



PARADIPLMACY, KNOWLEDGE REGIONS AND THE CONSOLIDATION OF SOFT POWER

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Introduction

The increasing complexity of the international system is particularly illustrated by the heterogeneity of players and the growing influence of non-state actors as well as by the existence of a system of multilayered and diffused governance, where there is coexistence and interplay between supranational, regional, national and sub-national levels, not the monopoly of the global level, leading to a considerable ambiguity in the international system, namely about the exact location of authority, its fragmentation and the management of overlapping jurisdictions and rules.

The major structural changes societies and the international system are experiencing are determined not only by globalization but also by two other distinct processes which are intertwined with it: the emergence of the "knowledge-based society" and the "network society". The processes of globalization and of building the knowledge society originated two different phenomena which are apparently contradictory. Globalization is behind the development of macro-regionalism insofar as macro-regions enable the exploration of scale economies, the rationalization of production systems and transaction costs and the development of transparent competition rules. In contrast the knowledge-based society has worked in a different direction introducing the dimension of "localization" and stimulating the development of micro-regionalism. There is sufficient evidence to support the argument that the evolution of the world economy is not simply characterised by globalization but by "glocalization", a more complex process involving simultaneously globalization and localization.

Knowledge regions, strongly anchored in multi-actor knowledge networks and a proactive paradiplomatic international action, have emerged as relevant players in the international system and the real competitors in the global economy. The paper is structured in three parts. The first part discusses the main factors behind the emergence of the micro knowledge regions in the context of the process of glocalisation. The second part analyses the features and dynamics of knowledge regions both the old ones in advanced countries but also the new ones in the emerging economic powers, China, Brazil and India. The third part addresses the phenomenon of paradiplomacy and its strong linkages with knowledge regions and discusses the



implications of the new knowledge society paradigm in terms of changes in the philosophy and practice of foreign policy.

Globalisation, knowledge society and the emergence of knowledge regions

The international system has been experiencing not only a process of globalisation but more precisely a dual process of "globalisation cum localisation" which some authors have named glocalization or fragmegration¹. The joint effect of this globalisation-localisation process, with their points of complementarity and their contradictions, is inducing a major paradigm shift in societal structures, in the way the economy and markets function and states operate and how citizens relate to each other and to the state

Globalisation has been a widely discussed topic but still remains a rather ambiguous concept with at least four different meanings to it². The first perspective sees globalisation as internationalisation, stressing the intensification of interaction and increasing interdependence between countries/states. A second view equates globalization with liberalization, implying the elimination of barriers to the free flow of goods, capital and people, the reduction of state restrictions and deregulation. Thirdly, globalization has also been regarded as universalisation, implying the creation of global norms and values (by states) and gradual reduction of cultural differences. Finally, globalisation can also be seen as deterritorialisation, reflecting the fact the territory, a fundamental basis of organisation of *westphalian* sovereign states, lost relevance as transnational networks and new forms of social organisation that transcend territorial borders emerged and non-state actors became increasingly influential at the international level. Unlike the others, the last meaning implies a qualitative change and distances itself from the state-centric approach insofar it underlines the new role and influence of non-state actors.

Localisation is associated with the emergence of knowledge-based economies and societies which are those where knowledge became the determinant factor of innovative production (new products, production processes and organizational methods), and innovation the key ingredient behind competitiveness. The most valuable aspect in the production of knowledge is the investment not in physical capital but above all in intangible assets: human capital, knowledge capital and social capital. In the knowledge society social activities are particularly geared towards the production, the distribution and effective use of knowledge which allows for the capacity to create and innovate new ideas, thoughts, processes and products and to translate them into economic value and wealth. On the other hand, the knowledge society is also a learning society where there is a strong priority attached to learning and "learning how to learn" which conditions the sustainability of the process.

In stressing the centrality of the process of knowledge creation and diffusion it is important to point out not only that there are different types of knowledge but also that

¹ See James Rosenau (2002). "Governance in a new Global Order". In David Held and McGrew (eds.) *Governing Globalization: Power, Authority and Global Governance*, Cambridge Polity Press: 70-86.

² Dominique Moisi, IFRI (2001). "The Knowledge-based society – beyond IT revolution", paper presented at the Annual EU-Japan Journalists Conference: Reacting to the knowledge-based society: European and Japanese views, Dublin, 7-9 March.



some have a higher strategic value than others. An important distinction to be made between two fundamental types of knowledge: (i) Coded knowledge (know-what and know-why) which can be equated with information and easily accessed through databases, books or lectures; (ii) Tacit knowledge (know-how and know-who) which is more difficult to have access to insofar it presupposes practical experience and social practice, in particular the know-who which is socially embedded knowledge that can not easily be transferred through formal channels.

"Tacit Knowledge" is the most decisive and strategic kind of knowledge because it is crucial to interpret, select and integrate coded knowledge, as well as to learn new skills and forget old ones. Moreover, with the advances in information technologies the increasingly cheap and easy access to vast information makes tacit knowledge even more relevant because it is scarcer and selection and interpretation of coded knowledge becomes paramount.

The creation and diffusion of tacit knowledge, unlike coded knowledge, requires a social context, face-to-face interaction and trust and it is unlikely to be transferred on an anonymous base. This is where the "network society" factor has to be accounted for, in the sense that the social networks that involve a diversity of actors and contribute to the upgrading of the level of social capital³ – i.e. the capacity members of a society have to develop mutual trust and cooperate to achieve common goals – is a fundamental condition for the creation of tacit knowledge. Tacit knowledge is considered to be only transferable among actors who share norms and values and possess a high level of social capital.

The transition to the knowledge society/economy has become a key issue in the strategic thinking of many societies and states and is gradually becoming a priority in the political agenda of governments. Thus far, this trend involves mainly "strong states," developed countries or emerging new powers, which already have a strong position in the global economy. The analysis of the EU Lisbon Strategy and the updated "Europe 2020: a strategy for smart, sustainable and inclusive growth"; Japan's "Innovation 25" strategy, the US "American Competitiveness Initiative"; Brazil's *Programa "Três Tempos"*; China's "Harmonious Socialist Strategy" already made operational in the 11th Five-Year Plan and updated in the 12th Five-Year Plan (2011-2015) currently in its final process of approval; or India's 11th Five-Year Plan, shows that, since the late 1990s, these actors have engaged in the formulation and implementation of strategies to facilitate a transition to a knowledge society/economy⁴.

