by the local people is about going on a strike in Babadağ district in the 1930s. When prices had fallen and the cost of raw materials had increased due to macroeconomic conditions, Babadağ Chamber of Trade and the Municipality had taken the decision to go on a strike. It was informed that whoever would break the strike and shuttle a unit would be excluded from the society. For ten days all the producers in the district had obeyed this decision and they had achieved to sell their products with a price 20 % more.

Figure 9. Quality standard application in Babadağ

The local people also proud of their being first in Turkey in applying quality standard by the initiation of Babadağ Chamber of Trade. The Chamber of Babadağ had been one of the first chambers in the country which was established in 1925. The products produced by the weavers in Babadağ had been controlled by the Chamber before they were marketed. The products which were appropriate for the standards determined by the chamber had been branded as "reliable" (*sağlam*) and if they were out of standards they were branded as "cancelled" (*battal*). Each weaver had been marketing their products by writing their names on their products, and this could be accepted as the first trade-mark application in the district. These standard and trade-mark applications in 1930s had been abrogated in the 1955 as the producers from Babadağ began to settle in the province centre.

With the second world war, there was a sudden fall in cotton yarn imports which had been essential for cotton fabric production. During 1935-1946 many small producers had successfully organised themselves to set up yarn co-operatives in the centre and in districts, first against black marketers, then against merchants. However, the lack of raw material affected the textile producers negatively especially those of Buldan and Babadağ. Buldan producers were largely worked for Istanbul and had a close relationship with the merchants there and they started to migrate to Istanbul. However, Babadağ producers were basically working for Anatolian merchants so some of them preferred to migrate to Denizli and others stayed in Babadağ with a production at a subsistent level (Pınarcıoğlu, 2000).

Besides setting up yarn cooperatives, the first initiations to collaborate for production appeared in the region especially among the producers of the Babadağ district. In 1948, nearly 50 producers come together for production. This nucleus group would then settle to the centre of the province and develop their partnerships either by cooperating or by diverging during the different phases of industrialisation in the region and will become leader actors in the economic development of Denizli (Table 30). Evolution as part of a larger whole leads firms and other actors to adopt certain aspects of the larger entities, and to share common characteristics with other actors forming a part of that entity, which is the case in Denizli. This causes a degree of homogenisation among the actors involved and the acquired characteristics which in turn affected their transformation, perception, use and access to resources.

After the second world war, the decision of government to establish a cotton yarn factory in Denizli in 1953 had helped the small producers of the region which had had difficulty in finding yarn and had been a main set off for Denizli to become the primary place of textile production compared to other districts. Also the electrification of the centre of Denizli gave chance to use electrical looms. Starting from the 1950s Denizli faced migration from many districts, sub-districts and villages.

The possibility of increasing production due to widespread use of electricity led producers from the same district, especially Babadağ, and the various large family groups of Denizli, to form factory type of production which will help the accumulation of capital. Also being a merchant was gaining attraction and Denizli people and migrants from Babadağ began

to engage in giving subcontracting orders to small producers in the province. Other than making production themselves these groups could extend their loom capacity through dependent subcontractors. Meanwhile, the state cotton yarn factory's production was extended to weaving in 1964. However, because of its isolated production from the region and operation as a main supplier of another state factory in Izmir, the existence of this factory in Denizli did not contribute to the development of small producers in the region.

In the 1970s, two related factors had been important for the first substantial efforts of development of private sector and the growing up of industrialisation in the capitalist sense in the region. In 1973, Denizli had been included in the priority regions (which will be in effect until 1981) by the State Planning Organisation, which was the scheme of government to support industrial development in the backward regions. Public investments, particularly in manufacturing industry were increased. The second factor had been the emergence of multi-partner worker enterprises. This was again a government policy taken for decreasing the negative effects of world economic crises lived in the 1970s. From Denizli, more than 35.000 workers had gone to West Europe, mainly to Germany in the 1960s. These workers broadened their view abroad and they had returned with the desire to apply the things they experienced abroad. Besides government's initiation, workers enterprises had an emotional side for corporation. When they were working abroad they thought "why the things that I see here wouldn't be in my country" and this established solidarity among people and experience in making coalitions.

Worker enterprises have an important role in the development of Denizli. The capital for the development of industry had been accumulated with the workers' accumulation in that period. There was investment in many sectors such as food, glass, electronics, chemical industries. However, these firms had not been successful. There were mostly problems in management. For example, although the partners had a very little share in the enterprises, they were waiting so much, such as, they wanted to employ all the members of their family in the firm, they wanted high salaries, etc. The partners had negatively effected the development of the firms. However, although these multi-partnered firms had been unsuccessful, they acted as a school, encouraged local entrepreneurship, and developed experience from the mistakes. These efforts had also consolidated mutual trust among producers in Denizli.

During the 1970s, development happened in sectors other than textiles with the help of workers enterprises and also with the accumulation of local people. Basic metal and fabricated metal industries became important based on the artisanal culture in Denizli centre. In addition to this, private textile industry gained strength in this period. In 1974, a leader family established a large dyeing and printing factory with more than 100 partners, encouraged the textile production in the region, brought a standard and quality to the production which will in turn will support the export oriented production later.

VI.5.1.2 Growth Phase: Collaboration (Between 1980-1990)

The take-off in Denizli can be explained by the successful interplay of liberal macro economic policies initiated after 1980s, also the policies that motivated local dynamics and the locally accumulated production culture and capacity (Eraydın 1999).

Although it is generally claimed by the local people that, the success experienced in Denizli do not depend on the support of the state, it is obvious that state incentives[6] were the major factors which prompted the potential existing in Denizli. After 1980s the generous incentives for export activities have activated the potential embedded in economic, social and cultural structures which have evolved in different conditions in the past (Erendil 1998).

[6] There have been two kinds of incentives in Turkey: export and investment incentives. Investment incentives have included several tax exemptions or reductions, incentive credits and value added tax refunds on machinery investment. Investments qualified for an investment incentive certificate (IIC) issued by Turkish State Planning Organisation in the 1980s, then by Undersecretariat of Treasury and Foreign Trade (UTFD) has to fulfil the eligibility criteria which is related to the size of the investments. This criteria varied according to regions favouring provinces having priority for development.
State incentives for export have included, tax rebates, export credits and foreign exchange allocations. The principal and most attractive incentive for exporters were tax rebates which aimed at reimbursing exporters for indirect taxes paid in different stages of fabrication. Starting from 1984 however, with the adoption of specific policies that aimed to create stability in export markets, tax rebates were constantly curtailed, and eventually came to an end in early 1989, due to the 'Subsidy Code' agreed between GATT and Turkey. This required the revision of the incentives and the Turkish government enacted another incentive, direct corporate tax exemption, by which a certain amount of export earnings could be declared non-taxable (Pınarcıoğlu, 2000). According to the export regime enacted in 1995, the state incentives directed to exports include the support of research and development, education facilities, environmental problems, participation in national and international fairs, market research for SMEs etc.

In the initial stages of export led growth, firms had less experience in export activities. The entrepreneurs were following the factories that were closed in Europe, they were taking information from the representatives, and they were going abroad to buy looms and to make research on market. They made the first connections with world markets for export, by their own efforts, mostly going abroad by themselves, taking their sample products to introduce them in the market. They had no adequate information on legal and technical aspects of exporting and experience at foreign markets. They were getting some addresses and legal and technical advice through their personal relations with traders working for the export market in Istanbul. They developed their knowledge about the market by commission agents (from Denizli and İstanbul), mediators, representatives (foreign firms' Turkey representatives) and their clients. During export-oriented production of small and medium firms, local mediators played an important role. They coordinated production among small firms and supplied raw materials.

After a trial and error process, the producers achieved to get a market niche in towel and bathrobe production. Due to the high level of profits and continuous demand in this product group, many small and medium-sized firms in the textile sector started to invest in this area and get a share of this export opportunity. Additionally, facing the increasing exports demand for towel and bathrobe products for exports, small producers of other products were shifting to this production as subcontractors in the second half of the 1980s. The easy entrance to the production have also attracted people who could afford to buy machinery from other occupations to take advantage of textile exports, which most of them never had any experience in textiles.

The export promotion policy of 1980 gave rise to the establishment of Foreign Trade Companies (FTC) in Turkey. Several institutions specialised in export activities have developed just after 1980, such as foreign trade companies (FTCs), the associations of small exporters, sectoral associations and semi-public exporter associations. The new institutions and financial incentives in the 1980s attracted many firms to export activities.

The abolition of tax rebate system mainly due to GATT requirements gave a new boost for small and medium-sized exporters particularly in textile and clothing industry which had carried out their exports through the holding based trade firms. In Denizli FTCs were important in initiating the exports in the 1980s by assisting the firms in export procedures.

The first one of these was İzdaş, which was closed in 1987, in the following year the branch unit of the trading company established by Yaşar Holding had been opened. Until the establishment of EGS in 1994, Yaşar Holding was the major trading company (Erendil,1998).

During these developments in exports and increase in production, the producers in the region initiated to establish an organised industrial zone with the leadership of chamber of industry. In Denizli, the first organised industrial zone[7] was included in the plan in 1975. However due to financial problems, it started to be built in 1985 with the credit provided by the state. There are 139 parcels of different size in the zone and due to the high demand for locating in the zone, a second industrial zone with 100 parcels started to be built in Çardak (a district of Denizli) and finished in 1997.

VI.5.1.3 Maturation Phase: Merging? (Between 1990-1998)

Denizli has seemed to benefit largely from state incentives[8]. Denizli became the third privileged province in terms of real value of the investment incentive certificates (IIC)s on textiles and clothing (Pınarcıoğlu 2000). The decrease in the minimum size to be eligible for encouragement incentives in the 1990s made possible many small firms to import machinery without paying any custom duties and enlarged their production capacities.

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[7] Organised Industrial Zones (OIZ) were planned with the aim of promoting industrial development especially in underdeveloped regions as well as preventing the negative effects of industrialisation on urban development. The firms located in these zones utilise various incentives granted by the state together with the infrastructural services provided in these zones.
In 1994, the concept of industrial zone was put forward to direct resources to areas which possess a development potential especially in normal and less developed regions. The organised industrial zones in developed regions were also accepted as normal regions in 1995 and they continue to take advantage of the incentives provided by the state. These incentives can be summarised as:Investment allowance (70 per cent), Customs duty exemption, Exemption of 5 per cent fund, Value-added tax (VAT) support for domestic investment goods and credits in various selected groups of investments, Postponing VAT payment for imports, Support for land provision, exemption from taxes, Discount on electricity consumption
Organised Industrial zones have served as a means of state subsidy in granting various incentives to the firms.

[8] The 1995 data of Undersecretariat of Treasury shows that Denizli textile and clothing producers are holding 64 investment incentives out of 339 in the country or new investments or modernisation of their establishments. This is the second highest figure after Istanbul where 83 producers were being supported by the state. In a similar vein, there were over 70 direct textile and clothing exporters in Denizli with exporter certificates which allowed then to benefit from export incentives in 1995.

After 1989, due to changes in the incentive scheme, foreign trade companies lost their previous profitability; after that year, incentives started to be given to producers with export activities (Eraydın, 1993). This development brought a new kind of multi-partnered foreign trade firms mainly for textile and clothing exports into existence.

Denizli, which had been a place of cooperation in its industrialisation history in previous phases seized the advantage of a new co-operation possibility, by gathering group of firms, this time in a capitalist form for exports. The objective is to gather small and medium-sized enterprises under an organisation in the export sector and through specialisation, to widen their scope in the export markets. Mostly small and medium enterprises with competitive power and export potential formed a model institution on cooperative basis, a sectoral foreign trade firm, EGS "The Agean Clothing Industry and Foreign Trade Inc" in 1993. This co-operation has not been limited to Denizli: at the beginning it has been a joint venture of 90 textile and clothing producer exporters mainly from Denizli and İzmir. In 1995, the number of its members increased to 196, again mainly from the Agean region as well as a small number of firms from İstanbul (30) and Bursa (11).

Although the aim of this company was to bring together small and medium sized firms, it is observed that majority of the firms are either medium-sized or big firms, which reflects the timidity of small firms and their less favourable position in exports. In 1994, because of the rapidly increasing business related to increasing number of partners, the number of companies increased to four to offer services, such as transportation, insurance, supply of raw materials and intermediary goods in a more specialised way. After 1995, EGS Bank was also established to solve the financial problems. According to the Law of Banks it is determined how much and to which sectors banks can give credits. And what EGS doing different than the other banks was, it was giving credits to its partner group at the maximum limit which is determined for textile sector.

The services provided by the firms in the EGS group had been very influential in promoting their export capacities in 1996 and 1997. EGS Foreign Trade company became the leading export firm in Turkey. EGS Group open retail stores abroad in order to sell the products of their members under an original brand name.

The technical efficiency of a territorial system depends on the strategic coordination between firms' behaviours and strategic territorial features. EGS had been a strategic cooperation between the firms of Denizli linked to a common expectation about mutual behaviour for the benefit of all the partners in the system. The sector and function specific institutionalisation made small producers to use services effectively and they were able to get the merits of collaboration. EGS as a region-based organisation that represented "the common interests of similar firms" was more successful than many organisations organised for exports, namely foreign trade companies (FTCs), the association of small exporters, sectoral semi-public exporter associations, in generating the impetus of export growth (Eraydın, 1999).

Most of the local economic institutions had been established in the maturation phase of development. The local departments of central government such as KOSGEB (Denizli Branch of Institution for Supporting and Developing Small and Medium-sized Firms), DETKİB (Denizli Textile and Wearing Apparel Exporters' Union) had been established in 1992 and 1993 respectively.

Following the example of TUSIAD, entrepreneurs organised under the local Associations of Industrial Entrepreneurs (SIADs) had been the trend in the 1990s in most of the new growth nodes. Denizli experienced plenty of these associations due to its collaborative character. Besides these organisational attempts, firms, especially the larger and leader firms started to institutionalise. They employed professionals in the management, they invited firm advisors from Istanbul and some of them began to apply TQM systems in their firms.

Also some region-specific intermediate mechanisms started to be institutionalised in this phase (Figure 10).

External economies of the district can be evaluated as positive and negative in this phase. Free circulation of information allow firms to grow, particularly relevant for small firms, contributes to the birth and survival of small firms; however at the same time it also permits the survival of some inefficient firms, such as followers, or even free-riders of , these kind of firms usually tend to exploit resources created by other more innovative firms, for instance they imitate successful products at lower costs and lower quality. Due

to the free availability of information on the other hand, firms have been able to find a market for their products easily during the period of excess demand. But when facing increasing competition they are usually the first to suffer, become subcontractors of other firms or even close down.

Figure 10. "Professional Local Mediator"

A firm, which can be called "*professional local mediator*" had been established by a couple, who are professionals in international relations They came to Denizli from Ankara to establish their firm in 1994. This firm buy products (towel and bathrobe) from the local firms and export these products. Aim is to export the domestic market product abolishing the commission during the export process. They work for 8-10 firms in Denizli, and these firms sell their products as if they are selling to domestic market and this firm deal with the all export procedures and they sell these products to international market by their own brand name. They told that they choose to establish their firm in Denizli after a research. They told that the main reason for choosing Denizli is the reputation of the Denizli's entrepreneurs in their being trustworthy. They told that they don't live any problem with the firms they are in business relation. They also have their own factory established 2 years ago as they state that their foreign clients want to see the production unit. Also the aim for establishing a production unit is to ensure the flexibility to the demands, as an insurance mechanism, when there is lack of demand or excessive demand. If they have second quality or excessive product they send them to Istanbul market.

Another external economies, the effect of collective reputation, facilitate the access to distant markets by the attraction of customers achieved by a large concentration of specialised producers. On the other side, a negative impact have been on firms trying to differentiate their production towards different segments of market

VI.5.1.4 Crises Phase: Spliting? (After 1998)

In the mid 1990s, it became obvious that existing local networks were not enough to update the technological competence of firms and revive their competitive power, although the statistical data indicates increasing number of firms and employees. The intensive local interaction brought inbreeding and led growth without bringing radical changes in existing products and production practices, which depreciated the former position in national and international markets.

Especially many new firms established by people from different occupations (Pınarcıoğlu 1998, Erendil 1998) were more fragile than others during this period of changing market conditions (Özcan 1995), since they lacked the experience to deal with the crisis.

According to the estimations of local authority at least half of the small and medium sized firms affected negatively and even stopped their production.

As defined in the literature, crisis conditions helped to unlearn successful habits in the past that may hinder future success (Maskel and Malmberg 1999a) and made entrepreneurs to rethink their attitudes and strengthened ties between different groups etc. In fact, some producers especially the entrepreneurs of the leader firms claimed that crisis period was "best training program".

However, the economic downturn strengthened the fragmentation of groups, and also deteriorated co-operative action based on trust and reciprocity. The evidence shows that the transformation from contingent development, to the phase of protecting the status quo or generating further growth in the new competitive environment enforces different conditions. In the field survey it is observed that there are many strategies that firms built in the existing conditions due to their past experiences, capabilities and accumulated know-how. In Table 46 the different firm strategies observed in the field is summarised.

Firms are not all equal in relation to collective efficiency. Schmitz said: 'Even where a collective capacity to compete, adapt and innovate has emerge, it is important not to expect an island of unity and solidarity. Collective efficiency is the outcome of an internal process in which some enterprises grow and others decline'.

Table 46. Different Firm Strategies

	Vision
Small Firms	Striving for survival
Traditional Medium Firms	"We contend with our production"
Progressive Traditional Medium and Large Firms	Try to progress within existing production organisation
Modern Firms	Product diversification, firm institutionalisation, new technology, international collaboration
Incongruous Firms	Investment in different sectors

The different attitude with regard to collective effects can be explained by referring to the evolutionary approach (Nelson and Winter 1982, Dosi et al., 1988). The firms' capability

to exploit the collective effects and to invest in inter-firm relationships differs according to their past history and to their previously accumulated know-how.

Existence of heterogeneity within clusters, in a dynamic perspective implies that we can expect economic actors to have different reactions to change. The reaction to increased competition on the market of the more dynamic firms consists of developing active market strategies, inducing some important changes in the structure of the district. One of these leading firms has acquired some well-known brand names to enter new market segments to diversify its product mix.

