

# **De-coding New Regionalism**

**Shifting Socio-political Contexts in  
Central Europe and Latin America**

*Edited by*  
**James W. Scott**

# DE-CODING NEW REGIONALISM

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Shifting Socio-political Contexts in  
Central Europe and Latin America

*Edited by*

JAMES W. SCOTT

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and

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ASHGATE

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# PART 1

## Introduction: Aims and Outline of the book

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# Chapter 1

## Introduction

James Wesley Scott

### General Objectives

This book deals with the role of regions in states that have undergone and continue to experience complex systemic and institutional change. This change can be characterized, on the one hand, by rapid societal and economic transformations that have accompanied a transition to democracy, a process associated by Przeworski (1986, 1990), Bastian (1999), Crawford (1995), and others with post-socialist development in Central and Eastern Europe and democratization in Latin America. On the other hand, our concern with (New) Regionalism involves the emergence of new forms of governance that are informed by state-society paradigms currently en vogue in Europe and the Americas (Keating 2000, MacLeod 2001, Sagan and Halkier 2005, Scott 2007, Wheeler 2002). Regionalization, for the purpose of this general discussion, refers to national processes of decentralization and subnational processes of region-building with, among other things, the purpose of enhancing the effectiveness and responsiveness of governance. With regionalization, ambitious and potentially conflicting goals of democratization, economic competitiveness, environmental sustainability and social equity are being pursued.

New Regionalism itself can be associated with state-society paradigms that suggest that new forms of politically relevant action can (or must), increasingly take place ‘beyond the state’ and beyond the seemingly inflexible territoriality of the state. The ‘new’ at stake here is a notion of region based on ‘spatial relationships of territories’ rather than on administrative and legalistic frameworks (Albrechts, Healey and Kunzmann 2003). Different but often interrelated policy agendas have proven difficult to integrate because of compartmentalized policy delivery, the exclusion of many relevant stakeholders and jurisdictional fragmentation. With new concepts of region, the formal territorial governance matrix is enriched through policy networks that bring together local governments, state agencies, economic actors, citizens’ groups and other stakeholders – in theory, at least. New Regionalism therefore also requires us to seek a better understanding of how political action is being or can be reconstituted in socio-spatial terms. However, this normativity can be seductive: it is unclear to what extent new and effective territorial contexts for political action, socio-cultural and economic development are in fact emerging. What is needed is a deeper understanding of regionalization in terms of interaction between paradigms and reality, between overlying political objectives and globalization pressures on the one hand and local contexts on the other.

Governance, itself a controversial term because it can mean so many different things to different people, means basically 'the establishment and operation of social institutions, that is a set of rules, decision-making procedures, and programmatic activities that serve to define social practices and to guide the interactions of those participating in these practices' (North 1990, paraphrased in Young 1997, 4). North's valuable definition is important here: it is not primarily the constellation of various actors (public, private, state, non-state), that is central to the notion of governance but the role institutions (rules, ideologies, traditions) play in setting parameters for societal action. In addition to social institutions, we can thus also argue that spatial metaphors (as territorial frames of reference that give meaning and strategic orientation to societal action), are central to governance.

Regions have always been powerful spatial metaphors and political concepts, but it is within the context of more recent paradigm shifts that the 'region' has acquired its putative economic, political and social salience. This book focuses on decentralized forms of regional governance within the context of systemic and institutional transformation. The geographical focus is Central and Eastern Europe and Latin America. Regional development in these countries is greatly influenced by a slow and often painful transition from protected and highly directed economies to systems based on competition, international trade and free markets. At the same time, local governments in Central and Eastern Europe and Latin America are acquiring wider administrative responsibilities and a new political importance due to a gradual process of decentralization. At the heart of this discussion are challenges involved in creating a political space for societal action between competing levels of political power at national, subnational and local levels; can interrelated processes of devolution, decentralization and local self-organization indeed re-configure spatial scales of governance? This volume involves what at first glance might appear an unorthodox transatlantic comparison. However, despite the dissimilar socio-cultural and structural conditions that prevail in these two macroregional contexts, their comparison exemplifies the more general nature of structural adjustment policies, institutional change and the neoliberal discourses that largely inform them. Furthermore, 'continental' processes of market integration, liberalization and political coordination as embodied by the European Union and Free Trade regions in the Americas also operate as a normative backdrop for institutional change.

## **Regionalism and Societal Transformation**

What should be made clear at the outset is that this discussion is not primarily about regionalism as a political movement but rather as a governance paradigm. (New) Regionalism – understood as a paradigm – integrates notions of economic dynamism, administrative efficiency, community-empowerment, civil society, responsive governance within a spatial framework, the region. Conceptualizing governance in terms of region-building enjoys the theoretical virtue of adjustable

geometry, although this virtue can be overshadowed by weaknesses in terms of a political identity and dependence upon consensus. In fact, there is a danger of a certain spatial determinism (informed by North American and West European biases!), inherent in this reading of regionalism and, hence, a need for critical, contextual and comparative research. As the contributors to this book clearly attest, regionalization processes are contingent and path-dependent. Paraphrasing Tomaney and Ward (2000, 476), we: 'emphasize the uneven and path-dependent nature of regional change in which the national dimension – in the form of specific, historically constituted state and social formations and their attendant political cultures – remains of central explanatory importance.'

A focus on regions as a spatial scale of governance and economic development is, of course, not new. Both within the European Union and the Americas, regionalization has been understood as a necessary process in the modernization of the state and as a means to adapt to shifting economic realities associated with globalization. However, the context of post-socialist and post-authoritarian transformation highlights many of the contradictions as well as the development potentials of regionalization policies. Transformation implies an indeterminate period of transition between systemic orders that is characterized by insecurity, relative instability but also experimentation (see Kostecki, Zukrowska and Bogdan 2000). Problem-solving structures that have existed for decades are under attack, are being recast. By the same token, the results of policy transformation – as well as the regional impacts of more general political and economic transformations – are rather unclear. There are no predetermined paths to new forms of governance and policy development. Time is required before interaction, communication and cooperation will define effective regional responses to changing global contexts. A further rationale for this comparison is the gravity of the regional problematic in the Central and East European and Latin American contexts. Economic restructuring and liberalization have subjected regions, cities and firms to global market pressures and thus led to patterns of extreme polarization, clearly benefiting dynamic cores to the detriment of rural, semi-rural or old industrial areas (Gorzelak 2002).

Several elements of current debate on transformation processes would appear particularly relevant for the comparative study of regionalization. To begin with, research on systemic transitions has become more normative in the sense that interest focuses on the establishment of democratic conditions for societal development. The structuralist, macrospatial approaches that have hitherto predominated in research on Latin America, for example, are increasingly being replaced by strategic actor-related approaches and, more recently, by institution-centred approaches. This shift towards context (i.e. agency and institutions), provides a more favourable environment for meaningful comparisons of transition processes in Europe and the Americas. Indeed, the intervening role of context is particularly conspicuous in states that have undergone simultaneous systemic, social and economic change since the 1980s. At the same time, however, gradual integration into large geopolitical and geoeconomic associations (i.e. the European Union, NAFTA, MERCOSUR), has set many of the parameters for institutional



change. As a consequence, many of the institutional and territorial reforms aimed at creating de-centralized governance mechanisms have been influenced by outside pressure and the need to fulfil prerequisites for economic assistance or full participation in the benefits of political and economic associations.

As such, this book deals with two overlapping issues: the analysis of regional consequences of global change and the search for new, locally and regionally formulated strategies of endogenous and sustainable territorial development. Our comparative perspective also aims to inform debate on socio-political, cultural and economic determinants of region-building. In general terms, though to differing degrees, the contributors to this book have provided an institutionalist approach in which socio-spatial contexts are seen to affect trajectories of societal development. The chapters in this book can therefore be seen as complementary to each other. We have, nevertheless, eschewed a unitary theoretical format: each author presents their own perspectives on regionalization and institutional change. The conceptual basis for this book is a 'de-coding' of the governance paradigm known as the New Regionalism in terms of its contributions to institutional change but also in terms of its contestedness and contradictions. **Regionalization has proceeded in many** different forms, manifested, for example, by the devolution of power to subnational agencies for planning and policy purposes, flexible networks and associations of communities that join together to pursue specific aims and/or more far-reaching territorial reorganizations bringing forth new political actors. **Regionalization** is therefore treated as an inherently contingent process of institutional change. In all the cases elaborated, it is embedded within a larger institutional context defined by political norms, state-local relationships, state-society paradigms, and the opportunities and restrictions these imply for regional development.

## **The Structure of the Book**

Rejecting positivist criticisms that case studies do not generate knowledge of a generalizable nature, we argue, along with Silverman (1993), and Syrett (1995), that case studies are an important interpretative link between overlying theoretical concepts and real experience. With regard to supposed representative qualities as a supposed yardstick of empirical rigour we can only emphasize Syrett's (1995, 40), observation that 'the critical relationship is between (the), theory and the case study, not between the case study and a universal population'. **The case studies** in this book will relate the social construction of regions to structural exigencies, external pressures and concrete regional development problems. In this way connections will be established between political institutions, cultural traditions, economic contexts and the actions of social objects within the more global projects of decentralization and regionalization. The authors contributing to this book offer perspectives from East Germany, Hungary, Poland, Romania, Mexico, Venezuela and Brazil in which the contribution of regionalization to institutional change will be assessed. The focus is on regional development, planning processes and

problems of local economic development. Among others the following questions will be pursued: is regionalization a mere strategy of neo-liberal adjustment to changing political and economic conditions? Is it, on the other hand, indicative of true reform, of greater citizen participation, of empowerment? To what extent does a focus on regions represent something *new* in terms of governance rather than an elaborately packaged reconfiguration of traditional power relationships?

The outline of this book is as follows. Broad research questions that tie the contributions together will be defined in the first introductory chapter. This will be followed by theoretical chapters in which different aspects of region-building as a politics of scale will be touched upon. These include: political democratization processes, the development of regional coalitions, economic development and processes of structural adjustment as well as the evolution of regionalist discourses in Central Europe and Latin America. The main sections of the book present a selection of case studies of regionalization policies and experiences. Furthermore, a brief final section will summarize the main conclusions and suggest several consequences of our joint undertaking for regional research on Central Europe and Latin America.

James Scott begins the discussion with an overview of new regionalist concepts and their implementation in Central Europe and Latin America. In retrospect, the trajectories of systemic transformation in Central and Eastern Europe and Latin America have been informed by similar state-society paradigms. This is particularly evident in the case of regionalization where governance principles associated with the 'New Regionalism' have been imposed by power supranational and/or international institutions. However, in most of the case study areas covered in this book, New Regionalist discourses and practices (with their focus on decentralized, strategic and entrepreneurial forms of governance), have reflected centralist traditions, hierarchical administrative structures and the endogenous development of civil society. This interaction between externally applied paradigms and local context has resulted in highly differentiated patterns of region-building with varying effects. Providing regions with identities, purposes and the means to meaningfully guide social action is a project that must be negotiated among many various actors and groups as well as between the state and civil society. Regionalization is thus rather an expression of the increasing hybridity of governance modes, of new and ever-evolving state-society relationships in the management of political, economic and environmental change.

Carlos Riojas compares and contrasts processes of institutional change in terms of the 'mediated adaptation' of Central European and Latin American countries to changing economic and political environments. Riojas' chapter clarifies several contextual aspects of societal transformation and thus contributes to a transatlantic comparison of regionalization experiences. The sample of countries considered in his study includes Argentina, Mexico and Chile – the Spanish-speaking countries of the American subcontinent with the most advanced economies in terms of transformation – and, by applying similar criteria, the Central European countries of Poland, Hungary and the Czech Republic. Riojas' analysis of institutional

change is based on concepts developed by proponents of the New Institutional Economics. This involves a discussion, on the one hand, of structural patterns and indicators of economic performance (demographic patterns, economic growth indicators etc.), that have been linked to institutional change and, on the other hand, of the impact of neo-liberal policies, democratization processes and the role of the State as a key actor in driving democratic and market reforms. Finally, modes of institutional change experienced by the countries under study are characterized in terms of attempts to create new socio-political contexts in order to promote democratization and integration into international markets.

Karl-Dieter Keim outlines ways in which 'institution-building' and 'regional governance' offer a conceptual basis for strategies that promote sustainable and innovative development policies. Keim's development concepts have been derived from research on institution-building and regional governance processes and are largely based on observations of institutional change in Germany and Mexico. Keim assumes that processes of region-building have considerable potential to promote democratization and social development. Particular attention will be paid to the conceptualization and design of governance processes.

Iwona Sagan's chapter also contributes to the general theoretical discussion of regionalization and transformation processes, but with a decidedly local focus. The principal assumption here is that (urban), regime theory – precisely because of its sensitivity to local conditions and local actors – can help interpret and assess the new institutional arrangements that post-socialist regionalization policies have engendered. In Poland and other countries, transformation has brought with it new collective action problems. These include the re-scaling (and partial 'downloading'), of responsibilities towards regional and local levels, increased financial constraints and the 'entrepreneurial' provision of services. At the same time, the number of actors involved in policy-making has increased; as a result, traditional political elites are often challenged by the private sector, NGOs and newer regional stakeholders. Sagan's regime approach focuses on variable configurations of political power at local and regional levels. Despite the imposition of new regionalist governance paradigms and a partial 'Europeanization' of regional policy due to the EU accession process, region-building in Poland is highly conditioned by local contexts. In the case of Poland, Sagan distinguishes between three distinct regime types. 'Instrumental' regimes revolve around short-term goals, concrete projects and actors seeking tangible results. The 'organic' regime is specific for regions and cities with a tightly knit social fabric, shared history, a sense of place and/or homogenous population. This type of regime often represents a limited desire for change and achievement and seeks to maintain the status quo. Thirdly, 'symbolic' regimes characterize regions striving to change existing governance ideologies of regional/local governance and dominant regional images in order to attract investment. A sense of common purpose among partners in this type of regime is achieved through the manipulation of symbols that express the attractiveness and objective appropriateness of new regional development visions. Within a context of increasing institutional complexity,

effective and responsive regional governance must reconcile different interests, reduce conflict and promote coordination and cooperation. In the final section of the chapter, these three regimes are assessed according to these criteria.

## **Latin American Case Studies**

Theoretical discussion is followed by selected cases of regions and nations in a broad historical perspective, with a special reference to the transformation trajectories of the regions of Eastern and Central Europe. In the Part 3 of the book, Latin American cases are presented. Basilio Verduzco Chávez opens this section with an analysis of the Mexican situation based on regionalization policies of the state of Jalisco. Within the context of the recent transformations that Mexico's political system has undergone, tensions between regionalist discourses (that emphasize citizen participation and 'bottom-up' strategies), and 'top-down' regional development policies of state actors have become increasingly pronounced. At the same time, however, Mexican cities and regions are, for economic reasons, faced with prospects of either competing against each other or cooperating as a means of strengthening their positions in national and international markets. As the case of Jalisco shows, regionalization projects are conditioned by institutional environments. Competing political values, development agendas and interests as well as friction between existing institutional frameworks and governance innovations, make the question of regionalization a highly contested issue. Employing the notion of 'inconclusive federalism', Verduzco argues that the regionalization process has been hampered by the asynchronous development of informal and formal institutions. In the case of Jalisco, regionalization has depended on the propensity of local governments to cooperate with each other and the state. However, *de jure* local autonomy has not resulted in strong municipal governments or a willingness to develop a regional development perspective. Taking this into consideration, the question remains as to whether institutional change is nevertheless being achieved and whether this change is facilitating the implementation of regionalist and contextually appropriate development projects.

Regional economic and social development in Brazil has been marked by huge disparities and these disparities are central to understanding regionalization processes in that country. Anita Kon's chapter attempts to better understand how regionalism and regional policy have evolved in the Brazilian context. 'Regionness' has always been central to Brazilian territorial issues and to the consolidation of the Brazilian state itself. In one sense, Brazil is a Latin American country whose political and territorial development has been continuously influenced by regional tensions – perhaps more so than in the case of other countries. Modern Brazilian regimes – autocratic, dictatorial and democratic – have sought to create a sense of national unity by focusing on regions and their development and their strategies have oscillated between centralization, decentralization and re-centralization. All these strategies have addressed Brazil's deeply rooted regional

disparities and socio-spatial fragmentation but repeated attempts to overcome this fragmentation have largely failed. With the onset of the economic crisis in the 1980s, economic policies became increasingly focused on macro-economic stabilization, with different repercussions for the regional economies that, again, have had little impact on diminishing regional inequalities. Furthermore, with neo-liberal policies and international cooperation increasingly informing political agendas, the question of regional governance capacity has emerged as a major factor in Brazil's development. Unsurprisingly, however – and as several other contributions to this volume indicate – successful 'bottom-up' strategies flourish in the most advanced regions while disadvantaged areas, for a number of reasons, have proven resistant to 'new regionalist' practices. The Brazilian state, as the initiator of regional policy, has been faced with numerous failures in its attempts to bridge gaps between poor and rich regions; disparities in living standards remain among the highest in the world. As a means of contextualizing these policy failures, Kon argues that cultural, social, participatory and economic subsystems contribute to impede successful implementation of decentralization and regional policies in Brazil.

In the next chapter, Catalina Banko discusses the vicissitudes of decentralization and regionalization policies in Venezuela from the 1960s to the present. As is the case with other Latin American (and indeed Central European countries), Venezuela as a modern state has emerged from strongly centralist traditions. Regionalization in its first true policy guise was thus a project of national industrial development and was promoted by increasing oil revenues in the 1960s and 1970s. Debt crises, poverty and social unrest, coupled with a fall in exports, led to a legitimacy crisis of the state; this in turn promoted the idea of regionalization in terms of democratic governance and efficient public management. During the 1980s, decentralization policies were therefore promoted in order to achieve greater participation of civil society and subnational governments in decision-making processes. Again, the general pattern was one of decentralization informed by neo-liberal ideologies hostile to state intervention and accompanied by an insufficient transfer and/or generation of resources for regional and local governments. However, with the advent of Hugo Chávez Frias' presidency and the project of constructing 'socialism for the 21st Century', clear signs of a recentralization of administrative and political authority have become evident. As Banko demonstrates, the experience of political decentralization in Venezuela is still rather recent, but it invites critical reflection, both in order to evaluate its results and to conceive new strategies aimed at more democratic and balanced development.

## **Central and Eastern European Case Studies**

Gregorz Gorzelak starts off the European case studies in a chapter that portrays Poland as a partial success story: Gorzelak argues that Polish experience can provide an example of how regions can assume a more assertive role within transformation

contexts. At the same time, Polish regionalization cannot be understood without a grasp of history and socio-spatial processes that characterize Poland's regional development. Gorzelak's chapter discusses relationships between regional development processes and region governance reforms in Poland. It also explores the policy implications of Poland's highly divergent regional development trajectories in terms of new regionalist paradigms. Endowed with a degree of popular legitimacy and decision-making authority, Poland's 16 new regions have an historical opportunity to design and implement more locally sensitive and economically efficient development strategies. As Gorzelak contends, much will depend on the nature of regional strategies, on regional governance capacities, but also on the quality of policy partnerships between national and regional levels.

Ilona Kovács Pálné offers an exploration of Hungary's regionalist experiences. The reform of territorial public administration and power structures has been a long-standing issue in Hungary, dating back several centuries. A review of these reform attempts clearly shows that they have all been initiated by central authority; instead of serving the interests of democracy, participation and representation they have targeted technocratic aims of efficiency, professionalism and, above all, centralization. Post-socialist regionalization debates indicate a political desire for the possibility of a paradigm shift in Hungarian governance, but the actual practice of region-building indicates that political traditions and cultures are remarkably resistant to new governance concepts. What is the present state of affairs? Local government autonomy is enshrined in national legislation, but the state has continued to jealously guard its co-ordinating role. In the drive to establish a new 'meso', municipal egoisms and the power ambitions of the central government have clashed time and time again. As a result, the county level has been subordinated yet further to the state. The seven regions created by the 1996 Act on Regional Development and Physical Planning are only weakly tied to local governments; they are, rather, defined in technocratic terms, as subareas where regional policy is to be carried out. To this effect, the 1996 legislation introduced 'development councils' in three tiers, since legislators were unable to decide whether regions, counties or micro-regions would be appropriate for policy execution. In addition, the development councils operate more or less as regional 'quangos' independently of local governments. As a result, Hungarian regionalization has brought forth a fascinating if confusing territorial mosaic of governance: three different sectors (deconcentrated state agencies, local self-governing units and an intermediate, 'parastate' sector), and three spatial scales (micro-regional, county and macro-regional tiers), struggle to co-ordinate their policies. Regionalism based on networking economies and civil society participation remains weak. With EU accession, Hungarian legislators have expressed the desire to resolve this chaotic state of affairs. However, while reform is essential, the feasibility of this plan is unclear. Given that regionalization must be understood as a gradual process of institutional change and taking into consideration the possible policy consequences of EU regional programmes, Kovács offers possible scenarios of future regional governance in Hungary.

In the next European case study, Hans-Joachim Bürkner explores East German transformation and its consequences for new forms of urban and regional governance. Bürkner's chapter deals with interrelationships between post-socialist governance milieux and regionalization. On the basis of empirical findings from two regional case studies, the author discusses both 'embedded' and 'disembedded' types of region-building (or as Bürkner terms it, place-making). The post-reunification reality of the former German Democratic Republic (GDR), has mainly been a history of forced de-industrialization. Yet this is not the whole truth, as new knowledge-based industries and services have also developed in a limited number of urban regions. Global players in the fields of high-technology production and knowledge-based services have created centres of innovation in such places as Dresden or Jena, thus embedding the global into specific post-socialist regional settings. New professional networks and knowledge milieux have developed attractive local nodes – 'sticky places' in regional science jargon. Unsurprisingly, politicians see in such developments general and reproducible models for mastering the economic crisis that grips most East German regions. However, in addition to administrative and planning approaches, East Germany's regionalization experience is also characterized by a more subtle economic region-building process, one that has largely escaped public attention. The first case, the urban region of Jena, stands for the embedded variant of the intrusion of the global into a transformation-specific regional world of production. Drawing from the remnants of older local production knowledge and the practice of post-socialist professional milieux, globally-oriented enterprises and research institutions in the fields of optics and electronics and related services have brought about the resurrection of the Carl Zeiss myth. Here, vibrant processes of innovation have redirected the regional trajectory from initial decline to moderate self-sustaining attractiveness. The second case, the German-Polish border region as represented by the Frankfurt/Oder area, tells a different story. Situated in the economically vulnerable German-Polish border region, the city and its surroundings have experienced marked economic and demographic decline since German unification. State-financed initiatives established a research institute for semi-conductor physics and gave birth to a small cluster of producers in the field of micro-electronics. While praised by political elites as proof of global competitiveness, these activities have not 'resonated' locally or regionally. Knowledge production and related social milieux have remained exclusively oriented towards global networks, sharply separated from the rest of the economically and culturally deprived region. This disembedded variant of regionalization has supplied the region with a stickiness of its own, albeit a very fragile and ephemeral one. It has remained largely dependent on state-funded institutions and transfer payments rather than the long-term presence of global actors and self-sustaining global-local networks.

In the final European case study, József Benedek explores the Romanian practice of creating new regions for development purposes. Benedek also scrutinizes regionalization paradigms and practices that have emerged in Romania as a result



of the post-1989 transition process. The regionalization of space and society (i.e. the reworking of territorial and social structures), is a complex process tied to overall national development. Romania is a highly centralized state but characterized by strong regionalist traditions and regional identities. The central question remains as to what extent new regions can become anchored in and represent regional societies rather than function as mere instruments of the political interests of the centre (Bucharest). Post-1989 processes of regionalization in Romania have been both of a political-normative nature as well as based on 'scientific' and 'objective' criteria. The political construction of regions has also been heavily influenced by external factors linked to Romania's process of integration into the EU; as a result a mesolevel was created in 1998 by grouping the counties into eight development regions (*regiuni de dezvoltare*). Braving difficulties involved in theorizing this new spatiality in Romania's case, Benedek characterizes regionalization as a product of economic, social, political and cultural struggles unleashed by post-socialist transformation. Benedek also adopts concepts developed by the Finnish geographer Anssi Paasi (1986), as a means of interpreting the potential significance of regionalization for territorial governance in Romania. In Paasi's view, regions are social constructs that are gradually institutionalized in four evolutionary stages, these are: 1), territorial definition, 2), conceptual delineation, 3), institutional shaping and, finally, 4), the establishment of the region as a distinct social category. Benedek argues that regionalization in Romania mirrors the first two stages. As territorially defined constructs these regions are new. However, closer examination reveals that these 8 regions reproduce cultural dividing lines between the 'western provinces' of Romania (Transylvania, Banat, Crişana and Maramureş), and the 'heartland provinces' of the modern Romanian state to the East of the Carpathian Mountains (Moldova, Muntenia, Oltenia and Dobrogea). Hence the conceptual context of 'regionness' is changing rapidly and this, in turn, could influence change in the established political and economic role of regions. Benedek's case study concludes by discussing conditions under which truly empowered regions could emerge (corresponding to phase 4 of Paasi's model), as Romanian society rapidly changes and adapts to the EU.

### **Some Remarks and Acknowledgements**

The exploratory character of this book is expressed in its goals: to define different parameters of regionalization processes, to discern patterns of regional development and spatial planning practice, to understand different regional planning cultures and thus to refine indicators for comparative analysis. This book is also the result of a transatlantic research network that has been in existence since 1993. Among the institutions involved in this network are the Leibniz-Institute for Regional Development and Structural Planning (Germany), the University of Guadalajara (Mexico), the European Institute of Regional and Local Development (Poland), the University of Gdansk (Poland), and the Centre for Regional Studies



of the Hungarian Academy of Sciences. The network has coordinated transatlantic research seminars in Zacatecas (2000), Berlin (2001, 2002), Santiago de Chile (2003), Guadalajara (2005), and Cuernavaca (2007). These seminars have, in turn, been the basis for several publications (see Arroyo 1995, Arroyo, Keim and Scott 2001, Riojas and Scott 2004, Riojas 2005), and, finally, for the present volume.

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We believe that the perspectives provided here contribute to meaningful comparative analyses of governance, planning cultures and socio-spatial discourses. **Taking the obvious differences between Europe and Latin America** into consideration, we argue that regionalization projects can be seen as functional rather than structural equivalents of institutional change and are thus characterized by very different outcomes. This perspective makes transatlantic comparisons such as these interesting. **It is, of course, up to the reader to determine the scientific quality and prescience of our efforts.** Hopefully, this book will have at least partly contributed to answering some of the questions raised by New Regionalism.

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PART 2

Systemic Transformation  
and the Politics of Scale

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## Chapter 2

# Systemic Transformation and the Implementation of New Regionalist Paradigms: Experiences of Central Europe and Latin America

James Wesley Scott

The new regionalism can be defined as a multidimensional process of regional integration which includes economic, political, social and cultural aspects. It is a package rather than a single policy and goes beyond the free trade market idea (...). Rather, the political ambition of establishing territorial control and regional coherence cum identity (...), is the primary regionalist goal.

Björn Hettne (1999, 17)

### **Introduction**

The post-socialist states of Central and Eastern Europe (CEE) and well as most Latin American (LA) countries are undergoing a 'double transition', simultaneously consolidating democratic government while promoting economic competitiveness within a complex global environment. In both cases, furthermore, economic liberalism has exacerbated socio-economic fragmentation while challenging the State's traditional role in economic management. At the same time, countries in CEE and LA have also embarked upon ambitious projects of political-territorial reorganization and the development of new central-local partnerships as part of their modernization strategies. National development trajectories are, of course, subject to specific historical contexts. There is no single or universal transformation experience. And yet, quasi-universal paradigms of development and 'governance' have had considerable impacts on all CEE and LA countries. The European Union, the World Trade Organisation, the International Monetary Fund (IMF), the Economic Commission for Latin America (CEPAL), the World Bank and other international bodies have been exceedingly influential in this context. Although they have addressed different regions, depending on their specific remits, these international organizations have been instrumental in developing and disseminating at the global level the ideological basis for economic reform and democratization.

The focus of this book is on region-building, that is, the project of creating new subnational administrative or quasi-administrative units in order to enhance economic performance, democratic governance and socio-spatial cohesion. Since the 1980s, concepts of region-building more commonly known as the 'New Regionalism' have diffused out from their West European and North American origins and have become firmly entrenched in political discourses in CEE and LA. Supported by the EU, the World Bank and other organizations, New Regionalism represents a major institutional element of reform: a **state-society paradigm** that spatially integrates notions of economic dynamism, administrative efficiency, community-empowerment, civil society and responsive governance. Inevitably, this sweeping paradigm, promoted as an 'objective' leitmotif of societal modernization and economic prosperity, has been subject to much critical scrutiny. For example, New Regionalism is often interpreted in terms of a normative 'neoliberal' vision of governance: one in which self-organization and consensus (!), displaces state intervention as a response to social and economic challenges (Brenner 2003, 2004).

No attempt is made here to portray regionalization as an 'objective' concept. While regionalization can be perceived as a norm, either promoted externally by international organizations or imposed domestically by certain political and economic elites, it is neither inevitable nor of necessity progressive. **Regionalization** it is nothing more and nothing less than a contested and contingent process of institutional change; it is a spatially relevant political and cultural process through which meaning and signification are continuously inscribed into the territorial fabric. Political rationales of state control, historical processes of local identity-formation as well as struggles for power between localities and the State are just some of the contextual aspects that emerge upon scrutiny of region-building processes. Similarly, there is no single theoretical framework with which to understand and interpret regionalization.

Regionalist and other state-society discourses have, of course, reflected the general shift from 'Fordism' to 'post-Fordism'. It would be incorrect, however, to view the New Regionalism as merely reactive to structural change. Gradual paradigm shifts have been expressive of ideological debates and political contests and therefore constitutive of urban and regional transformations. Jones and MacLeod (2004), contend that the debate about regional governance must focus more explicitly on territorial considerations and the embeddedness of locale. Indeed, context is more than locale, much more than the assemblage of material objects within a particular regional space. Local transformations reflect particular societal (i.e. national), interactions with the urban environment. Similarly, governance emanates from political-ideological power based not solely on economic or other structural relations but on value systems and cultural signification. Despite the widespread and transnational diffusion of planning paradigms, governance ideologies and development discourses, the concrete practice of making places is one that is negotiated locally. Furthermore, the problem of negotiating regional scale involves a constant tension between pragmatic,

problem-oriented rationales and the ideational, ideological and institutional contexts that inform collective action.

This contribution will briefly characterize region-building and regional development strategies that have emerged in Central Europe and Latin America since the 1980s. As such, it prefaces some of the contributions and case studies contained in this volume by providing a contextual overview. Similarly to the other contributors to this book, I will attempt to put New Regionalism into perspective through a discussion of its differentiated local application; that is, of region-building as a contextually sensitive process of institutional change and response to the societal challenges of systemic transformation.

### **Theorizing Transformation and the ‘New’ Regionalism**

For the purposes of this comparative undertaking regionalization (and decentralization), can be understood as a strategy – as a political project whose basic aims are the enhanced economic and environmental viability and political effectiveness of nation-states through greater local action. In this respect regionalization projects display a striking degree of regularity. Although to varying degrees, and as the different chapters in this book demonstrate, Chile, Brazil, Mexico, Poland, Hungary, Romania and Germany (as well as other states), have all promoted local empowerment and central-local partnerships as part of their political modernization strategies. Hence, one of the important aspects of this comparative volume will be to characterize regionalization projects within a case study context (identifying characteristics, premises, elements, goals, actors, key players), and as a means of identifying the more specific significance of regionalization processes for both regions.

The choice of New Regionalism as a unifying focus for the comparative study of institutional transformation is no coincidence. The New Regionalism (NR), assumes that processes of region-building are possible based on

1. a strengthening of regional identity,
2. strategies that emphasize common problems and that facilitate consensus between different communities and
3. functional logics of cooperation between localities and state and non-state actors.

The implication of NR is that region-building based on cooperation (that is on bottom-up processes of ‘governance’) and a sense of common destiny is not an ‘option’ but an imperative dictated by globalization and environmental interdependencies (see, for example, Barnes and Ledebur 1998, Peirce 1993, Wannop 1999). This complex socio-spatial paradigm clearly dominates debate on regional development in Europe and the Americas, but the divergent experiences



of regional development policies indicate vast discrepancies between normative discourse and actual policies.

New Regionalism is a complex paradigm. Basically, it is both a normative policy paradigm and a scientific perspective on the constitution of economic and social space. New Regionalism encompasses an enormous variety of theoretical and analytical perspectives. However, NR is not a unifying concept; there is no cohesive corpus of theory – and even of fixed definitions – that can be seen as the exclusive domain of the New Regionalist paradigm. As a result, NR is fuzzy, imprecise and sprawling – a challenge, perhaps an affront, to those who seek unambiguous definitions, conceptual fixity and purity and ‘concrete facts’.<sup>1</sup> Despite its fuzzy nature, NR exhibits ‘unity in diversity’ at least in one aspect; the prioritization of regions as a central locus of social organization – and thus of political, cultural and economic life. Out of this creative fuzziness, we can distinguish several areas of ideational focus that will be briefly discussed below.

The political economy of regions is unquestionably central to NR as a paradigm and the most prominent cluster of theories and concepts associated with it. During the 1980s and 1990s, Allan J. Scott, Michael Storper and others contributed to a renaissance of Marshallian spatial economics that situated regions, rather than nation-states, at the centre of economic growth in global urban networks and production chains. Since Michael Storper’s essay on ‘The New Industrial Geography’ appeared in 1987, an innumerable number of regional studies focusing on networked economic space have issued forth. The journal ‘Regional Studies’ gives testimony to the powerful influence of the political economy perspective. However, this focus on political economy tends to reify economic networks as constitutive of social space; it thus favours cognitive ‘re-containerizations’ of regions rather than understandings of regional specificities.

New Regionalism is also a governance paradigm, both in highly normative and in empirical terms. The normativity of this perspective emanates from an assumption that regions represent an inherent territorial framework for democratic governance, good public management and effective development policies (Courchene 2001, Sharpe 1993). Following the more general paradigm of ‘government to governance’ in which state power is being inexorably dispersed to private sector actors, civil society and ‘stakeholders’ in specific political projects, regional governance has reemerged as a research agenda in response to the increasing complexity of political decision-making processes. Among others, this has been elicited by metropolitan regions, their increasing territorial/functional complexity and the internationalization of their economies (see Keating 2004).

The third paradigm under discussion here interprets regions not in terms of ‘objective’ (e.g. geographical), criteria but rather in terms of what can be termed social construction. Within this perspective, New Regionalism emphasizes the socio-cultural, historical and (geo)political bases for region-building; regions are

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1 Ann Markusen’s struggles with ‘fuzziness’ and the debate it engendered as captured in the 2003, 37 (6–7), issue of *Regional Science* makes for particularly uplifting reading.

thus as much a product of discourse as they are a territorially defined space on political maps (Häkli 1998, Paasi 1991, 2002). The social-constructivist view, however, offers not only a synthetic perspective, combining political economy and governance-oriented regional perspectives, but is also the most context-sensitive because it eschews pre-structured and generic notions of what regions are and what they should be and do.

This paradigmatic triad of political economy, governance and social construction is, of course, a generalization, a necessary reduction of the complexity that is the NR. Defining the NR along these lines, furthermore, is not an end unto itself. More important is a critical analysis of the NR in terms of tensions between normative tenets and practical experience. Furthermore, this critical perspective can only be developed through integrating political economy aspects with governance and social constructivist approaches. In this regard, one of the main difficulties involved in understanding the significance of regionalization within a comparative context is the confusion surrounding 'governance' and, perhaps more seriously, a lack of critical reflection on the ahistorical and culturally insensitive normativity that informs debate on governance itself.<sup>2</sup> The proposition that governance is a product of rational behaviour informed by changing global circumstances owes its popularity to the apparent universality of particularistic ideologies, especially those of 'Anglo-Saxon' origin. As Bourdieu (2000, 23), has observed, this totalizing (neo-classical), ideology is founded on two central – and very questionable – assumptions:

1. that the workings of the economic sphere can be understood in isolation from government (and therefore society), and
2. that market mechanisms of negotiation and bargaining are the most efficient means of distributing resources and thus managing economic life.

Governance as understood in terms of self-help and/or self-regulation without 'government' tends to understate the importance of state-society relations and social values in public affairs. Equally critical is the structuralist assumption that regionalization is primarily a 'post-Fordist' adjustment of territorial scale to the requirements of the global economy. Governance in this case is largely reduced to 'crisis management' and the stabilizing regulation of shifting relationships between labour, capital and the State (Brenner 2000, Zincone and Agnew 2000).

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2 Governance, in its original meaning, such as that supplied by Webster's English Dictionary, is simply: 'lawful control over the affairs of a political unit (as a nation); the act or activity of looking after and making decisions about something'. The convoluted as well as highly normative and moralistic nature of many contemporary redefinitions of the terms has been commented by Bourdieu (2000, 22): 'Governance is one of those many neologisms that, created by think-tanks and other technocratic circles and conveyed by trendy journalists and "intellectuals", contributes to the globalization of language and thought'.

The relative lack of a sense of contingency in much regional governance debate seems surprising given the large body of literature that stresses the social embeddedness of economic and political institutions (see Evans 1995, Granovetter 2002, Keating 2001). It is, for one thing, unclear to what extent the paradigmatic shift of 'government to governance' can be applied to regional contexts in cross-cultural as well as 'non-Western' terms (see Howard et al. 2006).<sup>3</sup> Through this paradigm, governance theory attempts to explain the means through which state-society relationships are being reconfigured in order to manage increasing societal complexity. As Newman (2005, 4) has stated: '(the) dispersal of state power opens up new ways in which citizens can engage in the politics of localities and regions and participate in 'project politics' on specific issues'. However, among others, Swyngedouw (2005), has criticized assumptions that governance inherently signifies new democratic arenas of citizen participation: using the Foucauldian notion of 'governmentality' Swyngedouw argues that with new forms of policy-making 'beyond the state' political citizenship is being redefined to empower new groups (e.g. policy advocates and think-tanks), and disenfranchise those that do not conform to new market-oriented 'rules of the game'.

For this reason, I propose that governance can be understood straightforwardly as a decision-making process that takes place within complex institutional settings. Within these settings, normative principles and constraints that operate at different levels coalesce and condition trajectories of regionalist projects. Governance, and hence regional governance, is evolutionary and in its socio-spatial transformation manifests change in formal and informal rules that are culturally specific. Rationality, either bounded or absolute, is at best a minor mechanism within this process, even though 'rational' arguments are used to emphasize the benefits of regional cooperation. **Historical experience, culturally-defined perceptions of the roles of government, traditions of local autonomy and/or centralism** are some of the elements that define specific (and partially unique), contexts for local development and interlocal cooperation. New political spaces might be indeed opening up in order to take advantage of new global economic logics, but the manner in which this takes place is very much contingent on local conditions. **Furthermore, as Tomaney and Ward (2000, 46), have indicated, national institutions remain very important in framing the basic conditions within which regionalization takes place:** '(The

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3 Governance in its contemporary understanding as 'bottom-up' agency demonstrates, in fact, interesting parallels to ideas of William James (1907) and the US-American pragmatist school. The main cultural message of pragmatism is the optimistic notion that individual action, even without the mediation of 'higher' institutions (such as the church, state and large corporations), can solve major existential and social problems. Indeed, pragmatism assumes a latently antagonistic relationship between institutions and the individual's potential of self-realization that is atypical of most European contexts. While governance debates in the US-American context do not ignore the role of the state, the notion of 'local empowerment' has a specific resonance that is difficult to reproduce in European or Latin American contexts.

point is), to emphasize the uneven and path-dependent nature of regional change in which the national dimension – in the form of specific, historically constituted state and social formations and their attendant political cultures – remains of central explanatory importance’.

At the same time, reform practices are also informed by paradigms and development imperatives that operate at more general levels. To paraphrase Johnston (1996), paradigms reflect changing external environments and their impacts on society; they represent ever-evolving ‘schools of thought’ on how to define and solve society’s problems. Paradigms thus connect local situations to the wider picture of ‘working reality’ and thereby provide orientation to social action. However, there are always tensions between paradigmatic concepts and social reality: implementing urban reform paradigms within any setting is invariably connected to socio-political linkages between communities and agendas that elicit consensus and/or succeed in dominating regional development policies. As Bob Jessop (2002), Anssi Paasi (2001) and others have emphasized, defining regional spaces and scales within which governance takes place are inherently contested processes. **There can be no denial that, despite more or less explicit attempts to develop generic forms of governance (‘best practices’), that spatial politics remains contested.** Jones and MacLeod (2004, 433) write that: ‘(...) the formation of any given regional map is reflective – and indeed constitutive – of an unevenly developing, often overlapping and superimposing mosaic of economic practices, political mobilizations, cultural performances and institutional accomplishments’.

Finally, as Michael Keating (2001, 219) has stated, regionalization can be understood in terms of a tangible political project: the construction of a regional development model. Keating argues that long-term patterns of socio-political relationships within regions are more important than ‘short-cut’ concepts such as social capital. Keating suggests a multidimensional approach to region-building – namely, as a project with the aim (and putative ability), to construct new systems of social regulation and collective action, drawing on existing elements in the social structure, mobilizing cultural and political symbols for particular purposes and constructing institutions in government and civil society. A comparative understanding of regional governance and its rationales nevertheless requires that these ‘bottom-up’ elements of region-building be considered in conjunction with **national political and economic contexts.**<sup>4</sup> **What follows in this chapter is a comparative discussion of New Regionalism and regionalization experiences of selected countries in Central and Eastern Europe and Latin America.** Although the significance of state power has been comprehensively challenged as a result of systemic transformation, the central state remains a key actor in the regionalization process. **At the same time, interstate integration, to that extent that it is resulting**

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4 See Jon Pierre’s (1999) insightful essay on urban governance and on the importance of values, ideologies as well as local and national institutional contexts for urban policy outcomes.

in supranational institutions such as the EU, is also clearly influencing processes of regionalization.

### **The Transformation Context: Europe and Latin America**

Institutional issues are at the centre of the various studies of regionalization processes included in this book. As Przeworski (1991, 2000) has argued in his own comparisons of transitions to democracy in post-socialist Europe and Latin America, socio-economic equity and access to resources are vital if transformation processes are to create the basis for the legitimacy of democratic and 'decentred' governance. To achieve this, well-functioning political and economic institutions that promote general socio-economic well-being and territorial cohesion are also required. This development philosophy has been emphasized by the European Union and the World Bank, institutions that no longer merely press for liberalization, deregulation and privatization but also for effective institutional reform as crucial for sustainable economic growth (see Burki and Perry 1998, Commission of the European Communities 1997). However, this is a tall order. Countries struggling with systemic and economic transformation must respond to new external challenges and, at the same time, restructure internal political and social relationships.

Transformation has been aptly characterized by György Enyedi (1998, 6), as a situation of rapid institutional change within an environment of insecurity, political instability and rapid socio-economic polarization. In remarkable contrast to the expectations of modernization theory proponents after 1989 (see Przeworski 1991, 2000) transformation has acquired a logic of its own, shaped by adverse, if not antagonistic, interests. **This fact has been mirrored by a marked political fragmentation, both in administrative and ideological terms** (see Scott 2006). Although Enyedi's frame of reference is the post-socialist experience of Central and Eastern Europe, his characterization of societal change can equally be applied to situations in many Latin American countries. With transformation, long-standing ideological frameworks and powerful social institutions have been discredited (and/or have collapsed), while the rules that govern state-society relationships have fundamentally changed. As a result, new political and social institutions are developing within an environment of rapid change. This, on the one hand, has created a situation of flux, instability, insecurity and experimentation that has proven to be remarkably persistent. On the other hand, transformation has involved attempts to structure a sense of societal coherence within new geoeconomic and geopolitical contexts. As Przeworski (1986, 58) has argued in the case of democratization struggles in Latin America, transformation (or 'transition'), signifies 'the process of creating specific institutions, with their effects upon the capacity of various groups to realize their interests'. Przeworski suggests, furthermore, that power struggles between ruling elites, and ideological divisions into status-quo 'hard-liners' and moderate reformers, are major causes of

legitimacy crises and thus for the emergence of alternative forms of governance. Both of these transformation processes make their mark on regional governance as institutional change and struggles over urban development and planning policies are played out (Ballbo 2003, Sagan and Lee 2005).

Transformation is an issue of domestic policies and institutional change. However, the regional integration of Central and Eastern Europe and Latin American countries in supranational governance frameworks is also of great significance. As was mentioned above, the European Union (EU), the World Bank and other organizations have had major impacts on the economic development of states in transformation. They have, furthermore, imposed conditionality as a principal for continued aid and have required debt reduction, fiscal balance and open markets in turns for credit and direct grants. In the specific case of the EU, regional development policies have determined to a high degree the structural and economic policies of the new member states. **Of course, the purpose of EU funding is two-fold: it involves the establishment of a self-supporting economy and the promotion of democratic consolidation. In contrast to this, the influence** of locally inspired policies on both regulatory matters and endogenous regional development is of relatively minor importance. This has become particularly obvious in the case of the post-socialist democracies of Central and Eastern Europe that have become members of the EU. In the case of Latin America, membership in NAFTA, Mercosur and other organizations has lead these countries (e.g. Mexico), to open domestic economies to international financial markets and trade as means of achieving long-term economic development. This strategy has been seen to offer greater guarantees of political stability and has been actively pursued since the 1990s. Interestingly, and in contradistinction to the EU's practices, the USA explicitly refused to make Mexico's membership of NAFTA conditional upon democratic reforms (Pérez 1996).

However, liberalization and integration in transnational organizations has been accompanied by an intensification of centre-periphery conflicts, making for clear 'winners' and 'losers' (CEPAL 1986, 2001, 2006, Gorzelak 2002, Sokol 2001).<sup>5</sup> The origins of regional disparities in the different countries under consideration are, of course, quite different and are a result of very specific industrialization trajectories. In the European case, economic change has favoured many metropolitan areas (such as Budapest, Warsaw, Prague and Bratislava), and industrially diversified regions. These enjoy favourable structural conditions (e.g. foreign trade relations), that enable them both to influence and benefit from new economic opportunities. However, many rural, heavy industrial and border regions in Central and Eastern Europe have been rapidly marginalized, losing domestic economic importance and proving incapable of competing in new European markets. In Latin America,

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5 A good overview of recent regional economic trends within the 27-member European Union is provided by the Fourth Report on Economic and Social Cohesion (European Communities 2007). Similarly, national and regional disparities in Latin America are well documented by Silva Lira (2003), CEPAL (2006), and Durán Lima and Masi (2007).

capital city regions and regions that have been integrated into international industrial networks (including export processing zones), have clearly consolidated their economic dominance. On the other hand, rural abandonment, fuelled by increasing poverty and, in many cases, by immigration, proceeds apace. **In addition**, urban poverty has increased dramatically since 1990 as a result of liberalization policies and reduced subsidies to local governments.

EU programmes attempt to compensate for these disparities, at least partially, by channelling support specifically to the poorest regions of the community. Such redistributive measures are totally lacking in the NAFTA and other Latin American contexts of regional cooperation. Reynolds (1997), for example, has emphasized the dilemma this has created for Mexico. On the one hand, new decentralized policies of regional development (including social access strategies), are expected to be implemented cautiously, with macroeconomic stability kept in mind. On the other hand, there is a real risk that Mexican regions that cannot be integrated into the changing domestic and international economic context will be cut off entirely from development opportunities. Political conflicts in the states of Chiapas, Guerrero and, more recently, Oaxaca are the most obvious example of this.

In sum, within the transformation contexts discussed above a particular dilemma presents itself in the overwhelming array of problems that must be simultaneously addressed: among these are the maintenance of global competitiveness and national social stability, demographic stabilization, the combating of rural abandonment and the mitigation of environmental problems caused by urban growth and industrial cost-cutting. However, equally typical of the European and Latin American transformation contexts is a lack of institutional capacity to grapple with these issues. As a result of centralism and autocratic government, traditions of local-level government initiative are weak. Only within the last two decades have local governments in Chile, Mexico, Hungary and Poland and other transformation countries achieved a real degree of political autonomy. Even more problematic is the question of establishing a 'meso' scale between the national and local levels. Nation-states have long agonized over the definition and empowerment of regions in order to more effectively manage societal issues. In almost all countries of Central and Eastern Europe and Latin America – and as the various chapters in this volume testify – a political notion of 'region' must be basically invented anew, with very few historical (or successful) precedents to draw upon. And yet within this difficult transformation context new concepts of regional development, sustainability and democratic governance are being applied.

The remaining sections of this chapter will be dedicated to a brief introductory discussion of New Regionalism and its highly variegated implementation in Central and Eastern Europe and Latin America. Although an exhaustive survey cannot be provided here, the cases chosen (Mexico, Chile, Poland and Hungary), serve to outline the major contextual factors that have influenced regionalization processes.



## New Regionalism and Post-Socialist Transformation Contexts in Europe

The application of new regionalist paradigms in the post-socialist states of Central and Eastern Europe has been greatly influenced by governance discourses propagated by the European Union and by domestic pressures for political change. As a result, virtually all post-socialist democracies – many of which are now members of the EU – have embarked on a process of regionalization in the hopes of promoting rapid institutional change, efficient public administration and economic modernization.<sup>6</sup> While the EU has certainly put pressure on these states to create new regions, the post-socialist democracies are also keen to counteract a historical legacy of core-periphery relations with Western Europe and to be counted as centres of political and economic power in the greater European geopolitical perspective. The issue of regions is not trivial here as nation-building is arguably still an ongoing process in Central and Eastern Europe; this is a reflection of recent state formation (Swedish, Russian, Austrian, Ottoman and Prussian empires alternated in dominating the region and independence came late for most) and delayed social modernization. Finally, political fragmentation as a result of frequent boundary changes and the catastrophic effects of two world wars limited the development of most Central and Eastern European countries and destroyed many networks that had been built up over centuries. State Socialism brought with it an absolute centralization of political power, forced industrialization, the crushing of entrepreneurial traditions, the decline of civil society activities and a ‘hierarchization’ of social life in which ideology dominated the public sphere and public space(s) (see Hamilton, Dimitrovska Andrews and Picher-Milanova 2005). Consequently, one of the more compelling rationales for regionalization in this context has been the attempt to banish the more onerous legacies of State Socialism from national societies.

Within the first years of the EU accession process, post-socialist states began to take up the issue of creating new regions. That this process has required a considerable rethinking of the role of regions and their political constitution is borne out by several contributions in this volume (e.g. Benedek, Gorzelak, Kovács Pálné). Significantly, one main challenge to region-building has been to accept, adapt and implement tenets of the New Regionalism as they have evolved within the context of European integration. As will be discussed below, the EU’s version of New Regionalism is, on the one hand, a specific mixture of neo-liberal and redistributive policies. On the other hand, however, it is a complex set of socio-spatial and governance principles that are at the very centre of the EU’s identity as a political community. During the late 1980s and early 1990s – precisely as Central and Eastern European countries began to intensify relations with the EU and its member states – the notion of a ‘Europe of Regions’ was enjoying

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6 The post-socialist states that make up the 27-member European Union are: Bulgaria, Estonia, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia. East Germany was reunified with the Federal Republic of Germany in October 1990.



considerable political currency. Originally, this notion was informed by a set of demands formulated by advocates of subnational representation within European institutions.<sup>7</sup> However, more general EU support for the 'Europe of Regions' idea was based on the assumption that regions represent subnational territories where ethnic, linguistic, cultural and/or economic-structural characteristics help create (actively or passively), a sense of common identity. (New), Regionalism in Europe is thus in principle a political ideal that seeks to maximize the participation, influence and development potential of regions within the wider context of interstate integration. This ideal, furthermore, is premised on the assumption that regions – because of the dense social, economic and cultural relationships that provide them with a sense of identity – are an essential locus of growth and democratic governance (see Keating 2001). It must be emphasized that 'Europe of Regions', both as a concept and a political project, has evolved in response to long-standing tensions within the European Union. Debates over the remits of EU institutions and the degree of federalization of decision-making processes continue to mark divisions between member states. At the same time, regions with increasing or well-established political bases and/or economic clout have clamoured for greater self-determination and have criticized what they see as centralizing tendencies within the EU.

Admittedly, EU-centric notions of 'the region' largely reflect a regionalist understanding that is historical in nature. Many regions within Europe have a powerful sense of local identity and distinctiveness that has emerged as a result of both experiences with and struggles over political autonomy. Examples of such regions include Scotland and Wales in the United Kingdom. Scotland, for example, is in many respects a non-sovereign nation within the United Kingdom with its own parliament and social and religious institutions. The German States (*Länder*), which share power with the national government, also possess a certain degree of regional identity although many of them were created as amalgamations of historical regions. Europe abounds with other examples of regions that claim (and to an extent have received) a greater voice in political matters such as Wallonia and Flanders in Belgium, Catalonia, Galicia and Valencia in Spain, Alsace, Bretagne and Occitania in France and Southern Tyrol in Italy. Even the trinational Swiss-French-German 'Dreyeckland' centred on the city of Basel has lobbied for a certain degree of recognition as a culturally cohesive and functionally interdependent region. Furthermore, in some areas regional separatist movements present a serious challenge to national authority. The Basque country which

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7 This set of demands included: 1) recognition of the cultural diversity of regions, 2) creation of a regional parliamentary body with formally defined decision-making powers and guarantees of participation in decision-making processes, 3) the formal recognition of subsidiarity as a political principle (this demand was in fact enshrined in Article 3b of the Maastricht Treaty and later in both the Amsterdam and Nice Treaties), and finally, 4) guarantees of the right of subnational governments (regions, provinces, etc), to address grievances directly to the European Court of Justice.

straddles parts of Northeastern Spain and Southwestern France (the País Basco and Pays Basque respectively), is a case in point. Corsica's demands for autonomy from France are another.

### *Governance and Cohesion: Policy Roles of Regions within the EU*

From an official EU standpoint, the achievement of cohesion and good governance are central goals of interstate integration.<sup>8</sup> With the objective of economic and social cohesion, the EU aims at reducing socio-economic disparities between regions and improving the situation of the most impoverished and marginalized areas. Cohesion policies, such as those defined in the EU's Lisbon Agenda, also seek to promote growth, competitiveness and employment while emphasizing environmental sustainability (European Communities 2007). With good governance, on the other hand, a responsive and democratic institutional architecture, as well as adherence to a comprehensive set of political and ethical values, are understood to be prerequisites for integration. Within this metadiscursive context regional scale is judged to be of central importance. It is here – at least theoretically – where the EU's multiple objectives of economic dynamism, efficiency, democracy and empowerment translate into concrete development projects.

Indeed, for over thirty years regions have represented a central focus and addressee of EU policies. The European Regional Development Fund was established in 1975 in order to address industrial crises and underdevelopment within member states. With the establishment in 1988 of the Structural Funds (in effect consolidating all regional and sectoral aid programmes within one policy instrument), regional policy was essentially de-nationalized; the EU assumed a major role in defining specific target areas and regional problems to be addressed. Furthermore, many regions have been able to develop policy partnerships directly with Brussels, drawing up strategic plans and projects that subsequently have received support from Brussels. Since 1988, numerous programmes and initiatives have been launched with the express goal of creating new development perspectives for peripheral areas, agricultural regions, regions in industrial decline, areas undergoing rapid structural transformation, etc.

In addition to regional policies and institution-building the Europe of Regions has also been characterized by a process of regionalization: that is, of a gradual creation of regional administrative units entrusted with various public policy remits. European regional policy began in the late 1980s to direct development

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8 In terms of policy objectives, Europe of Regions suggests a long-term strategy of creating flexible territorial contexts for governance and socio-economic cohesion within the supranational framework of the EU. By the same token, it is important to mention that since the mid-1990s there has been a discursive shift increasingly away from empowerment and cultural variety-cum-identity towards a more neo-liberal interpretation of cohesion, namely one that favours entrepreneurial spirit, the role of small and medium-size enterprises (SMEs), regional innovation and culture as an economic asset (Richardson and Jensen 2000).

aid to specific subnational and crossborder contexts. This reform was reinforced by parallel processes of regionalization in which sub-units of member states, such as France, Spain, Italy and the UK, were accorded a larger role in defining their futures and influencing European policy. Regionalization has proceeded apace with the most recent EU enlargements in 2004 and 2007 as new member states with generally centralist traditions have experimented with the re-organization of administrative space. In this latest regionalization phase, EU requirements have played an essential role; administrative decentralization has been made a prerequisite for the disbursement of structural development funds.