The relationship between the two processes of globalization and knowledge-society is rather complex. Globalization is at the same time undermining localisation, insofar instantaneous transfer of information regardless of location undercut traditional competitive factors such as proximity to inputs and markets, and reinforcing localisation as this ability to source from anywhere becomes open to everyone and therefore ceases to be an advantage. In this context the "location paradox" emerges in the sense that "*...the most enduring competitive advantages in a global economy seem*

³ In the sense of the concept developed by Putnam, see *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton, Princeton University Press, 1993.

⁴ Neves, Miguel (2007). "National Experiences in Managing the transitions towards a knowledge Society/Economy - Same Dreams, Different Beds". In *Estratégia*, nº 22-23, IEI.



to be local" as argued by Porter⁵. Moreover, the environmental costs of globalisation are now increasingly at stake. The pressing standards of corporate environmental responsibility and the concerns over climate change and the reduction of CO2 emissions, questions the sustainability of the fragmentation of globalized production processes pressing for location near the consumer markets in order to minimise emissions thus providing new advantages to localisation.

Michael Enright⁶ argues that this is only an apparent paradox as this twin process tends to be essentially complementary insofar the process of localisation of competitive advantages of firms is a necessary condition to compete in the global market. In other words, firms have first to consolidate their knowledge creation and innovation capabilities in their local/regional clusters and networks, as innovation is today the main driving force behind competitiveness, in order to meet the new challenges of globalisation.

However, I would argue that there is not only complementarity and convergence; there is also divergence, tension and contradictory effects between the two at different levels.

Firstly, while globalisation reduces the relevance of the territory in the old way, the knowledge society grants a new strategic significance to the territory. Given the centrality of tacit knowledge and the fact its creation requires direct social interaction on a territorial base, we can then understand how the knowledge society and the network society processes have contributed for the territory to regain importance but in a new perspective: not because it is controlled by the state or is the basis for the exercise of sovereignty, but because of the social activity that takes place there and the density of the knowledge networks. Knowledge creation became a territorialized phenomenon, insofar it enables national/regional actors to develop trust, form networks, produce common norms and values, develop partnerships and engage in mutual learning.

From this perspective, the knowledge society and economy contradicts the opposite trend of deterritorialisation set in motion by globalisation. As a consequence the local and regional levels gained a new strategic value, because it is the optimal dimension for the creation and operation of the knowledge networks that produce and diffuse tacit knowledge.

Secondly, globalisation generates a concentration of economic power, setting in motion a complex process of mergers and acquisitions which have been taking place in many sectors, while the knowledge society tends to generate greater dispersion of power and assets and to stimulate co-operation. This concentration of economic power and the formation of major conglomerates in the financial sector is clearly one of the structural causes behind the current financial and economic crisis insofar it created the syndrome of "too big to fail" and weakened the capacity of states to carry out effective regulation and moderate market abuses and anti-social behaviour of conglomerates. At the same time this same process weakened the globalisation process insofar global banks bought or pushed out of the market smaller regional/local banks with closer ties with the local

⁵ Michael Porter (2000). "Location, Competition and Economic Development: Local Clusters in a Global Economy". In *Economic Development Quarterly*, 14: 15-34.

⁶ Enright, OECD (2001). *Enhancing SME competitiveness*. The OECD Bologna Ministerial Conference, Paris, Background paper for workshop 2.



economy and institutions: as a consequence credit became less accessible to SMEs clusters and knowledge networks ⁷.

Thirdly, in terms of policy responses, globalisation requires from the point of view of regulation the fight against monopolies / dominant positions and strict enforcement of competition rules while the knowledge society/economy implies a logic of greater cooperation between firms, universities, research centres, local governments, NGOs and other partners that integrate the knowledge networks and greater tolerance with regard to practices that from a formal perspective could be seen as violating competition rules. In other words, the new paradigm of the knowledge society has far reaching institutional and regulatory implications insofar it requires a flexibilisation of rules in several areas notably in competition and intellectual property rights in order to remove major obstacles to knowledge diffusion.

Fourthly, globalisation is behind the development of macro-regionalism and regional integration while the knowledge society is favouring an opposite trend of micro-regionalism, thus facilitating the development of two different kinds of regionalism with two different logics.

The development of this new micro-regionalism is anchored on, and driven by the emergence of the knowledge regions, a new actor both in terms of knowledge creation and innovation and of governance whose strategic relevance derives from the very nature of tacit knowledge production and dissemination as will be discussed below.

The new strategic relevance of the knowledge regions is associated with different factors.

To begin with, the necessity to introduce new forms of Governance within states that induced decentralisation and devolution of powers to sub-national governments. The systemic effects of globalisation caused the weakening of the Westphalian state, although with considerable differences between strong and weak states, as a result of the incapacity of central bureaucracies to deal effectively with a whole new range of complex issues, the growing power of non-state actors and the emergence of new sources of loyalty and identity that compete with nationality.

Secondly, the knowledge regions emerged as the systemic mediators between the local and the global managing contradictions and addressing the new multi-level governance challenges. To a large extent they are the real competitors in the global economy and acquired a deep understanding about its logic and dynamics. One can argue that it is regions rather than countries that are competing in the global economy. Conversely at the local level they function both as the catalysts of the organisation of local actors' strategies and actions to pursue their interests in the global economy and as the safety net to cushion negative effects of globalisation, thus contributing to social stability.

Thirdly, the relevance of the knowledge regions derives also from their strategic role in strengthening Global Governance insofar they operate already on the basis of multi-actor knowledge networks whose expertise is required to respond to the complex regulation of very technical issues. This puts knowledge regions in a privileged position to provide inputs to global rule-making. Similarly, they have a crucial role to play as far as rule-implementation and adaptation to local conditions and specificities are

⁷ See Stiglitz, Joseph (2006). *Making Globalization Work*, Penguin Books.



concerned, thus being a strategic player in ensuring both the voluntary compliance to and enforcement of global rules.

