

*The Differential Competitiveness of Latin American Regions:*

*Opportunities and Constraints*

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## Abstract

In the last twenty years, cities and regions in Latin America have confronted a quickened pace of world economic integration, the product of concerted efforts at liberalization by global economic organizations and national governments. Integration has brought local producers face-to-face with more efficient producers on other continents and has thus forced cities and regions to specialize and focus more strenuously on exports. Provincial cities that could once count on their hinterlands as markets no longer can do so. They must expand existing comparative advantages or find new ones to cover the cost of imported goods and services; otherwise, they will experience sustained crisis and outmigration. Competition among cities, both within countries and across continents, has intensified.

Global integration, despite its contributions to aggregate growth, has been accompanied by stagnant or worsening income distributions in most countries of Latin America. Does this trend manifest itself spatially, also? Are some regions falling behind while others are amassing capital and skilled labor? Our answer is, regrettably, yes. Based on a review of Mexico, Argentina, Chile and Brazil, countries representative of the overall Latin American and Caribbean experience in their range of relative national growth rates, we show that urban/regional shares of GDP per capita and growth rate differentials have widened over the past two decades. We identify several causes of this phenomenon: the favoring of the largest metropolitan areas by globally-oriented firms, investors and business services; lop-sided infrastructure provision in terms of both physical and human capital; the abandonment of concerted regional policy since the 1970s; and the relative failure of devolution as national and regional economic development strategy.

Our analysis recognizes the importance of endogenous, local economic development efforts, but we demonstrate the limitations of such approaches in Latin America due to its technological backwardness and prevailing macroeconomic and structural policies, including rapid trade opening, privatization, and the recent abandonment of regional policies. Additionally, the inheritance of paternalist states and the difficulties of articulating local institutions - governmental, entrepreneurial and civil society - impede easy transfer of such models from Europe or North America. Although enclaves of successful industrial district formation can be found, most urban economies do not take the form of Marshallian industrial districts and remain heavily dependent upon large "anchor" corporations, often externally-owned, and on key government facilities and expenditure streams. Indeed, many of the more successful urban/regional development stories in Latin America — the Brazilian Campinas and São Jose dos Campos — can be attributed to much-maligned regional and industrial development policies of prior decades.

Our work suggests that if they are to achieve growth with relative regional inclusiveness, Latin American governments must complement trade and investment strategies with both regional policy from the center and local economic development initiatives. Policymakers must build a regional lens into national planning to monitor the expected consequences of new policies on regions and regional equity. They should study, anticipate and shape the emerging system of cities and towns, both within their borders and in neighboring nations. Explicit pacts should be negotiated with regional and local leaders stating mutual expectations for enhancing subnational growth. Sustainability and environmental quality should be

built into all development schemes. Infrastructure and human capital investments remain powerful forces for growth, and their spatial distribution should be patterned to enhance regional development. To stem growing regional inequality, governments must supplement devolution of responsibility for various public functions, including economic development, to provincial and local governments with adequate technical assistance, sufficient financial resources, and anti-corruption campaigns while creating conditions for a culture of cooperation and collective governance. They may need to restructure the intergovernmental system to do so.

## I. Integration and Exclusion: The Two Faces of Globalization

The past two decades have been marked by what observers call the globalization phenomenon. National economies are becoming increasingly open, and traded components of output and consumption as a share of GDP have risen rapidly. This quickened pace of integration is the product of an explicit strategy, labeled the Washington Consensus in the 1980s and promulgated by international organizations such as the World Trade Organization, the World Bank and the International Monetary Fund (Stiglitz, 2002). It has been accompanied by sharp reversals in national development strategies in many Latin American countries — fiscal austerity and curtailment of public investment, the abandonment of regional and industrial policy, a devolution of responsibility for public services and economic development to provincial and local levels, privatization of public services and industrial corporations, and extensive deregulation, policies generally termed neo-liberal by economists. Promoters of the strategy held out the promise that such a regime would maximize and generalize economic and social benefits for all nations and their citizens.

The process of globalization is reinforced by the exploitation of technological advances in information and communications technologies for rapid and far-flung coordination and redistribution of economic activity and social and political relations. They have compressed the planet itself and enlarged the integrated market for industrial and agricultural products. The storage and transport of an increasing range of services is also now easier, so that service activity is also subject to redistribution within nations and across borders (Harvey, 1989; Daniels, 1993; Marshall and Wood, 1995).

The result has been the integration of most countries and regions into a global market, especially for imports, while simultaneously undermining the economic base of many regions (Castells, 1999; Swyngedouw, 1997; Brenner, 1999). Each region or locality has its unique historic economic attributes and heritage that conditions its prospects in the emerging global sweepstakes (Lefebvre, 1991; Santos, 1978; Conti and Giaccaria, 2000). Many regions lose their traditional regional and national market specializations to new, unexpected international competitors, while local-serving industries are undercut by imports. Under these circumstances, the ability of a region to attract and retain capital, to serve as a

“sticky place in slippery space” (Markusen, 1996), depends on its local attributes: geographical location, entrepreneurial conditions, labor market, infrastructure support, governmental institutions and civil institutions. Many of these are difficult to alter in the short run.

## II. The Spatial Frame of Reference

Before documenting macro-economic and regional growth experiences across a set of Latin American countries in recent decades, it is worth reflecting on regional development theory and how globalization might be expected to alter regional fortunes. Regional development theory has always pivoted around a central tension: industrial development, innovation and increasing returns to scale tend to create spatial polarization of economic activity, on the one hand, while the drive to lower costs and maximize profits tends to create dispersion on the other. This contradictory process was first articulated by development economists Myrdal (1957) and Hirschman (1958).

In these earlier versions of development theory, the canvas for such activities was largely bounded by the borders of each country. Within each, firms were hypothesized to make decisions on where to locate production and workers on where to live and work. Location theory and migration theory, respectively, provided the micro-economic foundations for understanding the choices of each. Firms would be drawn to major cities in faster growing and wealthier regions by the proximity of competitors, suppliers and customers and by lower transport costs. They would be repulsed, however, by the relatively high cost of land and labor and by diseconomies such as congestion, pollution and crime, all of which would make smaller cities in peripheral regions more attractive. Meanwhile, workers — generally those with better educations and resources — would be attracted from the provinces to the higher wage centers, if the cost of migration and urban cost of living could be managed.

Myrdal gave this process a particularly vivid face, calling it “cumulative causation.” In his view, the attractive force of high wages in the major industrial cities would draw skilled labor from the hinterlands faster than capital would flow toward low wage enclaves in the countryside. Others believed that the

process would equilibrate and bring regions into some sort of balance. But the evidence up through the 1950s appear to be on the side of the unbalanced development pessimists. Kaldor (1970) argued that regional policy intervention was crucial in reversing or ameliorating this process.

Along with urbanization diseconomies, active regional policies over the decades of the 1950s through 1970s do appear to have made some headway in some countries, a point we pursue in greater depth below. By the 1980s, several scholars asserted that “polarization reversal” was taking place in developing countries, including several in Latin America (Richardson, 1980; Townroe and Kean, 1984). In Brazil as well as in developing countries on other continents, the largest cities were shown to be losing ground relatively to “second tier” cities; between 1970 and 1991, Belo Horizonte added jobs at more than three times the rate of Sao Paulo and Rio de Janeiro, and 17 other Brazilian cities added jobs more than twice as fast (Markusen, Lee and DiGiovanna, 1999, Ch. 4). Others pointed out that although smaller cities were growing faster in relative terms, the great cities were still adding jobs in absolute numbers faster than even the most impressive medium-sized cities (Storper, 1991). Yet others pointed out that decentralization away from the largest cities was quite modest and tended to be contained within a few growth poles not that far from the largest conurbations (Diniz, 1994).

Beginning in the 1980s, new ideas and restatements infused spatial development theory with new insight and fresh arguments favoring the force of polarization. A body of work posited the significance and incidence of increasing returns to scale, reinforcing Myrdal’s argument in favor of disequilibrating polarization (Fujita, Krugman and Mori, 1999.) Neoclassical economists had previously assumed that decreasing returns would set in at some point, resulting in equilibration, and spatial theorists had applied this to the regional distribution of economic activity as well. If, instead, increasing returns were predominant, then economic activity would continue to pile up in the faster growing, more sophisticated urban centers, even if costs were considerably higher there. A complementary body of work stressed the role of “world cities” as center of management, finance and business services engaged in facilitating trade, investment and labor flows (Friedmann and Wolff, 1982; Sassen, 1994).

