

PRODUCTION LOCAL SYSTEMS AND THE GLOBAL GOVERNANCE IMPACT – THE CASE OF THE FURNITURE INDUSTRY IN BRAZIL

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ABSTRACT

This article has the purpose to analyze Local Productive Systems (LPSs) characterizing and integrating the view of global and local governance and them establishing the consequences in local competitiveness and development. The article analyzes two furniture brazilian LPs, Bento Gonçalves and São Bento do Sul, the evidences are that the global governance can obstruct the producers upgrade in functional activities depending on the internal structure and the rule developed by local governance.

Keywords: global governance, local governance, cluster

INTRODUÇÃO

The importance of Local Productive Systems (LPSs) has significantly risen in the last decades. The developmet issue in these locals was reintroduced in seventies with re-emergence of Marshallian's concept of industrial districts (Becattini, 1987), when big companies, that always have been identified as motors of economic development were in crises, while SMEs mainly those located in Third Italy was developing and generating jobs. Then emerged diverse authors from distinct areas of knowledge searching about this phenomenon. However, most studies either aimed at the configurations of the LPSs internal structure and they stated that the local governance plays the role of facilitating the local development process (Porter 1998; Brusco, 1987; Becattini 1987; Bertini, 2000; Pilotti, 2000, Krugman, 1998; Maillat, 1998; Parrilli 2002). Other studies analyses the global chains to understand the performance of the companies in these contexts (Gereffi, 1999; Humphrey and Schmitz, 2000). Few are the studies that seek to evaluate the interaction between the local and global governance and its consequences to the local development. In this sense, this work aims to analyze and to present the LPSs characteristics and to discuss how the external agents act on local development.

CHARACTERISTICS OF THE LOCAL PRODUCTIVE SYSTEMS

LPS refer to an agglomeration of firms of a specific industry in a determined geographic region. In this concept the geographic location is a key variable for bottom-up economic growth and as the place where relation among firms are built, for the transmission of entrepreneurial spirit and technical know-how, as well as for the consolidation of external collective economies. Another important factor is the culture, technical patrimony, local traditions, community regulations and social institutions that are the basis for spontaneous local development, all these factors are important to make possible the cooperation among firms. (Bertini, 2000).

Therefore, the competitive advantages of companies in industrial agglomerations are from two natures: incidental external economies, and joint actions established by economic agents.

The external economies appear due the extensive process of work division specialization in the local systems, this stimulates the maintenance of frequent interactions between the agents that lead a local process of learning-by-interacting. The benefits are appropriate by producers, even if in a asymmetrical form, in accordance with the capacity of command of the productive chain (local and global).

Beyond the external economies, it must be salient the importance of consciously pursued joint action (Schmitz 1997). The concentration of companies in industrial agglomerations provides more possibilities to establishment of joint actions, which can be transformed into important competitive profits for local companies. With this recognition, that the external economies are not only incidental, Schmitz (1997) presented the concept of collective efficiency, intending to gather the sources of competitive advantages of producers in agglomerates.

GOVERNANCE AND LPSs

In the analyses about LPS few are the studies about non-local links that are established by the agents. However, it seems basic analyze the format and the organization of global productive chains since LPS are capable to provide advantages not only to the agglomerated companies, but for the international purchasers, who find products of high competitive capacity there. In this direction the question that arise is the capacity of appropriation of competitive advantages of local producers. For this, it is necessary investigate the command structure in the productive chain to identify if the benefits of the geographic concentration are appropriate by the local producers or by exogenous agents (as the global purchasers).

Several are the forms of local command that can be established in the LPSs. Here will be described forms of cooperation co-related with the LPSs structures. Will be adopted the Stoper & Harisson (1991) taxonomy to describe those structures. This taxonomy was build taking in count governance, size of productive units, division of work and the connection among systems units.

When there is relation among different sizes companies, and clearly the great local company coordinates the activities of its suppliers, mainly small and medium producers, then it has a different appropriation of value, by the participations, generated by the network. Therefore, the great companies establish the strategies to its necessities and command the action of its suppliers. This type of relation happens in the structure called Core-Ring with leader firm.

There are firms that establish vertical bilateral cooperation, this occur when the firm has common aim with its suppliers/clients that generate competitive advantage for both, this is the case of some innovative companies with the aim of diminish the innovation cycles. The companies who also act in the same sector can establish cooperation relations to develop a specific work that without adding forces would not be possible - it is the horizontal bilateral cooperation. When the benefits of the relation are distributed among participants, this relation happens in a structure All ring no-core, but can occur differences of value appropriation when the structure is Core-Ring with coordinated firm, but basically the results are positive for both sides.