Knowledge regions: features and dynamics

The concept of Knowledge Regions is relatively recent and there is not yet a consensus about its precise contents. However, it is clear that the concept refers to micro-regions, territorial units which are parts of a State, that operate as regional innovation systems according to the new logic of the knowledge economy and society. Although the focus has been more on national knowledge regions I would argue that transborder regions involving parts of different states cutting across political boundaries can also constitute knowledge regions (transborder). In spite of the fluidity of the concept, I would argue that a comparative analysis suggests that knowledge regions display some fundamental common features which go far beyond economic aspects to include sociological, governance and political dimensions. The most fundamental features include the following aspects:

- (i) High level of human capital as a result of a consistent level of investment, especially in education and training, with important consequences not only in terms of productivity but also in terms of acquisition of new skills, innovation capacity and learning capabilities.
- (ii) High investment in R&D, public and private, and efficiency of the system translated in good performance as far as outputs are concerned, particularly patents.
- (iii) Possession of a core group of knowledge-intensive industries and/or knowledge services which play a strategic role in securing innovation and competitiveness: IT and computer manufacturing (computer and office equipment, electronic components, communication equipment); Biotechnology and chemical sectors (pharmaceuticals, drugs, chemical products); Automotive and high-technology mechanical engineering (motor vehicles and transport equipment, machine tools and equipment); Instrumentation and electrical machinery (precision and optical equipment, electrical transmission equipment, lighting and wiring equipment); High-technology services (software and computer related services, telecommunications, research, consultancy, development and testing service).
- (iv) High level of social capital, implying good levels of cooperation and trust between members of the community, which favours the development of dense regional networks between regional knowledge actors, enhancing the capacity to produce and diffuse tacit knowledge.
- (v) Communities characterised by a strong multicultural trait, associated with the presence of a significant foreign community from a variety of countries and cultures, also because as dynamic innovation poles they attract talents from other countries and regions, which facilitates a better knowledge about other cultures and visions of the world.
- (vi) New forms of governance, less hierarchical and more participatory, which put great emphasis on active public-private partnerships, devolution of powers to local governments and new forms of articulation between different levels of



government and policies aimed at facilitating entrepreneurship in both public and private sectors.

- (vii) High international profile in many cases associated with a reasonable level of international participation based on a proactive paradiplomacy in areas of *low politics* carried out by sub-national governments in close co-ordination with the private sector and civil society organisations.

This illustrates the complex, multidimensional and far-reaching structural changes that underpin the emergence of knowledge regions. It should be noted that these traits are tendencies and therefore they are combined in very different proportions in different regions, some might even be absent or not fully consolidated in specific regions. Moreover, despite the commonalities mentioned above there is not a homogeneous model of knowledge region; there are obviously many points of divergence and different degrees of maturity between different experiences.

Comparative analysis of Knowledge Regions has been carried out by Robert Huggins⁸ who has been producing the World Knowledge Competitiveness Index. This Index is an overall benchmark of the knowledge capacity, capability and sustainability of the best performing and most dynamic regions in the global economy.

The World Knowledge Competitiveness Index 2008 provides the most recent analysis of the performance of the leading knowledge regions in the world. It compares 145 regions - 63 from North America (USA and Canada), 54 from Europe and 28 from Asia and Oceania - and is headed by the San José region in the US followed by other US regions. In the top 10 there are two non-US regions Stockholm (6th) the best performing European region and Tokyo (9th) the best performing Asian region. The top 50 rank is dominated by US regions but includes 13 European regions and 9 Asian regions. At the bottom of the ranking we find the Chinese and Indian regions as well as regions from Eastern Europe. It is interesting to note that all the most developed Chinese coastal regions are now integrated in the group.

Comparing the 2008 results with the 2005 Index it is possible to conclude that while the leading knowledge centres are still in the US, the American predominance is less overwhelming insofar there is a clear improvement in the performance of the knowledge centres outside the US, namely in the EU and Japan which place 13 regions (7 in 2005) and 7 regions (1 in 2005) respectively in the top 50 knowledge regions. Moreover, there are few US regions that have improved their position since 2005 which suggests that the considerable gap between US regions and European and Asian regions is narrowing.

In developed countries the most competitive knowledge regions have consolidated their competitive advantages and lead the process of innovation. They are clearly the engines of their respective economies and the key competitors in the global market. In the US the San José-Sunnyvale-Santa Clara region, which includes Silicon Valley, is for some time the leading region supported in very high rates of investment in education and R&D (such as NASA) with a strong basis in knowledge-intensive sectors in particular the IT, high-tech services and instrumentation and electrical machinery sectors. The top US knowledge regions group include also Boston-Cambridge endowed

⁸ Robert Huggins, Hiro Izushi, Will Davies and Luo Shougui (2008). *World Knowledge Competitiveness Index 2008*, Centre for International Competitiveness, Cardiff School of Management, University of Wales Institute, UK.



with a high quality tertiary education sector with 8 strong research universities in particular Harvard and the MIT; San Francisco-Oakland-Fremont; Hartford and Seattle-Tacoma-Bellevue.

In Europe the strongest knowledge region is Stockholm (Sweden) which ranks 6 in the ranking of the world knowledge competitiveness index. It has a highly educated population - 39% has tertiary education and 45% secondary education – and a diversified economic structure although with a particular specialisation in knowledge-intensive services and in some high-tech industrial activity: Information Technologies/Electronics; Software/Internet; Health and Biotechnology; Transport and Logistics.

Other leading knowledge regions in Europe include West, South and Ostra Mellansverige in Sweden; West, East, North and South regions in the Netherlands; Pohjois-Suomi, Etela-Suomi and Lansi-Suomi in Finland; Ile de France (Paris region) and Centre-Est in France; Luxembourg; Denmark; Norway; Baden-Wurttemberg, Bayern, Hamburg and Bremen in Germany; Eastern, South East and South West in the UK; North West and Lombardia in Italy; Noroeste/Catalunya and Madrid in Spain.

In Japan knowledge regions have also improved their performance in recent years. Tokyo is the leading Japanese region (ranks 9 in the 2008 WKCI), possessing a strong high-tech services sector and high rates of patents, followed by Shiga, strong in specific knowledge sectors instrumentation and electric engineering and IT and computer manufacturing, Kanagawa, Toyama, Osaka and Tochigi regions.