On the other hand, new work on innovation posited that existing regional cultures and centers, in addition to their higher costs, could become overly specialized in aging industries and technologies and be unable to adapt to new opportunities and realities (Markusen, 1985; Scott, 1988; Storper, 1997). Entirely new regions might emerge as centers of new industries and even new ways of organizing the production process, as in flexible versus Fordist work systems. They might, as well, emerge because of government policy, either through direct regional intervention, as in the Japanese, Korean and Brazilian siting of new industrial complexes, patterns of infrastructure provision, including education, or strategic concerns, such as the siting of military industrial facilities (Markusen, 1991).

How might globalization inter-relate with these push and pull factors to generate new regional convergence or disparities? Several hypotheses may be offered. First, global integration, by widening the markets reachable by a single firm or facility, would only quicken the process by which increasing returns would favor agglomeration in wealthy “world” cities (Krugman and Venables, 1996). Second, the activities involved in managing increased trade and international investment, including business services and efforts to negotiate with government regulators, would most likely gravitate towards existing primary centers. To the extent they would favor new regions, these would be those with the good fortune to be located in trade corridors. Third, international investors are generally more risk averse and more ignorant about business conditions in outlying regions than are national firms and investors. Thus, these actors would be apt to favor the largest centers where their national competitors are already located. In a study of transatlantic American and European manufacturing investments made in the 1970s and 1980s chiefly for market penetration reasons, Schoenberger (1985) found that multinational firms were most apt to locate in the largest cities even when their counterpart national competitors were more spatially dispersed.

Although the locational tension between high cost, high information lead regions and lower cost and/or less culturally encumbered regions still challenges firms making site choices, the reasoning just presented suggests that heightened international economic integration will tend to reverse once again the regional tides in favor of the wealthier regions. Locational behavior favoring these centers will be reinforced by

pressures on governments to dedicate infrastructure provision to the benefit of these global entrepôts, deferring projects of national integration and aid to under-developed regions.

In the past two decades and especially in the 1990s, Latin America has experienced an acceleration of its engagement in international trade, labor and capital flows. In what follows we document the dimensions of this integration and its differential impacts on regions. We find that although some small number of cities and regions outside the traditional metropolises are favored by globalization, the more dominant event is the undermining of many, already poorer regions as the largest, wealthiest agglomerations attract the lion's share of internationally-related activity.

### III. Macro Results: Latin American Trade and Growth Performance, 1980–2000

Under neo-liberal strategies, Latin American exports and imports have increased substantially over the last two decades. Between 1980 and 2000, exports rose from \$92 to \$406 billion (US dollars), while imports rose from \$93 to \$418 billion (Table 1.) The largest jump occurred in Mexico, where exports increased from \$16 to \$180 billion.

Overall, heightened trade resulted in a small increase in the current account trade deficit. It has also been associated with a very large increase in the capital account deficit. This capital account deficit is caused by both the cost of carrying the stock of international debt already incurred and persistent capital flight. Latin America's international debt rose from \$205 billion to \$740 billion between 1980 and 2000. These debts have created intensified pressures on each nation's balance of payments and placed most Latin America countries under IMF scrutiny, constraining domestic economic policy. They have made it difficult, too, for countries to pursue policies to help stem rural to urban migration and to stimulate laggard regional economies.

In the 1980's, Latin American economic growth was mediocre with a yearly growth rate of 1.2% in real GDP (Table 2). Since population grew faster than this, annual per capita income growth was actually

negative (1.1%). In the 1990s, average annual real GDP growth rates improved to 3.2% yearly but to only 1.2% per-capita. Given high unemployment and poverty rates in Latin America (and compared with growth rates in Asian nations such as China, South Korea, and Singapore), these rates were unacceptably low. Growth has not been accompanied by improvements in income distribution or a diminution of poverty (Stiglitz, 2002: 79). Furthermore, economic crises in Argentina and Uruguay precipitated related problems for Latin America as a whole, centered on the MERCOSUR countries.

#### IV. Growing Regional Disparities

Across Latin America, global integration has re-enforced the traditional primacy of major financial and manufacturing cities at the expense smaller cities and outlying regions, often reversing gains achieved in the thirty years following World War II. It sometimes creates new centers of growth as well, chiefly along trade corridors or around ports. At the same time, stagnating regional economies and small farmers disadvantaged by trade integration contribute large streams of poor migrants toward cities of all sizes. Heightened regional disparities, then, contribute both to regional political unrest and to growing concentrations of urban poverty even in the more prosperous regions.

Here we review the experiences of Mexico, Argentina, Chile and Brazil, whose relative size and GDP rank among the larger Latin American countries and are shown in Table 3. Despite their size, these countries have not uniformly exceeded the overall Latin American and Caribbean growth rate: Argentina in the 1980s and Brazil in the 1990s lagged substantially behind (Table 2). We consider them representative while offering a more expansive regional canvass on which to chart the impacts of neo-liberal globalization.

##### A. The Mexican Case

Mexico, which can be considered the grand experiment in rapid trade integration following the NAFTA agreement of the early 1990s, demonstrates the power of globalization to concentrate economic activity, create new growth centers and undermine regional decentralization gains of past decades. Mexico, since NAFTA, has not only experienced greater regional and national income inequality, an experience it shares with other Latin American countries, but it has also seen an increase in absolute levels of poverty, in contrast to the rest of Latin America (Hinojosa Ojeda, 2003). This divergent trajectory is enabled by the abandonment of sectoral and regional policies of earlier eras that helped to blunt hyper-urbanization and to seed new centers of economic activity in far-flung regions (Dussel, 2000, Ch. 7).

Mexico, throughout the post-World War II period, experienced very high rates of urbanization, as migrants from the countryside flowed predominantly toward its largest cities, especially Mexico City, whose population jumped from 5.4 to 13.0 million between 1960 and 1980. Guadalajara and Monterrey both surpassed 2.0 million inhabitants by 1980, large but considerably smaller than Mexico City and its surroundings. Mexican government regional and industrial policies during the pre-liberalization era were partially successful in stemming hyper-urbanization and directing economic activity to other regional centers (Nicolás, 1998). The economies of Guadalajara and Puebla were stimulated by import substitution policies, while the GDP share of Mexico City and the four main states (Distrito Federal, Estado de Mexico, Nuevo Leon and Jalisco) fell from over 49% to 44.7% (Dussel Peters, 2000: 181).

Under accelerated trade integration, the primacy of Mexico City has been reinforced, new growth centers have emerged in the north, and the rest of Mexico has lost ground. Liberalization policies (market deregulation, privatization of the productive system and infrastructure, massive foreign capital investment, and increased trade with the United States) greatly strengthened the center (Mexico City and Toluca) and the center-north (Queretaro, Leon, San Luiz Potosi, Aguascalientes) exporting corridor between Mexico and the United States. Mexico City, including Toluca, reached 17.9 million in 1995, and by century's end was growing at a rate close to 2% per year. The Central Valley conurbation or the crown of cities (Parnreiter, 2000) that includes Mexico City, Toluca, Puebla, Cuernava, Queretaro, and their neighbors hosts an estimated 25 million people. One scholar estimates

that by the middle of 21st century, this conurbation could reach 50 million inhabitants (Garza, 1999). Thus if effective policies for income distribution are not undertaken, this conurbation will become the world's greatest enclave of poverty and misery when lack of housing, employment, and income are taken into account.

In addition, liberalization favored the Mexican north and northwest urban system, led by Monterrey and participated in by Tijuana and Ciudad Juarez, two cities physically linked to San Diego and El Paso that have become preferred sites for *maquiladoras*, factories aimed at the US market. Two emerging northern belts are forming along the frontier, one encompassing the cities of Tijuana, Mexicali, Nogales, Ciudad Juarez, and Nuevo Laredo — and a second encompassing Hermosillo, Chihuahua, Monclova, Saltillo and Monterrey.

But not all large Mexican cities and regions are benefiting from explosive growth. The large regions forming the Western, Southeastern, and Southern Mexico have been weakened in the era of liberalization, and the cities of Guadalajara and Puebla, which had thrived during the era of import substitution policies, are losing ground to Mexico city and new northern cities. The dynamic here is complex, because globalization reinforces urbanization, especially in Mexico where free trade has undermined large segments of agriculture. Current patterns of trade-oriented growth are re-enforcing the formation of a dominant polycentric urban system, dominated by five large cities — Mexico City, Monterrey, Guadalajara, Puebla, and Leon (Garza, 1999). Thus, large cities, including Guadalajara and Puebla, are still attracting migrants, even though their economies are disadvantaged in the heightened struggle for competitiveness.