The process of region-building within the EU has, of course, been uneven. This is partly due to the lack of a unitary framework that defines regions as such, e.g. in political and functional terms. Whilst often based upon historical and cultural traditions, other regionalizing policies have been adopted by states as a means of rationalizing administration, managing internal change and satisfying EU demands. As a result, the participation of regions within national and European policy-making processes is dependent on their status within national contexts; Spanish regions, the *Comunidades Autónomas*, might have considerably more powers than *Régions* in France but lack the basic and constitutionally defined co-decision making powers of German *Länder*. At the same time, there are few regions below the level of the German *Länder* that enjoy political legitimacy. Devolution in the UK has been an issue of according Wales and Scotland greater autonomy but rather less one of empowering English regions in administrative-political terms.

### *New Regionalization in Central and Eastern Europe*

Several contributions to this book will provide detailed discussions of regionalization projects in post-socialist states. In providing an overview of these processes, some of the more characteristic regionalization patterns will be presented. **Regionalization** has emerged in post-socialist Europe as an important political project conditioned, on the one hand, by the desire for membership of the European Union but, on the other hand, by attempts to (re)construct democratic political institutions. Within the highly centralized system of state socialism, regions played at best a minor political role. National economic development and national cohesion (with a strong if unrealistic emphasis on autarchy) were the primary goals and 'regions', to the extent that these were explicitly defined, were basically territorial frames of reference for comprehensive industrialization policies. In this sense, the notion of 'region' under state socialism was informed by an ideological focus on complex industrial development and the creation of a material basis for social equality. It goes without saying that this model of regional-cum-national development was not market-oriented although it was heavily influenced by a systemic competition with capitalist democracies. With the collapse of the overlying ideology of state

socialism, this regional development model became untenable – although elements of ‘developmentalist’ practice have survived well into the twenty-first century.<sup>9</sup>

Since 1989/1990, processes of institutional reform have been set in motion in order to create regional levels of governance that, for example, fit the requirements of EU regional policy (i.e. with the ability to develop strategies and projects that address regional issues) and that improve prospects for development in more disadvantaged areas. However, it is not yet clear to what extent and to what ends new regional institutions might assume important governance roles in the future. Furthermore, the mere establishment of regions has not automatically led to the creation of commensurate regional governance structures.

The post-socialist states have taken important steps to decentralize and thus modernize their administrative and political systems. Since 1990, local government autonomy has been restored and a number of responsibilities have been transferred by the state to cities. However, this has generally occurred at the expense of the traditional ‘meso’ levels such as counties, provinces, etc. The end result of decentralization has been ‘strong’ but chronically under-funded municipal governments, weakened intermediate levels in many cases, and new regions in a state of flux, subject to the vicissitudes of national politics. The Hungarian parliament, for example, established principles in 1998 of a decentralized system of institutions and of co-operation based on partnership. However, this apparent desire to decentralize and to open greater space for civil society to participate in policy-making processes has been contradicted by a persistent high level of central government control over regional affairs (see Kovács Pálné, Chapter 10).

In effect, post-socialist democracies have not as yet consolidated local governance structures and they thus share a condition of what might be termed ‘indecisive decentralization’. Nevertheless, no uniform pattern can be discerned in terms of regionalization policies and the region-building experiences of countries such as Poland, Hungary, the Czech Republic and Romania very greatly. In 1999, Poland opted for a dual system similar to that of France in which the regions, the Voivodships (Wojewódstwo) are represented by regionally elected officials as well as by appointed agents of the central government. The Voivodships do indeed provide a potentially forceful vehicle for regionalized policy delivery and political mobilization at the subnational level; they are partners of the national government (and with Brussels to the extent that the EU is still willing to negotiate

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9 Interestingly enough, the EU with its regional development grants has been used by post-socialist governments to prolong an industrial development (in many ways ‘Fordist’), approach to combating regional disparities. This has been quite evident in the case of several East German states, Brandenburg in particular, which dedicated considerable resources to the consolidation of industrial cores and the development of ‘hard’ locational factors (e.g. physical infrastructure), in peripheral areas. The regional policies of Hungary and Poland have also reflected this practice. A second irony of these ‘structural biases’ to developmentalism is that they took place within the context of mass privatization and the sale of national assets to multinational interests.

with subnational units), in terms of regional policy and programming the use of EU structural funds. Voivodships also enjoy considerable policy remits in the area of planning, education, social affairs, health and economic development, among others. As Gorzelak explains in his contribution to this book, however, most Voivodships suffer from a lack of resources due to fiscal constraints – a fact that ‘recentralizes’ competencies by strengthening dependency on the centre. Generally speaking, only dynamic Voivodships with economic growth can generate sufficient resources to develop strong and ‘autonomous’ governance roles.

In many ways, the Polish experience is unique: the prevailing pattern of regionalization in Central and Eastern Europe has been one of top-down designations of regions for largely administrative purposes. The National Regional Development Concept of Hungary, passed by the Hungarian Parliament in 1998, defined regions in accordance with European statistical nomenclature (NUTS). The seven Hungarian regions that presently exist are basically vehicles for the decentralization of regional development policy. In these regions, quasi non-governmental organizations, Regional Development Councils (RDCs), are the effective coordinating body. RDCs are also located at the county (Megye), level in order to reflect local priorities within the policy implementation process, but these have much less authority and resources. Interestingly, regional development councils preceded the creation of planning regions; they were not required to reorganize their activities according to the new regions but were instead allowed to decide upon their own geographic ‘spheres of influence’ (Kovács Pálné 2001).

The case of the Czech Republic bears mentioning here as it represents an intermediate case between the Polish and Hungarian experiences. After much controversial debate, 14 Czech regions (13 ‘kraje’ and the capital city of Prague), were designated in 2000 (see Figure 2.1). Each region has its own elected regional assembly and an indirectly elected president (city council and mayor in the case of Prague). Theoretically, the Czech regions represent a forceful mesolevel as they share responsibilities with central government for educational, social, cultural, economic development and other policies. They are also equipped with a budget that in part derives from regionally generated revenues. In practice, however, regions in the Czech Republic are a very weak tier of government as their discretionary budgets are very small in comparison to those of local governments and their political visibility limited (Illner and Vajdová 2004). Furthermore, the Czech regions do not appear able to benefit fully from their putative roles as agents of regional development or from EU structural funds: their capacities to develop ‘bottom-up’ initiative suffer from unclear rules regarding their functions within multilevel policy networks (Ferry and McMaster 2005, McMaster 2006). Regions basically operate within a narrow range of responsibilities that have been ‘downloaded’ by the central government; most of the financial resources that are distributed to the regions are dedicated to specific budget items leaving very little scope for independent spending. The low level of regionally generated revenues exacerbates the dependency of regions on state subsidies.



**Figure 2.1 The Czech regions**

*Source:* Leibniz-Institute for Regional Development and Structural Planning.

Clearly, the question of defining regions (i.e. of a functioning meso-level), has not been definitively settled in most post-socialist democracies. It remains to be seen to what extent Hungarian, Czech and even Polish regions will evolve into politically active units. As several contributors to this volume make clear, the prospects for effective regional governance in the post-socialist context will depend on the resources and opportunities that can be mobilized at the regional level. This includes the emergence of a new stratum of regional politicians and of a regional economic and cultural elite who are capable of becoming partners of the central 'establishment'. Another important issue is that of the mobilization of civil society in the regions and of their social and cultural capital. Finally, opportunity structures of inter-regional cooperation on the national as well as European levels and greater participation in European regional policies must be considered.

### **New Regionalist Experiences in Latin America**

Regionalism has had a rather different trajectory in the Latin American case. In terms of historical antecedents of regionalist thinking, core-periphery tensions have certainly played an important role. Post-independence nation-building comprised in many ways a struggle between regions, ending only with the subordination of regions to the centre. In Mexico, Brazil, Columbia, Peru and several other countries, regional conflicts continue to shape national politics and, in some cases, challenge the authority of the state. The purpose of this discussion, however, is not to retrace historical traditions of regionalism in Latin America but to characterize in general terms contexts for regionalization that have emerged in the last decades.

Similar to the European case, decentralization and regionalization in Latin America have been informed by competing notions of national development as well as by shifts in economic policy and a series of political reform processes. Starting in the 1940s, large-scale projects of national economic development based on industrialization and policies of import-substitution (in essence the doctrine of 'developmentalism'), were inaugurated in Latin America's major economies. Within this context, the concept of 'region' was employed in order to suggest that endogenous industrial expansion could emerge from designated growth poles strategically located with regard to urban centres and logistical networks. These policies did result in considerable economic growth but also in an over-concentration of population and a serious neglect of semi-rural (agricultural), areas. As a result, with the 1960s the concept of region also incorporated a sense of 'equilibrium': growth poles were to be established in various areas of national territories in order to more evenly distribute the benefits of economic growth. This brought with it, among others, a policy of forced industrialization in rural and semi-rural areas that mirrored the state-socialist model in many ways (see Banko, Chapter 8).

As was the case in Europe, systemic change and the collapse of the developmentalist model of national development forced a reconceptualization of



regions and their wider societal role. In the latter half of the twentieth century several Latin American countries experienced dramatic political and economic changes in which deep-seated social contradictions and tensions were played out, often in violent form. In Chile, Salvador Allende's short-lived experiment in social equality and national development was followed by the long autocratic reign of General Augusto Pinochet (1973–89), in which externally-oriented economic reforms were initiated. Starting in the 1980s, both in Mexico and in other Latin American countries, economic reform became a major policy priority and was implemented through structural adjustment plans formulated with the consensus, backing and advice of international agencies – the IMF and World Bank, in particular. These policies, based largely on neo-liberal economic ideologies, amounted to the external imposition of development paradigms and criteria on nations with very different social-political and economic contexts. One of their key features was a pronounced sectoral bias and a focus on privatization, the opening of local markets to global trade, and industrial modernization. At the same time, the role of redistributive regional policy was curtailed, municipal finances were reorganized and public budgets were cut.

Regional inequalities in Latin America increased during the 1980s and were exacerbated by the aftershocks of the economic crises of the mid-1990s. **Structural** adjustment policies and the austerity measures they elicited only exacerbated the situation. As a result, the traditional role of nation-states in Latin America has been increasingly challenged, particularly in countries such as Mexico with vast income disparities. Within this context, reform has been instituted in order to promote national stabilization within a neo-liberal economic order. This is also reflected in more recent concepts of region and renewed attempts to promote political and economic decentralization.

### *Regionalist Discourses in Latin America*

There is a close connection between models of economic development and regional economic cooperation on the one hand, and the development of regionalist paradigms in Latin America on the other. As mentioned above, regionalization has, until very recently, been understood in Latin America largely in terms of instruments for enhancing economic performance and as a political project of managing accelerating socio-spatial tensions rather than as a democratizing effort. Regionalization in its first phase was primarily driven by the economic ideas promulgated by CEPAL (the Economic Commission of Latin America and the Caribbean), and strategies of import substitution (Dembicz 2004). Raúl Prebisch's (1949), influential core-periphery model was based on the assumption that an endogenous drive for industrial development was necessary in order to avoid long-term dependency relationships with the already industrialized nations. Prebisch's development concept basically accorded the nation-state and core agglomerations the role of 'developer' and regions themselves the role of 'economic space' that was to be developed strategically, but not in terms of political participation or



political reform. Another powerful idea that emerged from this developmentalist thinking was the importance of creating continental economic spaces following the European Common Market example. Central to this regionalist paradigm were the territorial relationships of factors of production (labour, capital, resources, etc.), and their relative location (e.g. as growth poles) within national and international economic contexts. This regional development model thus echoed some of the ideas of François Perroux (1949), and Walter Isard (1956), who both theorized about space in terms of optimal distributions of different economic factors.

As several contributors to this book attest, the crisis of the developmentalist model, which was accompanied by environmental concerns, globalization and the resurgence of political pressure for reform – including decentralization – signalled the end of this abstract, socially myopic notion of region. CEPAL and its economic ideas ('cepalismo') also shifted with the times, and a decisive 'new' regionalist tradition emerged by the late 1980s, thanks to the work of Sergio Boisier and others (Dembicz 2004). The regionalist vision proposed by Latin American regionalists such as Boisier was one of a process that focused on local societies and their opportunities to influence development trajectories. Boisier argued that, rather than mere passive subjects of regional policy, regions were evolving into 'region-states' with greater capacities to manage local affairs and to develop interregional and international linkages. The goal of regional policy and regionalization was thus seen as (Boisier 1991, 26):

the strategic and long-term construction of a collective and regionalist project of development (...), in which the social construction of regions signifies an enhancement of self-organization, transforming dormant, and passive communities that have been fragmented by particularistic interests and with little sense of their socio-spatial identity into organized, cohesive communities conscious of their regional identities and capable of transforming their development perspectives through projects of political mobilization.

Sustainability also emerged as a powerful regional development paradigm in the 1980s. This was not only a response to the Brundtland Report or United Nations resolutions; the environmental degradation of large urban centres, rural areas and natural areas as well as severe water quality problems, forced national governments to introduce explicit institutional and policy reforms in order to address environmental protection issues. Regional sustainability became a catchword to the extent that regions were associated with specific natural areas ('bio-regions'), river systems and water catchment basins. Advocates of sustainable regional development also emphasized the role of local empowerment and participation in order to more effectively implement environmental policies (see Ceccon and Cetto 2003). As a result, a holistic view of region-building emerged in Latin America that not only embraced the social, economic and environmental objectives of received sustainability doctrine but also stressed governance capacity-building, democracy and local initiative.

Boisier's ideas were developed by what could be termed a Mexican regionalist school centred around the University of Guadalajara and that gained influence in the 1990s. Building upon the notion of the 'region-state', the concepts that emerged here stressed the need for decentralized economic strategies and sustainable regional development (Arroyo 1995, Bátiz et al. 1998, Woo Gómez 2003). The primary rationale of the 'Guadalajara School' approach was aimed at fighting uneven development and ecological degradation through the empowerment of localities and strategies aimed at international economic competitiveness. Regions themselves were seen as constituted by local networks (e.g. municipal associations), on the one hand and supportive state policies on the other. Of course, these concepts were also strongly influenced by geopolitical considerations and international institutions. Continental projects of economic liberalization, such as the North American Free Trade Agreement (NAFTA), and Mercosur and the dictates of the World Bank, among others, put questions of global economic competitiveness squarely on the agenda during the 1990s. In the Mexican case it was particularly clear that national economic policies were failing to help Mexico's regions develop a better bargaining position; focusing on innovative industrial clusters (the example of Guadalajara's would-be Silicon Valley can be mentioned here), Mexican regionalists such as Woo Gómez (2002), argued for coherent subnational strategies of territorial development. The intention of this entrepreneurial approach to region-building was to help Mexico's states – for example, Jalisco, Aguascalientes and Colima in West Mexico – to tap into international production networks with added value potential and avoid the trap of dependent development (as exemplified by the extended workbenches of the export processing sector, or Maquiladora, that had been promoted by national policy).

Ultimately, these holistic visions of regional development clashed with (and partly succumbed to) the vicissitudes of party politics and neoliberal economic policies that dominated political agendas in Latin America (Mertins 2003, Riojas 2005, Verduzco, Chapter 6 of this volume). Furthermore, it now appears that despite greater subnational political and economic activism, regionalization has remained a project of national consolidation and a means to achieve enhanced performance of state institutions. By the same token, New Regionalism in Latin America has not been supported by multilevel and supranational institutional frameworks as in the European case: there simply have been too few resources distributed downward while local capacities for participating in development projects remain severely limited. This has contributed to a situation in which the focus on social and environmental issues has been often subordinated to objectives of economic growth and entrepreneurial development.

### *Regionalization Experiences: A Brief Overview*

Regionalization in Latin America has been greatly influenced by vast socio-economic disparities and economic crisis. It has also been subject to struggles

between centralizing and decentralizing tendencies and the disjointed political histories of systemic change (i.e. democratization), since the 1960s. As a result, as is amply illustrated in the case studies presented in this book, regional development and planning are vital policy areas that have been subject to critical reappraisal and restructuring in Latin America.

Chile's regionalization experience has been emblematic of the disjointed territorial governance reform processes in Latin America. As in most Latin American countries, the Chilean case can be understood as an attempt at institutional reform in a state with a tradition of centralized, unitary and hierarchical organization. Of course, shifting paradigms and rationales have had profound effects on official rhetoric and Chile's trajectory of economic modernization has been influenced by international organizations, neoliberal trade policies and globalist thinking. As a result, the process of regionalization and decentralization in Chile has been a gradual one. As in the case of Mexico, Venezuela and many other Latin American states, regionalization in Chile began in the 1960s as a strategy of national economic development and spatial equilibrium, based on growth-pole concepts popular in Europe. The main objective was to develop industrial agglomerations in several parts of the country that could counterbalance the overconcentration of economic activity (for example, in the capital city region of Santiago). However, it was during the long military rule of Pinochet (1973–1989), that the present regional map of Chile was defined; in 1978, CONARA, the state commission for administrative reform, divided the country into 13 regions as a means (ironically perhaps) of strengthening the political and economic role of the unitary state (see Figure 2.2). This phase of regionalization was primarily one of administrative deconcentration and was coupled with the creation of new regional organs of central government (Intendencias), in the capital cities of all 13 regions. Administrative tasks were delegated to officials acting at the behest of the national government. Similarly to the case in Hungary after 1990, a deconcentration of national agencies took place and representatives of different ministries also became important regional actors.

Chile's regionalization during the dictatorship was formalized by the constitution of 1980 and was marked by the country's political situation – a situation in which structural changes were imposed unilaterally, and without democratic debate, by a military dictatorship. The military dictatorship also brought with it a broad liberalization of economic policy and an end to state programmes of regional investment, incentives and privileges. This led to a crisis of regions that had developed as industrial centres, such as those in the north of the country, exposing them to the competitive pressures of the international economy. At the same time, regions endowed with exportable natural resources and agricultural products prospered. In effect, a major regional shift in economic status took place, resulting in 'winners and losers' and a pronounced socio-economic fragmentation of the country (Szary 1997) – much as in the case of Central European states (Gorzela 2002).

Because of this, reservations about the 'regional idea' have traditionally been deep-seated in Chile, not only among political elites but also among citizens.

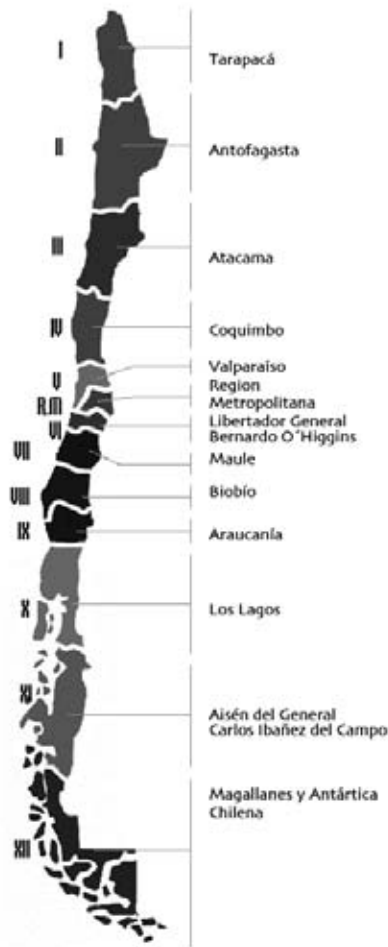
Karlheinz Schnitzer (2001), has studied political shifts in Chile in terms of their effects on regionalization processes and on the development of the 'Bio Bió' Region in particular. Similar to the case of Venezuela's Guayana Region, Chile's Bio Bió was promoted during a period of national protectionism through the development of the petro-chemical and other heavy industrial sectors. Bio Bió today remains a region dependent upon an ample supply of cheap labour, the exploitation of natural resources and fishing. Partial deconcentration in industrial activities was not followed by a commensurate decentralization of administration, services or commercial districts. Last but not least, although the poverty rates have lessened somewhat since the 1990s, income differences between the poor and the rich have greatly increased.

With Chile's re-democratization after 1990, a process of more forceful decentralization was slowly initiated that involved the creation of dual and multi-tiered administrative structures. At the regional level, the leadership of the Intendencia continued to be appointed by the president of the republic but an indirect bottom-up representation was instituted through the creation of Regional Councils. The third regional body, the 'Regional Cabinet', represented the deconcentrated ministries of the national government. At the provincial level, the governor was also appointed by the president whereas the Social and Economic Councils of each province included a wide variety of state and non-state actors and representatives of civil society organizations. A key element of the political reforms of the early 1990s was the strengthening of the municipal level. The legal basis for local elections was established in 1991 and local councillors elected by popular vote in turn elected mayors and members of the regional councils. At the same time, political debate about regional development focused on the issue of social equity and a more active role of regions in formulating policies of sustainable development (García 1994). However, if these reforms indicated a strengthening of the political significance of Chile's 13 regions they also were accompanied by economic and fiscal conditions that exacerbated regional disparities. The financing of regional investment, furthermore, clearly shifted in emphasis from the state to international credit agencies and the private sector, favouring those regions with closer ties to the global economy. Indeed, policies of a decidedly neo-liberal hue were favoured by the democratically elected government in order to improve global competitiveness; as a result, region-building and market-oriented regional development policies became closely tied (Boisier 2000).

Given that Chilean experience in regionalization policies spans over several decades, what can be concluded in terms of (new), regionalist paradigms and institutional change? Sergio Boisier (2000) provides a nuanced view. In his opinion, regionalization in Chile had its origins in centralism and Weberian administrative rationalities of the state and not in citizen demands for greater regional/local autonomy; it did, however, initiate a subnational institutionalization of regional development policies. Chile's experience in liberalization was perhaps one of the more extreme cases in Latin America, but it is clear that the present democratic government does not question the importance of institutions and governance for

economic development; policies of economic reform have been accompanied by a development of civil society and broader forms of citizen representation.

In the Mexican case, regionalization was taken up in earnest at the subnational (state) level in the 1990s. As Verduzco (Chapter 6), explains, these policies were characterized by a renewed drive for political decentralization and by regional planning and development strategies that sought to enhance 'positionality' within the international economy. **While the economic development component of Mexican regionalization strategies was, generally speaking, a top-down project managed by government agencies, decentralization has more actively involved representatives of local and respective state governments in order to achieve economies of scale in policy delivery.** In the 1990s, the state government of Jalisco embarked upon a new regional development strategy that envisaged a bottom-up mobilization of resources. On a more strategic level, Jalisco targeted a number of promising economic sectors that would form the basis for concerted public-private initiatives in specific areas of the state. Prominent among these were technology based manufacturing, tourism and export-oriented manufacturing. In 1997, the government of Jalisco also inaugurated a process of region-building that resulted in the designation of 12 regions within the state. While the designation of these regions was in part somewhat arbitrary, regionalization was intended to strengthen 'bottom-up' initiative and municipal capacities for cooperating with state and non-state actors as well as with other local governments in various policy areas. In order to emphasize the more progressive elements of its region-building project, the government of Jalisco also initiated a visioning and prioritization process involving local elites and citizens. This took place within the framework of regional and local conferences where representatives of state and local governments, civil society and other groups participated. However, as Basilio Verduzco documents (Chapter 6), the 12 regions remain weak levels of governance; economic power remains concentrated in the metropolitan area of Guadalajara while local governments in more peripheral areas of the state appear to use regional programmes for basic infrastructural projects rather than strategic development purposes.



**Figure 2.2 Regions in Chile**

*Source: CEAGI.*

### **Conclusions: Where Does New Regionalism Stand Today?**

Region-building can be characterized as an uneven political project, as a long-term debate over the role of local societies and changing perceptions of the governance role of the state; it is indicative of a negotiated and by no means always harmonious re-scaling and re-configuring of governance upwards toward international organizations, downwards to cities and regions, and horizontally across nations, regions and communities. At the same time, ‘transitions to democracy’ do not automatically guarantee decentralization and region-building. Cultural attitudes,

political values and traditions also matter. And in fact, measured against initial expectations, the concept of New Regionalism seems to have provided rather mixed results.

What economic social, cultural and political roles might then regions realistically fulfil in terms of more effective governance and equitable development? Will (new) regionalism prove – or is it already – a victim of the vicissitudes of realpolitik and the shifting attentions of academic debate? The answer is clearly no for a number of reasons. One of the main reasons is that manipulations of scale and territorial concepts are inherent to the politics of the state and of economic elites; as long as regionalism can be exploited to promote specific interests it will continue to resurface at specific junctures of societal development. Furthermore, regionalism is a long-term attempt to reconcile seemingly antagonistic tendencies of centralization and local empowerment and, at the same time, promote the idea of integrated social, economic, political and cultural spaces. This complex socio-spatial project will not be abandoned any time in the near future, even though the means to achieve it are far from clear. To conclude then, New Regionalism in its ‘pure’ Anglo-American or West European reading may not be exportable. There is no single regional idea or uniform concept with which to frame regions as politically meaningful actors, either within Europe or Latin America. And yet, the idea that regions can be constructed through territorial relations rather than by government decree is a powerful one – an idea that will not easily or rapidly fade.

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# Chapter 3

## Between Crisis and Adaptation: Economic Aspects of Institutional Change in Latin America and Central Europe

Carlos Riojas

### Introduction

The last two decades of the twentieth century were marked by profound institutional changes in Latin America and Central Europe. In Latin America, these transformations were initially economic in nature and took place in response to the decline of ‘classic’ Latin American conceptions of development that had emerged after World War II.<sup>1</sup> Subsequently, however, processes of institutional change spread to political and social spheres. In Central Europe, by contrast, institutional change was triggered fundamentally by political factors, specifically by demands for democracy that gradually affected economic life and society as a whole. These two ‘macro-regions’ – areas within larger continental geopolitical contexts – are indeed quite different in terms of their historical development and therefore in their governance traditions. And yet, in the late twentieth century, Latin American countries and the post-socialist states of Central Europe shared a history linked through modes of institutional change and experiences of societal transformation largely influenced by the dictates of external (i.e. international) organizations such as the International Monetary Fund, The European Union, the World Bank and the Inter-American Development Bank.

In this chapter, I will attempt to compare and contrast the evolution of processes of institutional change in terms of the mediated adaptation of Central European and Latin American countries to changing economic and political environments. This discussion will clarify several contextual aspects of societal transformation and thus lay the groundwork for an ongoing dialogue between Central Europe and Latin America regarding their differing regionalization experiences.<sup>2</sup> The sample

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1 Latin American development doctrine in the years between 1950 and 1970 was characterized by four core elements: the peripheral specificity of Latin America; the priority given to promoting industrial infrastructures; development as a process of structural transformation that takes place in a specific international context; and the leading role of the State in the economy (see Arocena and Sutz 2000, 29–49).

2 An effort reflected in previous work by the author (see Riojas 2005).

of countries considered in this study includes Argentina, Mexico, and Chile – the Spanish-speaking countries of the American subcontinent with the most advanced economies in terms of transformation – and, by applying similar criteria, the Central European countries of Poland, Hungary and the Czech Republic.

My analysis of institutional change will be based on concepts developed by proponents of the New Institutional Economics.<sup>3</sup> This involves a discussion, on the one hand, of structural patterns and indicators of economic performance (demographic patterns, economic growth indicators, etc.) that have been linked to institutional change and, on the other hand, of the impact of neo-liberal policies, democratization processes and the role of the state as a key actor in driving democratic and market reforms. Finally, modes of institutional change experienced by the countries under study will be characterized in terms of attempts to create new socio-political contexts in order to promote democratization and integration into international markets.

### Basic Elements of Institutional Change

The theoretical-methodological approach of the New Institutional Economics (NIE) offers a series of useful concepts for analyzing institutional change. Thus, I will follow the basic outline suggested by Douglass C. North and other proponents of this approach in order to interpret contexts of institutional change under conditions of societal transformation in Latin America and Central Europe. The first key element of institutional change is to be found in ‘institutions’, which according to North (1993, 13–4) are rules set up by men and women that structure their interactions, give incentives to political or economic exchange over time and determine the performance of economies. ‘Organizations’, on the other hand, are the forms of cooperation and coordination that individuals develop for the purpose of reducing uncertainty, realizing common objectives and maximizing benefits within the opportunities offered by the established institutional framework (North 1993, 99; North 1994, 572). The negotiating capacity of individuals and organizations is vital to institutional change; on occasion, for example, cooperation is more effective in reducing transaction costs than competition (Davies 1995). Institutions can function as points of contact between organizations and individuals. When complex forms of cooperation are attained, the institutional matrix must offer advantages to each of its members, in addition to promoting stability among them (Rosen 1996).<sup>4</sup> Empirical evidence has shown that mutual interactions between

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3 In particular: Coase (1998, 72–4), Edgren (1996, 1017–29), Harris, Hunter and Lewis (1998, 1–70), Nee (1998, 85–9), North (1993) and Williamson (1998, 75–9).

4 Strategic alliances are horizontal forms of cooperation, where the links and transactions do not necessarily pass through the market. Strategic networks are structured horizontally or diagonally. The existence of both in a specific context creates what is known as an *innovative milieu* (see Genosko 1997, 285–7 and 293–4).

institutions and organizations, as well as the capacity for adaptation to new environments and flexibility, have been crucial to national economic performance. Over time, inefficient institutions have tended to disappear. The speed of their disappearance has varied in different contexts, but overall societies have tended to create more effective forms of social, economic, political and administrative organizations. Thus, institutions, while intangible social constructs, are quite capable of having different impacts on individual lives (North 1998).

North distinguishes between two types of institutions: formal and informal. The former (a collection of written norms and laws governing interactions among individuals) are easier to recognize and to specify than the latter (customs, traditions and codes of behaviour). While it is important to recognize and distinguish between formal and informal institutions, it must also be emphasized that they are interrelated and that it is difficult to treat them completely independently. Informal limitations complement and strengthen formal norms, but the mere existence of these institutions does not automatically lead to efficiency. Formal and informal institutions indicate, rather, which possible actions might prove successful (and which unsuccessful) in adapting to new environmental circumstances. Formal institutional frameworks are modified when individuals and organizations with negotiating capabilities are interested in change. However, the pace and intensity of change in formal and informal institutions rarely coincide; it is generally easier to modify formal institutions than informal ones, because cultural traits tend to persist or change only gradually. Thus ideologies, ideas (e.g. paradigms) and individual perceptions and interpretations of social environments are crucial to institutional change, as they can spur or hinder the development of new rules (North 1993).

Contrary to the postulates of neo-classical economics, the NIE assumes that both individuals and organizations must first decipher their environments before acting in socially and economically meaningful ways. The repetition or frequency of similar situations, the regularity of exchange, cultural homogeneity (or at least understanding between different cultures and ways of thinking) are among the elements that assist in this deciphering process as environmental conditions change (ibid.). The NIE aims at providing a theory of economic dynamics that interprets economic development in historical and comparative terms. The institutionalist perspective also serves as a rudimentary guide for policies that might improve the performance of economic systems. In the following sections I will present comparative evidence of institutional change from the transformation trajectories of Latin America and Central Europe.

## **Economic Crisis and the Rise of Neo-Liberalism**

During the 1940s, both the Latin American and the European countries under study entered a new economic era which emphasized social welfare, planning, centralism and the role of the state. In Latin America, after a phase of intense



urbanization accompanied by a new wave of industrialization, strategies focused on better standards of living, a more efficient allocation of investments, import substitution and an active role in international trade. While some of these goals were met in the medium-term, a series of internal contradictions and financial crises eventually resulted in the 'lost decade' of the 1980s, followed by a period of slow recovery.<sup>5</sup> In Central and Eastern Europe, the period following World War II saw the creation of Soviet-style command economies within the framework of the Council for Mutual Economic Assistance (COMECON). While this new system provided some benefits in the form of social protection, education etc., productivity growth did not live up to expectations in the long run. Despite attempts at market-oriented reforms, such as those undertaken in Hungary in the 1960s and early 1970s and, more intensively, during the 1980s, or the creation of a limited system of private enterprise in Poland, economic production remained hampered by factors that included an uneven supply of raw materials and worker indiscipline. Analogous problems with productivity, cultures of efficiency and technological change have been cited for Latin America, characterized, in addition, by growing income disparities and unequal regional distributions of economic growth.

One element common to the processes of systemic change in certain Latin American and Central European countries, which I will attempt to include in my comparative analysis, is the influence of economic conceptions underlying these changes, conceptions that have come to be subsumed under the term 'neoliberalism'.<sup>6</sup> While in Latin America strategies to bring about institutional change effectively took the form of structural adjustment programmes, in Central Europe two main strategies vied for prominence: shock therapy and gradualism. As a result, the application of neo-liberal policies led to rather different transformation trajectories and specific institutional matrices. This, of course, was also due to contextual factors, including economic and demographic indicators which will be discussed in some detail below.

## **Economic Performance and Crisis**

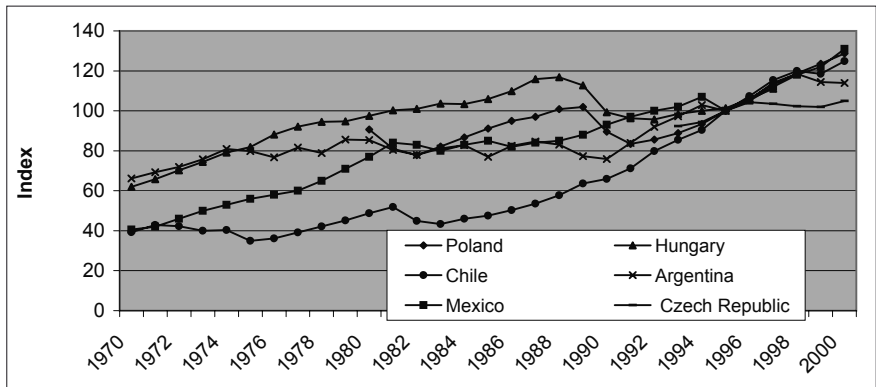
In terms of economic performance, an unstable environment prevailed in both Latin America and Central Europe, especially during early stages of systemic

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5 There is a rich literature on this formative period of Latin America's economic development. See, for example, Birdsall and Lozada (1996, 13 and 15–6); CEPAL (2001, 102); Dunford (1998, 78); Prebisch (1996, 177, 180, 182 and 216).

6 The term 'neoliberalism' as used here is aptly defined by the New Zealand-based Development Resource Centre as an: 'economic philosophy popularised in the early 1990s which advocated that the market is always the most efficient distributor of goods and services. Hallmarks of neoliberalism include corporatisation, privatisation, the selling of state assets and the removal of tariffs and trade barriers' (source: <http://www.dev-zone.org/glossary/index.php?browse=n>).

transformation. The gross domestic product (GDP) of Argentina, Mexico and, to a lesser extent, Chile fell consistently between 1981 and 1985. Hungary and Poland, for their part, faced the most critical years of economic performance between 1990 and 1993, with negative GDP growth of up to 6 per cent (see Figure 3.1).



**Figure 3.1 Index of GDP growth by country**

Source: IMF, 2001.

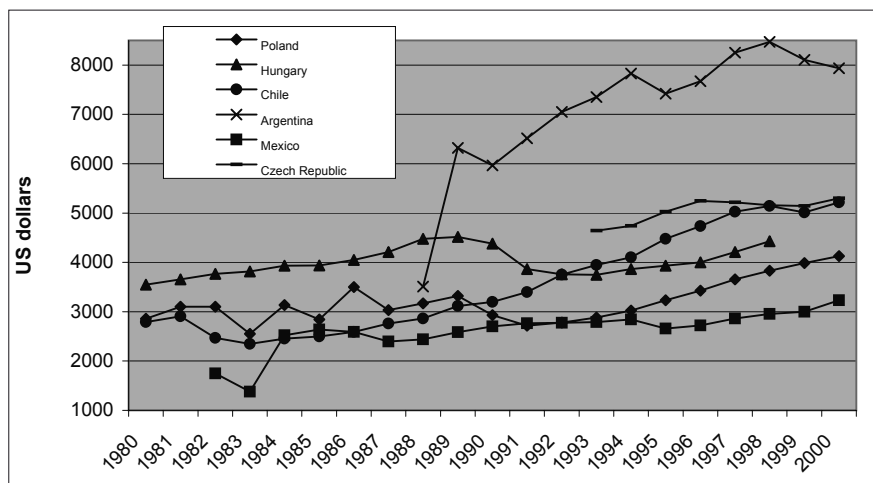
If the instability of Central Europe's economic performance is seen in relation to the virtual stagnation of population growth, the panorama appears even more critical than in the Latin American context. This can be seen more clearly by looking at the per capita GDP and the volatility of economic growth.<sup>7</sup> In 1982, the real per capita GDP in Poland was 3,100.97 US dollars, while in Chile the same indicator was 2,468.89, in Hungary 3,769.78 and in Mexico 1,751.30 (all measured in constant 1995 US dollars). A decade later the per capita GDP had decreased in real terms by 10.3 per cent in Poland, and was practically stagnant in Hungary. Mexico, on the other hand, registered an abrupt decrease in this variable between 1982 and 1983, but ten years later had managed a 12.7 per cent recovery in real terms. Chile, for its part, took eight years to return to 1981 levels before undergoing a rather spectacular recovery in the 1990s. Given Argentina's monetary policy – parity between the Argentine peso and the US dollar – the per capita GDP registered considerable growth up to 2000, but the situation reversed drastically during the crises of 2001 and 2002 (Table 3.1 and Figure 3.2).

<sup>7</sup> The volatility of economic growth was estimated by looking at the standard deviation of the GDP over the period in question.

**Table 3.1 Total population by country, 1970–2000 (millions)**

Year	Poland	Hungary	Chile	Argentina	Mexico	Czech Republic
1970	32.53	10.34	9.37	23.75	50.69	NA
1971	32.8	10.37	9.53	24.04	52.45	NA
1972	33.07	10.40	9.7	24.39	54.27	NA
1973	33.36	10.43	9.86	24.82	56.16	NA
1974	33.69	10.48	10.03	25.22	58.12	NA
1975	34.02	10.53	10.2	26.05	60.15	NA
1976	34.36	10.59	10.37	26.48	61.98	NA
1977	34.7	10.64	10.55	26.91	63.81	NA
1978	35.01	10.67	10.82	27.35	65.66	NA
1979	35.26	10.70	10.98	27.79	67.52	NA
1980	35.58	10.71	11.14	28.24	69.66	NA
1981	35.9	10.70	11.33	28.66	71.35	NA
1982	36.23	10.68	11.52	29.09	73.02	NA
1983	36.57	10.66	11.72	29.51	74.67	NA
1984	36.91	10.62	11.92	29.88	76.31	NA
1985	37.2	10.58	12.12	30.32	77.94	NA
1986	37.46	10.53	12.33	30.77	79.59	NA
1987	37.66	10.49	12.54	31.22	81.2	NA
1988	37.86	10.44	12.75	31.64	82.72	NA
1989	37.96	10.40	12.96	32.08	81.66	NA
1990	38.12	10.36	13.1	32.53	83.23	10.36
1991	38.24	10.35	13.32	32.97	84.8	10.31
1992	38.37	10.32	13.54	33.42	86.93	10.32
1993	38.46	10.29	13.77	33.87	87.98	10.33
1994	38.54	10.26	13.99	34.32	89.56	10.34
1995	38.59	10.23	14.2	34.77	90.47	10.33
1996	38.62	10.19	14.42	35.22	92.72	10.32
1997	38.65	10.15	14.62	35.6	94.27	10.30
1998	38.67	10.1	14.82	36.12	95.82	10.29
1999	38.65	10.07	15.02	36.58	98.13	10.28
2000	38.61	10.02	15.21	37.03	97.36	10.27

Source: IMF 2001, 204-9, 338-343, 392-7, 536-541, 698-703 and 806-9. NA = Not Available.



**Figure 3.2 Trend of real GDP per capita by country, 1971–2000**

Source: IMF, 2001.

Both in Central Europe and Latin America, GDP volatility has been inherent to processes of institutional change. In the 1970s rates in GDP volatility ranged from 3 per cent and above in the cases of Argentina and Chile, to levels around 1.65 per cent for Hungary and Mexico. By the late 1980s and early 1990s, however, all the countries under study manifested volatility rates well above 3 per cent, the most notable cases being those of Poland, Argentina and Hungary, with 6.1, 4.7 and 5.7 per cent respectively. It should be mentioned that specialists such as Hausmann and Reisen (1996) have considered the effects of GDP volatility to be both negative and irreversible (see Table 3.2).

**Table 3.2 Volatility of GDP, 1971–2000**

Period	Poland	Hungary	Chile	Argentina	Mexico	Czech Republic
1971-1980	NA	1.69	2.98	3.49	1.65	NA
1980-1990	6.22	2.61	3.45	3.78	3.35	NA
1990-2000	6.1	5.7	3.1	4.7	4.1	2.7
Total	5.4	3.9	3.8	4.4	3.3	2.7

Source: IMF 2001, 204-9, 338-343, 392-7, 536-541, 698-703 and 806-9. NA= Not Available.

While structural crises in Latin America and Central Europe did not coincide chronologically – we speak of the 1980s in the former, of the 1990s in the latter case – they did share certain characteristics.<sup>8</sup> The first of these was a policy of neo-liberal macroeconomic stabilization, basically understood as the balancing of public-sector revenues and expenditures. The second common feature was an intense process of economic liberalization and internationalization that involved the privatization of state assets and industrial restructuring in order to enhance productivity. Unfortunately, both Central European and Latin American countries also had to deal with an inadequate savings rate, widening disparities in the performance of different sectors of the economy and outbreaks of steep inflation with profound socio-economic impacts (see Bradshaw 1996, Dunford 1998, Leiderman and Bufmann 1996, Standing 1997, Veltmayer, Petras and Vieux 1997).

For most of the former socialist countries, the first challenge after the collapse of state socialist institutions and ideologies consisted of navigating transition to a market economy between political clamour for rapid transition ('shock therapy') and demands for socially equitable evolutionary process of change ('gradualism'). Generally speaking, the transformation paths that were chosen went beyond the simplifications of the neo-liberal approach and its lack of realism from an institutional point of view. In East Germany, for example, almost all vestiges of the former economic and political system were radically and quickly eliminated at the same time that generous social welfare policies and West German principles of a 'social market economy' (Soziale Marktwirtschaft) were introduced. In Poland and Hungary as well, considerable resources were targeted towards regions in economic crisis, despite the fact that economic efficiency was the principal ideological orientation of the 'new' political elites. A point of reference in this process of change was the experiences of Latin American countries. In the first decade of economic reforms, Latin America's experiences gave rise to a series of challenges and disappointments that revolved around increased indebtedness, growing commercial and fiscal deficits, inflation, lowered consumption and investment, etc. In the 1990s the panorama was less chaotic. While the post-socialist states of Central Europe aimed to avoid similar upheavals, and were undoubtedly helped by generous support from the European Union, the socio-economic impacts were dramatic and long-term. Admittedly, structural crises, economic imbalances, unemployment and poverty were more acute in Eastern Europe and the former Soviet Union than in the countries of Central Europe (Arocena and Sutz 2000,

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8 It is important to point out that in some Latin American countries the structural adjustment programmes started up before the 1980s. Chile belongs to this group of countries: reforms were initiated in the 1970s, pushed primarily by Ronald McKinnon at the World Bank. These transformations led to the military coup d'état of 11 September 1973. Aside from the Chilean case, we can mention the experiences of Guyana and Jamaica, where market-oriented economic changes were introduced based on neo-liberal conceptions (see CEPAL 2001, Veltmeyer, Petras and Vieux 1997).

CEPAL 2001, Timo et al. 1994, Standing 1997). Nevertheless, an overall low labour force participation rate and a large pool of young, unskilled labour and large budget deficits continue to plague most post-socialist states.

### **Transition to Democracy and Open Market Economies**

At the very beginning of the systemic changes after 1989, transition to a liberalized market economy was understood to explicitly promote democratization, both by the citizens of CEE countries and by members of the international agencies in charge of supervising the process. Regardless of the strategies implemented, the market was seen from a two-fold perspective: as a democracy-promoting instrument and as a resource-allocating mechanism, naturally superior to any type of regulation that could be implemented by the state. With the disappearance of an authoritarian and centralized form of government and with the curtailment of state controls on economic activity, a new era for democratic civil society in CEE was seen to be in the making. In accordance with Western experience, therefore, political and economic spheres would be linked, leading to a general convergence of state-society institutions in Europe. It was precisely this point that sparked debate about reform strategies: proponents of gradualism insisted on the need to lay the groundwork for political, ideological and economic institutions and organizations before making any attempt at liberalization, while those favouring 'shock therapy' felt certain that liberalization would give rise to market-economy institutions and democracy. In hindsight, Poland has been seen as a success of the latter approach, whereas economic crises and the success of oligarchic structures in Russia have been interpreted by some to be a consequence of the former, less decisive route.<sup>9</sup>

At the same time, international agencies became especially active in promoting markets, rather than states, as resource allocators. The severe structural crises experienced in Central Europe and Latin America in past decades were associated with either authoritarian or disproportionate state intervention and unfavourably contrasted with the performance of the rest of the world economy and its main players. The United States, Western Europe, the newly industrialized countries of Asia, Japan and, to a lesser extent, China indeed left little doubt about the effectiveness of the market economy, but did not dispel doubts about the doctrinaire vision of neo-liberalism (Blommestein 1996, CEPAL 2001, Pipitone 1997, Schmitz and Hewitt 1994, Veltmeyer, Petras and Vieux 1997). These doubts stemmed to a great extent from the contrasting results of structural adjustment plans implemented in Latin America during the 1980s and from the nature of the economic policies adopted within their framework. The case of Mexico was

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9 Again, reference is made to a wide variety of sources that have documented the 'shock therapy' versus 'gradualism' debate; see Boyer (1996, 34); Bradshaw (1996, 275); Marangos (2002, 261 and 267); Motamed-Nejad (1999, 15, 19 and 22); Pickles and Smith (1998, 1 and 2) and Verebelyi (2002, 206).

especially revealing: the country succeeded in promoting integration into the international economy through the constant growth of its imports and exports. At the same time, social fragmentation in Mexico accelerated and popular resistance to autocratically imposed neo-liberal policies shattered the legitimacy of the political regime (a situation that has continued despite two national electoral defeats of the corporatist “Institutional Revolutionary Party” [PRI] since 2000). As a result, there is widespread popular distrust of a dogmatic approach to reform that reifies market infallibility. Central Europe experienced similar bouts of disenchantment as a result of social and territorial polarization.<sup>10</sup> These countries were indeed characterized by a weak institutional memory of the market as a resource allocator. The countries which were considered models, such as those of Southern Europe (Portugal, Spain and Greece), already possessed the institutions and organizations needed for functioning market economies and parliamentary democracies (Dunford 1998, 106).

In Latin America on the other hand, crises that began in the economic sphere (such as role of foreign debt in Mexico’s case) subsequently assumed the character of a democratization process. The generation of Latin American economists who were educated in prestigious foreign universities, and who in most cases took charge of implementing the structural adjustment plans, were also key actors in the democratization of their respective countries. While CEE countries – at least initially – explicitly equated economic liberalization with democratization, Latin America did not start out with a clear notion of this ‘implicit’ association.

## **The Changing Role of the State**

In addition to implicitly or explicitly linking economic liberalization and democracy, proponents of institutional reform increasingly tended to see the centralist and interventionist state as the main culprit of deepening crisis; states were seen to be consistently unable to develop flexible institutional forms for dealing with changing situations. Soviet-type regimes in particular were considered to be typical examples of public sector failure (Boyer 1998, Pipitone 1997, Seibel 1997). Consequently, organizational forms that had been established through state intervention were to be dismantled during the processes of post-socialist systemic transformation and, to a lesser extent, of Latin American structural adjustment. The objective was to create new economic and social relations based on the market and on democratic principles.

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10 An example in this case has been the attempt in the former GDR (the new East German ‘Länder’) to rapidly reduce levels of public housing in favour of a system regulated by the free market. This led inevitably to an increase in rents as well as to imbalances of supply and demand, thereby lowering the standard of living in major urban centres (Bradshaw 1996, 288; CEPAL 2001, 266; Veltmeyer, Petras and Vieux 1997, 20, 144–7 and 150).

State-run enterprises, together with the networks that grew out of their activities, were among the first organizations to be transformed under the influence of a new culture of corporate governance (Nunnenkamp 1998). Fiscal policies and public expenditure were another area of reform, where excessive rigidity was held to generate significant costs. While an attempt was made to justify the state's protectionist stance in some cases (as in Brazil's industrial policy, for example), economists of a neo-liberal bent generally pointed out that the main sources of distortion originated in state intervention (Schmitz and Hewitt 1994). Thus it became necessary to redefine the links between public power and other organizations in the face of civil society's growing pressure for a democratic opening. In Latin America, it was the traditional raw material-exporting aristocracy or a group of entrepreneurs protected and pampered by public authorities that came under scrutiny, while in Central Europe the privileges of the groups closest to the respective state parties were at stake (Pickles 1998, Pipitone 1997, Stein and Hausmann 1996).

However, even though the economic role of the public sector had been diminished to make room for a growing private sector and market dynamics, there still remained to be designed a specific role for the state in terms of spurring competition and reducing the potential distortions inherent in economic reform. This aspect was crucial for Central Europe as its point of departure was the impossibility of reconciling conceptions of individualism, liberalism, representative democracy and political pluralism on the one hand, with collectivism, socialism, totalitarianism and the one-party rule on the other. In Latin America, the question was framed in less radical terms; there were, however, some doubts whether national and international private initiatives would have the capacity to fill the gaps left after the withdrawal of the state and to become the main engine of economic growth (Motamed-Nejad 1999, Standing 1997).

Within both contexts of formal institutional change, this raised questions about the definition and safeguarding of property rights and the nature and extent of transfers and subsidies from the public sector. This also involved the transformation of planning bureaucracies into agencies capable of promoting market activities while more effectively managing local and regional spaces (CEPAL 2001, Pickles 1998, Timo et al. 1994). Key aspects in this regard were privatization and social policies and their consequences. Privatization, a central element of structural adjustment and systemic transformation, was indeed implemented on a large scale; it was directly related to state finances, implied the elimination of other (for example, collective) forms of property and had a profound impact on the economic sectors and regions concerned. Regardless of the extent of privatization or the methods chosen to implement it, the process had a multi-dimensional effect that encompassed economic, political and social arenas.

With regard to the economic implications of privatization, a double strategy was pursued. On the one hand, resources were transferred to the private sector by dismantling state companies that were horizontally and/or vertically integrated into their respective productive chains. These transfers had different outcomes,



such as the creation of new fortunes and the increase of a financial potential for gaining access to new opportunities, as well as an increase in economic inequality. The areas of telecommunications, port or highway infrastructure and energy were especially attractive for national and international private investors. However, it is important to mention that in Latin America, as analyses of most of its economies have shown, not all countries privatized systematically; some governments provided strategic investment options for state-run enterprises, an example that was partly followed in the Czech practice of issuing stock vouchers to citizens as part of privatization schemes. On this basis, it became necessary to completely discard old practices of corporate management and to design new forms of governance to support private, specifically business, activity. On the other hand, privatization was a mechanism for obtaining resources, reducing debt and rehabilitating public finances in general, even though it remains unclear the extent to which these benefits have been achieved.

As for the political sphere, privatization meant administrative and economic decentralization, which, as other contributors to this book attest, did not necessarily lead to more democratic practices. Additionally, the massive liquidation of state-run enterprises raised serious questions about economic efficiency, most dramatically perhaps in the case of Hungary where viable enterprises were almost blindly dismantled and/or sold to foreign transnationals that, in search of shareholder value, continued to liquidate manufacturing and agricultural employment.<sup>11</sup> Finally, in the social sphere, the most salient issues were unemployment, uncertainty and the dismantling of social networks that, among other things, linked benefits to guaranteed workplaces. This was accompanied by the privatization of public services formerly provided by the state (education, health, social security, etc.) which also often resulted in decreases of the number of beneficiaries. Indeed, within the context of post-socialist change, a conceptualization of social policy as an instrument of social cohesion and as a corrective of market inequalities was necessary. Most strategies sought to build special assistance networks to help the growing number of unemployed, underemployed and poor people (CEPAL 2001, Esping-Andersen 1997, Standing 1997). Unfortunately for those dependent on these 'new' services, it became painfully clear that transformation states of Central Europe could not support generous social welfare systems, a fact that contributed to rapid socio-economic polarization.

But increased social tensions and inequality were just two of the consequences that grew out of the diminished role of the state in economies that underwent structural adjustment or systemic transformation. Another consequence was the

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11 It is interesting to note that in terms of systemic effects on institutional development new banking systems were rapidly created, often based on acquisition and investment by foreign banks. However, research and development activities decreased dramatically as more strategic and long-term aspects of societal development were neglected (see CEPAL 2001, Hassink 1996, Nunnemkamp 1998, Pickles 1998, Pipitone 1997, and Veltmeyer, Petras and Vieux 1997).

emergence of new forms of property, accompanied by the appearance of productive units (such as domestic workers or sub-contractors) previously unheard of in terms of their classification and specific logic. In addition this process was often chaotic (Grabher and Stark 1998, 63 and 65, Motamed-Nejad 1999, 19 and 25) and did not result in the expected economic benefits, thereby reducing still further the legitimacy of the state, seen as unable to lay the institutional foundations that would support a market economy. At the same time, this raised suspicions about the effectiveness of these policies and the political or ideological conceptions behind them (Dunford 1998, Pipitone 1997, Schmitz and Hewitt 1994, Veltmeyer, Petras and Vieux 1997).

### **Developing Contexts for Economic Transformation**

As far as the state's participation in the process of Central European systemic transformation or Latin American structural adjustment is concerned, three common elements stand out in both regional contexts:

1. increasing efforts to improve administrative performance and public sector management,
2. the transformation of territorial governance (e.g. through administrative reform, regional cooperation, etc.) in order to achieve formal and informal economic integration and
3. the promotion of new spaces for investment, particularly by attracting foreign direct investment.

A weak and poorly organized national administration with little management ability was seen as a serious threat to effective systemic change. In addition, the promotion of market mechanisms and the worldwide increase in competitiveness exerted extra pressure on the public sector, so much so that it became necessary to design more professional and market-oriented forms of governance (CEPAL 2001). The improvement of public sector management was held to be crucial for the ordered and successful planning of institutional change and was to be achieved through a broadening of the tax base and through reduced public spending. This led to the introduction of new taxes, among them highly unpopular income taxes (astonishingly high in the case of Hungary and Poland), diminished expenditures for social services, the reorganization of public administration with the aim of fostering a managerial mindset and the promotion of market initiatives – best illustrated by new funds-based pension schemes (CEPAL 2001, 15, Nunnenkamp 1998)<sup>12</sup>. Within this context, a certain convergence of public management has taken place despite very different local situations.

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12 Ironically, the new order and its successful establishment required a period of pre-ordering, without which the processes of structural adjustment or systemic transformation

Paradoxically, economic policy packages with a profound neo-liberal orientation required, almost indispensably, a state strong and legitimate enough to organize a medium-term agenda for the purpose of implementing a strategy of internationalization and increased competitiveness. These were to be sustained by the formal integration of the productive apparatus into specific projects that originated in other countries, especially those with whom strong historical links had been forged in the realm of international relations (Bradshaw 1996, Verebelyi 2002). Concretely, Latin American governments in the late 1980s and early 1990s repeatedly sought to combine unilateral liberalization with the promotion of regional markets; later the diplomatic agenda once again began to insist on multilateralism in order to reap greater benefits from that strategy (CEPAL 2001, Palacios 1995).

A second element of state activity, closely related to the first, has been the development of new institutional contexts for territorial governance as a means to promote economic integration. For Latin America and Central Europe, this has included the creation of new regions within nation-states as well as promoting networks of cities and regions able to compete within the American and European geoeconomic contexts.<sup>13</sup> Behind these integration strategies are geopolitical motives such as the push for open regionalism on the part of Japan, an initiative that primarily concerned the countries of the Pacific Rim (Palacios 1995) or the increasing competition of European cities and regions for investment and political influence within the European Union. The EU, for its part, has been highly active in promoting new modes of territorial governance. Its 1995 White Book set forth political and economic criteria that would allow candidate countries to join the Union, effectively imposing an agenda, among others, of region-building, cross-border cooperation and market-oriented public management on Central Europe – arguably with little margin for organizational innovation (Marcou 1999, Verebelyi 2002).

