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Working Group 70: Financial Crisis and Rural Resilience in the Global North

Rural resilience and the global economy: vulnerability and adaptation in a time of crisis

Michael Woods
Aberystwyth University



Responding to Recession



- Global recession demonstrates integration and interdependency of global economy?
- Differential regional impact
- Are some rural regions more resilient to recession than others?

Regional Resilience

- Concept of 'resilience' gaining currency in regional policy strategies and analysis
- "the policy-induced ability of an economy to recover or adjust to the negative impacts of adverse exogenous shocks and to benefit from positive shocks" (Briguglio et al., 2008)
- Understanding resilience in the context of globalization
- Does integration in global networks strengthen or weaken regional resilience?

DERREG



- 'Developing Europe's Rural Regions in the Era of Globalization'
- EU Framework Programme 7
- January 2009 – December 2011
- Consortium of 9 universities & research centres in 6 countries led by AU



Case Study Regions

1. Oevre Norrland, Sweden
2. West region (Roscommon), Ireland
3. Alytus, Lithuania
4. Comarca de Verín, Spain
5. Goriška, Slovenia
6. Pomurska, Slovenia
7. Jihomoravský kraj, Czech Republic
8. Westerkwartier, the Netherlands
9. Regierungsbezirk Dresden, Germany
10. Saarland, Germany

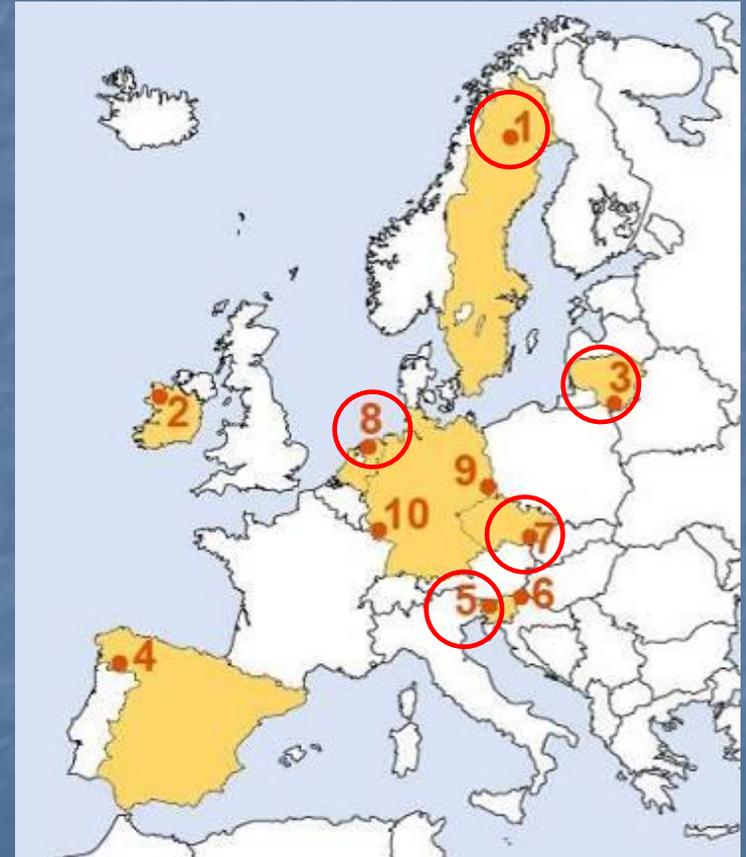


Globalization and Recession

- Distant causes, global reverberations and regional impacts
- Closure of established businesses
- Scaling back of TNC branch plants
- Return of migrant workers
- Disinvestment by transnational amenity migrants and second home owners
- Cuts in public funds for rural development projects

DERREG Business Survey

- Electronic survey of SMEs in 2010
- 1500 firms in 5 regions contacted
- 212 completed surveys
- 67 follow-up interviews
- Coordinated by Andrew Copus & Alexandre Dubois, Nordregio
- Research by Moa Hedstrom (Nordregio), Emilija Kairyte (NeVork), Milada St'astna (MU), Irma Potocnik Slavic (UL), Wiebke Wellbrock (WU)