Figure 11. An Example to Modern Firms

The firm established in 1990. The entrepreneur is borned in 1954, in Babadağ. They had looms in their house like every Babadağ people did. Began trading in his father's grocery, continue trading by selling chemicals and electrical kitchen goods, learned the rules and ethic of trading from his father. Came to Denizli and began textile trading. Pass to production in 1987 by a small production unit which was aiming to produce towel and bathrobe. 1995 yarn factory, 1998 dyeing and breeding factory, integrated production (have increased their competition power and quality). Today yarn, dyeing and breeding, fabric and ready-made clothing an integrated firm. Have 16 million dollar export nearly1000 workers and among the biggest 500 firms in Turkey. Without any exceptions everybody puts him in the leader position in Denizli. He has a reputation on his honesty, hard working and ready to help to anybody who need his consultation.
No investment without existing orders or guarantee the market. They target the domestic market in Turkey. They have a trade mark.
They didn't live any crises during the 15 years, production value and quantity increased two times during the last five years.
They have their own marketing department. Fairs are important to make business agreements.
The labour rights are so high that workers hardly leave the firm.
There is partnership with university for R&D studies.
The owner of the firm frequently give advises and act as a consultant for the firms who want to make new investments.
He frequently come together with the local producers (mostly the ones from Babadağ) to determine strategies.

Besides modern dynamic firms there are progressive traditional firms which constitutes the higher share of firms in Denizli. These type of firms are aware of the international and national economic conditions and try to develop active market strategies within the existing production organisation. This means that they are not proactive in inducing changes in either production, technology or organisation of production and business relations. They mostly try to imitate the modern firms in Denizli. Because they are in effect of traditional relationships (such as family, kinship, hemşeri, religious etc.) it is

hard for them to act in a different way from the industrial environment in Denizli. Figure 12 gives an example from these type of firms.

Figure 12. An example for Progressive Traditional Firms

The entrepreneur borned in Babadağ. The firm established in 1989, partner with his two sons, towel and ready-made clothing. In Babadağ, his grandfather and father were weaving and sewing their own clothes even their hats. He had been in textile trade business up to 1989. Then he began production in 1989 as a subcontractor then he began to give subcontracting and after 1991 he began exporting. They are not affected from the economic crises as they are exporting Quantity of production increased 2,5 times Selling value increased 1,5 times Number of workers increased 1,5 times A firm has been established for retailing, domestic total sales have been realised by this firm. They don't want to loose their subcontracting firms because of the crises conditions. They make production even there is no demand by using the stocked raw material to make their subcontractors continue working. There is a kind of solidarity. When they buy new machines they sell the old ones to their subcontractors.

Facing these progressive firms there are some conservative enterprises, united by a common interest to resist change. According to Bianchi (1989), the resistance to change in industrial districts may be particularly high because there are very strong barriers to exist from the system. The same elements, creating what has been defined in the literature as 'industrial atmosphere', could become barriers to exit, locking the local system in a trajectory of conservatism and atrophy. In an area completely specialised in one sector it is difficult to find alternative ways to utilise the human and capital resources left free by the closing of firms in the main sector of specialisation and therefore the resistance to be pushed out of the production system could be strong. There are so many examples of this kind in Denizli which it is termed "traditional medium firms" in the Table 46. However the last crises phase made many of these firms to be left out of the system. May be the ongoing crises will help the elimination of these kind of firms.

Also the small firms which function as dependent subcontractors of firms with export relations seem to be vulnerable to economic changes and crisis, related to their inefficiencies in many respects such as inadequate access to financial resources, lack of adequate skills in production and marketing, lack of supporting institutions and lack of central and local government support and, in turn, disability in perceiving the future and timidity in taking risks.

Figure 13. An example for Small Firms

The entrepreneur from the a district of Denizli but settled in the center for long years, worked for a big firm as a subcontractor for 10 years then established his own firm. He is now producing towel with 9 second hand machines and 9 workers. He is complaining about the firms he is in subcontracting relation that, they don't give the price of his products because they do not get the returns of their export. He also complained about the legislation of the central government which leaves no living chance to small firms. He states that there is only few months left for him to bear these situations if the conditions will continue like this he will go bankrupt.

In Denizli there are also incongruous firms distinct from the general industrial structure. These firms differentiate from the other firms by their investment in sectors other than the traditional sectors in Denizli, entrepreneurial characteristics (such as imitation, traditional behaviours, solidarity relations etc.). These firms are left outside of the local economic institutions. There are really successful firms among them (Figure 14).

Figure 14. An example for Incongruous Firms

Entrepreneur of the firm is an electronic engineer from Denizli. He first began working in public sector in Istanbul and then he returned back to Denizli. With his friend and partner, they thought of producing enamelled bobbin wire, which Turkey was importing and they also began to produce the machines needed for this production. In 1980 they began production. Then in 1985, after they saw that they are successful in industry they began to search for areas for new investment and consulted to the Development Bank to have a feasibility research for marble production in Denizli. After they learned that Denizli has the third biggest marble potential of Turkey, they examined first Afyon where there is marble production and they began production in Denizli. After a short while, they become successful in exporting their production with their own trademark. Then they began to think about the energy problem and thought of using the wealthy sources of the region and produced a little power station for a start. As they had a success in their initiation they enlarged their activity in this sector. And they entered to a production that will supply nearly the half of Denizli's electric energy need. The group of firms recently have 19 partners who are the members of 4 families. It is a technology and capital-intensive firm with 400 workers. They have credibility in foreign markets and find financial resources easily. They don't have contribution to local social activities as they say that they are busy with their works. They don't have close relationships with other groups and industrialists in Denizli and they don't have relation with local chambers and associations. And they complain about the structure of the local economic institutions, which have the domination of textile sector.

While the general situation can be summarised by these examples, there are some firms or group of firms going bankrupt in this crises phase. However in the field survey it is observed that the region began to produce its buffer mechanisms simultaneously (Figure 15).

Figure 15. "Firm Doctor"

New mechanism has been developed in the province to solve the problems of the firms, which are in difficulty or about to go in bankrupt. This new mechanism could be called as "*firm doctor*". An old local entrepreneur (who is also the partner of firm Db) come together with one of his engineer friend and an accountant (who worked for another firm in the past) they formed a team in which there is all necessary staff to manage a firm, such as engineers, legal consultant, master, craftsman, accountant etc. This team rent a bankrupted firm for 8-10 months and place its own staff to the each unit of factory and they determine the faults, weaknesses in production, mistakes in management and straighten the deficiencies. This team have been successful to save two firms from their bankrupted situation in two years time. They tell that they know the structure of workers, problems of firms, problems of their region so they become successful by looking to the problems from outside the firm.
They are recently working for firm which had been established in 1986. 6 months ago they rented this firm which was in the bankruptacy conditions because of their debts.
The operation period of this team is changing from 6 months to one year. During this period;
-they meet with the banks, which the firms indebted, to make the due date longer.
-they meet with the indebted firms
-they change totally the management team with their own personnel to abolish the negative effects of the traditional structure of family firms
-they emphasise the on-the-job training, productivity and process control as well as the professional management and the consultation to specialists
The head of the team stated that, "In Denizli generally firms have 50 % productivity. Much of the factories are operating with a very low performance because of unconscious management. With a simple process control and machine care we have increased the productivity 10-20% in four months"

EGS, the model institution of the earlier phase began to face difficulties in this period. The firms who joined EGS were both rivals and partners at the same time. At the beginning, there was a wide trust, they were not mixing the business of EGS and their own firms. One of the members of the director board of EGS told that he never used credit from EGS just not to give way to wrong understanding. However, after sometime, the professionals in the board of directors began to be partners of some firms in the group, and "misuse of authority" began to give damage to the company. Also it has been told from various sources that the establishment aim of the company which was "to help the export firms to minimise the problems that they have faced in foreign trade and to come across with national and international authorities with a unified power and increase exports", have changed its direction and the company have been attempted so many different fields such as trade and real estate business. Recently, the EGS Bank have gone to bankrupt and it is told by many entrepreneurs that the EGS company also lost its efficiency and subject to be loosen.

Figure 16. New Collaboration for Exporting

One of them is a foreign trade firm composed of 9 entrepreneurs. This initiation hold the main aim of EGS, but one of the initiator entrepreneur of this small group who also was the founder of EGS told that, they learned a lot from the mistakes of EGS saying that, "we won't enlarge our group more than 20 partners, and our partnership will stay only for exporting". He also tells that the advantage of staying small is that, all the partners know and trust each other, with one phone call they can take a decision about the company.

A counter mechanism began to initiate in this situation. Recently, there are attempts for collaborating by smaller groups, for decreasing the bureaucracies of exports (Figure 16).

There are also attempts for establishing a platform for coalition by the initiation of some entrepreneurs to collect the businessmen associations under an umbrella. However, an authority from the chamber of industry claims that these initiations "are the efforts of some" people who want to gain power. This comment should be evaluated sceptical as the authority of chamber of industry should be talking with a view not to loose the power of his organisation.

Although the initiations for collaboration are fragmented for establishing an economic vision for the region, the attempts for collaborating for infrastructure and energy subjects seems effective. For example, with the leadership of chamber of industry, the industrialists in the organised industrial zone have established a refinery for industrial wastes and an electric producing company which will solve the energy problem of the zone and will meet the whole electric energy need. Among the new projects there is a "Free Trade Zone" (DENSER) which will provide tax and investment advantages to exporting firms and will increase the foreign trade potential of the region. However, although free trade zone had been opened recently, because of the crisis conditions there are only few firms established in the zone.

Another infrastructural initiation is the establishment of a technology centre, which is seen by the local authorities as the basis of a future techno-park. The technology centre (TEKMER) is a collaborative initiation of university, chamber of industry, and KOSGEB.

It is seen from the industrialisation and institutionalisation history of Denizli that, as it is the case in most of the world industrial districts, clustering of firms is not the result of a planned action, or of a local or regional industrial strategy. Development had been

spontaneous. Public and private sector institutions did play a role in the growth process but, it had not been created by them. Also, like the other industrial districts, it is not relied entirely on the market. Some national and local institutions supported the industry. For the early phases of growth in Denizli, besides the existence of a local corporate culture that motivate the economic development in the region, the local institutions that support industry seems not enough. For the later phases, the government schemes had been effective in fostering the development. However, the region remained incapable of solving the problems that this rapid development has produced. Also the local corporate culture that motivate the economic development in the earlier phases began to be fragmented. The future perspective for Denizli, seems not clear in the indefinite macroeconomic conditions, local strategies varying form protecting the status quo to generating further growth and behavioural effects varying from traditional behaviours to the signs of spontaneous socialisation (Table 47).

From the observations in the field survey it has been determined that during the industrialisation process of last years;

- Subcontracting and supplying inputs from local firms decreases by time
-In getting the knowledge of new technology or new products the cooperation with foreign clients gained importance.
-There are initiations for forming small group of firms (9-10 firms) for collaboration in exporting
-Solidarity and trust have been weakened during the last years both due to competition and crises conditions. Trust is within the closed groups not among the groups region-wide. There is a kind of hidden solidarity, there are groupings based on religious communities. Groupings restrict competition and sometimes go to the fore of economic mentality but crises conditions seems to regulate this phenomenon and made the different more effective groups to come closer.
-After the crises came one after another the knowledge started to be concealed, producers started to behave individualist, and the fierce struggle to steal each others' clients gained pace. Stealing the clients is the most stated situation which overthrow work ethic in the region.

-Solidarity in the form of lending and borrowing machine and equipment and labour continues. Also solidarity with the workers and subcontractors in the crises periods is the common behaviour.

-Workers were transforming to the firms which were giving higher wages during the maturation phase however this process have been slowed down with the economic crises. Labour mobility is decreasing in the region.

-The number of associations increased in important numbers after 1996. The reason for this could be the effect of crises lived.

Table 47. Industrialisation and Institutionalisation Phases in Denizli

Phases	National Effects	Local Effects	Behavioural Effects
Initial Phase	-1st priority development region-government scheme -multi-partner worker enterprises	-Yarn cooperatives -Family firms -Groups of family firms collaborating for production due to their 'hemşehri' relations	-Traditional production culture -Family and kinship ties -Trust relations -Traditional collaboration
Growth Phase	-Liberal macroeconomic policies - State incentives for exports	-Collaboration with traders for exporting -Role of local mediators in organisation of production -OIZ with the leadership of chamber	-Intensification of collaboration -Local institutions initiatives
Maturation Phase	-Decrease in the minimum size eligible for encouragement incentives -Local departments of central government organisations (KOSGEB, DETKİB)	-Gathering group of firms for cooperating in exporting (EGS) - Associations of Industrialists and Businessmen -Institutionalisation of large firms	-Collaboration in the capitalist sense -More formal institutionalisation
Crises Phase	Macroeconomic crises	-Public-private partnership for infrastructure (TEKMER, DENSER) -small number of groups of firms for collaboration in exports - Initiations for gathering the local associations under an umbrella	-Lock-in -Deterioration of trust relations -Fragmentation -Fragmented collaboration
Future Perspective	Macroeconomic instability	Transformation from contingent development to protecting the status quo or generating further growth?	Continuing traditional socialisation or developing spontaneous socialisation?

VI.5.2 Institutional Interplay: Overlap? Overload? Incapability?

In Turkey, the local economic institutions cannot be evaluated independent from the national system. Institutions that support local economic development are generally formed by central government but they have also local departments and try to encourage the development of local industrial enterprises (Tables 48, 49).

Table 50. indicates the organisational framework of local economic development in Denizli according to the existing institutional system in Turkey. However, some of the organizations checked under sectors have indirect contribution to the institutional atmosphere of local economy in Denizli. The organizations is discussed as industry support units, interest associations and public-private partnerships.

Table 48. Institutional Framework Of Local Economic Development In Turkey

	PUBLIC	QUASI-PUBLIC	PRIVATE	NGO	INFORMAL INSTITUTIONS
SUPRANATIONAL	UNIDO	UEAPME (Avr.	EKO (private		Universal social rules
	Euro Info Centre (EIC)	Esn. San.K.)	consultant firm)		
INTERNATIONAL	-BC-NET (Buss. Coop. Netw.)	CBI (Hollanda/ Ent.			
INTERGOVERN.	-BRE (Inter enterp. Coor. C.)	İhr. Teş)			
	-Europartneriat (1984)	GEBİ (Alman iki			
	-Interprise	banka)			
	-Subcontracting	BFAİ (Alm. Firm)			
NATIONAL	Ministry of Industry and Trade	TESK	SDŞ (Secto. For. Tr. F)	TUSİAD	Ethnicity
	-Small and Medium Ind.	TOBB	HALKBANKASI	MUSİAD	Religion
State regulations; tax,	Dev. Org. (Kosgeb '90)	TOSYÖV		SİAD	Society and class struct.
tariffs, subsidies,	KÜSGET	IKV			Family structure
incentives, wage	SEGEM	TTGV			
levels	-Foreign economic Relations	MEKSA			
Macro policies	Board (DEIK)	YAN SANAYI			
	-Export Promotion C. (IGEME)	BORSASI			
	-Exporters Union	TURK-IS			
	Dpt	DISK			
	Tubitak				
	Yök				
	Merkez bankasi				
	Kalkinma bankasi				
	Eximbank				
LOCAL	Local Business Consultants (EIC)	Chambers	EGS (foreign tra. firm)	SİADs	Family, kinship ties
	KÜGEM	Stock exc.off. of tr.			Friend, hemşeri relations
	TEKMER				Leadership-imitation
	Organized Industrial Zones				Common culture
	Municipalities				Decentralized social control
	Universities				Social solidarity mechanisms
	Technical Schools				Cooperative action
					Interlinking transactions
					Norms of reciprocity

Table 49. Institutional Framework Of Local Economic Development By Sectors In Turkey

	SUPRANATIONAL/ INTERGOVERNMENTAL	NATIONAL	LOCAL-formal	LOCAL-informal
LABOR	ILO	Trade unions turk-iş disk		Family labour Labour exchange
FINANCE	IMF WORLD BANK	Central bank Development bank Eximbank People's bank		Self-financing Informal credit Interlinking transactions
EDUCATION/TRAINING		Universities MEKSA	Technical Schools Training Centres	On the job training Mastership-apprenticeship rel.
MARKETING/EXPORT	WTO CBI	Undersecr. of Fore. Trade İGEME Exporters' Union Foreign Trade firms	EGS	Mutual aid
COUNSELLING	EKO, ECI	KOSGEB	Local Business Consultants (ECI)	Leadership
TECHNOLOGY		TUBİTAK TTGV	Technology Centers Technoparks	Information exchange Imitation
SECTORAL		Sectoral Associations		Experience exchange
INFRASTRUCTURE			Municipality	Cooperative action
GENERAL DEVELOPMENT		DPT	Chambers Businessmen Associations	Common culture Perception of local economy Survival strategy

Table 50. Organisational Framework of Local Economic Development in Denizli

	Finance (Credits)	Education and training	Infrastructure	Labour	Information	Sectoral	Marketing	Research	Technology	Solidarity	Development	Policies and Vision
DPT (State's Planning Office)												✔
Ministry of Trade and Industry			✔								✔	✔
KOSGEB	✔	✔		✔	✔			✔	✔			
İGEME					✔		✔				✔	
Exporters' Union (DETKİB)					✔		✔					
Patent Institution									✔			
Undersecretary of Foreign Trade					✔		✔					
Labour Union(TEKSİF)												
TESK		✔	✔									✔
TOBB					✔			✔				✔
TOSYÖV								✔				
IKV								✔				
Euro Information Bureau												
Sectoral Foreign Trade Firms							✔			✔		
Associations of Industrialists and Businessmen										✔		✔
Sectoral Associations					✔	✔				✔		
Social Associations											✔	
Provincial Authority			✔								✔	
Municipality			✔									
University		✔						✔				
Technical Schools		✔										
Training Centres		✔										
Organised Industrial Zone												
Small Industry Districts (KSS)			✔									
Chambers		✔			✔		✔			✔		✔
Regional foreign trade firms (eg.EGS)					✔					✔		
BANKS Development bank Eximbank People's bank EGS bank	✔											

VI.5.2.1 Industry Support Units

Over the last 30 years, numerous industrialised countries and regions have developed business service programs to increase the knowledge recognition, transfer, and assimilation capacity of small and medium-sized businesses (Glasmeier 1999). In addition to 'conventional' services such as accounting, legal, payroll, and simple marketing services, which are designed to reduce the costs of conducting business, so-called 'real services' have been identified as activities that explicitly attempt to improve the competitiveness of businesses (Bellini 1998; Brusco 1992; Cook 1997; Morgan 1997). The primary distinguishing characteristic of conventional versus real services is the extent to which the latter's provision is explicitly targeted toward altering the behaviour of the recipient firm (Brusco, 1992). In other words, real services have as their intent altering firms' behaviour over time to increase their capabilities and therefore their effectiveness. This may often and does include services and capabilities for which firms are not consciously aware that they need or are missing in their daily and longer-term business practices.