The third and last element of state activity involves the promotion of specific cities and regions in order to open up spaces for rapid development, particularly through foreign direct investment. The promotional activities of national governments ranged from the systematic generation and publication of pertinent regional and macro-economic information to the creation of tax-free zones (Schwartz and Carstens 1996). As noted by Gernot Grabher (1997, 115) the fall of the Berlin Wall meant not only eliminating an obstacle to basic human rights but also a barrier to trade and investment. Latin America could not point to an event

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were doomed to fail. Primarily because of poor administrative performance this is exactly what happened in the first years in Latin America and Central Europe. A counterexample to this situation appears to be China (Motamed-Nejad 1999, 18 and 23).

13 However, the two centres with their respective ‘peripheries’ were not conceived as mutually exclusive. Between the Americas and Europe there has been a long history of economic cooperation that will surely continue to grow (CEPAL 2001, xii, Prebisch 1996, 193 and 230, Palacios 1995, 295–7 and 299).

as tangible and symbolic as the fall of the Berlin Wall.<sup>14</sup> However, I would argue that during the same period, similar state-sponsored promotional policies persisted and even intensified in Mexico as well as in other countries, such as Argentina and Chile (Birdsall and Lozada 1996). Their aim was to send clear signals to foreign investors about the new opportunities provided by structural adjustment and the reduction of financial volatility on the Latin American sub-continent (see Rojas and Weisbrod 1996, 143).<sup>15</sup> Overall, the increasing presence of international capital and of transnational companies in both regions throughout the 1990s led to the homogenization of products, increased access to cutting-edge technologies, greater external savings, innovations in corporate management, an increase in the performance of manufacturing production aimed at international markets and an overall expansion of trade. (CEPAL 2001, Turner 1996, Ehrlich and Szigetvári 2004, Reisen 1996).

It is important to point out that in the early years of structural adjustment, foreign direct investment (FDI) grew modestly but with significant fluctuations. The most critical years in Latin America were between 1982 and 1987. In Argentina, for example, there was a veritable flight of capital: from inflows of 678 million US dollars in 1980 there was virtually no FDI by 1987. Capital flight in this period was not exclusive to Argentina; some experts estimate that it came to represent 4 per cent of Latin America's GDP between 1985 and 1989, a figure made up mostly of interest on foreign debt and the repatriation of profits (Veltmeyer, Petras and Vieux 1997, 24). Within the context of structural adjustment, sudden capital flight had a devastating impact, as Latin American economies discovered in the 1980s and 1990s. The massive credit crisis in Mexico of the mid-1990s, in which the banking system basically collapsed and had to be nationalized as a result, is emblematic of this situation.

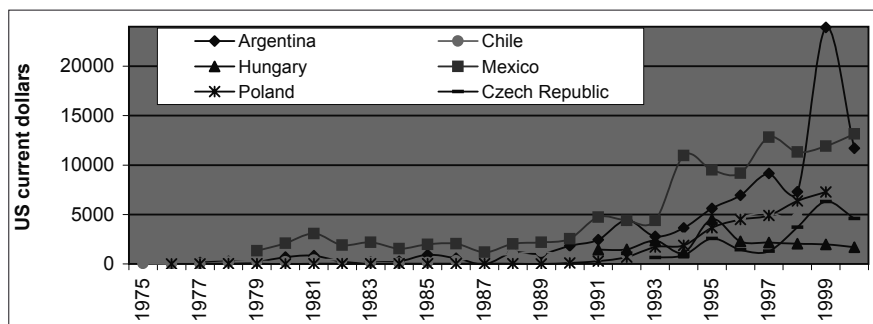
In Chile, FDI increased after the military coup d'état in 1973 to reach 891 million US dollars, though with significant ups and downs. In Mexico, the absolute amounts have historically been higher than in Argentina and Chile, but that did not keep the country from feeling the effects of the crisis that affected them all: in 1987 the figure stood at 1,184 million US dollars, less than half the amount invested in 1981. In fact, in per capita terms, the country that attracted most FDI over the whole period was Chile, with an average 37.57 dollars per inhabitant between 1980 and 1990, while Argentina and Mexico attracted only 21.69 and 25.58 dollars respectively. According to data compiled by the International Monetary Fund, FDI was virtually non-existent in Central Europe during the 1980s, except in Poland,

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14 Some authors have drawn parallels with the Mexican economic crisis of 1994, interpreted as the death knell to the illusion of neo-liberal and free market-style reform (Veltmeyer, Petras and Vieux 1997), but this comparison strikes me as being out of proportion.

15 As early as the 1950's Raúl Prebisch (1996, 179 and 217) indicated some of the potential benefits of such investments if adequately channelled to Latin American countries.

where it fluctuated between 10 and 28 million US dollars, not even reaching one dollar per inhabitant during the period in question (see Figure 3.3).



**Figure 3.3 Foreign Direct Investment, 1975–2000**

Source: IMF, 2001.

After 1990, things changed radically in both Latin America and Central Europe. In Argentina and Chile an average annual increase of between 16 and 17 per cent from 1991 to 2000 meant that per capita FDI during that period jumped from 73.97 to 315.77 US dollars in Argentina, and 61.71 to 241.617 US dollars in Chile. Mexico recorded lower growth rates (an annual average of 10.57 per cent), but still managed to double per capita FDI from 55.92 to 135.179 US dollars between 1991 and 2000, the lower rate being mainly due to its demographic evolution.

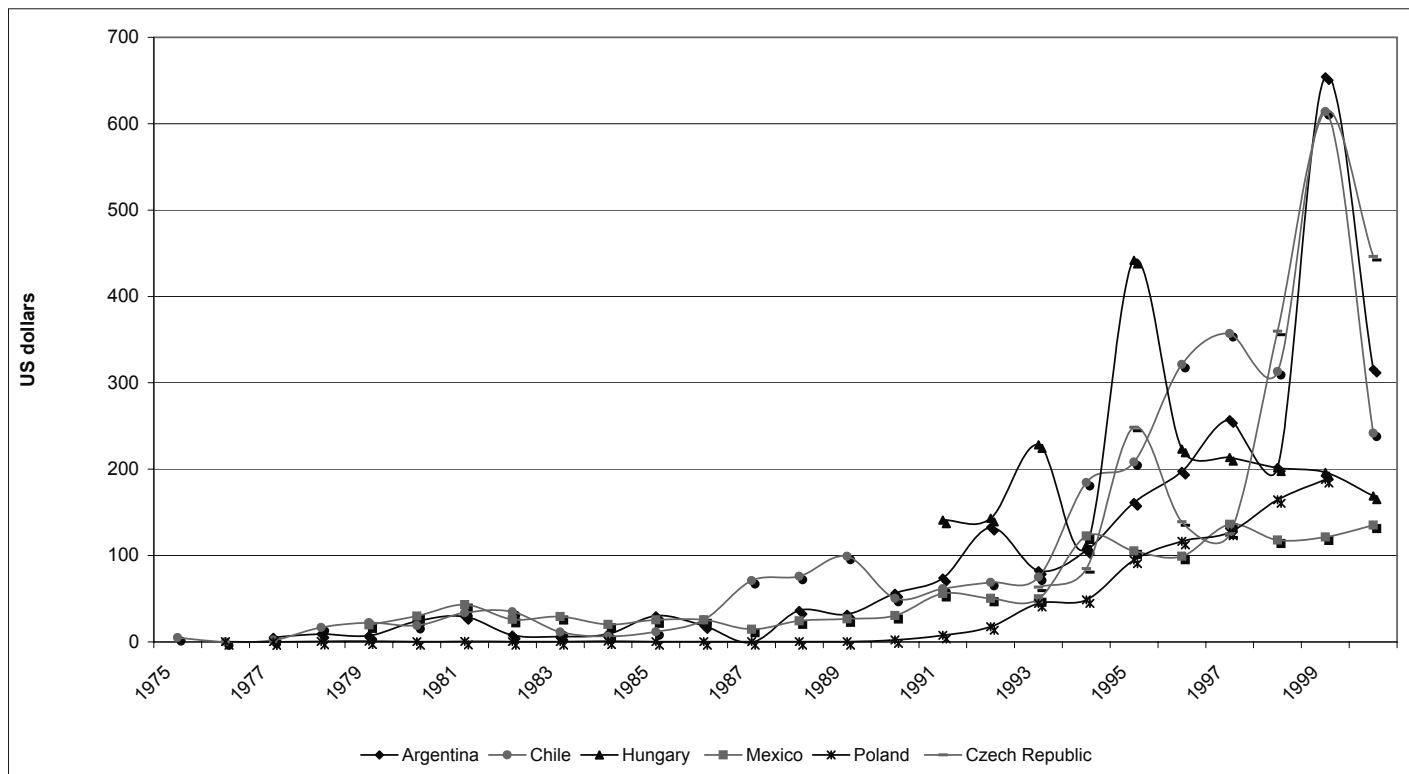
The most spectacular increases were recorded in Central European countries, specifically in Poland and the Czech Republic. In Poland, annual average FDI growth amounted to an impressive 55.31 per cent between 1990 and 1999, to reach levels attained by Chile at the end of the 1990s, i.e. a per capita rise from 2.34 to 188.1 US dollars. The Czech Republic registered similar numbers with an average annual increase of 32.06 per cent between 1993 (its first year of existence) and 2000, or a seven-fold increase in per capita terms (from 63.31 to 446.25 US dollars). This economic inflow obviously had a profound impact on the institutional structure of the receiving countries as well as on the performance of their respective regions. While average annual growth rates in Hungary were modest (1.47 per cent between 1991 and 2000), per capita FDI rates started at a higher level and showed gradual growth (141.26 to 196.32 US dollars), indicating institutional maturity (see Figure 3.4). It must also be borne in mind that the Hungarian experience of economic reform had started years before the end of state socialism.

In sum, the state played a central role in developing policies targeted at exploiting the economic potential unleashed by systemic transformation. However, one of the first obstacles that the authorities in both Central Europe and Latin America faced when unilaterally opening up to world trade was the reconciliation of demands by international economic actors and domestic locational factors. The benefits resulting from the development of new institutional contexts in terms of governance, investment policies, public management, etc. were thus accompanied by a series of critical events that questioned the effectiveness of the strategies implemented. Problems included a failure to address labour force skills and qualifications with a resulting dependency on manufacturing (basically as extended work banks) or consumption oriented activities driven by multinational corporations. Similarly problematic was the immense gap that emerged between domestic economic sectors (characterized by 'low tech' activities and a lack of finance capital) and internationalized segments of the national economy that became regional players in the banking, services and energy sectors.

The public sector, in effect, concentrated efforts on risk-reduction for global financial capital and pulled out of the real economy on a wide scale (CEPAL 2001, 13). In the case of Latin America, the proliferation and inherent adaptability of small production units constituted an important economic challenge. In addition, a key element in the development of labour markets in Central Europe and Latin America were new wage, tax and pension policies. According to some studies (see Standing 1997), these led to a perverse rolling back of social welfare by reducing available real wages through income tax and the postponement of the retirement age. In promoting new pension plans, the state ceded its responsibility to market forces for the purpose of reducing its fiscal deficit in accordance with the demands of structural adjustment or systemic transformation programmes. This situation gave rise to yet another source of socio-economic inequality as wage and pension levels dropped and local authorities were forced to take over social obligations from many companies. Competitive wage levels were a significant factor in directing foreign investment towards Hungary, Poland and the Czech Republic after 1990 (Aghion, Caroli and García 1999).<sup>16</sup> However, these cost advantages have since largely evaporated, with Eastern Europe, and now China, offering more attractive wage levels.

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16 A situation that hurt the former GDR as its wage levels started out relatively high in comparison to other Central European regions (Ehrlich and Szigetvári 2004, 59, Grabher 1997, 120).



**Figure 3.4 Foreign Direct Investment per capita, 1975–2000**

*Source:* IMF, 2001.

In Latin America, a considerable number of companies disappeared, either because of their inability to adapt to the main economic trends (as in agriculture or mining) or because of the persistence of an historic anti-export bias (as in manufacturing). This was notably the case in Mexico where agricultural productivity was lower than the Latin American average, but non-agricultural productivity higher (CEPAL 2001, Esping-Andersen 1997, Reisen 1996). In the 1990s, foreign investors were attracted by the widespread privatization of hitherto state-run enterprises, by the authorities' emphasis on the promotion of market mechanisms, by changes in property rights and by the acquisition of land within the context of free trade agreements – as in Chile, Argentina, Mexico and Brazil. To these factors must be added investment strategies of private national firms in key sectors such as oil refining, communications, energy generation or assembly plants for exports (CEPAL 2001). The result was a substantial increase in mining activities – and not just in oil and gas – and manufacturing, which sparked stiffer competition for resources.

In addition, economic liberalization in Latin America and Central Europe (for example, through opportunities for consumer credit) revolutionized both private and public consumption patterns bringing them closer to those normally observed in Western economies (Grabher 1997, Jones-Griffith 1996, Reisen 1996). Even though financial support existed for manufacturing and the agricultural sector, it was not as widespread as consumer credit, areas where the public sector had played an important role. Given the budgetary restrictions inherent in the process of systemic transformation or structural adjustment, widely advocated by international agencies, the state did not promote a wide array of policies in this sense; in fact, the timing and pace of reform were questioned in monetary and fiscal spheres (CEPAL 2001, Marangos 2002).<sup>17</sup>

Authorities found themselves unable to respond quickly in times of economic and financial turbulence. Institutional flexibility and adaptability are indeed governance qualities that need to be built up over time through regulatory policies designed to better cope with the distortions brought about by the liberalization of the economy. This proved to be crucial in contexts where institutional experience in the promotion of a market economy was weak. Thus, it was necessary to create a climate of confidence that would attract investors committed to medium- and long-term investments contributing to fiscal and monetary stabilization. An important difference between Latin America and Central Europe was that the former, at least in the 1990s, did not benefit from foreign direct investment by multinational corporations in strategic production sectors, such as research and development, but that funds were rather directed toward defending these companies' share in Latin American markets (Blommestein 1996, CEPAL 2001, Leiderman and Bufman 1996, Reisen 1996, Schwartz and Carstens 1996, Rojas and Weisbrod 1996).

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17 Purchases of agriculture products by the Chinese State, for example, have been a favourable strategy to promote household consumption and savings, key elements in the national economic growth (see Motamed-Nejad 1999, 18 and 23).



## Conclusions

This comparative discussion of Central European and Latin American transformation has largely focused on economic aspects of institutional change. Major questions of territorial governance and democracy have been developed by other contributors to this volume. What I have tried to show is that **structural** adjustment programmes in Latin America and their counterparts of systemic transformation in Central Europe (with their two variants: shock therapy and gradualism) have shared certain elements in terms of public policy agendas. These have been: the withdrawal of the state, privatization, liberalization, institutional flexibility and an exaggerated reliance on market mechanisms. It is important to emphasize, however, that Central Europe and Latin America also shared a post-war legacy of centralism, autocratic governments and protectionist economic policies that gave the state overwhelming dominance in managing societal issues. Many of the challenges that emerged in the late twentieth century derived directly from the political legitimacy crises of the respective 'systems' and the exhaustion of protectionist accumulation regimes that were installed between 1940 and 1950. As such, and as I have argued here, Central Europe and Latin America have shared a glossary of institutional change, **comprising concepts such as individualism, liberalism, democracy and political pluralism**. In both cases, conceptions of economic reform were influenced by the notion of the market as the best possible resource allocator and as a factor promoting processes of democratization.

Furthermore, despite differing demographic patterns (stagnation in Central Europe and a high growth rate in Latin America, especially in Mexico), phenomena such as unemployment and the lack of social and economic opportunities have been common to both structural adjustment (in Latin America) and systemic transformation (in the case of Central Europe). Another aspect common to both economic reform processes is that of instability, a factor that has generated uncertainty, especially through volatile GDP growth in early stages. Finally, there was a shared strategic agenda for macroeconomic stabilization and common neo-liberal ideas underlying these strategies. In both cases we find an intense process of internationalization, concrete programmes of privatization of state enterprises, attempts at restructuring an inefficient industrial sector in accordance with international standards and monetary control mechanisms designed to stave off inflationary processes.

The above attempt to outline a shared history of Latin America and Central Europe during the last two decades of the twentieth century should be understood only as a first step towards a more ambitious research agenda. Future investigators will have to look more closely at the limits of the respective economic strategies that were implemented in the period covered here, by taking into account distinct historical and regional peculiarities, the type of institutional change and flexibility, cultural traditions, the needs of the regions making up each of the countries, as well as the consequences resulting from them.

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# Chapter 4

## Policies of Regionalization in a Transformational Context: Some Conceptual Considerations

Karl-Dieter Keim

### Introduction

New Regionalism is, in essence, an attempt to coordinate different forms of region-building strategies that include supranational, state-centred and locally oriented elements. With this contribution, I would like to indicate types of regionalization policies that might be helpful in promoting sustainable and innovative regional development in a transformational context. These development concepts have been derived from research on institution-building and regional governance processes and are largely based on Germany's post-reunification (i.e. post-1990) experience. This chapter differs somewhat from the perspective of the other contributors to this volume in its normative thrust: based on my own research and observations on institutional change in Germany and Mexico, I assume that processes of region-building have considerable potential role to promote democratization and social development. In this chapter I will outline ways in which 'institution-building' and 'regional governance' offer a conceptual basis for strategies that promote sustainable and innovative development policies. Particular attention will be paid to the design of governance processes. In concluding, I will also briefly attempt to draw conclusions for the analysis and conceptualization of regionalization policies in Latin America.

### Policies of Regionalization

To begin with, I argue that a distinction can be made between three general types of regionalization policies:

- a. first, structural and economic policies targeted at specific regions within states with a view to promoting development and structural adjustment (regional policy);
- b. secondly, the decentralization of public policy and governance functions to subunits of the state in order to address complex problems (regionalization of policies);



- c. thirdly, a process of socio-economic stabilization and political self-regulation developed within different regions (endogenous regional development).

The first two can be labelled vertical, and the last, horizontal processes. I will focus below on the question of to what extent sustainable regional development can be achieved through integrated policies of regionalization in the sense of coordination of these three types of policies. Operating from assumptions inherent in the New Regionalism, I argue that, in transformational contexts, policies of regionalization should result not only in the promotion of material and economic development but also contribute to the reinforcement of democracy, or at least the preservation of democratic conditions already achieved. Progress toward democratization constitutes a necessary precondition for successful economic development. The following discussion makes use of two concepts that have been developed within the regional studies literature, i.e. institution-building and regional governance, in order to structure the key questions. Both these concepts can be used in an analytical as well as a normative sense.

### **Institution-building**

Since the mid-1990s, transformation research within the European context has shown increasing interest in systemic approaches, and more particularly in issues of institutionalism (see Keating 2001, Sandschneider 1994, Nohlen and Thibaut 1994, Sagan and Halkier 2005). The advent of institutionalism (i.e. the investigation of formal and informal rules that orient social action) has come at the expense of structuralist and purely actor-centred approaches. When applied to questions of regionalization this signifies a particular focus on forms of institution-building and on the search for adequate ‘institutional fits’ in order to manage societal issues. Regional institutions developed with a view to efficiency, transparency and participatory governance and, whether formal or informal, are thought to be necessary for regional policies under democratic conditions. The reasons for this are: a) they are seen to play a pivotal role in coordinating action between various scales of governance and b) they (theoretically) contribute to endogenous regional development projects that take into account locally emerging social demands.

In reality, the interplay of different scales of any given political system is more often than not dysfunctional. Overcentralized political institutions often face severe limits to their operational capacities and, as a consequence, often fail to integrate heterogeneous parts of the subpolity, such as ethnic groups, local governments and corporatist groups. On the other hand, too much decentralization multiplies the number of actors participating in major political issues – with problematic consequences for coordinated, long-term strategies and coherent positions vis-à-vis external (e.g. international) partners. In addition, the increasing importance of transnational levels of governance must be taken into consideration; transnational scale implies continuous problems of loyalty and can generate sceptical national

perceptions as to the benefits of international cooperation. From the perspective of a 'policy of scales', regional institution-building is supposed to reduce this dysfunction.

At the same time, organizations and groups acting at the regional level attempt to develop strategies and forms of action that achieve development goals. In order to attain this, they have to develop their ability to act in common. Apparently, this happens mostly through the creation and testing of regional actor networks or similar forms of cooperative strategy-building. One conceptual basis for this form of regional governance is based on 'place-making', i.e. the reinforcement of a specific socio-spatial identity and self-organization (see Bürkner, Chapter 11 of this volume as well as Healey et al. 2003). According to this view, the success of regional institution-building depends on the extent to which actor groups at the regional level are able to transform their interdependencies and interactions in a way that will give them the capacity to act (e.g. with adequate responsibilities and resources).

In characterizing processes of region-building, the concept of 'strategic guidance' focuses attention on how institutions develop. I suggest, furthermore, that this concept of strategic guidance (a mix of control, leadership and negotiation) can be used as a normative framework for the analysis of regional institution-building. Strategic guidance has been identified by Amin and Hausner (1996) as a mixture of networks between institutional actors and political leadership that provides guidance, arbitrage and support. Capacities for strategic guidance are dependent upon national institutions and the quality of state-local relations; ultimately, overall control must be situated at a predominantly central – and not local – level. Political authority alone is, of course, not enough for effective strategic guidance. Nor is the point to impose guidance from the 'top-down' as there must be efficient forms of negotiation between the relevant actor groups – with all elements of mutual adaptation and conflict resolution these entail. Situational forms of consensus-building along these lines constitute a systematic counterweight to centrally anchored regulation.

Two additional aspects should be taken into account. The first of these is the relationship between transregional and regional/local contexts; this is mainly about vertical and hierarchical aspects. Strategic guidance is above all seen as resulting in top-down effects, that is, offering a framework, taking initiatives and providing resources. This aspect can be analysed with regard to the interplay of various institutions. The second additional aspect to be considered involves the relationship between formal and informal forms of action; this is mainly about formal frameworks (formal rules and organizations) that provide synergistic opportunities for interaction with informal elements (loose networks of different actor groups and stakeholders). This aspect can be analysed in a more concrete manner, in particular with regard to the performance of various forms of action in regional governance.

## Regional Governance

The concept of 'governance' has been increasingly used by policy research over the last fifteen years. It implies a modified type of control over complex spatial processes and assumes two essential conditions: 1) that relevant regional actors are able to exercise control over development processes, and 2) that regionally relevant policy issues are subject to democratic decision-making processes (for a general overview, see Kooiman 2003). It is possible to construct a suitable concept of governance by taking into account actor constellations dealing with control tasks, scales of various forms of regionalized policy and viable media or instruments of control (Fürst 2003, Fürst and Knieling 2002, Healey 2004, Vigar et al. 2000). Generally speaking, 'regional governance' designates those forms of coordination and control which are applied at the regional level to the interplay of actors such as the state, local government, the private sector and civil society.

*Actor constellations* It is often state and local government agencies, public associations, planning associations, businesses, service providers and other organizations active at the regional level that participate in the coordination of decision-making processes. Of decisive importance appears to be the capacity of stakeholders to act in concert and actually produce agendas that result in concrete actions. Generally speaking, in peripheral rural and urban contexts such capacity for coordinated action is much weaker. It is as yet unclear to what extent external actors can assume key governance roles without limiting the autonomy of regional cooperation.

*Scale* It is not enough to base oneself on 'regions' as defined by administrative borders of states or planning regions. 'Policies of scale' are essentially grounded in functional borders, that is within contexts constituted by mutual interaction and cooperation (e.g. commuting, flows of goods, catchment areas of service providers, rules about information and coordination). Governance must take into consideration these spatial interrelationships and then add appropriate functions of coordination and decision-making. The relevant regional meso-level, constructed according to the above-mentioned interrelationships, can be investigated in view of competition and conflicts with other real or possible scales of governance (e.g. local, microregional, national or supranational).

*The media and instruments of control* If governance is understood as a form of process management that leads to decision-making, then coordination and decision-making are its prerequisites. The literature focuses primarily on networks, partnerships or the 'self-organization of interorganizational relations' (Jessop 2003, 5) as typical forms of coordination. In addition, three further types of political coordination can be mentioned:

1. cooperative ventures that involve negotiation (e.g. with regard to conflicts between economic and ecological interests),
2. competition that includes incentives (e.g. through state funding for private and social recipients), and
3. hierarchical top-down mechanisms (e.g. as a formalized institutional framework with compelling legal norms).

It is the specific combination of cooperative, competitive and hierarchical elements (a hybrid) that characterizes a tangible means of governance.

On the basis of past experience, the concept of governance offers different approaches for facilitating innovative activities (and attitudes). Among these are:

1. the activities of various loosely linked temporary networks and coalitions,
2. the selection and participation of appropriate 'stakeholders', that is of committed local promoters and organizations,
3. the practice of open, inclusive and inventive discourses,
4. support for experiments and self-regulating processes, and
5. legal and financial conditions as well as formal competencies for bringing out the value of regional initiatives.

In conjunction, these approaches could, in time, lead to the creation of an autonomous acting capacity or, in the sense of Amin and Hausner (1996), of 'decentralized associative governance'. It goes without saying that these approaches will encounter obstacles in the real world. An essential criterion is thought to be which kind of discourses and cooperative forms of practice evolve during innovatory situations ('episodes') and how these are able to fare in the conflict with discourses or practices that have been prevalent over a longer period.

Analyses of governance allow determination of positive and/or negative influences that effect real situations of regional cooperation – and that impact on resulting control mechanisms. The respective weighing of influencing factors depends on the specific phase of cooperation (initiative, planning, implementation). The more cooperation retains its 'freshness' and provisional character, the stronger the role played by personal factors, competencies and interests, but also by external social influences. The longer cooperation persists, the easier it will be to bring into line the various forms of control and interests and to thus achieve robustness. However, it is necessary to introduce a restriction for this kind of approach to cooperation: even successful regional governance offers no guarantee for real improvement in regional development. Governance offers only a *single* medium for controlling development.

## **Institution-building and Regional Governance: Their Relationships to Democratization**

Policies of regionalization in transformational contexts cannot be divorced from more basic considerations of democratic governance. Traditional research on transformation has, for example, established links between phases of transition towards democracy, specific institutional arrangements and levels of institutionalized conflict settlement (see Przeworski 1986). At the same time, however, this schematic evolutionary focus on transformation must be attenuated by a context-sensitive consideration of state-society relationships. Regional capacity-building takes place within the institutional constraints and opportunities that are specific to individual countries. Furthermore, efficient policies of regionalization (i.e. in the sense of the New Regionalism) depend to a certain extent on the existence or emergence of democratic political institutions. Even the concept of governance as it is defined here presupposes explicit preparedness and effective rules for the participation of economic, cultural and civil society groups. Without the willingness of national political elites to partly abandon control and accept autonomous regional institutions as well as regional forms of governance, there would only remain a purely hierarchical and arbitrary enforcement of power. Divisions of power and the renunciation of control can theoretically promote greater democratization. However, there is no inherent guarantee that regional governance will, in itself, promote citizen participation and political transparency. Analyses of specific regions have to determine to what extent existing political conditions constitute an appropriate framework for strategies of regionalization.

Inversely, policies of regionalization that emerge from the 'bottom-up' might contribute specifically to democratic governance. This implies that regional institutions do not merely extend state activities, but, more importantly, contribute to the overall improvement of 'state capacity' in delivery public policy (Linz and Stepan 1996). Regional governance in terms of the New Regionalism might contribute to the development of negotiation processes and functions less through regulatory policies (prescription, proscription), indeed even corruption and cronyism among specialists. This will not only enhance the acceptance of decisions, but also increase the legitimacy of public actors and, through responsible participation, further integrate economic actors or social groups into the administration of public affairs. In addition to further democratization, regional governance could deliver a structural answer to the social fragmentation wrought by globalization. In Spain, for example, societal transformation has been accompanied by a stronger consideration of regional interests and regional governance has been a defining element of Spain's modernization process (Kraus 1996, Schmitter 1999). To this extent, it is possible to speak of increasing political pressure stemming from new forms of decentralization. Even though lobbies generally tend to ensure access to the central political level, they nevertheless must take into account these stronger regional 'demands'.

From the perspective of institutionalism, transformation research on Eastern and Central Europe indicates that the simultaneity of economic, political and social change complicates the consolidation of a civic culture (Merkel 1996). Development trajectories of specific regions are closely related to the structuring and strategic behaviour of actor groups as well as to the role of institutions and historically accumulated social capital. The historical legacy of state socialism or autocracy (as in the case of Latin America) cannot be completely transformed within a single generation. The results of new institution-building within the transformation context tend to be rather ambivalent. For transformations in southern Europe since the late 1970s, Kraus (1996, 24) has come to the following conclusion:

Overall I tend to support the thesis according to which, during the transformation processes of the last two decades, civic associations and lobbies only rarely had the pioneering political significance attributed to them by fervent advocates of the idea of mobilizing civil society in the East and the South.

Therein he perceives a structural shortcoming that could have permanent negative effects on the further consolidation of democracy. A stable and at the same time dynamic relationship between politics and civil society can therefore be expected to be successful only in the long run. Trajectories of political transformation and the development of civil society are subject to very powerful economic, political and social forces beyond direct local control, which may explain the slow pace of change. The capitalist system, basically without any barriers to its development since the implosion of state socialism, has undergone an enormous acceleration and has virtually unlimited access to new investment via globalized financial flows. Global capitalism has transformed notions of public welfare and has impacted on culture and values, creating pressure for market-oriented public policies on an international scale. The consequences for democracy and civil society have turned out to be largely problematic (Sennett 2006). Socio-economic and cultural differentiation, commodification processes and a lack of transparency are contributing to uncertainty and, partly, to a paralysis of autonomous action. As far as citizens are concerned, there is an increasing risk of excessive demands, discontent and arbitrary decisions taken without popular consultation. The question is therefore how to organize 'empowerment' and establish common development agendas within and between national and regional levels.

## **Strategies for Sustainable and Innovative Regional Development**

Institution-building and regional governance offer a conceptual basis for strategic proposals that favour policies of regionalization aiming at sustainable and innovative development. However, mapping out regional development strategies must, when applied to a particular case, always be based on an appropriate understanding of

local contexts and problems. Even though the conceptual framework adopted here is sufficiently broad for the analysis of highly diverging situations, such as those prevalent in Latin American, East Germany and the countries of Central Europe, it cannot ignore the institutional conditions existing within national contexts. My suggestion contextualizes some elements of German experience, taking into consideration the specific conditions that have influenced regionalization processes there. My own proposals are limited to insights into strategy-building insofar as these can be gained from the conceptual implications drawn from the German case. The focus will be on the designing of processes of governance.

A crucial condition for the success of new regional governance modes is held to be the flexible adaptation of past policies and their corresponding governance mechanisms (for a synthetic view, see Healey 2004 and Fürst 2006). This 'new governance' should mainly be achieved through new policy relations (distinct from deadlocked sectoral mandates) accompanied by a regional agenda as well as mobilization of social capital and new knowledge resources. However a question remains as to the conditions that facilitate such governance modes. To achieve appropriate actor constellations, there must exist different loosely connected networks and coalitions as well as a transparent selection of stakeholders. In order for these actors to participate efficiently in establishing a common agenda, it should above all be determined from the very onset which organizational agreements, facilitator and leadership functions as well as conflict settlements should be agreed upon by the cooperating actors. In addition, several factors endogenous to the process appear to be of importance. These are related to ways of bringing into play influences that promote trust-building, creativity and common learning processes in order to repel inhibiting forces (redistributive conflicts, problems of group dynamics, ossified patterns of thinking). An important aspect in this regard is cooperative efforts to bring into line different forms of control and to convey to them a robustness that makes them effective in the long run. The following three strategic components represent examples of multiple varied possibilities for action. They mainly reflect the present state of strategic regionalization in Germany.

### *Decision-making through Actor Networks*

In Germany, regional actor systems evolve mainly in those spaces that can be characterized as metropolitan regions: highly centralized urban areas that are closely connected with their periphery. The aim is to collectively organize various fields of action for the future metropolitan region through cooperative ventures (Fürst and Schubert 1998). These fields are mainly public transport, supply and waste management, economic subsidies, education and tourism. Many of these emerging regions have seen the creation of public organizations, associations, private companies or working groups operating at an informal level. Participants in these regional governance 'fora' attempt to enhance their individual positions as well as their potential for innovation with a view to the creation of a sustainable collective actor. The emerging collective actor then makes efforts to articulate



new regional development discourses and to transform these into new forms of practice. Regional governance through actor networks intentionally leads to a transformation of regional identities and patterns of stakeholder interaction. According to British proposals, particular emphasis is being put on qualities of place, i.e. on regional milieux, specific patterns of relationship, partial spaces with their own specific profile that together allow for the creation of a future common self-image.

An example among others are the ‘local neighbourhood fora’ (*Kommunale Nachbarschaftsforen*) established over the last years between Berlin and neighbouring municipalities. There are at present four neighbourhood fora of this kind (South, West, East, North) that connect Berlin’s outer boroughs with suburban communities in terms of urban development projects. These fora are organized as working groups that meet some four times a year under the direction of chief planners and local councillors from Berlin’s outer boroughs. Other participants are state planning agencies, the respective municipalities within the greater metropolitan area as well as regional planning associations. As yet, the private sector is not actively involved. As there exists no formal planning institution for the metropolitan region of Berlin-Brandenburg – known officially as the ‘Capital City Region Berlin-Brandenburg’ since 2006 – the aim is to achieve consensus among all planning actors at an informal level and at the earliest possible date. Cooperation takes place mainly in terms of problem analysis, conflict settlement, consensus-building and negotiation processes. Cooperation is being intensified and evaluated well ahead of formal procedures; it is dependent upon a constant exchange of information and expertise as well as on the common formulation of development strategies.

The formulation of common strategies of action for the development of housing and open space, public transportation and infrastructure is of prime importance. Cooperation has taken place with regard to the expansion of the Berlin-Brandenburg International airport in Schönefeld, regional logistics (freight service centres), regional parks and zoning restrictions for greenfield retail development. Through harmonized planning activities with regard to these projects, communities have been able to strengthen their position vis-à-vis specific planning issues and to successfully apply for urban development grants from various sources.

Networks as such are weak forms of ‘control’; their significance lies mainly in the strengthening of cooperation. In addition participants must be clearly willing to harmonize their particular interests and to establish a collective actor that is able to vigorously pursue regional policy objectives that have been agreed.

### *Regional Development Concepts as a Mode of Operation*

One possible mode of informal actor-oriented institutionalization is through Regional Development Concepts or RDCs.<sup>1</sup> These came into being in the late 1980s

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1 Known in German as Regionale Entwicklungskonzepte (REK).



as a result of requirements imposed by the European Union for the disbursement of structural funds but also as an attempt to innovate formally institutionalized regional planning. An RDC can be defined in terms of comprehensive but largely informal strategies that are based on consensus and mutual commitments. The aim of RDCs is to initiate sustainable, goal-oriented and self-governing processes of regional development (Keim and Kühn 2002). Essential instruments of RDCs are processes of coordination between concepts of action elaborated by the concerned actors as well as common projects of public and private institutions and persons. From the point of view of structural policies, an RDC should allow for more efficient, problem-solving and interagency use of available resources for key projects defined and implemented within a given region. From the point of view of regional planning, an RDC is a strategic and conceptual link between objectives and principles of regional planning and their practical implementation by public and private agencies. These perspectives have in common that RDCs are always conceived as action- and implementation-oriented and that both of them rely in particular on the reinforcement of endogenous potentials.

In the Berlin-Brandenburg region, RDCs exist as yet only in rudimentary form. Formal regional planning continues to dominate while regional structural policy is being implemented largely independent of formal planning. Only gradually have regional actors started to work out prudent strategies, trying to unify disparate operational modi that, in the sense of RDCs, are focused and goal-oriented.

### *Innovation: Education, Qualification and Learning Processes*

The reasons underlying the appearance of regional institutions have also drawn increasing attention to the reinforcement and organization of processes of education, qualification and learning. It is above all in disadvantaged regions, often located on the economic periphery, that there appears to be an urgency for the promotion of regionally based knowledge. Socially just policies of regional development should aim at avoiding a phenomenon of 'knowledge-free spaces' by making use of resources present within a region. In this respect we can distinguish between the support of education and vocational training as a basis for 'human capital' and the organization of learning processes in view of a regional capacity for innovation (regional systems of innovation). The implementation of these two tasks should be organized within the regional context in such a way that the various activities are embedded in terms of institutions, norms and value systems and take into consideration economic conditions. These efforts can be summarized by the concept of the 'learning region'. The learning region offers a framework for action that facilitates the creative and flexible adaptation of regional stakeholder to changing conditions (Fürst 2001, Morgan 1997). Indeed, new challenges permanently require processes of reflective adaptation and the 'learning' that this continuous adaptive process requires must itself be organized.

Attention focuses primarily on conditions favouring an improved potential for innovation (Cooke et al. 1998, Fromhold-Eisebith 1995). This can be achieved

through the promotion of creative milieux that include networks of organizations that provide education, training, expertise, etc. in various areas' knowledge agencies. Other possible measures include the support for initiators and promoters of development projects and the identification of sustainable technological and economic activities (such as energy production, transformation of raw materials, tourism and health).

An important question is whether 'learning regions' are able to create organizational learning beyond individual learning and whether they are capable of reflexive rationality (learning how to organize learning) for this purpose.<sup>2</sup> This assumes a collective acting capacity at the regional level, a capacity which appears to be met less by the creation of formal organizations than by effective cooperation between the involved actors (networks). Consequently, models of learning-oriented collective self-control and self-organization are helpful. These models transcend approaches to action derived from neoclassical economics and integrate cognitive and socio-cultural aspects of the participant actor groups.

## **Evaluating German Experience**

What do these examples of regional governance tell us? Experience at the level of metropolitan regions has shown that the fragmentation of regional policies into a multiplicity of private, public and mixed networks does not work properly in the long run because actors tend to 'dilute' their energies in too many different initiatives. In addition, fragmented governance makes it almost impossible to develop common lines of action and a sense of regional identity (at least in political terms). However, as long as no formally competent regional organizations or authorities result from strategic regional processes, integration can only be achieved through improved cooperation. In this perspective, regional development concepts can be considered a particularly appropriate form of institutional synergy and strategic orientation of action. It is their informal characteristics in particular that endow RDCs with the character of flexible multi-purpose instruments. RDCs allow for an efficient interplay between existing actor groups. However, the effective performance of RDCs and the factors on which this depends need to be investigated through more detailed research. By the same token, evidence gleaned from the cases of East German urban regions, and the Berlin-Brandenburg region in particular, indicate that the integration of locally elaborated regional development concepts into formal planning processes has not been successful.

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2 The IRS began in 2000 to investigate the development of 'learning regions' in East Germany and within in the Berlin-Brandenburg region in particular. This research focused on knowledge-based conditions for regional development and was pursued within the framework of two research projects at the IRS, one addressing the significance of services for the private sector, the other the link between 'knowledge districts' and the structural development of settlements and towns (see Matthiesen and Bürkner 2004).

Technocratic and formalistic approaches, exacerbated by weak traditions of local government and civil society, explain much of the 'structural persistence' of hierarchical governance.

The question of how to balance local and regional interests plays an important role in all negotiation processes. Local actors have to be convinced through proper frameworks or systems of incentives of the advantages offered by regional development, even at the expense of immediate benefits in particular cases (for comparison, see some cooperation models inspired by decision theory and game theory). Regional stakeholders in Berlin-Brandenburg hold that informal cooperation is creating its own culture of communication and stress the importance of the personal commitment of single participants. This can be linked to the concept of 'social capital' in which trust, the stable composition of participants and small social units are necessary conditions for functioning systems of negotiation.

### **Some Concluding Observations on Latin America**

Transformation research in political science concurs that, in general, Latin American political systems continue to lack democracy, due partly to insufficient liberalization and rule of law, but also partly to continuous 'rollbacks' of previously achieved democratic reforms. The authoritarian presidential systems that still prevail can thus typically be seen as 'semi-democratic' (*democracia delegativa*) even though significant changes have taken place, for example in Argentina, Chile and Mexico. Furthermore, a wide gap between rich and poor continues to persist. Mexico's economic development, for example, is impressive, but continues to be threatened by high debt, an unstable currency, corruption and a system of corporate patronage.

Within the context of the recent transformations that Latin America's political systems have undergone, tensions between regionalist development projects and nationalist development goals of central governments have become increasingly pronounced. This has been highlighted by the recent struggles over territorial governance played out in Venezuela and Bolivia. As a result, regional and local demands for greater autonomy have surged. At the same time, however, cities and regions are, for economic reasons, faced with prospects of either competing against each other or cooperating as a means of strengthening their positions in national and international markets. This contradiction between cooperation and competition has been dealt with until now by two general but fragmented attempts at institutional change. The first approach is characterized by regional planning and development strategies that seek to enhance 'positionality' – either defensively or offensively – within the international economy. A review of the official documents makes it abundantly clear that this strategy is, generally speaking, a top-down project managed by state agencies. The second reform trajectory is one associated with policies of decentralization and citizen participation (for example, as embodied in Mexico's 'new federalist' project). Here, it is primarily representatives of

local (as well as the respective national and subnational governments) that join forces to achieve structural change in order to promote regional projects. From the point of view of regional planning, the debates that both reform trajectories have unleashed have been rather incoherent, often working at cross-purposes and thereby contributing to contradictory processes of regionalization and regional governance. Taking this into consideration, the question remains as to whether institutional change is nevertheless being achieved and whether this change is facilitating the implementation of regionalist and contextually appropriate development projects.

Transformation research has stressed the ability of sufficiently established democratic regimes to rise to difficult social and economic challenges and to develop institutional responses to these challenges, among others, through differentiated policies of regionalization. Even though the regional level has long figured in Latin America as an important scale of policy delivery, integrated solutions for regional problems, including those of the vast metropolitan regions, are still missing. The concepts and strategic recommendations presented here could indeed promote more efficient policies of regionalization in Mexico and other countries without in any way weakening economic development. However, they would entail a changing balance of power over the years. A central question would be which institutional arrangements and which kinds of networking appear to be appropriate in order to promote regional innovation. Powerful actor groups should be brought into the development of strategies that are comprehensive and have binding power, at least in the medium-term. In addition, targeted strategies of 'social access', that take better account of social interests in bottom-up processes, would offer a chance for sustainable solutions with a high rate of acceptance. For peripheral regions, it will be necessary to develop specific solutions based, for example, on minimal institutionalization that better account for cultural and social specificities.

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# Chapter 5

## Regions, New Regionalism and Regime Theory: Deciphering Post-Socialist Institutional Change

Iwona Sagan

### Introduction

Contemporary state-society paradigms have situated the concepts of ‘region’ and ‘regionalism’ at the centre of debate over governance and the future contours of urban and regional policy. Within the context of European integration, furthermore, regional scale has emerged as a defining element of the EU as a political community as it spatially integrates notions of economic dynamism, administrative efficiency, community empowerment, civil society and responsive governance (European Commission 2007). Accordingly, regions – despite their highly variable territorial and administrative embeddedness – are a significant tier of governance in Europe, gradually acquiring responsibilities and powers formerly controlled by the state. Shifts in public discourse also reflect this change; the term ‘government’, traditionally used for a hierarchical system of formal power, has made way for a less hierarchical and more inclusive understanding of decision-making processes or ‘governance’. Subsequently, the latter has been gradually extended and modified by the concept of ‘multi-level governance’, reflecting the increasingly complex relationships between different scales at which political decisions take place. To an extent, this implies a process of *devolution*, where power within states is redistributed territorially (Sagan and Halkier 2005, 265). The resulting new – and often unclear – directions of regional policy have emerged at a previously unknown pace of change. The rapidly growing number and variety of actors staking a claim to shaping local and regional development and their many, often invisible and informal, inter-relations challenge established forms and implementation of local governance (Herschel and Sagan, forthcoming). More fundamentally, these policy shifts and the development scenarios they imply signify challenges to underlying socio-political values and meanings, thus questioning existing certainties. The question thus arises whether the control, management or even mere attempt at influencing these changes is possible and, indeed, necessary or desirable.

Thinking of the region as an active ‘partner’ in multi-level policy negotiations is quite a new political phenomenon. As Ray Hudson (2005, 620) argues, the



emergent neoliberal, entrepreneurial mode of governance has changed the traditional role of 'the region' as a passive object in receipt of central government financial aid, transforming it into a political actor as well as a site of political activity. New regionalism has emerged as an approach that embraces new structures of power built by new types of coalitions that are able to resolve regional governance issues. Given the multiplicity of political and economic actors involved in regional governance, cooperation based on private-public partnerships is seen to be the critical form of cooperation for this new type of regional governance. However, while such partnerships are extolled as necessary elements of effective contemporary governance, there is no question that politics of market-oriented urban and regional development raise a number of critical questions (Brenner 2002, Wheeler 2002). As Hudson (2006, 166–167) has stated, it is unclear who has the right to speak for the region and who has the power to represent it. There is, of course, always the danger of relying on a somewhat reductionist 'consensus' that posits new governance forms as a structural response to new logics of capital accumulation and neo-liberalism – and thus de-emphasizing the importance of locale (see Latham 2006).

This book is focused primarily on deciphering new regionalism within contexts of political, social and economic transformation. It is clear that the regional governance challenges facing countries such as Poland, Hungary and Mexico cannot be understood only in terms of asynchronous processes of 'catching-up' with global capitalism. As institutional change continues apace in a post-socialist Central Europe and a democratizing Latin America, Benedek, Kovács, Verduzco and other contributors to this volume demonstrate how new regional governance modes are reflective of domestic struggles over political modernization agendas – these, in turn, are not merely a question of neoliberal adjustment. In this chapter, I suggest that (urban) regime theory offers a context-sensitive framework for understanding (new) regionalism as an aspect of broader transformation processes. Although developed within a US-American urban studies perspective, it provides a general structure with which to define regional coalitions of power, their political agendas and their relations to the state, the private sector and local society. Such coalitions, however, cannot be isolated from their historical and cultural contexts. Transformation involves a polemic confrontation with the past and the durable legacy of authoritarianism, centralized government and, in the case of Central Europe, state socialism make the construction of regional scale a daunting ongoing project.

## **New Regionalism and the Regime Theory Approach**

The concept of multilevel governance reflects complex interrelationships between political and economic forces and breaks down distinctions between formal and informal modes of decision-making (political power). As a consequence of multilevel governance, the particular features of actor coalitions involved

in regional governance issues have occurred to influence mostly the successful way of achieving developmental goals. This philosophy of new regionalism has brought the approach close to urban regime theory.

Urban regime theory emerged as an influential perspective in US urban policy studies in the 1980s.<sup>1</sup> Despite critical debate as to the utility of regime theory outside the US political and structural context (see Harding 1999) the conceptual framework of urban regimes seems to be open and flexible enough to interpret policies carried out in different cultural contexts. It should be emphasized that not only the inclusion and consideration of private-public-partnerships has made the theory so attractive for broad use (John and Cole 1998). In a contemporary world shaped by two seemingly contradictory processes of globalization and the ever-growing role of locality, there is an increasing demand for researching theoretical generalizations that might integrate micro and macroanalyses of particular conditions in which development takes place. Urban regime theory is an attempt to answer this demand. Undoubtedly, it offers a valuable and essential input into studies on local policy. This especially applies to issues of control and power, seen as a result of external circumstances and local specificity. Elkin (1987) and Stone (1989) agree that this approach establishes a theoretical framework for interpreting connections and cause-effect relations in urban politics.

Regime theory approach assigns an important meaning to formal as well as informal relations within structures of power. In totalitarian systems or states in a 'transition to democracy', informal power relations have a special role and meaning. The existence of interest groups stands in opposition to the ideological basis of 'unitarism', which is why the tendency to conceal the true workings of political power is especially strong. The urban regime approach forces one to move beyond traditional research procedures, official statistics, proceedings and official reports. One has to make room for in-depth social research methods that allow for the explanation of phenomena at a deeper level.

In the everyday practice of local and regional policy, various political relations (whether they be private or public, formal or informal – or any imaginable mix of all these) are of vital importance to the problems of power, responsibility and governance. The distinctive strength of urban regime theory stems from its understanding of local scale as a locus of spontaneous, bottom-up construction of coalitions that attempt to control development policy. Among the major elements of the new regionalism that appear 'regime specific' are the following:

- recognition of variety of stakeholders involved in regional policy;
- public – private partnerships;
- distinctions between government and governance;

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1 The literature is indeed quite extensive. See, for example, Elkin (1987), Fainstein and Fainstein (1986), Horan (1991), Jonas (1992), Jones (1993), Lauria (1997), Stoker (1995), Stoker and Mossberger (1994), Stone (1988, 1989, 1993) and Stone and Sanders (1987).

- focus on partnership, negotiation and cooperation;
- networking more important than constructing governmental structures;
- focus on decision making processes including informal influences ;
- focus on economic development;
- business leadership in economic development.

Hamilton (2004, 456) emphasizes that neither governments nor the non-governmental sector alone, or in isolation of each other, seem to have the ability to address contemporary regional governance issues. However, through public-private partnerships and cooperation, regional governance issues can be addressed. Regime theory approaches, as well as concepts of multiactor governance, provide a robust theoretical background for research and interpretation of the coalitional type of structures of power, which today dominate today the political scene. The regime approach identifies at least four forms of power. 'Systemic' power is available to certain social actors because of their position in the socio-economic hierarchy and within central power structures. The power of 'command and social control' has a much more sectoral and technocratic character. The power of the 'coalition' is the power built on fragmented sources of influence joined within a united coalition. The power of 'social production', finally, is the most desired and at the same time the most difficult form of power to achieve. It is a form of power that is grounded in community support and civic engagement in local governance practices and that is instrumental in assuring the long-term stability of urban regimes, far exceeding the office terms of local politicians (Stone 1988, 1989, 1993, Stoker 1995).

The stability of regimes depends on an ability to avoid dominance by a particular group that seeks to safeguard its gains in certain areas. It must also be relatively resistant to voter pressure. On the hand, regimes must be able to flexibly organize resources so that particular aims can be realized as they emerge in the process of local development. A stable regime enjoys instant control over resources that are critical for development as well as for safeguarding its own interests throughout the process. The topology proposed by Stoker and Mossberger (1994, 199), which differentiates between three categories of urban regimes (instrumental, organic and symbolic), is arguably one of the more comprehensive and universal frameworks for comparative analysis purposes. In developing this typology, Stoker and Mossberger focused on urban policy objectives, the primary motivations of the actors involved, the basis for a sense of common purpose, the quality of actor coalitions and, finally, relationships between locale and the wider political environment. *Instrumental* regimes revolve around short-term goals related to concrete projects. The actors involved here are driven by a desire for tangible results. Their sense of common purpose is provided by the availability of selective material incentives and the relationships between different actors can be understood as a form of 'political partnership'. The *organic* regime is specific for localities with a tight-knit social fabric. These are localities with a shared history and sense of place, or with a homogenous population that usually can achieve a high degree of consensus. This type of regime often represents a limited desire

for change and seeks to maintain the status quo. *Symbolic* regimes occur in cities or regions striving to change the existing ideology of local governance and/or local image in order to attract investment and thus spur development. A sense of common purpose among partners in this type of regime is achieved through the manipulation of symbols, which express the 'correctness' and attractiveness of the cause.

Urban regime theory was formulated under conditions of a sophisticated market economy (and market oriented urban development policies). Using it as a tool to describe structures and mechanisms of power in the reality of post-socialist conditions may seem controversial and questionable. However, the main assumptions underlying the concept are the best argument for doing so. Indeed, the conception is an interpretation scheme which allows one to find causes for variation in local and regional development. Although particular localities may have been functioning in the same socio-economic conditions, they nevertheless develop in quite different ways in terms of development dynamics and scale. The regimes concept is open and free of structural determinism, this is why it is a flexible and useful tool for the comparative research of local development in different political and economic systems.

The dynamics of post-socialist urban regimes provide an opportunity for studying and tracing the ways in which changes in external socio-economic conditions and institutional context influence localities. One of the common mistakes made in the analysis of long-established city regimes in developed economies is to treat local elites as independent from the wider political system. This is mainly the result of a conviction that exogenous forces are not only ubiquitous but also practically unchangeable and, as such, unimportant to understanding local regime characteristics. Such a conviction, especially if taken as a scientific assumption, is almost always wrong (see Hill 2000, Smith and Sullivan 2003). There is no doubt that not only local politicians but also investors and developers display different degrees of dependence. They should be viewed as part of a wider national and international spectrum of players in the political-economic system. An analyst of change in post-socialist cities will not often be tempted to make such a mistake. Here, localities have undergone a series of changes to their external, state-dominated socio-political environments that have radically transformed the basic conditions for local regime formation. Coalitions of power have been reshuffled and have assigned new functions to local actors, embedding them within new institutional configurations.

Emerging post-socialist urban regimes are mostly 'instrumental' in nature and most often pursue urban growth objectives. Many independent economic actors have appeared on the scene whilst large socialist enterprises, which in former times were a main source of employment and provider of public services, have collapsed. Local authorities are financially dependent on new investment, entrepreneurship and, to an increasing degree, on public-private partnerships in regenerating their cities. All this has led to the redefinition of power relations within local politics; widely promoted entrepreneurial modes of policy reflect

the influence of neoliberal paradigms in practically all spheres of life, including non-productive sectors of the economy. Indeed, extreme forms of market-oriented governance have succeeded in dominating many public policy agendas in Central and Eastern Europe, even though important regional differences must be taken into consideration (see Bürkner, Chapter 11 of this volume, for a treatment of East Germany's unique transformation experience).

The termination of the state's monopoly in most sectors of economic activity has not taken place within a socio-economic vacuum. These changes have materialized in conditions that have been shaped by many years of state-socialist experience and a system that developed its own specific forms of social stratification and economic structures. What is more, social and economic structures are not subject to rapid social revolution but are being gradually redefined and reshaped. In this way, the former socialist hierarchy and the privileges of certain social strata within this hierarchy have maintained great influence on processes of re-establishing or bestowing ownership (see Kulcsar and Domokos 2005). Through the privatization of state-owned enterprises and properties, the groups enjoying systemic power in the former system have strived to exchange these resources for ownership (and the power it bestows) in the newly formed system. The social capital gained during the socialist system is now being exchanged for financial capital and new middle classes have emerged from local political and technocratic elites of the former system.

### **New Regionalism and Transformation Contexts**

The post-socialist context for the formation of regional regimes of power is even more complicated than that for urban regimes. In the case of regions, it is not only that unstable external environments influence the stability of governance coalitions. In contrast to emerging urban political arenas, especially in metropolitan areas, regions in Central and Eastern Europe have almost no tradition of independent political activity or of internal consolidation. The political vacuum that persists at the regional level originates from a variety of sources, including:

- the types of territorial and regional reform undertaken in accession countries
- the weakness of a regional tier in existing political structures
- the dominance of central governmental agencies at the regional level
- the limited number of actors capable of building broad political and economic coalitions for regional development
- a lack of interest among the business community in participating in regional policy
- difficult urban – rural partnerships
- regional – local planning conflicts

At the same time, there appears to be a certain degree of 'schizophrenic' adaptation in Central and Eastern European countries in which regionalism as a normative concept is pitted against regionalization processes that seek expedient solutions to specific policy issues. Creating a common European spatial context for multilevel governance in which regions play an important role might seem reasonable from an organizational and administrative point of view. But scalar transformations demanded by the European Union (such as region-building in unitary states) appear to take place in isolation of local meanings, understandings and practices that might provide a true basis for regional governance capacity. Sometimes, new regional boundaries cut across traditional historical regions, creating thoroughly new and artificial territorial units. 'Europeanization' thus involves not only the imposition of new multi-level spaces of governmentality but also changes in political relationships between these scales that are both affected by and affect territorial (re)organization (Sagan and Lee 2005, 165–168).