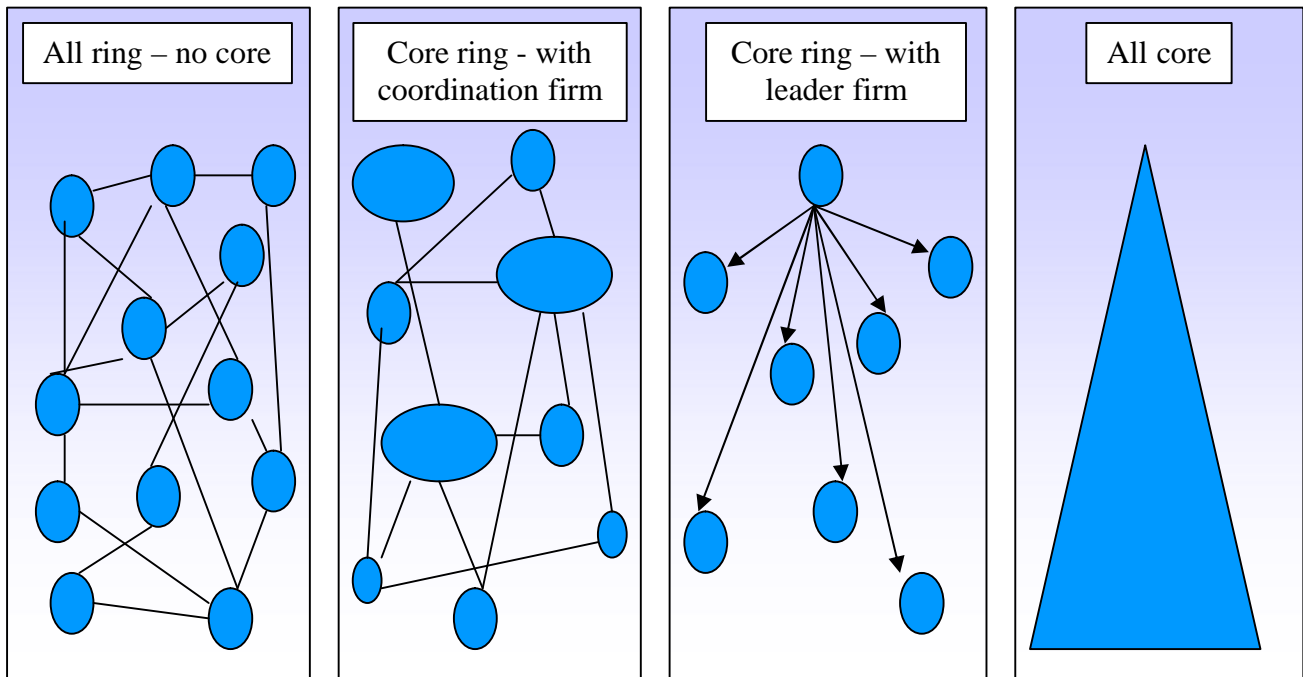


Figure 1 – Stoper & Harrison taxonomy to networks.

Beyond these bilateral relations that involve a restricted number of companies, it still has forms of multilateral cooperation, that occur when many companies from the same sector, or from different sectors approach to co-ordinate common projects, the first case is horizontal multilateral cooperation and the second one vertical multilateral cooperation. In these cases always have the involvement of public or private institutions participating of the project coordination.

It is clearly, therefore, the role of local governance to increment the competitiveness of located agents. The pursued joint actions and the support by governance forms have the basic role to promote a more virtuous insertion by local producers in the productive chain. These relations of cooperation exist in the LPSs that were classified in 3 types of structures in agreement with the figure showed before (Stoper & Harrison, 1991), the fourth one is vertical firm that do not matter in this discussion.

The local governance forms that lead with cooperation among producers, can be established by private or public institutions, or be a combination as hybrid forms. However, the existence of governance forms in the interactions among agents is not capable to eliminate the asymmetries between firms. Some times this asymmetries are strengthening the differences, and the firms that have the strategic assets of the local productive chain get in advantage comparing with the others integrants, because they get the biggest part of the value generated by the LPSs.

GOVERNANCE IN GLOBAL PRODUCTIVE CHAINS

The process of great companies desverticalization resulted in a new industrial production configuration. It became possible to decentralize operations keeping only the superior corporative functions, which allow the appropriation of great part of the value generated in the production and commercialization processes of the goods. Moreover, the ownership of this asset coordinate (governors) the supply chain.