KOSGEB, Institution for Supporting and Developing SMEs, was established in 1990, as part of the Ministry of Industry and Trade for fulfilling the need for real service of SMEs in Turkey. It's establishment reason is stated as KOSGEB being as a part of "strategic restructuring of the state and its industrial policy required by the world economy which necessitates high quality but cheap products with advanced technology" (KOSGEB 1990). In order to support SMEs, KOSGEB gives services in; quality development and general consultancy, sectoral specialisation, workshops for common-use machines and equipment, technology development, market research, investment analysis and education.

There are KOSGEB centres in 24 cities. There are also projects enforced by KOSGEB in the fields of regional planning, development of entrepreneurship and co-operation, quality improvement, modernisation of machinery and development of infrastructure. KOSGEB is also act as a contact point of the European Union's support programmes for the internationalisation of SMEs such as, EIC (Euro Info Centre), BC-NET Business Cooperation Network, BRE (Bureau de Rapproachement des Enterprises). However, it is very difficult to say that KOSGEB has been successful to access to a large amount of SMEs for its determined services.

Denizli KOSGEB was established in 1993. One application of KOSGEB in the region is "Workshop for Cooperative Usage (ORTKA)" established especially mobilise the industrial potential of the districts of Denizli. For example the one in Yatağan is for the development of house machines production. The cooperative purchases the technology the individual entrepreneurs can not afford. There is an executive committee formed by a local marketing company, municipality, KOSGEB representative, and the representatives of the industrial and non-governmental organisations. This committee determines the principles and take the decisions and leaves the application to the management who are the personnel of ORTKA head office. Service is bought due price and productivity is increased by this way. Figure 17. gives an example of an ORTKA application.

Figure 17. An ORTKA Application

A grinding machine have been bought and presented to common usage; the price of the service is not taxed and the income have been used to develop the technology of the atelier. The aim is to diffuse technology by cooperating and observing. In one and a half years time, there had been a productivity increase five times more than before. They have the aim of opening to world markets after ensuring the quality and control system. Sometimes while some people develop some new proposals about the type of the products, the producers show objection to the new developments thinking that their client don't like changes. The head of KOSGEB tells that "it is hard to convince the producers to make a change in their traditional understanding of production, they don't know marketing. The aim of KOSGEB is to achieve variety and quality of products, as they think there is a market for this.

The head of KOSGEB states that;

> "there are lots of incentives given by the government to the entrepreneurs but they are not used. For example, there is employment incentive but nobody is using this, as they are afraid of getting their enterprise extended, they do all the work by themselves; the production, marketing, raw material assurance, accountancy. They are afraid of employing engineers, as they thought they could claim on the work after sometime. They thought it is an extra cost to pay for an accountant. We tell them that they should make a structural change to produce qualified products for export in marketing, technical staff, specialisation, but they tell that they can not afford these".

However, there is the incentive for the firms who get new staff, 70 % of the 6 months' salary is paid. KOSGEB tries to introduce those incentives of state by the help of chambers, local media, fax etc. but they are not satisfied with the level that they access to the producers. There are also training help 50 % of the cost, fair help 50% of stunt support and accommodation incentive of 50%, incentive for establishing ISO 9000 system. The small entrepreneurs don't interested saying that they have no time for these. But when their clients demand for example the ISO 9000 standards, they started to ask how we can get this, what is the price of it etc.

In Denizli, by the government-KOSGEB initiation "textile modernisation project" incentives of European Union for the districts of Buldan, Babadağ, Kızılcabölük have been obtained.

KOBİNET advisory web site prepared by KOSGEB is not used efficiently, the most used system is the Holland connected BCNET, there are firms using internet for introducing and marketing their products but it is essential to make the firms get use to internet facilities. Recently, there is a project to equip the districts of Yatağan, Yeşilyuva and Buldan with a computer network system, which is called IBELDA. With this project it is expected that the small artisans in these districts will be able to introduce and market their products in the global markets which will in turn increase their product quality.

KOSGEB also buys education programs from universities and private sector and use the facilities of chambers to implement these programs. However, it is stated that participation to these programs is not at the level that they want to be, there is always standard number of people who are interested in these programs. They think it is the most important issue to educate first the entrepreneurs then the technicians, workers and the staff.

Another type of organisation is the semi-public Exporters' Union (DETKIB Undersecretary of Foreign Trade Denizli Textile Exporters' Union) founded by the Under-Secretary of Treasury and Foreign Trade (UTFT) and the private sector. DETKİB established in 1993 and recently have nearly 500 members. This union serves the function of allocating quotas to existing firms according to their past export activities as well as to the new firms. It also provides information for the firms about the market In addition, there are sectoral advisory bodies, such as the Export Promotion Centre (IGEME) linked to UTFT and Türktrade formed by FTC entrepreneurs.

It is claimed by some of the entrepreneurs that in exporters' union the director of boards are dominated by certain groups. An authority from Denizli textile exporters' union approve the existence of this group in the union with his words, "now some of the members of the board of director are the sons of the members of the first board of directors when the union first established in 1993". To get the higher shares in the distribution of benefits provided by the central governments to industrial enterprises, such as the distribution of quotas by the Exporters Union is an important reason to be eager to

take part in the board of directors. Also many small and medium sized firms complained that the association is dominated by a group of large firms, using the association mainly as a lobby to sustain their interest.

There are also some other quasi-governmental organisations which are indirectly effect the local economic development such as; TESK- The Confederation of the Unions of Merchants and Artisans, which has the mission to ensure education and training, infrastructure facilities and develop policies and visions for the small and medium enterprises, TOBB-The Union of Chambers, which has the mission to provide information, conduct research and develop policies and visions for the sectors, IKV-Foundation of Economic Development which is mostly in research activities, TSE-Denizli Regional Directory of Turkish Standards Institution, and technology support institutions such as Tubitak, TTGV-Foundation of Turkish Technology Development, Patent Institution.

In Turkey, there is no availability of developmental and industry-sensitive funding from the banking sector. Historically banks have tended to offer only short-term credit based on the immediate financial performance of the firms, which access largely conditional upon personal familiarity with entrepreneurs or the power of persuasion of the financial intermediaries normally employed by firms to obtain bank loans. Thus, beyond entrepreneurship-sensitive funding offered by the Cooperative or Artisan associations, the tradition of merchant or industrial banking and that of risk capital to support new entrepreneurship remain rudimentary. There are credit institutions, which support export oriented firms such as People's Bank, Turkish Development Bank and Eximbank. However, in the field survey one of the entrepreneur of a small firm complained that although they applied to People's Bank (Halkbankası) for R&D support they could not get an answer. They think that these issues are related to political and clientalist relations.

Related to the education and training we see Pamukkale University and Technical Schools as local institutions which again are not so much in close relation with the industry. It is observed that some firms are benefiting the facilities of the university by cooperating with the professors due to developing the production processes but this is minimal. Technical schools or trainning centres seen more effective due to the relations with industry. However, there are complaints coming from the industrialists that about the system that is

not so much sensitive to the local needs and problems. The new collaborative initiation of the local institutions and the private sector is related to ensure the close relationship among training and industry.

It is sure that, the creation, refinement and enhancement of 'human resources' are about education and training. Education is about equipping people to work within global sphere of economic activity. It is about providing individuals with an understanding of facets of the economy and society they live in, and the processes of change that run through them (Cooke 1996; Hudson 1994;Saxenian 1994). Training only equips people for what is known now. It is about training people to meet the labour needs of existing local employers as a mechanism to promote local growth (Leonard 2001). It is about conforming to and supporting winners that other people have picked. But, in the so-called 'knowledge economy', where new knowledge is seen as being created through 'learning-by-doing' and learning-by-interacting', the expectation is that firms' workforces as well as their owners and managers have role to play in innovation processes (Asheim 1996, 2000; Maskell and Malmberg 1999; Lundvall and Maskell 2000). To fulfil this role they need to be educated and not just trained. In this way, individuals in a region are empowered to add to the local stock of tacit knowledge that might lead to the improvement of a product or service offered by an existing firm (Plumer and Taylor 2000).

VI.5.2.2 Interest Associations

Chambers as Quasi-Governmental Bodies and Interest Associations

In Turkey, chambers are organised geographically. They don't have sectoral differentiation and also they are a mix of different size distribution of member firms. This structure of chambers, which exhibit a wide variety of heterogeneous interests, has naturally constituted an obstacle to the effective functioning of the Chambers as interest associations (Buğra, 1994).

Buğra (1994) emphasises the extent of government control as well as political patronage involved in the activities of the Turkish chambers of industry and trade stating that the public functions which they fulfilled, and the advantages which they could confer to their members have mostly been based on the extension of the relations of patronage that the

relationship had with government authorities to their constituency. Often political alliances and personal relations with bureaucrats and local MPs are used to obtain tax exemptions, incentives and credits (Özcan 1995). Because of these advantages, taking control of the chamber of industry is important for the businessmen. These are not necessarily in the interest of the local people or economy. In fact, there is a great deal of personal interest and therefore conflicts in the chambers. Large companies and businessmen who have political and financial power often have influence on the chamber's politics. These general characteristics of chambers are also valid for the Denizli case.

Chamber of Industry in Denizli had been established in 1973. There had been the successful attempts of the chamber to establish the organised industrial zone in the mid-1980s and also another organised industrial zone which is finished recently in Çardak district. Other than this contribution to industrial infrastructure, the chamber acts as an organization to fulfil the legal requirement of industrial firms. It keep records of firms, print official documents and publish journals, organise scientific meetings or invite lecturers to give conferences on business and industry.

The other way in which the chamber is taking the lead in Denizli is, it has been lobying amongst state agencies for a while on the construction of an airport and entering into the defence industry by arranging meetings with the military authorities. Also the chamber attempt to develop strategies to compete with rival provinces, to get more subsidies from central government. On the other hand, they also attempt to communicate with the local authorities of Gaziantep to collaborate for their mutual benefits against the policies of central government that have negative effects for local economies.

Usually local chambers of industry have been defined as conservative. For Denizli case, it is also so hard to say that the chamber is providing technical, bureaucratic or strategic guidance to its members for their production and exports; or providing a platform for various interest groups like small firm associations or trade unions to co-operate each other (Pınarcıoğlu,2000); or establishing visions for the region acting as an agent for local development.

In Denizli the chamber of industry have a structure which is textile dominated. This structure indicates that there is no efficient communication with the members of other

sectors in the region (Figure 18). This complaint is not only true for sectors other than textile. It has been told from many sources that because there is the domination of some groups in the board of directory the chamber could not stay at the same distance to the all textile firms.

Figure 18.Not all Firms at Same Distance to Chambers

One of the interviewed firms from iron-milling sector (the biggest firm in pherforge production) told that, they wanted to apply to an efficiency research conducted by National Productivity Centre but because the chamber of industry was determining the firms that would be included in the research, and because this firm does not have strong relations with the chamber, they couldn't take place in this research.

In Denizli, there are also Chamber of Artisans, Chamber of Trade, Chamber of Weavers, Chamber of Mechanical Engineers.

Labour Unions

In general, the Turkish labour market has been largely unorganised. Both small and large firms benefit from this situation. Paternalistic control and family involvement in small firms has hindered the movements of the labour organisations in the SME sector of the economy. The involvement of families and friends in small firms creates a highly personalised and informal business atmosphere in which organisational and legal attachments are often ignored. Small firms also act as a source of basic entrepreneurism independent of the trade unions as many workers carry the hope of being a business owner themselves one day.

Denizli's industry have not had a strong tradition of unionism, although a textile union was established in the 1950s. The union has mostly been limited to the state factory Sümerbank. Private textile firms did not take place in it. Coming to 1980s, with around 300 members, it appears to have been too weak to stand up for the rights of Denizli's workers (Pınarcıoğlu, 2000). Although since then their members have also increased to around 1,000 and tried to increase their activity, the situation does not seem to change much.

There are only few large and leader firms which are unionised in Denizli. Perhaps the most important benefit of the union to the firms has been to minimise the transfer of skilled employees since these are the most developed firms in the region with some highly skilled workers. In addition, the trade union has appeared to be sensitive to the productivity and profitability of the firm. The union has tried to motivate workers to work efficiently to increase their wages. However, there is no big difference between unionised workers in this firm and non-unionised in other firms as far as basic wages are concerned. But the former benefit from the social wages (i.e. fuel pay during the winter, bouneses and allowances such as for marriage and birth) (Pınarcıoğlu,2000).

Most other firms seem to be very sceptical and they believe that the best option for them is not to have any relation with the union. What makes them so furious against unionisation in Denizli is largely related to the peculiar nature of unemployment. Denizli's textiles entrepreneurs have not been lucky enough to find a quick turnover of workers in their province where there has not been significant unemployment. Under these circumstances if the union is successful, they think, it would bring detrimental effects for the industry (Pınarcıoğlu, 2000).

Voluntary Associations

The most useful kind of social capital is often not the ability to work under the authority of a traditional community or group, but the capacity to form new form of associations and to cooperate within the terms of reference they establish. Spontaneously sociability refers to wide range of intermediate communities distinct from the family or those deliberately established by the governments (Fukuyama 1995). Nevertheless in Turkey, the character of familistic society and the strong state tradition had not let the development of a politically influential civil society and the institutionalisation of government-business relations. Under these circumstances Turkish society could not experienced "spontaneous sociability" which Fukuyama discusses as the source of intermediate communities.

Intermediate associations and self-governing become the core concept in industrial district formation, which indicates the local actors and institutions formed by them as the major proponents of self-fed development process. In the self-governing networks different local actors take place. Obviously individual firms are the main actors that are tied to each other

by various networks. However, there appears several formal and informal institutions acting as catalytic agents. In this context, the enterprise associations formed by local entrepreneurs gets a special emphasis in creating more formal networks among the entrepreneurs.

In Turkey, the governments historically have continued to mobilize supporters through personnel appeals and exchanges rather than working directly with the major associations. Therefore, a large number of businessmen have tried to influence the political process indirectly through the manipulation of clientalistic ties (Gülfidan 1994). Businessmen were made to understand, that their associations would have government support to the extent that their leadership shared the same outlook as the government and behaved in conformity with government policy (Buğra 1995). Under these circumstances, the Turkish business community find itself in a situation in which it has to act as a class, ready to assume a social responsibility at a national level without having acquired a proper experience in interest articulation and representation (Özcan 1995).

Nevertheless, since the 1980s, especially during the 1990s, civil society organisations have emerged and become important actor in Turkish politics. While there was the dominance of "Association of Turkish Industrialists and Businessmen" (TUSIAD) since the mid-1970s, "The Association of Industrialists and Businessmen" (SIAD) has occurred as an economic organisation since the early 1990s. Additionally, 1990s have witnessed the rise of what is called "Islamic capital" as a powerful economic actor which had been institutionalised by the establishment of "The Association of Independent Industrialists and Businessmen" (MUSIAD). With the establishment of MUSIAD and SIADs, the Turkish economic life witnessed the pluralisation of economic actors with different discourses and strategies, bringing together a large number of enterprises of different sizes located in different geographical regions of Turkey (Keyman and Özbudun 1999).

TUSIAD's attempt as "the biggest and most powerful business organisation and pressure group in Turkey" (Keyman and Özbudun 1999), whose members are fairly large enterprises that are mainly located in Istanbul, were directed at improving the social status of a largely state-created bourgeoisie. After 1980s, the association began to question and contest the historical legacy of the highly unequal partnership between state and business (Buğra 1998), and in 1990s TUSIAD has changed by acting not only as an economic

actor but also as a civil society organisation assuming responsibility for what is good for Turkey at large and struggling for democratisation (Keyman and Özbudun, 1999).

In the last decade, regional-based industrialist and business organisations (SIADs) have been organised independently from TUSIAD in most of the Anatolian cities representing small and medium scale enterprises. SIADs' main characteristic is that they represent local development which Keyman and Özbudun (1999) define the basis of this kind of economic organisation as "the link between free trade and traditional/communitarian cultural identity".

According to Keyman and Özbudun (1999)'s research all SIADs from different provinces such as Denizli, Gaziantep, Konya, Kayseri, Çorum, Aydın, Adana and Antalya, give primacy to community over individuality. They all define community as an "organic social and cultural unity". In this sense, they all prefer homogeneity, commonality and sameness to pluralism and difference. Thus, they all promote conservative and communitarian societal visions over liberal individualism. References such as nationalism, family ties, traditional norms, ethnicity also play a significant role in creating communitarian ties that make social and cultural life an organic unity. One of the ideas commonly shared by SIADs is related to the significant emphasis placed on the role of culture for economic development: that is, the extent to which organic unity is produced and reproduced in a given community determines the degree of success in economic life.

MUSIAD's strategic vision has incorporated a critical position against the traditional exercise of political authority with Islamic discourse as the exclusive source of cultural identity. MUSIAD has suggested that its constituency has traditionally received unfair treatment from the state authority in terms of possibility of access to investment funds and other privileged hitherto allocated mainly to large enterprises situated in big cities (Buğra 1998). Keyman and Özbudun (1999) put the main principles of MUSIAD as, the feeling of trust and solidarity, the primacy of community over the individual, the discourse of the just-self over the self-interested actor, and the privileged status of ethical codes over individual morality. MUSIAD's view of pluralism and multiculturalism is not liberal, insofar as it accords primacy to community over the individual. Furthermore they analyse MUSIAD as constituting a community-based economic organisation, founded up on an articulation of Islamic cultural/moral identity and free trade, which overrides

class/power/wealth differences between capital and labour. In fact, the communitarian ideology that economic Islam promotes acts against the principles of the welfare state and distributive justice in general, and the organisational rights of the producers in particular.

Denizli entrepreneurs were observed to be increasingly forming local initiatives and active groups through business organisations. Especially in the maturation phase of its industrialisation, that is after 1990s, Denizli has become one of the provinces that establish plenty of business associations. Although some of these business associations have some peculiarities it can be said that there is overload in terms of their establish aim and main interests.

Business Associations in Denizli can be distinguished according to their scale of identity and main interests (Table 51).