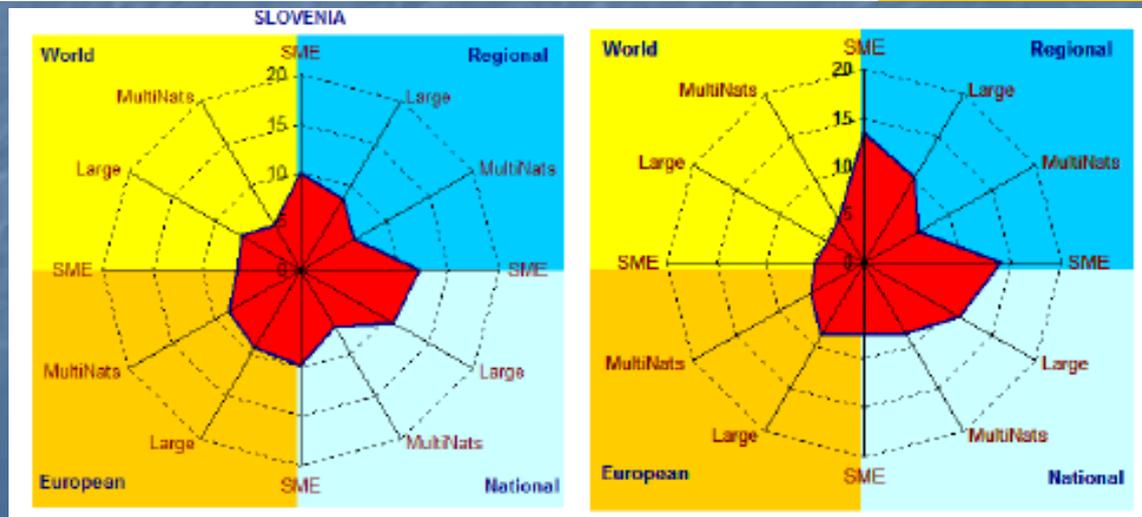
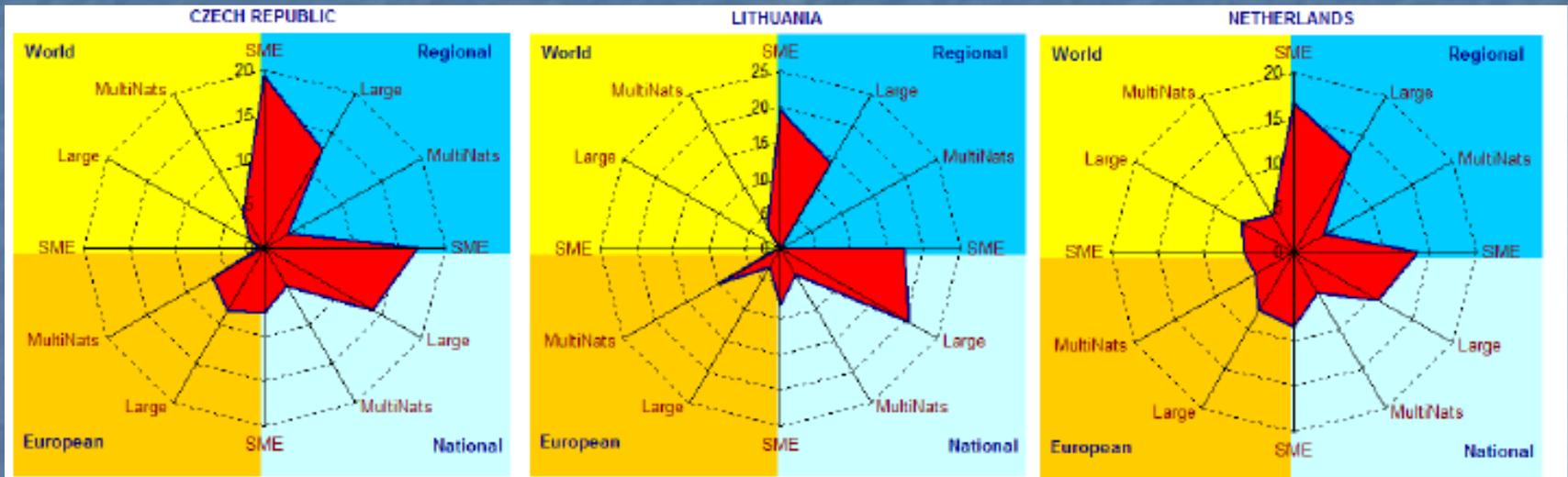
Impact of Recession

