VALUE CHAINS AND TRADE IN BARCELONA: A HISTORICAL VIEW AND A PROPOSAL FOR THE FUTURE

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1. A context of war, or change in the networks underpinning our value chains?

"We are in a context of war". Not a quote from a 100-year-old document from when Barcelona's companies were stressed by the import shortages and inflation caused by World War I, the population suffered one of the 20th century's deadliest pandemics and value chains and trade in the city and across Europe were broken, and more profoundly than today. No. These were the words of Martín Sellés, President of Farmaindustria, the Spanish pharmaceutical trade association on September 3rd 2020. Farmaindustria is an association of 141 laboratories, as of June 29th 2020; 45 are national, while the others are subsidiaries of or owned by multinationals from the rest of Europe and the United States. Among the national companies are some of the oldest family groups created in Barcelona, such as Almirall, Esteve and Ferrer. Grifols is not a member of Farmaindustria, but it produces medicines and is one of the world's three largest plasma derivatives companies. Its corporate headquarters are in Sant Cugat del Vallés and its historic headquarters in Calle de Jesús y María next to Paseo de la Bonanova in Barcelona. The words of the President of Farmaindustria are important. He speaks on behalf of a highly competitive, internationalised sector, in which Barcelona has shone since the first third of the 20th century with a resilience that is closely linked to the existence of networks with the outside world. It is a sector that has been accustomed, since the 1920s, and especially after World War II and the boost given by entry to the EEC, to stable alliances with companies from leading countries (Fernández Pérez, 2019a; 2019b; Donzé and Fernández, 2019; on Grifols see Fernández et al., 2019; and Fernández Pérez, 2021).

Companies in a sector so firmly rooted in our city did indeed find themselves on a war footing when their trade and value chains were interrupted midway through 2020. Opening the 20th Meeting of the Spanish Pharmaceutical Industry in Santander, Sellés declared that Spanish companies in the sector had suffered from problems with the supply of intermediate and final imported products and great uncertainty around long-term planning, which is so essential in the sector. As they did a century ago, pre-existing networks with companies, associations and institutions from around Europe and the world enabled companies in Barcelona and Spain to continue supplying medicines to Spanish consumers, "I can assure you that in a context of war this has not been easy, but we have succeeded" (Sellés, 2020).

To speak of value chains is to speak of competitiveness. Michael Porter accurately summarised that such competitiveness has to do with two sets of elements. On the one hand are the individual links in the chains connecting raw materials with final consumption, and on the other, the way economic agents incorporate added value in each chain involved in the process of transformation, storage, transportation and connection between production and final consumption.

Value chains cannot be improvised, it takes time to integrate them and correct inefficiencies. And, although by nature they are dynamic in their composition and form of connection, their long-term value lies in the ability to correct or minimise changes when the chain is operating at full capacity in each of its phases and components.

On the other hand, value chains involve a range of companies, sectors and territories. No business today, large or small, is an island disconnected from its environment. From global corporations to micro-SMEs, all must form networks to obtain raw materials, human resources, technology and knowledge.

The networks that make up value chains form over a relatively long time. Business demography suggests that since the mid-20th century the mortality rate for new companies in the private sector around the world has been high – they rarely last longer than five years. Creating and consolidating networks to establish stable value chains between companies, sectors and territories is a long-term process that requires synergies between the business world, institutions and society.

We are not witnessing the collapse of capitalism, or the first great dismemberment of global trade and production. We are witnessing a new reconfiguration of a system of connecting productive forces on a global scale. Yes, we are living through a crisis, but it is not the first, may not be the most serious, and is certainly not the last. History gives us a highly instructive laboratory of past experiences of creating and recreating global value chains, showing that over the past ten centuries there have been several major waves of cohesion and fragmentation of highly productive value chains around the world.

2. Global value chains have been reconfigured many times since the Middle Ages

Global value chains are very old. One of the oldest and best studied is the Silk Road, which linked Asia with the Middle East, Africa and the West at a time when China was more developed than the West. Chinese products were sought out, stored, transported and transformed around the world through agents of different nationalities and cultures, operating using very different payment systems. The Silk Road collapsed due to an interaction between climate change effects (oases dried up) and political conflicts, which obstructed the normal flow, transport and rules of the game in the silk trade.

A second route that produced international value chains in the Middle and Modern Ages linked northern and southern Europe to exchange wood, tar, iron and cod from the north for wines and spirits (especially Catalan) from the south. This route, which increased the competitiveness of so many agricultural businesses and trades in Catalonia, was affected by the numerous wars that broke out in Spain and the rest of Europe in the 17th century.