Table 51. Industrialists and Businessmen Associations in Denizli

Name of the Association	Scale of Identity	Main Interest
Denizli Industrialists and Businessmen Association – DESIAD	NATIONAL	General economic
Denizli Tradesmen and Businessmen Association- DETIAD	NATIONAL	General economic
Denizli Young Businessmen Association DEGIAD	NATIONAL	General economic
Young Businessmen and Tradesmen Association – GETIAD	NATIONAL	General economic
Denizli Industrialists, Businessmen and Bankers Association DENSABID	NATIONAL	General economic
Denizli SME and Self-Employed Persons and Managers Association DOSYÖD	NATIONAL	SME specific
The Association of Independent Industrialists and Businessmen- MUSIAD	NATIONAL	Community based
Babadağ Industrialists and Businessmen Association- BASIAD	LOCAL	Place specific
Denizli Branch of Turkish-American Businessmen Association- TABA	INTERNATIONAL	International relations
Denizli Textile and Wearing Apparel Industrialists Association- DETGIS	LOCAL	Sector specific
International Industrialists and Businessmen Association- USIAD	INTERNATIONAL	International relations

The ones, which have national identity are the first initiations in the region which are established by the first wave of SIADs organised through the whole country. Among them, DESIAD, DETIAD, DEGIAD, GETIAD and DENSABID can be said that their main interest is generally economic. One of the entrepreneurs claimed that "when

chambers are politicised, industrialists and businessmen associations (SIADs) are established, when they are politicised some other communitarian moves based on religious beliefs appeared. When people can't take the support of government they hope for help from chambers, and when they can't take help from the chambers they inclined towards communities, which these all create chaos". An entrepreneur who have been active in the establishment of local sectoral and social associations tells that, "the initiations are all very good intended at the beginning but then, after the members increase, this mass is seen as a political material". Lately, politicians started to be interested with communities which control the small and medium enterprises to take their votes. The general idea the entrepreneurs have about the associations is that, they are established with the aim to be close to ministers and deputies.

MUSIAD have also national identity but its main distinction from the others is, it is community based. In line with the power concentration in the local economy this organisation has emerged as an alternative association particularly for religiously oriented small-sized producers which may feel discontented in the local economy and in the chamber. In 1995, there were 75 members of this association (Table 52), large amount of the members from the small and medium sized firms. Denizli branch of MUSIAD had been effective in providing business advise locally for the production and export activities of its members in the first years of its establishment with the help of the general headquarters in Istanbul. However, some of the interviewed firms, which are members of MUSIAD told that it has lost its efficiency since 2-3 years. Recently, the number of members has decreased to 63. One of the interviewed entrepreneurs told that they left their membership as the association become politicised and had lost its establishment aim which had been to create an economic network.

There are associations which have local identity. One of them is BASIAD which has been established in the 1997. BASIAD is the association of the businessmen who are from Babadağ. When it is asked why they needed to establish a separate organisation from the other SIADs in Denizli, the head of the association told that they wanted to enliven the identity of being from Babadağ and they wanted to do something for their native town and they wanted to keep on the relations with Babadağ people who have been distributed to the different parts of the country. Besides, these social objectives, their initiation for

establishing a separate business association also indicate their latent solidarity in the business environment in Denizli.

Table 52. Geographical Distribution of MUSIAD members 1995

	<10	10-99	>100	total
İstanbul	190	240	58	488
Ankara	43	120	12	175
Konya	58	84	11	153
İzmir	51	60	3	114
Kayseri	28	75	9	112
Denizli	**31**	**37**	**7**	**75**
Gaziantep	18	34	9	61
K.Maraş	18	34	2	54
Adana	9	17	2	28
Çorum	1	13	3	17
Other	218	237	25	443
Total	665	951	141	1717

Adapted from Buğra 1998

Another association which has local identity is DETGIS established by the leader entrepreneurs in the region in 2000. The main interest of this association is sector specific that is textile based. The aim of DETGIS is stated as to overcome the quota problem and to determine the workers' insurance fees. One of the founders told that

> "international textile associations such as Eurotex and Eurocotton carry out sanctions which affect our production negatively. We have to increase our voice by organising under an association and make a power unity. From Turkey only the TGSD (The Association of Turkey's Textile and Wearing Apparel Industrialists) is the member of these international organisations we can only enter in this formation by being organised. Also in 2005 the quotas will be eliminated and our aim is to develop strategies as Denizli textile producers for the new circumstances in the international markets".

There are also associations whose interest is to help firms in establishing relations with international business environment. One of them is TABA, which is an organisation mostly effective in Istanbul but also have a branch in Denizli due to the export intensity of Denizli in US market. USIAD is another association which have an international identity, that is founded by entrepreneurs who have extensive export relations.

It is observed that businessmen associations which have local identity and specific interests are more active in Denizli. An entrepreneur who is effective in associations that have local identity told that "DEGIAD, MUSIAD, DESIAD protest the macroeconomic policies together they are not rivals they are working in harmony". Following this

quotation it is also observed that, recently, there is an effort of some entrepreneurs to gather all these businessmen associations under an umbrella, which is called as "Denizli Platform", but it seems not possible at the moment because of the existence of many businessmen associations and power struggles among the local actors and they don't want to loose their power.

Besides businessmen associations there appeared one group of associations that has craft values. The small entrepreneurs who belonged to this group tended to organise in artisan associations and or cooperatives. Association of Leather Industrialists, Association of Weaver and Garment Producers, Association of Iron and Steel Rollers (DEHAD), Association of Embroiders which helps determining quality and pricing are some these associations which are more influential in the region.

There are also associations which are more socially oriented two of them DEN-BİR (Union of Denizli) which has the aim of developing the identity of being a Denizli people and DE-VA(Foundation of Denizli), which has the aim of organising art, culture and tourism activities in the region.

In the field survey it is observed that many of the firms in the region have no relation with the local institutions. This situation differs according to the type of firms which is given in the Table 53.

Table 53. Relations of Firms with Local Institutions

Small Firms	No effect in local economic institutions
Traditional Medium Firms	Indifferent to local economic institutions, merely the membership
Progressive Traditional Medium and Large Firms	New initiations within the context of existing institutional structure
Modern Firms	Taking place in key positions of the local economic institutions but not effective in building a vision for the region's economy
Incongruous Firms	Attack against the local economic institutions

Table 54 examines how different type of firms benefit from which institutions in Denizli.

Table 54. How Firms Benefit From the Local Institutions

	Small Firms	Traditional Medium Firms	Progressive Traditional Medium and Large Firms	Modern Firms	Incongruous Firms
International Institutions (BCNET, BRE etc.)	0	0	0		
National Institutions (DPT, Ministry of Trade and Industry, National Productivity Center etc)			0		0
KOSGEB	0				
International Associations of Industrialists and Businessmen			0	0	0
National Associations of Industrialists and Businessmen			*	*	*
Local Associations of Industrialists and Businessmen		□	*	*	
International Sectoral Associations			0		
National Sectoral Associations				*	*
Local Sectoral Associations	□	*	*	□	
National Social Associations			0	*	0
Local Social Associations			*	*	0
University			0	*	
Technical Schools	0	0	*	*	
Training Centres	0	0	*	0	
Chambers		□	*	□	□
Regional foreign trade firms (eg.EGS)			*	*	
BANKS Development Bank Eximbank	*	* *	* *	*	*

0 very few firms benefit *benefit effectively □only membership

VI.5.2.3 Public-Private Partnerships

Public-private partnerships are one of the main concerns in most of the industrial districts. Especially the technology, education and training are the sectors in which efficient public-private partnerships experienced in the various industrial districts. Because a learning infrastructure cannot be effectively built through market mechanisms, the active involvement of local government, communities and voluntary associations is crucial. A recent initiation in Denizli is the establishment of a technology centre (TEKMER), with the collaboration of KOSGEB, Chamber of Industry, Pamukkale University and the

directorate of organised industrial zone. With the establishment of TEKMER it is aimed to encourage the development of new technologies in the province.

The educational emphasis has traditionally been on apprenticeships or on-the-job training (as opposed to research oriented education). An entrepreneur claimed that the apprentice training centres are not giving a training according to the practical work life. Another one says "it isn't important that you educated well unless you are in a position that can communicate well with your local people". The local authorities are aware of the weakness of the region's training system. With the initiation of Governership and the Chamber of Industry and the contribution of private sector a technical high school is established recently in the organised industrial zone. There is the evaluation that labour educated in technical schools are the ones who are most efficient on work.

While the entrepreneurs in the region are complaining about the lack of public support for industry, most of them are not interested in the central government researches as they thought it is a wasting of time. For example, National Productivity Centre (MPM) had an efficiency research in Denizli, but most of the entrepreneurs did not interested in this service offered by a central government institution. Because people are dealing with daily problems as firms are not institutionalised, they can't think of getting help from institutions.

The authorities of local economic organisations have a common point of view that Denizli is a province which is weakly organised in terms of political respects. They view their region as left in a triangle of cities, Muğla, Aydın and Isparta, which are politically strong and have effective politicians in the government. Among these politically strong cities, Denizli, has one the weakest political cadre in the government which they thought they could not get the government help and incitements easily.

According to some people in Denizli, the active and qualified entrepreneurs of Denizli are always on their work and have no time to politics, they only deal with their business. They have the picture in their mind "in Ankara (central government), it is known that Denizli people do their own works, there is no need to support them, they can built their roads and solve their own problems". Politicians of the region are not active in the lobbying activities in central government, for example in the competition with the other cities. In

this respect most of the local people believe that Denizli have always been left on its own and has to stand on its own feet.

VI.5.3 Institutional Conflicts-Power Struggles: Domination or Coalition?

It can be said that there had been effective cooperation strategy as a regional identity during the industrialisation history of Denizli. While that cooperative strategy had been cultivated as a "survival strategy" (Pınarcıoğlu,2000) among artisans in the initial phase, cooperation has become a growth strategy after 1980s with the new economic conditions. While the content of cooperation has been transformed, the intensity of competition has also been changed. While cooperation had been a survival strategy competition was due to jealousy, which is told in the region as a basic characteristic of entrepreneurs, jealous of producing with more quality, or selling more meters. However, when cooperation has become a strategy of growth, things have changed. Besides jealousy, getting more shares from export markets has become the main reason for competition.

In the literature it is argued that co-operation must be tempered by competition. However also it is stated that, economic relationships involve more than a dynamic tension between collaboration and competition, they also involve the more brutal exercise of power, through the control of resources, the manipulation of relationships or the exercise of discipline (Taylor, 1995; Allen, 1997).

The power inequalities of class lead to exclusion in business communities through its shaping of boards of directors and the strategic decision-making role they have (Hambrick, 1994; McNulty and Pettigrew 1999), which is the case in Denizli. In the chambers and exporters' union, the boards of directors are dominated with certain groups. These groups are the leader family groups and groups based on *hemşehri* relations and acquaintanceship (based especially on being from Babadağ district). This condition increases the solidarity among those groups but constitute a great disadvantage for the ones outside these groups. There should be as much members at the board of directors who will represent the whole firms in the region. By the way there are attempts to pierce this constitution by the entrepreneurs who left outside this group. There are some efforts to collaborate against the domination of particular groups in the local economic organisations but this counterattack seems weak at the moment.

An entrepreneur from textile sector and who is outside this group says,

> "it doesn't matter so much to be inside or outside of the industrial institutional structure because the problems are similar, however there should be something happening without our knowledge. We want that the institutions should represent the general structure of the region. For this, we are in a move to establish an opposite front to the existing structure. In the last elections of directory of boards of exporters' union, we come together with some industrialists and pierced their candidate list and achieved to introduce our candidate for the first time outside that group.

Same complaints have been expressed about the chambers also. All small and medium-sized producers indicated that, even if chamber takes an active role in the future of Denizli, they would doubt that their (or large firms') future is of the main concern and some complained about the increasing personal interests and conflicts among textile and other sectors' businessmen in the chamber.

While the new economic environment in Denizli is increasing the competition conditions and transforming the cooperation facilities, new power struggles have naturally being shaped by the economic actors. In this competitive environment, the economic power distribution in the development of textiles in Denizli has been continuously reshaped. Although, generally speaking, the growth of local textiles has been attributable to small and medium-scale firms, the development process that those firms have been through in the province has normally transformed their scale as well. Depending on the different experiences of success, these firms have evolved to different scales. In particular, some of them have evolved into very large firms so that the transformation eventually caused the concentration of economic power in the local network of textile producers. This kind of power inequality can be seen leading to exclusion by restricting firms' freedom of action, limit the forms transaction and buyer-supplier relationships open to firms according to their positions in inter-firm networks (Taylor, 1998). This restricts the ways they are able to do business and, thus, their possibilities and potential to accumulate capital.

Power inequalities can create lock-ins and the ossification of transaction relations (Amin and Robins 1991; Amin 1993; Grabher 1993b; and Glasmeier 1991). Indeed the creation of institutions in a place can be seen just as much as a way of protecting the status quo of doing business in a place (and so promoting lock-in) as much as a mechanism for the generation of dynamic development. This situation meant sometimes open sometimes hidden power struggles among the entrepreneurial associations, which made difficult to define a "singular" and coherent locally embedded industrial agglomeration. Both power

struggles and the institutional split have been strongly motivated by the desire to have an easy access to government policies and possibilities of influencing them for the benefit of their groups, since as they thought that external support was still crucial. The abundance of businessmen associations indicates the power struggle rather than a coalition in Denizli.

There were also certain internal power struggles within the entrepreneur associations. The leaders in certain production fields, who shouldered the role of support and guidance to other firms, did not let them to overtake their leading role even if they reached the capacity of motivating the others. The game has been defined as "*to give the different types of support while they have subordinate roles, but not to extend help when they seem to have more ambitious and individualistic strategies*" (Eraydın, 1999). This type of patriarchal relations helped some firms to overcome their problems, but obviously negatively affected the individual creative strategies.

However, in a short period of time power struggles became more obvious among these groups indicate itself with the increasing number of institutional splits. These associations or institutions represented different economic mentalities and conflicting interests. As a consequence their remedies for regaining competitive advantage had been quite different.

IV.5.4 Local Embeddedness: Acting as Resistance to Change or Function as a Mechanism to Cope With?

In Denizli there is a network of interpersonal relations which is defined by family, friendship, acquaintanceship or communitarian relations. Most managers of larger enterprises meet regularly and many have known each other personally for years. Even in sectors dominated by a great number of small and medium-size enterprises, all producers have a remarkable degree of knowledge of most other domestic producers in the sector, their main domestic and foreign suppliers and the most important customers.

Entrepreneurs have some similar characteristics. Many of them have received the same education and training, just as most will have participated in some sort of joint activity at the local, the regional or the national level. There is patterns of labour turnover and work-force, traditions of solidarism or individualism. Some new firms may started by former

wage labourers, well known in the community and well acquainted with the unwritten rules according to which business in the area is conducted.

The communal history and culture often make them share many of the same beliefs values and convictions, which can make certain types of exchange and corporation easy (Aydolat 1986). There are specific norms of behaviour, conventions, and codes of conduct.

VI.5.4.1 Networks of Interpersonal Relations- Family, Kinship, Friendship, *"Hemşehri"*[9], Religious Community Relations

In Denizli interactions take place among groups of firms linked by family ties or long-standing friendship. There are lots of group of firms which managed by brothers or cousins who jointly handle the different processes of the production, marketing, exporting.

In Denizli, besides family and kinship ties, *hemşehri* relations (especially being from Babadağ district) are very important in having solidarity and trust in business relations. Religious communities also have an effect in building trust, however in an unclear way as trust based relations are multi-layered and hard to determine whose effect is more substantial. There is also interpersonal networking among the individual actors who build their relations based on only past familiarity with others.

In Denizli there are lots of stories about solidarity relations in daily life. One of them is told by the manager of a yarn producing firm.

Figure19. Positive Effects of Solidarity

"Once in our factory, the electronic card of one of our machines was out of order. I took it to Antalya, where there is a master on this subject, who is well known by Denizli's industrialists. During the reparation there had been a problem. Because the machine was not there we had no possibility to test the card. The master told me that few days ago he repaired a similar card which is also belong to another entrepreneur from Denizli. We decided to call the entrepreneur to compare the cards as he was also in Antalya. When the entrepreneur learned from the master that I had a problem, he told the master to send the card which has a problem and he will send his own working card to me. The entrepreneur told to the master that he is grateful to my firm as we had made him visit and examine all the mechanical and organisational setting of our factory few years ago when he was first establishing his factory and he had taken our factory as a model".

[9] "hemşehri" =fellow citizen (Eraydın,1999) or townsmanship (Pınarcıoğlu, 2000)

The same manager told another story which is presenting the negative effects of solidarity in Denizli.

Figure 20. Negative Effects of Solidarity

"Once we had produced yarn for an Italian firm and sent the product to them. When the firm received our product they had sent a fax to our firm telling that the quality of the yarn is above the level they demand. They suggested us a process which would decrease the cost of production." He complained that this kind of solidarity is lacking in Denizli and related this case with another story in Denizli.
"Once we were in a business relation with a firm in Denizli. We had sent our sample product, yarn, to that firm. But they had sent back this sample yarn claiming that they were not satisfied with the quality of the yarn. Although we were very much sure about the quality of our product we again used all the possible processes to ensure the highest quality of the yarn. However, they again complained about the quality. Then I informed my boss about this situation. My boss smiled to me and told me that it is impossible to sell our products to that firm as that firm is in a group which has religious base and they only have business relations with firms among themselves".

The close business environment and close relations also generate negative atmosphere even among the members of the same family. One example for this situation is given in the Figure 21. There are many examples of this kind observed in the field.

Figure 21. Offended family members due to business relations

The entrepreneur of the firm a is the brother of firm b. They came to Denizli from Kızılcabölük. Firm a was established in 1984 and produces textile, bathrobe and readymade clothes. Firm b is established in 1998 and the entrepreneur of the firm b is female.
The entrepreneur of the firm b had been introducing her sister's sample products in the European market. He were making agreements for the products of her sister during this process. They worked together for 4 years. Then he established his own firm and his sister found a designer and pass to ready-made clothing by establishing her own firm. Although both firms do the same kind of production they do not have any business relation for years, they even don't talk with each other.

There is an industrial atmosphere in Denizli. In the meeting of families, when young people come together, they always talk about the economy. Attention and energy is all oriented to the solution of the problems concerned with industry and economy of the region.

Groups of indigenous producers from the centre of Denizli and from the districts of Denizli, especially from Buldan, Babadağ, built up particularly strong social and business linkages based on trust and face- to-face communication. Although while the people from districts of Denizli have some kind of a closure community during the ongoing daily relations in Denizli, when they are outside of Denizli, they strongly emphasise the identity

of being from Denizli. Among the broad network of all producers in Denizli, these producers mostly based on their kinship ties as well as *hemşehri* ties, appear to have constructed closer relationship and helped each other to export in the growth phase. This situation apparently led many of these producers to enter exports and cultivate their remarkable success, giving them control over Denizli's textile industry in a relatively short period.