Generally speaking, top-down administrative procedures have spearheaded regionalization processes. These state-organized regional projects often coexist uneasily with locally and historically rooted forms of bottom-up regionalism. The consequences of the 'mismatch' between these two tendencies might in particular cases create undesired results. The 'goodness of fit' (Risse et al. 2001) between European *regionalization* and domestic *regionalism* determines the final results and the level of success in particular regional policy programmes. The problem of 'goodness of fit' is clearly visible in the process of regional transformation in the new EU member states, perhaps because the main features of EU regionalization actually developed on the basis of regionalist traditions within 'older' EU countries. As demonstrated by numerous case studies (see Sotarauta 2005, Getimis and Demetropoulou 2005, Ferry and McMaster 2005), the lower the compatibility between European and domestic processes, the higher the pressure to adapt and the higher the risk of undesired side effects, such as socio-economic and territorial polarization. These unintended effects are often connected with the privileged situation of regions with direct access to systemic power resources required for negotiating regional policy. These regions, usually economically vibrant and highly urbanized areas, are also better positioned to implement principles of EU regional policy. This supports the thesis that the response of national systems to EU regional policy is critically dependent on the institutional capacity of actors to exploit new opportunities (Börzel and Risse 2000).

The systems of governance, the economic roles and the expectations of the new political regions are much more demanding than those of former, largely administrative, regions. This is indeed the case for Poland where, according to the Polish Agency for Regional Development, regions should possess inner social links built on shared social and territorial identities (Kozak et al. 2000). Explicit expectations of 'bottom-up' region-building are also included in regional programmes of the EU in which regional identity creation and 'place-making' are considered to be tools of effective governance (see Bürkner's discussion of East Germany, Chapter 11 of this volume). In this way, the attributes of regions that

have evolved historically – and with historical identities that predate the creation of nation-states – are invoked though the EU's own new regionalist paradigms (Sagan 2007, Scott this volume).

Fragile and speculatively created regions do not provide sound social and political milieux for building a strong coalition of power. The reality of the matter is that the promotion of a regional level simply does not appear attractive from a political point of view – and this is not only the case for new post-socialist democracies. Political elites are either catering to their direct electorates at the local level or are struggling to gain access to central systemic power and positions (Hamilton 2004). These same reasons result in a lack of interest in regional policy on the part of the business community as well. Investors or developers are much more interested either in local policy, which directly influences the values of their properties and investments, or in central bodies which are able to make strategic decisions favourable to the business community. All these reasons limit the number of actors involved within the regional political scene.

### *Forces of Regional Fragmentation*

Cohesive policy at the regional level is even more problematic where difficulties exist in building urban–rural and centre-periphery partnerships. Numerous regional/local planning conflicts originate from these dichotomies. The rescaling of policy that has privileged the regional tier has opened new possibilities which have been exploited especially by some city-regions. It is an observed process that city-regions have gradually gained in economic, political and finally territorial independence. This reflects a growing understanding that urban and metropolitan regions represent nodal points of economic strength and social capital, where the global space of flows seems to hang out-stretched between metropolitan city-region pillars, potentially even undermining the position of nation states. The tendency of large cities to expand their territories is further stimulated by EU policy by promoting the role of urban areas as the most competitive territorial structures in the global economy. This policy benefits urban areas, with a policy fault-line emerging between the Europe of city-regions and the Europe of regions (see, for example, Letamendia 2003). Examples of the competitive struggle between the regions and city-regions and other localities for EU support can be observed in almost every member state (Sagan and Halkier 2005). In fact, the very nature of fragmented, multilevel governance potentially creates ideal conditions for competition between different localities for various types of investment and consumer amenities. The problem is that the more economically robust major centres have detached themselves (at least in economic terms) from their surrounding regions. All the more devastating as well is the 'brain-drain' effect of metropolitan growth on peripheral regions (see Gorzelak and Smętkowski 2007).

In such a deeply unbalanced policy environment with diverging particular interests, only a strong and inclusive coalition of power is able to negotiate commonly accepted goals of development policy. The role played by regional



authorities in practical negotiations is critical in this respect. Yet such bodies often prioritize the interests of investors and developers under the guise of economic constraints or competitiveness arguments, thus shifting the responsibility of balancing welfare issues to inadequately empowered civic agents. The competitive struggle for investors is quite often accomplished at the expense of the quality of life of local communities. Although in the longer term quality of life issues greatly influence attractiveness and prosperity of locales, short electoral cycles and a lack of strategic thinking privilege short-term inflows of capital over long-term goals of balanced and sustainable development policy.

The importance of often long-standing centre-periphery conflicts is connected with another enduring tension, namely the one between sectoral and regional development. The problem is especially difficult in countries with strong traditions of centralized planning along sectoral lines and short histories of democratic political culture. Sectoral policy is essentially a centralist policy, and the dominant metropolitan urban areas are the territorial units in which sectoral power has traditionally been concentrated. Competitive regional development policy is an approach that requires horizontally interwoven threads of cross-sectoral thinking. Thus, it stands in opposition to sectoral thinking and the vertical organization of activities. Almost inevitably then, attempts to promote sustainable regional development policy clash with the sectoral organization that still dominates many institutional structures. A lack of administrative-institutional reform is indeed a conspicuous element in most post-socialist countries and inflexible governance mechanisms that are primarily organized according to sectoral specialization are poorly prepared to address the integrated approach demanded by cohesive approach.

### *Old Institutional Cultures in New Institutional Structures*

According to contemporary state-society paradigms, institutional mechanisms are considered to be critical for creating capable and effective local governance systems. They are expected to merge political, economic and social agents into one network of efficiently interacting partners (Elwood 2006, Hoff and Stiglitz 2001). Such institutional politics undoubtedly promises and inspires new approaches to local policy. However, the institutional concept is not free of limitations and ambiguity. Quite often, empirical results question the explanatory power of the 'institutional turn' in urban and regional studies (see Rutherford 2004). As Buzar (2005, 382) explains in his detailed studies of the Czech rental sector: 'an "institutional trap" usually arises from a sequence of misplaced regulatory steps that have increased the costs of institutional transformation up to the level at which inefficient structures can remain stable, in spite of current changes in the external environment'.

Similar doubts are shared by other authors. Evans (2003) discusses the critical problem of efficiency of governance institutions. According to functionalist logics, only institutions that are the most efficient and, as such, the most successful in



welfare-provision should predominate in any particular locality. However, North (1990) and other authors (Bardhan 2001, Grief 1994, Robinson 1998) point to the fact that institutional arrangements that are 'inefficient', detrimental to long-term development and/or lack social transparency can be quite resilient if they serve powerful interests. Difficulties with the elimination of inefficient and destructive institutions exemplify a tension between the universal and the particular – the paradox of democracy. Laclau (1996, 2001) explains that democracy is a disjointed concept that involves respect for difference while, at the same time, being an attempt to organize the political scene around the community universal values with the equality as a prior one. Evans (2003, 101) explains that if existing institutions provide differential returns to a sector of society with a vested interest in their maintenance, then the problem of eliminating or replacing it by a new one is very difficult or intractable.

Institutional organization influences not only the formal rules and procedures shaping everyday activities in different spheres of life but it also creates the 'style' in which these activities are carried out. Thus, institutional culture is reflected in all domains of daily life. It creates a 'normative order', as Evans describes it (2003, 95), and the manner in which institutions function requires greater attention. The dilemmas associated with institutional turn are present in different cultures and political systems. However, in the post socialist countries problems related to institutional change are intensified by the legacy of the former system. To break with the institutional culture of a centrally controlled system requires generational change. The negative role of this culture in local development has been broadly discussed (Agh 2005, Jałowicki 2002, Marszał 1996, Swianiewicz et al. 2004). However, the way in which administrative institutions of local government function internally has rarely been subject to deeper investigation and similarly, the institutional organization of agencies responsible for local development has not attracted much political attention. In many cases, a change of structures and procedures at the local level might substitute for the creation of new and externally imposed institutions. By the same token, a multiplication of institutional organizations can increase the complexity of relations, fragment political responsibilities and displace elected bodies from the actual loci of decision-making power.

The shift from managerial governance practices to entrepreneurial ones is explained and accepted as an inevitable consequence of globalization and neo-liberal economic principles (Harvey 1989, Jessop 1997, 2002). However, the old managerial structures developed during the former socialist period are resilient (see Anderson and Kemp 2003). The traditional sectoral command and control system is only slowly evolving into new matrix-type structures with tighter horizontal links and greater flexibility of movement of staff between departments. The entrepreneurial mode of governance, with authorities prioritizing economic development and the means to rapidly achieve it, should be followed by a new approach to reorganize structures according to principles of business administration. Transforming traditions of administrative and bureaucratic behaviour into cultures

of 'strategic management' attitude would have considerable impact on local policies. It would, however, require, in the sense of Evans (2003, 94), a change of 'meta-ideas' – in other words a transformation of institutionalized ideas that operate at the level of the society as a whole, such as administrative norms, legal rules and other governance mechanisms, and that create the preconditions for the directions and overall rate of growth.

### *On the Role of Civil Society and the Question of Representation*

The role of civil society and civic organizations in shaping the regional coalitions of power is a crucial one. On the fragmented regional stage of interests, civic agencies might play the role of a medium through which government and business leaders can develop partnerships and form coalitions. Civic organizations are able to unify the fragmented private sector to increase the capacity for a sustainable regional development policy (Hamilton 2004). In a neoliberal mode of socio-economic relations, civil society remains a key sector that supports local and regional government agencies in managing welfare-related issues. Therefore, the presence of civic organizations would appear necessary to increase the capacity for successful regional governance.

The strength of civil society participation at the regional level is a direct result of the means through which regions are constituted. The social basis for building strong and well organized civil representation that is able to participate in and control regional policy is incomparably stronger in regions shaped by historical traditions. In regions created as administrative units within state projects of regionalization, civil society participation and regionally embedded governance itself appears difficult to achieve. Most of the newly established regions in Central and Eastern Europe are patchworks of different local communities, quite often with diverging interests. As the Hungarian experience (see Kovács Pálné, Chapter 10 of this volume) or Polish cases (Wódcz 2001) indicate, territorial identity is very weak or does not exist at all at the regional level. With a lack of emotional attachment and intensive interpersonal relations within the region, the involvement of regional communities in democratic governance procedures is a troublesome matter.

At a regional level, there is a high disproportion of the intensity of civil society initiatives between urban and rural administrative units. Numerous NGOs are mostly concentrated and active in the urban areas. The NGO index (the number of non-governmental organizations per one thousand inhabitants) ranges in the rural counties in Poland from 0.51 to 1.14 while in the urban counties it ranges from 1.69 to 5.03 (Wendt 2007). Such a strong diversity in civil activity might be partly explained by differences in the number of inhabitants with a higher level of education who, as most studies confirm, mainly contribute to higher level of civil activity (Czapiński and Panek 2005).

Yet not only is the presence of civic organizations a decisive issue; there is also the unsolved legal problem of the representation of organizations acting in non-governmental or civic sectors. In Poland, only trade unions enjoy formal

and political status in terms of their ability to represent their interests. Other organizations did not possess them and largely remain excluded from policy networks. Thus their role in local or regional governance is practically limited to an advisory one. Full partnership in decision-making processes requires clear rules regarding representation. One therefore cannot expect NGOs or other civic organizations to play a significant role in regional/local policy and social welfare problem-solving (see Bebbington 2004). This is an important matter; since a commensurate shift of power and resources to match the devolution of obligations from the top-down has rarely taken place (Hudson 2006, Buzar 2005). Shifting substantially greater power and resources to civic organizations continues to be a remote prospect in most societies.

### **Conclusions: Regional Governance Capacity**

In post-socialist countries the weakness of the regional tier in political structures is a legacy of the former centrally controlled system. The regional level was traditionally dominated by the state government structures. The slow and painful process of breaking with the socialist legacy is well reflected in new systems of regional government in Poland. Two tiers of governmental structures are present on the regional political stage. The Regional government (Voivodship Office) represents the central government administration in the region and competes with the regionally elected self-government (Office of the Marshal) for power and prestige. These governmental structures have not been able to join forces in order to create a coherent framework for good governance (Sagan 2007). Passive and bureaucratic attitudes still prevail within state government structures, represented by the Voivod who is appointed by the Prime Minister. The state tier of regional governance tends to be used by a central government as a channel to control and exercise its power over a region. It limits rather than supports the development of a democratic regional level.

With a managerial mode of governance, the role of regional government within local coalition of power has been dominant in both western welfare states and in state-socialist policies. It was also a major agent responsible for effective management of resources to secure a better redistribution of income and to raise living standards. To achieve these goals, local governments devoted a great deal of energy and resources to create efficient and strong formal structures of power. However, the entrepreneurial mode of governance has made for a basic shift in the role of local governments. The main concern of contemporary governance is not so much the allocation of resources but the competitive struggle to obtain them. Moreover, the effort to build solid structures of power has been replaced with the effort to achieve the highest effectiveness of activity.

In the post-socialist countries, regional governments have been transformed from being transmitters of central decisions and distributors of goods supplied by the centralized administration into regional representatives responsible for planning

and implementing local development policy. Democratic governments have had to learn their new roles under the pressure of growing responsibility, highly limited resources and fierce competition for both public and private investment capital. Mobile capital with its footloose locational policy derives its power and privileged position from this situation. Lacking roots in any particular locality, investors are able to shape regional competition in their favour. Investors are rarely members of local governments, nor are they interested in directly engaging with local policy processes as their interests can be secured through persons who work within local coalitions of power. In such a context, it is primarily the regional government which represents the interests of investment capital. Such a situation places companies in the comfortable position of not being directly involved in and responsible for solving the problems of balanced development. At the same time, these political linkages influence the developmental decisions of regional authorities. Thus the question of representation within the regional structures of power becomes an especially sensitive matter.

The problems discussed here represent only a few of the many open questions associated with (new) regional governance in transformation contexts. One cannot expect easy answers. Yet the matter is too important to be neglected. The process of regional governance involves numerous actors at the local level. Sometimes they act as individual leaders, sometimes they create coalitions, sometimes they build a strong regional regime. At any rate, the 'style' of governing creates cultures of social relations and shapes the public space. We are both subjects of and actors within governance processes – through the recognition of its nature we influence and change governance according to our experiences, accumulated knowledge and political will.

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PART 3

Case Studies of Region-building  
in Latin America

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## Chapter 6

# An Indecisive New Regionalism in Mexico? The Case of Jalisco

Basilio Verduzco Chávez

### Introduction

Since the early 1980s the countries of Latin America have been undergoing a process of rapid and often painful transformation. ‘Structural adjustment’, the euphemism often used to characterize this change, fails to capture the economic, social and institutional complexity of these transformation experiences. Societal transformation in Latin America is a multidimensional process. It has been influenced by internal pressures for state modernization and externally imposed conditions of access to international markets. There is, furthermore, little doubt that the principal normative thrust of ‘structural adjustment’ has been neoliberal, supported by the assumption that ‘free’ (i.e. deregulated) markets can in the long run guarantee the development of democratic and open societies (Veltmeyer, Petras and Vieux 1997). With the so-called Washington Consensus of the early 1990s, an attempt was made to attenuate the economic precepts of adjustment doctrine: it was acknowledged that political and social institutions (i.e. local contexts) do indeed matter in conditioning economic outcomes (see Burki and Perry 1998). However, the complexity of fomenting institutional change as a modernization project appears to have greatly exceeded that of carrying out economic reforms.

Arguably, Mexico’s principal challenge in managing both local demands and globalization is precisely one of institutional change. Increasing pressures deriving from a more open economy and from the regional disparities generated by industrialization and rapid urban growth have challenged the basic principles of existing political arrangements. A principal means of addressing this problem has been to *decentralize* (through a dispersal of political power and greater autonomy for subnational units of government) and to *regionalize* (basically the process of creating regions for various public policy objectives) (Boisier 1997). As in other Latin American countries, decentralization and regionalization have been pursued in Mexico from the 1970s, but it is only in recent years that these policies have begun to operate within a process of multilevel governance – and not merely as a project of the central state.

As the research literature on the ‘New Regionalism’ clearly shows, the question of regional scale as a governance context is truly international in scope and is being debated as much in Europe and North America as it is in Latin America

(see Scott, this volume). However, it is in situations of rapid institutional flux where frequently nebulous notions of 'region-building' acquire particularly sharp contours. As we will discuss below, prospects for region-building in Mexico will be defined by the outcomes of a gradual and complex process of institutional innovation and capacity-building at national, state and local levels. The question is whether a viable political space is being created for regions between the level of states and municipalities. In addressing this question we will attempt to illustrate the complexities of socio-spatial relationships in a concrete and problem-oriented manner – and one that, while critical, offers an alternative reading of regionalization. Critical regional studies with a focus on political economy, for example, are primarily concerned with analyses of the systems and structures of capitalism in terms of metaprocesses of regulation.<sup>1</sup> Local situations and contexts are often subsumed within this greater systemic logic, reduced to an epiphenomenon of (neo-liberal) capitalism.

I argue that complex systems of institutions (understood in Douglass North's terms as rules, norms and perceptions) rather than abstract, socially disengaged 'market rationalities' guide socio-spatial change. Consequently, I also argue that governance issues and the scales (e.g. groups of communities, regions) where they take place, must be *negotiated* within specific socio-political contexts. Similarly, regionalization projects are, on the one hand, motivated by increasing competitive pressures and sustainability concerns but, on the other hand, conditioned by institutional environments. Competing political values, development agendas and interests as well as friction between existing institutional frameworks and governance innovations, make the question of regionalization a highly contested issue. Employing the notion of 'inconclusive federalism', I will illustrate how ambitious projects of state modernization are hampered by the asynchronous development of informal and formal institutions. This question will be highlighted by a case study of the Mexican state of Jalisco, considered by some to be pioneer of region-building and decentralization, having established 12 subregions for participatory and co-operative administration of public policy. Events in Jalisco should reveal a wealth of information on potentials and limits of decentralized planning and regional development. This might prove useful not only in interpreting Mexico's regionalization experience but in contextualizing institutional change for regions in transformation.

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1 An excellent example of this strand of urban geography and urban studies is Neil Brenner's and Nik Theodore's (2002) edited volume *Spaces of Neoliberalism* in which several case studies of urban development and governance issues are scrutinized.

## **Framing the Issues: From Centralist Federalism to Autocratic Neoliberalism**

The new regionalism in Mexico has emerged from an autocratic neo-liberalism and heavily centralized political system. In addition, the federalist formula that is emerging provides an unclear institutional setting for new forms of local and regional governance. There is, for example, little legal clarity regarding opportunities for cooperation between local governments or for the resolution of conflicts between different levels of government. This lack of clarity stems from the rapid change that Mexico's economic, political and social institutions have been continuously undergoing since the 1980s. Transformation in the Mexican context has been spurred in part by attempts to successfully manage the challenges of a globalizing external environment (see Riojas, Chapter 3 of this volume). Furthermore, several debt crises, export dependency and domestic political struggles have contributed to a massive loss of the political capacity and legitimacy of central government. This loss of control has been countered with reforms aimed at liberalizing the economy and strengthening national competitiveness. As a result, privatization, free trade measures and de-regulation were unilaterally introduced during the 1980s, culminating in the 1994 NAFTA (North American Free Trade Agreement) treaty with Canada and the United States. However, at the same time that the economic sphere was subject to wide-scale liberalization, commensurate political/institutional reforms were neglected or only belatedly introduced. This has resulted in an asynchronous process of economic and political modernization that has considerably affected subsequent attempts at region-building and regional planning.

In order to discuss (new) regionalization in Mexico within the comparative perspective of this book, it is important to first retrace central aspects of Mexico's institutional transformation. Three basic features distinguish the political and development context in which most policies have been implemented in Mexico during the last six decades. First, there is a long tradition of strong central and weak state and local governments. Indeed, with some exceptions, such as the short periods in the nineteenth century, when regions were able to claim a certain degree of power and autonomy, centralization has been the dominant organizing element of political and economic life in Mexico (Ibarra 1995). Based on Theda Skocpol's (1979) theory on the outcomes of social revolutions, it is possible to argue that Mexico constitutes an exemplary case of how revolution can engender a stronger central state with more capacity and authority to guide national economic development. Building a strong nation-state was, in fact, one of the major goals of Mexico's post-revolutionary governments. Furthermore, the organization of a political party that could reconcile different interests and practically eliminate confrontation between different interest groups, including regional oligarchies, played a key role in this process (Falcon 1986, Hiskey and Bowler 2005).

Under its constitution, Mexico is organized as a federal republic in which states and municipalities are formally recognized as autonomous entities. However, a

complex set of fiscal rules and political practices have undermined the decision-making capacity of the local state by establishing a central control of economic resources and creating incentives for migration from the periphery to the centre. For decades, Mexico City, with its concentration of economic and political power, has operated as a magnet attracting all forms of investment capital. Concentration in the centre has thus been a self sustaining process, resulting in decidedly hierarchical decision-making structures in both the public and the private domain. De la Peña (1986) has highlighted the fact that in Mexico there are three basic types of regional public institutions, each with different power bases: the first type is represented by institutions whose power comes directly from the central government, the second type is the intermediary institution with regional representation but whose power also derives from Mexico City, and finally the third type is composed of institutions whose power is regionally based and politically legitimated through elections. In the opinion of de la Peña (*ibid*), the first two types have been able to multiply their number and increase their power base, while the authority of regional institutions has been reduced.

A second feature that distinguishes the political and policy-making environment in Mexico is the high degree of concentration of urban and economic growth. It has resulted in the primacy of Mexico City in an urban system with few other major urban concentrations (e.g. Guadalajara, Monterrey and Puebla). This level of concentration of population and economic activities is, to a considerable extent, a result of nation-building efforts in which the capital city and its region have served as linchpin for domestic market expansion and participation in the world economy. However, the resulting disequilibrium has severely limited the financial and development capacities of many Mexican regions (see Arroyo and Berumen 2001).

Finally, the third key element is the country's political structure. After the revolution it has been based on a system of corporatism, in which political alliances have been controlled from the centre and defined along kinship-like loyalties. The social pact between business, workers and the middle class favoured an electoral system that, for six decades, institutionalized one-party rule. It also facilitated the elaboration of an economic development programme aimed at fulfilling basic revolutionary goals, including the achievement of relative economic autarchy, a greater sense of national pride and sovereignty and the promotion of social justice (see Canto and Durand 1990, Hamilton 1982). Central to the operation of the system has been the role played by the president. Since Vicente Fox's electoral victory in 2000, and the present conservative government of Felipe Calderón, the political monopoly of the dominating PRI has been broken. Nevertheless, 'presidentialism' continues to dominate the political environment, inhibiting democratic-republican ideals. A major problem of Mexican corporatism has been its authoritarian mode of social regulation, discouraging the emergence of a 'social contract' with participatory and democratic elements (see Magaloni, Weingast and Díaz-Cayeros 2006). Mexico has avoided the formation of a more representative corporatism by neglecting basic prerequisites of political modernization. These

include the constitution of intermediate organizations between the state and society, the regularization of political representation and the transition towards systems of political negotiation involving wider social and economic policies rather than just narrowly defined group interests. It must be said, however, that the situation has been changing in recent years and through electoral competition new political networks appear to be emerging in Mexico, particularly in large urban areas, in response to a more complex political environment (see Fox 1994, Hiskey and Bowler 2005).

### **Changing Contexts for Regionalism in Mexico**

The outcome of the three systemic features described above was the emergence of a particular type of ‘growth machine’ that operated nationally in order to catapult Mexico into the ranks of industrialized economies. Fuelled by a long period of rapid industrialization, the model proved relatively stable for more than two decades. It was largely successful in creating a large domestic market and in raising living standards throughout the country. However, as Mexico developed in the 1950s and 1960s, regional disparities increased dramatically, exposing the limitations of the model and the limits of central government to maintain principles of economic sovereignty and of social welfare. Resisting increasing demands for decentralization, Mexican corporatism succeeded in maintaining the model intact well into the 1970s, absorbing or eliminating the most radical demands for change despite growing evidence of its deficiencies.

By the end of the 1970s, changing conditions in the world economy, and, most importantly, a combination of several domestic factors, brought into question the overall organization of Mexican political and economic life. Urban sprawl in major cities, especially in Mexico City, rising costs of infrastructure and regional disparities exposed the costs of maintaining high levels of centralization. While some innovative programs were introduced a few years hence, it was not until the 1970s that the country began a transition towards a more decentralized model of decision-making. This process has culminated in the strengthening of local governments and in attempts to create new regional platforms for social and economic development. However, as will be discussed below, this transformation experience is anything but clear-cut.

The beginning of central policies of decentralization in Mexico should properly be dated back to 1965, the year when the federal government launched the Program for the Industrialization of The Border Region (PIP). Although the programme did not catch on immediately – it was not until the mid 1970s that it began to produce important results – it deserves mention for its role in implementing Mexico’s export-led economic growth policies and for its contribution to basic



changes in Mexico's economic geography.<sup>2</sup> Regionalization began in earnest in the 1970s as a means to more effectively develop the national space and thus enhance national integrity, sovereignty and the political authority of the 'centre' and its political elites. The limits to policies of economic nationalism and autarchy – policies that quite successfully contributed to rapid industrial development after 1940 – had become painfully clear by the 1960s. At the same time, pressure to democratize society and open up the political decision-making process increased markedly. By the end of the 1970s a number of policies had been put in place with the goal of reversing the level of concentration of economic activities and population.<sup>3</sup> However, the first regionalization attempts undertaken in Mexico were unquestionably technocratic in nature, informed by a centralist approach to regional development. Regional planning itself has a strong clientelist tradition in Mexico and is associated with political patronage, discretionary powers of government and the selective privileging of specific regions based on kinship-like relations between central and state elites. Instead of basing regional development policies on strategic economic and social considerations, visible 'key projects' were undertaken regionally as a means to enhance systemic power.

More recent federalist debates in Mexico have resuscitated polemic discussion about supposed optimal numbers of governments as well as the distribution of functions and resources to governments at the national, state and local levels.<sup>4</sup> Between 1982 and 1988, the process of decentralization received a major impetus through constitutional reforms granting more autonomy to municipalities and federal programmes facilitating the transfer of important functions, such as health and education, to state governments. With the constitutional reforms of 1983, several functions were transferred to local governments including the provision of public services, the administration of real estate taxes and the capacity to approve and implement land-use planning.<sup>5</sup> To support these new policies, the Federal Government signed agreements with state and municipal governments in

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2 The northern border cities of Tijuana, Ciudad Juárez and Nuevo Laredo are among the most dynamic in the Mexican Republic.

3 Four programmes appear particularly important within this context of transition towards a more decentralized political and economic system. The first of these, inaugurated in 1971, was an initiative aimed at establishing industrial parks and regional growth poles (Garza 1989). A second set of policies was expressly designed to provide fiscal incentives for investment in disadvantaged regions (Arroyo 1989). A third policy was oriented to attract foreign investment and to locate plants outside of Mexico City. This included an extension of the maquiladora industry program. And finally, the fourth set of policies was formed by comprehensive programmes for specific regions. These policies were accompanied by legislative changes that attempted to influence population and economic dynamics in the country, favouring development in mid-sized urban regions.

4 See, for example, Tamayo Flores and Hernández Trillo (2004).

5 It should also be mentioned that while in power, the oligarchic Party of the Institutionalized Revolution (PRI) was reluctant to transfer functions to local governments because these were more likely to be won by opposition parties.

order to transfer resources for the promotion of local development (Massolo 1989, OECD 1998). As a result, within the last fifteen years municipal governments in Mexico have increasingly had to cope with changes in constitutional status, new responsibilities and shifts in local economic conditions. This has prompted heated debate with regard to the objectives and governance capacities of local governments as well as their potential roles in political, social and economic spheres (Fox 1996).<sup>6</sup>

In this context there are several questions regarding the hopes of regions and localities for a more decentralized system of decision-making. To evaluate the possibilities for a more decentralized system in Mexico, one should take into consideration the costs and benefits associated with popular demands along these lines. Mexico's centralized system can only be truly 'opened up' as a result of a combination of pressures. European regionalization processes indicate that regional interests are able to strengthen their territorial presence to the extent that policy-making processes (and political power) are truly decentralized (see Kovács Pálné, Chapter 10 of this volume). Furthermore, because of the emergence of supply-side measures and a declining faith in centrally managed redistributive policies, the mesolevel has become more important in terms of governance and service delivery.

Similarly, we are dealing with two basic types of 'demand' for more decentralized governance structures in Mexico. On the one hand, regional stakeholders hope to achieve a breakthrough in the global economy or for a better position within the national economy. On the other hand, pressure for greater local autonomy and resources as well for more spatially differentiated public policies is increasing. Such regional demands for decentralization partly correspond to the European case, although the issue of regional identity (and 'quasi-nationhood' as raised by Spanish regions) is weak in Mexico.

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6 The municipal level is still considered by many Mexican scholars and practitioners (in effect, academics, politicians and even local government officials) to play a subordinate role in promoting or co-ordinating economic initiatives and/or promotional efforts of local communities. In the Mexican regional development literature very few studies have been conducted that address analysis of regional governance and spatial development processes. These studies indicate that different organizations operating at the local level are potentially central players in the regional development process but have shed little light on the conditions under which local governments might take a more activist role (Gutierrez Vidal and Martinez 1994). Future research needs to contribute to an understanding of organizational capacity to respond and to change in accordance with variations in the local environment and, more importantly, to an understanding of how organizations (e.g. local governments) influence regional processes.

## Mexico's 'New Federalism'

In many ways the Mexican situation mirrors the experience of post-socialist transformation in Central and Eastern Europe. Of course, Mexico was never subject to the same level of centralized economic and ideological control as were former socialist states. However, recent events – particularly the demise in 2000 of de facto one-party autocracy – have signalled a process of rapid institutional change that lacks a clear trajectory. The former opposition party PAN (the conservative Party of National Action) has now won two national elections and many state elections, a situation that has greatly strengthened pluralistic tendencies. This has often resulted in deadlock on important policy issues but also in a greater competition between the parties for regional support. This is also manifested in the highly conflictive and contested character of regional governance emerging within Mexico. Not only is the territorial context of regionalization but also the division of labour between federal, state and local levels at issue, all of which are renegotiating their own powerbases within a context of institutional flux.

As Inman and Rubinfeld (1997) have indicated, three basic models can be identified with respect to government reform debates in Mexico. The first model put forward privileges efficient use of national resources, the second emphasizes democratic governance and participation and the third reform model champions the protection of basic liberties. All three of these reform discourses indicate that 'centralist federalism' – a system that granted Mexico a rather long period of relative political stability – is evolving into something new but as yet unclear. Mexico's 'New Federalism', subject to constant experimentation and negotiation, is a project aimed at decentralization, but also at strengthening national political cohesion. The website of Mexico's Home Office (Secretaría de Gobernación) offers the following perspective:

The final objective of new federalism is to undo the concentration of resources and decision-making powers in the centre and to promote local potential through decentralization based on the political autonomy of the states, the reassertion of national unity, effective public administration, efforts to reduce rational disparities, institutional reform and through the strengthening of the Republic.<sup>7</sup>

A major objective of the federalist reforms is to promote consensus between the various levels of formal government. Constitutional changes have taken place that strengthen (at least theoretically) the role of local governments. However, formal constitutional change is no guarantee for more effective governance. There are, for example, no clear rules with which to encourage and/or guide interagency cooperation within the federalist formula. Instead, a legalist approach has been

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<sup>7</sup> See the website at <<http://www.gobernacion.gob.mx>>. Passage quoted in the *Declaration of Acapulco* <<http://www.cnts.j.gob.mx/modules.php?name=Declaratorias&op=Acapulco>>.

favoured that assigns roles to different actors but does not properly address the redistribution of resources or the intricacies of negotiation or consensus-building processes. As such, the official reform process does not reflect paradigms of regional cooperation and dialogue that inform normative debate on institutional reform (including the New Regionalism). However, perhaps the lack of legal/constitutional arrangements with regard to associational forms of governance (essential to a successful regionalization) is itself characteristic of Mexico's political culture and federalist traditions.

At this juncture of our discussion on political reform, it is important to bear in mind that territorial governance in Mexico has been strongly influenced by historical challenges to national authority. Powerful separatist movements have often provoked a use of force in order to maintain political stability (examples of these are the uprising in Yucatan during the nineteenth century and recent problems in Chiapas and Oaxaca). More generally, however, federalist conflicts in Mexico have culminated in a struggle between the national, state and local governments over resources, control over political processes and – to an extent – the definition of development agendas. From the perspective of Mexico's political modernization project, the main flaw has been the lack of institutional frameworks and legal mechanisms with which to carry out effective decentralization. What does this signify in more concrete terms? There are at least three ways in which the contentious nature of Mexico's changing federal system can be characterized. At one level, territorial disputes between national, state and local governments, a legacy of Mexico's past, remain unresolved due to a lack of rules for their settlement. These disputes frequently involve control and rights to the use of land and natural resources, water being among the most problematic issue along these lines. At another level, there is a lack of clarity with regard to modes of participation in development projects of regional impact that involve different levels of government. There exist no legal frameworks and few incentive structures for interagency and intermunicipal cooperation (see Rodríguez-Oreggia and Gutiérrez 2006). Similarly, political reforms have ignored the issue of institutional models and/or rules for the promotion of consensus-building between different actors and levels of government. Finally, another major flaw of Mexico's more recent political reforms is the inadequate decentralization of resources (and revenues) commensurate with new local autonomies and responsibilities. Because of this 'indecisive' New Federalism, struggles for resources, political legitimacy and political power have complicated the regionalization process. Furthermore, and as will be discussed below in the case of the state of Jalisco, the emergence of a highly competitive party political landscape, especially after the 2000 defeat of the PRI in national elections, has effectively politicized the question of regional cooperation.

## **Regional Development and New Regionalism in Mexico**

Regional planning was established late in Mexico's case, but this has not been a real barrier to regionalization attempts. Since the 1980s regionalization projects have taken place in the areas of economic development, sustainable development and resource management (primarily with regard to water and forests). More traditionally, regional economic development has focused on attenuating regional disparities, managing cultural diversity and social problems and improving rural development perspectives of specific 'problem areas' within the national territory. Since the late 1990s, more strategic projects of international competitiveness have emerged, linking, for example, a so-called central Mexican region with the global economy (FIDERCO 2004) and establishing links with Central America (Proyecto Puebla-Panamá). In terms of environmental policies, a plan for the 'ecological regionalization of the national territory' was promulgated by the federal government in 1986. This plan, and the 'ecoregions' it defined, formed the basis for Mexico's environmental plan 1995–2000 (Arriaga et al. 2000).<sup>8</sup>

However, in contradistinction to more 'statist' attempts at regionalization, region-building along the lines of new regionalist paradigms can be seen as a response to the crisis of the Mexican state and its diminished role as guarantor of national integrity. New regionalism in Mexico is also characterized by the notion that regional autonomy brings more benefits than costs (Woo Gómez 2002, 2003). In Mexico, business interests have been successful in promoting a regional agenda, especially in northern states that have registered fast rates of economic growth. This is the case in Nuevo Leon, Chihuahua or Baja California where ruling parties have taken special care in selecting candidates with strong support from regional business communities. New regionalism in Mexico has also been associated with discourses of a 'region-state' in which various public and private actors (and to a lesser extent civil society) formulate region-building projects with two main objectives; these are: 1) to develop a working sense of region based on cooperation, solidarity and shared identities and 2) to successfully 'position' regions within national and global contexts (see Arroyo 1995, Boismenu and Graefe 2003). This vision mirrors the cooperative notion of region that has flourished in some European cases. In comparing the regional development strategies of Catalunya and Galicia in Spain, for example, Michael Keating (2001) has demonstrated how the greater associative propensity and openness of the former has made it more successful in terms of economic performance. Another point that comes out in

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8 According to the National Commission for the Recognition and Use of Biodiversity (CONABIO), ecoregions ('priority geographical areas') are: 'spatial units with stable physical-temporal attributes within the continental areas of the national territory and that are characterized by a specific ecosystemic diversity, relatively large numbers of endemic species, biological integrity and real opportunities for conservation' (see <<http://www.conabio.gob.mx/conocimiento/regionalizacion/doctos/Tacerca.html>>).

Keating's study is that of Catalunya's ability to exploit the opportunity structures presented by regional autonomy status within Spain's national political context.

If – at least at a discursive level – the notion of local/regional empowerment informs debate over institutional change in Mexico, to what extent can a regional space between state and local governments emerge? In the case of Mexico, centralist and technocratic forms of regional planning and regionalization have clearly dominated. This has led to the fact that most regional development strategies in Mexico have been informed by growth pole doctrine (a statist vision of *national* growth par excellence), while regionalization has proceeded according to economic and environmental criteria. As a result, regionalization projects in Mexico have been of three basic normative types, ecosystemic, economic and hydraulic, ultimately defined by the central government. Each of these normative region-building projects lacks institutional and organizational elements that (ironically) hinder their implementation at the regional level. The primary reason for this is an institutional vacuum with regard to the creation of strong regional alliances that can develop their own development agendas. As mentioned above, there is no clear mechanism by which consensus on regional development issues can be negotiated among different actors and stakeholders.

Unfortunately, existing constitutional arrangements in Mexico put excessive emphasis on litigation and legal processes in order to settle disputes between local, state and federal levels as well as between different interest groups. Indeed, this legalistic focus has itself contributed to the development of conflicts in the past, some of which have been so complex that it has been virtually impossible to find workable frames of reference for clear legal decisions. Furthermore, some of the most heated conflicts between local governments and states have been the result of non-compliance with legal decisions taken to settle disputes.

How is regionalization playing out as a project of institutional modernization in Mexico? New Federalism in Mexico privileges the local level while regionalization (as a state-centred project) has by and large been a top-down exercise with which state governments (and the respective political parties in office) have attempted to modernize their governance practices and enhance their legitimacy. This, in itself, is a source of tension. However, questions of long-term political implementation have taken a back seat to everyday political concerns. It is thus difficult for groups with different interests to effectively define and implement regional development projects.

There are several difficulties involved in bringing newly constituted Mexican regions (either at the interstate or intrastate level) into the centre of policy-making processes. In recent years, pressures deriving from a more open economy and from the regional disparities generated by overcentralized industrial and urban growth have challenged the basic principles of existing political arrangements. Political reform and a clearer articulation of regional interests have opened up new possibilities for decentralized decision-making structures based on more democratic principles. However, local social, economic and political forces have tended to be relatively weak in shaping this transition towards decentralization.

There is also the problem of financing the emergence of a strong local state given a chronic lack of resources and budgetary restraint. A further aspect is a lack of technical capacity of most municipalities except for large cities; this prevents them from assuming the new functions that will and/or might be transferred from the federal to the local level and thus negatively impacts on attempts to form regional platforms for urban planning and water management cooperation. At the same time, new competitive electoral landscapes are an increasingly powerful force in Mexican politics. While these phenomena characterise Mexico's modernization trajectory and are representative of important processes of institutional change, they also tend to fragment policy-making processes rather than establish a new coherence. The resulting institutional context thus represents one of inconclusive formal and informal arrangements that do not provide sufficient opportunities and orientational guidelines for regional cooperation and multilevel governance. However, because the institutional framework is in a state of flux, 'inconclusive new federalism' could also open opportunities for the renegotiation of territorial governance and for greater local-level initiative. This case of region-building discussed below, that of the state of Jalisco, has been heralded as the most advanced experiment of its kind within the Mexican context. It is, however, an excellent example of how New Regionalist paradigms clash with local political and cultural realities.

### **Jalisco's Regionalization Experience 1995–2007<sup>9</sup>**

As was the case in other Mexican states, the government of Jalisco began in the 1990s to spearhead initiatives of administrative reform and the modernization of its regional planning process. The rationales behind this drive for reform were many but three were (and remain) of special importance:

1. the management of grave social and environmental impacts of growth,
2. a need for more forceful approaches to addressing the increasing disparities between the Guadalajara metropolitan area and the rest of the state, and
3. a more effective means of promoting the economic importance of Jalisco in a national and global context.

Especially since the 1980s, growth in the metropolitan region of Guadalajara has been characterised by an aggressive exploitation and rapid degradation of natural resources.<sup>10</sup> This path of growth, despite its positive economic impacts,

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9 The research documented here is based on a series of interviews, participant observations and newspaper screening activities carried out between 1998 and 2007. Part of this research was financed by the German Ministry for Research and Education within the PLACEMEG project framework and carried out in collaboration with James Scott.

10 Shoendube et al. (2002).



has brought with it a real risk of environmental collapse within the near future. Furthermore, environmental crisis has affected not only the environment itself but economic development, social relationships and social stability within the Guadalajara metropolitan region as well (Durán et al. 1999). On the other hand, many of Jalisco's rural areas suffer from constant outmigration and environmental degradation through deforestation and soil erosion.

Recognizing the limitations of previous regional development policies, regionalization was based on the notion that long-term policies aimed at sustainability, human resources development, strategic infrastructure development as well as the promotion of small and medium-size enterprise networks could be best elaborated in a process of multilevel governance. The regions themselves were never conceived as administrative entities with political representation but as arenas of cooperation for local governments (municipios) that would work with agencies of the Jalisco government in developing and implementing regional development strategies. The initiators of the regionalization project therefore had two major objectives in terms of governance reform: to develop a long-term, comprehensive and strategic approach to regional policy (and thus transcend a traditional short-termism focused on municipal and state elections) and to strengthen local participation in the planning and implementation of policy (Woo Gómez 2002, Díez de Sollano 2001). The role of the state government and its agencies was to work with local governments to provide the basic administrative framework, programmes and planning 'vision' that would guide development in different subareas of the state. Region-building as such was seen as a responsibility of local governments and their cooperative networks (see Batiz et al. 1998).

Several of the intellectual authors of the regionalization concept were trained in Europe (London School of Economics) and brought with them knowledge about new strategic planning and regional management techniques. At the same time, their concept of 'region' as a socio-political construct also reflected influences, among others, of the Chilean regionalist Sergio Boisier (1996). Based on neo-liberal rationales of regional competitiveness and industrial promotion, as well as more socially based but complex policy delivery issues, Jalisco embarked upon a new regional development strategy that envisaged a 'bottom-up' mobilization of resources. On a more strategic level, Jalisco targeted a number of promising economic sectors that would form the basis for concerted public-private initiatives in specific areas of the state. Prominent among these were technology-based production, tourism and export-oriented manufacturing (Gobierno del Estado de Jalisco 2001).

In 1997, the government of Jalisco designated 12 planning regions within the state and began to apportion monies to these regions for specific projects (see Figure 6.1). While the designation of these regions seemed rather arbitrary, regionalization was intended to strengthen municipal capacities for cooperating with state and non-state actors as well as with other local governments in various policy areas. The State Development Planning Committee COPLADE served



as the coordinating body.<sup>11</sup> In order to emphasize ‘progressive’ elements of its region-building project, the government of Jalisco also initiated a visioning and prioritization process involving local elites and citizens (CEPAL 2000). This took place within the framework of regional and local conferences where representatives of state and local governments, civil society and other groups participated. The first few years of regionalization in Jalisco were characterized by much aplomb and political showcasing of regionalization as an experiment in policy innovation, unique within the Mexican context. Governor Alberto Cardenas, in power from 1994 to 2000, fully backed the regionalization project seeing in it a means to confirm the innovative reform credentials of his leadership (he was a member of the conservative PAN party) as well as strengthen political support outside the Guadalajara metropolitan region.



**Figure 6.1 Regions in Jalisco**

*Source:* INESER, University of Guadalajara.

11 COPLADE, the Comisión de Planeación del Estado, was a creation of nationwide administrative reforms of the 1980s. The main objective of the committee is to coordinate decisions that effect regional development between different government agencies. COPLADEs operate within all 32 states. In 2007 the government of Jalisco transferred the tasks of COPLADE to a newly created state ministry, the Secretaría de Planeación (SEPLAN).

As events in Jalisco soon revealed, however, these new concepts were only partially translatable into concrete action; the strategic, multilevel approach championed by new regionalists succumbed to 'Realpolitik'. Conceived as a strategic and apolitical (!) planning process, regionalization fell victim, perhaps inevitably, to partisan conflict and tensions between local governments and the state. One reason for this was, arguably, a lack of clear rules to guide implementation and to give orientation to interaction and collaboration between the various state agencies that were involved (e.g. urban and regional development, environment, economic promotion, finances and administration). Another very important reason for the setbacks experienced by Jalisco's regionalists was the glaring lack of resources at the local level. Transfers from the federal and state level to local governments were clearly insufficient and no mechanisms were put in place that might have generated additional revenues for municipios in the realization of their new, decentralized policy remits. Nor were mechanisms put in place that could assure the effective channelling of resources down to the regions. This basically resulted in a political impasse between various state agencies, producing damaging turf battles, and finally, forcing the resignation of the head of COPLADE in 1998. After the change of leadership, however, regionalization proceeded under much more technocratic conditions and with badly designed plans. Instead of strategic and long-term development considerations, regional planning goals were defined in administrative terms and were produced hurriedly by private consultancies at lowest possible cost. None of these developments helped to improve the damaged reputation of the regionalization project.

In a further bid to bring dynamism into the regionalization project, a 'Regional Fund' was established in 1999 with the aim of directly providing resources to local governments within the 12 regions. However, similarly to the overall process, the fund suffered from poor management; no process for the production and implementation of strategic projects was decided. On the contrary, instead of a strategic and long-term development logic for funding key projects, local governments basically appropriated the fund in order to improve their finances – compliance with the requirements of the fund was not mandated by the state. Furthermore, municipal leaders did not promote public participation in deciding over the use of regional fund resources but resorted to political patronage.

Arguably, the process of regionalization *as originally intended* in Jalisco reached a low point with the 2003 appointment of a new coordinator at COPLADE whose regional 'vision' was closely linked to the interests of political parties (primarily those of the liberal-conservative PAN). Furthermore, and in contrast to the regionalist thinking of the 1990s, COPLADE did away with almost any semblance of strategic planning; instead, the state began to promote construction projects rather than capacity-building or local business development. Admittedly, the Regional Fund did respond to the demands of local elites and involved consultations with local governments in order to prioritize specific projects. A perusal of 2007 funds appropriations indicates, however, that almost all resources were dedicated to the transportation network and local infrastructure without any

real overall planning objective. At worst, this form of regional development was seen as an attempt by the state government to 'repackage' its public policies in a pseudo-democratic manner, as a truly inclusive decision-making process with regard to project funding did not take place.

### *A Central Problem: The Metropolis Opts Out*

To add to the more general political problems of establishing new regional planning policies, several municipalities of Jalisco's main urban agglomeration, including the state capital, Guadalajara, withdrew from participation in the regionalization process. The most single important reason for this move was the constitutional reforms of 1999 that provided greater powers to local governments. Well placed to pursue their own development objectives, Jalisco's most prosperous municipalities challenged the need for a 'regional understanding' of planning policy. Symptomatic of the particularism of the metropolitan cities (i.e. the four core cities of Guadalajara, Zapopan, Tlaquepaque and Tonalá) and their mistrust of regional planning policies has been the failure to create a truly functioning context for regional governance in the metropolitan area, known as the ZMG (Zona Metropolitana de Guadalajara).

Presently, there are very few institutional relationships between the government of Jalisco and the City of Guadalajara. According to law, the Metropolitan Council is responsible for the coordination of decisions taken locally and municipal mayors are obligatory members of the Council. However, it is local councils and administrations (ayuntamientos) that have control over resources and mayors cannot act without their approval. Because of this fact, the Metropolitan Council has no effective control over decisions taken in the four cities of the ZMG. In addition, the rapidly growing suburban fringe of the metropolitan area is not within the jurisdictions of the Council. Generally speaking, municipal councils do not approve of dedicating resources to cooperative projects. In real terms, because there is no clear formal institutional framework, there is no organization that effectively mediates between the state and local governments; legal statutes do not mandate an obligation to cooperate and there are numerous conflicts of development perspective between Jalisco and municipios in the ZMG. Thus in the ZMG, where environmental and social problems are concentrated, it has been impossible to create a sense of region.

### *Regions in Jalisco: A New Focus on the Local*

Taking the oath of office in December 2006, Jalisco's present governor, Emilio González, voiced his intentions to proceed with the regionalization project. One of González's primary objectives in this conjunction has been the strengthening of the policy role and participation of local governments. This is important as the municipios are exceedingly jealous of their newly obtained autonomy and have often been reluctant to cooperate with other local governments. In acting independently

they have also ignored planning guidelines established by the state.<sup>12</sup> At the same time, since 2006, steps have also been taken to reinforce the significance of the regional level in policy processes. In 2007, Jalisco's COPLADE was dissolved and regional planning transferred to a newly created planning ministry, SEPLAN. With this reform, the complex task of coordinating the activities of different state agencies was to be simplified. At the level of direct policy implementation, changes have been made to fund management, requiring, for example, that at least two local governments jointly apply for funding. Furthermore, a new instrument was introduced, the Unidades Técnicas de Apoyo (UTEAS), in order to assist municipal governments in designing regional development projects.

Having taken stock of the unsatisfactory trajectory of the regionalization process, the government has most recently relaunched the process of strategic 'visioning'. The year 2008 has thus been marked by new attempts at strategic approaches based on more intensive cooperation between state and local governments. The present state government appears to have taken a considerable stake in showcasing regional development as an example of political reform and institutional change; through citizen participation and a process of consultation of municipios in defining long-term development goals of the state, nothing less than 'democratic consolidation' is being aimed for.<sup>13</sup> Whether these ambitious political goals can in fact be achieved remains to be seen. The state's largest municipalities in the Guadalajara metropolitan region still doggedly refuse to cooperate, limiting the impact of any decisions over strategic projects that might be taken. On the other hand, it is also significant that, far from being abandoned, the regionalization process has been recast in terms of major political reform.

### **In Retrospect: Regional Spaces Require a Process and a Strong Local Level**

I have attempted to show how Mexico's 'inconclusive federalism' has hampered ambitious projects of state modernization. The case of regionalization demonstrates, furthermore, the impacts of asynchronous change in informal and formal institutions in Mexico. Decentralization and regionalization can be seen as important steps in reforming political systems. But as is the case in other countries undergoing deep transformation, uncertainty as to the actual trajectory of reform is a central issue. As argued above, Mexico's indecisive federalist reforms have

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12 One case in point is the decision of the city of Zapopan, one of the four *de jure* members of the Metropolitan Council, to approve large urban development projects in areas officially designated as protected aquifer recharge areas. The lands that will be developed were, in fact, public lands that have been appropriated by the municipality for speculative purposes.

13 See a remarkable presentation about political change available through the SEPLAN website <<http://seplan.jalisco.gob.mx/files/3-Conferencia-ReformaDelEstado yNuevoSistemaPolitico.pdf>>.

not sufficiently supported an institutional context in which regions might emerge as a significant level of governance. What has undoubtedly occurred has been an ambiguous strengthening of the municipal level. A new political culture of localism has emerged in Mexico thanks to constitutional changes and decentralization policies but it has been accompanied by a lack of cooperation between localities and exclusionary power politics at the local level. Taking Jalisco's ambitious goals of regionalizing regional policy as a case in point, true intergovernmental and multilevel partnerships have been successful in only a few cases because of a basic lack of support from the local governments. Above and beyond a lack of proper institutional design, political resistance to the region-building project has been and remains strong. Local governments take umbrage to state interference, fearing a re-centralization of power. Mayors, elected for three-year periods only, often find themselves forced to pursue short-term goals rather than to dedicate resources to projects that come to fruition after their terms in office. This situation is exacerbated by the fact that the unabashedly neo-liberal economic agenda of Mexico's governments since the mid 1990s has clearly not generated revenues and resources for local governments. Often unable to carry out new decentralized responsibilities in areas of education, public services and social infrastructure, municipalities are burdened by a lack of capacity to participate as full-fledged partners in policy processes. Finally, because of the refusal of major cities of Jalisco to participate in the regional planning process regionalization has, in effect, been much more focused on peripheral areas of the state than on the urbanized and heavily congested metropolitan core.

Of course, more deep-seated political cultures play an important role in effecting the outcomes of regionalization policies. Citizen participation, one the main objectives of democratic reform, has not been sufficiently encouraged by local governments, especially in smaller communities. Hierarchical, kinship-like ties between local political elites and the citizenry prevail and municipios have generally delegated project development to administrative staff or subcontractors, thus often skirting the issue of public participation. At the state level, non-partisan agenda setting and the long-term programming of strategic development projects are difficult to achieve because power, respect and authority are tied to charismatic leaders and their ability to make rapid decisions rather than effective executive and administrative processes. As a result, discretionary decision-making powers and patronage continue to inform much of the policy-making process. As a partial consequence of this but also as a result of the highly competitive political landscape that has emerged in Mexico since 2000, regionalization in Jalisco and in other Mexican states has been used for the support of partisan interests and in strengthening the electoral bases of the PAN and PRI. Thus, regionalization also has been exploited as a platform for lobbying local governments and engineering political 'deals' rather than elaborating and implementing a strategic vision of development in the various regions of Jalisco.

Despite all these clear impediments to the regionalization process, it is the policies of the government of Jalisco itself that have been the greatest hindrance.

Indeed, there exists no real regional level above and beyond the planning documents of the state. Political bodies or councils that might represent the various regions in a more continuous form are lacking – periodic consultations with municipios or the deconcentration of state agencies to the regions can be important steps but are clearly not enough. An empowered regional body is crucial, both in terms of promoting a greater degree of local participation and of developing strategic lines of action that can survive the frequent changes in local leadership. Regions must also be conceived as new civic spaces for dialogue and debate and not merely for the diffusion of state policy.

Decentralization and regionalization are not processes that can be brought to fruition through decrees or national programmes alone. They both require the efforts of a generation of actors in order to develop new institutions, introduce new technical knowledge and to develop proactive behaviours that facilitate open participation in policy processes. Prominent Latin American regionalists such as Sergio Boisier (1996) have always emphasized that new regions must be constructed internally. Mere top-down regionalization or administrative deconcentration in the familiar tradition of Latin American centralism is insufficient to induce new opportunities for administrative efficiency, local initiative and endogenous regional development. As such, regions can only be as strong as their municipalities and can exist only to the extent that networks of co-operation develop between communities. Regionalization, one of the principal topics discussed in this book, is a political project of great potential importance in promoting balanced economic and social development in Mexico. But it is also a matter of democratic ownership, of promoting citizenship through active participation in decision-making processes and through voicing interests and concerns.

Local governments, working together with the state and national levels, are key actors in this process. Much will therefore depend on the development of Mexico's federalist reforms and whether the 'New Federalism' is eventually able to provide institutional bases for lasting cooperative agreements between different stakeholders in regional development. This would require clearer rules with regard to land and resource use as well to the ability of local actors to guide development in ways they deem appropriate.

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## Chapter 7

# Decentralization and Regions in Brazil: An Economic Development Perspective

Anita Kon

### Introduction

The issue of regionalization and the framing of new regionalist ideas in the Brazilian context clearly demonstrates how ‘universal’ governance and development paradigms clash with local realities, resulting in very place-specific outcomes. In one sense, Brazil is a Latin American country whose political and territorial development has been continuously influenced by regional tensions – perhaps more so than in the case of Mexico, Peru and other countries. Modern Brazilian regimes – autocratic, dictatorial and democratic – have sought to create a sense of national unity by focusing on regions and their development. The strategies applied have oscillated between centralization, decentralization and re-centralization but all have attempted to address Brazil’s huge regional disparities and socio-spatial fragmentation, both which have deep historical roots. However, repeated attempts since the 1950s to overcome this fragmentation have largely failed. With the onset of the economic crisis in the 1980s, economic policies became increasingly focused on macro-economic stabilization, with different repercussions for the regional economies that, again, have had little impact on diminishing regional inequalities.

This chapter attempts to better understand how regionalism and regional policy have evolved in the Brazilian context. ‘Regionness’ has always been central to Brazilian territorial issues and to the consolidation of the Brazilian state itself. Furthermore, with neo-liberal policies and international cooperation increasingly informing political agendas, the question of regional governance capacity has emerged as a major factor in Brazil’s development. Unsurprisingly, however – and as several other contributions to this volume indicate – successful ‘bottom-up’ strategies flourish in the most advanced regions while disadvantaged areas, for a number of reasons, have proven resistant to ‘new regionalist’ practices. The Brazilian state, as the initiator of regional policy, has been faced with numerous failures in its attempts to bridge gaps between poor and rich regions; disparities in living standards remain among the highest in the world. As a means of contextualizing these policy failures, I argue that cultural, social, participatory and economic factors contribute to impede successful implementation of decentralization and regional policies in Brazil. Considerable emphasis will be put on the example

of various 'Multi-annual Investment Plans' that have been implemented since 1996. In concluding, I suggest that three key factors have been responsible for the persistence of regional asymmetries in Brazil: an inefficient labour market, institutional shortcomings hampering policy delivery and, in more general terms of governance, the insufficient development of regional social capital.

