

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, 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 four additional efforts. First, they must identify and counter adverse incentives that are built into existing physical and educational infrastructure priorities and wasteful competition among sub-national governments, such as the fiscal war between federative states in Brazil. Second, they 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 and create conditions for a culture of cooperation and collective governance. Third, they must selectively engage in regional development strategies for those places worst hit by emerging import competition or losses to new competitors elsewhere, enabling them to preserve, upgrade and transfer resources, especially human talent, into new forms of competitive economic activity. Fourth, 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. Most Latin American countries do not have an intermediate governmental unit such as the county, administrative region or ayuntamiento to coordinate over large, economically integrated economic regions.

1. 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.

These changes enable 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 (Harvey 1989; Brenner, 1998). 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 (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 Graciara, 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, 1995), 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.

2. 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 multi-national 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.

3. 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 remittances associated with external asset holdings from foreign direct investment. 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.

4. 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 are shown in Table 3.

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, to create new growth centers and to undermine regional decentralization gains of past decades. This divergent trajectory is enabled by the whole-sale abandonment of regional policies of earlier eras that helped to blunt hyper-urbanization and to seed new centers of economic activity in far-flung regions.

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 (Nicolas, 1995). For instance, the economies of Guadalajara and Puebla were stimulated by import substitution policies.

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 (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. Guadalajara and Puebla are not attracting foreign investment in the financial and service sectors, which is gravitating instead to Mexico City and Monterrey. Guadalajara is experiencing a trade-related crisis in traditional industries, and 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 (Nicolas, 1998; Garza, 1999). 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 advantageously 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% (Nicolas, 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%, regions which contain many of the poorest people in Mexico. These regions show low levels of income, and their growth may not be sustainable.

The regional trajectory for the coming decades may consist of continued divergence among Mexican regions. Nicolas (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 (Nicolas, 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.

The Argentinean 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 in 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 tabled due to economic and political crisis. Should they be resuscitated, they will exacerbate divergent regional trajectories.

The failure of the Argentinian marketization 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 land 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, and its outcome, as is its potential for contaminating neighboring Latin American economies, is unclear.

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 Valparaíso (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 Valparaíso 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 Nicaragua, 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).

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).

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 and the 1999 devaluation of the *real* have stimulated exports of 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 role 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. As a result, regional development programs have been practically abandoned, including the extinction of SUDENE, the long-term national effort to industrialize the northeast of Brazil.

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 of 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, 1999). 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 increased 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.

5. 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 centrality of the central polygon, dominated by São Paulo, has been re-established through trade, investments in infrastructure, and the atrophy of regional programs.

Are the causes of these patterns similar across the set? Despite differences rooted in special circumstances, several common features can be identified. 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.

Secondly, 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 de-legitimized, 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 ability 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 moderating 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).

6. 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 celebrates, instead, local economic development initiatives and embraces a language of competitiveness in which cities and regions are asked to take responsibility for their own futures. 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 efforts are modeled on apparently successful American (Silicon Valley, Research Triangle) and European (the Third Italy) industrial districts (Saxenian, 1994; Goodman and Bamford, 1989). The notion that localities should take the lead in economic development is a product of both opportunism at the national level – the need for fiscal discipline in public budgets, especially in the face of IMF stricture – and new theoretical and normative work coming out of the more developed countries' universities. In this section, we review briefly the latter and probe its applicability to Latin American economic, political and social environments.

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 inclusivity.

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. In Europe, on the other hand, because of the necessity to acknowledge and counter adverse impacts of economic integration, the European Union has increased its commitment to resources and planning for under-developed regions (Galès and Lesquesne, 1998; Bonavero and Dansero, 1998; Halkier, Danson and Damborgh, 1998). Beyond that, initiatives have most often taken the form of technology parks (see, for instance, the listings in International Association for Scientific Parks and APTE (Asociación Española de los Parques Tecnológicos, and a hard-headed analysis of such parks by Massey et al (1992).

The potential for endogenous regional and local development certainly is worth exploring. However, it is very difficult to lump all regions under the same rubric and 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.

Indeed, 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 a combination of absence of comparable external interest (e.g. government military contracts) and very different local political and social cultures.

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). How closely do successful cases of regional development in Latin America and other 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. One can find examples, in Brazil as elsewhere, local craft and small business networks reminiscent of the Third Italy that fashion new lines of specialization and are successfully competing in the globalizing economy. Examples include the shoe industry in the Vale dos Sinos in the state of Rio Grande do Sul and Franca in the state of São Paulo; chicken in the west of the state of Santa Catarina; furniture in

several cities, oriented mostly to the domestic market but also exporting; tropical fruits in the irrigated valleys of São Francisco and Açu. Excellent studies on emerging local Brazilian production clusters can be found in Cassiolato and Lastres (1999) and Tironi (2001). One can also find cases where high technology has boosted the growth rate of provincial cities. Almost universally, however, this 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).

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 central governments. 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 of this process. 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.

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.

7. 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, 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.

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 19th 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, efforts to revitalize the Northeast and to occupy and develop the North and Center-West regions have paid some dividends. 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. Lessons from these efforts can be combined with realistic assessments of a region's ability to specialize and compete in the rapidly globalizing economy in crafting a policy that will ameliorate the worrisome differentials we have charted above.

National governments, nevertheless, 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 seem 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 include the following (Diniz, 2002). First, central governments need to 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.

Second, central governments must articulate a federative 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.

Third, attention to the emerging system of cities could become an active policy exercise on the part of 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.

Fourth, 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.

Fifth, large infrastructure commitments are often the most potent tool that nations have for contributing to regional diversification. The placement of transportation infrastructure can be a crucial tool for regional integration. If new investments are dedicated simply to routes that enable goods and service to enter and exit ports, they will do little to integrate the nation and will contribute to worsening regional differentials. The US north defeated the south in the civil war in large part 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). Similarly, the US interstate freeway network facilitated regional diffusion of economic activity, a method Brazilian has ambitions to use in integrating its far-flung regions. Many of these strategies require difficult resource allocation decisions. But devoting resources to building regional economic capacity may not only prevent expensive and destabilizing rebellions, as in Chiapas, but results in stronger, more diversified national economies in the longer run. Furthermore, where Latin American

countries are working seeking to work together to improve economic and political integration, they might consider the drafting and implementation of a joint program for transportation integration as a top priority.

Sixth, 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.

Finally, governments should also redesign institutional systems to enhance this process of reintegrating regional development into national development planning. 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. Finally, 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.

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