Lop-sided urban growth is accounted for by the tendencies for globally-oriented services and finance to locate in Mexico City and Monterrey and for manufacturing to favor locations close to the US and on major transportation corridors. From 1989-98, the Federal District accounted for approximately 60% of the foreign direct investment in Mexico. The northern states (Nuevo Leon, Baja California, Chihuahua and Tamaulipas) increased their participation from 11% to 26% of the FDI, while the rest of the country's share, including Jalisco, fell from 26% to 11%. Guadalajara and Puebla are not attracting

foreign investment in the financial and service sectors, which is gravitating instead to Mexico City and Monterrey: in 1998, 61% of the headquarters of the 100 biggest companies operating in Mexico were located in the City of Mexico and another 23% in Nuevo Leon, Monterrey (Parnreiter, 2000). Guadalajara no longer enjoys a role as financial center because it is outside of the axis of integration between the central region and the United States (Nicolás, 1998; Garza, 1999).

Guadalajara is also experiencing a trade-related crisis in traditional manufacturing industries (textile, apparel, and shoes), developed under import substitution policies and oriented to the internal market. Although Guadalajara has been attracting export-oriented computer plants, this industry relies upon imported inputs and adds little value locally (Dussel Peters, 2000). The case of Puebla illustrates that it is not necessarily advantageous to be a regional neighbor of Mexico City. Located to the southeast and thus not along the axis of integration, it has been overshadowed as a site for industrial and service investments. Monterrey, in contrast, is strategically located near the northern frontier where it is emerging as an international industrial, trade, financial, and service center (Villarreal, 1998).

The re-orientation of industrial activity in Mexico has been dramatic. Expansion has been occurring in the northwestern, northern, northeastern, and center-northern regions. Between 1985 and 1993 alone, the share of these four regions in industrial employment rose from 35% to 44% (Nicolás, 1998). The share of the western (including Guadalajara), center and the Gulf regions decreased from 62% to 51%. The share of the South Pacific regions and the Yucatan increased from 3.4% to 5.1%. although between 1993 and 1997 it fell somewhat. The south and southeast regions account for 23% of the Mexican population but only 15% of GNP (Lopez, 2000). To make matters worse, the largest share of regional income is generated by petroleum and electricity enclaves not linked to other activities in the region. The rest of the economy is chiefly subsistence activities based on rural minifundios with very low levels of technical development. In contrast with the rest of the country, 40% of the south and southeastern population is still rural and 18% of people over 15 years of age are illiterate, in contrast with 18% and 8% for the rest of the country. These regions are relatively isolated from the rest of the country, have low human capital endowments, low enterprise initiative, and lack any dynamics poles.

The regional trajectory for the coming decades may consist of continued divergence among Mexican regions. Nicolás (1998) argues that a true rupture between the economic dynamics of the north and south is under way in Mexico. Recent evidence suggests that isolation and relative economic stagnation is increasing in the south, a product of the strength of the center and north's integration with the American economy. The abandonment, too, of offsetting regional policies, a casualty of the liberalization era, has exacerbated this divergence (Nicolás, 1998; Garza, 1999; Cenecorta, 2002).

Although Mexico has been posting high economic growth rates in recent years and has increased dramatically its commerce with the United States, social problems are aggravated. Some 53% of the Mexican population remain below the poverty line (Cenecorta, 2002). In the large cities, social disorders are amplified by lack of housing, employment, water and sewage, poor public health and education services, which increase misery and violence.

## B. The Argentine Case

Argentina has undergone one of the most dramatic experiences of neo-liberal economic reform in Latin America. In addition to a rapid privatization process, market opening, and deregulation, a fixed parity (1 to 1) peso-dollar regime called the Convertibility Plan was in force from 1991 to 2002, resulting in a severely over-valued peso. During the 1990s, free market views governed economic policy, and concern with equity, regional inequality, and social justice was to a great extent side-lined. Privatization and plant closings proceeded rapidly without regard to the disposition of human and physical assets, a process that was often better managed in other countries (Cavicchia, 2003). The experiment, which initially brought inflation under control and resulted in modest economic expansion, largely failed. Official unemployment jumped from 7% in 1992 to 16% in 1995 and reached unmeasurable figures by the time of the model's demise in 1999, leading to social catastrophe where streets full of unemployed and starving people could be exhaustively seen in the international media.

Trade-related changes in Argentina's productive structure have favored the country's largest cities and contributed to the marginalization of vast areas of Argentinean territory. The investments in services

associated with managing globalization have been concentrated the largest urban centers. As provincially-based traditional industrial sectors, many of them with a history of poor, often corrupt management, fail to compete with imports, the prospects for these towns and regions deteriorate. In addition and as a consequence of prolonged over-valuation of the peso, several out-region commodity export sectors are in deep trouble: the agricultural activities of the Pampas; the northwestern cotton production regions (Chaco, Santiago Del Estero, Formosa, and Corrientes); sugar in the north (Tucuman, Salta, and Jujuy); grapes in Cuyo; fruits in northern Patagonia; and petroleum in southern Patagonia. The Brazilian exchange correction of January 1999, more than three years before Argentina's devaluation, facilitated the expansion of Brazilian cotton and fruit production and disadvantaged Argentinean exports to Brazil.

In addition, the integration of Argentinian cities and regions into Mercosul has been crafted in ways that disadvantages regions out of the circuit. Infrastructure investments and foreign interest are channeled into corridors linking Buenos-Aires with São Paulo and Buenos Aires with Santiago, Chile (Gorstein, 1998). The great axis of São Paulo–Buenos Aires–Santiago has received the bulk of developmental attention, including huge projects for enhancing cargo transportation and highway improvement. The reach of the axis will be extended with plans for a bridge linking Buenos Aires to Colonia (Uruguay) and for a Tunnel John Paul II under the Andes Mountain Range, linking Argentina and Chile. The intent to benefit the great urban poles and complementary zones is explicit In the study prepared by the French company Lyonnaise des Eaux-Dumez for the Buenos Aires–Colônia bridge (Laurelli et al., 1998).

The external opening and privatization prompted swift foreign capital entry, heavily focused on real estate and service sectors in large cities, especially Buenos Aires. Between 1991 and 1993, some 70% of all authorizations for new civil construction were granted for the metropolitan area of Buenos Aires, 60% for the City of Buenos Aires. The ensuing real estate boom encompassed residential buildings, banking, hotels and restaurants, and shopping centers (Ciccolella, 1998). Two other cities, Córdoba and Mendoza, also benefited: Córdoba, which attracted foreign investment to its automotive sector, and Mendoza, an outpost for economic integration with Santiago, Chile. Other cities were relegated to a secondary role.

Had liberalization succeeded, the dominance of Buenos Aires would have been strengthened even further. Other huge projects were on the drawing board: a new airport on an artificial island on the Prata River; the Buenos Aires–La Plata highway, road ring and access to the North Pan-American Highway; redevelopment of Puerto Madero (a harbor); and redevelopment of the north coast of the Prata (Laurelli et al., 1998). These projects were shelved due to economic and political crisis. Should they be resuscitated, they will exacerbate divergent regional trajectories.

The failure of the Argentinian liberalization and privatization experiment precipitated an in-depth economic, social, and political crisis. Regional disparities fed the crisis, as rural poor and dispossessed workers and farmers left the countryside to seek urban work. The unemployment rate surpassed 30% of the working population. Income distribution worsened. In 1990, the poorest 10% of the Argentinean population earned 2.1% of income, a figure reduced to 1.5% by 1999. The share of the wealthiest 10% increased from 34% to 37% in the period (Rofman, 2002). The scarcity of employment, income concentration, crisis in traditional industrial and agricultural activities and the absence of a social safety net has fed into an “estado del malestar” or state of unrest (Laurelli et al., 2002).

As of this writing, the Argentinean crisis persists. After a period of transition, the temporary government altered the exchange rate, controlled the political situation and laid the groundwork for a new election. The new government is trying to improve economic development and social policies. The collapse of neoliberal policies and a more favorable exchange rate are benefiting the export sector, mainly rural activities, possibly at the expense of greater Buenos Aires. In addition to beef, corn and wheat, commodities such as cotton and fruits whose exports were curtailed by the adverse exchange rate, are positioned for recovery. At the same time, the current exchange rate is protecting traditional industry and services oriented to the internal market. The recovery of Argentina economy depends on the recovery of the Brazilian economy, the most important market for Argentinean exports. This government is exercising restraint in proceeding with the big infrastructure projects concentrated in Buenos Aires and in the Brazil-Chile corridor. As Rofman (2002) argues, it will take time and hard

work for the government to compensate for the damage caused by the past decades of economic mismanagement and to develop an effective regional policy.