To analysis these new forms of global productive chain organization, a appropriate conceptual framework is the approach of Gereffi (1999) concerning the global productive chains (or Global Commodity Chains), that identifies the global governance of the chain, that is, who carries the functional integration and coordination of internationally dispersed activities specifying and regulating the producers performance.

In this work this referential is used to characterize the global productive chains structure of, to understand the possibilities of competitive development of local companies and the eventual restrictions that are placed by those who command the global chains.

The key assets in these chains are basically commercial. The command capacity is linked with the owners of brand-named, or have the products commercialization and distribution channels. To these capabilities add abilities in products development, design, and management of a geographically dispersed producers network.

The purchasers, that have the global brands, and some great producers possess the coordination, and command the value appropriation of the chain. They determine the products to be produced (design and specifications), many times do not have industries, but they make the marketing, and purchase the production in disperse global productive structures.

However, to the great purchasers to set up this type of relation with firms are necessary investments in the relation and promotion of a learning process to the local producers. In the LPSs where the great purchasers “order” the products they set up supportive structures in order to guarantee the attendance of the demanded conditions. This is one of the reasons that makes the great international purchasers buy products in LPSs, the cost to the establishment and maintenance of these structures can be shared between a great average of companies.

For the producers, the interaction with the global buyers push the local companies to develop important qualifications in its productive functions, that contributes to increase competitive capacity. Gereffi affirms that these interactions of producers and global buyers offers forms to proceed with functional upgrading, that is development of qualifications in product, brand, design, and marketing, which are the main assets of the purchasers. However, this does not occur in the brazilian experience. The producers had not been capable to develop qualifications in the **superior corporative functions**, their development remain restrict to the production, with significant profits in terms of productivity and processes and quality improvement.

Thus, the producers from LPSs that have the direct influence by global buyers the search of new knowledge in areas non-productive must be a open, intentional and structured process. Therefore must be a goal to be pursued by the LPSs conscientiously by deliberate joint actions, that involve the creation of technologic centers, formation of business association etc, or by the action of a leader firm who carries through the investments, shares the costs and repass the benefits to its suppliers network. In this way the generation of learning and improvement in a LPSs is directly associated with the local governance, that some times need to surpass the barriers imposed by the global governance that does not have interest that the located producers develop such abilities (Garcia, 2001).

Considering LPSs, which the influence of global purchasers is not so strong, the development of the producers is not restricted to the productive sphere, and the abilities and the ways of development by companies are substantially different (Garcia et al, 2003). These companies have greater possibilities to develop abilities in the marketing areas, development of products and design to attend the domestic market, and with this they could get the coordinator role of the productive chain. In one hand this way of development involve bigger risk, and demands greater investments, on the other the return that could be reached in case of success is bigger. However, another problem that these companies normally get across their way is the difficulty to surpass the limits of the national market and reach distant markets.

This work has the hypothesis that according to the access form to market will have differences in terms of abilities developed by the companies and that these differences even affects the productive structure developed in LPSs in terms of relations between private companies and in terms of support local organisms, and long run reflects in the businesses viability and sustainability.

EMPIRICAL STUDY

The hypothesis will be explored through the empirical studies that had been carried through in two LPSs that belong from furniture productive chain: Bento Gonçalves - RS and São Bento do Sul - SC. These two locals had been selected according to difference of importance for the external

market - the first region exports 14% of its production while the second exports 60%. This issue had been explored with producers companies, and supportive institutions from both locals. The field research was carried through interviews with executives or entrepreneurs of the companies, and with controllers of supportive institutions, in a total of 20 interviews in companies, and every institution had been visited.

O SLP DE BENTO GONÇALVES – RS

Bento Gonçalves is a region that produces furniture since the colonization around 1900 and it is one of the most important LPS of the country, mainly due to the high technological level used by the companies, the supportive institutions and the joint actions generated by local governance, this results in a proper dynamic that brings important competitive advantages for the local companies. It is a LPS specialized in the production of rectilinear furniture, using various kinds of wooden boards (cheaper boards, MDF, particular boards, FF and so on). In economic terms it answers for 9% of the national production of furniture, 40% of the production of the state (Rio Grande do Sul) and 14% of the sector exportations.

The LPS of Bento Gonçalves, besides the furniture producing companies, has suppliers of raw material, accessories, services, machinery, and some supportive institutions as business associations, technologic and training center. In this way, this LPS has a considerable productive structure, although does not count with the suppliers of wooden boards in the local, that results in costs and problems to the companies.