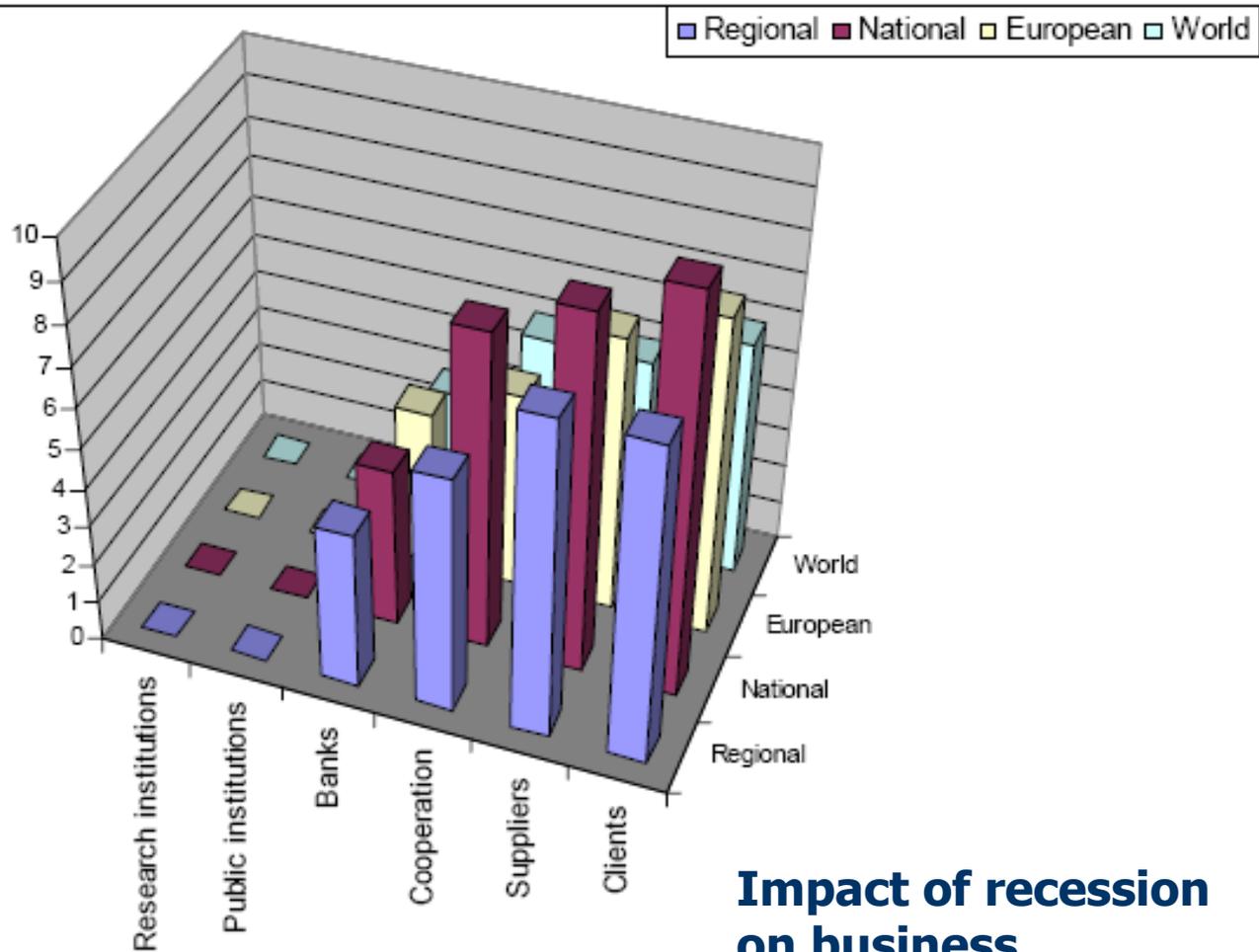
- Most SMEs surveyed said that their business relations had been affected by the recession
- Most widespread impacts were with clients/sales
- Majority of firms reported impact primarily with regional- and national-level relations

Impact of Recession

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- Majority of firms reported impact primarily with regional- and national-level relations
- **But – reflected scalar pattern of business relationships**