### C. The Chilean Case

Chile embarked upon the first great Latin American neo-liberal economic reform, implemented after the coup d'état commanded by General Pinochet in 1973. Chile has followed the rituals of economic opening, privatization, and deregulation. Because Chile is a significant resource-based commodity exporter, trade liberalization might have been expected to produce a relatively benign regional distribution of heightened economic activity. Chilean exports are strongly concentrated in natural resources, predominantly copper in the north, timber and wood products in Region VIII, fisheries in the south, and fruits and wines in the central valley and southward. But in spite of its historically modest role as an export center, even at century's end, the greater Santiago region has been the major beneficiary of globalization, increasing its share of both total and industrial GDP.

The lop-sided economic gains of Santiago were made at the expense of other Chilean regions. Even nearby industrial regions such as Valparaiso (which serves as Santiago's harbor) and Concepción lost industrial share between 1980 and 1990. While metropolitan Santiago's share rose from 45% to 49%, the region centered on Concepción, which still outpaces the Santiago region in export share, experienced a fall in industrial share from 21% to 19.5%. The share of the region hosting Valparaiso fell from 15% to 10%. Together, all other regions posted a small share increase — from 19% to 21.5% — due to the improvement of some natural resource sectors (Rifo and Silva, 1998). Located at extreme ends of the country and at a great disadvantage because of their remoteness, the regions with the poorest growth performance were Arica to the north and Punta Arenas in the extreme south.

The external opening prompted large inflows of foreign investment and service sector expansion that privileged the city of Santiago. Over the decades, the city assumed the role of financial and capital market center and has been the locus of considerable investment — national and international — in the service sector. It is the site of all major national and international financial institutions, the bulk of all

bank deposits, almost the entire stock market, and the most modern portion of services (Mattos, 1998). From 1974 to 1993, 67% of foreign investment in Chilean services was committed to Santiago. The city also started to attract the more modern segments of industry — 56% of the foreign industrial investment over the same period was committed to Santiago. The city's share of the country's aggregate industrial value rose from 37% in 1985 to 46% in 1993. As a result, Santiago hosted a disproportionately high demographic growth rate, increasing its population share to almost 40% from 34% in 1982. Consequently, the companions of hyper-urbanization — congestion, contamination, social and criminality — increased dramatically.

Chile offers an exceptional opportunity, too, to examine an experiment in devolution. During these same decades, Chile devolved responsibility for education, health care and other state functions to provincial and local governments. Scholarship on the results suggests that such devolution produced very uneven results across the regions. Those that already had fairly well-developed economies and public sector competence were able to afford and manage these responsibilities well. But in many cases, increases in responsibilities were not matched by increases in resources. Furthermore, the poorer regions lacked the technical ability and human capital to make programs work. Relatively speaking, Chilean devolution produced better results than in a country like Nicaragua that also engaged in extensive devolution following regime change, because Chile began the experiment with a fairly highly educated population and high levels of literacy. But the result was nevertheless a widening gap between richer and poorer regions in the quality of education and health care (Llanes, 1998). Jorg: I bring it up because of Llanes' excellent comparative study

As for poverty and standards of living, Chile is an exception in Latin America. The number of Chilean poor people decreased from 28% in 1987 to 15% in 2000, and in metropolitan Santiago, from 25% to 12%. The country's high rate of economic growth during the last decades (GNP growth of around 7% yearly from 1988 to 1998) enabled a dramatic rise in GNP per-capita, from US\$1907 in 1988 to US\$4922 in 1998. Income distribution, however, is highly uneven and has not changed. From 1987 to 1998, the share of the poorest 10% of the population remained at 1.2% of total income, lower even than Argentina, while that of the richest 10% remained at 45% (Mattos, 2002). Thus although the

standard of living has improved, Santiago persists as a dual city, in social and geographical terms. It is divided into two large portions: the north (barrios altos) where the richest people live and the south where popular neighborhoods are found. This duality is mirrored between city and countryside. As one scholar concludes, “to change the income distribution in Chile seems to be as difficult as to make a square of a circle” (Mattos, 2002).

#### D. The Brazilian Case

An historical process of regional economic and demographic concentration occurred in Brazil from the second half of nineteenth century up through the 1960s. By 1970, the state of São Paulo accounted for 40% of the Brazilian GNP, the metropolitan area of São Paulo reached 8.1 million inhabitants and accounted for 44% of the Brazilian industrial production. In that year, metropolitan Rio de Janeiro reached 6.9 million inhabitants and accounted for 12% of the Brazilian industrial production.

At the end of the 1960s, an era of policy-induced economic deconcentration began in Brazil. It was based on many factors, among them: a) strong regional incentives for the Northeast and North regions; b) state-owned companies’ investments outside São Paulo and Rio de Janeiro; c) the search for natural resources; d) inter-firm competition in new markets; e) diseconomies of agglomeration in metropolitan São Paulo and Rio de Janeiro and f) agglomeration economies emerging in other large urban centers such as Belo Horizonte, Curitiba, and Porto Alegre (Diniz, 1993). Deconcentration was facilitated by a new wave of economic growth, a large number of new projects and massive new investments, mainly in the 1970’s.

Although economic stagnation in the 1980s slowed the rate of deconcentration, the impetus persisted through the following decades. The GDP share of the state of São Paulo was reduced from 40% in 1970 to 35% in 2000. Most other regions, notably the southeastern and southern regions, increased their shares. The Northeast region advanced its share very modestly; it still accounts for 28% of total

population but only 13% of Brazilian GNP. The metropolitan areas of São Paulo and Rio de Janeiro continued losing shares in national industrial production.

Urban concentration is still, however, increasing. The yearly rate of demographic growth in metropolitan São Paulo dropped from 4.5% in the 1970's to 1.9% in the 1980's and Rio de Janeiro's metropolitan demographic growth fell from 2.4% to 1.0% over the same period. But even at truncated growth rates, the population of the metropolitan São Paulo reached 17.8 million inhabitants in 2000, with 10.9 million in metropolitan Rio de Janeiro and 4.2 million in metropolitan Belo Horizonte. In that year, there were sixteen urban agglomerations in Brazil with more than one million inhabitants each. In these huge concentrations of the urban poor, many of them recently from the countryside, Brazil resembles Mexico.

Liberalization-era economic reforms and structural changes have hampered the process of economic deconcentration. Chief among these are the openness of the Brazilian economy, the process of privatization and technological change. The openness of the Brazilian economy increased imports, generating a strong deficit in the balance of trade which put pressure on the Brazilian Government to create policies to stimulate exports. These policies and the 1999 devaluation of the real against the dollar of more than 100%, in a situation of inflation control, have stimulated exports ever since. This set of policies has benefited sectors that already had more tradition in exports, especially agricultural commodities from the South and Center-West, mineral commodities from the North, and industrialized products from São Paulo and neighboring states. The southeast and southern regions account for 83% of the Brazilian exports. The state of São Paulo is particularly well-positioned to export under current liberalization regimes, because it possesses a large share of the nation's most advanced technological sectors. The most successful industrial export sector in recent years is aerospace, which competes well

in the small and medium-sized civil aircraft market and is centered in São Jose dos Campos, in the state of São Paulo (Diniz and Razavi, 1999).

Conspicuously, the Northeast region, the poorest region of Brazil, has not improved its export performance. Its share of Brazilian exports dropped from 12% in 1980 to 7% in 2001. Its mature sugar sector has stagnated and has not been able to compete with São Paulo's. Incipient textiles, clothes and shoe sectors, stimulated with fiscal incentives and low wages, are orientated to the internal rather than the international market (Galvão 2002).

Privatization exacerbates the tendency for economic activity to reconcentrate in core regions. In the 1990s, Brazil experienced one of the most rapid and complete processes of privatization in Latin America. Banks, electricity, telecommunications, steel, railroad, and mining companies as well as roads and ports have been privatized. Because most privatized companies are located in the more developed regions, productivity gains will be concentrated there, increasing centripetal tendencies in the country as a whole. In contrast, private companies are not willing to take over public services and factories in lagging regions, especially infrastructure services, because the profitability prospects are poor. Thus privatization in Brazil will exacerbate the problem of lopsided regional development.