Most of the firms interviewed stated that, while choosing a worker for their firms they mostly prefer the people from their family environment or people with whom they have "hemşehri" relations, or they know from their friends. Loyalty to cultural values should be accepted as an asset however, if this goes beyond economic rationality, communal solidarity will act as a mechanism to favour family members, friends instead of ensuring efficiency in production. This situation is true for mostly the traditional firms in Denizli.

One of the apparent characteristics of Denizli people is that they engaged in charities frequently. There is a lot of health and education investments realised by the donation of the industrialists. Also some firms support the social and cultural activities effectively. An entrepreneur told about the working principle which he learned from his father as "to make greater what we take from society and to give it back, it is the responsibility of the industrial establishments to contribute to the social and cultural issues of the society" this principle make them to invest their profits to education, health and environment other then their industrial investments.

VI.5.4.2 Entrepreneurial and Labour Structure

Figure 22. Typical Short Story of a Denizli Entrepreneur

.....he closed the phone and relaxed. He just made an export agreement in high quantities for his bathrobes and towels for a famous trademark of world markets. Not so far, 15 years ago he was producing with manual loom in the ground floor of his wooden house in Babadağ. At that time he was thinking with his friends how to break the vicious circle of their economic life. And he took his suitcase and went abroad to market his products. And now people from abroad is coming to him to buy his products....(MPM, 1998).

Which characteristics of Denizli's entrepreneurs have made them to break their vicious circle in the 1980s? A typical short story of a Denizli entrepreneur is given in Figure 22. They describe their own characteristics as; hard-working, thrifty, honest, frugal,

courageous, ambitious, competitive. Some of these characteristics overlap with Fukuyama (1995)'s discussion about the entrepreneurial virtues which emphasises hard work, frugality, rationality, innovativeness, and openness to risk should be combined with as well a series of social virtues, like honesty, reliability, cooperativeness, and a sense of duty to others, that are essentially social in nature. However, Denizli and its entrepreneurs are already living the troubles of passing to modern capitalist production from traditional artisanal and atelier type production. The entrepreneurs of the initial raw material oriented production sectors, preferred to invest in traditional production fields, such as textiles and clothing which indicate that the entrepreneurs of Denizli are not open to risk and not innovative. All the changes in production have been realised as partial improvement strategies by the fear of going into an unknown field of production.

The system is having difficulties in digesting financial and organisational aspects as the development is realised as a boom. The entrepreneurs who define themselves as ambitious and hard-working have been left with the risk of being ineffective in the management of their firms by the increase of the functions brought by enlargement. Although they realised that their firms get out from their control and they left inefficient to command their business, they are not quick enough to develop themselves as modern entrepreneurs. One reason for this is they are coming from artisanal production and cannot leave their customs easily. During this growth and transformation period some of the leader firms tried to reorganise production activities and understood that management and marketing were as important as production. However, another important problem appeared as the lack of professional managers.

At this stage, most of the entrepreneurs of the leader firms, ensured their daughters and sons to get education abroad in the management field. This situation indicates that still entrepreneurs want to continue the family firm tradition and they do not want to depend on professionals. In the 1990s the second generation became managers but patriarchal relations are important and it has not been easy to change the business mentality of former generations.

However, the second generation is not courageous and ambitious as their fathers had been. A second generation industrialist whose family history in industry goes back to rather past makes an evaluation about the differences between the generations as

> "my father was a very close friend of mine, he was an ambitious and initiative-taking man. He wasn't making feasibilities giving time, he was taking risk so easily and he was supporting every kind of initiations, and these were good virtues in the conditions of 1940s. But today conditions have changed, you should make a very careful research to determine which sector to invest and find a special track that will differentiate you from the others, you should make a production in a special area. You should reach to the quality, price and cost level which will compete in the world markets. Eyes shut courage is an adventure today".

It can be said that, Denizli's people have some entrepreneurial characteristics but the ones who are educated well can be a creative entrepreneur. It is observed in the field research that the entrepreneurs who have been educated well and also not coming directly from an industrial family are the ones who are making rational investments by searching world markets to catch a niche and acting more courageous and creative.

However in the relatively traditional industrial community, improved welfare and better education result in an increasing tendency for local young people who are better educated than their parents, to abandon the sector if they can find alternative jobs. The resulting interruption of the accumulation and transmission of skills from parents to children, from one generation to the other could, in future undermine the collective learning effect which has been so important in determining the competitiveness of the districts in the earlieer phases.

One of the main characteristics of the Denizli's entrepreneurs emphasised from the various sources is their tendency to copy and imitate. This has both negative and positive impacts for economic development. Some entrepreneurs argue that this is the traditional behaviour of the region. It is told that especially the first generation entrepreneurs don't do feasibility while making investment, they give decision according to the behaviours of the other entrepreneurs they know; they don't consider the researches but believe only to the things that they see with their eyes. An entrepreneur give an example on this, "we had an investment to a new sector and we had been successful. Our success created a jealousy in the city and now a lot of entrepreneurs are trying to enter this sector without any research".

Copying or imitating is good for creating a critical mass to develop a sector in the region but to pass to the innovative phase, it is important to have conscious and educated mass of entrepreneurs. While the existence of imitation tradition in the region has been a factor in the development of textile sector by creating a necessary mass for a sector to be developed

in a region, at the same time it has created an obstacle to product variation and excess in supply because of not following the world market trends.

The structure of small firm entrepreneurs are more conservative. The head of KOSGEB emphasises the conservative side of the small entrepreneurs;

> "there is conservatism in all of the small and medium enterprises. They are not educated well and with master psychology they acquired from ateliers, they thought that they know the best. They go forward only when they see there is a gain. It is hard to give something unless people want. So as a service institution our work is hard. They are afraid of enlarging their firms, they do every kind of work such as, production, marketing, raw material providing, finance by themselves. They are afraid of employing qualified staff or engineers with the thought their staff could take their work from their hands".

Labour

Due to the social nature of its production and reproduction, labour is the most place-bound of the 'factors of production' (Peck 1995). The production and reproduction of labour power depend on the supportive effects of certain key social institutions and consequently, require a substantial degree of stability. This stability can be explained to some extent by locally acultured work patterns and rythms, patterns of labour turnover and work-force, traditions of solidarism or individualism.

The existence of a reservoir of skilled labour is always assumed to be one of the externalities in highly specialised clusters of firms. Specialised jobs are thought to children by their parents and where skills are accumulated and transmitted from one generation to another. In all stages of development of industry in Denizli, capital accumulation has been related to the availability of cheap and skilled labour force. Due to the artisanal culture in the region, long working hours at home and availability of family labour and minimum consumption habits have led to the continuation of different forms of production and labour organisations longer.

In 1990s, the number of small and medium sized firms engaged in fabric production and sewing stages have increased in number to provide cheap labour force as dependent subcontractors, especially by using family labour, informal means of employing labour and accepting low profits especially in the initial stages in the face of severe competition

due to the production of similar goods (Pınarcıoğlu,2000). In recent years, there has been a move towards high quality production especially by large firms, in which more skilled clothing production (in relatively difficult models of bathrobes and other core clothing items) is especially important. This transition has brought problems in Denizli's textile and clothing production since it has not had substantial working knowledge in clothing apart from women's handiwork ability (Pınarcıoğlu,2000).

There are so much textile firms and employment potential is not enough to provide for this development. Unqualified labour is an important problem. Also the workers in the factory did not want to improve themselves as there had been high turnover in the growth and maturation phases and they were leaving the factory easily when they found another work with a higher earning. Labour transfer among firms affected the balance, intimacy and trust among firms negatively. It is observed that mobility of the labour decreases when the skills improved. Also because of the decreasing level of investment due to crises conditions labour turnover has been slowed down in the region. The relatively institutionalised firms stated that they choose their workers mostly among the ones who didn't work for another firm before, to establish their own firm work ethic and also to establish the inside firm integration.

Denizli is one of the provinces with the highest ratio of female workers. Denizli's women workers have generally been concentrated in medium-size and large firms. The majority of these female workers come from villages around firms. Particularly young girls from these villages have constituted a significant number of workers of these firms. Unpaid female workers have been the common practice in artisanal textile districts, the main workers who help work at different levels. In these firms the male workforce are overwhelmingly uninsured temporary workers mostly composed of new migrants in the town who get cash-in hand money. Another uninsured source is small clothing firms disseminated in the province where the workforce is exclusively women who appear to be mostly migrants learning clothing production and working temporarily there (Pınarcıoğlu, 2000).

In the industrial district literature labour relationships have always been described as very good such as the existence of very friendly and easy relationships between the entrepreneurs and workforce (Rabelotti 1997). Very fast social transformation in Denizli

also made the relationship among entrepreneurs and workers mild. Entrepreneurs "who have climbed the social ladder have remained attached to their past when they themselves were small entrepreneurs or even workers" (Işık and Pınarcıoğlu 1996). It is possible to see entrepreneurs have their meals with workers or even some cases in medium sized firms working with their workers side-by-side. In the eyes of the workers, they have become rich but their essence has to some extent remained the same. These entrepreneurs constitute a good model especially for male workers which have deep ambitions to become at least a small entrepreneur.

Some entrepreneurs stated the importance of suggestions related to production process coming from their workers, which they benefited mostly. One of the firms stated that they organise breakfast meetings with the workers for this purpose, also another one told about a competition organised among workers about bringing new suggestions and which at the end they put into application in the production process. It is also observed that there are religious motives in social relations with labour. In one firm they stated that since 1995 they determine the profit of the firm and some amount of this profit is distributed to the workers as alms (*zekat*). This application has the aim of social support of workers.

VI.5.4.3 Informal Conventions-Habits, Routines

Embeddedness has been emphasized as the key to the functioning of industrial districts. In inter-firm linkages between suppliers and customers, for example, informal ties and trust are important. The paradoxical combination of co-operation and competition is considered to be the result of this embedding. Trust can be built up over a period of time through repeated interactions. Geographical proximity is regarded as an important factor for such trust formation. However, with the progress of internationalisation, non-local embeddedness, long-distance interactions and trust can be built up over long distances across local, or even national boundaries, is also important. Accordingly not only local embeddedness but also non-local embeddedness is an important force when considering industrial districts.

It is stated that informal constraints -norms of behaviour, conventions, and codes of conduct- are a necessary (but not sufficient) condition for good economic performance. Long-term exchange relationships, trust and mutual orientation, integrated separateness,

dominance, exploitation defines the structural embeddedness patterns of an agglomeration.

Economic reciprocity rests essentially on the dense interpersonal ties between individuals and families who know each other for life, which is structurally underpinned by this population closure. First, there are limited co-operative exchanges between firms, the typical form of which is work sharing. Second there are limits to cheating; that is producers may bid below their average costs, rather than have no work at all, in an effort to build their connections to the buyers, or on the other hand, buyers may bid down prices to untenable levels when their power is great.

Another widely seen relationship between producers is seen in the form of producing for each other when the required machinery is not present in the firm or when one of the firms is in difficulty of finishing the contracted production on time. This is done on the basis of help among producers who have close relationship due to family ties or acquaintance. They claim that this mutual aid is seen among producers with similar opportunities and depends on the future expectation of getting help in difficult times. The partners in this relationship pay the help of the other firm by producing for the other when necessary and this helps to strengthen trust relationships and make them feel strong in accepting contracts. This type of relation is the most seen solidarity relation among firms in Denizli.

However, although there seems to be cooperation and mutual aid in the organisation of production, firms generally try to conceal companies they have business relations with due to fierce price competition in the same markets; this is even the case between close friends or family members who have separate establishments (Pınarcıoğlu,). Knowledge about customers becomes precious information which all the firms try to get. Therefore, the technical or administrative personnel who have experienced in exporting relations in other firms is considered to be crucial asset in forming export relations and frequently pirated by offering high wages.

The head of KOSGEB explains this concealing behaviour for another case with a dramatic example;

> "In 1996 there was a textile machinery fair in Italy and we thought that if we can collaborate with university and chambers we can establish a commission. The entrepreneurs who will enter the fair could inform that commission about the machines that they want to buy, and

> that collective buying process would ensure a bargaining possibility and the service and laboratory facilities would be guaranteed. But nobody had listened what we said, and everybody went there and bought the machines by themselves. They had the thought that 'mine should be better than my competitors'. And we couldn't achieve to collaborate because of their nonsense feeling of competition".

A restricted number of players in the business community in a region or in a small company makes it very difficult to behave in an opportunistic manner without being severely penalised (Krebs 1970; Trivers 1971; Douglas 1987). And in regions where the majority believe that opportunism is penalised, firms act as if they trust each other (Granovetter 1985, Saxenian 1994), and may thereby benefit from the type of knowledge exchange discussed. The following quotation of an entrepreneur who is in close relationship with the group of entrepreneurs from Babadağ explain these last propositions well;

> "I had lots of partners during my business life and we are all meeting with them already in close relationship. In Denizli you don't need to apply to a bank or to another institution or to have a formal procedure to get an intelligence about another firm or entrepreneur. When I need that kind of an information I just phone to a friend who had a business relation with the one that I am asking for and ask whether he is a trustful one, if he had a bad reputation from his earlier works my friend will tell me not to do any business with him, this is just clear and easy, there is an environment which people can come together and unite so easily".

The symmetrical properties of trust, reciprocity and loyalty in buyer/supplier relationships are argued as being either temporary or even illusory, and to be fundamentally at odds with the existence and impact of power asymmetries within and between firms (Bresnen 1996; Pratt 1997; Baker 1996; Taylor 1999). This is somewhat true considering Denizli's industrialisation history and the effect of trust in this process. In stagnation and crises phases, especially in the last crises, there appears erosion in the assets which proves the temporariness of these kind of properties.

Loose couplings, or integrated separateness (Lundvall 1993), recognises the ability of firms networked in a place individually to shift their partners while maintaining an essentially stable district framework of interaction. In Denizli, the industrialisation history indicates some loose couplings among producers. However, these couplings are mostly repeated among the particular groups especially the producers from Babadağ until 1990s. EGS model had been a good example to widen these groups who could establish loose couplings. During the ongoing transformation the patterns of loose couplings should be expected to develop.

The term 'interlinking transactions' refers to transactions, which are concluded by the same two parties in more than one market, such as interrelation between credit and land and/or labour markets. In Denizli, there is interlinking transactions both in terms of giving informal credits among firms, or hiring labour or using each others' machines and equipments. These interlinking transactions occur in the framework of interpersonal relations discussed in the above section. These interlinking transactions occur mostly among the groups who are belong to the same family or among the producers from Babadağ. Reciprocity refers to recurrent transactions between networked firms that are more than simply repetitive and involve relationships that do not have immediate equivalence in each transaction but achieve some approximate balance over the life of an exchange relationship. It can be said that these traditional groups have reciprocity among each other.

There is another kind of interlinking transaction that is subcontracting and credit. This give rise to a type of organisation which can be considered as an implicit form of partnership between subcontractor and client. Local agents prefer this type of informal organisation to an explicit partnership. The reason is that, small enterprises (individual proprietorship or family concerns), joint stock companies are relatively few, many firms do not take advantage of the limited liability which the law provided for the joint stock companies. In practice, with interlinking credit a temporary quasi-partnership is established between the contracting parties, and if business goes badly, the one who has anticipated part of the capital will risk at most losing only the amount lent. Interlinking credit is therefore a way of permitting small firms to benefit partially from limited liability.

Interlinking transactions of subcontracting and credit create reciprocal obligations supported by credible commitments which, by encouraging the continuity of the relationship between the parties, provide a mutual insurance against market uncertainty.

VI.6 Evaluation

Denizli and its districts Babadağ, Buldan and Kızılcabölük had been centre of artisanal textile production for centuries. With its accumulated production culture and localised production network, the region, especially the province centre, have witnessed a rapid

development and transformation process after 1980s with the interplay of government policies, and the province began to be called as one of the new growth nodes in Turkey (Table 55). This transformation is also being living recently with the problems and future prospects.

Table 55. Identification of Denizli as a New Growth Node in Turkey

FACTORS / CONDITIONS	Denizli newly growing industrial node
SPATIAL	Geographical proximity
ECONOMIC	Family firms, multi-partner firms Self-capital Some large units but mostly SMEs Specialisation in textile sector Production for export market Subcontracting
POLITICAL	Foreign trade policies Investment, exporting incentives Infrastructure facilities
SOCIAL/ BEHAVIORAL	Homogeneous social structure Mild employer-worker relations
INSTITUTIONAL Central govern. Local govern.	Local branches of central government Chambers Foreign Trade Firms Low wages, limited social security Little local R&D
CULTURAL	Experience in production and labour organisation Accumulated knowledge Inter-firm solidarity networks Women home-workers
SUCCESS FACTOR	Newly growing industrial node based on cooperative competition
REGIONAL SYSTEM	National identity-open system/some hierarchy Agglomerated network of mostly small but also some large firms
POLICY NETWORK	Strength of state is strong and strength of societal interests is weak

Most characteristics of Denizli case as an industrial cluster put forward similar issues with the industrial clusters observed in the LDCs which takes place in the industrial district literature. In Asia and Latin America particularly there is evidence of clusters, characterised by deep concentrations of specialised industries, with a long historical tradition (Rabelotti 1997), like Denizli.

At the macro level, it is important to emphasise that the state influences the workings of industrial districts through macroeconomic policies. The empirical investigation of the Denizli case emphasises the role that the trade policy regime have on the intensity and

quality of linkages among economic actors. It seems that in developing countries most industrial strategy is elaborated and managed at the central level, while there are few local level initiatives and these are often hampered by a centralised decision-making process and a lack of financial independence.

Sectoral specialisation and geographical concentration of small and medium scale enterprise are rather common phenomenon in developing countries. In many cases such small firm clusters have a long historical tradition in self-employment and in craft or artisan manufacture of specific products. In many of the clusters analysed there is a critical mass of specialised enterprises, forward and backward-linked economic activities and specific supporting institutions. However, the spatial proximity of a group of firms specialised in making the same or similar products does bring few benefits which is also the case in Denizli.

Although there is agreement on the importance of a social environment characterised by strong family ties, sense of community, ethnic identities, there are cases in which the socio-cultural factors stated to play a negative role instead of promoting social cohesion and facilitating the relationships among the economic actors located in the clusters (Rabelotti 1997). On the other hand, in other cases socio-cultural identity plays a positive role in promoting cooperation and trust and providing a commonly accepted set of codified rules. Another result which comes out of in some studies is that social environment changes with time (Rabelotti 1997). In some cases social links have weakened over time due to increasing differentiation within the clusters (Wilson 1992) or rapid growth caused a similar effect on social networks weakening trust relationships among firms in others (Schimitz 1995a). Also it is emphasised that the importance of strong family ties was eroded by growth and replaced by an increase in 'weaker' social ties, based on being local and on 'knowing and being known' (Schimitz 1995 b).