### **Regionalism from a Specific Brazilian Perspective**

Regionalism describes an internal socio-spatial tension within the Brazilian state that historically has been based on asymmetric power relationships in economic, political as well as in cultural terms. Regional planning in Brazil has developed out of proposals aiming at the reduction of spatial fragmentation – itself the result of the diversity of territories, climates, demographic characteristics and other cultural traits. For several decades, the state has been a major actor in these attempts, trying to build up the country's infrastructure, offering fiscal and other financial incentives and arbitrating between different forms of capital. Jaguaribe (1975, 14) has conceptualized Brazil's complex regional mosaic in terms of different but interrelated societal processes that represent cultural, participatory, political and economic subsystems. The specific combination of these characteristics shapes the determinants of Brazilian social and economic spatiality. From the perspective of the cultural subsystem, which is one of symbolic interaction, Brazilian society is characterized by substantial spatial differentiation as to belief systems (factual or normative beliefs about the world and the individual's role in it). These belief systems have an impact on spatial structures in that they influence economic behaviours, formal and informal institutions (such as those indicated by Riojas, Chapter 3 of this volume), consumption preferences, technological knowledge and capacities for absorbing new knowledge, techniques and production patterns (Kon 1995, 25).

The participatory subsystem is closely linked to the role and status of individuals within society as a whole. Participation defines the specific functions that members of a society will assume in a particular environment, thus fixing their social condition and their role in the productive and social context. One example is the traditional role of women in some Brazilian regions; their assignment to domestic tasks constitutes a major barrier to entry into the labour market. In other spatial contexts, this can be race or class. The political subsystem refers to the command and/or decision-making structure within a given global and regional regime of political power. Its agents at the global level are the state and its agencies, political parties and institutions as well as other organized groups such as employers and trade unions. The internal politics of regional economic institutions, for example, is reflected in a command and decision-making hierarchy. A regime of political power can also be subject to political pressure exercised by various social groups that are more or less organized in political institutions. The political subsystem accounts for specific governmental decisions, such as the

allocation of resources to a particular regional economy or economic sector, and also influences global economic, legislative and judiciary governmental policies. The command and decision-making structure is reflected in the composition of the productive structure with consequent adjustments at the level of regional development. In Brazil the governance capacities of the public sector are not well developed; the management of political affairs is considerably disorganized, lacks regulation and required comprehensive modernization. Furthermore, decades of debate about political reform have not resulted in forceful responses to the issue of inter-regional conflicts.

Finally, the economic subsystem concerns the allocation of human, natural and capital resources. Human resources refer to the labour force and to consumer demand for goods and services. Natural resources are associated with 'geographical capital', such as climate and other geographic conditions, which might attract private and public capital investments if other conditions such as the existence of the necessary local infrastructure are fulfilled. The capacity to mobilize this form of 'capital' varies in each region and is the result of historical determinants. Capital resources can be physical or financial. The capacity to effectively combine these resources depends on mutually reinforcing interactions of all the above-mentioned subsystems (Kon 1995, 27).

Although these theoretical arguments offer a certain general framework for the analysis of regionalization processes, a vital contextual element must be included: that of state-society relationships. For example, decentralization in Brazil – in effect the devolution of powers to states and municipalities – has indeed taken place but can be seen more in terms of national stabilization than as a strategy of empowerment. The 'downloading' of responsibilities to subnational entities can also be understood in terms of neo-liberal policy adjustments that address challenges to the state's authority and governance capacities. Regionalization has thus been more about risk and cost-sharing than multilevel governance in the European sense.

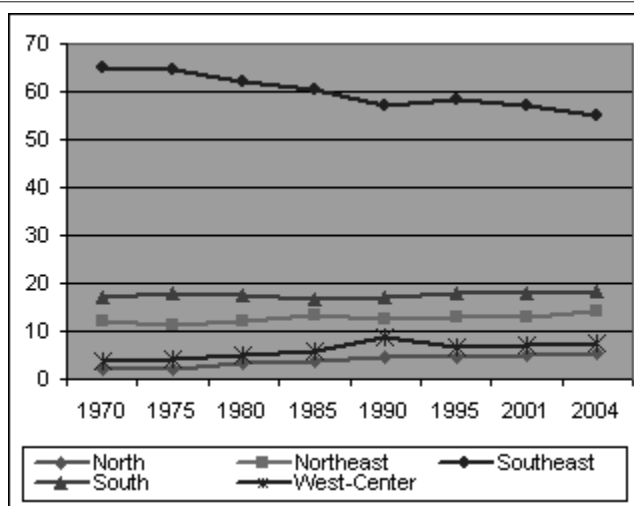
## **The Issue of Regional Disparities**

Before embarking on a discussion of regional policy and regionalization in Brazil, several development trends deserve mention. As outlined above, regional disparities have been a highly political issue and clear distinctions between Brazil's large geographical regions can be made. For the purpose of this study the term 'region' will refer to the divisions introduced in 1967 by the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística), or IBGE, namely the North, Northeast, Central-West, Southeast and South regions (Figure 7.1). As is evident from data for the regional distribution of GDP during the years 1970–2004 (Figure 7.2) and of per capita GDP for the years 1990–2003 (Figure 7.3), regional inequality has been a persistent phenomenon and there has been no significant trend toward convergence in the recent past.



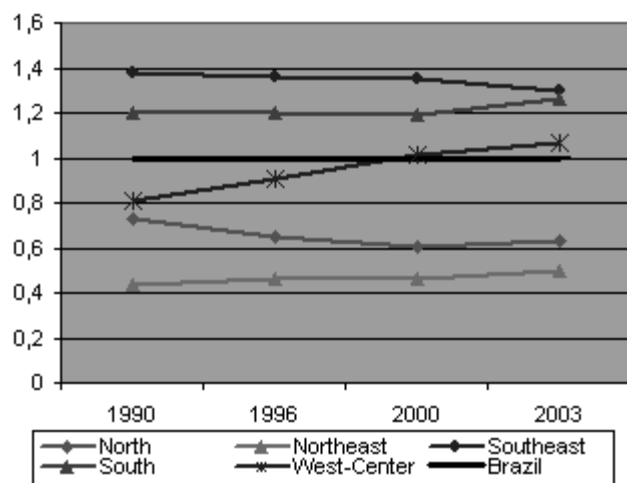
**Figure 7.1 Regions and states of Brazil**

*Source:* Leibniz-institute for Regional Development and Structural Planning, based on Kon.



**Figure 7.2 Regional distribution of Brazilian GDP**

Source: IBGE (2006, adapted by the author).



**Figure 7.3 Per capita regional disparities indexes**

Source: IBGE (2006, adapted by the author).

Economic research data on more recent regional dynamics in Brazil have confirmed this picture; the Williamson inequality index (Williamson 1997), for example, shows a trend towards national convergence of per capita income for the years 1985–1990, followed by a reverse trend in later years.<sup>1</sup> During the first period, macro-economic policies designed to fight hyperinflation negatively affected the growth of industries concentrated in the more advanced regions of the south. The subsequent opening up of the national market for imported goods and the acceleration of technological progress, on the other hand, had a clearly positive impact on these regions; their superior infrastructure and networks linked to major urban agglomerations put them at a considerable advantage against regions of the north. Research by the author based on regional coefficients of intensity differentials (CIDr) for the years 1985–1995 (Kon 1998), presents evidence of considerable regional differences in the evolution of *per capita* GPD, both with respect to amplitude and convergence trends.<sup>2</sup> Thus, the development coefficients of the Rio de Janeiro and São Paulo states (Southeast Region) as well as of the South Region have been continuously higher than the national average throughout the period under consideration, whereas it was negative for the Minas Gerais and Espírito Santos states (both in the Southeast Region) and the Northeast Region. As to the Central-West Region, a negative coefficient can be observed for the years 1985–1989 and 1995, and a positive one for the years 1990–1993. The Cruzado Plan of 1986 clearly favoured the most advanced regions. Among the regions with a high coefficient, São Paulo and the North Region tended more rapidly toward convergence than Rio de Janeiro and the South Region. Among the less developed areas, the Northeast Region's *per capita* GDP rate was lower than the national average by more than 45 per cent.

Several studies on the long-term development of regional income differentials have established the absence of so-called absolute beta convergence throughout the period, that is: poorer states did not experience faster growth.<sup>3</sup> At the same time, the observed trend toward relative beta convergence means that each state would establish its own equilibrium level of per capita income – and that intraregional inequalities would be reduced by half within a few years. This is not good news, because it indicates that present levels of inequality are likely to persist if management of the economy is left entirely to market forces. Finally, sigma convergence, which measures interstate variation in per capita income, has shown alternative periods of convergence (less inequality) and divergence (more inequality) during the last half-century (Azzoni 1997). In short, whereas the 1970s and the first half of the 1980s were characterized by a degree of convergence,

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1 Williamson's index represents a variation coefficient that measures the differences between regional and the national averages in *per capita* income, weighed by the respective participation in the total population.

2 CIDr measures the intensity of regional participation differentials.

3 Notably, studies undertaken by Brazilian researchers such as Ferreira and Diniz (1995) and Azzoni et al. (2000).

structural changes since the 1990s have enhanced the competitiveness of Brazil's most prosperous areas (e.g. in the Southeast and South), thus reversing a previous trend towards decentralization and less regional inequality.

### **Early Experiences in Regional Policy**

Risking a degree of simplification, this discussion of regional policy in Brazil will depart from the national drive for industrial growth that began in the 1930s. As elsewhere in Latin America, a policy of import-substitution, protective measures and direct investments by the state resulted in the creation of a new manufacturing and heavy industrial complex in the main urban centres of the country. By the 1950s, the polarizing effects of this policy had become quite apparent: industry clustered in the South and Southeast Regions, and in particular in São Paulo, while the Northeast, North and Central-West Regions hardly benefited from industrialization. At the same time, the negative effects of over-concentration in the most advanced urban areas became quite apparent. As growth slowed and economic and social problems mounted, there were widely supported calls for 'basic reforms' in the agrarian, urban, banking, educational and other sectors (Guimarães Neto 2002). Subsequently, economic decentralization became the main objective and led to the creation of several bodies specifically designed to promote regional development, such as the Superintendência do Desenvolvimento do Nordeste (SUDENE), the Superintendência do Desenvolvimento da Amazônia (SUDEAM) and the Superintendência do Desenvolvimento Sustentável do Centro-Oeste (SUDECO) within the framework of the national 'Plan of Goals' (*Plano de Metas*), 1955–1961. For the first time, specific spatial policies of the federal government, mainly directed at the least developed regions (Northeast, North and Central-West Regions), were being implemented through public planning.

#### *Regional Planning for the Northeast Region: The Role of the SUDENE*

The creation of the SUDENE in 1959 followed a year of severe drought in the semi-barren Northeast Region. The construction of an increasing number of barrages and dams since the beginning of the century no longer ensured sufficient access to water, threatening the survival of the local population. Class conflicts intensified and the 'peasant leagues' actively militated in favour of an agrarian reform that would give them access to the land owned by the great land owners. Within this context, the region's poverty came to be explained in a much more complex way which included a focus on land ownership and labour relations in addition to the limits imposed by climatic factors and the availability of natural resources.

Under the leadership of the eminent economist Celso Furtado, the federal government set up a Working Group for the Development of the Northeastern Region (GTDN) that made proposals for a) regional economic development based on industrialization and the modernization and extension of the local



infrastructure and b) reforms implemented by the state which would allow for the social re-organization of production in the more humid agricultural areas of the region. First, the creation of a dynamic centre was to stimulate economic growth limited so far to the performance of an export sector for primary products hardly responsive to external demand. Second, the regional agricultural economy was to be better protected against its vulnerability to the region's so-called 'dry weather'. Thirdly, reforms were to promote changes in the traditional and archaic forms of social organization of local agricultural production which were perpetuating the inefficient exploitation of scarce economic resources, forms of labour force expropriation and the precarious situation of small share croppers, and which were seen as the main obstacles to the economic and social development of the region (Guimarães Neto 2002). Among the most important measures was the passing of a law in 1961 that was inspired by regional development policies implemented in Southern Italy and that granted fiscal incentives for economic investments: national firms would be able to deduct up to 50 per cent from their income tax after their industrial projects for the region had been approved.

The GTDN's reform proposals met with only partial success. Conflicts between the various economic and political interest groups that had joined in the elaboration of a regional development strategy and the creation of the SUDENE led to several adjustments and repeatedly threatened the implementation of reforms, some of which had to be abandoned. The military coup d'état of 1964 in particular significantly altered the regional development project and weakened the development agency itself. Thus, the allocation of resources largely reverted to the federal government, and new agencies designed for specific sectors increasingly competed with the SUDENE for an integrated strategic vision of regional development. As a result, the SUDENE's role was confined to promoting a small number of projects aimed at modernizing the regional infrastructure, mainly in the fields of transport and electricity production, and promoting productive activities through fiscal and other financial incentives. In 2001, after having been accused of inefficiency, the agency was abolished and its model of regional development replaced by a new one based on so-called Development Corridors (Eixos de Desenvolvimento).

### *Regional Planning in the Amazon Region: SPVEA and SUDAM*

The Superintendência do Plano de Valorização Econômica da Amazônia (SPVEA) was established in 1953 to promote regional development in Brazil's Amazon region. Improvements in the health, transport and communications infrastructure were to form the basis for long-term sustainable growth that would take into account the specific conditions and necessities of the region. Outstanding among the goals was the creation of a new credit system that allocated loans at reduced interest rates and against reasonable guarantees to projects according to their economic and social productivity; these loans were covered by ordinary banks that relied on rigorous criteria in case of failing reimbursements.

In 1957, the creation of the free trade zone (Zona Franca) of Manaus (ZFM) was aimed at improving the circulation of goods and services through preferential currency regulations for exporters and also at reducing existing flows of contraband goods (Ferreira 2002). In the 1960s, the law governing the SUDENE's right to grant fiscal incentives to national firms (see above) was extended to Amazonia, the first of a series of regional fiscal policies enthusiastically received by the private sector. It gave the Northern region, which had previously suffered considerable fiscal losses, the same comparative advantages as the Northeastern Region. However, early budgetary forecasts were not fully realized, leading to resentment in the less developed western parts of the region against the privileged treatment of eastern Amazonia only one year after the new fiscal system had been introduced. Indeed, western Amazonia continued to suffer from high unemployment rates (about 27 per cent) during this period, and its economic situation was aggravated by its territorial isolation, resulting in high costs for communications and transportation.

In 1966 the SPVEA was replaced by the Superintendência do Desenvolvimento da Amazônia (SUDEAM) whose new policy of fiscal incentives was designed to attract private investors, in particular through a full exemption of import duties on machines and other equipment that were not produced nationally. Nonetheless, these measures did not succeed in bringing effective benefits to western Amazonia; most of the new projects continued to be implemented outside the ZFM, in areas of greater social and economic concentration and with a better infrastructure (Ferreira 2002). Subsequently the federal government established the Superintendência da Zona Franca de Manaus (SUFRAMA) as a self-administered agency with the specific aim of promoting the Amazonian economy, and in particular the development of the region's western areas and of the Manaus free trade zone, and of developing an industrial, commercial and agricultural centre in Amazonia. The new space was to benefit from economic conditions that would allow its development despite negative factors such as its great distance from the consumer centres (Ferreira 2002). Similarly to the SUDENA, the SUDAM was abolished in 2001 to make way for the new policy of Development Corridors.

### *Other Experiences in Regional Planning*

In the 1970s, the Interior Ministry also, but more timidly, started to implement regional planning in two other regions through the establishment of the Superintendência do Desenvolvimento Sustentável do Centro-Oeste (SUDECO), created in 1967 (and then abolished in 1990), and the Superintendência do Desenvolvimento da Região Sul (SUDESUL), created in 1969 (and also abolished in 1990). Directives and objectives for both agencies were integrated into national planning programmes, but later not distinguished as to results in the federal planning context because of the central government's growing focus on global macro-economic questions.<sup>4</sup> The SUDECO's official discourse stressed concepts

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4 For more details see SUDECO (1975).

such as 'developmentalism' and rationalization. The agency's preparation of scientific and political arguments in favour of an administrative division of the former State of Mato Grosso was instrumental in bringing about the establishment in 1979 of the Mato Grosso del Sul and Mato Grosso states. In the 1980s, a period of great social and economic change in western Brazil, the agency developed for the so-called New Frontier Regions under its jurisdiction a new 'marketing concept' for the export of semi-finished agricultural products. But when the project of national development decreased in importance in the 1990s, this resulted in a crisis in planning and deprived state governors of much of their capacity for intervention (Abreu 2001).

During the 1970s and 1980s, various plans and decrees with similar goals to those of the SUDENE and the SUDAM were introduced to regionalize national planning instruments and to implement specific policies aiming at the improvement of land distribution and fiscal and credit systems in those regions. The constitutional reform of 1988 thus extended the policy of fiscal incentives up to 2013 and established constitutional funds for rural economies (support for livestock breeding, the extractive industries, environmental protection, family farming and agricultural reform) as well as for the agro-industrial and industrial sectors (financial support for small businesses, promotion of ecological tourism, etc.). With the onset of the economic crisis in the 1990s, regional planning lost, however, its former importance as scarce national resources were being redirected to solve global macro-economic problems. While the Northeastern and Amazon Regions benefited from the above-mentioned public policies and started to register higher growth rates, this did not result in an overall reduction of economic disparities between these regions and those of the Southeast and South. SEDESUL and SUDECO were abolished in 1990 in view of the new vision of Development Axes, and policies thereafter gave priority to help the less developed regions.

### **Regional Policy Since the 1990s: Between Stabilization and Globalization**

In the early 1990s, macro-economic instability and high inflation rates radically changed the federal government's planning priorities. The Collor Plan I, announced in March 1990, combined monetary reform with drastic economic measures: a temporary freeze of prices and wages, a floating exchange rate, increased and indexed taxation of financial assets, reduction of the money supply, closing of public enterprises and agencies and dismissal of their staff. Money withdrawals from current and savings accounts were limited to Cr\$ 50.000 (ca. US\$ 1.580), the remainder being kept as a deposit at the Central Bank during a period of 18 months at prevailing rates of inflation and an annual interest rate of 6 per cent. Similar measures applied to other financial assets, such as short- and long-term deposits, call money and short-term investment funds. At the same time, the government's policy plans to abolish restrictions on imports and to reduce tariffs had disastrous results for the national industry, resulting in numerous bankruptcies and business

foreclosures. Plans for the accelerated privatization of state enterprises required banking institutions to use part of their assets to meet financing requirements. As early as 1991 there arose difficulties in controlling public debt, because of the economic recession, continuously high inflation and the perspective of further devaluation of the “frozen” assets. Industrial policy, as delineated early on by the new government, did not succeed in stimulating the modernization of the Brazilian industry and in increasing its competitiveness and productivity.

In order to combat inflation, the Collor Plan II of January 1991 introduced new controls on prices and wages. As inflation nevertheless continued to rise, economic recession deepened, unemployment increased and average wages, in particular those of the low-income groups, fell. On the one hand, the contraction of domestic demand reduced imports and expanded exports, resulting in a current account surplus and greater currency reserves. On the other hand, rising domestic interest rates attracted foreign capital speculators, and the emission of new money increased means of payment as well as fiscal and monetary pressures. The next government under President Franco gave priority to public sector adjustments through the so-called Economic Stabilization Plan (known as the ‘Real’ Plan), which suggested cuts in federal expenditures, budget adjustments for regional states and cities, balanced accounts for the regional state banks and an acceleration of privatisation programmes (Lacerda 1999). While monetary stabilization was finally achieved, it resulted in several macro-economic misalignments such as greater budget and current account deficits and greater dependence on foreign capital in order to finance public expenditures. This led in turn to an increase of foreign debt and to the consolidation of the restrictions that prevented more rapid economic growth. In addition, there was a constant necessity to make fiscal adjustments at the expense of economic and social programmes to allow the public sector to maintain its capacity to service debt.

Along with monetary stabilization, the second half of the 1990s also brought a revival of the regional ‘question’. Federal planners embarked on the elaboration of comprehensive development policies based on so-called multi-annual investment plans (PPA being the Portuguese language acronym). Three PPAs, those of the 1996–1999, 2000–2003 and 2004–2007 programming periods, will be discussed here. The first of these ambitious plans, entitled ‘Brazil in Action’ Plan (*Brasil em Ação*), explicitly recognized the state’s role in Brazil’s development during the twentieth century while highlighting the harm done by extreme growth of the public sector (Ministério do Planejamento, Orçamento e Gestão 1995, ix). Promoting a new role for the state, the Plan outlined three basic tasks:

- a. consolidation of the currency, the Real, as the major condition of economic stabilization,
- b. revival of economic growth, and
- c. job creation and an increase in real wages.

To consolidate the achievements of the Real Plan it would be necessary to preserve the legal and constitutional changes made to the fiscal, taxation and social security systems in view of adjusting public accounts while at the same time introducing monetary and exchange rate policies compatible with monetary stability and the revival of investments. However, only little progress was made during the four years of the Plan's implementation (Feres 2002).

In order to revive investments and economic growth, the Plan advocated institutional changes that would favour increased domestic savings and guarantee a stable environment for decision-making that would allow private investors to play their 'role as the economy's dynamic axis' (Ministério do Planejamento, Orçamento e Gestão 1995, x). For this, the state attempted to adopt a more managerial approach in using its basic instruments of action. The Plan also pleaded for an annual economic growth rate that would ensure monetary stability in view of increasing employment and real wages, an objective not achieved until the end of the five-year period.

In addition, several directives of this plan addressed strategies of reducing spatial and social inequalities once inflation was under control. This strategy for regional development was to incorporate the spatial dimension as an endogenous variable and imply an 'inclusive, integrated and consistent vision of the entire national territory' (Ministério do Planejamento, Orçamento e Gestão 1995: 14). It was to be based on seven development corridors within which projects and actions were to be implemented in order to promote national and continental (!) integration. The Plan thus established the following priorities (Ministério do Planejamento, Orçamento e Gestão 1999):

- a North-South Integration Corridor to strengthen the transport infrastructure necessary for marketing livestock products from the northern woody pastures and agro-industrial products;
- a Western Integration Corridor with investments concentrating on the improvement of the railway network and the restoration and reconstruction of the main highways linking the Acre and Rondônia states of the Northern Region with the Central-West and South Regions in order to consolidate the recent expansion along the agricultural border;
- a Northeast Integration Corridor aiming to improve and expand the regional basic infrastructure, and in particular for transport of freight, in order to ensure the region's supply with products from the Southeast and Central-West Regions and to increase the competitiveness of products from the Northeast in domestic and foreign markets, thus integrating the Northeast into the general economic and social development of the country;
- a Southeast Integration Corridor to provide adequate road transport with a strong impact on the efficient transport of freight;
- a Southern Integration Corridor to provide adequate intermodal transport links to the South and Southeast Regions;

- a corridor providing an exit to the Caribbean favouring projects that would consolidate the Brazilian highway network in order to facilitate access to markets in the Caribbean and on the Atlantic coast;
- corridor providing an exit to the Pacific allowing access by land to Peruvian and Bolivian ports on the Pacific coast.

The national development corridors clearly focused on long-distance transport infrastructure (road and railway corridors and meshes) with the aim of increasing capacities and lowering operational costs, thus facilitating access to markets and improving competitiveness for regional products and economic systems. But they also took into consideration economic potentials and productive vocations of the concerned regions and the reinforcement of their social and economic infrastructure (Azeredo 1998). 'Brazil in Action' was to determine the strategic content of the various projects and to supervise their efficiency. A first step was the definition of a set of structuring actions initially composed of 42 projects in the fields of economic and social infrastructure (e.g. agriculture, habitat, sanitation, health, labour relations and education).

A critical analysis by Araujo (1999) of the economic infrastructure projects has shown that priority was given to the integration of Brazil's dynamic spaces into foreign markets, and in particular to those of Mercosul and other South American countries; this was consistent with the idea of competitive integration. But the projects were also intended to promote national economic integration. A such, investments were to benefit already competitive development poles in the Southeast and South Regions as well as border areas in the Northwest and dynamic centres in the Northeast and North Regions with a view to developing the economic potential of these traditionally backward areas.

Later on, but still during the implementation period, the development corridors were redefined. This decision was criticized for focusing too much on increasing the export potential of already competitive areas while neglecting those suffering from neglect by private investors (Araujo 1999, 85). There had indeed been a shift away from regional development toward sectoral development in the Ministry for Planning, Budget and Management's economic vision.<sup>5</sup> In short, in the final year of the Brazil in Action Plan, the objective prevalent during the 1970s and 1980s of regionalization as a way of reducing inherited interregional social and economic inequality was abandoned in favour of federal public policies that emphasized market forces and integration into the global economy (Araujo 1999, 86). Nonetheless, Brazil in Action and the corridors of national development it defined have succeeded in reviving interest in governmental planning as a long-term economic vision and introducing a new conception of regional policy implemented through federal and subnational resources as well as private sector initiatives.

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5 Another instance of this was the omission of regional development as a policy concern in an April 1999 law on public expenditures.

*'Brazil Advances' (Avança Brasil): The 2000–2003 PPA*

The main aim of the 2000–2003 PPA was the restructuring of governmental action through a set of programmes conceived as management units, with a clear definition of their objectives and results, that would stimulate investment and strengthen the leverage of extra-budgetary resources through partnerships with the private sector as well as a better integration of regional states, cities and the federal district in the face of financial restrictions imposed on the public sector. The national directives of the so-called 'Government Strategic Orientation' based on an improved version of the Development Axes and in accordance with the previous PPA, were to address the following issues:

- a. consolidation of economic stability through sustainable growth;
- b. promotion of sustainable development in view of creating jobs and better income opportunities;
- c. fight against poverty and promotion of citizenship and social inclusion;
- d. consolidation of democracy and defence of human rights.

To this, the National Congress, in its Law on Budgetary Directives for the fiscal year 2000, added:

- e. the reduction of interregional inequality and
- f. the promotion of rights for minorities and victims of prejudice and discrimination.

Regional programmes and actions were implemented under the responsibility of the Ministry for National Integration, in charge of regional development. The regional directives were based on sectoral objectives (SEPR 1999) that were reflected in 10 specific programmes:

- Sustainable Development for the Amazon Region;
- Sustainable Development for the Central-West Region;
- Sustainable Development for the Northeast Region;
- Policies for the Management of National Integration aiming to provide support for the planning, evaluation and supervision of programmes in the field of national integration;
- the Rondonia Farming and Forestry Plan (PLANAFLO) intended to promote economic self-sufficiency in Rondonia state through improvements to living standards of agricultural producers and to the exploitation of natural resources;
- Agro-environmental Development of the Mato Grosso state aiming at the social and economic development of the state's population through striking a balance between employment and natural conservation;



- the San Francisco River Transport System intended to guarantee hydrological security in view of sustainable development in the semi-barren northern parts of the Northeast Region;
- Irrigation and Drainage promoting sustainable development in areas with irrigated and irrigable agriculture;
- the PROÁGUA Infrastructure aiming to ensure the availability of water of good quality for productive and consumption purposes through giving priority to the construction of barrages, dams and aqueducts;
- Civil Defence in view of preventing natural disasters, reducing risks linked to them, providing help to populations affected by them and reconstructing affected areas.

The main problems encountered during the management and implementation of this PPA were the discontinuous flow of resources, insufficient coordination with other agencies, a lack of qualified staff and inadequate infrastructure. Regional states and cities also became highly indebted which led to the failure of numerous programmes.

*'Everybody's Brazil' (Brasil de Todos): The 2004–2007 PPA*

The main objectives outlined by the 2004–2007 PPA identified five dimensions for a long-term strategy: a social, economic, environmental, democratic and one explicitly regional dimension. This most recently implemented PPA thus sought to embark on a more comprehensive and inclusive approach to territorial development which in many ways signalled a departure from technocratic management practices. Importantly, the democratic dimension was aimed at strengthening citizens' rights and, more generally, human rights (political, social and civil), transparency and accountability of the public sector. This democratic element of the plan was also to be facilitated through policies of decentralization, participatory planning and more accessible public administration. Characteristically, issues of public security and the defence of national sovereignty were also included in this dimension.

The social dimension was aimed at combating social exclusion and inter-regional income disparities. In this respect, the government's strategy was to be guided by the notion of basic rights for citizens to ensure universal access to essential public services such as social security, health and education. Priority was to be given to the most vulnerable segments of the population and the assistance of fifty million Brazilians living in extreme poverty. Public policies were to focus on job creation and education as well as on support for micro-credit systems and family agriculture. The efficiency of these programmes was to be ensured by the registration of the beneficiaries.

The aims of the economic dimension of this PPA were higher productivity and employment rates, the creation of a mass consumer market, a higher level of investment and the expansion of competitive activities with a view to reducing external vulnerability. Steady growth of incomes and the creation of more and



better jobs were to be achieved through increased competitiveness thanks to the better coordination of and stimuli for investments that would improve the productive and innovative capacities of enterprises. A major priority here was the creation of an appropriate infrastructure that would reinforce the export sector and allow for competitive import substitution. This would require the strengthening of the general financial system, with an emphasis on financing investments. The environmental dimension was aimed at sustainable and long-term development. This would include the 'right' to a healthy environment: the deterioration of Brazil's ecosystems was seen as closely linked to social deterioration of the poor through their lack of access to clean air and drinking water, basic sanitation and housing. Finally, Brazil de Todos included a specifically regional dimension aimed at the reduction of regional disparities.

To achieve these objectives, the Plan suggested a profound reform of the operational instruments of regional economic performance, leading to the establishment of constitutional funds, regional incentives and new regional agencies, all exclusively directed toward the North, Northeast and Central-West Regions. The new instruments were to be shaped in a way that would promote territorial integration and reduce social and economic spatial disparities at the national, regional, sub-regional and local levels. The first step was to be the creation of a National Fund for Regional Development as suggested by the Proposal for Fiscal Reform under consideration by the National Congress. Finally, the Plan stressed the primacy of future integration at a continental level (Mercosul) and advocated a strategy that included the strengthening of a common logistics infrastructure and interregional cooperation. This was a radical departure from earlier views on regional development as its main orientation of Brazil de Todos was the West, thus counterbalancing the extremely high concentration of economic activities on the country's eastern coast.

## **Decentralization Processes in Brazil**

In addition to regional policy – which effectively dates from the 1950s – the much more long-term issue of decentralization has had significant impacts on regionalization and regionalism in Brazil. Basically speaking, the purpose of decentralization policies has been twofold, to promote national unity and to counterbalance the overwhelming power of the South and Southeast – i.e. the urbanized core region around Sao Paulo and Rio de Janeiro – within national politics and economic life. Decentralization began as a state policy with the 1891 constitution which established a federalist arrangement for power sharing between the 26 states. Despite long periods of military rule, little was done to undo the federalist consensus or to hinder the operation of state and local government. Wayne A. Selcher (1989) has argued that Brazil has oscillated between periods of centralization and decentralization. Centralizing tendencies intensified under the 'Estado Novo' of Getúlio Vargas (1937–1945) and peaked again under a series of

military governments that lasted from 1964 to 1985. At the end of the 1980s, the decentralization process received new impetus through constitutional reforms that provided greater fiscal autonomy for state and local governments. These reforms also transferred a number of political functions and policy remits to the states, for example in the areas of education, social infrastructure, environmental protection, public health, planning and economic development.<sup>6</sup> Similar to the case of Mexico (see Verduzco, Chapter 6 of this volume), however, budgetary constraints did not allow for a commensurate transfer of financial resources in order to carry out 'decentralized' public policy.

Brazil remains a country where regional differences are a defining element of national consciousness. Political elites from poorer regions to the north of Brazil's urbanized core area (i.e. North, Northeast and Centre-West Regions) have often emphasized their disadvantaged status within the nation in order to bolster local political support but also to obtain greater material resources. Political cultures in Brazil's northern regions are often characterized as clientelist and paternalistic and lacking a strong civil society or powerful entrepreneurial elite (1998). This has resulted in populist governing styles and localist policies oriented towards maximizing transfer payments and development support from the centre. As Ina Elias de Castro (1992) has argued, political elites in the Northeast have developed a powerful discourse of regional 'need' that feeds into national political debates about centre-periphery conflicts. As such, transfer dependency forms an important basis of political power in Brazil's lagging regions and appears to slow processes of institutional modernization. In stark contrast, the more prosperous and dynamic states in the South have expanded their international economic ties. One example is the state of Rio Grande do Sul's success in economic development and attracting Foreign Direct Investment. This has been attributed, in part, to the state government's ability to work effectively with the private sector and to develop strategic transnational networks (Nelson 2003).

These North-South contradictions within the national context are long-term in nature, but that does not mean that the regional question in Brazil is a static one. A shift in regional economic orientations is clearly taking place as Brazil integrates into continental and global economies. For example, recognizing the 'centrifugal' effects of economic internationalization and rapid growth in other parts of the country, the wealthy regions of Brazil's southern and coastal areas, centred on Sao Paulo and Rio de Janeiro, can no longer impose their political will nationally but must work with other states in order to negotiate policies in their interest. Economic relations within Mercosul have meant the Centre-West Region has begun to gravitate toward Bolivia and Paraguay while the South and Southeast Regions are intensifying their economic ties with Argentina and Uruguay. The poorer regions of North and Northeast, at a geographical disadvantage, risk being

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6 Power in the federation is distributed in such a way as to even out the political dominance of the South. The Constitution of 1988 provides that a minimum of 8 but a maximum of 70 federal deputies per state can serve in the national Chamber of Deputies.

excluded from emerging transnational economic networks – although they are lobbying hard for policies that will connect them better with the south. Membership of Mercosul will thus also add to national-regional tensions; regionalist ambitions to pursue goals of economic expansion will confront federal attempts to provide, on the one hand, the legal and institutional frameworks necessary to cooperate effectively with neighbouring states and, on the other hand, to maintain policies targeted at national unity.

Given this considerable regional diversity within Brazil and increasing pressures to internationalize economically (not only in terms of membership of Mercosul), it is not surprising that questions of decentralization and regional empowerment are subject to ongoing processes of renegotiation. Brazil's record on decentralization is not easy to evaluate. Under the Constitution of 1988, Brazil effectively decentralized fiscal policy to the detriment of national macroeconomic and stabilization policies. As is well known, the states incurred large amounts of debt through heavy borrowing, forcing the national government to step in during the 1990s. However, this did not result in an all-out 'rollback' of fiscal decentralization; instead states and local governments continue to enjoy a relatively high degree of fiscal autonomy. Value added taxes, for example are collected by both states and the federal government. In the fiscal federalist contest that has ensued since 1988, the federal government has increased taxes in order to replenish its revenues while state and local governments have equally sought to enhance their finances, either through new taxes or redistributive transfers (Castanhar 2003).

Mendonca (2004) has argued that despite its ostensibly progressive features, Brazilian decentralization has basically 'downloaded' tasks and responsibilities, but not power, to local levels of government and that, furthermore, civil society has been excluded from power-sharing. Major strategic programmes and investments (such as the PPAs) remain federal government prerogatives, while no consultation or coordination process with state and local actors has been put into effect. At the same time, decentralization policies affecting local governments (municipalization) have had some perverse effects and appear to contribute little to effective regional governance. The Constitution of 1988 delegated powers of creating new municipalities to state governments. Through subdividing existing towns and thus creating new entities, the states hoped to increase their share of federal transfers (the total number of municipalities jumped 31.4 per cent in ten years). Furthermore, the practice of downloading vital social service tasks to all municipalities, despite their very different regional resource bases and governance capacities, has overburdened local authorities. Whereas the constitutional reform of 1988 has given more autonomy to local decision-makers in the field of public investments into infrastructure, this transfer of competencies has, in many cases, led to increased fiscal deficits and higher debt, and many regional states and municipal governments have become insolvent.

## **Regional Development in Brazil: Some Fundamental Quandaries**

Regional planning and its implementation have indeed been significantly hampered by structural bottlenecks which can be linked to specific cultural, political and economic characteristics at the state and local level. Less advanced regions do not always have the administrative capacity necessary to promote technological modernization and have been unable to raise education and qualification levels of the local workforce. Stimuli for investments have therefore proved inefficient in the face of competition from the most developed regions that can deliver greater returns in a shorter time. Indeed, as pointed out by theories of spatial localization, Brazil's most advanced regions are able to offer better conditions: lower transaction costs, a better transport system, more dynamic markets, better qualified labour, availability of energy, water and other, intangible, elements, in addition to fiscal and other financial instruments better geared towards productive dynamics.

The crucial role of regional competitive advantages has been confirmed by recent research. The author (Kon 2006, 184), for example, has shown that most of the foreign direct investment (FDI) in the services sector during the period 1998–2000 ended up in the Southeast Region, and in particular the São Paulo urban agglomeration. At the same time, Haddad and Perobelli (2002), who have analysed in great detail the national and international trade flows of Brazilian states and of specific regional blocks in the late 1990s and their impact on regional development, have concluded that the economic performance of the developed regions such as the Central-South and Southeast Regions, where economic activity tends to concentrate, plays a crucial role in the absorption of development by less advanced regions through inter-state commerce. According to them, inter-state commerce can generate a greater potential for propagating feedback effects than international trade. However, the impact of these effects is in part determined by the hierarchical structure of Brazil's regional economic system, as shown by the importance of São Paulo's inter-state commerce for the national economy. This appears to call for regional development policies as corrective measures. But as Werner Baer, Eduardo Haddad and Geoffrey Hewings (2002) have shown in their analysis of Brazil's regional context, 'neo-liberal' policies during the 1990s, which have put greater emphasis on the role of market forces, considerably restricted the federal government's options to promote regional development growth in less developed regions.

This raises a number of questions about regional development in Brazil. In earlier decades, political decisions about the mechanisms employed to reduce unequal regional development were largely influenced by conflicting theories on development, notably Albert O. Hirschman's (1958) model of concentrated development and Gunnar Myrdal's (1968) hypothesis of 'accumulative causes'. The first defends the principle of investing available resources in socially and economically more advanced regions in order to ensure bigger and faster returns that would later on 'trickle down' to less privileged areas; the second evokes the

need for direct local intervention in less developed areas to prevent a cumulative dynamic of regional underdevelopment.

In the 1990s, emphasis was placed on solving problems of macro-economic instability (mainly hyperinflation) at the expense of regional development. During the second half of the decade, the financial crises in Russia and Southeast Asia further threatened Brazil's already fragile macro-economic environment, as developing countries faced increasing difficulties in obtaining loans. At the same time, Brazil's export sector lost its former international competitiveness, in particular with regard to products of a higher aggregate value. In addition, an unbalanced current account and fiscal adjustments introduced to consolidate stabilization led to a short-term economic policy of high real interest rates and excessive taxation of the productive sector in combination with an appreciation of the exchange rate. How then has governmental intervention affected regional economic development? As Azzoni (2000) has noted, no conclusive evidence permits us to answer this question. According to several studies, periods of strong intervention in favour of regional development, as the second half of the 1950s, or during which there existed explicit regional policies, as from 1975 until the mid-1980s, have seen a decrease in regional inequality. But strong economic growth is normally associated with periods dominated by sectoral and macro-economic policies at the national level, at the price however of rising regional inequality. It therefore seems evident that regional development cannot solely rely on public policies that create stimuli and incentives for regional economies. Rather regional dynamism depends on the successful creation of a global macro-economic environment that will have a positive impact on regional economies, thus preparing the ground for efficient regional policies as well as for public and private investments in the regions. These in turn will have to take into account specific regional characteristics, and in particular the need for better qualification of the labour force or adequate infrastructures.

Thus, extensive empirical research undertaken by Azzoni et al. (2000) has shown that investments in education and public infrastructure for the regional labour force are a crucial factor in the reduction of regional inequality as income levels and economic growth are closely linked to the qualification of the labour force.<sup>7</sup> But programmes of further education, vocational training or professional retraining are mostly nonexistent, as are mechanisms of social protection such as unemployment insurance and income guarantees, or selective credit and micro-credit facilities that would boost the labour market. And where they do exist, missing coordination between the concerned agencies or their programmes often leads to wasted efforts and resources. The lack of job and income opportunities, social mobility and legal protection for workers must be seen as a key factor in the perpetuation of regional inequality (Kon 2007).

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7 Workers' educational qualifications are the single most important variable when it comes to explain interregional differences in wage levels. It accounts for 20–30 per cent of the differences observed (Azzoni and Santos 2000).

Another key factor is that of institutional shortcomings. From the micro-economic point of view, Brazil lacks efficient logistical infrastructure and adequate institutions with which to regulate the behaviour of market agents, and, more importantly, managerial and technical capacities to efficiently organize and supervise programmes designed to promote national and regional development. Federal resources, for example, have often been distributed without regard to equity as the allocation of scarce national savings and, more generally, financial resources are still dominated by objectives of economic stabilization introduced with the Real Plan in 1995. In addition, complex bureaucratic processes, a lack of coordination between concerned agencies and programmes, a lack of qualified staff for the management and execution of projects and inadequate infrastructures with which to carry out decentralized programmes have frequently delayed the apportionment of financial and other resources. Information is insufficiently disseminated and there are no instruments of evaluation to make necessary adjustments in time. Other structural deficiencies are a missing legal framework that would serve as a basis for the implementation of public measures, the lack of a population registry that would allow policies to target specific categories of citizens and mechanisms for the efficient distribution of benefits. The various institutions in charge of distributing these benefits are indeed weakly integrated and have therefore been unable to achieve distributive justice.

## **Conclusions**

Despite the many decentralization and regional planning initiatives undertaken in Brazil, there does not appear to be any national consensus with regard to a true decentralization of public policy and the political mandates necessary to deliver it regionally and locally. As a result, a major constraint to anything that could be equated with regionalization (essentially the strengthening of the 26 states) is the lack of capacity on the part of subnational governments and civil society. Decentralization has only really had an impact in areas of social infrastructure and environmental protection where local governments have been allocated a greater implementation role by the national government. To an extent, decentralization and regional development as they have developed in Brazil can be seen more as mechanisms of stabilization than as strategies of empowerment. These two policies can also be understood in terms of neo-liberal adjustments in order to deal with challenges to the state's governance capacities and, perhaps from a European perspective, are more about risk and cost sharing than multilevel governance. On the other hand, Souza (1997) and Selcher (1998) both argue that the degree of social, economic and political heterogeneity in Brazil makes it difficult to pass judgement about the effects of decentralization. According to Selcher (1998, 46):

the Brazilian experience has brought with a great deal of creative experimentation that is contributing to significant institutional change: 'on the positive side,

participation, creativity, fiscal responsibility, and change of political style have proven to be more effective solutions than the old systems of regional claims, entitlements, patrimonialism, or clientelism’.

Within the context of the recent intensification of economic globalization and acceleration of technological progress, Brazil’s regions must be able to adapt rapidly to new demands on their resources and to significant changes in the international environment. What Brazil as a society must strive for in future is a more efficient use of country’s considerable social capital. Social capital in this sense can be understood as those parts of the resources which derive from the social structure and are present in such aspects of social organization as collective norms, social networks and mutual trust. Social capital constitutes an individual asset but also facilitates cooperation between individuals, providing mutual benefits to each of them. It thus can improve the return on investments in physical and human capital (Coleman 1990, Putnam 1993).<sup>8</sup> Several studies undertaken by the World Bank (Woolcock and Narayan 2000) have emphasized the crucial importance of stimulating investments in social capital at a micro- and macro-level in order to promote economic development and democratization. According to Miranda and Monzó (2003), such stimuli to investments, whether being made by the state or by private actors, create favourable conditions in which economic and social agents more efficiently participate in overcoming obstacles that block or delay the dynamics of development.

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8 Social capital can thus be used strategically by individuals or groups to accumulate new productive resources or other forms of capital in view of eliminating disparities. But its unequal distribution can also lead to the social exclusion of people that are less endowed with it.



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## Chapter 8

# Redefining Regional Policies in Venezuela: From Decentralization to Recentralization

Catalina Banko<sup>1</sup>

### Introduction

For more than half a century, Latin American scholars have actively debated the role of the state in regional policy. One of the most controversial issues within this context has been that of the state's role in national economic performance, particularly in view of increasing economic disparities in most Latin American countries – and despite official proclamations of economic reform and balanced growth. In the case of Venezuela, for example, centrally devised and orchestrated projects of regionalization undertaken in the 1960s and 1970s resulted in much critical reflection and formed the basis of subsequent attempts at democratic decentralization. The main objective behind decentralization policies was to promote a greater participation of civil society in decision-making processes at the local and regional level – a project that was largely informed by neo-liberal ideologies hostile to state intervention. With the advent of Hugo Chávez Frías' presidency in Venezuela, and the project of constructing 'socialism for the 21st Century', clear signs of a recentralization of administrative and political authority have become evident.

As this chapter will demonstrate, the experience of political decentralization in Venezuela is still rather recent, but it invites critical reflection, both in order to evaluate its results and also to conceive new strategies aimed at democratic and balanced development. However, the subject is quite delicate, and debates over national decentralization policies continue to rage. In the case of Venezuela, the new millennium has brought with it polemic discussions about the future contours of regional development policy and regional autonomy. In order to 'decode' Venezuela's regionalization experience, this chapter will thus discuss trajectories of regional and decentralization policies in the country from the 1960s to the present.

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1 Text translated by James Scott.

## The Centralist Model: Regional Development Corporations

One of the most characteristic features of the Venezuelan economy is the commanding role of the state; this is a legacy of oil-based economic development and the increasing fiscal importance of petroleum exports since the 1950s. Through the redistribution of petroleum-based income, the state – which had already consolidated a centralist form of government in the nineteenth century – was able to emerge as all-powerful, effectively undermining all authority of provincial governments. The politically centralizing push to ‘harvest petroleum’ (*sembrar el petróleo*) coincided, furthermore, with the general paradigm of internally focused economic growth and import-substitution promulgated by the Economic Commission for Latin America (CEPAL) (see Scott, this volume). This paradigm, influential between the 1940s and 1960s, interpreted national industrial and agricultural development as the key to a more independent economic future for Latin America. However, in the case of Venezuela it accentuated a concentration of growth in northwestern and coastal areas and exacerbated regional disparities. A number of urban centres began to grow rapidly and in a disarticulated manner, creating enormous problems in terms of infrastructure and service provision. During this period of rapid and unbalanced growth based on a more or less hegemonic paradigm of *national* development, there was little concern for regional development or for the specific characteristics of Venezuela’s various regional spaces.

Reacting to uncontrolled growth, the state attempted to address problems associated with increasing regional disparities through a series of redistributive measures. This, in turn, reinforced the state’s interventionist role. In 1958, a Central Office for Coordination and Planning (CORDIPLAN) was established in order to promote balanced regional development through ‘growth poles’. The assumption informing this strategic policy was that induced industrial development would spontaneously result in cumulative processes of local growth (Prebisch 1984). One of the most prominent examples of this type of development policy was the region of Guayana, designated by the central government as a ‘growth pole’ in order to diffuse technological innovation and promote the industrialization of national peripheries.<sup>2</sup> The choice of Guayana as a programme region was due to its rich natural resource base and the promising outlook of creating an industrial complex based on minerals, hydroelectric power and, somewhat later, the mining of bauxite, gold and diamonds. In order to promote regional development in Guayana, the ‘Corporación Venezolana de Guayana’ (CVG) was created in 1960. This corporation was established as an independent institution directly responsible to the Venezuelan president. As such, the CVG was controlled directly from the centre and this centralization was seen as the most effective way of managing complex and large-scale investments in mining, steel industries and

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2 One of the initial problems of creating the Region of Guayana was its sheer size and a resulting difficulty in defining its borders (Friedmann 1980, 456–60).

power generation. In addition, experts such as John Friedmann (1980, 457), who consulted the government and worked within the project framework, argued that a powerful institutional structure such as the CVG was necessary in order to manage the complex relationships between industrialization, agriculture, transportation, social services and urban development.<sup>3</sup>

Steel production and hydroelectric power provided a basis for rapid industrial growth, converting Guayana and the newly created urban centre of Ciudad de Guayana into a zone of attraction within less than a decade. The initial success of the Guayana experience motivated the government to induce economic growth in other regions. After 1964, development corporations based on the centralized model of the CVG were established in other areas of the country. However, the application of the Guayana model to other regions proved to be a risky proposition. For one thing, Guayana as a 'region' was colonized relatively late in Venezuela's history, and the CVG could develop its plans without conflicting with pre-existent social and settlement structures. This was not the case in the rest of the country; here, regional development strategies tailored to specific economic and social conditions were needed. In the case of the coastal areas of Venezuela's eastern states, development problems were in fact exacerbated by the rapid growth of Guayana and a resulting outmigration of persons seeking better paying employment.

In the opinion of John Friedmann (1980, 465–6), a country of the size of Venezuela simply could not 'support more than one attempt of concentrated and centrally administered regional development'. As a result, the system of state controlled regional corporations proved incapable of achieving the ambitious aims of balanced growth. In particular, this regionalization policy was unsuccessful because of its failure to use productive resources effectively and to properly assess the social and environmental costs of industrial development (CORDIPLAN 1981). In addition, this development strategy led to an over-concentration of population in the central areas of the country. By 1971, almost 67 per cent of the country's productive capacity was located in the central region; between 1941 and 1971 Venezuela's northern central coast increased its share of the national population from one-quarter to over one-third. In contrast, Guayana's population share rose from 3.2 per cent to only 4.1 per cent in the same period.

### **Administrative Deconcentration and Regional Policy**

By the end of the 1960s it was clear that the errors of the growth pole strategy would have to be addressed by new policies. In 1969 a 'Regionalization Decree' was pronounced that represented an important turning point in the institutionalization of Venezuela's regional policy. This decree established that

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3 In the process of creating the CVG much advice was given by international experts. John Friedmann's role is especially important here as he brought the experiences of the Tennessee Valley Authority to bear on the Guayana 'experiment'.

'in order to be comprehensive and harmonious, development would need to be regional in focus, address all regions and spatial levels as well as all sectors and strata of the population' (FUDECO 1973, 12). The innovative aspect here was to divide the national space into eight administrative regions (Capital, Central, Centre-West, Zuliana, Andina, North-East, South and Guayana) in which the respective state governors would have a greater political role. Nevertheless, at this point the state governors were designated by the national executive – as stipulated in the Constitution of 1961 (FUDECO 1973, 4–6).<sup>4</sup> This regionalization scheme introduced the concept of deconcentration in order 'to rationalize, dynamize and adapt' public administration, to avoid the high economic and social costs of centralized functions and to enhance the states' role in formulating investment programmes. Each new region was to be served by a Regional Coordination Committee (Comité Regional de Coordinación), made up of the governors and representatives of the regional planning and coordination offices.

Nevertheless, despite the importance of these innovations, deconcentration was not clearly defined as a policy or in administrative terms and no mechanisms were established to insure public participation. In essence, centralist practices continued to dominate the regionalization agenda, a situation that was exacerbated by the oil boom after 1973 and the state's increasingly interventionist role in the national economy. Indeed, according to the fifth National Plan (1975–1980), public expenditure became one of the determining factors of resource allocation. Further proof of centralizing tendencies in Venezuela was the 1976 creation of the Funds for Regional Corporations, administered by CORDIPLAN and responsible for financing development projects. Additionally, oil revenues were used to create large state enterprises in order to carry out ambitious regional development projects. In other words, tendencies of excessive interventionism on the part of the state were facilitated by increasing public revenues. This process also served to strengthen the role of clientilism and of elite groups within the political system, further eroding attempts to redistribute political power.

However, this interventionist strategy, based on what was essentially a logic of 'petro-rentier' development, soon reached its limits. In order to implement the many ambitious regional development projects envisaged in the national plan, external funding sources became necessary and Venezuela's foreign debt increased rapidly. As oil prices decreased in the late 1970s and Venezuela's balance of payments deteriorated, this regional development model collapsed, accompanied by a severe economic crisis in the early 1980s. The ensuing debt crisis resulted in high rates of inflation, greater corruption, a contraction of manufacturing activities and a strengthening of clientilist power structures – all of which served to erode confidence in Venezuela's institutions and political system.

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4 The logic behind this policy was to create regions out of existing territorial units (states) and thus to realize economies of scale in regional planning and large infrastructure projects (FUDECO 1994, 9).

## Reform of the State and Decentralization

Rapidly increasing economic woes resulted in the debt crisis of 1983 which ended the relative stability of the Venezuelan currency and, with it, a long period of stable economic growth. Regional development plans lost momentum; only the CVG was able to maintain and strengthen its economic power – at a high social cost – through a concentration of heavy industries and energy generation. Despite its peculiarities, economic recession in Venezuela was part of a larger crisis that affected Latin America, the gravity of which drove Raúl Prebisch (1984, 14), the intellectual force behind the concept of ‘desarrollismo’ (developmentalism), to comment that: ‘development has strayed from its social foundations’, putting and end to the ‘the myth that we can develop in the image of and in similar ways as the centres’.

Economic crisis was accompanied by increasing corruption and clientilism, a decrease in the quality of public services and a general weakening of Venezuela’s political institutions. With political parties and political elites discredited, it became essential to legitimize anew public institutions and to promote democratic reforms. However, despite widespread debate over the need for reform, the centralized administration of the CVG remained unchanged and was even strengthened in 1984 through a presidential decree. This decree established the CVG as the coordinating body for all state enterprises within the region and its president was elevated to the status of government minister, effectively subordinating local and regional institutions (Gómez and Maya 1990, 34).<sup>5</sup> In reality, the CVG functioned more as a holding company comprised of powerful state-owned firms and that, in the words of Alan Gilbert (1981, 195) carried out national investment projects ‘disguised as regional development’. Within this context, regional development policy could only be ‘renewed’ through greater participation on the part of local and state agencies in national development policies. As a result, and learning from the failure of sectoral policies, the planning process began to develop a more inclusive spatial focus. However, the main problem here was precisely the lack of effective coordination mechanisms between national and regional levels (CORDIPLAN 1981).

Attempts were thus initiated to develop an ‘integral’ process of regional development that included decentralization, more rational criteria for the distribution of resources and greater citizen participation. Another executive decree in 1984 saw the creation of a Presidential Commission for State Reform (COPRE), the goal of which was to ensure the establishment of a ‘modern, essentially democratic and efficient state in which constitutional principles are upheld to the full extent

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5 This measure increased the concentration of political power enjoyed by the president of the CVG (Gómez and Maya 1990, 34) who earned the nickname ‘Czar of Guayana’. Indeed the president of the CVG was a formidable political force as most state and local agencies were dependent on the technical support and resources of the Corporation. The CVG also controlled concessions for the exploitation of gold and diamond mines.



of the law and in which citizen participation constitutes an effective element in political decision-making'. Despite COPRE's heterogeneous composition which included politicians, members of the armed forces, trade unionists, academics and intellectuals, it was able to develop with relative alacrity a reform programme based on a decentralization strategy (Blanco 1988, 242). This project met with the resistance of certain political leaders and party organizations that were not ready to surrender their privileges. In the opinion of Gómez Calcaño (1997, 13), however, decentralization succeeded because it was basically a response to the gradual collapse of weak and inefficient state institutions. With this reform, principles of efficiency and rationalization were to guide future public policy. Furthermore, as Barrios Rios (2000, 54) has argued, discourses of 'greater citizen participation and a greater role for the provinces' functioned as a safety valve as pressures on Venezuela's political system mounted.

COPRE's actions lead to the design of an 'Integral Reform of the State', a project that envisaged substantial changes including the direct election by secret ballot of mayors and state governors. As decentralization progressed, national ministries were reorganized and regionalized at the same time while previously 'deconcentrated' state agencies were charged with the coordination of decisions between decentralized ministerial offices and new regional authorities (Blanco 1988, 246–7). Municipal governments – representing the 'primary autonomous political unit' of the nation – were subject to a comprehensive reform; the office of an elected mayor was established and the system of local taxation and revenue collection was to be modernized.<sup>6</sup> With the strengthening of the municipal level, reform advocates attempted to increase citizen participation, empower local institutions and establish an election process for municipal councils and state legislatures (Gómez and Maya 1990, 75).