Similarly, a quickened pace of technical change will benefit the more urbanized and industrialized regions, especially the Southeast and South. It is in these regions that most of the country's scientific, educational and research infrastructure is located, especially in the state of São Paulo. We have documented elsewhere a relative deconcentration from the São Paulo metropolitan area towards other cities in the state of São Paulo that are the beneficiaries of state-level redistribution of resources for infrastructure, education and research (e.g. Campinas, São José dos Campos). Relatively new medium-sized industrial centers in the Southeast and Southern regions have also gained modest shares at the expense of the São Paulo conurbation, particularly the state capitals of Belo Horizonte, Curitiba, Porto Alegre and Florianópolis (Diniz and Crocco, 1996).

The integration of industrial structure in the network of industrial cities among these regions will reinforce the macro-spatial concentration of economic activity, mainly industry and services, in the South and Southeast (Diniz, 1994). The grand core of this system is the São Paulo–Rio de Janeiro extended metropolitan region, a huge industrial and services complex stretching from the Campinas region to Rio de Janeiro, including the metropolitan area of São Paulo and the regions of São José dos Campos and Volta Redonda. This single axis of economic activity hosted 36 million inhabitants in 2000 and around 60% of Brazilian industrial production (Tolosa, 2002). We expect this conglomeration to dominate the Brazilian economy for decades to come.

Brazil's federal structure, once considered a powerful positive factor in national integration, has played a destructive role in the current liberalization process. States like São Paulo are able to redistribute their considerable economic surplus through taxation and public expenditure to other locales within the state (Diniz, 2000). The autonomy of the Brazilian states has been strengthened in the past decade. The divergence in regional fortunes with globalization has been complemented by an overt "fiscal war" among the federal states in which the strongest states have emerged as the winners. Take this out, since Campolina adds elsewhere that SUDENE etc have been reinstated.

Differential regional growth rates and the evaporation of concerted regional policies dovetail with a worsening income distribution in compounding poverty and high rates of migration in Brazil. Brazil's income distribution is one of the worst in the world, ranking 92 out 94, ahead of Malawi and South Africa. Despite considerable GDP growth over the past three decades, income inequality has not been reversed (Neri and Camargo, 2000). Brazil's poverty rate is 34% compared with 8% for other countries with similar per capita GDP (Barros et al., 2000).

Both rural and urban areas host the growing numbers of poor and unemployed. Huge pools of poor people remain in rural areas, mainly in the northeast, their numbers increasing from 18.6 to 20.1 million between 1980 and 1990. As migrants flow towards the cities, the number of poor people in metropolitan areas has increasing rapidly from 10.9 to 19 million in the same period (Rocha and Tolosa, 1993). By 1999, 44 million citizens lived under the poverty line in Brazil, 29 million in cities and 15

million in the countryside (Instituto da Cidadania, 2001). High-speed urbanization in a period of slow economic growth has produced sixteen urban agglomerations with more than 1.0 million inhabitants each. Unemployment, homelessness, violence, drugs, and absence of sanitation prevail in these settings, creating vast urban neighborhoods of what Brazilians called “the without” — those people without jobs, housing, food, education, and healthcare.

## V. Causes of Reconcentration

We have documented, for four large and relatively developed Latin American countries, a generalized trend towards regional economic reconcentration and a poor and worsening income distribution that is exacerbated by regional divergence. In the case of Mexico, a quickened pace of integration with the United States’ economy has resulted in the relative abandonment of traditional sectors and regions of the southern half of the country, reinforced the primacy of Mexico City and fueled the growth of emerging centers along trade corridors. In Argentina, programmed public investments and the channeling of private capital have heavily favored the Buenos Aires region and undercut lagging regions, especially in the northwest and north of the country. In Chile, private capital investments as well as infrastructure and public investment have focused on the central region, especially Santiago. In Brazil, the central polygon, stretching from Campinas east to Rio and north to Belo Horizonte and dominated by São Paulo, has been re-established through trade, investments in infrastructure, and the atrophy of regional programs. These findings confirm the dominance of reconcentrating tendencies, hypothesized in the theoretical section above, over decentralizing (toward lower cost sites) impulses and newly emerging cities (except where their position on trade corridors enhances their attractiveness).

Are the causes of these patterns similar across the set? Despite differences rooted in special circumstances, several common features can be identified, many of them institutional rather than purely economic calculus #huh?. First, Latin American countries have experienced a rapid opening of their economies where exports and imports have risen disproportionately. This process has benefited those regions with superior competitive conditions, chiefly the more developed and higher income (rather than

lowest wage) regions. Technological and institutional changes that amplify the need for skilled human resources, educational infrastructure, and research act as location factors benefiting the more developed regions and large cities.

Second, the liberalization and privatization processes have attracted large foreign investments, especially in the service sectors, including banking and real estate. The disproportionate growth of services, necessary for the management of globalization, reinforces the concentration of the financial and business services in the largest metropolises such as Buenos Aires, Santiago, Mexico City, and São Paulo.

Third, changes in the vision and role of the state have derailed harmed deconcentration and regional development policies that had been implemented in most Latin American countries with salutary results. Deconcentration policies have been abandoned or weakened as national planning has been delegitimized, fiscal austerity imposed (often by external organizations) and greater faith placed in the market. Investments in infrastructure aimed at incorporating lagging regions into the economy have been abandoned, often replaced by investments that favor the core regions. New policies which devolved responsibility for public services and economic development on to lower levels of government, often without concomitant resources or technical assistance, exacerbate the divergent trajectories of regions.

Fourth, heightened activity in core cities and deceleration in outlying regions quickens the migratory process that brings millions of poor, displaced and uneducated people to the largest conurbations. Despite their lion's share of new economic growth, these cities are not able to absorb the new poor, and their inability to do so is made worse by the eliminate of social programs associated with liberalization. A bad and deteriorating income distribution and greater unemployment translate into social unrest, both in the countryside (Chiapas, for example) and in the cities. In the latter, burgeoning slums and social pathologies such as drug addiction compound the human misery.

In this process, the pace of change matters greatly. When large numbers of managers, workers and farmers are thrown out of work by a sudden influx of imports or because an artificial exchange rate renders their products uncompetitive, they have no time to assess the potential for new products or

alternative uses of their skills. All their energies go into sheer survival, as they lose their homes or are forced to migrate. Comparative work on defense industrial downsizing across in a number of key countries, including Argentina, in the 1990s shows that countries that moderated this process and provided incentives and technical assistance to enable producers to shift to new forms of economic activity did far better than those that relied strictly on “the market” to absorb redundant people, buildings and technology (Markusen, DiGiovanna and Leary, 2003).

## VI. Prospects for and Constraints on Local Development Efforts

The liberalization agenda repudiates national efforts to shape the regional distribution of economic activity, characterizing such efforts as expensive and inefficient. It counsels local economic development initiatives and embraces a language of competitiveness in which cities and regions are asked to take responsibility for their own futures. A relatively broad array of practices and instruments comprise local economic development strategies, among them traditional business attraction and retention efforts; cluster promotion; high tech and research parks; partnerships among government, business and community groups; and entrepreneurial “supply side” tools such as incubators, venture capital and entrepreneurship training (e.g. Eisinger, 1988).

The notion that localities should take the lead in economic development originated in the US and Europe and is a product of three developments: 1) documented cases of successful locally-initiated development; 2) new theoretical and normative work by academic and think tank researchers; 3) opportunism at the national level - the need for fiscal discipline in public budgets, especially in the face of IMF strictures, and an ability to abandon regional policy politically. In this section, we review these developments and probe their applicability in Latin American economic, political and social environments.

### A. The Success Stories

Two sets of empirical experiences are offered as evidence for optimism about locally-initiated development. The first set includes successful cases of regional development based on earlier initiatives that resulted in the growth of industrial activity in traditional sectors. Brazilian instances include the shoe industry in Vale dos Sinos (Rio Grande do Sul), Franca (São Paulo) and Nova Serrana (Minas Gerais), furniture in the Serra Gaucha (Rio Grande do Sul) , Ubá (Minas Gerais), apparel in Nova Friburgo (Rio de Janeiro), and others documented in Tironi (2001). It also includes diversified industrial districts created in closed communities such as the Italian colony of Rafaela, Argentina (Cassiolato and Lastres, 1999). In both cases, externalities that enhanced specialization and concentration have been created without central government support. Based on these successful historical cases and on international experience, particularly the Italian industrial districts (Goodman and Bamford, 1989), consultancy companies and policymakers are trying to generalize them as a new way to promote economic and regional development. But to date they have proven difficult to reproduce and transfer.

A second line of reasoning and evidence focuses on the idea of innovation and technological change as a way to create new industrial or services centers based in high tech industry and services. These efforts are modeled on apparently successful American as Silicon Valley and Research Triangle (Saxenian, 1994; Luger and Goldstein, 1990). States and localities are counseled to construct industrial districts, incubators for new firms, technology parks, and other local productive experiments as components for the promotion of local or regional development.