Table 56. Evaluation of the Institutional Atmosphere of Denizli

Factor	*Determinants*	*Outcome*	*Effect in Regional Development*	*Possible Solutions*
Traditional socialisation	*Cooperation and consensus *Imitation *Culture of command and hierarchy	*Some successful organisations *Lack of self-awareness *Clientalist relations	*Helps to adapt to changing conditions *Barrier to development of firms *Overwhelm reflexive culture	Substituting traditional ties of hierarchy and dependency with links of mutuality between economic agents and institutions
Temporariness of some locally embedded relations	*Trust and solidarity *Exclusion	*Collaborative behaviour among some groups *Generate distrust as a whole in the region	*Weakening of trust and solidarity relations in economic downturn periods *Barrier to develop a commonly held industrial agenda	Identity of region should be reinforced
Weak Institutionalisation	*Insufficient number and variety of local organisations *Overload of organisations in the same fields (i.e business assoc.)	*Incapacity to organise the play of economic and social actors *Weak interaction amongst institutions	*Firms could not benefit effectively from the externalities of clustering *Asymmetry in power relations	Institutions should be actively engaged and conscious of each other, display contact, cooperation and information exchange
Inadequate Support Institutions	*Lack of adequate volume and quality of real services, finance education and training	*Weak financial capacity, weak regional learning and adaptability, inadequate level of skilled and professional labour market	*Development left to market mechanism generate individualistic behaviour	Identify the role of public, private, public and private partnership and develop self-help and special-purpose agencies

Coming to the social and institutional environment in Denizli which is summarised in the Table 56, firstly it can be said that the settled social groups either based on family relations, relations based on same birth place (*hemşehri* relations), communitarian relations or acquaintanceship relations had generated traditional socialisation patterns for a long period of time in Denizli. A series of embedded social practices and conventions can be noticed in the historical sociology of artisanal entrepreneurship. These craft values come to be institutionally enshrined within broader both with communitarian ideology of cooperation and consensus linking up to some successful organisations and also with individualistic behaviour of competition and lack of formalised institutional support and lack of political community.

The inadequacy of support institutions in the growth phase leads to individual action on the part of firms in making use of available economic, social and political networks to get benefits, which increase asymmetry in power relationships. When the development is left to pure market mechanism without any long-term considerations for the whole system, it is often seen that the initial capabilities which have enabled growth in the first place is consumed in a short time, leading to the elimination of potentially creative elements in the system.

The industrial groups that behaved collaboratively in the industrialisation process of the region seem to be successful in terms of adaptation to the new conditions. However, even in these groups technological development is slow due to imitation tradition. The imitation tradition appears as a position to stay close to the other actors, which in turn produce an obstacle for creative organisational transformation and technological change. In other words, traditional socialisation act as a barrier to economic development.

The culture of command and hierarchy that characterizes behavioural atmosphere of Turkish people in general and Denizli people specifically, has overwhelmed the formation of a reflexive culture (which involves strategic and goal-monitoring behaviour (Sabel, 1994), encourages experimental anticipation and actions seeking to shape the external environment) among the majority of its economic institutions and, consequently, prevented the encouragement of rationalities geared towards learning and adaptation.

Denizli is not an exception when considering the weakness of Turkish regions, their weak institutionalisation and their relative incapacity to organise the play of economic and social actors. In Denizli, while the number and diversity of institutions is not sufficient for a good economic performance, there is also some overload of institutions acting in the same field, such as business associations. Interaction amongst the institutions is also weak.

It has been observed that institutions generate power struggles and hegemony which create lock-in and cause inertia especially in the maturation and growth phases. The cliques existing in the local institutions create lock-ins which could be anticipated to be loosen in the future when the problems of severe economic inefficiencies will be understood by the local actors by taking lessons from the mistakes.

Denizli case proved the temporariness of some locally embedded relations such as trust and solidarity and their inadequacies in generating path breaking changes in the economic downturn periods. While there is a trust within closed groups due to family or communutarian relations, the other actors excluded from these type of groups tend to generate distrust as a whole in the region. This distrust indicates itself in the form of concealing knowledge, stealing each others' clients etc.

From the observation of Denizli, the factors contribute to regional learning and adaptability can be commented by thier lacking in Denizli. It can be said that one obvious factor which is lacking in learning and adaptability process is the scale and density of 'intelligent' people and institutions, as reflected in; the skill and professional profile of the labour market, the volume and quality of training and education across different levels, the depth of linkage between schools, universities and industry, the quality and diversity of the research, science and technology base, and the availability of intermediate centres of information and intelligence between economic agents and their wider environment. These are vital sources of codified knowledge, in a region. Denizli mostly display a discernible lack of most of these attributes, with policy actions mostly steered from national regulative framework, often geared towards the production of low-grade skills and training or towards disembodied ventures such as university expansion and training schemes which fail to build the necessary connections.

In the industrial district debate, self awareness of actors is emphasised as an important factor in the development prospects of regions. In Denizli considerable amount of firms simply copy others, thus relying on someone else's assessment of the significance of environmental change. Other firms understand the world through reflections on past experiences and thus reflect an historical view rather than one informed by future trends. A small number of firms combine the experience of their histories with an acute awareness of what is possible –and therefore what is likely to occur in the future –and then act. These organisations, to the extent possible, control aspects of their destiny. The imitation of process and product technology which have proved to be successful is stated to be one of advantages of agglomerations of firms because the diffusion of knowledge and know-how is easy and rapid, which in turn, leads to a rapid transformation. This was also the case in the growth phase in Denizli. However, in the long-run this attitude appears as an obstacle for learning and innovative behaviour. In Denizli, the imitation strategy is also the result of limited local capital accumulation and there are no active and sufficient institutions that provide risk capital. The empirical investigation has shown that firms differ in their capacity to interact with other economic agents: some firms mainly rely on external economies while others invest in cooperative relationships.

A naïve interpretation of these processes would be to suggest to formulate policy interventions that encourage and launch local growth. What we can discuss at this point could be some possible solution patterns.

Traditional socialisation is dependent on the settled social groups for a long period of time. On the contrary, spontaneous socialisation is the ability to establish innovative organisational structures by coming together and joining in new groups. If this spontaneous socialisation will be benefited for establishing economic organisation it will contribute to economic development. So the essence of traditional collaboration in the region should be transformed to modern collaboration by institutionalisation. The policy challenge in this regard is to find a way of substituting the traditional ties of hierarchy and dependency (e.g. state provision, family connections) with links of mutuality between economic agents and institutions.

It should be emphasised that the success in local economic development stands at the integration of different relational systems, layered institutional forms such as formal

organisations-informal norms, local actors-central actors, public sector-private sector. The institutions involved must be actively engaged with and conscious of each other, displaying high levels of contact, cooperation, and information interchange which may lead, in time, to a degree of mutual isomorphism. Identity of the region should be reinforced.

Nevertheless, local institutional innovation and local proactivity can never be sufficient to guarantee economic regeneration and social progress. The real questions are much more to do with the relationships between *local changes, corporate strategies, and national and supranational state strategies* and with whose solutions are to be implemented.

CHAPTER VII

CONCLUSION

The main objective of this thesis has been to provide an account of the recent rise in institutional paradigm which substantiate essential theoretical, methodological and policy implications for economic geography. In this concluding chapter the aim is to provide an evaluation to what extent this thesis has fulfilled its sub-objectives that is; forming the framework of an analysis of a local economy from the perspective of institutional approach; extending our knowledge about the institutional aspects of local economic development; and speculating about the shaping or informing policy prospects addressing the regions which continue to cope and prosper, given the constraints within which they must work in a globalising world.

Institutionalist paradigm argue that economic life is the product of multiple determinations, since the economy is socially and culturally embedded, as well as time and space bound. Economic activity is seen to be neither solely driven by abstract universal laws, nor by economic agents behaving identically. Instead the social intermediation of the general necessities of economic reproduction together with time and place-specific patterns of economic behaviour, constitute a multiple set of non-universal determinants of economic activity.

The 'new economic geography' has been affected from this rise in institutional and evolutionary approach, as it provides solid economic reasons for local agglomeration in a globalising economy (reduced transaction costs, economies of specialisation, externalities etc.) and the explanation of the sources of these local advantages, which is suggested by economic geographers as to lie in the character of local social, cultural and institutional arrangements (Amin 1999). The complex set of institutional conditions, which are not ubiquitously available explains why only some territories have been able to become

centers of agglomeration (Amin and Thrift, 1994). Insights drawn from institutional and evolutionary economics concerning ties of proximity and association as a source of knowledge and learning (Amin and Thrift, 1995; Storper, 1997) contribute to the differentiation of space which point out that national and regional features and distinctions are not washed away by the formation of global markets.

All these explanations, which have been the main concern of the theoretical discussion of the thesis, imply that specific local instances produce a unique local institutional atmosphere, which can never be imitated and it is not possible to adjudicate treaties and standards in order to produce a homogeneous environment for competition. At this point, one of the sub-objective of the thesis gains importance, with a question: Within the theoretical perspective of institutional approach to economic geography how we should analyse local economies for developing realistic, compatible and appropriate policy interventions that might be implemented at regional level of government?

Although it is true that policy-based studies have tended to focus on institutional settings which might encourage local economic dynamism, the thesis proposes that, in order to understand phenomena like economic growth and development (or the lack of them), and structural, technical and organisational change, analysis should also be about the study of path dependencies and collective practices which circumscribe economic potential and creativity. In the new understanding of territorial economies, the outcome of the institutional evolution, the efficient cooperation between different levels of policy making should be taken as an independent variable determining the growth of an economy. Furthermore, it has become clear that institutions of different kinds hang together in more or less coherent systems characterised by the roles and the interactions of the various institutions.

Another sub-objective of the thesis, learning about institutional aspects of local economic development, has been taken under the study of real world cases, that is; comparative analysis of industrial districts examined from the literature, and a case study designed through the presuppositions of the institutionalist theories. The problem gap between our level of empirical knowledge and general theories can be decreased by a theoretically informed empirical modelling and much research and ingenuity are required to test the many assertions of the literature.In this thesis the expected contribution of the case study

has been to see to what extent the findings of the case fulfill the explanations in theoretical debates rather than to develop policy-based suggestions. It is thought that this thesis will have served its initial objective if it serves as a starting point for future research and reveals the early implications of the institutional approach to economic geography.

Matching with the theoretical discussions in institutional approach to economic geography, we can say that Denizli case helped us to improve our ingenuity on the aspects of relation between proximity, production culture, macroeconomic conditions, institutionalisation level, locally embedded relations and the local economic development with the concluding points summarised below:

Clustering, Specialisation, Historical Production Culture

Most characteristics of Denizli case as an industrial cluster put forward similar issues with the industrial clusters observed in the LDCs especially, in Asia and Latin America, characterised by deep concentrations of specialised industries, with a long historical tradition. In many cases such small firm clusters have a long historical tradition in self-employment and in craft or artisan manufacture of specific products. In many of the clusters analysed there is a critical mass of specialised enterprises, forward and backward-linked economic activities and specific supporting institutions.

We have seen that historical production and collaboration tradition act as an initial advantage in Denizli. During the industrialization process, evolution as part of a larger whole, made firms and other actors to adapt certain aspects of that larger whole and share common characteristics with other actors forming a part of that whole caused homogenisation among the actors involved. However, the spatial proximity of a group of firms specialised in making the same or similar products does bring few benefits in terms of innovative behavior.

Macroeconomic Conditions

At the macro level, it is important to emphasise that the state influences the workings of industrial districts through macroeconomic policies. The empirical investigation of the Denizli case emphasises the role that the trade policy regime have on the intensity and quality of linkages among economic actors. Government policies which was aiming to support the development of industry (such as priority region scheme, multi-partnered worker firms) had been influential in the initial take-off. Macroeconomic policies in the

growth phase motivated local dynamics and the locally accumulated production culture and capacity. Generous incentives for export activities helped the development of local economy while on the other hand because of its uncontrolled process where there is no steering function of central government there happened excess investment in the same sector and same product types which causes excess supply in a short time.

It seems that in developing countries most industrial strategy is elaborated and managed at the central level, while there are few local level initiatives and these are often hampered by a centralised decision-making process and a lack of financial independence.

Denizli case proved that, as it is the case in most of the LDCs, industrial districts are so much sensitive and fragile due to the macroeconomic conditions. Global macroeconomic crises (such as Asian and Russian crises) and national macroeconomic crises (1998, 1999, 2001 crises) had effected the local economy deeply. Strategic defects in the previous phases such as; excessive investment in the same production fields, many new firms established by people who doesn't have industrial background, so much credit debts, the desire to get rich in a short time, lack of steering function of government, lack of enough support institutions, negative effects of informal institutions (such as the tradition of imitation, lack of self-organisation ability due to traditional collaboration behaviour, lack of collaborative behaviour in the capitalist sense) made the region lost its advantageous position which it had captured in the growth and maturation phases.

Weak Institutionalisation

It is seen from the industrialisation and institutionalisation history of Denizli that, as it is the case in most of the world industrial districts, clustering of firms is not the result of a planned action, or of a local or regional industrial strategy. Development had been spontaneous. Public and private sector institutions did play a role in the growth process but, it had not been created by them. Also, like the other industrial districts, it is not relied entirely on the market.

We have seen that institutionalisation efforts in Denizli, begin in the maturation phase. Local departments of central government institutions (KOSGEB, DETKİB) and local businessmen associations established in this phase. Larger firms began to institutionalise to become modern firms and region-specific intermediate mechanisms (such as for exports) came into agenda. It is observed that sector and function specific

institutionalisation brought success. However it cannot be comment that there is an institutional thickness in Denizli.

Denizli is not an exception when considering the weakness of Turkish regions, their weak institutionalisation and their relative incapacity to organise the play of economic and social actors. In Denizli, we have seen that while the number and diversity of institutions is not sufficient for a good economic performance, there is also some overload of institutions acting in the same field, such as business associations. Interaction amongst the institutions is also weak. It should be emphasised that the success in local economic development stands at the integration of different relational systems, layered institutional forms such as formal organisations-informal norms, local actors-central actors, public sector-private sector. To say that there is an institutional thickness that would be beneficial to economic performance, institutions should be actively engaged and conscious of each other, display contact, cooperation and information exchange. Due to this weak institutionalisation in Denizli we have seen that firms could not benefit effectively from the externalities of clustering. And lack of this kind of institutional thickness caused some asymmetry in power relations.

From the observation of Denizli, the factors contribute to regional learning and adaptability can be commented by their lacking in Denizli. It can be said that one obvious factor which is lacking in learning and adaptability process is the scale and density of 'intelligent' people and institutions, as reflected in; the skill and professional profile of the labour market, the volume and quality of training and education across different levels, the depth of linkage between schools, universities and industry, the quality and diversity of the research, science and technology base, and the availability of intermediate centres of information and intelligence between economic agents and their wider environment. These are vital sources of codified knowledge, in a region. Denizli mostly display a discernible lack of most of these attributes, with policy actions mostly steered from national regulative framework, often geared towards the production of low-grade skills and training or towards disembodied ventures such as university expansion and training schemes which fail to build the necessary connections.

Inadequate Support Institutions

For the early phases of growth in Denizli, besides the existence of a local corporate culture that motivate the economic development in the region, the local institutions that support industry seems not enough. For the later phases, the government schemes had been effective in fostering the development. However, the region remained incapable of solving the problems that this rapid development has produced.

The inadequacy of support institutions in the growth phase leads to individual action on the part of firms in making use of available economic, social and political networks to get benefits, which increase asymmetry in power relationships. The initial capabilities which have enabled growth in the first place is consumed in a short time, leading to the elimination of potentially creative elements in the system.

Due to lack of public support during the growth phase especially in the beginning of the exporting, most of the producers had learned the procedures by themselves which caused a loss of energy, and loss of possibility of acting collaboratively region-wide, which could be possible with a guiding public mechanism. Development left to market mechanism, have generated individualistic behaviour. The entrepreneurs searched for market for their products rather then developing new products or dealing with the institutionalisation process of their firms or thinking on strategies which will bring the region in a more advantageous position acting collaboratively in a more efficient way.

Lack of intermediate institutions and self-governing structure, lack of adequate volume and quality of real services, finance, education and training which have become the core concepts in the successful industrial districts have appeared to be the weaknesses of the Denizli economy. It is inevitable to identify the role of public, private, public and private partnership and develop self-help and special-purpose agencies to establish an economically strong local environment.

Traditional socialisation

It can be said that the settled social groups either based on family relations, *hemşehri* relations, communitarian relations or acquaintanceship relations had generated traditional socialisation patterns for a long period of time in Denizli.

Traditional socialisation patterns have helped the development of cooperation and consensus among the economic actors, helped to adapt to changing conditions and been influential is the establishment of some successful local organisations. However, on the other hand traditional socialisation brought the lack of self-awareness which appeared as the imitation behaviour of entrepreneurs.

In the industrial district debate, self awareness of actors is emphasised as an important factor in the development prospects of regions. In Denizli considerable amount of firms simply copy others, thus relying on someone else's assessment of the significance of environmental change. In the literature, the imitation of process and product technology have proved to be successful and stated to be one of advantages of agglomerations of firms because the diffusion of knowledge and know-how is easy and rapid, which in turn, leads to a rapid transformation. This was also the case in the growth phase in Denizli. However, in the long-run this attitude appears as an obstacle for learning and innovative behaviour. The industrial groups that behaved collaboratively in the industrialisation process of the region seem to be successful in terms of adaptation to the new conditions. However, even in these groups technological development is slow due to imitation tradition. The imitation tradition appears as a position to stay close to the other actors, which in turn produce an obstacle for creative organisational transformation and technological change. In other words, traditional socialisation act as a barrier to economic development.

In addition, the negative impacts of traditional socialisation which appeared as the lack of politically influential civil society joined with the inadequate institutionalisation of government-business relations due to the familistic structure of the society and the existence of strong state tradition led the development of clientalist relations, political patronage, domination of some powerful groups in Denizli.

The culture of command and hierarchy that characterizes behavioural atmosphere of Turkish people in general and Denizli people specifically, has overwhelmed the formation of a reflexive culture, which involves strategic and goal-monitoring behaviour, encourages experimental anticipation and actions seeking to shape the external environment, among the majority of its economic institutions and, consequently, prevented the encouragement of rationalities geared towards learning and adaptation.