Business relations by case study region

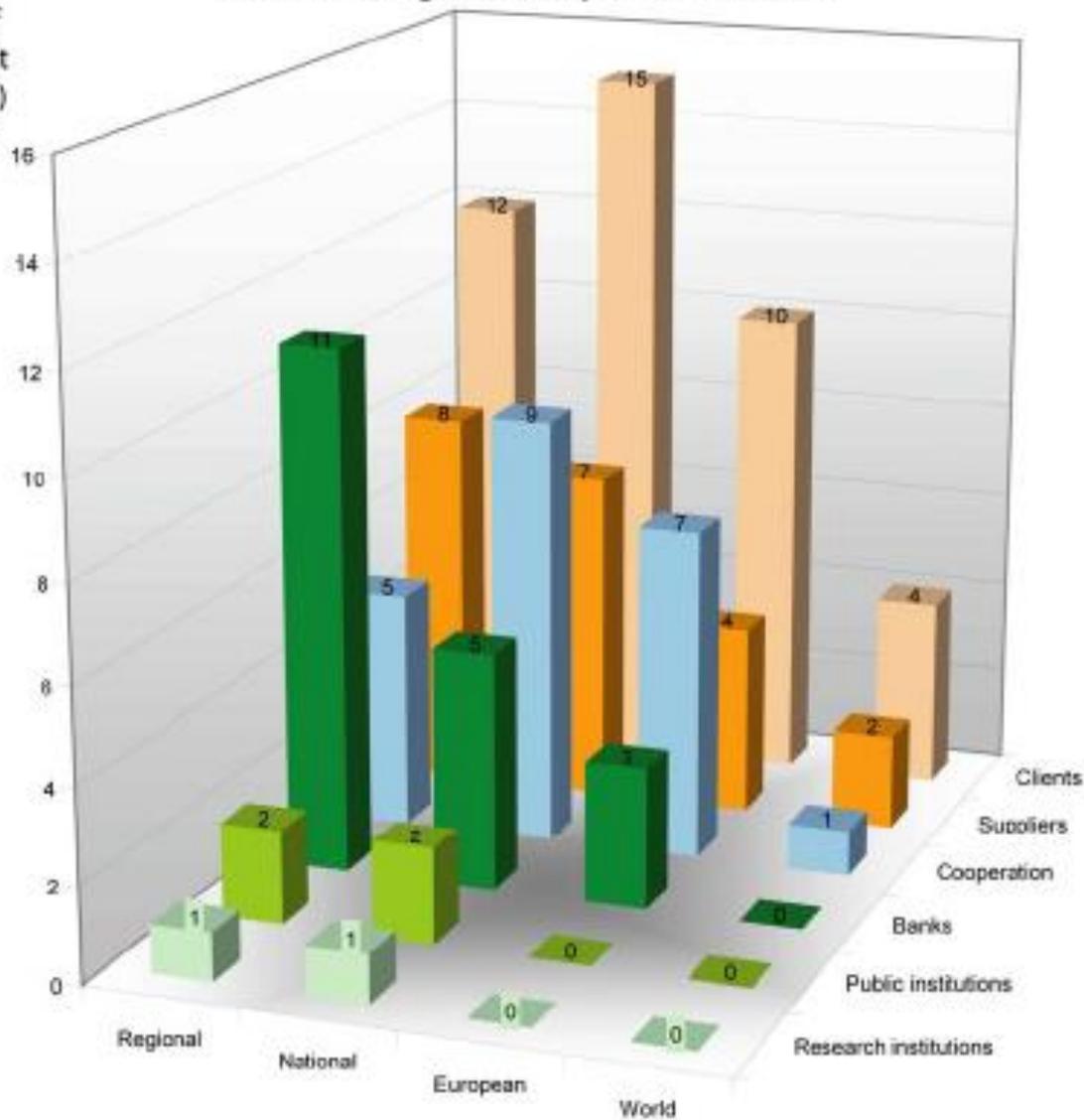




**Impact of recession
on business
relations, Goriska,
Slovenia**

Perceived high level impact of the crisis

Number of high impact scores (3-4) expressed



Impact of recession on business relations, Oevre Norrland, Sweden

Differential impacts by industry

- Export-oriented businesses particularly affected, especially in traditional industries
- High-tech industries affected, but 'buffer' provided by research activities
- Resource industries less affected due to continuing global resources boom
 - Fluctuations in commodity prices

Differential impacts by market

- Greatest impact with clients in Eastern Europe, Russia and Middle East
- Markets in Western Europe and Asia not as heavily affected?
- European clients “are all rich” (Dutch business executive, [NL41])

Chain reactions

- Firms hit by collapse of suppliers
- Weakness of individual firms within transnational networks can have an impact through the network

“Everything began falling apart in 2009, very quickly and strongly. After the bankruptcy of companies, especially in Latvia, serious financial difficulties appeared. Almost all connections with Irish and British enterprises broke down.”

Lithuanian business executive [LT4]

Chain reactions

“The company depends greatly on its partners, because most of the produced parts are additional, they were stuck together with the parts made by two other large national companies and after those companies went bankrupt, the firm experienced big financial difficulties. Only one partner was left, but the company isn’t very satisfied with this collaboration either. At the beginning of commercial activity, the company had about 100 foreign partners (in Bulgaria, Slovakia, Czech Republic, Germany, Poland, etc), and now one national partner is left.”

Lithuanian business executive [LT6]

Access to financial capital

- Global financial crisis has made access to financial capital more difficult
- Experienced across international, national and regional banks
- Limiting growth and international expansion

Access to financial capital

“We are involved in buying some companies that have become bankrupt during the crisis. We have good sales numbers and we can convince the banks to give us loans for these developments, but it is not as easy as before. You can really feel that the provision of money through financial institutions is not as easy as it used to be.”