These success stories have jump-started the new local economic development line of thinking – they have preceded theorizing rather than constituting tests of well-developed theory. Furthermore, characterizations of famous instances of endogenous local development such as Silicon Valley and the Third Italy are vigorously debated in the literature, and their applicability to the situations of other regions, even in developed countries, is broadly questioned. Harrison (1994) argues that research on the Third Italy phenomenon underplays the significance of large firms and the durability of the model. The Silicon Valley experience has been widely misinterpreted — its dependence on massive and continuing infusions of government military research and procurement dollars has been neglected, and its reliance on large, multi-national firms is considerable (Gray et al., 1999; Harrison, 1994). Even where

the special nature and desirability of elements of the Third Italy and Silicon Valley experiences are valid, the ability to transplant them to other regions, even within the same countries (e.g. the Italian mezzogiorno or the American south) is severely limited by the absence of comparable external interest (e.g. government military contracts) and/or very different local political and social cultures.

How good is this evidence? Although it is possible to point to successful cases, no satisfactory evaluative work has been done to determine just how likely success is nor to identify structural and programmatic features that distinguish between localities that succeed and those that fail. Practice is proceeding on the basis of anecdote and the showcasing of a few successful cases. Other elements of the local economic development agenda are similarly coming under evaluative fire. In a summary of a decade of studies done on efforts to induce both competitiveness and social cohesion in the UK at the regional and local level, Fainstein (2003) concludes that neither partnering nor clustering have succeeded. Partnering often divides and diffuses responsibility, by requiring participation by numerous actors, and can hinder developmental effectiveness. Clustering can lead to overproduction, collusion and failure as well as synergy. # There seems to be a misunderstanding here: a partnership is not really an institutional structure, and its purpose is to overcome the problems created by the fragmentation of traditional structures, particularly among competing government agencies. Actually, Phil Raines has found that cluster initiatives ironically have a positive impact by clustering uncoordinated government agencies. Jorg, In US state and local economic development practice, partnering is squarely about institutional and non-institutional relationships among government, business and community groups, and I believe this is the case in Britain, too. # Probably she's right with her overall conclusion, but these quotes are not very convincing, so better leave them away. Okay, but since they raise plausible alternative behaviors and outcomes to the clustering and partnering hype, I have paraphrased them. Fainstein finds that investments in human capital and physical infrastructure are far more important for development success at the local level and that the role of national government is crucial in establishing the institutional basis for effective local governance. If British cities and regions that enjoy excellent local planning talent and long-standing democratic institutions are having difficulty implementing the local economic development agenda, how much more difficult is it likely to be in Latin America and the Caribbean?

In addition, the competitiveness agenda combined with devolution has increasingly forced state and local government in Latin America and elsewhere to compete with each other for international branch plants and facilities, which has set into motion a process in which many mortgage their public sectors by granting tax forgivenesses far into the future with few performance requirements. A growing body of conceptual and evaluative work critiques such “competing for capital” and shows that the returns are much smaller than promised, if not negative (see for instance, Peters and Fisher, 2002; Thomas, 2002; Schweke, 2000).

## B. The New Conceptual Thinking about Regions

Many scholars are now arguing that the region, whether metropolitan or a larger environmentally or culturally homogenous area, is becoming a more important scale for the analysis and policy shaping of economic activity. Examples from the American academy include the work of Scott (1998), Barnes and Ledebur (1998), Storper (1997), and Florida (1995). In part, these views are based on the assumption that the nation state is weakened by globalization and is no longer able to shape economic development, an assumption which we do not believe is accurate, and if it were, what grounds are there to believe that the powers of sub-national governments could in any way counter such erosion?

But a more robust element in this line of thinking is a belief in the efficacy of face-to-face contact and cooperative efforts, more likely at a spatial scale where people can meet frequently and periodically than in national or international space (Rallet and Torre, 1999; Oinas and Malecki, 1999; Asheim and Cooke, 1997). A new appreciation for learning as part of the regional development process also favors a regional focus (Cooke, 1998; Lundvall and Johnson, 1994; Johnson and Lundvall, 2000). Of course, this view has its critics as well, particularly because new distance-obliterating technologies such as the internet permit cooperation and learning over long distances without physical proximity.

Finally, another strong argument for the region as an appropriate economic development policy unit is that policies can be carefully tailored to the particularities of the place and its resources and that the

ideas and expertise of leaders within the regions can be drawn into the effort. Of course, reliance on the regional level can also result in special interests dominating the design of regional efforts and the allocation of resources to the detriment of other groups, especially where there are not well-developed democratic and legal practices to ensure inclusiveness.

In the US, with the exception of some very modest efforts to do economic development planning at the metropolitan rather than the local level, these calls for a resurgence of regions have been met largely with silence. Local economic development remains dominated by efforts to attract and retain companies regardless of their quality or fit with any cluster and by deals to build retail and office space. The amounts spent for entrepreneurial and clustering strategies remains small. In Europe, independent local initiatives resemble those in the US in substance and scale. For instance, technology parks have been popular (International Association for Scientific Parks (IASP), Asociación Española de los Parques Tecnológicos (APTE)) and are the subject of a hard-headed analysis by Massey et al (1992). Because of the cohesion agenda and the necessity to acknowledge and counter adverse impacts of economic integration, the European Union has increased its commitment to regional collaborations and to providing resources and support for bottom-up processes for under-developed regions (Galès and Lesquesne, 1998; Bonaverio and Dansero, 1998; Halkier, Danson and Damborgh, 1998), a point we return to below.

The potential for endogenous regional and local development certainly is worth exploring. However, it is inappropriate to lump all regions under the same rubric as candidates for generic policy prescriptions. In confronting the broad range of uneven abilities of regions to respond to the vicissitudes of heightened economic competitiveness, researchers have articulated the significance of social, cultural and institutional factors that differentiate regions from each other. Storper, for instance, characterizes these as relational assets and untraded interdependencies (1995, 1997). Putnam (1993) emphasizes the central role of civil society, with his notion of social capital, in differentiating regional economic development in Italy. Saxenian (1994) emphasizes an entrepreneurial culture in the development of the Silicon Valley and contrasts it to that of Boston. Amin and Thrift (1994) argue that local and regional economic life depends on the cognitive relations among cultural, social, and political institutions, which

they identify as *institutional thickness*. The work of these authors warns that regional economic success is highly dependent on complex institutional factors that must be taken into account in tailoring any economic development strategy.

### C. Applicability to Latin America and the Caribbean

The call for endogenous development and nurturing of Marshallian type industrial districts has been sounded for at almost twenty years now, since the publication of Piore and Sabel's *Second Industrial Divide* (1984), with its focus on the Third Italy. How closely do successful cases of regional development in Latin America and other developing continents follow these prescriptions for endogenous, local development? Comparative work on Brazil, Korea, and Japan in the 1990s found that few emerging cities or successful efforts to spread economic activity to laggard regions are the product of local economic development efforts of this sort (Markusen, DiGiovanna and Lee, 1999). The great majority of emerging "second tier" cities are not industrial districts of the high tech or Third Italy form, but possess either 1) hub-and-spoke industrial structures, where one or more industries and large firms dominate; 2) satellite platforms, where the bulk of new activity is carried out in externally-owned branch plants; or 3) state-anchored economies, built around a national or state capital, a large public university complex, a military base or military industrial facility or similar concentration of state-related employment (Markusen, 1995). Most successful emerging regions are the products of concerted regional and industrial policies promulgated by central governments.

In Brazil, for instance, several of the capital cities of southern states have been able to diversify into new growth sectors, although the major contributors to their growth remain large branch plants, as in the auto industry. The recent industrial developments in the Northeast are strongly fueled by State policy and incentives. Examples include the petrochemical pole, built by the federal government in alliance with private capital, the new Ford plant in Salvador (Bahia), and the recent development of the textile and shoe industry in Ceará, all supported by fiscal incentives combined with cheap labor. One can also find Brazilian enclaves of local craft and small business networks reminiscent of the Third Italy that are successfully competing in the globalizing economy. In addition to those cited above, there is the chicken

industry in the west of the state of Santa Catarina; furniture in several cities, oriented mostly to the domestic market but also exporting; and tropical fruits in the irrigated valleys of São Francisco and Açú. Excellent studies on emerging local Brazilian production clusters can be found in Cassiolato and Lastres (1999) and Tironi (2001). Brazil has been successful in nurturing small firms through targeted government intervention, such as the Brazilian SEBRAE, Serviço Brasileiro de Apoio as Empresas. One can also find cases where high technology has boosted the growth rate of provincial cities. Almost universally, however, these turn out to be the beneficiaries of targeted public expenditure on infrastructure, education and publicly-owned high tech companies — Campinas and São Jose dos Campos are examples (Diniz and Razavi, 1999).