The competitive advantages of firms located in Bento Gonçalves are not only incidental external economies, because pursued joint actions are established by the economic agents. These actions, nowadays, aim to consolidate wood-furniture productive chain efficiency as a way to increase the competitiveness of every productive links, the goal is to generate greater external economies that foment the interaction of agents, this create a virtuous cycle of local competitive advantages. This actions are coordinated by supportive institutions that articulate with local companies, federal and regional government, and others institutions around the country.

Firms of Bento Gonçalves currently perform in segment of intermediate market, this is possible due the technological investment carried through, the companies had adjusted its plants to the competitive requirements of the market and had reached compatible volume, price and quality with this market segment (Polo – RS, 2002). In a study made to identify technological update of furniture companies (Gorini, 1998) was identified that firms of Bento Gonçalves are the biggest investitons in technology and the leaders firms have the same technological level then companies from Italian and German (that are benchmarking in technology).

However the competitive position of this companies are not sustainable in the long run, because others furniture´s LPS, that works with domestic market, and geographically are near the final costumer and the raw material suppliers (Southeastern region) then have logistically advantages, are investing in technology and they will equalize with Bento Gonçalves. Thus, becomes urgent a strategical re-position aiming to produce with differentiation in products and services, and to integrate the productive chain to become more efficient for the attendance of the domestic and external market.

To reach such aim the supportive institutions must mobilize themself to search resources to make possible projects that increase the companies ability in strategic areas as design, market information, improvement of management abilities etc, and to do this is necessary joint action among institutions assuming the local governance to implement such projects to solve firms common problems. These kinds of action have been implemented in Bento Gonçalves and firms are getting competitive advantages not only from de concentration of firms, but in the last 3 years, even from joint actions.

An important action was the implementation in the local university (UCS/FERVI) of the graduation in Furniture Production Technology that has as main objective, graduate human resources in superior level for the industry. Its conception was inspired in similar courses existing in France and Canada. The partnership between the University and the productive sector made possible better

conditions for the adequacy of the course and the industry needs of abilities. Another institution dedicated to the formation of human resources is the SENAI/CETEMO (National Center of Wood and Furniture Technology). It is a national reference in the sector assisting not only the companies of the region, but also other companies all around the country.

Even about the consciously pursued joint actions in LPS is been implementing multilateral and bilateral actions in order to developed production and commercialization, for this objective they counts with local governance of supportive institutions (private and public). Currently two great projects of multilateral cooperation being implemented (one horizontal and another vertical):

- **Managing Center of Inovação (CGI)** - that aims to increase the competitiveness of the local system in fields as design and technology - the objective is to offer services and to enable the companies in these areas. This project is being developed for the SEDAI (Secretariat of Development and the International Subjects of the State of RS) together with the Sindmóveis, Movergs (associations of firms), Senai/CETEMO (technological center), UCS (university).
- **Development of suppliers and network of wood and furniture productive chain** - the project aims to increase the specialization of firms of the local system with the qualification of micro and small firms, and want to identify abilities and possibilities for the development of that can be local supplied. Thirty company-anchors of the productive chain (producing of furniture, components, chemical products etc) had indicated 92 micro and small companies to participate of such qualification. This project is being developed for the Sebrae-RS (support service for micro and small firms), Sindmóveis, Movergs and MDIC (Ministry of Development, Industry and Trade World). The project counts on 40% of the resources by Sebrae-RS and 60% by company-anchors.

Another multilateral horizontal action is SEBRAE EXPORT that takes care of 100 companies from RS, half of them from Bento Gonçalves, aiming to increase the capacity of exportation of these companies. This work is in the third phase. In the first phase they were only 11 companies (that continue enclosed in the program) and the results reached were the increase of the exportations in 132% (in the same period the increase of the exportations of the Furniture companies from RS was 54%), growth of the companies productivity, increase of the investment in staff formation, improve of marketing techniques used, greater regularity of the exportations.

Another multilateral horizontal joint action line is AFECOM (Association of the Producers of Coach and complementary furniture), this is an action governed by private firms that is directing its action for commercialization development. The association has 3 years and counts with 20 micro and small companies. It had as initial objective to carry through joint purchases, but with the time other actions had been put in practice looking to the commercialization: two retails shop had been installed to sells the products of the associated, one mall in Bento Gonçalves and one show-room in Miami – USA. Another role played by the association is the opening of a communication channel between entrepreneurs for exchange information about market, customers, products etc. This is one of the most important aspects that generate great benefits for the companies. However, the performance of these small companies without great investments in design and marketing do not lead then to have a sustainable position in the productive chain. AFECOM and SENAI started a project for design development to cover this gap. This is an example of search for competitiveness by cooperation between equal that emerges in LPSs where do not have domain of great company imposing his strategy.