These emerging political structures served to dissipate long-held criticisms that the creation of regional administrations was nothing more than an attempt to torpedo decentralization by concentrating power in the hands of the central government and to the detriment of state governments (Gómez and López 1990, 73–74). Within this process of redistribution of competencies, the intention was to again make the Venezuelan states central agents of decentralization and deconcentration policies. This would have meant that the states themselves would represent the regions while the development corporations would be delegated a technical role in order to serve state governments, the private sector and communities in general. As a consequence, states rather than the large development regions were to be the principal actors in the regionalization process.

With regard to the benefits of decentralization, Carlos Blanco (1988, 131) has argued that this process helped 'eliminate the overconcentration of decision-making and implementation powers in the upper echelons of public administration, creating

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6 This reform was based on the supposition that the Constitution of 1961 would allow the direct election of state governors and mayors and thus facilitate administrative decentralization.

opportunities for more fundamentally strategic action at the top'. Furthermore, according to Sergio Boisier (1987, 140–45), decentralization implied an important step towards the recognition of the role of actors who were not legally subordinated to the state as it represented a redistribution of power between the state, political society and civil society. In this way, the concept of the regionalization of development was modified to include a cooperative process in which the state as well as citizens representing regional groups shared responsibilities. As Héctor Silva Michelena (2002, 73–75) has pointed out, attempts at decentralization in Venezuela (and in other countries of Latin America) coincided precisely with the collapse of state socialism and centrally planned economies. The 1990s were the high watermark in what can be defined as the 'crisis of the state' and a period where processes of globalization forcibly opened Latin American economies. The internationalization of Latin America (for example, through major Free Trade Agreements) also provided a major thrust for democratic reform; decentralization was not merely seen as a means to compete more effectively in global markets but also as the embodiment of a new vision of political culture (Estaba 1999).

Nevertheless, in Latin America in general and Venezuela in particular, the apparently coterminous and mutually dependent relationship between economic liberalization and democratic development is spurious. Carlos de Mattos (1989) has argued that mere political-administrative reforms have been unable to radically change social relationships within Latin America's class-ridden capitalist systems. Anticipating the arguments of the World Bank and the so-called Santiago Consensus that 'institutions matter' (see Burki and Perry 1998), de Mattos has derided an 'institutional fetishism' which reifies governance reform as a progressive vehicle for social transformation. Venezuela's reforms of 1988 and 1989 – which established local elections (and the position of Mayor as a popularly elected official) as well as the main parameters for decentralization – were accompanied by great social upheaval. The second term of President Carlos Andrés Pérez began with the announcement of austerity measures (i.e. macroeconomic adjustment) in order to lower budget deficits and overall debt; the mere announcement of increases in petrol prices resulted in the February 1989 riots known as the 'Caracazo'.

What is clear in retrospect is that decentralization attempts were closely associated with neoliberal reforms and the perception that state policies of development were not only failures but had exacerbated socio-economic inequalities. Within this context, new programmes of macroeconomic adjustment were adopted in order to strengthen the role of markets in economic policy. Similarly, and as was the case elsewhere in Latin America, principles of market-oriented 'efficiency' and democratic (civil society) participation were applied to public management practices; reforms were to entail privatization, the renegotiation of scales of governance (e.g. through decentralization and regionalization) and partnerships between state and non-state actors (Abreu 2000, 5–6).<sup>7</sup>

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7 Within this context, an important reform that affected the CVG was the privatization of some of its enterprises, in this way the private sector was able to gain 70 per cent

With the process of decentralization in the second half of the 1990s, the autonomy of state and local governments was strengthened. At the same time, attempts were made to introduce a 'fiscal federalism' of sorts that would strengthen the capacities of states and cities to implement strategic development projects. This directly affected the operation of the regional corporations which could no longer operate as quasi-autonomous units of the national government but had to cooperate more directly with state and local officials in question of economic and social development policy (Sánchez 1994, 782–93).

Another crucial aspect of decentralization was that of the human, financial and technological resources required to assure efficient local and regional governance. With decentralization and the shift of policy tasks downwards to states and municipalities, budget requirements increased as well as the need to improve the local revenue base. Debates about a 'fiscal federalist' reform thus centred around a renegotiation of the taxing powers of state and local governments (Casanova 1996, 6–11). From 1969 to the mid-1990s, inter-regional distributions for regional development purposes were regulated constitutionally by means of a general fund that comprised at least 15 per cent of the national budget and that was apportioned to the states. Monies from this fund were redistributed according to a strict formula: 30 per cent was apportioned in equal amounts to all states while 70 per cent was reserved for a proportional distribution based on population. In order to find a more adequate fiscal arrangement an Intergovernmental Decentralization Fund (FIDES) was created in 1993. FIDES enjoyed financial and operational autonomy in order to assist state and local governments with the development of more efficient public management mechanisms (Casanova 1996, 12). FIDES was financed out of the annual national budget, primarily through value added taxes.

While these reforms were being carried out and decentralization proceeded, Venezuela entered into a very critical phase marked by intense political and economic upheaval. Ineffective social policies, deteriorating public services, high unemployment and increasing poverty all served to highlight the government's inability to properly use oil revenues for national development. Starting with the Caracazo riots of 1989, political crises continued with two attempted coups d'état by the military and culminated in the deposing of President Carlos Andrés Pérez in 1993. The collapse of political legitimacy of the political elites was not helped by falling oil prices on international markets and increasing budget deficits. With their policy options practically exhausted, and lacking a forceful response to the crisis, the traditional political parties were faced by the populist challenge of Hugo Chávez, one of the principal actors behind the military coup of February 1992. With Chávez, the notion of 'caudillo' – a strong leader capable of uniting the nation, eliminating corruption and restoring faith in the political and economic future of the country – re-emerged as part of Venezuela's collective imagination. Chávez eventually won Venezuela's presidential elections in 1998.

Within this agitated political environment, the first National Territorial Plan was adopted by decree in October 1998, marking an important shift in policy focus. This document was conceived as a comprehensive plan for the spatial development of settlements, economic activities and physical infrastructure and took into consideration social, environmental and security issues. Missing in the plan was any direct reference to regions. Instead, development policies were to focus on specific ‘spatial planning areas’, their economic and environmental problems, their competitive advantages in terms of participation in the global economy and opportunities for strengthening public services (Estaba 1999).

### **The ‘New Geometry of Power’ and Recentralization Tendencies**

Hugo Chávez Frías’ 1998 candidacy for president of Venezuela received broad support; many saw in him a figure capable of furthering the agenda of democratization while others sensed a strong candidate who could seriously attack the problem of corruption. Chávez won the elections with a comfortable margin. Once elected, Chávez was able to drum up ample support for a constitutional assembly in order to reform the country’s Magna Carta, adopted in 1961. Chávez’s governing style also became closely tied to his personality and charisma and associated with his incendiary speeches in favour of the disenfranchised and against ‘American Imperialism’.

The new constitutional code, passed in 1999, respected state autonomy and the popular (and secret) election of governors, members of legislative councils, mayors and local councillors. Decentralization, proclaimed as a ‘national policy’, was thus intended to consolidate democracy: ‘bringing power closer to the people and creating better conditions, both for the exercise of democratic government and the more efficient development of the role of state agencies’.<sup>8</sup> Nevertheless, in the opinion of Carlos Mascareño (2007), despite this rhetoric of decentralization and federalization, the 1999 Constitution contained elements that actually facilitated a new concentration of political power. One of these elements was the installation of a unicameral National Assembly, the elimination of the Senate and, with it, the elimination of state representation at the national level. Furthermore, the Programme of Economic Transition 1999–2000 failed to offer any new and innovative ideas with regard to previous plans. The basic objectives of the Programme were to promote and diversify productive activities, reattain sustainable economic growth and increase agricultural and industrial productivity. However, the Programme lacked any mention of possible solutions to social problems.

With new presidential elections in 2000, Chávez’s power base increased as his party won control of most of the seats in the national assembly as well as a majority of governorships and an important number of mayoralties. Governors and mayors who were members of opposition parties were accused of corruption

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8 From Article 158 of the Venezuelan Constitution of 1999.

and poor management and were in some cases threatened with a reduced transfer of resources (Mascareño 2000). At the same time, resources destined for social programmes were gradually recentralized, in part with the aid of the armed forces as was the case with the 'Plan Bolívar 2000'. Indeed, through national social programmes such as the Plan Bolívar, the central government was able to create a powerful political platform at the expense of institutional reforms aimed at decentralizing state policy.

With the Plan for Social and Economic Development 2001–2007 (PSED), signals were set for the promotion of a 'social economy' and democratic market mechanisms through cooperative forms of production. The social elements of this plan would, furthermore, 'adequately balance individual interests with social interests' thus promoting a more equitable distribution of income. At the same time, this plan was focused on the global economy, aimed at a market model that would be 'capable of generating self-sustainable growth, promoting industrial diversification and achieving international competitiveness within a context of macroeconomic stability' (Ministerio de Planificación y Desarrollo 2001, 13–15). PSED also directly addressed the question of political and administrative decentralization, criticizing the lack of a coherent national strategy for territorial reform and the overconcentration of urban development exacerbated by past policies. However, while the plan emphasized the importance of sustainable, endogenous development based on participatory governance mechanisms within the policy framework of decentralization, it did not specify possible alternative instruments in order to promote this objective.

What has emerged in terms of PSED and new regionalization policies, however, has been a new focus on the notion of 'social economies' and endogenous growth. Recently, programmes have been put in place that establish 'sustainable agroindustrial settlements' (or PAIS in the Spanish acronym), primarily in rural areas of the country. PAIS were touted as instruments of 'deconcentrated decentralization'—another discursive appropriation of the central government—that are to form the basis of self-organizing, self-managing cooperative communities with which to transform the capitalist logics of agroindustrial production. Furthermore, these settlements are to be consolidated within in regional networks of productive communities (systems of self-organizing rural associations, or SARAOS) (Ministerio de Planificación y Desarrollo 2001, 65).

Regional development in this context is to take place along the line of 'deconcentrated decentralization'. This evocative socio-spatial concept has not been clearly defined by the government; what is clear however, is that new corridors of decentralized development have been designated from the centre in order to induce urbanization processes in the most peripheral areas of the country. Three such corridors have been officially declared programme regions: West, East and Orinoco-Apure. With this one can argue that a return to the centralized regional development practices of the 1960s has taken place, albeit with a strong emphasis on the modernization of agriculture. Old regional development agencies (with names such as Corpocentro, Corpovargas, FUDECO, Corpollanos, Corpozulia,

Corpoandes and CVG) have been resuscitated in order to provide the Ministry of Planning and Development with necessary institutional support. Many observers doubt that this recentralized version of regionalization will achieve its aims. With regard to the Orinoco-Apure corridor, Rosa Estaba (1999) argues that agro-rural development is not viable: these are large, sparsely populated and poorly accessible areas of the country and there is little justification for massive inflows of credit and investments in rural communities ill prepared to 'urbanize' their regions.

These regional development visions must be seen within the greater context of Venezuela's national politics. The ambitious project of achieving 'Socialism for the 21st Century' implies a new national effort of centralization and an enhanced role for the central government. There are many indicators that re-centralization is well underway. On the one hand, since 1989 state and municipal revenues have decreased considerably as elements within the national budget: in 1998, state and local budgets made up almost a third of public revenues, whereas by 2006 this proportion had declined to only 17 per cent, reflecting not only greater central control over fiscal policy but also the immense oil revenues available to the central government. On the other hand, sweeping powers granted to President Chávez have allowed the government to adopt a series of legislative measures with which to secure the political agenda of 'Socialism for the 21st Century'. These measures involve, for example, changes to school curricula in order to promulgate 'socialist values'. More importantly for this discussion, the government is actively promoting a 'new geometry of power' which (in theory) privileges social development and sustainability. With the 'new geometry' the government has endeavoured to establish a direct relationship with the local level and communities, circumventing state parliaments and even local governments.

The principal instrument with which to achieve this immediacy of governance are so-called Communal Councils (*consejos comunales*). The Councils are citizen organizations made up of various sectors of local societies that have been authorized to work with the central government in developing and delivering public policies. The councils themselves are small, representing a population of 200 to 400 families, and thus often operate at the neighbourhood level. This reform represents an important shift in the territorial-administrative organization of the country as local and regional representation in the design of national development programmes is to be recruited from these councils. At the same time, these councils will be heavily dependent on the resources and the directives emanating from the centre, particularly from a newly established National Presidential Commission for Popular Power. As one powerful member of parliament, Manuel Briceño Méndez, has indicated, these councils will play an important role in creating a 'new institutionalism' in accordance with a 'socialist geographic space' and a more equitable distribution of productive activities and urban development.

Although the contours of this ambitious project of socialist construction are as yet unclear, it appears evident that Venezuela's present trajectory of regionalization can only take place with a heavily centralized decision-making apparatus. Ironically perhaps, major elements of decentralized policy are being redefined in terms of a

direct political relationship between a charismatic president (and his government) and local communities. The future role of state and local governments, on the other hand, appears tenuous, reduced perhaps to mainly administrative tasks. Chávez's 2007 attempt to amend more than 50 articles of the Venezuelan constitution would have resulted in yet greater discretionary powers for the central government. It would have also assigned to the president the right to designate 'strategic defence regions' and to nominate special authorities entrusted with the restructuring of regional administration, thereby further marginalizing the role of state and local authorities. This reform attempt suffered defeat in a referendum held in December 2007. However, there are few signs that this defeat will counteract or slow the overconcentration of power in the hands of the president and his government.

## **Conclusions**

The experiences of Venezuela highlight the charged political nature of territorial development and regionalist discourses. Indeed, regional development has been inseparable from the project of nation-building and has thus been used to legitimize the power of various political elites. We have also seen that regionalism has shifted focus several times, reflecting changes in ideological perspectives from protectionism and (neo)liberalism to a newer 'semi-socialist nationalism'.

Regionalization began in earnest as an attempt to consolidate 'national space' in economic terms and with a view to enhancing Venezuela's industrial base. The results of this experiment were aggravated disparities and the creation of an inefficient and corrupt state apparatus. Attempts to address this problem and, at the same time, open the country up to investment and easier financing conditions, led to far-reaching decentralizing reforms. Furthermore, as a result of the renegotiation of the nation's foreign debt, the government considerably reduced the state's role in the economy and began with the privatization of public enterprises. In conjunction with the liberalization of the national economy, political groups supporting decentralization succeeded in securing the direct election of state governors and city mayors. With increased regional autonomy reformers hoped as well to improve coordination between local governors and the central government. As we have seen, economic crisis and the unsolvable dilemma of simultaneously liberalizing and decentralizing eventually put an end to this reform process. The government's inability to manage social crisis resulted in the Chávez presidency and a clear agenda of re-centralization.

As much as questions of territorial administration and regional development have been used as a base of political power, Venezuela appears no closer to solving its grave social problems and bridging the widening gaps between rich and poor and between core and periphery. Despite the promise of the current government to promote radical economic transformation and 'endogenous development', the results appear to be a weakening of the local level and a declassification of states and regions into largely administrative containers for the central government's



ideological agenda. Under these circumstances, is it far-fetched to speak of New Regionalism in Venezuela? Not entirely. Many of the tenets of NR were in fact adopted by advocates of territorial reform in the 1980s and early 1990s. The notion that self-organization and social relationships should form the basis for region-building was accepted and was not abandoned. What has changed are the ideological premises that inform public policy; it is no longer a market-oriented adaptation to global change that is at stake but the creation of new territorial relationships between radicalized but 'empowered' communities and the central government.

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PART 4

Case Studies of Region-building  
in Central Europe

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## Chapter 9

# Regional Development and 'New' Regionalism in Poland

Grzegorz Gorzelak

### Introduction

Generally speaking, New Regionalism in post-socialist Central Europe has emerged as an intriguing mixture of externally imposed ideology and local struggles to redefine territorial governance. However, as several contributions in this book indicate (see Benedek and Kovács), overall results of the post-1989 regionalization experience have not been spectacular. True decentralization, the *sine qua non* of region-building, has been timidly pursued at the same time that national politics and power struggles have largely overshadowed regionalist agendas. The idea of 'regionness' as promulgated by new regionalists (i.e. as a political space negotiated flexibly between public, private and civil society actors) has succumbed to rather technocratic notions of regions as 'policy containers'. Region-building is a long-term project and it is perhaps much too early to pronounce a verdict on regionalization in Central Europe. I argue, nevertheless, that the case of Poland represents a positive exception to the rule and that Polish experience can provide an example of how regions can assume a more assertive role within transformation contexts. At the same time, Polish regionalization cannot be understood without a grasp of history and socio-spatial processes that characterize Poland's regional development.

This chapter will discuss relationships between regional development processes and region governance reforms in Poland. It will also explore the policy implications of Poland's highly divergent regional development trajectories in terms of new regionalist paradigms. Endowed with a degree of popular legitimacy and decision-making authority, Poland's 16 new regions have an historic opportunity to design and implement more locally sensitive and economically efficient development strategies. Much will depend on the nature of regional strategies, on regional governance capacities and also on the quality of policy partnerships between national and regional levels.

## **Polish Transformation and Regional Development Patterns**

From the Polish perspective, the few years that have elapsed since the EU's historic enlargement in 2004 have been successful ones. Poland has enjoyed stable economic growth and EU membership has brought Polish citizens new opportunities for active participation in the social and economic life of the European Union. In the years preceding EU membership, Poland had already begun to recover from a period of economic stagnation. Taking into account the natural effects of business cycles, it is nevertheless significant that 2006 growth exceeded 6 per cent and that forecasts for 2007 indicate a similarly high rate of economic expansion. Unemployment has also decreased significantly to the extent that labour shortages are now hampering further growth.<sup>1</sup> In spite of fast growth, inflation has remained low (1.5 per cent in 2006), interest rates have been stable at a level of 4–5 per cent, and the Polish currency is constantly – though slowly – appreciating. Foreign reserves have reached 45 billion USD, and the current account is in relatively low deficit. The budgetary deficit is lower than 4 per cent (although still one percentage point higher than the Maastricht criteria indicate), but in 2007 it may decrease to 3.3, and the total public debt is around 45 per cent of GDP. Furthermore, Poland's membership of the European Union has been fully accepted by the Poles. According to a May 2007 opinion poll, 86 per cent of the Polish population are satisfied with EU membership and only seven per cent outright oppose being in the EU.

In order to understand the significance of regionalization processes in Poland it is important to review some of the history of the country's regional development, particularly since the nineteenth century when Poland was partitioned by Austria, Prussia and Russia. Importantly, the main Polish river, the Vistula, acted as a powerful barrier to modernization processes diffusing from west to east and 'filtered' the spread of innovation (e.g. the location of major cities) and material investment, thus leaving the eastern part of the country relatively less developed. The east-west divide has been a stable spatial pattern of Poland, persisting through several historical upheavals and frequent changes of the state boundaries. This divide was not even overcome by state socialism, a system strongly devoted to equalizing interregional differences through intensive industrialization.

As a result, Poland is a country with great regional differences. GDP per capita in the Warsaw statistical region (according to EU nomenclature, the NUTS 3 level)<sup>2</sup> is five times that of the Chełm-Zamość NUTS 3 subregion in the southeastern

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1 Labour shortages are a direct effect of Polish membership in the EU. Some 1.5 million Poles have found work abroad and the share of the domestic 'grey economy' – estimated at 15 to 20 per cent of GDP – has not decreased.

2 NUT (in French, *nomenclature des unités territoriales statistiques*) is a hierarchical system for the gathering of statistical data on territorial units (e.g. cities, regions, states) within the European Union. The system distinguishes between the following levels: NUTS 0 (national level), NUTS 1 (large regions/provinces/states within member states), NUTS

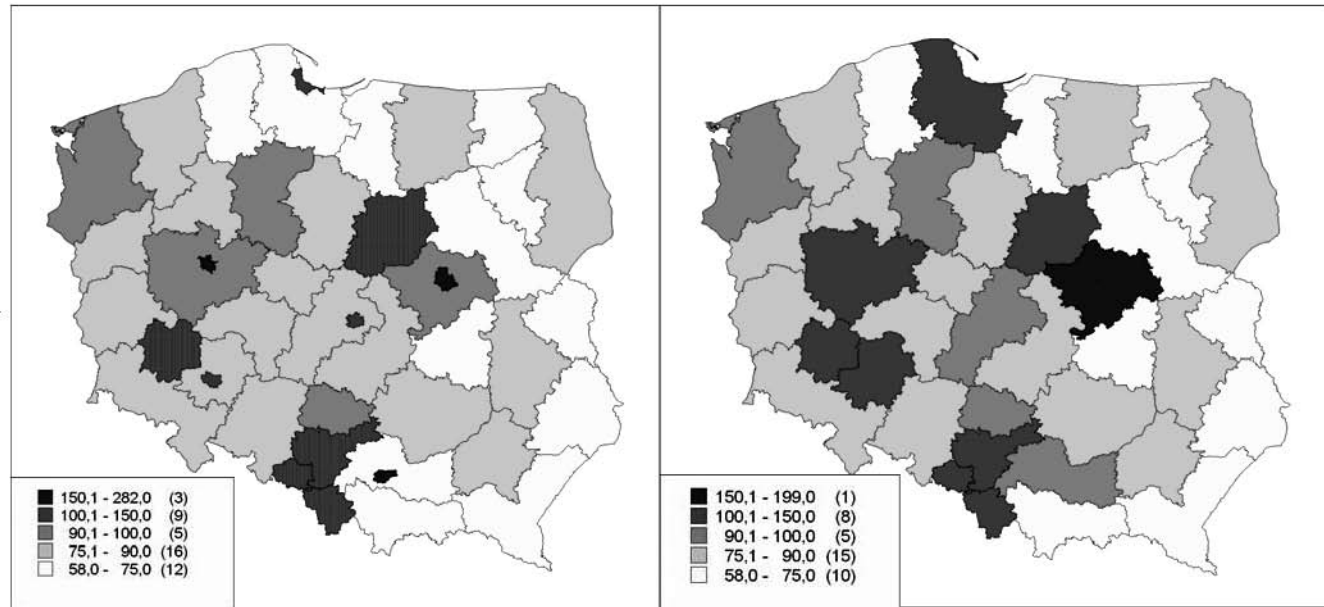
part of the country (see Figure 9.1 for an overview). Considerable differences can also be observed within individual regions, especially those with large cities. For instance, in 2004 in the Mazowieckie voivodship, the span between Warsaw and the Osrołęka-Siedlce subregion (east of Warsaw) was 4.4 to 1, while in the Małopolskie Voivodship (mid-south, where Kraków is the regional capital) the ratio of the extreme GDP values per capita was 2.5 to 1, and in Wielkopolskie (mid-west, with Poznań as a main city) – 2.6 to 1 respectively.<sup>3</sup>

Obviously, differences between regions depend on differences in regional socio-economic structures. Shares of employment in agriculture vary from slightly over 10 per cent in the industrialized region of Upper Silesia (a region dominated by traditional heavy industries) to over 40 per cent in eastern regions. The highest GDP values can be found in metropolitan regions with developed service economies (e.g. Warsaw and Poznań). The regional differentiation of Poland is, to a great extent, influenced by urban structures. As it can be seen in Figure 9.2, the 'L-figure' that extends from the centre-north (Gdańsk) through Poznań to south-western Wrocław and then along the southern corridor out to Kraków encompasses Poland's main urban centres. Warsaw is separated from this axis, and represents a kind of 'island' in the rather sparsely urbanized central and eastern part of the country. The east of Poland is characterized by a very low level of urbanization and is largely rural. It has to be also kept in mind that two major eastern cities, Białystok in the North and Rzeszów in the south, developed rapidly after World War II as they had to fill a vacuum created by the loss of two traditional eastern metropolises, Vilnius (Wilno) and Lviv (Lwów), respectively.

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2 (medium-sized regions), NUTS 3 (smaller regions and metropolitan areas), NUTS 4 (micro-regions, e.g. associations of municipal governments) and NUTS 5 (municipalities).

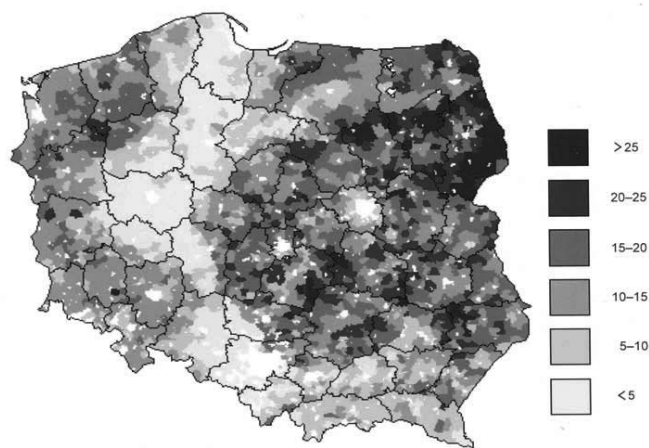
3 It should be borne in mind that real differences in the GDP values between a large city and the surrounding area are smaller, due to the fact that many people commute to work and that, in many cases, business activity is formally registered only in cities.



**Figure 9.1 GDP per capita in Polish NUTS 3 subregions in 2004, Poland = 100**

*Source:* Bank of Regional Data, GUS.

A more detailed picture of the discrepancies in the Polish territorial economy can be obtained if we consider the scale of the municipalities (or *Gminas*, the lowest tier of the administrative system). It is striking that nearly all the poorest municipalities are situated in regions which were under Russian and Austrian rule during partition (that is: in the period between 1815, after the Congress of Vienna, and 1918, after the end of World War I). This has produced a spatial pattern that roughly resembles an 'arch' running along the former boundary dividing the then Russian and Prussian areas of Poland. To this day, this arch is characterized by impoverished municipalities that, despite two wars and three systemic transformations, have failed to overcome their peripherality. As Figure 9.2 reveals, the historical heritage of Poland's socio-economic space can be clearly seen in terms of educational levels. The belt with higher level of education of the rural population has the same shape as the urbanization pattern, and follows the part of Poland that in the nineteenth century was under Prussian rule. The northern and western territories were repatriated after several centuries of belonging to different German states and were settled by newcomers from central and eastern parts of Poland annexed to the Soviet Union after World War II. One can also notice the relatively higher level of education in the former Austrian part of Poland (the southeast), due to the efficiency of the Austrian schooling system in the nineteenth century. History has thus had significant impacts on the current regional structures of Poland. These structures have been reinforced by processes of post-socialist transformation and development, as evidenced by foreign capital flows. It emerged only after 1990 when the socialist system collapsed and the central and eastern European countries began to open up for foreign direct investment.

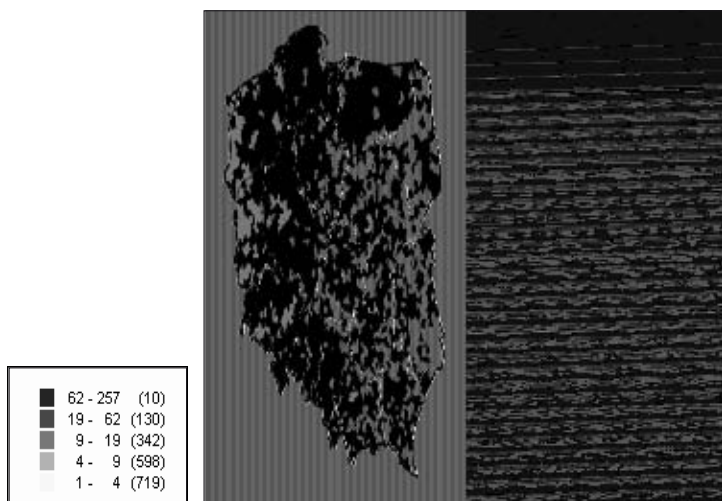


**Figure 9.2 Percentage of farm owners with elementary school or lower level education**

*Source:* Polish National Census, 1998.



The regional distribution of FDI is indicated in Figure 9.3. As can be seen, it follows the spatial differences in the wealth of the local units: foreign firms located in the western part of the country, in big cities and in their suburbs – and carefully avoids the localities with low own incomes and poor tax bases. The distribution of capital invested in Polish industry follows the spatial pattern of the urban system. Foreign capital, in acquiring Polish industrial firms after 1990, has reinforced the already historically established patterns of economic development of Polish regions and cities.

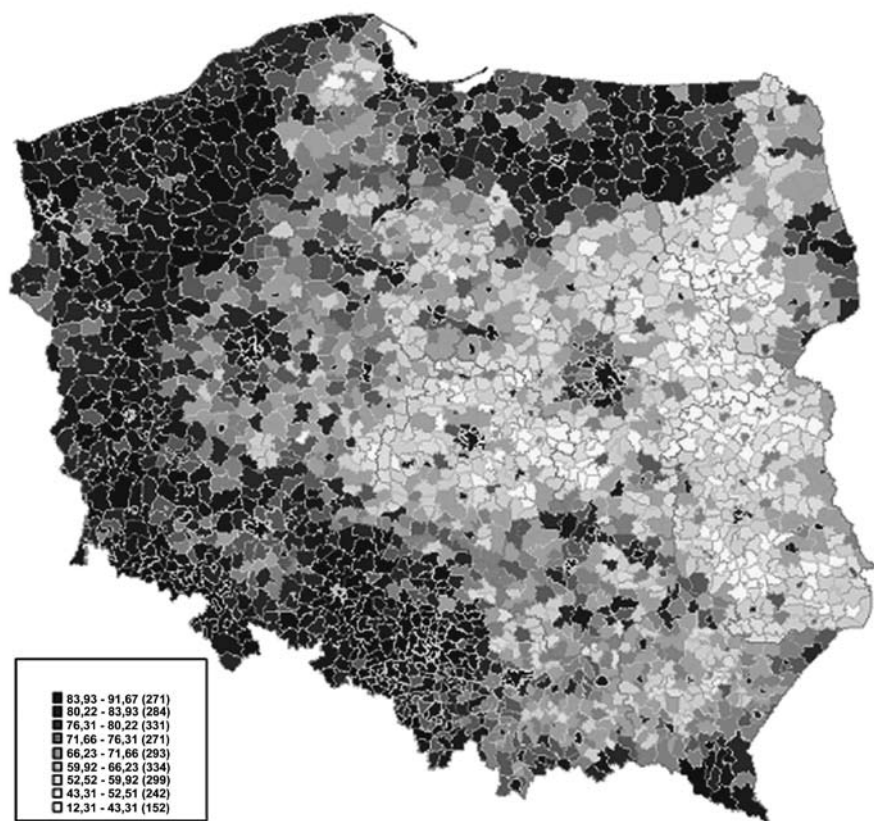


**Figure 9.3 Number of companies with foreign capital in Polish municipalities, 2004**

*Source:* Bank of Regional Data, GUS.

A similar spatial pattern, also with clear historical roots, can be found in territorial distributions of political preferences. It should be also noted that the political attitudes of Polish citizens are stable, in part traceable back to the 1930s. Western regions always displayed more liberal (or even leftist) tendencies, while eastern, and especially south-eastern areas display more conservative attitudes. This is, for example, quite starkly reflected in voting patterns in the 2003 referendum on EU membership (see Figure 9.4) which are distributed along west-east and urban-rural 'divides'. Earlier research (see Gorzelak and Jałowiecki 1997) indicated that similar regional differences could be observed in the ability of local governments to efficiently manage local matters. The highest level of innovative management tools (considering the initial period of the transformation process) were employed by local governments in the former German areas, while more traditional and

ineffective management methods were observed primarily in the former Austrian and Russian areas of Poland. In conclusion, the more developed regions, and among them those that have enjoyed greater inflows of foreign capital, display more progressive, liberally oriented and pro-European values and preferences. Also, these regions are better managed in terms of public administration. Without doubt, historically accumulated material endowments, social values, political preferences and managerial capabilities are functionally interrelated and mutually reinforcing.



**Figure 9.4 Distribution of the 'Yes' vote in the referendum on Poland's EU accession, June 2003**

*Note:* Darker colours indicate pro-European attitudes.

*Source:* Euroreg (University of Warsaw), author's own calculations.

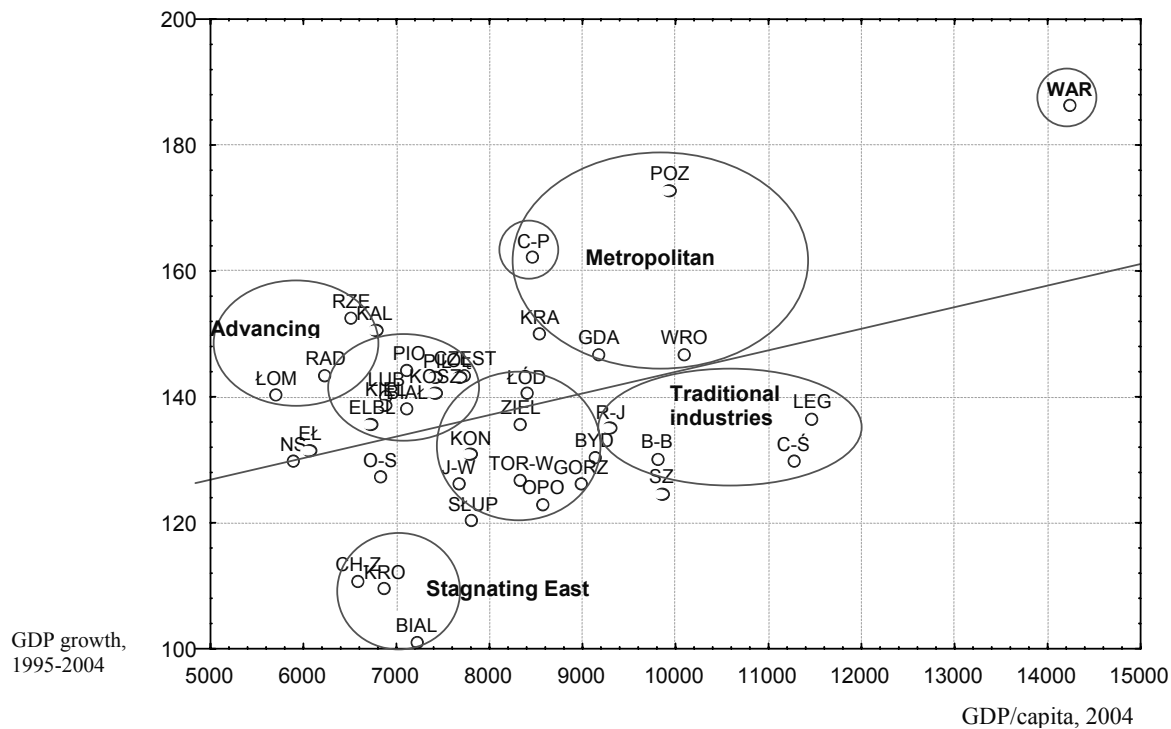
### *Processes of Regional Polarization*

Throughout almost the entire period of post-socialist transformation, the regional differences in the level of GDP per capita have been on the increase (see Table 9.1). The relation between the initial level of development (GDP per inhabitant) in 1995 and the rate of GDP growth in 1995–2004 is presented in Figure 9.5. The slope of the regression line is positive, which means that the higher the initial level of development, the higher the rate of growth. The correlation coefficient for the 39 combined units (the NUTS 3 that are composed just of a city are merged with the NUTS 3 units that surround them) is equal to 0.38 (for all 45 NUTS 3 it rises to 0.41). A clear pattern of regional polarization in Poland is therefore visible throughout the 10-year period of 1995–2004. The development of the Warsaw region is exceptional and stands out from the rest of the country. Most of the larger cities follow behind the capital in the economic hierarchy and display growth potentials greater than could have been expected from the general relationship between initial levels of development and growth rates (the only non-metropolitan region close to this group is the one that hosts the largest Polish oil refinery in Plock, C-P). The situation of regions dominated by traditional industries is the opposite – most of them are located below the regression line, which means that they grow at a slower rate. There are some relatively backward regions which have demonstrated relatively high rates of growth: in the central part of the country (Radom – RAD, Kalisz – KAL) and in the east (Rzeszów – RZE and Łomża – LOM). Strikingly, several backward regions have not grown at all (in the right-low part of the graph). This is the stable Polish periphery.

**Table 9.1 Variation coefficient of GDP per capita in selected years**

Group of regions	Number of units	Year	V value
Former Voivodships	49	1992	23.4
		1998	27.8
NUTS 3	44	1998	42.4
		2000	46.8
		2001	45.3
NUTS 3 (revised data)	45	2001	40.8
		2004	42.1
NUTS including 6 large cities	38	1998	28.3
		2000	31.2
		2001	30.8
NUTS including 6 large cities (revised data)	39	2001	27.8
		2004	28.7

*Source:* Own calculations.



**Figure 9.5** Scatter diagram, GDP/inhabitant in 1995 and GDP growth (constant prices), 1995–2004, City-NUTS3 incorporated into the NUTS3 surrounding them

*Source:* Author's own calculations.

Generally speaking, when we consider initial development levels of Polish regions in 1989 and take into account development trajectories until the present, we will see that two powerful trends contribute to regional differentiation in Poland and that these are resulting in even greater spatial disparities:

1. *Large cities vis-à-vis the rest of the country.* This is a new expression of the traditional division of Poland into urban and rural areas (see Jałowiecki 1999). Currently, however, the status of urban centres and a dominance of the non-agricultural sectors alone are no longer indicators of development potential. Only large cities (mainly Warsaw, as well as Poznań, Kraków, Wrocław and the Gdańsk agglomeration) are endowed with diversified economic structures, modern infrastructural and institutional amenities and are well connected with Europe and the global economy. However, the diffusion of development impulses from large cities to their surroundings does not go beyond a 30-kilometre radius, whereas urban hinterlands in a 50 to 100-kilometre radius around major centres are experiencing a marked 'centripetal' draining of resources (see Smetkowski 2001).
2. *East-west divisions.* This dimension is one of 'long duration', largely determined by historical factors. Since the Middle Ages, the western part of what is now Poland has demonstrated a higher level of development than the eastern part (for instance the Romanesque style did not go beyond the Vistula river). This division was further reinforced by the several political partitions of Poland, the boundaries of which are visible even today in the country's social and economic space. Since 1990, eastern Poland has been at a considerable disadvantage in coping with the challenges of an open, competitive and knowledge-based economy and has fallen even further behind.

Polish polarization is akin to processes taking place in other post-communist countries and, albeit in smaller measure, in much of Western Europe. Processes of regional divergence are extremely widespread, which can be explained by the 'metropolization' of development, that is concentration of the fastest developing sectors of the economy (specialized financial services, management functions, R&D and academic activity, entertainment and culture) in the largest cities – metropolises with a global or continental significance. Such phenomena can mainly be observed in post-communist countries undergoing accelerated restructuring processes. Poland is in the fortunate position not to have development concentrated in the capital city only; there are several other large Polish cities (such as Gdansk, Poznań and Kraków) that can reasonably expect to achieve the status of metropolis.

The division into large cities and non-metropolitan areas is a direct result of transformation and shifting development paradigms. Under the former resource-intensive model, rates of industrialization and industrial production determined both the level and pace of development. Since 1989, it is services, knowledge-

intensive industries and Poland's interactions with the global economy that increasingly dictate development contexts. Post-socialist transformation is, in fact, largely a process of de-industrialization, coupled with rapid growth in services, particularly market services and 'quaternary' activities. Hence, the fastest growth rates are achieved by regions that excel in the newer and expanding sectors of the economy. These regions are characterized by large urban areas where industry was either liquidated or underwent considerable restructuring and where competitive clusters of production and ancillary services have emerged.

## **Regionalization Processes in Poland**

These spatial patterns have had major consequences for territorial governance reforms in Poland. Regionalism in Poland has generally not been a major source of political power; regional elites have derived political capital through party affiliations and relations with national elites. With post-socialist transformation, the emergence of new economically defined power bases has begun to change this situation, primarily for the most prosperous regions of Poland. While Upper Silesia's heavy industrial lobby has diminished in national significance, the powerful and relatively urbanized regions mentioned above have gained political importance precisely due to their commanding roles in overall national development. It must be emphasized that the emergence of regions as a political force in Poland is still in its infancy as the influence of central government is still quite powerful. However, and as will be discussed in the following, the regional reforms of 1999 (in which 16 new Voivodships were created) has considerably enhanced governance capacities at the subnational level, especially in those regions that have been able to take advantage of decentralized policy mandates. The issue of polarization, however, also suggests that institutional capacity will be as unevenly distributed as economic dynamism. As development aid and transfer payments decrease in relative importance, Poland's less developed regions must learn to 'fend for themselves' through more comprehensive strategic approaches to economic development, yet the basic preconditions for this are less than favourable.

Generally speaking, the development of more transparent and effective mechanisms of regional governance in Central and Eastern European countries has proved rather difficult. However, we can argue that Poland's track record has actually been rather impressive. Interestingly, new regionalist thinking in Poland was not just a result of EU policy or the popularity of new governance paradigms at a more global level. Freed from the odium of central planning and one-party autocracy, Polish policy elites strove for decidedly market-oriented and strategic approaches to both regional development and the reform of territorial administration. In fact, during the early 1990s, Polish planners often rejected the adoption of Western European planning practices (the German system of 'Raumordnung', in particular) because of their perceived hierarchical and static

nature. With the territorial reform of 1999 elected regional parliaments have come into being and regional development policy has been partly devolved. Given Poland's modern history of centralism, this is no mean feat. And yet the realities of Polish politics have set clear limits to the application of New Regionalism as defined by Scott (this volume).

To begin with, the development of regional policies after 1990 suffered from extreme pressures to protect large industrial sectors of the economy and to develop the rural periphery of the country. Despite the rapid pace of market reforms, regional policy was largely reactive, redistributive and non-strategic. Furthermore, regions were understood mainly in terms of problematic socio-economic and structural situations arising in specific parts of the country – and not in terms of motors of the national economy. Departments of central government distributed considerable public resources to 'problem' regions in an uncoordinated manner while, at the same time, withholding resources from more dynamic regions. By 1999, this uncoordinated approach to the regional development began to be replaced by long-term strategic thinking (Government Centre for Strategic Studies 1999). More recently, the disbursement of EU structural funds for the period 2007–2013 has required a coherent national and regional approach that reinforces a shift away from traditional supply-side structural development and 'hard' locational factors (Polish Ministry of Regional Development 2006, 2007).

In 1999, another reform of crucial importance for the future development of the country was introduced – the decentralization of the territorial administrative structure. Directly after the fall of the socialist regime, local government autonomy had been re-established. It would take a full ten years and considerable parliamentary debate for the creation of new regional and subregional units. Perhaps most importantly for this discussion, 16 new regional units (Voivodships) emerged that are legitimized by a directly elected parliament, presided over by a governor (Marshal) and equipped with an operating budget (see Figure 9.6). In addition to these elected bodies, central government agencies headed by an appointed official (Voivod) and responsible for implementing the state policies were installed. Large Voivodships assume many of the current responsibilities of the national government, a fact that potentially counteracts an overcentralization of policy in Warsaw. Furthermore, below the level of Voivodship, over 300 fully self-governing districts (powiat) assume some of the responsibilities previously performed by the old Voivodships (such as post-graduate education, roads and employment services). There are, finally, 2500 municipal governments responsible for basic service delivery and technical local infrastructure in Poland (Gmin); no competencies at the municipal level have been transferred up to the districts.





**Figure 9.6 Regions in Poland (Województwo) after 1999 administrative reform**

*Source:* Leibniz-institute for Regional Development and Structural Planning.

Decentralization has had an important impact on the regional development of the country. Firstly, since 1999 the regions themselves – getting stronger economically and politically – have undertaken several responsibilities previously reserved for the national government, such as elaborating regional development strategies, implementing regional labour market policy and providing services of whole-regional importance, as well as maintaining international contacts (within the framework set by the Foreign Ministry). As the decentralization process continues, the regions will also be able to undertake new tasks presently not carried out at all (such as creation of regional systems of innovation, technology transfer centres, international promotion etc.). Secondly, and perhaps more importantly for this discussion, regionalization is proceeding along an uneven national trajectory. Since the abilities of the regional and local political elites vary greatly, the policy results they achieve will most likely further contribute to heterogeneous development paths. The more adaptable regions will become



more prosperous, while others might not be able to cope with the challenges of the global, competitive economy. Indeed, levels of true regional autonomy will be most likely divided between strong and weak regions. The weak regions will stay more or less dependent on the central government while strong Voivodships will be able to develop their own policies more or less effectively.

### **A Promising Polish Case of New Regionalism: The Wielkopolska Voivodship**

The Wielkopolska region is located in the mid-west of Poland. Its main city, Poznań, has a population of 580,000 and is the Poland's fifth largest centre. After the 1999 reform of Poland, the historical region of Wielkopolska was 're-united' within one Voivodship (in the period 1975–1998 it was split among several administrative units subordinated to the central government). The new Voivodship Wielkopolska is favourably situated. It is a region of about 3.4 million inhabitants and is characterized by an industrious population, a large number of enterprises (235,000 registered firms), 50 per cent of which are engaged in industrial activities, and a healthy and diversified economic structure (20 per cent of firms are engaged in food processing while machine engineering and diverse light industrial sectors make up much of the rest). Poznań, furthermore, has attracted an estimated several billion US dollars in direct foreign capital to date.<sup>4</sup> Growth is, in fact, concentrated in a few centres and primarily in the Poznań region, with about 60,000 registered firms (statistically one in ten inhabitants of Poznań has a firm!), 49 banks (12 of which are foreign), 20 institutions of higher education and research and a very strong agricultural sector. For the above reasons, Wielkopolska has benefited more than other regions from the turbulent post-socialist period. Poznań followed the path of other great agglomerations in Poland and was able to take advantage of its metropolitan character and the richness of its institutional, scientific and cultural fabric. Manufacturing underwent a fundamental restructuring process, which was facilitated by a lack of domination by huge socialist era enterprises. Medium-sized and small firms were much more capable of adapting to the new conditions of market economy than the large industrial plants often dominated by troubled industrial relations. For these reasons, Wielkopolska has benefited more than other regions from the turbulent post-socialist period. Poznań followed the path of other great agglomerations in Poland and was able to take advantage of its metropolitan character and the richness of its institutional, scientific and cultural fabric.

There are, of course, several obstacles on the path of the region to prosperity and sustainable economic growth. The regional economy (in all sectors) is still

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4 Among the firms present in the Poznań region are Glaxo Wellcome, MAN and Neoplan (two bus manufacturers), Volkswagen, Nestle, the battery maker Philips-Matsushita and others. Thirty-three per cent of Foreign Direct Investment comes from Germany, 16 per cent from the UK, about 10 per cent from the United States and the rest from a handful of countries including Ireland (which recently acquired a bank in the region).

much weaker and less innovative than in the more developed countries of Western Europe. The concentration of regional development within the metropolitan core is also an ambivalent feature. On the positive side, Poznań does act as a regional growth pole with considerable influence on much of the area of Wielkopolska. On the negative side, however, Wielkopolska is basically split between economically depressed, locally oriented areas in the north and south and an energetic centre with very low unemployment, high rates of Foreign Direct Investment (FDI) and a decidedly European development perspective. In fact, the northern part of Wielkopolska has unemployment rates of over 20 per cent, well over the national average, while the city of Poznań boasts a mere 4 per cent unemployment. It is clearly the task of regional planners and economic development agencies to address these disparities within the region. For this reason, Wielkopolska is very interested in developing new north-south transportation corridors.

In general, Wielkopolska should be considered as advanced in terms of governance capacities and entrepreneurial spirit. Due to the social and economic impacts of the region's history, the inhabitants of Wielkopolska are characterized by a high degree of social organization and regional identification, and popular opinions about their diligence and respect for order appear well grounded.<sup>5</sup> They are also better educated: 13 per cent of the economically active population of the Poznań region have acquired a university education while the national average is around 7 per cent. Wielkopolska is, furthermore, a region with well developed settlement network. There are several medium-sized and small towns, which are natural service centres for the surrounding rural areas. These towns are well equipped with social and institutional infrastructure. Of special importance is the cultural heritage, expressed in the form of many architectural monuments of both Christian and secular character (the richness of Wielkopolska in this respect may be only compared to Lower Silesia, located in the south-western part of Poland). In terms of regional governance, the (relatively) favourable situation in the Wielkopolska region may be attributed to its long experience in local self-government, which currently translates to a better efficiency of local governments in the region. Local governments in Wielkopolska are more affluent and they invest almost twice as much their counterparts in the central and eastern parts of the country. While the strength of Wielkopolska region is of a relative nature,

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5 In the late tenth and the early eleventh century, Wielkopolska became the cradle of the Polish nation and of the Polish state. Throughout its entire history the Wielkopolska region has belonged to Western Europe. While being a part of the Prussia in nineteenth century – the period of modern industrialization and institution building – and despite a peripheral location in the Prussian state, the regions of Wielkopolska, together with Pomerania, underwent rapid modernization. Paradoxically, it is perhaps the political, cultural and economic pressure exerted by the occupying state that contributed to a consolidation of Polish society and economy in Wielkopolska. The values that developed in the region also resulted in a more orderly spatial planning, in which the development of cities and countryside was gradual and new growth was built upon previous structures.

i.e. in comparison to other Polish regions, it is perhaps one of the more positive region-building experiences in Central Europe.

### **Regional Capacity-building: Upper Silesia as A Struggling Region**

Upper Silesia, located in central-south Poland and now divided between the Katowice and Opole Voivodships, is a region unit where cultural, social, political, ethnic, economic and ecological issues are interrelated in very complex ways. The region contains the largest conurbation in Poland, centred around the city of Katowice.<sup>6</sup> The total population of the former Katowice Voivodship amounts to almost 4 million with 87 per cent of the population living in towns. Industrialization of the region began in the first years of the nineteenth century and by the end of that century Upper Silesia became one of Europe's biggest concentrations of coal mining and steel production. Industrial growth accelerated after World War II, when Upper Silesia followed the path of Soviet-style forced industrialization – in spite of the fact that already in 1953 the Polish government passed a resolution to de-concentrate the region's industry. As late as in 1975, the Huta Katowice (Katowice Steel Mill) was constructed east of the city of Katowice. By the end of the twentieth century, the region was one of Europe's biggest problem regions in ecological, structural, social and political terms.

Industrial workers in Upper Silesia, and above all coal miners, enjoyed many privileges during the socialist period. During periods of chronic shortages these workers enjoyed access to imported goods which they could afford with their relatively high wages. Such privileges enhanced the traditional sense of pride of the miners, who were able to support their families and who could not imagine that their sons would not follow the multi-generational tradition of being a miner. In 1989, there were 520 state-owned industrial enterprises in Upper Silesia, that is about 10 per cent of the national total, including 65 hard coal mines, 13 power stations and 19 iron works. Employment in the private sector was low by comparison. With the structural changes brought about by the transformation of Poland's economy, a large part of the labour force in Upper Silesia found itself poorly equipped to adapt to new market conditions. The formal qualifications of industrial workers were not high; in 1989, only 25 per cent had completed secondary education and about 6 per cent had received university-level degrees.

Upper Silesia is therefore a particular regional problem within Poland's post-socialist transformation. It was a typical but uncompetitive coal-and-steel industrial region with a heavily polluted environment, worn-down infrastructure and social and educational institutions geared towards a culture of heavy industrial production. In 1990, it appeared that even the greatest efforts undertaken by the region's population and local communities would not be effective without

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6 Since most of the economic problems are concentrated in the Katowice administrative region, discussion largely centres around this part of Upper Silesia.

external economic and political support. Thus, the problems of Katowice and its neighbouring cities became a matter of national interest, and the success of Upper Silesia's regional transformation was regarded as one of the prerequisites for the success of Poland's political and economic reform and the fulfilment of Poland's aspirations to join the EU. The most telling sign of this change was, on the one hand, the slow, yet continuous, privatization of state-owned enterprises and the collapse of the most ecologically hazardous and least productive plants, on the other hand.

As the international dimension plays an evermore crucial role for the Polish economy and in shaping regional development trajectories, regions such as Wielkopolska will belong to a privileged if small group. Upper Silesia will of necessity continue to pass through a painful process of adaptation. Attachments to past industrial cultures and the political and economic prestige with which they were endowed appear to be among the biggest obstacles to structural change in Upper Silesia and other industrial regions (Cybula 1998). Similarly, the very existence of institutions and mechanisms of civil society appears to be a very important social factor. Long traditions of civil institutions (self-government, mutual assistance organizations, neighbourhood associations etc.) have in the case of Wielkopolska region produced competitive economy and efficient institutions. These are the 'outward' oriented entities – as opposed to 'inwardly' oriented ethnic and trade associations dominating the social scene in Upper Silesia. These civil institutions are more inclined to defensive attitudes and actions (defending ethnic groups, or supporting the interests of industrial branches) than the open institutions of Wielkopolska.

Finally, the role of individual entrepreneurs for regional development should not be undervalued. In the case of Upper Silesia large industrial enterprises that are slow to adapt to the new conditions of the global market dominate. In comparison, the numerous entrepreneurs in Wielkopolska are more flexible and have created dense networks of economic relations (although these are still far less innovative than those in more developed countries). Upper Silesia is undoubtedly the biggest regional problem of the united Europe. Although the declining sectors underwent massive lay-offs (about two thirds of initial employment figures in the mining sector alone), both mining and iron and steel industries are sectors that permanently need subsidies and cannot hope to achieve economic profitability. New business operations, largely financed from abroad, cannot compensate for the losses caused by the closure of unprofitable industrial plants. It is not clear either whether such operations will be continued after the expiry of tax benefits offered by the Katowice Special Economic Zone, which were regarded as a significant location incentive.

## **On Regionalization and Regional Development Perspectives**

Several questions arise in terms of regionalization as a political project in Poland: Voivodships are now the factual regional level but their future political roles will be subject to considerable negotiation. Endowed with popularly elected parliaments, the Voivodships exist in a nervous tension with central government which has retained control over resources and many decision-making powers. The new Voivodships have the potential to become strong units of government, and a true devolution of power is gradually taking place. It is a slow process because Poland does not have much experience in local self-government and regional autonomy, but it will materialize. However, regional autonomy will be most likely divided between strong and weak regions. The weak regions will stay more or less dependent on the central government while the strong Voivodships will be able to develop their own policies more or less effectively. What is more, there are little grounds for expecting convergent trajectories of particular Polish regions in the next decade.<sup>7</sup> On the contrary, according to principles of global competition, these regions will develop according to divergent patterns; the existence of empowered regions in the guise of new Voivodships will not change this. Hence, the strong will become stronger, the weak will become weaker. A complex set of factors will be responsible for this divergence, including: location, economic structures, social structures, institutional structures, R&D and academic potential. Experience indicates that the basic situation of peripheral regions is very difficult to alleviate through national or European-level regional policies. The situation of Poland's eastern regions, for example, will to a large extent depend on future economic networks extending beyond the borders of the EU (e.g. to Ukraine and the Baltic States) and the ability of the regions themselves to accommodate new inflows of capital and technologies.<sup>8</sup> Regional policies (not only) in post-socialist states should therefore accept a necessary dose of modesty and the main bulk of powers should be transmitted to the regional and local governments which should know best how to cope with global challenges.

Given this situation, what might potential policy responses be? National regional policy is in the hands of the government. Such policy should ultimately only deal with issues of national significance and should not intervene in areas that remain within regional (Voivodship) spheres of interest. Problems of a given region (or regions) should become the issues of national regional policy only if they are identified as having national significance. The primary goal of the national regional policy (that is the policy pursued by the government), which is a part of development policy, should be to support the country's development processes,

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7 This chapter refers also to other Central and Eastern European regions, see Gorzelak et al. (1995).

8 The southern states of the United States are a good example of how shifting megatrends in foreign direct and domestic investment, coupled with strategic development initiatives, can transform the fortunes of disadvantaged regions.

even if it entailed an (inevitable) widening of regional discrepancies. This goal is of particular importance in the initial period following Poland's accession to the EU because there should be no delay in initiating efforts aimed at reducing disparities (mainly in infrastructure, education, innovation, technology and environmental standards) between Poland and more prosperous member states.<sup>9</sup> This overriding goal should be accompanied by promotion of the competitiveness of those Polish regions which could appear on the map of potential locations, as compared to regions in the countries neighbouring Poland.<sup>10</sup> It is easily visible even today that in this respect Poland's performance is inferior to that of the Czech Republic, Hungary or Slovakia, and these processes may be further exacerbated in the near future.