Few efforts have been made to evaluate Latin American efforts to data. An exception is research carried out by an agreement between CEPAL and GTZ to analyze 22 local economic development cases in 7 different Latin-Americans countries (Aghón et al. 2001). These studies are very descriptive, are not methodologically comparable, and do not offer a convincing rationale for cases selected. From this set of case studies, Helmsing (2001) extracted and compared 12 of them. arguing that a third generation of regional policy is under way in Latin-America, focuses on local economic development and stressing the roles of inter-firm cooperation, business associations, unions, and government in interaction with each other. He recommends the creation of meso institutions and a focus on the way that actors cooperate, their partnerships and networks and the learning process. Helmsing points at the fact that the case studies do not evaluate success and failure, and he finds little evidence that they have more than a marginal effect.

Although the evidence in favor of the efficacy of local economic development is not compelling, it does not mean that such efforts could not facilitate desirable growth if done under optimal circumstances. Efforts to encourage partnership and strategic visioning at the local level are being experimented with across Latin America. One example is the proprietary Participatory Appraisal of Competitive Advantage, developed by the European firm Mesopartner and now being implemented by consultants in Argentina, Bolivia, the Dominican Republic, Ecuador and Peru ([www.paca-online.de](http://www.paca-online.de)).

Our broad conclusion is that local economic development should be pursued through a combination of central policies with local initiatives, especially in big countries facing tough economic conditions and saddled with great social inequalities. In this era of quickened world economic integration, successful regional development experiences outside of the largest metropolises are found in only a few Latin American enclaves and of these, only a small number are truly endogenous and without the benefit of external investments or central government resources. These are worth studying carefully, to understand not only the apparent elements of success but also the unique institutional and cultural traits that condition their success. Local ingenuity and innovation should be encouraged by both central governments and local institutions. Producers in such regions may possess new products or better ways of producing existing ones, although they may need technical assistance from experts at Universities and research institutes elsewhere. The new irrigated fruit culture in the Brazilian Northeast, based on the introduction of new technology and appropriately matched to the region's year-round hot and dry weather is a good example.

Top-down strategies that are inappropriate in terms of human capital and environmental conditions should not be imposed on regions — the disastrous effort to make an electronics export platform out of Manaus is an example of poor industrial policy linked to strategic and regional aims (Diniz and Santos, 1999). Nevertheless, the dangers in relying too heavily on endogenous local development or in assuming that devolution of economic development responsibility to sub-national governments, especially without concomitant resources, will reverse the process are clear. The forces for regional divergence that we have documented above are robust. Most regional and local economies are simply not equipped with the expertise, infrastructure and investment resources to compete with large metropolitan centers and emerging cities that have the good fortune to be located in trade corridors. Endogenous and local development policies will not succeed in regions such as the Brazilian Northeast, southern Mexico, and the northeast of Argentina in the absence of a sustained willingness on the part of central economic policymakers in each country to provide them with the guidance and resources they need. For instance, the new Brazilian Government recently decided to recreate the Superintendências for the development of the Northeast and North of Brazil, SUDENE and SUDAM respectively, that had been closed down by the last government. These institutions, despite the corruption that had encumbered them, were

effective development agencies. Without them, economic and social conditions would have been much worse (Diniz and Basques,2003 It may turn out that local economic development, if done well, will be much more expensive for Latin American and Caribbean countries than the regional policies they displace. Answer: the American experience, in which state and local governments have given away billions in tax and other incentives to lure new plants and hundreds of millions more in other ED programs. For a taste, see the short list I attach. That may be worth it, if it entails creation of greater expertise and capabilities at the state and local level.

Finally, it is worth restating that any approach to regional development is vulnerable to being overwhelmed if macro-economic infrastructure policymaking and infrastructure placement and design do not take into account the regional economic development goals of a country. This is a corollary to the impassioned arguments made by Stiglitz (2002), the former chief economist of the World Bank, that one-size-fits-all policies are harmful because they ignore the crucial questions of sequencing and pacing.

## VII. Elements for New Regional Policies for the Latin American Countries

Regional development policies have been effective in many countries, including Brazil, when they are appropriately gauged to regional potential and matched to competitive conditions. Many of world's strongest economies have used infrastructure, education, land distribution, transportation and industrial policies to moderate hyper-centralization, with salutary results. The US and Germany are two examples. Both are nations with relatively flat hierarchies of cities, substantial ongoing national redistribution of fiscal and public capital resources and state/local economic development authority. Regional disparities have been decreasing in both over time. In Europe, intelligent, new regional policy efforts by the European Union are succeeding in improving the competitive performance of various countries and regions, as are national efforts in Spain and Portugal. The rapid growth and diversification of Andalusia, Sicily, Crete and other southern regions of Europe is a powerful testimonial to the efficacy of regional redistribution and development programs.

In the American case, national allocation of land (the Homestead Act) and resources for canals, railroads, major water projects, universities and highways have had a powerful decentralizing effect on American economic activity. Military bases, academies and research labs, and publicly-owned defense plants, especially in the decades between 1930 and 1960, further decentralized industrial and service activity, helping to jump-start entire new industrial complexes in places like Los Angeles, Silicon Valley, Seattle and Colorado Springs and raising per capita incomes in the south and west, what we elsewhere call the Gunbelt (Markusen et al., 1991). The federally-funded interstate highway system in the US, which provides an excellent network of highways linking a large number of cities and regions together, has had a demonstrably positive impact on economic development of regions in its path (Isserman, Rephann and Sorenson, 1989). The largest American regional development programs targeted on backward regions — the Tennessee Valley Authority and the Appalachian Regional Commission — both succeeded in improving economic performance (Isserman and Rephann, 1995). All of these programs helped to bring regional per capita income differentials that were quite large in the late 19<sup>th</sup> century (when southern states languished at 50% of the national norm) to a very modest contemporary gap — few American states have per capita incomes below 90% or above 130% of the national norm (Markusen, 1987).

More recently developed nations have also demonstrated how investment and compensatory policies that build expertise and infrastructure can create new poles of activity, stem hyper-migration and enhance diversification in the nation's productive structure. South Korea and Japan are examples of more recently developed countries where the deliberate siting of large industrial complexes outside of the Seoul and Tokyo metropolitan regions has helped to ameliorate regional growth and income differentials. In Korea, for instance, the flow of population toward Seoul has been stemmed by thirty years of sustained commitment to the creation of new industrial poles through the country: steel in Pohang, textiles and electronics in Kumi, parts production for export at Masan, heavy machinery and auto parts in Changwan, and autos in Ulsan and the under-developed southwest (Markusen, Lee and DiGiovanna, 1999). Both Japan and Korea have begun to decentralize higher education and high technology by building new science and technology campuses away from the major urban centers.

In Brazil, despite flaws in program design and inefficiencies in implementation (Oliveira, 1977; Araujo, 2000; Furtado, 1989), federal government efforts to revitalize the Northeast and to occupy and develop the North and Center-West regions have provided a powerful developmental stimulus. The building of Brasília, a deliberate attempt at decentralization and national integration, has helped to integrate the country and incorporate the Center-West agricultural frontier into the national economy (Fundação Israel Pinheiro, 2002). National construction of a road system with Brasília as its nodal point (Belem-Brasília; Brasília-Salvador; Brasília-Belo Horizonte; Brasília-Cuiabá; Brasília-São Paulo) has played an integrating role for the country. Concerted efforts to build an industrial pole in the northeast of Brazil have had enduring effect on the diversification of that region, Brazil's poorest, from sugar mono-culture (Gomes, 2002; Diniz e Basques, 2003). The Brazilian vision of a multi-polar and federal nation integrated with roads and decentralized higher education has contributed to relatively rapid growth in several formerly laggard regions. Political distortions, such as the military government's geo-political designs on the Brazilian north and center-west, led to costly mistakes, such as the Trans-Amazonia road, subsequently abandoned, and the attempt to build an electronics complex in Manaus. Although Brazilian regional inequality remains high, it would be much worse without these policies. Lessons from these efforts can be combined with realistic assessments of a region's ability to specialize and compete in the rapidly globalizing economy to craft a policy that will ameliorate the worrisome differentials we have charted above.