While the role of these knowledge regions in securing the leadership of advanced economies in the innovation process is well known, the role new knowledge regions have been playing in developing economies that have emerged recently as economic powers is often overlooked and less known. The main argument is that one of the key factors behind the success of the new emerging economic powers, in particular China, Brazil and India, is the gradual consolidation of knowledge regions inside these countries which have performed the roles of the main engines of economic growth, centres of innovation and the fundamental bridges to the global economy. The other side of the coin has been the asymmetric nature of their development processes.

In China, there are three crucial knowledge regions with different profiles: the "Bohai Rim region" (Beijing, Tianjin, parts of Shandong and Liaoning); the "Yangtze River Delta" with the leading centre in Shanghai and involving also 7 cities in Zhejiang and 8 cities in Jiangsu provinces; the "Pearl River Delta", involving Guangdong province and the ties with Hong Kong and Macao. The 9 coastal provinces involved in these 3 leading poles of the Chinese economy account for nearly 2/3 of China's GDP (62%) and GDP per capita is 1.7 times higher than the national average; more than 75% of China exports. It is important to note that each region has its own development model and its specific strong points⁹.

The Bohai Rim region has been characterized as a government driven model with the most intensive R&D facilities (42 of the 91 institutes of the Chinese Academy of Science

⁹ See Robert Huggins, Hiro Izushi, Will Davies and Luo Shougui, *World Knowledge Competitiveness Index 2008*, Centre for International Competitiveness, Cardiff School of Management, University of Wales Institute, UK: 34-46; On PRD and YRD comparative analysis see Chen Xiangming (2006). *Regionalizing the Global – local Economic Nexus: a tale of two regions in China*. Great Cities Institute, Working Paper, University of Illinois Chicago, March.



are located here) as well as the top universities (Tsinghua University and Peking University) and nearly 25% of university students and 30% of R&D researchers are located in the region which accounts for 34% of national R&D expenditure. This is mainly explained by intensive investment by the Chinese government in the last two decades.

In contrast the Yangtze River Delta is labelled as a city-network driven model by which the new knowledge and technology absorbed by Shanghai from its own industrial dynamism and strong presence of foreign multinationals is then diffused from Shanghai to smaller cities around it, in particular Nanjing, Suzhou and Hangzhou where specific clusters are maturing. It has strong knowledge intensive sectors in particular the automobile industry, the IT sector and chemicals and machinery as well as more dense knowledge networks in particular strong ties between firms and universities and high levels of technological commercialization.

Finally, the Pearl River Delta region is qualified as a FDI driven model as it has been an important recipient of foreign investment accounting for 20% of FDI stock in China, especially from and through Hong Kong, and the main basis of China exports as the region is the origin of nearly 1/3 of Chinese exports although the share has declined in recent years. Although the science and technology basis, the education indicators and the density of knowledge workers are not strong points, the region benefits from the intensive presence of foreign investors which are associated with some knowledge transfer through workers and managers, the formation of local SMEs clusters and the proximity of an international centre like Hong Kong with knowledge-intensive services.

In India three main knowledge regions are behind the emergence of India as a global economic power : (i) Mumbai, capital of the state of Maharashtra, is the financial capital of India and a region with strong knowledge intensive sectors - IT, Health sector and audiovisual namely the film industry of Bollywood – responsible for 40% of India exports; (ii) Hyderabad, capital of the state of Andhra Pradesh with a series of relevant sectors IT, pharmaceuticals, biotechnology and high-tech services sectors, is a main exporter of software products ; (iii) Bangalore, capital of the state of Karnataka, is known as the Indian Silicon Valley reflecting the fact it is the leading IT sector producer and exporter in India accounting for 34% of India total exports¹⁰ of IT products, and is also an important biotechnology centre.

In Brazil the leading knowledge region is the state of São Paulo which has set up several knowledge networks associated with the programme "Arranjos Produtivos Locais" which involves SMEs, universities, research centres, local governments aimed at building strong ties between the different players and fostering innovation¹¹. The state is already the powerhouse of the Brazilian economy accounting for 34% of total GDP in 2007¹² (down from 37% in 1995) and for 43% of Brazil's industrial output and possesses a group of knowledge-intensive sectors namely chemical industry, machinery, medical instruments, auto industry, biotechnology, pharmaceutical, IT and nanotechnology sectors.

¹⁰ See Invest in India "17 billion software exports for India's IT state, <http://investmoneyinindia.com> (2.08.10)

¹¹ Secretaria do Desenvolvimento, Governo de São Paulo, www.desenvolvimento.sp.gov.br/drt/apls (2.08.2010)

¹² Fundação Sistema Estadual Análise de Dados e IBGE, www.seade.gov.br (2.08.2010)



One of the important characteristics of knowledge regions is their increasing direct participation in the international system and their ability to act more or less autonomously in the international stage and develop paradiplomacy actions that can be parallel or complementary to actions developed by national governments.

Paradiplomacy and foreign policy in the knowledge era

A crucial issue in terms of prospective analysis is the implications of the new knowledge society paradigm for structural changes in foreign policy taking the emergence of knowledge regions into account. There are interesting developments which suggest potential fundamental changes to the goals, nature and instruments of foreign policy in a global knowledge society.

The first development is the new relevance of paradiplomacy developed by sub-national governments, in particular by the governments of knowledge regions. These are increasingly active in the international arena, mainly in areas of low politics (trade, investment, science and technology, culture, and education), trying to project their specific interests according to a dual logic: on the one hand, a process "from the inside out" reflecting the fact that local governments go out to promote local interests and reduce the risks of international threats; on the other, a process "from the outside in" whereby non-central governments become the focus of attention and suffer pressures from both foreign governments and non-state actors as they realise that influence at the central level is no longer sufficient to pursue their aims. This is a potential area of conflict with the traditional diplomacy of central governments¹³.