The policy challenge in this regard is to find a way of substituting the traditional ties of hierarchy and dependency (e.g. state provision, family connections) with links of mutuality between economic agents and institutions.

Temporariness of some locally embedded relations

We have seen in Denizli case that, socio-cultural identity plays a positive role in promoting cooperation and trust and providing a commonly accepted set of codified rules. However, we have also seen that social links have weakened over time due to macroeconomic conditions, increasing differentiation within the region and rapid growth. Although we have seen that the importance of strong family ties was already influential in economic relations, we also witnessed the replacement by an increase in 'weaker' social ties, which this process should be expected to gain pace in the near future due the economic crises conditions. Denizli case proved the temporariness of some locally embedded relations such as trust and solidarity and their inadequacies in generating path breaking changes in the economic downturn periods. It is observed that, while there is trust within closed groups due to family or communutarian relations, the other actors excluded from these type of groups tend to generate distrust as a whole in the region. This distrust indicates itself in the form of concealing knowledge, stealing each others' clients etc. Furthermore, economic downturn strengthened the fragmentation of groups, deteriorated cooperative action based on trust and reciprocity.

Different Reactions to Change

The empirical investigation in Denizli has shown that firms differ in their capacity to interact with other economic agents: some firms mainly rely on external economies while others invest in cooperative relationships.

In the crises phase, the transformation from contingent development made the actors in the region react in different ways; either protecting the status quo or generating further growth. Firms built different strategies due to their past experiences, capabilities, and accumulated know-how. In general, *small firms* strive for survival. Inefficiency in many respects; inadequate access to financial resources, lack of adequate skills in production and marketing, lack of supporting institutions, lack of central government support, disability in perceiving future and timidity in taking risks made small firms extremely

fragile in the economic crises conditions. It is also observed that small firms have nearly have no relations with local institutions.

T*raditional medium sized firms* on the other hand stated that they feel contend with their production. This means that traditional firms resist to change. The reason for this is, there are high barriers to exit from the system, which is the case in the LDC industrial district cases. The same elements, creating what has been defined in the literature as 'industrial atmosphere' could become barriers to exit, locking the local system in a trajectory of conservatism and atrophy. It is observed that these kind of firms demonstrate indifference to local institutions, have no influence on the local institutions and have no relationship other than membership.

Another group of firms that is, *progressive traditional medium firms,* which constitute the higher share of firms in Denizli is observed that, they try to progress within the existing production organisation. These firms are not proactive in inducing change in either production technology or organisation of production and business relations. They generally imitate the modern firms. They are in effect of traditional relations (family, kinship, hemşehri, religious etc.). It is hard for them to act in a different way from the industrial environment in Denizli. These firms are observed to initiate new formations within the existing institutional structure.

Modern firms which could be stated as the most successful firms in Denizli, is observed that they went to product diversification, give more importance to new technology, international collaboration and firm institutionalisation. These firms are taking place in key positions in local institutions but not deal with building a vision for the region's economy. Lastly, there are some *incongruous* firms which choose the strategy to invest in different sectors (other than textile). These kind of firms are not pleased with the local institutional atmosphere due to the dominance of some groups and they are in attack against the structure of local institutions .

A naïve interpretation of these concluding points of the empirical case of Denizli would be to suggest to formulate policy interventions that encourage and launch local growth. It should be emphasised that the success in local economic development stands at the integration of different relational systems, layered institutional forms such as formal

organisations-informal norms, local actors-central actors, public sector-private sector. Nevertheless, local institutional innovation and local proactivity can never be sufficient to guarantee economic regeneration and social progress. The real questions are much more to do with the relationships between *local changes, corporate strategies, and national and supranational state strategies* and with whose solutions are to be implemented.

The real world cases put forward that the role of institutions can be seen as that of parameterising the environmental state variables, constraining the menus of actions available to the agents but, also shape the 'visions of the world', the interaction networks, the behavioural patterns, and, ultimately, the very identity of the agents. In order to understand 'what happens' and the directions of change over time much richer institutional details are needed (first of all one is likely to require to know much more about the multiple institutions of which agents are part, and also much more of their histories). Besides it is also understood that ideas emphasising habituated routines and conventions, should not overshadow insights elsewhere which identify the macro and micro institutions of accumulation and regulation, from the practices of firms to state policies, monetary and financial rules, and governance regimes in general.

Due to local and regional economic performance the thesis argued that permutations and combinations of some dimensions are likely to enhance local economic capacities to create growth and to cope with change. These are; technological leadership at the enterprise level, knowledge creation and access to information, local integration of small firms, infrastructure support and institutional thickness, local human resource base, interregional trade and the extent and nature of local demand, local sectoral specialisation. The key factor for continuing good economic performance appears as the ability to evolve in order to adapt (Amin and Hausner, 1997) which should be ensured by a flexible institutional matrix that would adjust in different phases. It is also proved that, local capacities and institutional thickness in one region can not maintain that particular place's advantages for long. Local institutional innovation and local proactivity can never in this sense be sufficient to guarantee economic regeneration and social progress. Local economies need to be linked up to the international and global networks in order to stay innovative and avoid decline in the long run.

So after all these explanations can we speculate on "what should a local development policy look like?". The policy oriented perspective of institutional approach can be put as

the most important contribution of the institutional paradigm to the regional economic development theory. Aim is not to propose a formula which has universal applicability Instead the aim is to outline an agenda which the principles of action are clear, but where their implementation has to be decided by specific actors in specific settings.

The successful governance of complex economic systems in the contemporary global environment requires a strategic interactive approach (Amin and Hausner 199). Such an approach can be summarised as one combining central strategic guidance with decentralised associative governance.

In the case of interactive approach, the future results from eliminating the restrictions of the past and making use of the resources deriving from it. Transformation then, is the issue how to bolster or even create an ability to reorganise the heterogeneous internal structure of the economy so that it can function effectively in the face of unpredictable future changes in environment. Institutions are resources in this system for the future which must be used and set in motion. They should be helped to adapt, their transformation should be encouraged.

It is difficult to identify a set of easily applicable policies within such a framework. The rationality of interactive governance is that of process and procedure, focusing on building capabilities, securing institutional innovation and adaptability, deriving efficiency through social cohesion and social involvement, and obtaining solutions through interaction, dialogue and confrontation. This framework suggests the need for a rather fundamental reorientation of policy action in the direction of influencing actor rationalities, expectations and capabilities.

Thus, typically, public policy actions would focus on encouraging the formation of reflexive and autonomously run actor networks and communities of fate; on establishing rules and for a for interaction and intermediation; on building voice, capacity and capabilities across economy and society; on decentralising state power and state duties at the same time as retaining the powers of strategic leadership, arbitration, sanction and resource allocation –in general, on building and empowering society.

The challenges posed to strategic actors, notably the state, are considerable, because interactive governance demands memory and an acute sensitivity to path-specificities. This amounts much more than a sense of history. Path-shaping is possible only when the past is respected by strategic actors. Adjustment programmes that have sought to build on past institutional and social legacies have proved to be more successful, owing to their greater appropriateness to local circumstances and most importantly owing to their reliance on proven social practices of organisation, action and learning. In other words, here tradition has been mobilised as a source of innovation, rather than rejected as a historical anachronism or barrier to change.

At this point, Amin (1999) suggests a number of general axioms of economic governance. First, there is a preference for policy actions designed to strengthen networks of association, instead of actions which focus on individual actors alone.
Second, part of the purpose of policy action might be to encourage voice, negotiation and the emergence of procedural and recursive rationalities of behavior, in order to secure strategic vision, learning and adaptation (Amin and Hausner, 1997, quoted in Amin 1999).
Third, emphasis is given to policy actions which aim to mobilize a plurality of autonomous organizations, since effective economic governance extends beyond the reach of both the state and market institutions (Hirst, 1994).
Fourth, the stress on intermediate forms of governance extends to a preference for building up a broad-based local 'institutional thickness' that might include enterprise support systems, political institutions and social citizenship (Amin and Thrift, 1995).
Finally, a key institutionalist axiom is that solutions have to be context-specific and sensitive to local path-dependencies.

It may be that policy-makers would be better employed in encouraging a diversity of institutional forms -from companies to cultural conventions- in a particular area, thus making for a more adaptive region. Considerable policy attention needs to be paid to the nature of organizational and management cultures and actor rationalities which circulate within a region's dominant institutions. Studies on which specific corporate cultures influence local institutional environment are needed to establish feasible policies. Nevertheless, it is important to note that the capacity to change lies centrally in the ability of actor networks to develop an external gaze and sustain a culture of strategic management and coordination in order to foresee opportunities and secure rapid response.

The new regionalism, which essentially parallels the institutional turn, opens up "novel but challenging opportunities for policy action at the local level" (Amin 1999) given a complementary programme of macroeconomic support. Economic geographers need to address national economic agendas before they can 'make a difference'.

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APPENDIX A

FIRMS AND INSTITUTIONS INTERVIEWED IN THE FIELD

1996-UNDERSTANDING

Denizli Municipality (Mayor-Ali Aygören)
Denizli Chamber of Industry (Chairman of Council-Süleyman İlgeri
Denizli European Union Coordination Bureau (Coordinator-Mehmet Karaoğlan)
Denizli Chamber of Trade (General secretary-Ramazan Sözgen)
Denizli Stock Exchange of Trade (Chairman advisor-Can Başer)

1999-DEEPENING

Contents of the in-depth interviews made with firms and institutions
-solidarity, production, export, technology transfer, knowledge transfer, labour, education, regional development
-Interactions: Firms (firm-firm, firms-local institutions, firms-local authorities, firms-central government, firms-international institutions); Institutions (inter-institution, institutions-entrepreneurs, institution-other local institutions, institutions-central government, institutions-international institutions)

Criteria of Selecting Firms for Interview
Sectors, scale (small, medium, large), leader firms, production organisation (subcontracting, integrated), entrepreneurs from different generations (1.generation after1920, 2.generation after 1940, 3.generation after 1960), firms established in different periods (before 1980, between 1980-1990, after 1990), special conditions (follower, begin from small scale then become a large scale firm, etc), randomly selected firms

Firms and Institutions Interviewed in 1998
-DENTAŞ -Cardboard
DENTAŞ -Packing İbrahim Oluk (Director of finance)
(The firm established by a leader industrialist family in a sector other than textile)
-Asil Nakış - Textile Süleyman İlgeri (Owner)
(The entrepreneur has active role in the local economic institutions)
-DENTEKS - Textile Ali İhsan Kasapoğlu (Owner)
(The firm which the entrepreneurs of Babadağ have established in 1950s and had extracted so many firms which are now effective in the local economy)
-DOST- Textile Yılmaz Kasapoğlu (Owner)
(one of the firms which have been extracted from DENTEKS)
-ABALIOĞLU-Fodder Orhan Abalıoğlu (owner) / Ulaş Semerci (general director of the sub-unit on agricultural products) *(Leader family firm)*
-TÜMAŞ - Marble
ELSAN- Enamelled copper Ceyhan Saldanlı (Owner)
BEREKET -Energy

(second generation successful entrepreneur, outside the existing industrial groups in the region)

-DEBA – Painting and printing Esat Sivri (Owner) / Fadıl Sivri (Member of execution committee) / Tunç Alemdaroğlu (Firm advisor)

(Have an important role in the industrialisation of Denizli in 1970s, leader entrepreneur)

-FUNİKA – Holding Nuri Sözkesen (Owner)

(second generation successful entrepreneur)

- Old small scale textile entrepreneur who had went bankrupt Murat Bakkal

-Deniz-Textile Ercan Taşpınar (Master)

(small scale firm)

-Former Deputy of Denizli Haluk Müftüler

-Governorship Süleyman İlgeri (Member of Provincial Assembly)

-OSB Tanju Beştaş (Regional director)

-Chamber of Industry Selim İlgeri (Chairman of Council) / Faruk Alyaz (Press spokesman) / Himmet Ersoy (General secretary)

-Chamber of Trade Ramazan Sözgen (General sectretary)

-Chamber of Weavers Mesut Kuruoğlu (President)

-DETKİB Hüseyin Ardalı (General secretary) / Şadiye Baykent (R&D department)

-EGS – Foreign Trade Asım Dirik (Denizli regional export director)

-KOSGEB Ahmet Sinkil (Director of the center)

-BASİAD Yılmaz Kasapoğlu (President)

-TABA Ali Abalıoğlu (Denizli branch president)

-DEHAD Önder Karaalp (President)

-DE-HA – Media Public relations department

2001-FOLLOW-UP

Contents of the in-depth interviews made with firms and institutions

-Developments in the recent period (the conditions of firms, restructuring of the institutions and firms)

-The effects of macro-economic crises (transformations in the regional traditional behaviours, such as solidarity trust)

-New formations and mechanisms (coalitions, splits, problem-solving initiations)

Criteria of Selecting Firms for Interview

-firms taking place in the new formations (coalitions, organisations)

-Problem-solving initiations in the crises period

-Successful and unsuccessful firms in the crises period

-Entrepreneurs taking active role in the new institutional formations

-Firms from different scales

-Randomly selected firms

Firms and Institutions Interviewed in 2001

NESA-textile Nevzat Özel (Owner, *initiator of a new coalition for foreign trade, one of the founders of DETGIS*)

DORATEKS-textile (Owner-*female entrepreneur*)

GÖKHAN-textile (*among the 500 biggest firms in Turkey, and the name of the entrepreneur is given as a leader in the region accepted by the whole local community*)

AKÜRÜN-textile Aykut Gökşin (*member of MÜSİAD*)
MUMO-textile (*intermediating exporting firm, the entrepreneur is outside of Denizli*)
FATİH FERFORJE- decorative iron products (*the biggest firm in this sector in Turkey, member of MUSİAD*)
BAHAR-textile *(randomly selected)*
MOTİF-textile*(randomly selected)*
GÜRCAN-textile *(randomly selected)*
MONA-textile (*small firm whose entrepreneur was working for one of the big firms of Denizli before*)
DESAN-textile by-products *(randomly selected)*
US-PAR-yarn *(randomly selected)*
ERİKOĞLU-textile *(leader family firm)*
NOBEL-textile *(randomly selected)*
SAYINTÜRK-textile *(bankrupted firm, hired by a 'firm doctor' company)*
GAMA-textile *(randomly selected)*
ASLI-textile *(randomly selected)*

OSB	Tanju Beştaş (Regional director)
SANAYİ ODASI	Süleyman İlgeri (Chairman of the Council)
KOSGEB	Ahmet Sinkil (Director of the regional center)
MUSIAD	Şahin Tin (President)
DETGİS	Mustafa Kaynak (President)

APPENDIX B

CONTROL SHEETS USED IN THE FIELD

1. CONTROL SHEET (A) FOR FIRMS
(FOR DEEPENING THE UNDERSTANDING OF THE CASE)

-Görüşme yapılan kişi:
-Firmanın kuruluş tarihi:
-Sektörü:
-Girişimcinin kökeni (Denizli merkez, Diğer ilçeler, Diğer iller, Yabancı ülke)
-Girişimcinin eğitimi:
-Baba mesleği:
-Daha önceki işi:
Daha önceki işyerinizle ilişkiniz devam ediyor mu?
-Şu an ortağınız var mı? Yabancı ortağınız var mı? Daha önceden ortağınız var mıydı? Neden değişti?
-Firmanın başka yerde girişimi ya da fabrikası var mı?
-Akrabalarınızdan sizinle çalışanlar var mı?
-Çocuklarınız varsa onları firmanın devamı olarak görüyor musunuz?
-Firmanın hikayesi (nasıl gelişme göstermiş, dönüşüm süreci)
-Firmanızda kaç kişi çalışıyor?(Erkek Kadın)
-İşçilerin geldiği yer (Denizli merkez, Denizli ilçeler, Denizli köyler, Diğer iller)
-İşçilerinizi nasıl temin ediyorsunuz?
-İmalat işinde daha önceden deneyimleri var mı?
Piyasa
-Satış Yeriniz: Yerel piyasa; diğer sanayi-doğrudan tüketici, Diğer iller, Yurtdışı
-Satış hangi yolla gerçekleşiyor
-Dış piyasalara nasıl ulaşıyorsunuz?
-Dış piyasalarla bağlantı ilk olarak nasıl yapıldı? İlişkiler daha sonraki aşamalarda nasıl değişiti? Aracılar daha sonra devreden çıkıyor mu?
-Herhangi bir fuarda yer aldınız mı?
-Fuarı kim organize etti?
-Fuara katılımınızı kim organize etti?
-Ürününüzü satabileceğiniz piyasalar hakkında nasıl bilgi sağlıyorsunuz?
-Fason iş yaptırıyorsanız nasıl temin ediyorsunuz?
-Fasoncunuzu seçerken ki kriterleriniz neler?
-Fasoncunuzla ne kadar zamandır çalışıyorsunuz?Sık değişiyor mu?
-Fasoncunuz sadece size mi çalışıyor?
-Fasoncunuzla yazılı bir sözleşmeniz var mı? Bu konuda bir problemle karşılaştınız mı?
-Fasoncunuzla kredi/ makina/hammadde temini konusunda ilişkiniz var mı?
-Fason iş yapıyorsanız bu işleri nasıl buldunuz?
-Fason iş yaptığınız firma ile ne kadar zamandır çalışıyorsunuz?
-Sadece bu firmaya mı fason iş yapıyorsunuz?
-Bu firma ile yazılı bir sözleşmeniz var mı? Bu konuda bir problemle karşılaştınız mı?
-Fason iş yaptığınız firmalar sık değişiyor mu?
-Fason iş yaptığınız firma/firmalar ile kredi/makina/hammadde temini konusunda bir ilişkiniz var mı?