And, of course, in the 15th century the Spanish and Portuguese bumped into America as they sought alternative maritime routes to China due to blockages on old land routes. An unexpected third new and prolonged era of global value chains between the Atlantic and Pacific began and established and accelerated the forces of capitalism in the world. The so-called Atlantic Revolutions – US independence, the French Revolution and new European countries' wars of independence – redefined Atlantic value chains and, in some cases, completely broke them.

Prior to the 1929 crisis, the first half of the 20th century was generally a time of high expectations that Latin American, North American and Japanese economies and companies would join global value chains. But World War I, the Russian Revolution and World War II transformed and seriously damaged Latin American value chains, those within Europe and those between Europe and emerging economies in Africa and Asia. For half of the 20th century, communism in Asia and wars of independence in Southeast Asia created new value chains that were separate from the Atlantic ones.

The fall of the communist bloc in Eastern Europe, China's opening up, the end of Bretton Woods and the global financial deregulation that followed Bill Clinton's presidency set the scene for a highly interesting final two decades of the 20th century in terms of value chain creation. A new globalisation was in prospect that would connect the Atlantic and the Pacific and their economic agents. That was the last era of apparent prosperity, and numerous analyses, including Thomas Piketty's, suggest that it once again worsened inequality around the world, rather than helping improve it.

Since 2008, the global value chains established in the 1980s and 1990s have been in crisis. The formation of new blocs has fragmented global trade, and the Donald Trump presidency and the sudden halt to mobility, trade and consumption provoked by the COVID-19 pandemic have only worsened the situation.

Global trade grew most strongly in the last century in periods dominated by world peace and higher productivity in various sectors of the economy. Peace means stability, trust, planning and safe long-term investments. Higher productivity thanks to various waves of technological change in the economic system brought economies of scale, fragmentation and coordination of production processes.

The combination of the two factors saw global value chains proliferate after World War II, energising the global economy. However, the economic growth model has shown signs of exhaustion and a lack of sustainability, first in developed countries and later in developing countries. Doubts surround the highly productive industries that generated wealth and employment in the mid-20th century and were so central to the acceleration of global value chains. Pollution and its contribution to climate change are one reason, but they also do not create enough employment or wages to absorb and sustain mass industrial production with the dynamism of the 1950s and 1960s. The leading industries in value chains tend to counteract trends towards falling prices with mergers, alliances and oligopoly. These oligopolies and large sectors concentrated within few companies tend to maintain their productivity by cutting jobs and wages.

Barcelona has borne witness to several of the world's waves of global value chain creation. Nearby Tarragona was a central piece of the Roman Empire, which helped to bring roads that connected Barcelona with Rome, as well as aqueducts, civil infrastructure, technology, knowledge, human capital, amphitheatres and a great civilisation that hybridised elements of multiple European cultures. By medieval times Roman Barcino had Visigoths and Counts of Barcelona and was showing potential as an incipient Mediterranean port that, while far smaller than Seville and Santander, provided good connections with other large ports on the Spanish, French and Italian Mediterranean periphery. Ships arrived in Barcelona with much-needed Sicilian cereal, luxurious Italian handicrafts, Dutch cloth and Nordic metal and tar. And ships left its port carrying wine and spirits that would establish Barcelona's competitiveness for five centuries as an outlet for products from the Catalan hinterland. Barcelona's shipyards repaired large vessels and in the Modern Age migrants attracted by the port's economic diversity and its area of influence began to arrive from southern France, Italy, and the Catalan, Castellonian and Aragonese agricultural interior. The period of good growth in the 18th century and, above all, Barcelona's leadership in the Spanish industrial and transport transformation of the 19th century and much of the 20th consolidated the city and its metropolitan area as a territory that had accumulated experience in creating, maintaining and expanding international value chains.

3. The recent crisis and its impact on Barcelona

In order to function properly, value chains require competitive markets in which the fragmentation of economic agents and companies enables job and wealth creation. In situations like the current one – of crisis in the existing model of globalisation – three major business trends tend to arise. One, the legal disappearance of businesses (but not business people) whose liquidity is submerged in crisis and regulations. Two, the oligopolisation and merging of large companies to survive the expected sharp increases in defaults and falls in demand. And, finally, partnerships form and (formal and informal) networks strengthen between medium-sized and small companies that are highly specialised in certain market niches. This increases their voice and representation to face public authorities and oligopolies that impose tougher conditions on them in terms of prices and access to intermediate products. These trends, which emerged in the 1920s and 1930s, seem to have returned since the financial crisis of the early 21st century and COVID-19.