The development of paradiplomacy is a growing trend in the international system clearly illustrated by the old and more developed knowledge regions as well as by the new ones in the emerging countries. Paradiplomacy first entered the international system through the British Dominions (Canada, South Africa, Australia) in the context of the British Empire in the 1920s. For the first time the international activity of non-sovereign governments, although seen as a deviant behaviour, was tolerated by the international community and the Dominions gained autonomy in negotiating international trade agreements and other economic matters. This set a precedent. Hong Kong was later on one of the pioneers of modern paradiplomacy as a result of a structural conflict of interests between the colonial power, Britain, and the colony on trade matters leading London to informally accept since the late 1950s Hong Kong's autonomy and capacity to negotiate directly trade agreements with foreign states. The Hong Kong SAR still has an active paradiplomacy based on the action of the network of HK Trade Offices (Geneva, Brussels, Washington, San Francisco, New York, Toronto, Tokyo, Sydney, Singapore, London) at the bilateral level and HK's participation in multilateral organisations, particularly in WTO. The Canadian Province of Quebec was another case in point since the early 60s when it developed close ties and signed bilateral agreements directly with France on cultural matters which generated conflicts with the Federal government.

¹³ Brian Hocking (1993). *Localizing foreign policy – non-central governments and multilayered diplomacy*, London, St. Martin's Press.
Michelmann in Hans Michelmann, and Soldatos (ed) *Federalism and international relations – the role of subnational units*, Clarendon Press, 1990. Duchacek, uses the word paradiplomacy in "Perforated sovereignties: towards a typology of new actors in international relations" in Michelmann (ed.) *Federalism and International Relations*: 1-33.



Since the late 1980s, also facilitated by the strategic decompression after the end of the Cold War, the expansion of the paradiplomacy of sub-national governments has been a silent but fundamental change in the international system and the way in which states act internationally. The most developed regions became proactive in the international stage, mainly motivated by economic reasons, as illustrated by various cases. The German Lander such as Baden-Württemberg and Bavaria developed a certain degree of external autonomy, establishing networks of external representation offices in several countries in all continents. Bavaria for example has built since the mid-1990s a network of external representations in 22 countries in Asia (China, India, Japan, Vietnam), Africa (South Africa), America (Brazil, Mexico, Canada, USA New York and USA San Francisco) and in several European countries. Interesting enough some of these offices are located in other knowledge regions such as Guangdong the Pearl River Delta and Shandong in China, Bangalore in India, São Paulo in Brazil and Tokyo in Japan¹⁴.

In the context of the US states, California, the powerhouse of US knowledge economy, has been one of the most proactive through the activity of Governors and of the California Technology, Trade and Commerce Agency and its network of trade offices abroad (Tokyo, London, Frankfurt, Hong Kong, Mexico City, Shanghai, Taipei, Johannesburg, Seoul, Singapore) until 2003 when the agency was dismantled. But many other States such as Florida, New York, Nebraska, North Dakota, Kentucky or Colorado have followed the same path and are also active internationally, under the leadership of their Governors who perform the role of economic ambassadors seeking to promote the competitiveness of their States in the global economy and to boost their own political profile¹⁵.

Another interesting example is Catalunya which enjoys a high degree of autonomy in domestic affairs and has developed since the late 1980s a very active paradiplomacy that promotes its specific economic and cultural interests in the international arena through the activities of the network of external offices managed by COPCA (Consorci de Promoció Comercial de Catalunya) participated by the Catalunya Government, Chambers of Commerce, industry sectoral associations and export associations. These entities jointly created and manage the network of 35 external trade offices located in 31 countries and covering 70 countries around the world¹⁶, including China (Beijing, Shanghai), India (New Dehli), Hong Kong, Singapore, Brazil (São Paulo) or the USA (Washington, New York, Los Angeles) at the same time it directly supports firms at home through training and assistance for the development of their international/export departments. Moreover, bilateral relations with States and other Non-Central Governments are one of the priorities leading to the signature of international agreements in a variety of areas ranging from trade, investment, education, culture, science and technology or health.

¹⁴ See Invest in Bavaria, State Agency (<http://www.invest-in-bavaria.de/en/bavarias-foreign-representations/>)

¹⁵ A good example of this "profile-boosting strategy" has been California's Governor Schwarzenegger signature of an agreement on climate change with British Prime Minister Tony Blair in 2006. On US states' paradiplomacy see McMillan, Samuel Lucas (2008). "Subnational Foreign Policy Actors: How and Why Governors participate in US Foreign Policy" in *Foreign Policy Analysis*, 4, 227-253. For example, California's Governor Gray Davis created a secretary of foreign affairs and hosted political leaders from China, Japan and Singapore. In 2001 alone California hosted foreign dignitaries from 67 countries.

¹⁶ See Generalitat Catalunya, COPCA (<http://www.acc10.cat/ACC10/cat>) acceded 3.08.2010



In the case of China the development of the paradiplomacy of the leading Chinese provinces since the mid-1990s although discrete and with little visibility, has been a major factor to explain China's integration in the global economy and her impressive emergence as a global economic power. Indeed one of the key institutional ingredients of China's economic success has been the high level of decentralisation of economic decision-making from central government to provincial governments and even to local governments, including in foreign trade and attraction of FDI, since the early stage of reforms. The paradiplomacy of the most developed coastal Chinese provinces, an extension of this internal autonomy, was further developed as a consequence of the implementation of the "Go Global" strategy implemented since 2000 and has gradually been blessed by the Central Government, encouraged by the positive experience with Hong Kong's external autonomy since 1997. Beijing saw this paradiplomacy as useful and complementary insofar it could function as a mechanism to explore more informal channels with economic partners and nurture special relationships; mobilize the overseas Chinese business communities; and even as a solution to manage economic relations with countries which have no diplomatic relations with the PRC.

Guangdong Province has been probably the pioneer and developed since the mid-1990s, under the coordination of the Foreign Affairs Office of the Guangdong Provincial Government, special relations with some "sister provinces" in various continents. As far as Europe is concerned Guangdong developed paradiplomacy relations with 7 European Provinces/Regions: Utrecht (2002), with initiatives in the areas of environmental protection, agriculture, and trade; Skane (Sweden) 1997, especially exchanges in education, environment and medicare; Alpes Cote d'Azur (2000); Catalonia (2003); Fyn Region (Denmark) 2004; State of Bavaria (2004). This special relationship involved the organisation of trade missions, the creation of permanent trade and investment offices such as the offices opened by Catalonia and Utrecht (jointly set up with Dutch Chamber of Commerce the Holland House in Guangzhou), the organisation of investment promotion seminars, participation in trade fairs etc.