Rekabet
-Rakipleriniz nerede yer alıyor?
-Rakipleriniz ile hangi konularda yarışıyorsunuz?
-Daha iyi rekabet edebilmek için ne konuda iyileştirme yapmayı düşünüyorsunuz?
-Denizli'de rekabetin bilginin yenilenmesine katkıda bulunduğunu düşünüyormusunuz?
-Denizli'de rakiplerinizle iş ahlakı açısından kötü durumlarla, atlatma, kazık atma vs. karşılaştığınız oluyor mu? Örnek olay anlatabilir misiniz?
Bilgi-Teknoloji
-Ürünün belirlenmesi, sektörün seçilmesi, yatırım, yer seçimi, üretim hacmi, üretim yöntemi, teknoloji yenileme gibi aşamalarda bilgiyi nereden elde ediyorsunuz?
-Firmanızda yenilik yaparken (makina alımı, yeni ürün üretimi vs.) sizi harekete geçiren etmenler nelerdir? -
-Firma çalışanlarınızın yenilik geliştirme konusunda katkıları oluyor mu?Üretim sürecinin iyileştirilmesine yönelik fikir geliştiriyorlar mı?Küçük çapta da olsa firma içi buluş yaplıyor mu? Örnek olay anlatabilir misiniz?
-Teknolojik çalışmalarınıza nasıl kaynak sağlıyorsunuz?
-AR-GE veya diğer işlerle ilgili araştırmalarda başka firmalarla ortak çalışma yapmak üzere anlaşmanız var mı?
-Şu anda diğer firmalarla nasıl bir teknoloji transferi anlaşmanız var?
-Yeni teknoloji geliştirmek veya yeni teknoloji transferi gerçekleştirmek için herhangi bir kamu kuruluşu veya üniversite ile çalıştınız mı?Çalışmadınızsa neden?
-Yeni ürün, üretim süreci ve teknolojik buluş geliştirmedeki engeller?
Finansman
-Sermayenizin kaynağı nedir?%
-Yatırımınızda kredi kullandınız mı, ilk yatırım aşamasında kredi kaynağınız neydi?
-Teşvik tedbirlerinden yararlandınız mı?
-Yurtiçi, yurtdışı satışlarda kredi mektubu kullanıyor musunuz?
-Kişisel olarak tanımadığınız yeni müşterilerinize kredi sağlıyor musunuz?
-Alıcıların kredi ödeyebilirliklerini hangi mekanizmaları kullanarak test ediyorsunuz?
-Son 3 yıl içinde ticari bir bankadan kredi aldınız mı?
-Finansman sağlamada güçlükler nelerdir?
Altyapı
-Firmanız, sektörünüz ve Denizli'nin kalkınması için önemli gördüğünüz altyapı gereksinimleri nelerdir?
Eğitim
-Çalışanlarınızın beceri düzeylerinden memnun musunuz? Hayır ise neden?
-Firmanızın eğitim programı var mı? Varsa ne zaman başladınız ve içeriği nedir?
-Çalışanlarınızı eğitim ya da kurs için kuruluş dışına gönderdiğiniz oldu mu?
-Firma içinde usta çırak ilişkisine dayalı bir eğitim sistemi var mı? Nasıl işliyor?
-Çalışanlarınız arasında çıraklık okulu öğrencileri ve mezunları var mı?(%)
-Eğitim ile ilgili görüşleriniz
İşgücü
-İşçilerinizle ilişkilerinizi nasıl tanımlarsınız?
-Yüksek düzeyde işten ayrılma var mı?
-Ortalama çalışma süresi nedir?
-İşgücünün sürekli değişmesi sizce başarıda olumsuz bir etken mi?
-Çalışanlarınızın ayrılarak yeni bir iş kurmasını nasıl karşılarsınız?
-Firmalar arasında birbirinin çalışanını kapma gibi bir eğilim var mı?
-İşçileriniz sendika veya dernek üyesi mi?
Diğer Firmalarla İlişkiler-Dayanışma
-Firma/fabrikanızı geliştirirken herhangi bir fabrikayı model olarak seçtiniz mi?
-Diğer yerel üreticilerle dayanışma yardımlaşma ilişkiniz var mı?
-Bu yardımlaşma -dayanışmanın firmanızın veya Denizli'deki firmaların rekabet gücünü arttırdığını düşünüyormusunuz?
-Eğer dayanışmanın rekabet gücüne olumlu katkısı olduğunu düşünüyorsanız, bu ne şekilde oluyor?

-Diğer yerel üreticilerle biraraya gelerek sorunları tartıştığınız oluyor mu?
-Sorunlarımızı tartışabileceğiniz bir çatı/kurum var mı?
-Parasal olarak darboğaza girdiğinizde nerelerden borç almayı düşünürsünüz? Denizli genelinde daralma dönemlerinde nasıl mekanizmalar ortaya çıkıyor?

Kurumlar

-Sanayi ya da ticaret odasından nasıl yararlanıyorsunuz?
-Hangi kurumlardan ne konularda yaralanıyorsunuz?
-İş kolunuz ile ilgili dernek ya da kuruluş var mı?
-Bunların hangilerine üyesiniz ve firmanıza ne gibi katkıları oluyor?
-Sosyal ve kültürel klüp ya da derneklere üyeliğiniz var mı?Hangileri?
-Denizli'de yerel kalkınma için firma düzeyinde veya bireysel katkılarınız var mı?
-Denizli'de sosyal ve kültürel faaliyetlere firma düzeyinde veya bireysel katkınız var mı?

Sosyal İlişkiler

-İşinizle ilgili problemlerinizi kimlerle paylaşıyorsunuz? (hukuki, finansal, sektörel)
-Denizli iş dünyası içinde birbirini tutan gruplar var mı? Bu dayanışmayı nasıl tanımlarsınız? Siz bu gruplara dahil misiniz?
-İş bağlantısı kurmada (hammadde, üretim, bilgi aktarımı vs.) ya da işçi alırken hemşerilik sizce önemli mi? Hemşerinize daha çok mu güvenir siniz?Denizli genelinde hemşeriliğe dayalı olarak birbirini tutma yaygın mı?
-Denizli 'ye göç olayını nasıl değerlendiriyorsunuz? Başka illerden gelip Denizli'de yatırım yapılmasını nasıl karşılıyorsunuz? Böyle kişiler Denizli iş hayatına rahat uyum sağlıyabiliyorlar mı? Yoksa dışlanıyorlar mı?
-İş bağlantılarınızı nasıl sağlarsınız?
-Başarılı bulduğunuz girişimciler nasıl bir çevreye sahipler? Hangi kuruluşlarla bağlantıya giriyorlar?
-Sosyal aktivitelerinizin iş yaşamınıza nasıl etkisi oluyor?
-Politika ile ilgileniyor musunuz? Ailenizde politikacı var mı?
-Kamu kurumlarında tanıdıklarınız var mı? Size bir yardımları oluyor mu?
-Kendi stratejileriniz açısından özeleştirinizi yapıyor musunuz? Paylaşmak istermisiniz? Devletten beklentileriniz var mı?

Görüşler

-Denizli'nin sanayileşmesini nasıl tanımlarsınız?
-Size göre sanayi odasının ya da diğer kurumların Denizli'nin sanayine ilişkin bir bakış açısı vizyonu var mı? Sizin bir vizyonunuz var mı?
-Sizce Denizli sanayinin en acil çözülmesi gereken sorunları nelerdir?
-Denizli'nin önümüzdeki dönemde dinamizmini sağlayacak faktörlerin öncelik sıralaması nedir?
-Sizce Denizli'de bilginin aktarılması sürecinde lider girişimcilerin öncülüğünden sözedilebilir mi? Öyle ise lider nereden bilgi alıyor?Örneğin siyasetçilerle bağlantı önemli mi?
-Önümüzdeki dönemde Denizli'nin kullanmak zorunda olduğu enstrümanlar önem sırasına göre nelerdir?
-Yabancı sermaye akımı
-Sanayicilerin işbirliğine giderek yeni pazarlara açılması ve lobicilik faaliyetleri
-Bölgenin yaşam kalitesini arttıracak yeni projeler
-Sanayiye yönelik hizmetlerin merkezi hükümet öncülüğünde kurumsallaşması
-Sanayiye yönelik hizmetlerin yerel hükümet öncülüğünde kurumsallaşması
-Sanayiye yönelik hizmetlerin özel sektör öncülüğünde kurumsallaşması
-Sanayiye yönelik hizmetlerin merkezi-yerel hükümet ve özel sektörden oluşan bir koalisyon öncülüğünde kurumsallaşması
-Sizce teknolojiyi geliştirmek için bölgesel düzeyde bir yapılanmaya ihtiyaç var mı? Bu nasıl olabilir
-Krizle birlikte fasoncu olarak çalışan firmalarda azalma oldu mu? Bütünleşmeye yönelme var mı?
-Daralma dönemlerinde sorunların üstesinden gelebilmek için ne türden mekanizmalar devreye giriyor?
-Yerel bankalarla ilişkilerde bankanın girişimciyi, bölgeyi, sektörü tanıması, güven ortamı ya da karşılıklılık nedeniyle geri ödemede baskı oluşturması açısından bir avantaj mı?

-Bölgeye dışarıdan gelen yatırımcılara nasıl bakılıyor? İş çevresi kendi içine alıyor mu? Dışlıyor mu?
-Denizli'de risk sermayesi sağlayacak mekanizmalar var mı? Yoksa sadece aile akraba dayanışması mı?
-Bugünkü örgün ve yaygın eğitim sistem yerel sanayi gereksinimlerini karşılıyor mu?
-Bölgede eğitim düzeyinin arttırılması için ne yapılması gerekir?Hangi kurumların eğitim konusunda katkısı olmalıdır?

2. CONTROL SHEET (B) FOR FIRMS
(For Follow-Up Of The Case)

Firmanın Adı
Ana Üretim Dalı
Kuruluş Yılı
Anketi yanıtlayan kişi
Görevi

I. Firmaya İlişkin Değişimler:
-Firmada 1995 yılından itibaren ne gibi değişimler oldu?
-Firma ortakları değişti mi?
-Ortak sayısında artma veya azalma oldu ise bunun nedenleri nelerdir?
-Firma tipinde herhangi bir değişim oldu mu?
-Firmanın mülkiyet durumunda herhangi bir değişim oldu mu?
-Şirketin fabrika sayısında herhangi bir değişim var mı ?
-Eğer firmanın yapısında bir değişim oldu ise bunun nedenleri nelerdir?

II. Girişimciler
-Firmaya 1996 dan bu yana yeni ortaklar eklendi ise bunların daha önceki işi/mesleği
-Yeni ortakların eğitim düzeyi
-Firmanın sermaye yapısında 1996' dan itibaren herhangi bir değişim oldu mu? Firmanın 1996' dan itibaren gelişim hikayesi
-Ek sermaye kim tarafından ve nasıl sağlandı?
-1996 sonrasında yapılan sabit sermaye yatırımları nelerdir?
-1996 sonrasında bina, makina ve teçhizat yatırımları için kullandığınız kaynakların payı nedir?
-1996' dan sonra ticari bir bankadan borç aldınız mı?
-Yatırımınızda kredi kullandınız mı?
-1996 sonrasında teşvik kullandınız mı?

III. Firmanin Niteliğindeki Değişimler
-1996 sonrasında firmada yaşanan değişimleri tanımlayın.
-1996-2000 dönemini firmanın performansı açısından değerlendirir misiniz
-Firmanın ürün çeşitleri ve üretim miktarlarında bir değişim oldu mu?
-Firmanın ortalama çalışan sayısında herhangi bir değışim var mı?
-Firmanın makine sayısı ve makine-ekipman niteliğinde bir değişme yaşandı mı

IV. Üretim Örgütlenmesi
-1996 sonrasında girdilerinizi temin ettiğiniz üretim yerleri değişti mi?
-Eğer girdi sağlayabilecek yerel firmalar ile çalışmıyorsanız bunun nedenleri nelerdir ?
-Girdi sağladığınız şirketler ile ilişkilerinizde herhangi bir değişme oldu mu?
-Siz girdi sağlayan firmalara ürünlerini geliştirme konusunda önerilerde bulunuyor musunuz?
-Satış yerlerinizde 1996 sonrasında herhangi bir değişim yaşandı mı?
-Ürününüzü sattığınız firmalarla ilişkilerinizde bir değişim oldu mu?
-Dışsatımı örgütleme biçiminde 1996' dan itibaren bir değişim yaşandı mı?
-Dışsatım konusunda 1996-2000 dönemini nasıl değerlendirebilirsiniz?
- 1996 sonrasında herhangi bir fuarda yer aldınız mı?
- Ürününüzü satabileceğiniz piyasalar hakkında kimlerden bilgi sağlıyorsunuz ?
-Üretiminizin örgütlenme biçiminde bir değişim var mı?
-Fason yaptırdığınız üretim aşamalarında değişim var mı?
-Fason iş yaptırma biçiminde değişim var mı?

-Fason işi bulma biçiminizde bir değişim oldu mu?
-1996-2000 döneminde fason iş bulmada zorluk yaşadınız mı
-Ekonomik sıkıntılar fason iş yaptığınız firmalarla ilişkilerinizi nasıl etkiledi?

V. Teknoloji Ve Buluşçuluk

-1996'dan bu yana üretim teknolojinizde bir değişiklik oldu mu ?
-1996-2000 yılları arasında yeni bir teknoloji kullanmaya başladı iseniz bunu hangi yolla gerçekleştirdiniz?
-1996'dan bu yana firmanızda hangi tür teknolojik buluşlar uygulanmaya başlandı ?
- Firma içerisinde 1996 sonrasında hangi konularda başarılı oldunuz mu?
- Firmanızda yaratıcı düşünceyi ve buluşları destekleyen bir uygulamanız var mı ?
-1996'dan bu yana önemi artan bilgi kaynaklarını belirtiniz
-1996'dan bu yana firmanız AR-GE için ne kadar harcama yaptı ?
- AR-GE çalışmalarınızın ana ilgi noktası değişti mi ?
-1996-2000 döneminde AR-GE çalışmalarınızda herhangi bir kamu ya da özel destek programından ve teşvikinden yararlandınız mı ?
-1996 yılından sonra başka bir firmaya teknoloji sattınız mı ?
-AR-GE veya diğer üretimle ilgili araştırmalarda başka firmalarla ortak çalışma yapmak üzere 1996 sonrasında yeni anlaşmalar yaptınız mı?
-Ürünlerinizin tasarımında bir değişim oldu mu?
-1996 sonrasında ürünlerinizin kalitesi ile ilgili hangi belgeleri aldınız?

VI. Diğer Firmalarla İlişkiler

-Diğer yerel üreticilerle bir araya gelerek sorunları tartıştığınız veya strateji belirlediğiniz olur mu ?
- Sorunlarınızı tartışabileceğiniz bir kurumsal yapı var mı ?
-1996-2000 döneminde dayanışma nasıl değişti ?
- Rekabet gücünüzü koruyabilmek için diğer yerel üreticilerle birlikte geliştirdiğiniz bazı stratejiler oldu mu?
- Denizli sanayicileri arasında birlikte hareket ettiğiniz kişi/kişiler varmı?.Hangi konularda dayanışırsınız
- Denizli sanayinde bir lider isimden konu edilebilir mi?

VII. Altyapi

-1996-2000 döneminde altyapı açısından neler değişti?
-Altyapı ile ilgili olarak 1996' dan beri hangi konularda problemleriniz daha fazla oldu?
- Denizli sanayinin rekabet gücünü arttırabilmek için sizce ne tür altyapılar gerekli?

VIII. Kurumlar

-Mesleki kuruluşları daha çok hangi amaçlar için kullanıyorsunuz?:
-İş kolunuzla ilgili herhangi bir dernek yada kuruluş var mı?
-Bunların hangilerine üyesiniz ve firmanıza katkıları ne oldu?
-Üyesi olduğunuz diğer sosyal amaçlı kuruluşlar/dernekler nelerdir?
-Denizli'da yerel kalkınma için firma düzeyinde veya bireysel katkılarınız var mı?
-Yerel kalkınmayı sağlamaya çalışan örgüt veya dernek var mı? Bu kuruluşların katkısını nasıl tanımlarsınız
-Denizli'da sosyal ve kültürel faaliyetlere firma düzeyinde veya bireysel katkılarınız var mı
- Denizli'da bir üretim kültüründen söz etmek mümkün mü

IX. İş Gücü

-Çalışanların eğitim düzeylerinde bir değişim var mı?
-Üretim süreci içinde çalışanların eğitim veya beceri düzeylerinde bir artış oldu mu?
-İşçilerinizin yaş dağılımı yüzdelerinde bir değişim var mı?
-İşçilerinizin geldiği yerde bir değişim oldu mu? Belirtiniz.
-Becerisi artan işçiler iş değiştiriyorlar mı?
-1996 sonrasında fabrika içinde bir eğitim uyguladınız mı?
-Firmanızın iş başında bir eğitim programı var mı?
-Çalışanlarınızı eğitim ya da kurs için kuruluş dışına gönderdiniz mi?
-Çalışanlarınız arasında çıraklık okulu öğrencileri ve mezunları var mı ?
-Bu eğitim programlarını değerlendirir misiniz?
- Yüksek düzeyde işten ayrılma var mı? Nedenleri

- İşçilerinizin üretim sürecine ilişkin olarak önerileri oluyor mu? Bu önerilerden üretim teknolojisi, ürün ve üretim süreci konularında yararlanıldı mı?
- Denizlideki işgücünün niteliği ve işgücü piyasası konularında genel olarak düşünceleriniz nelerdir?

X. Sosyal Yapı

- Sanayiciler arasında güven var mı? Sizin güven duyduğunuz sanayiciler var mı?
- Karşılıklı bilgi aktarımı gerçekleşebiliyor mu?
- Genel olarak Denizlidaki sanayiciler arası ilişkileri tanımlar mısınız?
-Üretim/dağıtım ve satış konularını da göz önüne alarak etkileşim içinde olduğunuz kişi ve kurumları sıralayabilir misiniz?

3. CONTROL SHEET FOR INTERVIEW WITH INSTITUTIONS

KURUM ADI:
GÖRÜŞME YAPILAN KİŞİ:
KURUMUN KURULUŞ TARİHÇESİ: (neden kuruldu, kim önayak oldu vs.)
GİRİŞİMCİLERİN KURULUŞ İLE İLGİLİ TAVIRLARI:
DİĞER YEREL AKTÖRLERİN TAVIRLARI:
DİĞER KURUMLARLA İLİŞKİLER:
BELİRLİ BİR KLİĞİN ETKİSİ VAR MI?:
KURUMUN ETKİNLİKLERİ:

VITA

Tanyel Özelçi was born in Ankara on July 18, 1968. She received her B.S degree in City and Regional Planning from Middle East Technical University in June, 1990. She received her Master's degree in Regional Planning from Middle East Technical University in February, 1994. She worked in the General Directorate of Preserving the Natural and Cultural Entities of Ministry of Culture as city and regional planner from 1990 to 1995. Then, she worked in the City and Regional Planning Department of Gazi University as a research assistant from 1995 to 2001. Since then she has been working in the Regional Development Administration of Southeastern Anatolia Project as a city and regional planner. Her main areas of interest are economic geography, regional planning, socio-economic geography, local economic development, local production systems, institutional economics.