National governments, however, are in a bind when faced with investment and expenditure decisions in times of tight resource constraints. The need to increase exports, especially as imports from lower wage nations flood in as trade barriers fall, may impel politicians to favor the largest metropolises, ports and trade corridors. In an increasingly integrated world, every nation and locality must specialize more than ever before (Howes and Markusen, 1993). Governments cannot afford regional development policies that do not promote long-term efficiency and productivity, especially given rapid technological and organizational change.

The elements for a new regional strategy appropriate for a rapidly integrating world economy and attentive to unique sub-national aspirations and capabilities must be adapted to each country's

economic, geo-political and physical conditions, including its territorial size, level of inequalities, economic potentialities of regions, social problems, evolving international integration and so on. We offer here for a series of actions that national governments can undertake, working with their constituent regions and localities, to improve regional equity and spread the fruits of growth more widely (see also Diniz, 2002).

Good idea

Screening national strategy for regional outcomes. Central governments should incorporate the goals and tools of regional planning as an integral part of national planning, identifying potential and bottlenecks for regional and local development. Every economic policy initiative should be evaluated from the point of view of its consequences for the regional distribution of economic activity and its potential to enhance or undermine regional goals. The practice of the planning for isolated regions apart from the general context of the national economy should be discarded as both expensive and ineffective. National economic policymaking should be required to take into account territorial, economic, social, and political integration goals.

Crafting regional pacts Central governments should articulate a federative, provincial or regional pact with regional governors and urban mayors that would commit them to a vision for urban/regional evolution, indicators of progress, and realistic methods for meeting the goals. In smaller countries, such a pact would articulate a vision for major cities versus smaller towns and rural areas, including methods for ameliorating rural to urban migration, decentralizing access to good education and health care, plans for infrastructure placement and investment, and methods for local participation in initiatives that shape economic development prospects.

Shaping the urban hierarchy. Attention to the emerging system of cities/towns could become an active policy exercise on the part of national economic planners. Policy decisions, from resource utilization policies to educational commitments to transportation infrastructure investments, will induce shifts in the hierarchy of cities. Policies could be favored that support the strengthening of medium-sized cities as service and production centers, which in turn would help to halt disproportionate concentration of people and economic activity in the largest cities. Korea's success in inducing much faster growth rates

in the provincial cities mentioned above than in Seoul is an example; Brazilian infrastructure, regional programs and federalism achieved similar results. at least up through 1990.

Evaluating development strategies for sustainability. development strategies should also be evaluated for sustainability and impact on environmental quality. Large construction or resource extraction projects, which are often attractive for their immediate job generation, often produce only employment bubbles and leave localities coping with long-term environmental degradation. The emerging commitment to sustainability on the part of international and domestic groups as a criterion to use in judging economic development initiatives is a welcome development and should help policymakers contend with technological and economic policy choices in the context of each country's and region's particular situation.

Using infrastructure to integrate regions: Infrastructure commitments are, along with human capital investments, among the most potent tool that nations have for contributing to regional diversification if done intelligently. The placement of transportation infrastructure can be a crucial tool for regional integration, as recent experience in Brazil, Mexico, and Argentina have shown. Smaller countries, too, are in need of transportation integration into the larger regional and international trading system. If new investments are dedicated simply to routes that enable goods and service to enter and exit ports, they will do little to integrate nations and trading areas and will contribute to worsening national and regional differentials. The payoffs to new transportation investments are long term. The US north outpaced the south economically in the 19<sup>th</sup> century because it had concentrated its transportation investments on linking up the eastern manufacturing cities with the agricultural interior while the south had squandered its funds on building canals to lengthen cotton-transit rivers upstream (Markusen, 1987, Chapter 4). The point is that the integrative transportation system made the north much more productive. # so is infrastructure then more important from an economic or from a military perspective? Similarly, the US interstate freeway network facilitated regional diffusion of economic activity, a model replicated by Brazil to integrate its far-flung regions. Similarly, European integration flourished with investments in its transportation system over the centuries (Rich and Wilson, 1967), and infrastructure commitments remain central to ongoing European efforts. The Latin American and Caribbean countries, with support

from the Inter-American Development Bank, have made it a priority to draft and implement a joint program for transportation integration. # are you sure that this argument is consistent with your critical remarks above re: the Sao Paulo – Buenos Aires – Santiago development corridor? good question, but that is an international integrative project that will reinforce the largest cities and leave behind most other cities/regions in both countries

Decentralizing educational resources: Efforts to decentralize quality education and training pays off handsomely in creating pools of regional human capital, new small firm formation and innovation. Latin American countries have made important strides in the equalization of resources for elementary and secondary education, but resources for higher education are still quite concentrated in the wealthiest regions.

Overhauling the federal system: governments should also redesign institutional systems to enhance this process of reintegrating regional development into national development planning. The institutional restructuring required may be quite dramatic - most Latin American and Caribbean countries do not have an intermediate governmental unit such as the county, administrative region or ayuntamiento to coordinate over large, economically integrated economic regions. The political and institutional division of the territory into governmental scales (Federal, State or province and municipalities) should be revamped, because the proliferation of municipalities makes it increasingly difficult to fashion and implement local policies. Careful assignment of responsibilities for public goods, services, regulation and economic development among public (federal, state, municipal, etc.) and private (companies, civil organizations, universities, research institutions, etc.) spheres can facilitate an inclusive regional development process. Central governments must resist pressures from rich regions to let them keep all of their tax revenues and/or to continue to favor them as national champions. Some degree of redistribution of revenues and resources is essential for the moderating of regional divergence and stemming of hyper-urbanization.

Designing local capacity: Sound regional policy must encourage and support local initiatives and institutions in designing development strategies that are realistic and appropriate to the natural,

economic, social, and political attributes of each locality and region. This seems obvious, but in practice, it is difficult and costly to achieve. Central to success here is the ability and know-how to create local institutions, partnerships, and governance structures that will favor cooperative, associative, collaborative and synergic activities in a world of competition. Stubborn traditional animosities and cultures may have to be overcome to do so, most localities simply lack the expertise and technical abilities to even begin, and planning can easily become the captive of local elites with their own particular economic interests to advance. Nevertheless, local participation and creativity are central to success in local economic development and would be a very welcome complement to a new, more savvy, generation of regional policies. In various recently designed programs in the US and Europe (e.g. empowerment zones in the US, regional partnerships in the EU), local leadership has been built into redistributive policies and programs as a central element.

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Table 1. Latin American and Caribe - Balance of trade (US\$ million)

	1980			1990			2000		
	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
Latin American and Caribbean	91,973	93,285	-1,312	137,374	113,974	23,400	406,000	418,000	-12,000
Argentina	8,022	9,395	-1,373	14,796	6,437	8,359	30,828	32,594	-1,766
Brasil	20,132	22,955	-2,823	37,495	24,110	13,385	64,470	72,741	-8,271
Chile	4,075	5,469	-1,394	8,102	9,207	-1,105	22,087	21,209	878
Colombia	4,092	4,420	-328	8,658	6,845	1,813	15,608	14,301	1,307
Peru	3,899	3,062	837	4,076	4,151	-75	8,552	9,578	-1,026
Venezuela	19,057	11,318	7,739	18,818	9,452	9,366	35,239	20,583	14,656
México	16,241	18,551	-2,310	38,411	41,214	-2,803	180,136	196,509	-16,373

Source: CEPAL - Estudio Económico de América Latina y el Caribe 1981; 1993; 1994-1995; 2000-2001

Table 2. Annual Rates of Growth, Latin American and Caribbean Countries, 1980-2000

	1980-1991	1991-2000
Argentina	-0.4	4.1
Brasil	2.5	2.6
Chile	3.6	6.1
Colômbia	3.7	2.5
Peru	-0.4	4.1
Venezuela	1.5	2.4
México	1.2	3.6
<b>Latin American and Caribbean</b>	<b>1.2*</b>	<b>3.2</b>

Source: CEPAL - Estudio Económico de América Latina y el Caribe 1981; 1993;  
1994-1995; 2000-2001; World Bank, Annual Report, 1993.

\* 1981-90

Table 3. Latin American and Caribe - GNP and population - 2000

	População (milhões)	PIB (US\$ bilhões)
Latin American and Caribbean	516.0	2,000.0
Argentina	37.0	284.3
Brasil	170.4	593.8
Chile	15.2	70.5
Colômbia	42.3	83.2
Peru	25.7	53.5
Venezuela	24.2	121.3
México	98.0	580.1

Source: <http://www.worldbank.org/data/countrydata/countrydata.html>