The halt in activity and trade and adaptation in industry – with hybrid remote working models – have accelerated job loss in SMEs and the concentration of the economy in more competitive and larger companies, which tend to maintain their size or seek mergers and enlargement in order to survive. The speed with which value chains have been broken as skilled companies and personnel leave them has been greatest in countries with more SMEs and less digitalised employment.

Barcelona's history of accumulating know-how has created a hub of connections with the outside world. This logistical, transport, commercial, industrial and educational (creating human capital specialised in a wide variety of fields) knowledge has earned it a consolidated reputation for innovation and professionalism that is not likely to disappear. Its strategic position between Europe and Africa has made it a site for exchanging goods, capital, human resources and culture. It will continue to play that role. Deglobalisation crises seriously affect the city when they produce or coincide with centrifugal forces moving in different directions that splinter the local innovation system that unites political, business and union representatives. The territory, its institutions and economic actors emerge as winners from crisis eras when they join forces: in the context of World War I, with the work of the Mancomunitat, for example; and today with the Mediterranean Corridor and the ambition of having airport facilities that are hubs for quality global flights, international meetings of sectors with high added value such as the Mobile World Congress, among many others, and science parks that are global leaders in research.

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Barcelona is a territory with a highly diversified economy whose largest companies are linked to global value chains that are extremely fragile due to their foreign dependence, as is the case with the automotive, chemical, pharmaceutical and energy industries. In general, SMEs have based their foreign presence on products that are not very competitive in added value terms, but which have very good marketing and make good use of the location on the borders with France and Portugal: for over a century wines and cava, horticultural and meat products, hotels and tourism have been typical examples.

Barcelona's problems in the current crisis accelerated by COVID-19 perhaps began with the end of the Olympic Games, the end of a shared vision of the country, with the end of projects in which institutions, companies and citizens were winners. It was also the beginning of the end of the European regional convergence funds. The Olympics and the European funds helped, but at the same time reinforced a problem that began in the 19th century with the *Febre d'Or* (Gold Rush): easy, abundant money accustomed many institutions and economic actors to spending on pharaonic works to glorify the ruler or party of the day, which were not always of great social utility. The end of the Olympic Games was also the beginning of the end for a generation of public administrators in Barcelona who had been at the forefront of anti-Franco political struggles during the transition to democracy. The landscape in Barcelona, where old and new value chains were coordinated, was transformed. The time had come for a generational change at the head of the political, academic, business, social, union and banking institutions, but this process of replacement lacked a common enemy or project to unite forces of different stripes. The absence of a collective motivating project like the Olympics, or the erasure of the inheritance of a common perceived enemy like Francoism left the generational replacement in the decision-making centres of the city and its metropolitan area fragmented, divided and perpetually opposed in the struggle to achieve power every four years in every association and body.

In this fragile framework, fragile decision-making affected a wide range of key links in the value chains – in transport, communications, digitalisation, internationalisation, multilingualism, multiculturalism, research, education and finances. The effects have been palpable when external tsunamis have attacked our value chains, like the Lehman Brothers crisis, the uncertainties about Donald Trump, the falling employment and consumption from COVID-19. At these times Barcelona and its metropolitan area have either not responded, have done so quietly or have been at odds with one another. The unions on one side, the business ministry on the other, the presidency of the Generalitat occupied with other issues, and the employers' associations divided.

4. The need to build exciting and pragmatic projects at a time when globalisation is being redefined

Michael Porter has clearly explained that the competitiveness of value chains and the territories in which they are located does not only depend on the productive and commercial capacity of their companies. The institutional and social environment must be in sync and coordinated with them. Like so many crisis accelerators, COVID-19 must be more than a cause for concern whose devastating effects we work to fight. It should also be an opportunity to think again about the country we want, the country we have had and the country we will have if we keep doing things the same way. The value given to our production, our logistics and our sales depends not only on us reducing costs and improving prices, but on all of us reducing the volume and noise of the confrontation in order to focus again on a project that excites everyone, and not just 50%. Only from a pragmatic, realistic negotiating position that brings together the diverse ideas and resources that meet in Barcelona will the city be able to attract and meld resources from other parts of Catalonia, Spain and abroad to reinforce and renew our value chains in this new, harsh era of the redefinition of globalisation.

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