Research indicates that in Poland's peripheral eastern regions there is no strong and attractive research and academic base capable of providing support to innovative businesses (see Olechnicka 2004). A fast development of this base is possible only when ties are established between weaker, peripheral academic and research centres and leading national and foreign research and academic establishments. Except for extremely rare situations, it is not possible for peripheral science to advance quickly only as a result of endogenous activities because of the tendency for the self-duplication of such a peripherality. Establishment of cooperation, initially stimulated from the outside (for example by a prudent policy of the Ministry of Science) could help to stimulate the development of the entire Polish economy and to strengthen the effect of diffusing development from the best-developed areas to their surrounding areas.

This suggests that the creation of nationwide and regional networks for technology and innovation transfer should be a priority. Such networks can be found in all highly developed countries, and can take various organizational forms: from purely public institutions through public and private partnerships to networks of entirely private institutions. Such networks exist on the national scale and also within particular regions. In this regard, Poland is practically an institutional vacuum, and the few examples of individual activities that exist only serve as a proof of the need to undertake effort systematically both at national and regional levels. Ironically, work on regional innovation strategies (RSI) carried out in 15 Voivodships (except Mazowieckie, which failed to prepare an application for co-financing by the Committee for Scientific Research!) has not been designed to promote a national network of innovation promotion and technology transfer centres. In this strategic area, decentralization in Poland has gone too far because

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9 This conclusion gained official recognition because it was included *explicitly* in the Concept of the Country's Spatial Development Policy endorsed by Government and the Parliament.

10 Competitiveness of regions means that enterprises located there are competitive nationally and internationally and that the region is capable of winning in the international competition for capital, notably capital which seeks to be invested in high-innovation sectors.

individual Voivodship governments have been left to themselves without proper support (either from the national government or from the EU within the framework of negotiations over the 2007–2013 structural funds programming). It is thus a matter of great importance that technology transfer and innovation networks be initiated and supported by the national government.

Perhaps the most important aspect of regional development policy in Poland is the need to support a dynamic and pragmatic notion of regionalism. This, on the one hand, involves supporting the process of decentralization; one of the most crucial issues in reforming Poland's territorial organization is the unfinished task of decentralizing public finances. As it is now, Voivodships must rely on unstable and insufficient transfers from the central budget in order to carry out policies (including regional development) for which they are responsible. For this reason, the 16 'voivodship contracts' that are a critical instruments in contemporary Polish regional policy should clearly delegate responsibility and resources to Voivodships authorities, particularly with a view to developing human resources, labour markets and innovative instruments of regional development. The contract is an agreement between Voivodships and the central government for the co-financing of projects which are important both for the region (regions) involved and for the country at large. Ideally, Voivodship contracts could be a building block for effective multilevel governance in Poland as they would mediate between priorities set by the EU (e.g. Lisbon Agenda, Cohesion and Convergence policies), the national level and the 16 Voivodships. While these contracts have been established since 2000, it appears that more recent EU practice is oriented towards clearer management structures and single operational (i.e. national) programmes. Ironically, the EU's demand for institutional clarity could strengthen centralizing tendencies and hinder the development of more effective regional management at the regional (!) level (see Grosse 2005). Thus the situation that Kovács Pálné (Chapter 10 of this volume) has identified in the Hungarian case could partially repeat itself in Poland if no countermeasures are taken.

## **Conclusions**

All the centres of power in Poland – the Parliament, the Government and the President, as well as local governments – should participate in the implementation of new directions for Polish regional policy. Poland should, on the one hand, obtain consent from the European Commission to adopt a new proactive approach in its regional policy in order to go beyond a traditional focus on underdeveloped, peripheral regions and declining regions. On the other hand, decentralization of the public finance system should be carried out in order to culminate the process of Poland's territorial governance reform – undoubtedly the most far-reaching among all the post-socialist countries.

Supporting network systems and inter-regional cooperation would be a move beyond the narrow, paternalistic and 'assistance-oriented' attitude to regional



policy; support should be provided to the most promising and most competitive (and therefore most innovative) networks of relations between strong and poor regions and their institutions and enterprises. In addition, policy should support supra-national networks including regions and business entities from abroad, including those located in countries which are Poland's eastern neighbours (e.g. Ukraine). Poland should also support their efforts to convince the European Commission to offer financing for infrastructural projects beyond the EU borders, as was the case with earlier cross-border cooperation programmes.

Polish regions should also be able to find their place in the new development model. The most important and general premise around which all development programmes should be created is the ability to foresee future opportunities and to prepare for them in an 'anticipatory' way. Winners in the competition between regions are those who can prepare earlier than others for emerging development opportunities. For instance, if eastern European markets flourish, not only the regions of eastern Poland, but also Slovakia and the Baltic Republics will compete for potential investments. The results of this competition will depend on decisions made today, not only at the central, but also at the regional level.

In the coming years, Polish regions will receive substantial support in the form of EU structural funding. Owing to transfers from Brussels, outlays on factors fostering development, such as infrastructure, education, training, institution building and enterprise promotion will be significantly higher than before. Nonetheless, we should bear in mind the historical determinants of the development of Poland and its regions discussed in this paper. Physical, social and 'imaginary' reality is a product of historical processes that are rather fixed in character and very difficult to change through external influences. This means that one can have only modest expectations concerning the effects of various policies, including regional policy. Even with considerable resources it is difficult to change mental structures, attitudes and behaviours of the population, as is evidenced by the sad story of the former German Democratic Republic. The most serious challenge that the Polish regions and Polish space will therefore have to face is the economic, social and functional integration with European regions and within the greater European space, even beyond the borders of the present EU-27. How this process progresses will largely determine the position of Poland in Europe and in the world at large, and the speed with which it will try to overcome its centuries-old peripheralization.

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## Chapter 10

# Regionalization in Hungary: Options and Scenarios on the ‘Road to Europe’

Ilona Kovács Pálné

### Introduction

As a new member of the European Union, Hungary has undertaken serious efforts to adjust its institutional system to the EU's requirements. In the modernization of Hungarian public administration and the enhancement of its adaptability to changing domestic and external political environments, special importance has been attached to decentralization. Decentralization is, of course, closely interrelated but by no means identical to territorial-administrative reforms undertaken within states. While territorial reform is usually the result of long-term development and gradual implementation, decentralization can often proceed rather rapidly and independently from other structural reforms.

As this chapter will demonstrate, the issue of region-building in Hungary is not merely a question of decentralizing the administrative apparatus of the state but, in the sense of the New Regionalism, of creating new structures of governance based on political, economic and social networks. As is the case with most Central and East European countries that have recently joined the European Union, EU policies as well as integration into the decision-making institutions of the EU have had a profound effect on societal development in Hungary. This is clearly evident in political attempts to establish regions in Hungary and to cast their roles in terms of new regionalist paradigms, namely as a central locus of societal development.

In this chapter I will discuss Hungary's post-socialist attempts to create new spatial structures of governance (i.e. regional institutions). The establishment of Hungarian regions – in fact, one of the Hungary's first assignments in ‘Europeanizing’ its political system – was heavily influenced by EU regional development policies. At the same time, Hungary's trajectory of post-socialist transformation has exposed the centralist model of territorial administration to extreme domestic pressures for reform; this included heated debates for and against decentralization. This chapter will begin by enumerating the main challenges that have faced Hungarian territorial administration since 1989. It will then proceed with a more detailed description and analysis of the concrete regionalization and decentralization policies implemented by different Hungarian governments, with particular emphasis on the South Transdanubia region. Recognizing the limitations of adapting new regionalist paradigms to the Hungarian situation, the chapter will

conclude with a critical assessment of Hungary's regionalization process and the EU's role in promoting institutional change.

### **General Trends in the Development of Public Administration**

Public administration in European countries must satisfy a large number of often contradictory requirements. Due to its legitimizing function it must operate in a democratic and transparent way as a service provider. Committed – in theory at least – to the principle of solidarity, it should also manage public services both efficiently and equitably, while at the same time promoting the competitiveness of the national economy within an ever changing international environment. Public administration often tries to meet these requirements by outsourcing tasks or by establishing quasi-governmental or non-governmental organizations (quagos, quangos), and has in some countries contributed greatly to the emergence of a 'third sector' (Reichard 1988). These changes are taking place within a more general context of territorial decentralization that goes back to the 1970s when local government was strengthened in legal, political and fiscal terms. Regionalization processes began in earnest during the 1980s when regions were held to be the key to regional economic development based on partnership between public authorities and economic and social interest groups (Kohler-Koch 1998). This wave of regionalization emphasized an increased need for the public agencies to develop their capacities for conflict management and consensus-building.<sup>1</sup> Regional planning and economic development over the last decades have been practised in a continuously changing but still unsettled environment of regional governance (Danson et al. 1997). This has perhaps not been a critical issue in countries where regions have played a central role in transformation and modernization processes (Spain and Italy come to mind most directly). Hampered by their transitory character, the lack of a stable constitutional and administrative framework and even clear geographical borders, and constrained by the specific needs of regional policy, regions in most other countries of Europe have struggled to develop a sense of purpose (Amin and Thrift 1994).

The development of formal or informal networks linking various actors, levels of governance and policy areas greatly contribute to the improved adaptability and flexibility of regional structures as well as to the strategic and innovative character of regional policy. However, the success of regional programmes depends not only on the availability of technical and professional expertise, but also on sufficient political representation (legitimacy) and resources (see Roberts 1997). This is especially the case within a context where the neo-liberal state has deprived regions

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1 More recently, special attention has also been paid to metropolitan areas and networks of cities. As a result, the administrative, governmental and networking functions of large towns have gained in importance. However, their managerial elites do not seem to be very keen on assuming the role of integrators and initiators (Van den Berg et al. 1997).

of subsidies and exposed them to a competitive environment. The new 'localism', conceived as an entrepreneurial kind of management, can, however, be seen not so much in terms of an increase in the power of local actors, but in terms of greater fragmentation and a diminishment in accountability. In Jones' (1999) opinion, the traditional role of the state has been taken over by 'para-governmental' actors, who act as coordinating intermediaries between actors representing different sectors of society. According to Moss Kanter (2000), the result is a 'weaker civil society', where the system of networks tends to lose its transparency and raises concerns and fears about the role of the community and elected bodies. Indeed, regionalization, ostensibly required for economic development, has not always and everywhere led to the strengthening of representative political bodies and comprehensive regional reform. As one expert has put it, the region as a scale is usually brought into the limelight once a problem cannot be solved within the framework of the former, smaller unit (Fishman 2000). In many countries regionalism is seen as an 'umbrella' establishing the region as a quasi-government level by focusing exclusively on the question of whether institutions have sufficient jurisdiction or not (Armstrong 1997). Regionalization processes are thus dynamic phenomena; the paradigm of NR holds that it is more important to develop proper mechanisms of adjustment and to recognize the role of networks than to draw 'larger' administrative borders. Haynes et al. (1997) argue, in fact, that it is the processes of adaptation, changing and learning that should be institutionalized. However, the experience of Hungary and other post-socialist countries indicate that such processes of adaptation are anything but straightforward and that the normative governance tenets of NR are not universally applicable.

### **Regionalization as Europeanization: The Impact of EU Structural Funds**

Europeanization, the convergence observed in the political systems of EU member states, is actively driven by regional policy. It should therefore come as no surprise that regional policy has its greatest impact in countries that benefit most from EU grants and subsidies and whose public administration is least compatible with EU requirements in terms of structure, logic and culture. Indeed, EU regional policy does not fit easily into the framework of traditional public administration, as it requires horizontal structures with partners outside the public sector. It transcends sectoral limits, builds on networks and often relies on market methods: partnership is the main principle at work in the regulations governing EU Structural Funds. While institutions of partnership are quite diverse (Tavistock Institute 1999), decision-making, or at least the preparation of decisions, takes place outside the traditional framework of public authority. Consequently elected bodies are losing ground as transparency and accountability deteriorate, responsibility remains vague, and the wider public is not included in decision-making processes (Olsson 2001).

In order to be eligible for EU support, beneficiaries have to create authorities both for the management and disbursement of funds as well as for monitoring the use of structural funds. It is quite clear that the EU is more interested in results than in formal aspects and does not insist on decentralization.<sup>2</sup> Eligible areas are NUTS 2 regions which have to be involved to some extent in planning but need not be responsible for managing the programme.<sup>3</sup> Management of the funds therefore often remains at the discretion of national governments while competencies at the regional level, or the 'intermediary body' in EU terminology, are generally reduced to tasks of day-to-day implementation. The main exceptions are member states where regional operative programmes are being managed by regional bodies as in Spain or Italy. By contrast, the new member states favour highly centralized management due to pressure from the European Commission.

### **The 1990 Act on Local Government: A Missed Opportunity**

The 1990 Act on Local Government has played a crucial part in the construction of a democratic Hungarian state. Its **main aim was to strengthen cities and townships** as a locus of citizenship and responsive government and more than 3,000 local governments replaced the 1,600 socialist-era local councils. The most important side effect of this legislation was the marginalization (and near elimination) of elected county governments. In this respect, **the present administrative structure of the Hungarian state** can be compared to an hourglass: wide at the top and bottom and narrow in the centre. Ironically, this new structure of local government has not proven conducive to a true process of decentralization, primarily because of the lack of a strong county level. Counties have suffered from limited remits and resources, diminished political legitimacy and the loss of social trust. Empirical research has indicated that without the balancing power of county governments, few incentives exist for power-sharing between well-entrenched local elites and local society (Kákai 2004). Instead, local politics are dominated by elite networks that are not subject to citizen approval (Kovács Pálné, Horváth and Paraskevopoulos 2004). At

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2 Following the recognition that the organizational and managerial framework constitutes a yet unexploited source of efficiency, 'sound management' became one of the key priorities of EU regional policy. In the recent literature concerned with the evaluation of this policy this has translated into an increased focus on issues related to 'governance' (Bovaird and Löffler 2003).

3 The Nomenclature of Territorial Units for Statistics (NUTS) was established by Eurostat in 1980 in order to provide a standardized framework for collecting statistical data at different spatial levels within the European Union. NUTS was adopted by the European Parliament in 2003 in order to help manage changes in the administrative structures of member states (particularly after the 10-state enlargement of 2004) in order to assure availability and comparability of policy relevant regional data. In the case of Hungary, NUTS 1 represents the national level, NUTS 2 the level of the seven new planning regions.

the same time, **agencies of the central government (i.e. ministries) have expanded their power base at the local level by establishing branch offices in major cities.**

The functional and democratic deficits of post-socialist reform were identified by experts as early as 1990 and have given rise to an ongoing debate about the status of meso-level governance. However, the purpose of these discussions was not so much true reform as the postponement of the moment when territorial power-sharing was to be achieved. The 1994 amendment of the Act on Local Government thus did not lead to an actual reinforcement of county government. Although advocating the efficiency and legitimacy of public administration, the central government was particularly reluctant to devolve power, arguing that this would affect the quality of public services. It would indeed have required strong local and regional actors to achieve real decentralization.

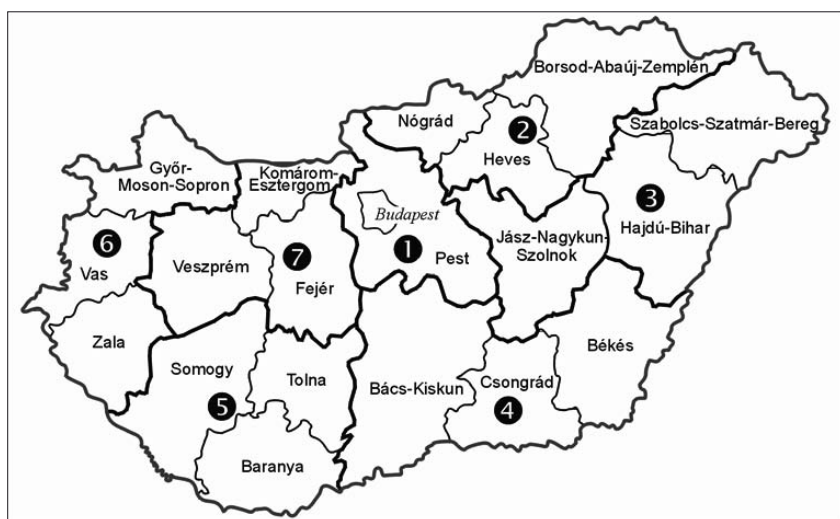
### **Early Reshapings of the Territorial Division of Power**

A first decisive, although ambiguous, step towards decentralization was the passing of the 1996 Act on Regional Government, inspired by EU regional policy. During a long preparatory process accompanied by heated debates, it was decided to establish so-called development councils at the national, regional (NUTS 2), county (NUTS 3) and micro-regional (NUTS 4) levels. However, the Act did not promote any clear ideas about the new territorial administrative division or the future role of regions, nor did it define which level would be the appropriate scale of regional policy. Lack of consensus about the number of macro-regions to be created paradoxically resulted in county development councils becoming the predominant actors of regional development, again largely at the expense of the directly elected county general assemblies. These councils, composed of representatives of municipalities, central government, chambers of commerce and industry and labour organizations, were authorized to decide upon development concepts and the allocation of state resources. More generally, this highly fragmented system, operating with three territorial tiers, led to the dispersal of development resources and intense conflicts due to the lack of a clear division of labour. Despite these attempts to locally anchor regional development policy, the 1996 Act on Regional Government did little to strengthen development regions at the NUTS 2 level. It was, however, the starting point for a still ongoing process of region-building.

### **Building Development Regions: The ‘NUTS 2’ Level**

As already mentioned, the government in 1996 did not delimit the borders of macro-regions. Regional development councils were to be established on a voluntary basis with cities and towns electing the region to which they would belong. As a result, several of these voluntary councils did not correspond to the NUTS 2 regions

that would be defined later. Throughout the years 1996–1999 the macro-region remained institutionally weak, lacking competencies and resources. In fact, it was only in 1998 that Parliament passed the National Regional Development Concept of Hungary, which defined the number and the borders of the NUTS 2 regions (see Figure 10.1). This new division, the result of a compromise between politicians and experts,<sup>4</sup> provided at last some stability and legitimacy for the regions, allowing for a stronger role of the regional development councils. Unfortunately, the 1999 amendment to the Act, though introducing the compulsory establishment of development councils at the NUTS 2 level, at the same time shifted power back to the central government: chambers of industry and commerce were no longer represented, and the representatives of the central government increased in number, giving them a dominant position in decision-making.



**Figure 10.1 The counties and the NUTS 2 regions in Hungary since 1998**

*Note:* Key: 1 = Central Hungary, 2 = North Hungary, 3 = North Great Plain, 4 = South Great Plain, 5 = South Transdanubia, 6 = West Transdanubia, 7 = Middle Transdanubia.

*Source:* Centre for Regional Research of the Hungarian Academy of Sciences.

<sup>4</sup> Academic researchers, for example, suggested only 6 regions (with only 2 in Transdanubia). During the discussion of the draft in the Parliament one, finally rejected, proposal advocated the creation of a large capital region which would have included three poorer adjacent counties and made the highly developed capital eligible for EU structural funds.



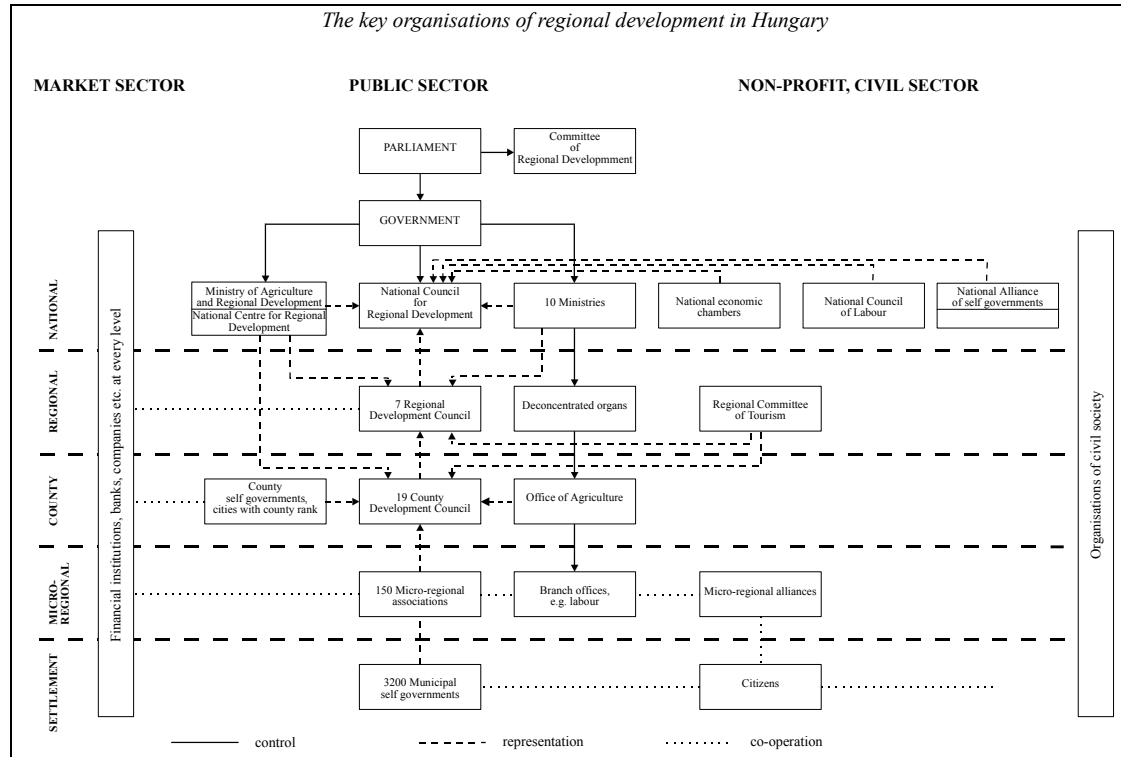
A second amendment, introduced in 2004, established rules of participation for non-governmental organizations, a clear sign that legislators had become aware of the lack of public transparency in the workings of these councils. In addition, the position of the regional development agencies working alongside the councils was reinforced. This was a notable improvement as councils were not always able or prepared to maintain such agencies, despite an increased need for expertise. The question of how these agencies are to be financed has, however, remained unsolved. EU accession in 2004 caused much disappointment among Hungary's 'regionalists'. Pointing to 'weak regional capacities' in Hungary, the European Commission insisted on centralized management of Structural Funds, with regional actors exercising only intermediary functions. As a consequence, since 2004 regional institutions (e.g. regional development councils) have almost completely lost their former influence on regional policy; it appears that the EU simply did not want to take any risks with decentralized governance structures. In all fairness it must be mentioned that by 2004 a process of recentralizing the management of Structural Funds had already taken hold in old member states as well (see Appendix at the end of this chapter for an overview of the management of regional funds within the EU).

To sum up, region-building in Hungary before EU accession has been a contradictory process. Despite the formal creation of regional networks, partnerships were not established to the required degree: decision-makers could not rely on strong decentralized and professional expertise and, most importantly, macro-regions continued to lack sufficient resources and competencies. The main reason for this was the highly fragmented three-tiered institutional system of regional development. To this must be added the strong centralist approach of the national government, despite affirmations to the contrary. In the light of this it appears worthwhile to take a closer look at the process of political regionalization.

## **Political Regionalization**

It has often been argued that political regionalization, besides modernizing Hungary in preparation for EU membership, might be the only way to renew a traditionally centralized state (Ágh 2003). This argument is not so much concerned with the scale or the outdated and inefficient character of the county system as with stressing the political aspects of regionalization: elected regional bodies would pave the way for decentralization. The first official step in this direction was taken in 2002 when the government announced a reform programme that was to establish regional self-governance through direct elections by the year 2006. The objective of the reform was to settle the decades-long debate over the role of the counties by transferring territorial power to the regions, thereby abolishing the self-governance status of the former. The May 2004 EU accession was seen by the government as an historical chance to implement a long postponed reform.





**Figure 10.2 Regional policy governance structures in Hungary: A study in institutional complexity**

*Source:* Kovács and Dombi, 2003.

At that time the government's plans were not generally well-received. Critics emphasized the artificial nature of Hungarian regions, their weak identity and the lack of well-established political institutions, such as political parties and media, and a civil society at the regional level. Consequently, democratic control over the newly elected regional bodies would be weak, and neither the electorate nor the various political and social actors would identify with them. Could top-down regionalization under these circumstances really result in a true devolution of powers? As it turned out, these fears proved unjustified. The government in power between 2002 and 2006 never passed any legislation along these lines, stating it would be impossible to reach consensus with the opposition and thus obtain the two-thirds majority in Parliament necessary to amend Hungary's constitution.

The Hungarian government has opted to create a four-tier system of governance in the specific area of regional development; as Figure 10.2 indicates, national, regional, county-level and so-called microregional bodies are linked in a hierarchical structure. In addition, decentralized organs of the national ministries are present at the regional level. At the same time, however, the principles of subsidiarity, solidarity and partnership are to be implemented within these vertical relationships between state, region and municipality. However, region-building is not only a matter of legal regulations or the establishment of additional administrative tiers. Contemporary social science research establishes distinctions between the formal institutional category of 'government' and the more informal, process-oriented category of 'governance', which takes into account different levels and sectors. According to Kooiman (2002) good governance, in addition to its democratic character, requires rationality (efficiency) and reacting capacity (flexibility and embeddedness). Creating the necessary institutional framework through administrative reform initiated by the state is clearly not sufficient. The question is also whether local actors will be capable of region-building and whether regional cohesion is strong enough to create a long-term basis for governance. A closer look at South Transdanubia, often referred to as the 'cradle of regionalism' in Hungary, will shed some light on the dynamics at the local and regional level.

### **Local Initiatives and Top-Down Measures in the South Transdanubia Region<sup>5</sup>**

South Transdanubia, a medium-sized region of some 975,000 inhabitants, is one of the less developed regions in Hungary, but has a relatively long history of regional policy. It was the first region in Hungary to create voluntary institutions of cooperation at the regional level in 1992. Following the 1996 Act on Regional Development, South Transdanubia's Regional Development Council (RDC) has become one of the most influential actors in regional development policy.

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<sup>5</sup> This part of the contribution is based on research financed by OTKA (National Scientific Research Fund, number 49453).

Among its duties are the elaboration of a development plan for the region, the initiation and implementation of development programmes and the distribution of resources allocated for this purpose. In this task it is assisted by a Regional Development Agency (RDA) that operates as a non-profit public organization. Agency experts, who built up their professional experience and a vast network of contacts primarily during the management of an EU-funded pilot programme, have a dominant influence on the activities of the council. However, members of the RDC have often been wary of the agendas of the RDA. After the approval of the 1996 legislation, members representing the three counties therefore succeeded in pushing through demands that the agency set up a department in each county. Moreover, since its budget, made up of contributions by members of the council, never covered all operational costs, the agency has been depending on external resources from its very beginnings. This has proved a blessing in the long run as it allowed the agency staff to gain experience in tendering for and managing resources and to establish good contacts elsewhere in the European Union.

A description of the regional institutional system should of course not neglect the assessment of its underlying networks, i.e. of the way in which these two institutions have been able to integrate the various actors both inside and outside the region. This has, among other things, been the object of an empirical survey carried out in 2002–2004 (Kovács Pálné, Horváth and Paraskevopoulos 2004).<sup>6</sup> Its results show that partnership organizations and elected municipal bodies are playing a leading integrative role in regional policy. On the whole, the regional network has a strong public character, with civil society and economic actors occupying only marginal positions. Moreover, cohesion and intensity of interaction between actors is greatest at the county level. The greater degree of geographical cohesion at county (rather than the regional) level has, for one thing, led to intense competition between cities to become the administrative seat of South Transdanubia, an issue not regulated by the central government. This suggests that the inner cohesion of the region has remained weak. Counties and micro-regions appear to benefit from more organic and denser networks than the region, which lacks the necessary social capital and integrative institutions. Finally, participation in development councils has significantly increased the influence of certain key individuals whose power, thanks to ‘cumulative mandates’, often surpasses that of the organization by which they have been mandated. Chairpersons of county general assemblies are thus also presiding over the county development council (as required by law) and are members, if not chairpersons, of the regional development council and sometimes of the National Development Council or even Parliament. Regardless of these shortcomings, it can be argued that regional cohesion might be promoted, at least in the mid-term, by counties with stronger governance functions. There is no doubt that the level of policy interaction within the region as a whole has increased, and networks of both an informal and institutional nature are emerging.

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6 Funded with support from the EU's 5th Framework Programme for Research and Technological Development.

This situation changed fundamentally – and negatively – after Hungary's accession to the EU in 2004. RDCs in fact lost most of their functions and structural funds have since been managed by the central government. In addition, RDCs stopped receiving national funds (these resources are now used to help co-finance Hungary's participation in EU Structural Funds) and their participation in EU-related development planning has been curtailed as the government has decided to create an ad hoc task force in each region for the preparation of national development plans.

By contrast, the role of RDAs has been continuously strengthened. Their staffs have increased, and these agencies have become more and more financially independent of the development councils. RDAs now act as a so-called intermediary body, which means that they have a significant informal role in decisions guiding the use of the Structural Funds. RDAs have also been assigned by the government to participate in the preparation of the national development plans. Today the development agencies are actually more bound to the national government and the market than to the regional development councils which presided over their creation. Due to its size (approximately 80 well-trained experts) and local and EU contacts, it has become the most important actor of regional development policy within the region, begging the question whether it is now an actor of the region or only for the region. The management of the resources available within the framework of the First National Development Plan between 2004 and 2006 has thus been a disappointing experience for the region. The underlying model of a 'single' regional operational programme has been characterized both by centralization and fragmentation. Despite general dissatisfaction with the strongly bureaucratic and top-down decision-making, the post-accession period has thus not reinforced the role of the region as a main beneficiary.

In 2005, after political regionalization was postponed, South Transdanubia was given the opportunity to host a new pilot regional programme. The main idea was to establish a self-governing association comprising the local governments of the three counties, including the county seats, and to allow a transfer of competencies on the condition that necessary financial means would be provided. Its aim was to promote cooperation among localities and to reinforce regional cohesion through a bottom-up process. The programme has however been hampered by the fact that there has been no corresponding transfer from above, which would have prefigured true decentralization. Results after a period of approximately two years are not encouraging. The involved partners have not been able, or have not been prepared, to identify common fields of action in order to share competencies and resources. Indeed, three poor counties lacking these will not make a rich region!

### **Recent Attempts at Regionalization**

After the re-election of the government in 2006, another, though still not very convincing, attempt was made to promote regional self-governance. Amendments

to the Act on Local Government and to the Constitution were submitted to Parliament shortly ahead of the summer break. Prepared in a hurry, without proper consultation, the proposals were bound to fail and were indeed rejected by the opposition parties in Parliament. Still intent on showing its firm commitment to implement regionalization in public administration and the provision of public services, the government responded to this failure with legislation to regionalize state agencies that had been previously set up in the counties. Most of the public authorities at county level, until then subordinated to various ministries, were to be integrated at the level of the seven macro-regions. The reorganization of certain public services such as health care at the regional level was expected to produce better efficiency and cost reduction. Little time was, however, spent on evaluating the consequences of the reform, and critics have raised some doubts about whether it would achieve its aims. The Act was also seen as an attempt to introduce political regionalization 'through the back door'. In addition, it has given rise to fears that the government, after setting up a regional public administration, would no longer be keen on providing a democratic framework for it, namely self-governance in the form of an elected body.

There are indeed several signs that the government has retained its ambiguous attitude towards regionalization, focusing its efforts on marginal policy issues rather than in areas where regional governance might be more promising (e.g. regional development). In the process of submitting the Second National Development Plan (2007–2013) for approval to the European Commission, the government appeared to put considerable emphasis on the role of regions during the planning process and promised to prepare independent regional operational programmes. However, the Hungarian government has advocated a highly centralized form of management. After a series of negotiations with Brussels, the prospects for the regions look rather bleak. Regional development agencies will be assigned an intermediary role, and regional development councils will be limited to largely advisory status. Once more the needs of regional policy seem to come only second, and Europeanization appears no longer to imply regionalization (see Appendix, Table 10.1, for an overview of management structures for EU regional policy).

## **Conclusion**

Throughout the late 20th century, regionalism was one of the most promising watchwords of Hungarian post-socialist transformation, usually identified with notions of 'Europeanization' and modernization. However, regionalism has been highly contested in Hungary due to competing political interests, clashes between traditional and 'modern' values and even diverging geographical concepts. European requirements, especially with regard to the coordination of regional policies funded by the EU, have had a strong modernizing effect on public administration in Hungary (Ágh 2003), as well as in other new member states (Kopric 2003). This has led to numerous, although often superficial, institutional

and legislative changes in the post-socialist countries. The concept of 'partnership', for instance, continues to apply mostly to local political elites and not to developing stakeholders in the broader sense of the term. 'Professionalism' appears to refer to a narrow circle of consultants, rather than to a wider political arena. Instead of true decentralization, there have been superficial debates on regionalism and partial reforms at best. As a result of this, there is now some apprehension that, in the absence of clear long-term objectives, reforms already accomplished might in fact lead to increased instability. In Hungary (and, more generally, in Central and East European countries) the appearance of new intersectoral and semi-public or quasi-autonomous organizations has created uncertainty about the true division of public power among the various branches and levels of government, as well as about the geographical distribution of power within states.

In Hungary, new institution-building has been taking place at two levels, the micro-regions, and larger development regions, while the counties have struggled to regain their former importance. And whereas the state has started to devolve its administration to the regions, and micro-regions have been taking over more and more public functions, there is no convincing evidence that the new geography of power will allow for an efficient decentralization of services delivery. It might even become a crucial obstacle on the way to more transparency and legitimacy. There are indeed reasons to fear that old centralized and antidemocratic political attitudes might survive within the framework of new geographical boundaries and organizational forms.

To conclude, the first phase of regionalization in Hungary ended by the time of EU accession in 2004. It was characterized by a rather servile following of external patterns and cannot be said to have been very successful (Fleicher et al. 2006). For the second ongoing phase to succeed, Hungary will have to rely on her internal resources to achieve meso-level governance. Regionalism is not an issue of scales; its true spirit is rather decentralization, the sharing of the government's competencies with the meso-level and through cooperative governance. There can be no decentralized state without strong meso-level governance. It has been stressed by some authors that the European model of regionalization should not be identified with organizational forms or geographical scales but rather with partnerships and the culture of cooperation (Bovaird et al. 2002). If this is the case, regionalization in Hungary may yet have a long way to go.

## Appendix

**Table 10.1 Management of regional programmes in EU member-states between 2000–2006**

Country	Proportion of subsidized regions (!)	Programme Documents	Status/institutions of NUTS 2	Managing authorities of Regional Programmes
Austria	1/9	1 reg. SPD	Regional government	Regional government
Belgium	1/11	1 reg. SPD	Regional government	Regional minister
Czech Republic	7/8	CSF, single ROP	Dev. region (regional council)	Regional development ministry
Estonia	1/1	National SPD	National level	Ministry of Finances
Finland	2/6 (!)	2 reg SPD	Decentralized body	Ministry of Finances
France	6/26	6 reg. SPD	Self-government, and prefecture	Prefecture
Greece	13/13	CSF, 13 ROP	Deconcentrated org., delegated body	Ministry
Holland	1/12	1 reg. SPD	Self-gov. (royal commissioner)	Self-government
Ireland	2/2	CSF, 2 ROP	Dev. region (regional assembly)	Regional Assembly (delegated)
Poland	16/16	CSF, common ROP	Regional government and state adm. unit	Ministry
Latvia	1/1	National SPD	National level	Ministry of Finances
Lithuania	1/1	National SPD	National level	Ministry of Finances
Hungary	7/7	CSF, common ROP	Development region, delegated council	National development office
Malta	1/1	National SPD	National level	Prime Minister's office
Great Britain	6/35 (!)	CSF, 1 ROP, 5 reg. SPD	Development region	Ministries
Germany	6/16	CSF, 6 ROP	Development region	Regional ministry Senate of Berlin
Italy	7/20 (!)	CSF, 7 ROP	Regional self government	Regional self government
Portugal	7/7	CSF, 7 ROP	Dev. region	Delegated organ at regional level
Spain	12/19	CSF, 12 ROP	Regional self government	Ministry of Finances
Sweden	2/8	2 reg. SPD	Development region	Ministry
Slovakia	3/4	CSF, 0 ROP	Development region	Ministry
Slovenia	1/1	National SPD	National level	Ministry of Finances

*Note:* CSF = community support framework, ROP = regional operational programme, SPD = single programming document.

*Source:* Internet-based analysis.

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## Chapter 11

# ‘Reaching for the Stars’: East German Urban Regions and the Vicissitudes of Place-Making

Hans-Joachim Bürkner

### Introduction

During the past decade, much has been written about East Europe’s bumpy road to the market economy and the new regional disparities that have emerged as a result of structural adaptation. For East Germany, the passage to a post-Fordist economy and a new globalism has been described as being fairly intricate. In spite of massive transfers of capital, know-how and political institutions from West Germany, the performance of most East German urban regions within regional competition has been rather modest. In most regions, low economic dynamism prevails due to deindustrialization, the heritage of old industrial monostructures, disembedded new industrial structures, the slow establishment of new services and a low level of attractiveness for transnational investors. Only a few urban centres such as Dresden or Leipzig have been able to function as new, albeit fragile and vulnerable, centres of economic growth. The majority of urban regions have experienced depression and further decline. Recently, demographic change and the continued outmigration of educated workforce (a classic case of brain-drain) to West and South Germany have contributed to a weakening of local human capital in East Germany’s peripheries while emptying urban cores of inhabitants and a qualified workforce. In many regions, the heightened risk of further economic destabilization and a decreasing quality of life contribute to self-perpetuating spirals of decline.

This finding is rather astonishing since reforms introduced since the 1990s have been in line with neo-liberal demands for deregulation and open accessibility of markets within the EU. Tax reductions and subsidies for private enterprises, free infrastructure provided by local administrations and the state, the clearance of old and obsolete infrastructure etc., seemed to pave the way for re-industrialization according to the requirements of the global economy. Economists were especially optimistic about the possible effects of the ‘clean slate’ provided by reunification and the German Federal government’s uncompromising imposition of new institutions and market-oriented rules. It was meant to create a new economic space for innovation and organizational experiments, especially for transnational investors, global corporations and networks of knowledge-based or often high-tech firms.

Obviously, this intrepid (if not audacious) enterprise has not stood the test of time – at least not in the way it was originally conceived. Only a small number of transnational corporations established production lines in East Germany, mainly in the automobile industry. Hi-tech production only materialized as a result of massive subsidies from the State ('Länder') and Federal governments. So-called cluster policies triggered networks and local clusters of small and medium-sized enterprises in computer industries, IT services and other branches. However, the original idea of spontaneous re-industrialization was not realized. Instead, something like a heterogeneous re-economization was put into effect. In a very selective manner, East Germany was affected by the expansion of the 'New Economy', often producing disembedded structures which were tied to global networks while lacking local support. As a result, neo-industrial trajectories which were developing in the very early stages of transition and that tried to salvage manufacturing jobs were partly abandoned.

Accordingly, a new issue with regard to regional development strategies has been raised in scholarly and public debates from 2000 onwards. It was brought up by discussions about the European 'knowledge society' and possible options it generates for declining regions. Promoting the new knowledge economy and its sectors such as information technologies (IT) or specialized hi-tech R&D has often been depicted as a promising way out of structural dilemmas (see Hall 2000). And yet there is little empirical evidence that knowledge-based strategies can promote local development in peripheral regions in terms of structural change, economic growth and welfare (Rodriguez-Pose and Crescenzi 2007). Moreover, the restructuring of locales, including local identity, images and habitus, has only occasionally been explored.<sup>1</sup>

In East Germany, some examples of knowledge-based development have become visible and these tell multi-faceted, if confusing stories. Some of them are connected to political strategies of innovation-oriented regional development while some have developed spontaneously and without any discernible political steering. Two cases will be discussed here that shed some light on diverging local experiences and differing pathways of knowledge-based development. The discussion departs from the basic question of why some places easily develop into new nodes of knowledge production and innovative milieu formation, and others – often equipped with a similar or slightly less favourable set of local factors – perform weakly in this respect. Subsequent questions to be tackled are: how can tangible results be achieved for regions in transformation in terms of the knowledge society? What local conditions must be met in order to benefit from knowledge-oriented strategies of development? And, more specifically: what are the prerequisites for a new place-making which is able to render a given place more attractive and successful than others?

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1 For East Germany, see the study on place identity in the town of Eisenhüttenstadt by Weichhart et al. (2006).

## **Place-Making and Global-Local Knowledge Milieux**

Knowledge-based local and regional development is a matter that has been addressed by regional science during the past 10 years at a rather abstract level of discussion. Since the beginnings of this debate, a number of shortcomings have been perceived concerning the theoretical explanation and empirical evidence of relevant processes and structures. Two points are particularly important:

1. Regional science has dealt with the issue from the viewing angle of theories on innovation networks, learning economies, learning regions etc. When explaining the spatial concentration and clustering of innovative actors and firms, a crucial distinction has been made between tacit and codified knowledge (Howells 2002). The basic assumption is that any technological, organizational or procedural innovation requires some tacit knowledge as developed by practitioners. This non-communicated knowledge about 'how things work' is often highly personalized or shared by small social communities. For innovation to happen, it is necessary that at least parts of this tacit knowledge become codified and thereby communicable to others. Among other things, networks have been theorized in an abstract way as social spaces where the transformation of tacit (often localized) knowledge into codified (often globally available) knowledge occurs (Asheim and Isaksen 2000, Florida 2000, Lagendijk and Cornford 2000). According to this explanation, central nodes within networks of knowledge production serve as points of attraction, of intensified communication, learning and innovation. What seems to be easily understandable at an abstract level of theory-building soon becomes enigmatic when it comes to conceiving the socio-spatial dimension of relevant economic processes. In particular, it is apparently difficult to assess the meaning and contribution of specific embedding contexts, especially local contexts, where knowledge production happens. Regional scientists assume that these contexts – including close face-to-face communication – might be indispensable for the generation of new knowledge (Florida 2002, Storper 1997, 239). Yet solid empirical proof is still hardly available.
2. Despite a lack of evidence, the scientific community seems to have achieved some consensus about the nature of spatial implications of knowledge-based economic development. This consensus can be expressed by the formula: 'Space matters – but place matters even more!' According to this conviction, it is not only structured social space which shapes different pathways of development; it is much more so the process of place-making as developed by political and economic actors.

Although there is a growing academic debate about 'place-making' (see Fürst et al. 2004, Healey 2002), few accounts exist of how it actually occurs. Definitions of the term have been rather elusive and categories such as 'governance' or 'social

capital' are not easy to integrate into a consistent body of theoretical statements. So far, there are two conceptual directions which refer to different levels of explanation: an essentialist and a strategic one. The essentialist definition of place-making takes into consideration that knowledge and innovation would come up at certain places more likely than at others. Attractive places would provide for a specific cultural infrastructure which is sought after by relevant economic actors. This infrastructure seems to facilitate professional communication and network-building. It is a specific kind of attractiveness – linked to professional milieux – which 'makes' these places. Scholars refer to them as areas with an appropriate 'thickness' of social and economic activity, where this attractiveness becomes manifest. They refer to 'hot spots' or 'sticky places' (Asheim and Isaksen 2000, Malecki 2000, Markusen 1996) where initiatives coincide synergistically and innovation abounds. According to this definition, place-making is an outcome of intensified social interaction for economic purposes that happens at a specific, physically identifiable location. By means of cultural encoding, meaning and social significance become attributed to it. This process can take place either spontaneously and/or as a product of social and economic action over a period of time which in turn creates favourable conditions for the kind of action in question.

The strategic, actor-related definition takes place-making as part of a process of governance based on a sense of collective identity. It aims at making concrete localities attractive for different uses (Healey et al. 2002), among them economic ones. It is the design of a certain place in terms of dominant symbols, images and identities which are held to be conducive to certain social and economic ends. Place-making needs a critical mass of governance capacity, a combined effort by local actors and institutions in order to be effective. Characteristically, it cannot be achieved by governmental organizations alone; instead, it needs a broader basis of social capital-building which requires activities by the local civil society and non-governmental bodies (Fürst et al. 2004).

As far as knowledge production within technologically advanced sectors of the economy is concerned, the term 'place' has a triple meaning:

1. It is the *product* of place-making in terms of social constructs (including definitions, symbols, feelings, connotations and cultural contexts).
2. It is the *interactional structure* of place-making in terms of locally bound networks, conventions etc., centred socially and spatially around a specific process of knowledge generation.
3. It includes signified *material artefacts* and physical structures that have become parts of meanings and interaction settings via cultural codification and symbol-building.

Up to the present, there have only been a few attempts to formulate a down-to-earth concept suitable for empirical research (for one, see Fürst et al. 2004). With regard to the initial question of chances for the knowledge economy to become a

driving force of local and regional development, there is still need for a concept which allows for looking *systematically* at processes of place-making in the field of knowledge-based development. Moreover, there is still a lack of empirical evidence about the concrete local ways and contextual frameworks of place-making within related fields of action. Considering these deficiencies, the Leibniz Institute for Regional Development and Structural Planning (IRS) at Erkner (near Berlin/Germany) has developed the heuristic concept of 'knowledge milieux' in order to deal with socio-cultural *and* spatial contexts of place-making (Matthiesen and Bürkner 2004). It departs from the observation that the generation and economic exploitation of knowledge is not merely a technical issue which might be described in 'hard' economic terms alone. Rather, it must also be described in socio-cultural terms. Knowledge generation is a cultural as much as an economic process. It is embedded in 'soft' informal communication structures and social meso-structures. These create the intellectual workbenches required (networks, teams etc.). At the same time, they give rise to a specific aura and identity of a location – something which phenomenologists have once addressed as the *genius loci* while grossly underestimating the interactional dimension of this kind of social construct (see Führ [1998] who refers to writings by the Norwegian architecture phenomenologist Christian Norberg-Schulz). The outcome is definitely more than a mere allocation of production factors and economic network-building.

The IRS research group has defined knowledge milieux in terms of social communities manifesting relatively homogenous forms of interaction and intensified internal communication (Matthiesen and Bürkner 2004, 77). People who belong to these communities and networks have specific knowledge-based fields of action and corresponding lifestyles in common. They adhere to cultures of knowledge generation and technology as structured by research and application. They are involved in relevant learning processes and develop new forms of proficiency and expertise. A basic ingredient to the concept is a specific notion of knowledge which was borrowed from Michael Gibbons and collaborators (Gibbons et al. 1994, Nowotny et al. 2001). Gibbons compares two different modes of knowledge production (see Figure 11.1): one which seems to be older (mode 1) – and one which appears to be younger because it is attached more closely to specific ways of knowledge generation under the rule of globalization (mode 2). Mode 1 tends to be tied to the industrial model of modernization, with knowledge generation taking place within societal subsystems, often inside isolated fields of action. It is monodisciplinary, separating science from other fields of knowledge as well as from professional practice. It produces universal, context-free, codified knowledge with a long-term validity.

	Mode 1	Mode 2
<b>Attributes of knowledge</b>	<ul style="list-style-type: none"> <li>- tied to societal sub-systems</li> <li>- long validity</li> <li>- universal, context-free</li> <li>- explicit, codified</li> <li>- reliable</li> </ul>	<ul style="list-style-type: none"> <li>- reflexive, related to networks</li> <li>- short half-life</li> <li>- locally bound, contextual</li> <li>- implicit, tacit</li> <li>- socially robust</li> </ul>
<b>Institutional forms</b>	<ul style="list-style-type: none"> <li>- work in isolated fields of action</li> <li>- monodisciplinarity</li> <li>- traditional, steep hierarchies</li> <li>- durable organization</li> <li>- separation of science and practice</li> </ul>	<ul style="list-style-type: none"> <li>- work in networks and project teams</li> <li>- inter-/transdisciplinarity</li> <li>- shallow hierarchies</li> <li>- temporary organization</li> <li>- networking and co-evolution of science and practice</li> </ul>

**Figure 11.1 Modes of knowledge production**

*Source:* Matthiesen/Bürkner 2004, 76.

In contrast to this, mode 2 requires working within interdisciplinary networks with shallow hierarchies. It is often limited to temporary projects and aims at combining science and practice. The resulting knowledge is of a reflexive type, containing high amounts of contextual, tacit knowledge and being relatively short-lived by nature. A closer look at both modes under real world conditions would reveal mixed, hybrid forms of knowledge production rather than pure modes of the ideal type referred to above. Particularly, the inherent evolutionary idea of mode 1 developing into mode 2 (from modernity to post-modernity) is intriguing. Even within the classic industrial model of functional separation, knowledge production always contained elements of interdisciplinarity, project-type organization of labour etc.. In the knowledge society, however, elements related to mode 2 would exceed those attached to mode 1 in quantity and in innovative quality. What does this mean for the analysis of local embeddings of the knowledge economy and related processes of place-making?

First of all, it is flexible, rapidly changing milieux and networks that deserve primary attention. Networks are understood here not only in terms of ‘hard’ economic network-building, but also as hybrid, ‘soft’ networks, composed of economic, political, cultural and other actors, united by a specific rationale. These hybrid networks often include high degrees of informal social relationships. They establish soft ties in the sense Granovetter (1973) defined them, including negotiated conventions, trust, mutuality etc. Their social cohesion and their

efficiency in producing stable frameworks of action is often greater than those achieved by hard networks. Secondly, it is the cultural contexts which have to be observed carefully – as enabling and also as delimiting factors of economic action. In particular, they offer to economic actors specific options for social embedding which might easily turn into place-making. For example, the way agents of the global economy create local 'touch-down areas' is often a matter of socio-cultural compatibilities and affinities to a local milieu (Bürkner 2004). Obviously, a certain emotional attachment of decision-takers to a city or a region might be found at the core of locational decisions. However, producing pro-active initiative and innovation requires more than that: it needs a special harmony between global and local actors as well as social interaction on that basis.

This condition given, place-making may thus be conceived as an integration of economic impulse, innovation and social impact exerted by new economies (via specific modes of knowledge production), and of political initiative, at best combined into one thrust for regionalization and strengthening the locale. It is in this place-related context that the notion of 'embeddedness' has to be reconsidered – not only as a term bound to networks and the connectivity of global and local actors as the German economic geographer Grabher (1993) once defined it but also as an issue of socio-spatial connectivity and socio-cultural reflexivity (Storper 1997). Embeddedness must be understood as a phenomenon which is extremely universal and particular at the same time: universal, because it takes into account a wider framework of local and global actors, of global networks, of different modes of knowledge production and of a variety of social organization and processes of community-building; particular, because it is closely related to social meso-structures which can be explored in detail within their original local and regional settings – not simply as the abstract items they have been until now in regional science.

As a consequence of this interplay of universal and particularistic processes, there always is a certain degree of uniqueness in the generation and evolution of the places of knowledge production. Although the impulse of globalized, footloose economies to generate 'touch-down areas' is universal and seemingly arbitrary, the concrete appearance of such an area or place is very particular in the sense that it has to draw upon communicative and interactive assets such a place has to offer. Neo-liberal adaptations of the local to the global tend to exploit the specific social and cultural resources of a place which are compatible with the needs of global actors and their local collaborators – be it a cultural scenery, a local tradition of intellectual life, opportunities of moulding specific lifestyles etc.

Ultimately, the question of embeddedness and of creating particular places is related to the issue of the spatiality of knowledge production. Is knowledge production – especially mode 2 – ubiquitous in the sense that it can be established anywhere as long as some basic requirements for creating necessary embeddings are met? Or is it, on the contrary, so selective concerning its attachment to cultural and socio-spatial surroundings that it can only be drawn up in a small number of suitable places? Finding answers to these questions might be a primary task when



it comes to defining an exit option for cities and regions in crisis. If new knowledge production can be successfully introduced even in places which cannot offer the economic and cultural benefits guaranteed by big cities and agglomerations, there might be a realistic way out of local processes of economic stagnation or decline. Even more, such exits from decline might even give rise to more general future strategies of adapting the local to the global. Academic debate has to evaluate the real world nucleus of political hopes for regeneration and new wealth which might arise here in a similar way as they did in connection with debates on creativity as a factor of urban development (see Hall 2000).

### **Case Studies: East German Transformation as a Regionalization Context**

Two contrasting case studies from East Germany will serve to clarify the point of communicative hybridization and the issue of exploitation of local resources by global players and networks. The two cases stand for two different types of place-making: an 'embedded' and a 'disembedded' one. The first one is the urban region of Jena which represents a type of place-making which can be called embedded in a way that global actors are able to draw upon resources which have already been attached to this place by history and local tradition. The second one is the city region of Frankfurt/Oder at the German-Polish border. It displays disembeddedness in the sense that global actors cannot exploit similar 'natural' resources but are forced to create local resources by themselves and naturalize them in a second effort.

In exploring relationships between milieu-building, local embedding and place-making, empirical data will be used from research undertaken by the author during 2002/2003.<sup>2</sup> A series of case studies was conducted in order to explore different types of knowledge milieu formation in medium-sized German cities – two East German ones (Jena, Frankfurt/Oder), and, for reasons of transformation-related comparison, a West German city (Erlangen). Place-making was considered – at least partially – to be an integral part of the special forms of community-building which developed around economies exploiting high amounts of knowledge generated by mode 2. Empirical results were gained by means of structural analyses and a series of qualitative interviews with key actors in the field of knowledge production – researchers, entrepreneurs, urban politicians, science managers etc. The interviews were analysed by means of qualitative reconstructions of case structures according to the methodological principles of objective hermeneutics (Oevermann 2001), in particular, by utilising the method of sequential analysis (Lüders and Meuser 1997). This way, milieu contexts and socio-cultural implications of knowledge generation and place-making were better accessible than by means of traditional expert interviews or quantitative methods.

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2 Reference is made here to the project 'knowledge milieux and settlement structures' undertaken by the Leibniz-Institute for Regional Development and Structural Planning.

## East German Transformation

Political development in the former German Democratic Republic (GDR) was characterized in the 1980s by a determination on the part of the government to shield the formally democratic, but in fact highly authoritarian, political system from external liberalising influences. The fall of the Berlin Wall in 1989 and German unification a year later led to a brief and eventful period of transformation in the *Länder* of Eastern Germany and Berlin that resulted in abrupt changes in the political situation. The previous authoritarian (dictatorial) system imploded, citizens' movements speeding up its collapse, and the political institutions of West Germany were adopted almost entirely on unification. The GDR can thus be considered to have undergone a transformation of the type known as 'collapse of a regime led by social forces', to some extent comparable with Czechoslovakia, Greece and even Peru (Beyme 1994). At least formally, transition occurred within the first two years and it was possible for the first consolidation phase to begin as early as 1991. However, the substantial shortcomings that have appeared in the following phase of consolidation are proving difficult to overcome due to continuing economic weakness. In particular, there are signs of profound disenchantment and that democratic awareness has not yet stabilized. It is for this reason that democratic processes are now exhibiting a slightly downward trend.

The economic situation in Eastern Germany was (and still is) characterized by abrupt structural shifts. While it was possible up to 1989 (the fall of the Berlin Wall) to stabilize West Berlin at approximately the same economic level as West Germany by means of huge subsidies, the GDR's productivity and its ability to adequately provide for its people steadily decreased from 1973 onwards. This was due to the extremely tight controls, enforced by repression, on its economic system. The GDR was only able to achieve a relatively high status as an industrial country within the Eastern bloc. However, the latter collapsed after 1989. Sudden changes, which many experienced as a shock, occurred within the space of a few months and culminated in monetary union and German unification in 1990. Berlin soon lost its generous federal subsidies. The economic foundations of East Germany crumbled, the losses being compensated for by huge transfer payments from the western half of the Federal Republic and the EU (as is still the case today). The process of restructuring the labour market got underway only very slowly, accompanied by high unemployment figures. The economic development of the Berlin-Brandenburg region cannot yet be regarded as having stabilized in spite of the prevailing belief that the market economy has been consolidated (Beyme 1994).