There are also more recent but interesting examples of other provinces belonging to the other growth pole of the Chinese economy, the Yangtze River Delta which have invested in building preferential ties with specific European regions. In the case of Jiangsu, the Provincial Government opened 5 Economic and Trade Offices in Europe with the headquarters located in Dusseldorf in 1996 followed by the offices in Paris, Chelmsford - Essex County and East England (UK), Tilburg - Province of Noord-Brabant (Netherlands) and Stockholm (Sweden)¹⁷. Specific European regions have also established their own trade offices in Nanjing, capital of Jiangsu, like Essex County, the German Landers of Nordrhein Westfalen and Baden-Wurttemberg, through Baden-Wurttemberg International¹⁸, or the Paris Department of Haute Seine. For obvious reasons Shanghai is an important location of trade and investment offices from the paradiplomacy of EU regions having developed special relations with Barcelona, Milan, Rotterdam, Hamburg, Liverpool, Marseille, Antwerp.

¹⁷ The intensity of paradiplomacy initiatives is rapidly increasing. For example the Jiangsu Provincial Department of Trade and Economic Cooperation organized several investment seminars in France, Italy, Germany, Belgium and Britain between 21-31 May 2007, involving more than 100 entrepreneurs from Jiangsu. This initiative alone led to the signature of investment contracts worth US\$ 1.3 billion and import and export contracts of more than US\$ 100 million (see <http://www.china-jiangsu.org/news.htm>).

¹⁸ Illustrating this increasingly closer relationship between the two regions, Baden-Wurttemberg and Shanghai created a joint portal in the Internet (<http://www.bw.shanghai.de/portal.jsp>).



Another case in point is the special relationship between the Lander of Bavaria and Shandong Province which developed special ties in terms of mutual investment promotion, but also cultural exchanges and even swap and training of civil servants. Bavaria has created the State of Bavaria Shandong Office in 1997 and in September 2006 the Shandong Provincial Government opened in Munich the Business Representative Office of Shandong with the blessing of China's Central Government. However, it should be stressed that this paradiplomacy does not concern exclusively the Provincial level, there are also paradiplomacy initiatives at the municipal and county levels contributing to a much more complex picture, especially because a minimum level of coordination that exists between Central and Provincial Governments is much more difficult to ensure in relation to lower levels of government.

In the case of Brazil the paradiplomacy of the Brazilian States, called "federated diplomacy", is a recent phenomenon pioneered by the States of Rio de Janeiro and Rio Grande do Sul in the late 1980s followed by São Paulo, Paraná, Baía or even other states involved mainly in transborder paradiplomacy with neighbouring states – Roraima, Acre, Amazonas e Amapá¹⁹. The Federal State has recognised and to some extent favoured the increasing international proactivity of sub-national governments and tried to set up a coordination mechanism in 1997, the "Assessoria de Relações Federativas" between the Itamaraty and the state and municipal governments in order to ensure there was no major contradictions between national foreign policy and paradiplomacy initiatives²⁰. In addition the Ministry of Foreign Affairs has created 8 representation offices in various states and regions to operationalise the process which constitutes an innovative solution. This can be seen as an act of legitimisation of paradiplomacy by the central government. The most recent trend has been the intensification of paradiplomacy relations, anchored in bilateral agreement, between Brazilian States and Chinese Provinces: São Paulo-Shanghai, Baía-Shandong, Pará-Sichuan, Paraná-Hainan, Mato Grosso-Jiangxi.

Looking at these different experiences it is possible to point out some conclusions concerning the nature, dynamics and impact of paradiplomacy at present.

First, it should be stressed that paradiplomacy is not an homogeneous phenomenon on the contrary has a heterogeneous nature. On the one hand this is the result of the coexistence of different types of paradiplomacy as argued by Duchacek identifying three different types of paradiplomacy according to its contents and regional scope: (i) *transborder regional diplomacy* (or micro-regional), referring to transborder relations between geographically contiguous NCGs which was initially the dominant form (ii) *transregional paradiplomacy* (or macro-regional) between NCGs which are not contiguous and (iii) *global paradiplomacy*, involving distant players, including sovereign states and touching all issues in the international system, including security, international trade etc²¹. I would argue that another type of paradiplomacy should be

¹⁹ See Francisco Gomes Filho and Alcides Costa Vaz (2008). "Paradiplomacia no contexto da Amazonia brasileira – estratégias de desenvolvimento regional do Estado de Roraima". In *Ci & Desenvolvimento*, Belém, vol. 4, nº 7, jul-dez 2008: 155-165.

²⁰ See Decree 2.246/1997 República Federativa do Brazil; On Brazil's paradiplomacy see Gilberto Rodrigues (2006), "Política Externa Federativa. Análise de Ações Internacionais de Estados e Municípios Brasileiros". CEBRI Tese, Rio de Janeiro, CEBRI.

²¹ See Michelmann in Hans Michelmann, and Soldatos (1990) (ed), *Federalism and international relations – the role of subnational units*, Clarendon Press: 299-312 and Duchacek, "Perforated sovereignties: towards a typology of new actors in international relations" in Michelmann (ed.) *Federalism and International Relations*: 1-33.



identified "multilateral paradiplomacy" that refers to the participation of some sub-national governments in multilateral organisations and the production of multilateral rules being the best example Hong Kong. These different types of paradiplomacy have different impacts both on the international system and national foreign policy. Whereas transborder regional paradiplomacy does not raise much controversy and is accepted and even promoted by central governments, transregional and, above all, global paradiplomacy is more likely to raise tensions and tend to be regarded with suspicion by central governments. In addition the more we move towards complex and demanding global paradiplomacy or multilateral paradiplomacy more robust institutional and financial capacity is required.

On the other hand, I would argue that a major distinction must be drawn between a permanent and structured modality of paradiplomacy, mainly developed by the richest knowledge regions, developed according to a long term strategy, and sporadic and non-structured paradiplomacy activities involving the use of specific instruments for short-term purposes. There is an important qualitative difference between these two modalities which has to be acknowledged with clear implications for the density of the international status of sub-national governments.