This support and productive structure of LPS is a reflect of the relation that companies have with market. There are some main performance forms of companies in the market: the great companies that focus the domestic market and develop design, product and possess the distribution channels, thus these companies are appropriating biggest part of the economies generated by the chain. These companies manage its suppliers network, in agreement with its strategies and necessities. The smaller firms access the market by conventional retail, or work under order, in these cases the ownership of the key asset of the chain is in the hands of the clients, and therefore the appropriation of value, by the producers, is smaller comparing with great producers. The companies focus in the

external market, do not export but its products "are bought" by the global purchasers that develop the superior corporative functions, and therefore appropriate biggest part of the value generated by the LPS, the producers in these cases work with massive wood, mainly pine, and most of them possess the forests, the network linked with them are smaller comparing with firms focus in domestic market, and the ability of these companies concentrate in the productive sphere.

The pursued joint actions developed in the LPS are result of local governance established by the institutions, and the firms focus in external market almost do not participate of these projects, exactly because the objective of those actions are the development of abilities in design, product development, commercialization, marketing and management. Areas that the exporting companies do not have interest to develop.

The objective of these actions is to increase the companies competitiveness through integration, also for the institutions integration. But although some actions are implementing, many chances exist and many benefits can be reached, with the implementation of others projects.

The greater companies of LPS also generate learning through innovative actions that with the time are absorbed by other companies. Another important factor is that the only few companies act in the global chain, then the global governance constraints are not widespread in the LPS, thus the local governance has great space and voice of action. Moreover the companies who act in the external market possess small networks of SMEs linked, thus the imposed restrictions are contained in a small number of companies and they are not spread for the majority of the companies in the LPS.

SÃO BENTO DO SUL LPS

São Bento do Sul consolidates as a furniture LPS at the same time as Bento Gonçalves - in seventies, however at this time it starts to direct its production for the external market producing colonial furniture of imbuia (kind of wood). In eighties changed to pine furniture and in the beginning of nineties increased its exportations, mainly for U.S.A.. The exportations increase with the monetary depreciation (beginning of nineties and after 99). At this time also, as well as Bento Gonçalves, companies invested in up to date technology. Exportating companies represent the great majority of locality companies, 60% of the production are destined to the international market, and most of them make this choice in detriment of the domestic market, because the furniture destined to those market is different from the product made to this one, and the technology used for production pine furniture is different from one used for processing wooden boards, mainly for small and medium companies that do not have much money to invest in two different production line.

The presence of exporting agents, since the decade of 80, is the main channel for exportations. These agents intermediate businesses among importers, distributors and producers companies, therefore they are the responsible ones for the rank of furniture in the international market and controls the specifications attendance of products for the clients, the design, the quality and many times the cost. The producers have the task of produce and attend correctly the imposed requirements. Despite this form of access to the international market bring high economic result to the companies; they also represent a barrier that makes impracticable the adoption of aggressive commercial strategies and to develop abilities in different areas then productive ones.

This LPS has supplier of raw material, accessories, services, machinery, and even the pine base forest. However, different of Bento Gonçalves, here they do not have active supportive institutions. Therefore exists a productive structure of complementary and correlated companies that brings advantages to the furniture firms, but the competitive advantages are derived only from the incidental external economies, and not for pursued joint actions.

A big difference between productive structures is that São Bento do Sul has the advantage of having close to the companies the main raw material supplier – wood (pine), and the greater companies also possess the forests to guarantee the quality and the amount of wood necessary. Already Bento Gonçalves searches the wooden board from Paraná or São Paulo states, and these are also its main markets to the final products.

The supportive institutions present in São Bento do Sul are: Association of Furniture Industry from São Bento do Sul (Sindusmobile), Association of trade and industry from São Bento do Sul -

ACISBS, Association of Small and Medium Furniture Industry - ARPEM, Furniture Technological Center - CTM. However these institutions do not interact in a systemic form and do not implement actions to solve pre-competitive problems of the companies, these institutions acts only in a restrict area giving law support, negotiating with labour about rises in the wages, etc. But they do not interact with others institutions and government in a active way to implement a project to solve problems of the sector as a whole.