Dutch business executive [NL43]

Access to financial capital

“I think it has to do with the fact that most companies were doing business with China. Before the crisis, it was possible to get a loan from the bank ... With this money, the companies ordered a container with products from China and paid the money back to the bank when they sold the products. Now, banks do not provide such loans anymore. Now all companies have to buy their products locally because they cannot afford the containers from China any longer.”

Dutch business executive [NL38]

Opportunities from recession

- Niche producers able to sell on quality

“Before the crisis, people were buying more things but of less quality. Through the crisis, customers have become more aware of the money they spend and are looking for quality products. It takes longer for them to decide whether to buy something, but if they decide, they choose quality products.”

Dutch business executive [NL38]

Prompting international expansion

- Reacting to shrinking domestic markets by seeking new opportunities internationally
- Precedent of Slovenia
- Czech agri-food companies expanding into Austria, Germany, Slovakia and Poland where some commodity prices are higher

Prompting international expansion

“In the past, the business was only oriented towards Groningen province and the city ... Now more firms have entered the local market, leaving less work for everybody ... With the growing competition and impacts of the financial crisis, we need to expand our operation area.”

Dutch business executive [NL37]

Prompting international expansion

“The relationships with partners didn’t change, but new markets were searched out in Japan and the USA. It won’t be easy to export the products to these countries, especially to Japan. Producers have to find out more about the culture and manners of this country and only then start production. It’s not easy to find clients, because this country is very different from USA or European countries. The firm expects to fund customers in USA through Lithuanians living there.”

Lithuanian business executive [LT3]

Prompting international expansion

“The economic crisis has made us look through the quality of services provided more carefully and to drop inefficient routes, to look for new possibilities. New contracts with enterprises and tourism agencies are being made. Economic recession has encouraged us to expand the enterprise’s activity, to look for new partners, especially abroad. Actively collaborating with enterprises, it seeks to expand the routes not only to the closest foreign countries but also to Italy, Spain and England.”

Lithuanian business executive [LT11]

Flexibility in transnational labour market

- Switching to cheaper migrant labour
- Cutting migrant workers before home workers

“At the beginning of the crisis not so many orders came, so we made redundant foreign workers first and kept the local labour force. At the moment we are doing better. In the first half of 2010 the firm used the public support programme. As the number of orders was growing in mid 2010, additional foreign workers have now been employed.”

Slovenian business executive [SI02]

Wider regional impacts

- Experiences and responses of individual firms can have a wider regional impact
- Not only economic

“Until the crisis, the firm was very generous in sponsorship in the local area: we sponsored the elementary school and kindergarten renovation in [local village], also students and young people, local traditions, sports for employees”

Slovenian business executive [SI02]

Re-thinking Resilience

- Diverse models and definitions of 'resilience' in literature (Pendall et al 2010, Skerratt 2011)
- Biological-derived concepts of resilience emphasize return to equilibrium and hence independence and continuity
- Move towards more dynamic understandings of resilience within evolutionary economic geography (Hudson 2010, Pike et al 2010, Simmie and Martin 2010)

Re-thinking Resilience

- Pike et al (2010) in *Cambridge Journal of Regions, Economy and Society*
- **Adaptation:** “a form of resilience based upon the renewal of a pre-conceived and previously successful development path in the short-term” (p 62)
- **Adaptability:** “the dynamic capacity to effect and unfold multiple evolutionary trajectories, through loose and weak couplings between social agents in a place, that enhance the overall responsiveness of the system to unforeseen changes” (p 62)

Re-thinking Resilience

- Adaptation observed in rural regions exhibiting a defensive retrenchment of traditional industries such as agriculture, mining and forestry
 - Lausitz, eastern Germany
- Adaptability associated with diversifying rural economies and openness to external linkages
 - More common response in regions studied

Re-thinking Resilience

- Adaptability for rural regions requires blending of the local and the global
- Capacity to re-engage local resources, labour, capital and markets to replace broken translocal chains
- Capacity to development new translocal/transnational networks and markets in response to regional constraints

Re-thinking Resilience

- Global connectivity carries risks because it always involves some loss of autonomy to distant centres of decision-making
- Weak adaptability when translocal connections are concentrated
- Strong adaptability when translocal connections are multiple and diverse

Resilience and Globalization

- Wrong to think of globalization as either strengthening or weakening resilience of rural regions
- The reproduction of globalization through rural regions is part of the adaptability of rural regions to social and economic shocks