Second, concerning the conditions of success, in spite of the diffusion and explosion of paradiplomacy, the practice of a robust, effective and consistent paradiplomacy is still strongly associated with, and somehow restricted to rich and powerful knowledge regions operating within States, federal or unitary, possessing a considerable level of decentralisation. These are the sub-national governments that have the financial means, the human resources, institutional capabilities and the level of domestic autonomy to engage in complex international relations. In this context it should be stressed that domestic autonomy is a necessary but not a sufficient condition. The degree and dynamics of substantive external autonomy is fundamentally determined by the complex interplay between three different factors: SNG own institutional capacity and strategy to act internationally; the pattern of relations with the Central Government and the mechanisms and level of control exerted by the former; the attitude and recognition of external players and willingness to interact on the international stage. In short, there are different conditions of success that interact which include not only institutional conditions related to level of decentralisation and economic conditions concerning the resources and strengths of regions, but also political conditions, related to the attitude of central governments, and regional leadership conditions²².

Third, the concerns over the dysfunctional nature of paradiplomacy and the risks of conflicts between central governments and sub-national governments expressed in the 1990s by authors like Soldatos, are no longer justified. This "chaos scenario," heavily influenced by the state-centric view, considered paradiplomacy to be a dangerous derogation of state power and a clear threat to the coherence and unity of foreign policy: sub-national actors were regarded as trespassers and their behaviour as deviant. A major shift in perception has occurred. In fact as a result of accumulated experience, and leaving aside the few exceptions where sub-national governments had separatist agendas, paradiplomacy is by and large seen as beneficial and a positive

²² These factors have been highlighted by Keating, M. (2000). *Paradiplomacy and Regional Networking*, paper presented at the Forum of Federations: an International Federalism (<http://www.forumfed.org/libdocs>).



contribution to strengthen the overall international position of states, strongly illustrated by the Chinese, Brazilian and Spanish cases, and less and less perceived as a deviant behaviour. In other words it can be argued that paradiplomacy is no longer seen as an anomaly but on the contrary as a normal and increasingly diffused practice which central governments have even encouraged and ought to incorporate in their foreign policy planning²³.

Fourth, traditional analysis tend to see paradiplomacy as a consequence of globalization and the need local/regional communities have to respond to new challenges and increasing uncertainty in order to pursue their specific economic interests in the global market, to project their cultural identity and to overcome the limitations and rigidities of traditional central bureaucracies that are slow to adjust to new conditions. However, it seems more accurate to consider that paradiplomacy is simultaneously a consequence of glocalisation and a cause, a catalyst of glocalisation. Knowledge networks are behind the development of paradiplomacy through regional governments. Building on the fact they are leading poles of innovation, networks aim at enhancing their competitive position in the global market but also to link up and cooperate with other knowledge networks abroad. This means that paradiplomacy is not a passive and defensive response to globalization, on the contrary it is indeed part and parcel of the process of globalization, it contributes to greater integration in the global market and is the expression of the multi-level governance paradigm.

Fifth, paradiplomacy is a fundamental source of innovation in foreign policy insofar it incorporates and anticipates some of the changes in the conception and rationale of States' foreign policy that will be brought about by the new knowledge society/economy paradigm. To start with the abolition of the boundaries between the domestic and the external levels, there is clearly a continuum, external action is just the extension of domestic network activity and should involve the same players. This also implies a more holistic approach and greater coherence and coordination between domestic policies and foreign policy as well as greater transparency and citizen participation. Moreover, it shows that external action will be more and more a multi-actor, multidimensional process where public, private and third sector actors have to engage and combine their different skills in the context of long term partnerships. Knowledge networks involving coordination and cooperation between governments, business, NGOs, academia, trade unions becomes paramount for effective external action not only in terms of implementation but also in terms of policy conception.

Furthermore, paradiplomacy highlights the growing importance of informal channels and procedures and the role of Soft Law in the regulation of the international system which ensures flexibility and adaptability to adjust to uncertainty and rapid change. Finally, new global issues involve increasingly technical and complex issues requiring expertise which governments lack therefore requiring the active involvement and contribution of private firms, universities, research institutions. In this respect it is relevant to highlight the new role of global transnational networks in international rule-

²³ In the same line Michael Keating (2000). *Paradiplomacy and Regional Networking*, paper presented at the Forum of Federations: an International Federalism (<http://www.forumfed.org/libdocs>). Andrew Petter referring to the Canadian experience clearly states that "...Canadian Governments have facilitated and encouraged paradiplomacy over the years as a means of accommodating nationalist sentiments, regional interests and economic pressures" – see *Canadian Paradiplomacy in practice: confessions of a paradiplomat*, paper presented to the Conference The International Relations of the Regions: sub-national actors, para-diplomacy and multi-level Governance, Zaragoza, 2006 (mimeo).



creation, and renewed concern with global rule-implementation, which presupposes the active involvement of sub-national actors and knowledge regions insofar as they can adapt global rules to local specificities.

Sixth, paradiplomacy is a strategic channel for the creation and consolidation of the "soft power"²⁴ of States not only because of the informal channels and instruments it uses but also because of the fundamental relevance of the issue-areas addressed by paradiplomacy, namely trade, investment and economic cooperation; education and human capital; migrations; science and technology; culture and identity. All of these are crucial dimensions of "soft power" and this is the main reason behind the open-minded and tolerant attitude of China's Central Government with regard to some Chinese Provinces' paradiplomacy the more so as this was combined with the Chinese Diaspora strategy, another crucial instrument of China's soft power. Dense and robust knowledge regions, internationally proactive are the main builders of soft power in the context of globalisation.

However, despite internationally proactive knowledge regions are a fundamental tool to sustain systemic competitiveness in the global economy and consolidate soft power, this is a phenomenon that involves a limited number of states. Still, the majority of states are excluded from this trend as they have been slow to adapt to the new paradigm, both in terms of changes in governance models and policies, and failed to create the necessary conditions to facilitate the emergence of knowledge regions. On the contrary, they tend to hold on to very centralized systems believing that only a strong centre can respond to the new threats and face the challenges of globalisation.

A good example is the case of Portugal where a historical centralist tradition has been somehow reinforced by the dynamics of the EU integration process. As a result Portugal is today one of the most centralised states in Europe a major factor preventing the emergence of dynamic regions.