One joint action was the creation of the local structure to training labour. In 1994 it was create a graduation in Mechanics Technology for Furniture and was an accord between FETEP (Education, Technology and Research Foundation) and the UDESC (University of Development from Santa Catarina State). The FETEP was created in seventies to training labour specialized in furniture, and in nineties establishes partnership with SENAI for continue the activities. In 2000 another organism was created for training labour - SOCIESBS (Educational Society from São Bento do Sul) that is an initiative of its sponsor (Tupy Technique School), entrepreneurs and public sector. These institutions also provide laboratorial and consultancy services for the companies. Other joint actions as those ones verified in Bento Gonçalves do not appear here.

The governance structure verified here is different from that one in Bento Gonçalves. The great companies and small ones export and few make this directly, most of them use exporting agents. Then the insertion of these companies in the global chain occurs in a subordinated way, with this the biggest profits generated by the chain are appropriate by its clients, they possess the distribution channel, ability to products conception and make the marketing.

The producers have a huge development in productive area, but upgrade is restricted to this. And those companies subordinated to this type of relation find technical support with the agents and are controlled by them, thus the companies do not need and do not have space to establish cooperation with those who are not their suppliers, then the only form of cooperation is vertical bilateral actions, producers search with its network of suppliers to solve problems that can appear at supply relation.

Companies, who have main focus in domestic market, have two forms to access the market: when the company possess the distribution channel and sells directly to the costumer; and those who sell to conventional retailer. In the first case the furniture company commands its suppliers network and appropriates the biggest part of the value generated by the chain. In the second case, as for those who work with external market, the companies depend of a intermediate. The ownership of the key asset of the chain is in the hands of the client and the appropriation of value to producers is lower. Therefore the strategies of commercialization are not aggressive and subordinated to upstream, in external and domestic market.

The form that companies access the market reflects in the local institutional structure. In São Bento do sul there is little space to this entities act. The companies do not have interest in develop joint actions therefore the support that need are given by the agents, and these, in turn, do not want that producers make upgrade that goes beyond the productive sphere, then they constraints any initiative with this objective. The great fragility of this model is about the sustainability in long run of this relation; therefore it is clearly that the advantage of the producers is in the products low cost. The attendance to the quality requirements and standardization are important factors, but they qualify the producer. The differential is in the price of the final product. Thus, if the global purchasers found producers in another place that supply with low cost the producers will be substituted, and as these producers work only with external market the re-direction to internal market will be difficult, mainly because these companies do not have ability to develop products, design, and they use pine that are not accepted in the domestic market.

CONSIDERAÇÕES FINAIS

The localities analyzed here present different forms of performance with the market, and this reflect in different command and internal structures. In relation with the competitive advantages both present positive externalities, but only the companies of Bento Gonçalves implement pursuit joint actions, for the development of commercialization and improvements in the management of the

businesses, and for this they have local governance of supportive institutions (private and public). In São Bento do Sul some bilateral vertical cooperation are implemented.

The companies from both locations that have focus in external market have the same characteristics, they are incapable of assume product conception and development, and commercialization tasks, these functions are assumed by the global purchasers. Therefore is a insertion in the global chain with limits very delimited, because the producers have its possibilities of growth and accumulation limited in the productive functions.

This problem is particularly important in the analysis of the LPS of São Bento do Sul where the development of firms are strongly associated with the increment in the international market. This made with that the producers developed important qualifications in the productive sphere, but constraint new knowledge in other business areas. The problem of this form of market insertion is the possibility to make impracticable the accumulation in the long run, which had the relative fragility of the abilities developed for the locality.

The producers of Bento Gonçalves have used the geographic and cultural proximity between itself to establish joint projects, sharing costs, with the main intention to supply some insufficiencies of the LPS that constraint a more virtuous insertion of the producers in the chain. This development form less dependent of the global agents represents, in one hand a growth not so rapid to the local producers, and in other one can represent a sustainable development, capable to create dynamic competitive advantages to the producers, by the accumulation of competences and abilities by the producers in diverse areas of knowledge.

In this direction, in the case of São Bento do Sul, there is a field for increment the competitive advantages of the local producers by establishment of joint actions to overcome obstacles created by non dynamic international insertion. In Bento Gonçalves the global governance and the difficulties imposed by the relation with the global purchasers, are restricted to the exporting companies, with few multiplying effect inside the LPS. Therefore, the diverse joint actions that are established by the agents in the long run exerting important role in the construction of more sustainable competitive advantages.

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