## The Case of Jena: IT and the Zeiss Phenomenon

The economy of the city of Jena seems to have experienced a successful transformation from monostructural old-industrial offsets at the beginning

of the 1990s to a modern mix of branches ten years later. The initial structure was dominated by the traditional optical industry which the socialist regime had built around the remnants of the pre-war Carl Zeiss corporation. First steps of privatization abolished aged parts of the formerly large socialist production plants, leaving small units with uncertain predictions concerning competitiveness, capability of innovation and productivity. Around the mid-1990s, the settlement of technologically advanced leading enterprises under the patronage of the well-known West German political leader Lothar Späth brought about a dramatic change. IT corporations like Jenoptik took the role of motors of innovation and initiated a networked production and services scenery. While doing so, these enterprises rested upon old pre-structures and adjusted them to changing European and global market conditions.

Social innovation which was necessary for this re-adjustment comprised social mixtures of older professional milieux built by ex-socialist engineers and new 'globalized' management staff. This way, the new enterprises generated creative hybrids between local industrial tradition and globalized modes of modernization. Former GDR engineers with their solid technical expertise were combined with new IT managers from around the world in order to create new synergies and innovation from heterogeneous types of professional knowledge.

Intra-firm restructuring was backed up by intense local networking in the field of opto-electronics. Inter-firm network building was arranged according to the latest trend of branch networking, drawing together producers, state-funded and private research facilities, the local university, service enterprises, donors of risk capital, banks, chambers of commerce, economy-sustaining associations, management consultancies, local and regional institutions for vocational training, local politicians, the local administration, city marketing representatives, etc.

The university of Jena has been able to take the role of an incubator for networks like the one described above since relevant technical studies were rapidly modernized according to the necessities of high-tech R&D. At the time of investigation, for instance, a bureau of technology transfer supported start-ups which were founded out of the university's research institutes. It also functioned as an organizer and long-term consultant of start-ups and actors within a large competence network (OptoNet). One major effect is that research facilities outside the university have been interconnected with the university, with business schools and with the young start-up scenery in a very effective way.

The social embeddings which were created here can roughly be addressed as creative milieux in the sense of the industrial district paradigm (Becattini 1991). However, the crucial point is that network building here exceeds networks of industrial production with their relatively narrow array of associated actors (which, in fact, hardly went beyond the limits set by value chains and selective co-operation with local and regional politics). The driving force of the new soft networks is an amalgam of heterogeneous types of knowledge (professional knowledge, milieu knowledge, local knowledge), fortified and perpetually re-arranged by advanced

hi-tech knowledge. These networks combine to form a knowledge milieu with variable interactions and a common vanguard consciousness of its members.

As an effect, local economic or sectoral development is getting gradually transmuted into a 'spatial enterprise'. This means that development is not only a concern of single enterprises or policy-makers, but also of a variety of different local actors. These actors get involved with governance processes which affect both the economy and the city. Hence, it is place-related collective initiative which sets the agenda, rather than traditional policy-making. On this basis, a specific mentality was stimulated which public opinion in Jena has called the 'Spirit of Jena'. It has shaped the charisma of a place which now might be called a 'sticky knowledge place' (see Asheim and Isaksen 2000).

A typical example drawn from interviews with relevant local actors will clarify this point. It is about an institute for opto-electronic research located in the city centre near the headquarters of the branch-leading enterprise Jenoptik. This institute works with elements of both mode 1 (monodisciplinary knowledge) and mode 2 (interdisciplinary knowledge); these two mingle into a practice which appears to be conservative and highly innovative at the same time. Co-operating firms are located partly in the vicinity, partly in industrial zones at the margins of the city. However, the interviewees made it clear that the specific location was not chosen because of economic necessities, e.g. in order to enable face-to-face contacts between network partners on an everyday basis. Rather, it was appealing because of the presence of more general, diffuse contexts generated by knowledge milieux in the city centre. For instance, Jenoptik funded a shopping and restaurant mall, designed in post-modern architectural fashion. It spans a street in the historical city centre, combining old Carl Zeiss factory buildings from the nineteenth century with newly erected Jenoptik office buildings. This mall is largely frequented by Jenoptik employees, university staff, students and other local inhabitants. Close to this complex, the university campus offers extensive public space, with cafés, pubs, restaurants etc. that are mainly visited by students, 'knowledge workers' and tourists.

To many interviewees, this vivid urban scenery serves as a point of mental reference and identification. For these milieu actors, it is particularly attractive to feel like being in the middle of a dynamic, innovative environment – socially and spatially. They would prefer a colourful, stimulating cultural scenery around the university and the revitalized city centre. And they would speculate about latent business occasions which might become manifest out of this scenery some day in the future. It is the interlinking quality of urban everyday culture and its socio-spatial arrangements that facilitates economic action and produces a knowledge-based kind of stickiness here.

If the whole city is regarded as a place, it can be said that it has been remodelled according to a pattern of 'traditional local engineering plus global hi-tech innovation'. Local engineering includes an old tradition of co-operation between industrial firms and between the university and other research facilities. In a cognitive sense, this implies a sense of place in which the city seems to

be a natural setting for co-operation. This includes a high degree of visibility of lifestyle-relevant symbols, such as post-modern arcades, restaurants which serve as meeting-places for the new 'milieu members', etc. The city as place emanates signals that 'something interesting, something new is going to happen'. Knowledge workers understand these signals as being directed to them in the first place, as if they were internal features of their milieu. However, these signals might attract other local inhabitants too, thereby contributing to a new process of public identity-formation.

Chances for such a widely spread, almost universal readability seem to be low in East German cities, however, because there is a sharp divide between winners and losers of modernization. It tends to render opportunities connected with the global sphere rather exclusive and intangible to locals. Time and further research will have to show if a more communalized effect of this type of economy-centred place-making will emerge.

### **The Case of Frankfurt/Oder: A Lack of Embeddedness**

In sharp contrast, the case of Frankfurt/Oder stands for a crisis-ridden pathway of development. The former socialist industrial basis was abolished at the beginning of the 1990s. Although Frankfurt had been dominated by the semi-conductors industry, after unification this industrial complex was deemed too obsolete and uncompetitive in global markets. Furthermore, manufacturing had been organized according to mode 1 which did not meet the requirements of modern productions any more. Only a very small part of the former state company of 8,000 employees was privatized. The rest vanished, accompanied by a massive out-migration of educated workers and severe population losses in the city-region. Some of the former employees changed their profession and took jobs in the local administration and in politics where they formed tightly knit conservative networks.

It was not until the middle of the 1990s that a research institute for semiconductor physics was established with the aid of the Brandenburg state government, and a small cluster of innovative producers of this branch settled in the outskirts of Frankfurt, socially and spatially isolation from the rest of the city. There was almost no embedding structure as in the case of Jena. Hard economic networks operated within global contexts without almost any local input. Apart from the intense interconnection between the institute for semiconductor physics which served as a small business incubator, the cluster's enterprises had neither the need nor feasible options to develop hybrid networks. Quite characteristically for many medium-sized towns in East Germany, there was no interconnection with the local university or the local administration. Since the newly founded European University Viadrina did (and still does) not offer any relevant technical and IT studies – its speciality being cultural studies – there was no secondary education and research which could contribute to the development of a regional network of competence. The structure was dissociated and fragmented, its components

divided between mode 2 knowledge production imported from elsewhere and the remainders of former mode 1 production of socialist times.

The example of a young medium-sized enterprise engaged in microchip production shows how difficult it is for an individual firm practising mode 2 knowledge production to get rooted within a local context which is dominated by protagonists of the mode 1 model. The firm was located within an industrial zone outside the city. The founder was facing the problem of getting his highly specialized personnel tied to the enterprise and fending off head-hunters. His strategy was to offer his employees favourable financial credits and land for building single family homes in Frankfurt's suburban area. Since the city centre of Frankfurt was hardly attractive at that time – characterized as it was by economic decline, population loss, lots of vacant flats, socially disintegrated neighbourhoods, right-wing violence and a lack of cultural activities etc. – this strategy was rather successful. 'Getting stuck' to this very place required a double milieu context: on one hand, tight social cohesion inside the firm was necessary in order to make mode 2 work. On the other hand, it was indispensable to develop additional possibilities for community-building which drew on older, mode 1-like forms of cooperation and 'settledness'.

In the case of Frankfurt/Oder, settledness represented a very conservative option for shaping local ways of life for managers and an at least partially 'globalized' workforce; it was largely accepted due to obvious lack of alternative. Relevant milieux, therefore, were not a matter of randomly chosen urban lifestyles as might be expected from members of the creative class. In fact, the predominant habitus of these 'knowledge workers' was middle class mainstream, not very conspicuous and deeply rooted in a set of conservative beliefs, norms and everyday orientations which would normally be attributed to traditional professional milieux of engineers. Milieu practice, therefore, tended to be confined to the private realm. It emerged on the garden terraces of suburban single family homes around Frankfurt rather than in inner-city marketplaces, trendy neighbourhoods or pedestrian zones.

At the time of this specific analysis, economic activities of the hi-tech clusters and their milieu formations had elicited very little political and public response at the local level. Knowledge production had been oriented exclusively towards global networks, sharply separated from the rest of the economically and culturally deprived region. Knowledge producers used to surf the global sphere as highly qualified specialists on the job while diving into post-socialist suburban disregard after work. Creating a place which provides for good embedding options for highly specialized knowledge workers has been a challenge which was accepted only by a small number of entrepreneurs. Since networking was restricted to few firms, void of a larger context of supporting actors from politics and other spheres, the 'place' defined by them only comprises social relationships assembled around the workplace – with sharply bounded physical correlations made up by some isolated industrial zone and a couple of dispersedly allocated single family homes, both situated in the surroundings of Frankfurt.

Ironically, as if to support this socio-spatial arrangement, conservative 'ex-socialist' milieux inside the local administration were successful in keeping firms trading in the global economy out of the city, treating them as if they were unwanted intruders. As a consequence, a common vision of an attractive place did not come up. The new entrepreneurs still strived for some active place-making in a strategic sense – they were interested in a representative, well-established location to show to their business partners – while the administration and most local politicians simply did not, at least not in a cooperative way. Among others, the reason is post-socialist convictions about the effectiveness of investment held by local actors. In their vision, massive large-scale investment should bring lots of industrial jobs to the city. And if private investors could not do it, the state should compensate for it. To these locals, small and medium-sized enterprises operating in seemingly obscure global markets appeared as suspicious, producing no tangible results for local welfare.

On the whole, it may be said that this disembedded variant of place-making has supplied the region with a milieu-based stickiness of its own, albeit a very fragile and ephemeral one.

### **Stickiness: Policy and Governance Options within Tangled Contexts of Transformation**

Both cases studies have revealed different formations of 'stickiness'. The case of Jena stands for an extrovert type of place-making which is based on an open influx of heterogenous elements. It requires a high degree of social interaction, in particular strategic networking supplemented by soft hybrid network-building. It is based on the traditional socio-cultural attractiveness of the city, as well as on a long tradition of cooperation of different institutions and actors in the field of knowledge production. The knowledge economy offers a new occasion for place-making which might look somewhat traditional at first sight. In fact, however, it is founded on new concepts of knowledge production and milieu-building. The special approach to milieu formation lies in a fruitful combination of 'imported' global actors and endogenous local engineers. Cross-cutting cultural practice reinforces economic inventiveness and makes the place increasingly attractive to further investors and specialized workforce. The case of Frankfurt represents a defensive, introverted kind of place-making based on social exclusion. Social interaction is limited to a small set of actors. Only by deliberately creating a regressive micro-milieu within the enterprise is the founder able to make the place a professional and social home for his employees. From his point of view, globalized economic activity and knowledge production must be defended against a post-socialist environment which counteracts globalization and modernization of the economic base. Lacking political support and insufficient locational qualities contribute to stabilizing this attitude.



By comparing these two cases, it becomes clear that knowledge production does not offer a general strategy with which to overcome structural crises. Quite on the contrary: 'reaching for the stars' seems to be an option which is only available under a specific set of preconditions. It would require a socio-cultural context which is compatible with the preferences and lifestyles of a global workforce involved in higher education. And it would call for a two-sided learning process: 'global' actors must learn how to integrate cultural occasions offered by specific locations into their concept of a 'suitable place'. Local actors must learn how to communicate the qualities of their place in order to make it an occasion in economic terms – without losing their power of defining relevant properties of the local socio-culture in question.

This double necessity to learn makes it extremely difficult to create political strategies and governance procedures which enable and sustain processes of place-making. Creating a culture of inter-sectoral cooperation and networking which reconciles local aspirations and the necessities of globalism requires a long-term process of mutual adaptation. Pre-existent positive experiences and additional learning capacities are needed in order to deal with this challenge successfully – especially under the condition of East German transformation where de-industrialization has paralyzed many towns and cities. Thus, many attempts at turning old locations into places suitable for the knowledge economy might very well involve a 'reinvention of tradition'. However, the difference here is that in many cases there is hardly any tradition which can be claimed by local actors to be theirs. Jena was lucky to have it; Frankfurt was not as fortunate. The general truism that attractive cultural contexts help cities adapt to global economic conditions is painfully clear in East Germany, probably more so than in West European regions.

Nevertheless, it will be important to develop local steering capacities which generate cultural contexts for advanced economic activities to a greater extent than has been the case in the past. Context-sensitive steering might not so much be an issue of policy-making of the top-down type. Rather, it seems to be an important issue for new bottom-up governance initiatives. Lessons might be learned from those professional communities and milieux that are capable of establishing unconventional linkages between global players, small entrepreneurs, local politicians, science, cultural institutions, philanthropists and a variety of associations and initiatives. Local actors should aim at redirecting local potentials and resources towards creating reliable communication structures and potentials for more stable place-making by non-locals. 'Reaching for the stars' requires not only a reliable point of departure in terms of localism and cultural diversity but also some curiosity about things 'alien' to the local context, above all in terms of economic and cultural life.



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## Chapter 12

# The Emergence of New Regions in Transition Romania<sup>1</sup>

József Benedek

### Introduction

As elsewhere in Central and Eastern Europe, regionalization processes in Romania have taken place within the context of political and economic transition and integration into the European Union. Emerging from a highly centralized state-socialist regime, Romania's process of societal modernization and institutional change has been a complex one. In fact, the development of rules and behaviours that might promote stronger local and regional governance has been progressing in a glacial manner. Traditional 'centralist' or 'autocratic' behaviours persist alongside new democratic procedures. In this process of transformation, as has been amply documented by Ilona Kovács Pálné (this volume) for the case of Hungary, the role of the EU is of central importance. Much of the impetus for 'region-building' has, in fact, come from Brussels. Both on the grounds of more efficient regional development policies and the promotion of greater governance capacities below the level of national government, the EU has more or less imposed tenets of New Regionalism on Romania. The potential outcome of this experiment, however, is less than clear. In 1998, Romania established new 'development regions' (NUTS 2 territorial divisions) in order to satisfy EU requirements but also as a strategy to enhance national structural policies. While the new regions have served to channel EU funds their governance role remains minimal and it is uncertain whether they will assume a greater degree of autonomy – much less develop the socially integrating roles prescribed by new regionalists.

What follows in this chapter is an attempt to characterize region-building in Romania as a project of socio-political construction. I hope to provide a better understanding of the nature of Romania's regionalization processes by drawing in particular on Finnish geographer Anssi Paasi's work on regions and regional identity. After a brief historical overview of Romanian regional studies, which has been characterized by physical determinism, I will describe and analyse the

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1 The main ideas of this chapter were formulated during a stay at the Leibniz-Institute for Regional Geography in Leipzig, during which the author benefited from an Alexander von Humboldt scholarship. The author also wishes to express special thanks to Dr Christoph Waack for his suggestions regarding content and language.

paradigm shift that the creation of new development regions in the 1990s has implied. I will also examine the roles of various forms of political, cultural and economic regionalism in this process. Finally, I will attempt to put Romania's post-socialist regionalization experience into a more general perspective and draw some conclusions for the future of regionalism and regional devolution in Romania.

## Romanian Regional Studies in Historical Perspective

During the communist period, regional geography in Romania was mainly understood as a discipline integrating local knowledge of natural environments, cultural landscapes, geomorphology and human settlements. This resulted in an emphasis on regional monographs in the form of county geographies, topographical and settlement typologies, and descriptions of a more 'touristic' nature (Benedek 1998). The first and only attempt at a social-geographic regional analysis of Romania was published in 1960 in the journal *Monografia geografică a RPR*. Later regional studies were characterized by a narrow focus on physical geography and 'objectively' defined natural, and hence politically neutral, areas. Phenomena such as ethnic and social stratification or social segregation as well as regional and cultural geography were practically banned from being studied for ideological reasons. Almost two decades after the revolution of 1989, regional geography retains a strong monographic character and largely lacks debates about theoretical, conceptual and methodological issues. Physical and environmental factors continue to be privileged. Natural boundaries such as river valleys and structural connections between mountains, hills and plains are, of course, important but these elements are often uncritically used when describing and analysing the social and political organization of space (Benedek 1998). While the 'physical determinism' of Romanian regionalist studies is not an isolated phenomenon – 'Western' schools of regional analysis have been similarly dominated by nomothetic and quantitatively oriented research (Werlen 1997, Wood 2000) – this approach appears hardly promising when applied to the study of the territorial consequences of the ongoing economic, political and social transformation.<sup>2</sup> Urged by the EU to develop new structures of democratic and effective territorial governance, regionalist thinking in Romania has been subject to a rather decisive – and by no means always welcome – paradigm shift. The functionalist 'top-down' approach persists at present although it has been attenuated by more culturally and historically grounded notions of 'region'. In order to adequately interpret this state of affairs, particularly with a view to comparative analysis, I argue that a constructivist approach is necessary.

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2 While the spatial-administrative consequences of transformation have been studied at the level of local government, little attention has been paid to the regional dimensions of transition in Romania (see Halkier and Sagan 2005).

The Finnish geographer and regional scholar Anssi Paasi (1995) has attempted to overcome the limitations of more conventional approaches by understanding regions as social constructs, as region-building projects that reflect historical, political and cultural narratives, and that, to some extent, are based on physical characteristics of natural landscapes. Paasi suggests that region-building processes pass through four, though not necessarily consecutive, stages that link narratives of place with issues of socio-economic power. These stages are: territorial shaping (named and given boundaries), symbolic shaping (local or translocal symbols legitimizing a particular notion of region and the values, standards, identities and roles that it implies), institutional shaping (the development of regional institutions ensuring the reproduction of regional consciousness and of the region itself) and, finally, the establishment and recognition of the region. In the following I will attempt to apply Paasi's scheme to the Romanian case, taking into consideration the specific circumstances under which regional institutions have emerged in this country.<sup>3</sup>

### **Regionalization and Region-building in the Transition Period**

In 1998, the Law on Regional Development in Romania (151/1998), subsequently amended in 2004, introduced a new territorial level represented by so-called development regions (see Figure 12.1), as well as an institutional framework, remits and instruments for regional development. The establishment of a regional policy (and of regions to which resources could be channelled) was to inaugurate a specific national project of economic development. It was seen by Romania's political elite as part of the general political and economic transformation towards a democratic multi-party system and a market economy that would in itself lead to better living standards and economic well-being. As in Hungary and Poland, it was also heavily influenced by external factors and the EU integration process in particular.

The new legislation created eight development regions. Development Region 1 (Northeast) is the largest in terms of territory and population (about 3.6 million inhabitants) but also represents one of the most underdeveloped areas in the country. Development Region 2 (Southeast) is the most heterogeneous region from a cultural point of view, comprising two counties from Moldova, two from Muntenia and two from Dobrogea; its socio-economic status tends roughly toward the national average, but its transport infrastructure is weakly integrated. Development Region 3 (South Muntenia) surrounds the capital Bucharest; ironically, it is also one of the least developed regions because of its dual territorial make-up: economically

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3 Among the authors who have attempted to develop theories of post-socialist transformation in Romania are J. Häkli (1994), D. Sandu (1996, 1999), V. Pasti et al. (1997), W. Heller (1998), J. Pickles and A. Smith (1998), Eyal, Szelenyi and Townsley (2001), and D. Chiribucă (2004).

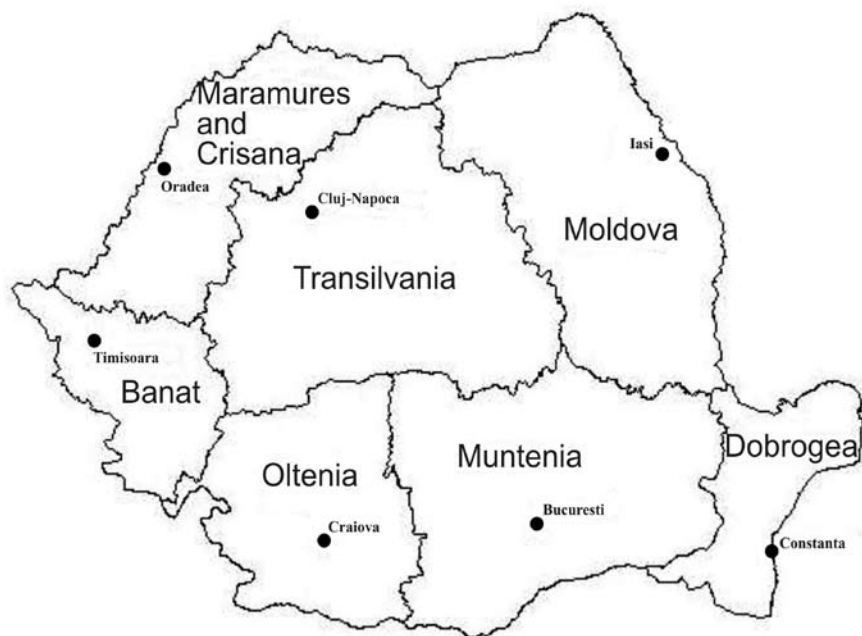
strong counties (Prahova, Argeş, Dâmboviţa) in the north, four poor counties in the south. Development Region 4 (Southwest Oltenia) comprises the counties of the historical province of Oltenia; its development level can be compared to that of the Southeast. Development Region 5 (West), the most developed region after Bucharest, is formed of the historical region of Banat and the county of Hunedoara. Development Region 6 (Northwest) is a generally prosperous area with average socio-economic indicators but includes two small counties that have the lowest development indicators of the western provinces (Sălaj and Bistriţa-Năsăud). Development Region 7 (Centre) is made up exclusively of Transylvanian counties and occupies the third rank after the capital and West regions in terms of development. Finally, Development Region 8 (Bucharest-Ilfov), which comprises the capital Bucharest and the county of Ilfov, is the economic growth centre of Romania.



**Figure 12.1 Development regions in Romania**

*Note:* Key: 1 = North-East, 2 = South-East, 3 = South-Muntenia, 4 = South-West Oltenia, 5 = West, 6 = North-West, 7 = Center, 8 = Bucharest-Ilfov.

*Source:* Leibniz-institute for Regional Development and Structural Planning, based on Benedek.



**Figure 12.2 Cultural-historical regions in Romania**

*Source:* Leibniz-institute for Regional Development and Structural Planning, based on Benedek.

At first sight, Romania's 'new' development regions do indeed appear new. Closer examination, however, reveals that the borders of these regions partially follow the demarcation line, represented by the Carpathians, between the 'western' provinces of Romania (Transylvania, Banat, Crişana and Maramureş) and the 'heartland' provinces of the modern Romanian state (Moldova, Muntenia, Oltenia and Dobrogea) (see Figure 12.2). This cultural dividing line is the result of history: until 1920 the provinces in the western part of the country were part of the Kingdom of Hungary (and the Austrian-Hungarian Empire) whilst the heartland provinces were under Ottoman rule until 1859. Nevertheless, a historically grounded regional identity was not a major criterion for determining the territorial character of the eight development regions (*regiuni de dezvoltare*). Instead these regions were established on the basis of clustering existing counties according to specific 'objective' (i.e. structural and socio-economic) criteria, notably territorial and demographic size as well as levels of cultural and economic integration.<sup>4</sup> The process has been criticized both in scientific and political terms for its lack of

<sup>4</sup> Compared to other European countries, the Romanian development regions are rather large.



transparency and consultation (Horváth and Veress 2003; Veress 2005).<sup>5</sup> Some have argued that the criteria for regionalization have not been applied consistently, others that the delineation of borders does not take into account existing social and/or economic ties. Representatives of several counties in the Southeast Region, a culturally heterogeneous area, have stressed economic interdependencies with counties in other regions and asked for a redefinition of borders.<sup>6</sup> Interurban ties that have developed over the last two or three decades have been another issue: representatives of Braşov county (Centre Region) have complained that the scheme does not take into account economic ties that link their area to cities located along a development axis running through the Prahova valley to Bucharest, while those of the counties of Prahova and Dâmboviţa (South Region) have emphasized the lack of internal cohesion in their own region. Finally, politicians from the counties of Harghita and Covasna, where ethnic Hungarians account for the majority of the population, have raised the question of regional autonomy, even suggesting the creation of a separate development region for the area. Indeed, several suggestions for reorganizing the present regions have been put forward (Benedek 2004, Săgeată 2004). However, the present regions form the territorial basis for EU structural funds according to the NUTS hierarchy (see Kovács Pálné, this volume). Partly as a result of this, debate about the number of regions and the affiliation of individual counties was basically closed with legislation passed in 2004 and is unlikely to be reopened in the near future. From an institutional point of view, the new development regions are not legal entities, nor do they enjoy any form of democratic legitimacy through local and regional elections. Their functions are limited to the establishment, implementation and evaluation of regional development policies as well as the collection of specific statistical data in conformity to EUROSTAT requirements (particularly with regard to the definition of NUTS 2 areas). The development regions are administered by the National Council for Regional Development, a coordinating body for the eight Regional Development Agencies (RDAs) and Regional Development Councils, under the aegis of the Ministry of European Integration. Development regions in Romania have thus very limited decision-making authority and are financially weak because they are in principle subordinated to the central government on which they depend for funding. Regionalization as it stands has been largely a top-down process based on suggestions made in the Green Charter of Regional Development in Romania (1997), a document elaborated by a team of experts.

As far as the symbolic shaping of the regions is concerned, little effort was made by the state to establish a new territorial symbolism, employ already existing ones or take into account symbolic elements of history and geography that might have

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5 Administratively Romania is subdivided into 41 counties (*judeţe*) and the Municipium of Bucharest. Counties are administered by a county council and a prefect appointed by the central government. The lowest administrative tier is formed by communes and towns.

6 The present legislation allows, however, for the creation of coordinating bodies to solve problems in counties belonging to different development regions.

supported a sense of regional identity. Thus, in five cases, 'generic' names were chosen according to geographical position (Northeast, Southeast, West, Centre and Northwest) while only three names partially reflect historical or cultural roots (Southwest-Oltenia, South-Muntenia and Bucharest-Ilfov). It must, however, be stressed that the question of whether the notion of cultural regions in Romania has a significant meaning is still open to debate (Sandu 1999). It has been argued that regional identities have been deeply transformed during the decades of state socialism and through post-socialist systemic change. Massive industrialization and urbanization, accompanied by strong interregional migration during the 1950s and 1960s, made for large and culturally heterogeneous cities, such as Braşov and Sibiu. Since 1989, however, the emigration of Jews and ethnic Germans, coupled with demographic trends, have resulted in the fact that Hungarians and Roma are now the only sizeable ethnic minorities. According to the 2002 census, ethnic Romanians make up 89.4 per cent of the population (in 1930 the Romanian population made up 77.8 per cent of the national total). This shift in ethnic composition has given rise to new forms of identity that sharply contrast with traditional ones. As Mungiu-Pippidi (1999) has shown, regional consciousness is strong only in Transylvania and the western parts of Romania (Banat, Crişana and Maramureş). But she has also noted that it is difficult to talk, for example, of a 'central' Transylvanian consciousness and identity, as ethnic groups within this region promote different historical narratives. Indeed, there exist rather two parallel identities, Transylvanian Romanian and Transylvanian Hungarian, which compete with an overarching regional identity. This is, for instance, noticeable in the ethnic element in political voting patterns, though not in all elections.<sup>7</sup>

### **The (New) Regionalism in Romania**

Regionalism can be understood as an ideological movement that promotes the primacy of regional scale and that strives to redefine local relationships with the central state. As such it must be distinguished from regionalization. In his essay on 'regional salience', Lagendijk (2001) notes that 'regionalization' essentially refers to a top-down and state-driven process, while 'regionalism' is associated with bottom-up process driven by local actors. In the former case, the role of regional identity, shaped through the development and mobilization of specific resources and qualities, is 'instrumental' in that it serves regional competitiveness. In the latter it is regional identity and values that set the goal of regional development; strategies promoting regional competitiveness now become an instrument through which socio-economic and political ambitions can be expressed and performed. The

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7 Thus, in the 2004 local elections, voting was largely 'transethnic' in many Transylvanian localities, such as in the ethnically mixed city of Sibiu or Nagyszeben (as early as 2000) and in Cisnădie (Nagydisznód), Mediaş (Medgyes), Jimbolia (Zsombolya), Satu Mare (Szatmárnémeti) and Reghin (Szászrégen).

second part of this contribution will provide an overview of various active forms of regionalism in Romania by distinguishing political and cultural regionalism. It will focus on the goals and discourses of these regionalisms and their political role and influence. Finally it will address the question of whether they are rooted in strong interregional economic disparities or only reflect cultural differences.<sup>8</sup>

### *Political Regionalism*

Since the 1990s, several attempts have been made to set up political parties on a regionalist basis. Most of these have been short-lived with only minor influence. The most important parties are closely linked to the Hungarian minority. The Party of Moldovans from Romania (*Partidul Moldovenilor din România*) was a political initiative established in 1997. During the 2000 local elections it obtained 75,266 votes (only 1.05 per cent of the total), and one of its candidates subsequently became the mayor of Iasi, the regional capital of Moldova.<sup>9</sup> However, the party only existed for a short period and, in 2001, merged with the then ruling Social-Democratic Party (*Partidul Democrației Sociale*). Another attempt at founding a regionalist part was undertaken by Sabin Gherman (2003), a television editor from Cluj, the historical capital of Transylvania, whose ideas on regionalization, calling for more regional autonomy, provoked a heated debate in the mid-1990s. But his Christian-Democratic Party met with only limited success during 2006 local elections with a total of only 17 local counsellors (*consilieri locali*).

As early as 1993, the Democratic Alliance of Hungarians in Romania (*Romániai Magyar Demokrata Szövetség* [RMDSZ]), founded in 1989 to represent the interests of ethnic Hungarians in Romania, included the issue of territorial autonomy in its programme, but removed it from its agenda upon joining the government in 1996. This party has subsequently obtained some political concessions such as the use of the Hungarian language in areas where ethnic Hungarians made up a significant proportion of the population.<sup>10</sup> Disaffected segments of the Hungarian minority subsequently established their own organizations, such as the Hungarian National Council of Transylvania (*Erdélyi Magyar Nemzeti Tanács* [EMNT]), under the leadership of pastor László Tőkés, and the Szekler National Council (*Székely Nemzeti Tanács* [SZNT]), both founded in 2003, while the Hungarian Civil Alliance (*Magyar Polgári Szövetség* [MPSZ]) declared its intention to register as a political party. All three share the goal of regional autonomy for Szeklerland, but so far have had little success. Their political influence is indeed limited, as the parliamentary

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8 The following analysis is based on a chronology of Romanian regionalism compiled by Miklós Bakk (2003), various publications such as newspaper articles and an interpretation of voting patterns during recent elections.

9 Not to be confused with the Republic of Moldova, created in the 1990s after the demise of the Soviet Union.

10 During the period 2000–2004, the Democratic Alliance of Hungarians in Romania held four ministerial portfolios in the government dominated by the PSD.

defeat of a draft law on regional autonomy submitted in 2004 has shown. The proposed draft, based on a proposal originally elaborated by a group around Miklós Bakk, suggested a minimalist legal framework for regional devolution but without referring to specific territories; a bill establishing a Szeklerland region; and another one defining its future status. The SZNT adopted the second and third part in a proposal of its own, based on an earlier draft written by József Csapó in 1995, before submitting it to parliament. The proposal was, however, rejected by a large majority that included the RMDSZ members of parliament; only five members voted in a favour of it.

### *Cultural Regionalism*

Cultural differences between the various historical provinces can still be observed along the demarcation line that separates Transylvania from what is known as 'Old Romania'. Official discourse often refers to these differences with expressions such as 'the fingerprint of the past' (*amprenta trecutului*) that allude to differences in mentality or local forms of architecture (Capelle-Pogăcean 1998). But urbanization and migration over the last half-century have contributed much to attenuating these characteristics. Furthermore, despite a somewhat more intense Westernization of Transylvania, there is no real major cultural divide within Romania. On the other hand, cultural regionalism is particularly strong in central Romania, where it is partially rooted in so-called Transylvanism, a transethnic movement of the interwar years that promoted a Transylvanian regional identity and for the first time offered an alternative to the predominant nationalist and ethnocentric paradigm (Gábor 1999). Transylvanism was based on the idea that the respective identities and ideologies of the ethnic Hungarians, Romanians and Germans of Transylvania were compatible with each other. Though the movement had to redefine itself in the face of strong pressure from the majority of the Romanian elite, its ideas have remained influential.

In present-day Transylvania, the cultural dimension of regionalism is mainly represented by two publications, the magazine *Altera*, published since 1995 in Târgu Mureş, and *Provincia*, published in Cluj. According to its publisher, the non-governmental organisation Liga Pro Europa, *Altera* aims at providing a forum for discussion and acting as a mediator at a time when the political will for a more harmonized relationship between the majority and the minorities is missing.<sup>11</sup> With its contributions – essays, analyses and documents (many of them translations) on issues such as autonomy, human rights, collective rights, ethnic relations, federalism and decentralization – it has arguably introduced a new public discourse that sharply contrasts with official discourses that emphasize national unity and the centralized character of the Romanian state. The bilingual *Provincia* started as a monthly supplement to the Romanian newspaper *Ziua de Ardeal* and the Hungarian newspaper *Kronika* but ceased publication in 2002. Its authors were

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11 'Editorial', *Altera* 1, 1995.

Romanian and Hungarians intellectuals – mainly writers, journalists, essayists, philosophers and historians – who wanted to transcend the national dimension of regionalism not as a form of regional mysticism but by stressing the values of a Transylvanian regional identity characterized by tolerance and multiculturalism and by promoting a post-national discourse. Both publications can be seen as advocates of a Transylvanian identity firmly anchored in the present and oriented toward the future. Neither of them has found a larger audience.

Beyond these limited expressions of regionalism there seems, however, to exist something of a wider regional and political identity that extends to the other western provinces and is reflected in voting patterns. During the 1996 parliamentary and presidential elections, for example, voters in these regions clearly favoured the opposition parties that rallied around the Democratic Convention, which, after their victory, became the driving force of integration into the EU and NATO. In Old Romania meanwhile, these parties could only establish themselves in large cities. Similarly, the majority of the western provinces supported the opposition candidate Emil Constantinescu, who then became president. Electoral results in 2000 were differentiated along the same lines; at the time Transylvanians overwhelmingly voted for the nationalist-extremist candidate C.V. Tudor. It must, however, be emphasized that the western provinces are characterized by strong political fragmentation; it is here that ethnic parties such as the Democratic Forum of Germans in Romania and the Democratic Alliance of Hungarians have their strongholds.

### *Economic Regionalism*

To a certain extent, the dividing line described above also reflects interregional economic disparities. Although these were reduced during the socialist era (Popescu 1994, Vincze 2000, Voineagu et al. 2002), they have grown once more since 1989 with the opening up of the Romanian economy and its integration into global production and consumer networks (Benedek 2004). Winners of the transition have been urban agglomerations with a developed service sector, the coastal region and the western border regions, while regions with heavy industry, isolated mountain regions and, more generally, rural regions have been among the losers. Moldova has remained the poorest region whereas Transylvania, Banat, Crişana (development regions Centre, West and Northwest) and the capital Bucharest in particular, constitute the more dynamic areas of the country. Dobrogea, Muntenia and Oltenia (development regions Southeast, South and Southwest) occupy an intermediate position (see Table 12.1). Nevertheless it must be stressed that variations are less interregional than between urban and rural areas.<sup>12</sup>

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12 Depending on the indicators, variations amount to a factor between 1.5 (per capita GDP) and 2.5 (household equipment).

**Table 12.1 Statistical overview of Romania's 'Development Regions'**

Region	Surface (km <sup>2</sup> )	Population (2002)	Urbanisation (%) (2002)	Poverty (%) (2001)	Infant Mortality (%) (1999)
Nord-Est	36 850	3 685 393	40.6	42.8	20.9
Sud-Est	35 762	2 852 480	54.6	35.3	20.1
Sud	34 453	3 380 516	39.7	35.7	19.6
Sud-Vest	29 212	2 332 194	43.8	31.4	17.2
Vest	32 034	1 959 985	60.9	30	16
Nord-Vest	34 159	2 744 008	51.1	30.1	19.7
Centru	34 100	2 521 745	58.3	34.2	16.9
Bucureşti	1 821	2 221 860	87.9	23.1	12.9
Romania	238 391	21 698 181	52.7	34	18.6

*Source:* Recensământul populaţiei şi locuinţelor din 2002. Date preliminare; Carta Verde. Politica de Dezvoltare Regională în România (1997).

As Romania has a strongly centralized administration, underdevelopment is often interpreted in terms of economic distance from the capital Bucharest, a fact that does partly spur regionalist aspirations. In the counties of Harghita and Covasna (development region Centre), where ethnic Hungarians account for roughly four-fifths of the population, political autonomy is seen as the best way for economic improvement. However, this and other attempts at mobilizing local or regional identities have generally suffered from weak integration of civil society and economic milieux.

## Conclusions

Regionalization in Romania as in other Central and Eastern European countries has been largely shaped by the perspective of accession to the EU. As the latter provided no unique model for this process, its implementation was left to the respective candidate states, provided that the new regions in the candidate countries complied with certain administrative requirements. In Romania this led to the creation of new development regions whose borders were delineated on the basis of mainly economic and demographic criteria and only partially corresponded to those of the cultural-historical provinces. The new regions received few decision-making powers and even less financial autonomy, and their legitimacy was not based on regional political representation. Given the strong centralist tradition of the Romanian state – Romania has sometimes been compared to France in this respect – this is hardly surprising.

In addition, the political climate in the early 1990s was not favourable to regionalism. The official discourse advocated an exclusive patriotism (Fati 1999),

and calls for more regional autonomy were labelled as attempts of separatism. Regional diversity was conceived as a threat because it symbolized political fragmentation that might endanger national unity (Chelcea 1999). The debate about the regions' future role was to a considerable extent focused on the status and aspirations of the Hungarian minority, by far the strongest in numbers, especially since the large-scale emigration of members of the German-speaking and Jewish minorities. The Democratic Alliance of Hungarians in Romania was indeed founded in 1989 as an ethnically-based party to better represent the interests of this minority, and the goal of more regional autonomy was part of its programme. However, after the victory of the opposition in the 1996 legislative and presidential elections, the party participated in the government and abandoned this objective in favour of a political compromise that offered some recognition of the special status of ethnic Hungarians. While this also led to the creation of several dissident regionalist parties and movements, these carry little political weight. At present, political regionalism is limited to Szeklerland, in central Romania, where ethnic Hungarians account for some 80 per cent of the population. Other attempts at promoting political regionalism were either short-lived or have met with only very limited success.

If Paasi's criteria are applied, Romanian regions manifest few characteristics of a strong regional identity. Only Transylvania has a long-standing tradition of cultural regionalism which has been revived in recent years by Romanian as well as Hungarian intellectuals. Within this context, Transylvanian identity is being conceived as part of a post-national discourse that stresses values of tolerance and multiculturalism. However, publications such as *Alterra* and *Provincia* have never reached a large audience and their political influence has been to a large extent confined to civil society actors and academic circles. In fact, the strongest political and cultural dividing line separates Old Romania from Transylvania and the western parts of Romania (Banat, Crişana and Maramureş). Voters in these regions have, for example, been instrumental in bringing about the country's integration into the EU and NATO. At the same time, there is strong political fragmentation as Transylvanian Romanians and Transylvanian Hungarians refer to different historical narratives, thus weakening the chances for the emergence of a single over-arching regional identity.

Finally, interregional economic disparities as well as existing interregional economic ties have sometimes been invoked by local coalitions to oppose the present demarcation lines of the new development regions but so far with little success. One reason for this might be the weak integration of civil society and economic milieux. Indeed, regionalization in Romania can rather be described as a political project of modernization and 're-scaling' implemented by the central state in view of adapting to changing political and economic conditions, in particular those of EU enlargement. In this sense, the new development regions represent not so much a new form of governance as a reconfiguration of traditional power relationships. In the absence of strong regional identities, it is unlikely that regionalism will play a major role in shaping the new development regions' future



during the coming years. It is equally unlikely that regionalization will result in the devolution of the central state's competencies to these regions.

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# PART 5

## Conclusion

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## Chapter 13

# New Regionalism and Evolving Territorialities of the State

James Wesley Scott

This book has dealt with regionalization, or region-building, in a number of ways. At one level, our comparative research has focused on institution-building within the context of a larger project of socio-political development (i.e. transformation). Since the 1980s, regionalization has proceeded hand in hand with attempts at administrative decentralization – also seen as a prerequisite of state modernization within a context of global economic competition. At another level, our case studies have also indicated how general governance paradigms associated with the NR and the requirements of participation in political and economic associations of global importance (EU, NAFTA and to an extent Mercosur) have been translated locally in terms of territorial development policies. According to the tenets of New Regionalism, empowerment, access to resources, participation and the articulation of individual and group interests are as important as economic efficiency. This set of objectives has also been one of the stated goals of regionalist advocates in Latin America and Central and Eastern Europe. Furthermore, and as has been discussed in several contributions to this book, external political pressure has been a central element in the regionalization process in which core-periphery relationships are clearly evident.

At yet another level of analysis, however, our case studies provide insights into how New Regionalism has been appropriated locally in terms of ‘spatial politics’. New regionalist projects have been superimposed on existing administrative frameworks, both federalist and unitary, thus at times involving a ‘scaling up’ and in other cases a ‘scaling down’ of territorial governance. This has not resulted in anything resembling uniform patterns of institutional change and, in fact, regionalization has also been appropriated in terms of local resistance to globalization processes (the cases of Venezuela and Bolivia demonstrate how the regional question has been turned on its head, as it were). In several cases (for example, those of Venezuela, Mexico, Hungary and Romania) new regionalist objectives have also been used to strengthen central government control over regional development and other policy areas. Furthermore, regionalization has more generally been exploited by elites to legitimize and/or defend their political and economic power.

Given such greatly differing experiences, what can be learned from our transatlantic comparison? For one thing, one might question the cultural

assumptions that inform the New Regionalism, rather than merely the structural and systemic logics that appear to have brought it forth. New Regionalism has been exported from its cultural home in the United States, the United Kingdom and (West) Germany to the institutionally modernizing 'periphery', perhaps in an attempt to make the new democracies of Central and Eastern Europe and the fledgling liberal societies of Latin America more like the 'Core': i.e. more recognizable as 'modern' states and more trustworthy as partners.

In this final chapter, I will focus on some of the more salient issues that have emerged out of our comparison. Discussion begins with a simple typology of regionalization modes and then continues in terms of a comparative perspective on territorial issues specific to regionalization processes. While 'playing with scales' takes place for very different ideological and practical motives, it is always a matter of using space as a political resource. Regionalization can thus be seen as a form of spatial politics expressed by discourses and formal and informal practices. Spatial politics reflects not only political and administrative traditions but also strategies informed by specific interests and values and that, to differing degrees, reflect overlying 'conditions of action'. In all of the case studies discussed here (new) regionalism has shown itself to be a case of a discontinuous and frequently indecisive spatial politics.

### **Patterns of (New) Regionalization**

In terms of regionalization typologies, we can identify three basic forms based on our case studies. The first is that of large 'programme regions' whose creation dates back to the 1960s (or earlier) and which have been given greater political significance through decentralization processes, primarily through the empowerment of local and state governments (Brazil, Chile and Venezuela are good examples of this). The second type is composed of regions that have been newly created through the amalgamation of former intermediate tiers and that are gradually obtaining a certain (if as yet limited) degree of political autonomy (for example, in the cases of Poland and the Czech Republic). Finally, the third regionalization type is that of the new regional planning regions, created by central government decree as a means to improve public policy delivery (Hungary, Mexico, Romania). These typologies are, of course, rather rough but they exemplify the great variety of regional spaces that have been involved in recent administrative reforms in Latin America and Central and Eastern Europe. However, comparability in strict structural terms is always difficult to achieve and is not the main issue in question. It is, rather, the analysis of functional equivalents that allows for meaningful comparative urban and regional research (see Pierre 2005) and, as such, it is regionalist discourses and practices that are more important here.

What patterns have emerged in terms of regionalization processes? What is most immediately evident is that regionalization has not been a response to urgent popular demands. Instead, domestic governance problems and external pressures

have played an important role in reconstituting state spaces. Decentralization and de-concentration are much more clearly politically charged issues since local autonomy and local voice in national politics are at stake. While region-building is closely associated with decentralization, the 'region' is a top-down construct through which the state has attempted to balance spatial development and consolidate economic spaces. A further evident pattern therefore is that, perhaps ironically, there has been a lack of political spaces for regions to develop within political-administrative systems of the state. Despite a flurry of reforms (either internally or externally induced), there has been little political commitment to creating a strong regional 'meso' in terms of forceful decision-making structures. The third major general pattern is that the regions lack technical capacity and resources to actually perform the tasks attributed to them, often preventing them from assuming functions that will and/or might be transferred down from central levels.

Above and beyond similarities in regionalization patterns, there are important similarities in terms of the political contexts affecting regionalization trajectories. In almost all the transformation countries under scrutiny, new competitive electoral landscapes and partisanship have emerged as increasingly powerful forces: these are phenomena that tend to fragment policy-making processes rather than establish a new coherence. The financing of subnational governments (including local governments) and the sustainable generation of local/regional revenues is, furthermore, also unclear. Finally, and with the possible exception of Poland, the resulting institutional contexts are 'inconclusive' in terms of regionalization in that they do not provide sufficient opportunities and orientational guidelines for regional cooperation and multilevel governance.

### *New Regionalism as a Project of National Consolidation*

One of the central notions that characterizes New Regionalism is that of regions governing 'beyond the state' and in this way replicating many of the traditional functions of national governments. Of course, the concept of the 'region-state' does not suggest that states would or should become irrelevant (Barnes and Ledebur 1998, Peirce 1993). What it does propose is that urban regions will assume significant political and economic roles within the world system – 'deconstructing' and 'reterritorializing' states through international networks, innovative fiscal policies, new forms of strategic governance, etc., but profiting from the legal frameworks and guarantees that only states can offer. This assumption might have a certain relevance in the case of North America and Western Europe. In societies undergoing transformation, however, regionalization has taken clearly place within a new context of 'nation-building'. In all the countries discussed here a comprehensive renegotiation of the role of the state in national development and within the international system is taking place. State-society relationships are being redefined, most generally within a context of market-oriented political reform but also, as in the case of Venezuela, within a project of 'socialist recentralization'.

In all of these cases, regions serve to reconfirm the legitimacy of the state and to reaffirm the state's historical role as a shaper of national identity. Within this context, questions of regional scale and the territoriality of the state has been a central part of political debate.

### *Relationships between Regional Disparities and Governance*

Our comparative analysis has also demonstrated a perhaps self-evident but nonetheless important link between regional well-being and governance capacities. As Kon in the case of Brazil, Gorzelak in the case of Poland and Verduzco in the case of Mexico have shown, New Regionalist practices 'speak' to the Core and resonate with the socio-political interests and mentalities that characterize more dynamic economic areas. Metropolitan regions at the centre of political and economic power and that have been able to integrate into international economic networks also demonstrate an ability to form multiactor (and growth-oriented) coalitions. These are the regions best placed to develop the complex strategies advocated by new regionalists. This does not mean that these regions can be easily co-opted as 'pioneers' of institutional change within state-led regionalization projects. On the contrary, they often oppose the state's policies and resist central interference, choosing to pursue vigorous economic development strategies based on attracting Foreign Direct Investment.

Ironically, the dependency of weaker regions on government support is partially being reinforced by decentralization and regionalization policies. Without doubt, the disparities between 'winners' and 'losers' of transformation will increase, leading in the most critical of situations to a 'petrification' of regional economic relationships (Gorzelak and Smętkowski 2007). As a result, the regionalization experiences of CEE countries highlight many of the contradictions of New Regionalism as it has been promoted within the EU. Despite decades of regional support there remain great regional differences in levels of development and socio-economic well-being. As the EU Commission's Fourth Report on Social and Economic Cohesion, released in 2007, admits, the imbalances between Europe's core areas and its vast peripheries remain and that depopulation of many rural zones continues unabated. Furthermore, regional disparities as well as cultural and political heterogeneity are certain to increase as a result of enlargement. Discourses of interregional competition and economic efficiency, often informed by neo-liberal ideology, clash with principles of solidarity and spatially balanced economic development. The normative assumptions that inform the EU's regionalist perspectives have thus been subject to ample critical scrutiny. For example, it appears that powerful and prosperous regions in Western Europe, such as Catalonia, Lombardy, Baden-Württemberg and Rhone-Alpes, define much of the discursive and substantive content of the European regionalism. For the weaker or rather artificially created regions, many of them little more than arbitrarily defined administrative units, it seems doubtful that they can develop an autonomous basis for economic growth and political power. The experiences of new member states such as Hungary,

Romania and the Czech Republic are indicative of this situation; regionalism in post-socialist Hungary has not been the outcome of internal political, economic or cultural developments. Instead, it is a political process initiated in response to integration into the European Union and that has resulted in ad-hoc regionalist arrangements. Under such circumstances, regional economic dynamism and competitiveness could, ironically, largely depend on levels of state support and state involvement in promoting specific initiatives.

### *Neo-Liberalism Inspires but also Undermines New Regionalism*

The networked nature of national and regional economies and the advent of a general trend towards entrepreneurial forms of regional development policy would seem to mandate a more flexible approach to administrative reform. And yet, transformation often involves perverse relationships between economic and political modernization. Many situations in Latin American and Central and Eastern Europe indicate that economic development has not necessarily brought with it greater levels of democracy. Ironically, neo-liberal policies (i.e. market-oriented policies that negate the possibility and desirability of an active state role within the economic sphere) have been carried out in transformation countries with a vehemence and single-mindedness unknown in North American and Western Europe. Neo-liberalism in Latin America and Central and Eastern Europe has been externally induced to a great extent, but it is also the product of autocratic policies pushed through by elite groups which have sought to extract political capital from changing geopolitical contexts. Often, 'new' elites are merely 'old' elites that have mastered structural adjustment and post-socialist transformation more successfully than other segments of the population. The other irony is that policies associated with neoliberal ideology (privatization, the opening of markets, the reduction of the role of redistributive policies) have not provided adequate resources for successful regionalization or decentralization. With the exception of cases such as Poland, regions have either small or no discretionary budgets whatsoever. Furthermore, local government revenues are wholly inadequate to deliver decentralized policies. There appears to exist little political will to create the legal frameworks necessary for local revenue generation and revenue-sharing. Furthermore, because of the impoverishment of public economies (i.e. of public services in general and subnational governments in particular), governance capacities at the regional level are largely contingent upon transfers from central governments.

### *New Regionalism is a Culturally Loaded Concept*

New Regionalism has been at least partially successful in contexts where powerful coalitions between political and economic elites exist and where economic power has a strong local anchoring. New Regionalism in its original reading was borne out of local struggles in Western Europe and North America to conceptualize regions in ways that transcended traditional administrative practice. Having experienced



several decades of frustration with the inadequacies of regional policy and formal governance arrangements, arguments were brought forth that regional cooperation based on multiactor and multilevel partnerships, including the active involvement of business groups and NGOs could create a viable context for addressing pressing issues. However, research also indicates that governance mechanisms espoused by New Regionalism and its advocates seem to thrive in cultural contexts that are amenable to collaborative policy-making (Scott 2005). For example, in some North American metropolitan areas a 'regional corporatism' of sorts is emerging: new coalitions involving environmental, business, government and a variety of civic actors appear to be materializing as a pragmatic response to a lack of formal regional government. In other words, 'networked' societies, versed in lobbying strategies, promotional tactics and the entrepreneurial framing of policy ideas, provide greater opportunity structures for de-centred governance than societies in rapid transformation.

### **Can Regional Scale Nevertheless Contribute to Institutional Change?**

Given these critical observations, it might appear that a somewhat superficial regional 'fetishism' has informed governance debates of the last two or so decades. From an economic point of view, it has been argued that region-building is necessary in order to construct spaces (contiguous or non-contiguous) that are large and cohesive enough to provide a critical mass in terms of markets, technological innovation and self-generating growth. Strong economic profiles and clusters of activities built around economic activities also help promote a sense of identity. However, the flexibility required to promote regional 'corporatism' as advocated by new regionalists depends on numerous political factors. A lack of national political vision with which to promote flexible regional formations can only be compensated by powerful local and regional coalitions. From the point of view of governance, however, region-building projects can be easily co-opted by powerful elite groups with access to resources and information. Finding levels of decentralization and deconcentration where civil society actors can meaningfully participate in policy development is even more difficult than organizing corporatist regional arrangements.

This book might appear to suggest that the regionalization process has played an insignificant role in Latin America and Central and Eastern Europe. This is certainly not the case. Within the context of transformation, regionalization has helped open the process of regional development to new actor groups and to more inclusive critical debate. Within the framework of region-building, subnational governments (particularly in the case of Poland and the federal states of Brazil and Mexico) have begun to more forcefully pursue regional development projects that reflect local situations. Furthermore, this comparative analysis of regionalization processes clearly indicates the limits on 'new regionalist' approaches. Regional governance (as well as governance in general) emanates from political-ideological

power that is not solely based on economic or other structural relations but also on value systems and cultural signification. Despite the widespread and transnational diffusion of planning paradigms, governance ideologies and development discourses, the concrete practice of 'making places' is one that is negotiated locally (i.e. within specific national contexts). Furthermore, the problem of negotiating regional 'scales' involves a constant tension between pragmatic, problem-oriented rationales and the ideational, ideological and institutional contexts that inform collective action.

In concluding, economic liberalization and de jure democratization cannot guarantee regionalization above and beyond purely managerial forms. Furthermore, the creation of regional spaces is often hampered by indecisive or contradictory policies. Given these problems, what can be learned from the experiences of the (new) regions discussed here? At least six issues appear particularly salient in view of contemporary debates on regional governance, not only within the context of systemic and societal transformation:

1. The New Regionalism sharpens our focus on the roles of local governments within regional settings. The question must therefore be raised: how can the local level be strengthened without promoting exclusionary, elitist behaviour? Furthermore, how can local governments be strengthened in terms of their governance capacities?
2. The NR can also be characterized by an expansion of planning into wider socio-political arenas; while this enhances new collaborative forms of territorial governance (e.g. regional development projects and spatial planning) it also makes co-ordination all the more difficult. How can the networked complexity of contemporary planning processes (and other governance arenas) be reconciled with a need for greater efficiency and accountability?
3. The NR forces us to refocus on the creation of new political spaces within crowded administrative-territorial environments. How can the region be negotiated as a viable 'mesolevel' of governance AND government that is, among other things, endowed with the fiscal autonomy and political authority required to effectively assume regional responsibilities?
4. No discussion of New Regionalism is complete without a focus on the role of the state as a provider of basic conditions of action and of incentives for regional government. How can the role of the state and relations between state (Land, Province, State) and the (new) meso be enhanced so as to improve prospects for effective governance?
5. Related to the above, debates on the New Regionalism shed light on the role of institutions as well as their significance in affecting human agency. Decision-making processes are as important as formal structures of policy-making. However, the informal rules that influence these decision-making

processes are often more important and rather less easily modified than formal rules.

6. Finally, New Regionalism highlights the interrelationships between institutions, governance patterns, planning modes and urban space. How are regions perceived, constructed politically and, ultimately, managed?

The experiences of 'region-building' discussed here provide rather mixed results. More intensive scrutiny of regionalization processes should, in any case, shed light both on the complexities and contradictions involved in managing complex social-spatial change and on the opportunities for, as well as limits, to integrating increasingly heterogeneous regional spaces.

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