Portugal went through a vivid debate on regionalisation and decentralisation in the late 1990s as a consequence of the process of referendum on regionalisation held in 1998 which culminated in the rejection of the proposal to create 8 administrative regions along the lines foreseen in the law²⁵. The creation of administrative regions was a binding principle already enshrined in the 1976 Constitution but never implemented. In spite of possessing since 1976 two autonomous regions, Madeira and Azores, the continental part of the Portuguese territory has been managed under a fairly centralised system making Portugal one of the most centralised states in Europe²⁶.

The terms of the debate in 1998 analysed in more detail elsewhere²⁷ and the arguments put forward revolved around the implications of regionalisation for the reform of public administration, national cohesion and the impact on development

²⁴ In the sense used by Joseph Nye (2004). *Soft Power: the means to success in world politics*, Public Affairs.

²⁵ Law 19/98 which defined 8 regions: Entre Douro e Minho; Trás-os-Montes e Alto Douro; Beira Litoral; Beira Interior; Estremadura e Ribatejo; Lisboa e Setúbal; Alentejo; Algarve.

²⁶ See Hahan J.P. and Loo, M.V. (1999). *A Seminar Game to Analyze Regional Governance in Portugal, Lisboa*, FLAD e Rand Corporation. The level of centralisation can be measured by the share of tax revenue controlled by the Central Government which reached 93% in Portugal (Central government+social security) which means that the share of local governments in total tax revenue was 6.2% in 2005, the same as in 1998 see OECD *Revenue Statistics 1965-2006*, 2007, Paris ; OECD *Tax and the Economy – comparative assessment of OECD countries 2001*.

²⁷ See André Freire and Michael Baum (2001). "O referendo Português sobre a Regionalização numa perspectiva comparada" in *Penélope*, nº 24: 147-178.



asymmetries between regions, the organisation and coordination between municipal governments and the risks of corruption, nepotism and intensification of political clientelism. In short, regionalisation was then seen strictly as a domestic issue and analysed in the same logic prevailing in the 1970s when the issue was first raised, as if the world had not changed, and taking no account of the experiences and results of other EU countries. Surprisingly there was no reflection on the dynamics and challenges of the knowledge society/economy and its implications for governance.

In the last decade the debate on regionalisation has been frozen and no real advances were made in terms of promoting decentralisation. The opportunity costs of no-regionalisation have been considerable if we look at Portugal's fragile capacity to respond to the challenges of globalization and the transition to the knowledge society. Regionalisation should not be approached from a restrictive and outdated domestic perspective but from a wider perspective as part and parcel of Portugal's strategy to deal with globalization and enhance its competitiveness in the global economy. It should be stressed that competitiveness is a systemic process and so the competitiveness of the Portuguese economy can not be confused with the competitiveness of a few Portuguese large firms. As long as the core nucleus of the Portuguese productive system, the SMEs, is not involved the sustained competitiveness of the Portuguese economy is at risk.

The inexistence of knowledge regions in Portugal is the main cost of no-regionalisation and a major impediment for Portugal's capacity to foster the process of innovation and compete in the global market. As argued earlier, the regional level is the optimal level for the creation of knowledge networks that produce and diffuse tacit knowledge. Although regionalisation is not a sufficient condition, it is certainly a necessary institutional and political condition for the emergence of knowledge regions. In addition, it provides interesting opportunities for the development of paradiplomacy in Portugal, an important tool to complement traditional foreign policy and to explore new channels and opportunities in an increasingly complex international system. The potential contributions of the paradiplomacy of future regions are varied but I would stress the capacity to: facilitate the redefinition of relations with the Spanish Autonomous Communities and support a more proactive strategy towards them; explore new ties with other European regions; respond positively to the paradiplomacy initiatives developed by Chinese Provinces or Brazilian and Indian States; link up with the Portuguese diaspora and integrate it as strategic players and a major asset in the globalized world.

Conclusions

Knowledge regions are strategic leading players in the process of transition to the knowledge society/economy and the main competitors in the global economy. If it is true that they allowed advanced economies to retain control over the innovation process and therefore preserve the leadership in the world economy, it is also true that knowledge regions are a key factor behind the rise of the new emerging economic powers, namely China, Brazil and India, which challenge the dominance of the US, EU and Japan. Knowledge regions became also new actors in the international system, still with an informal and fluid status, as their governments are increasingly active internationally through organized and permanent paradiplomacy actions and structures.



This external dimension of knowledge regions, in general overlooked, is a fundamental ingredient of their success and capacity to pursue their specific economic, political, scientific or cultural interests and project their identity.

Paradiplomacy practised on a permanent and structured basis by sub-national governments of the most advanced knowledge regions, or on sporadic and non-structured basis by other regions, is mainly focused on low politics areas, ranging from trade and investment, to science and technology, education, culture issues and involves the use of both formal instruments, such as international agreements or trade offices, and informal instruments. Far from being marginal areas, these are on the contrary crucial issues for the building of knowledge society and for strengthening the soft power of states. One of the key arguments put forward is that paradiplomacy is a strategic channel for the creation and consolidation of soft power, the capacity to influence others and shape their behaviour by persuasion and attraction rather than coercion.

The knowledge society and the logic of knowledge networks have important consequences in terms of changes in foreign policy and the way in which states interact with each other and with non-state actors. In this respect it is argued paradiplomacy is an important source of innovation and somehow anticipates some of the inevitable changes to come in central governments' external action, namely the abolition of boundaries between the domestic and the international levels, requiring an integrated approach and greater coherence and coordination between domestic policies and foreign policy; the implementation of a multi-actor process highly participated both in terms of formulation and implementation which is the effective way to respond to the increasing complexity of both the issues-areas and the international community; the increasing relevance of informal channels and the role of Soft Law and transnational networks in international regulation.

Contrary to concerns expressed over the risks of conflicts between central and sub-national governments and threats to the unity of state foreign policy, experience demonstrates that paradiplomacy is a positive factor and contributes to strengthen, not weaken, the international position of states and overcome some of its vulnerabilities, in particular to expand the soft power of states. As a consequence paradiplomacy ceased to be seen as unorthodox and marginal and tends to be gradually perceived as a normal activity with a fundamental strategic importance insofar knowledge regions are clearly the best positioned brokers between the global and the local, with a crucial role to play in the improvement of Global Governance, both in rule-setting and rule-implementation, and the operation of the multi-level governance system.