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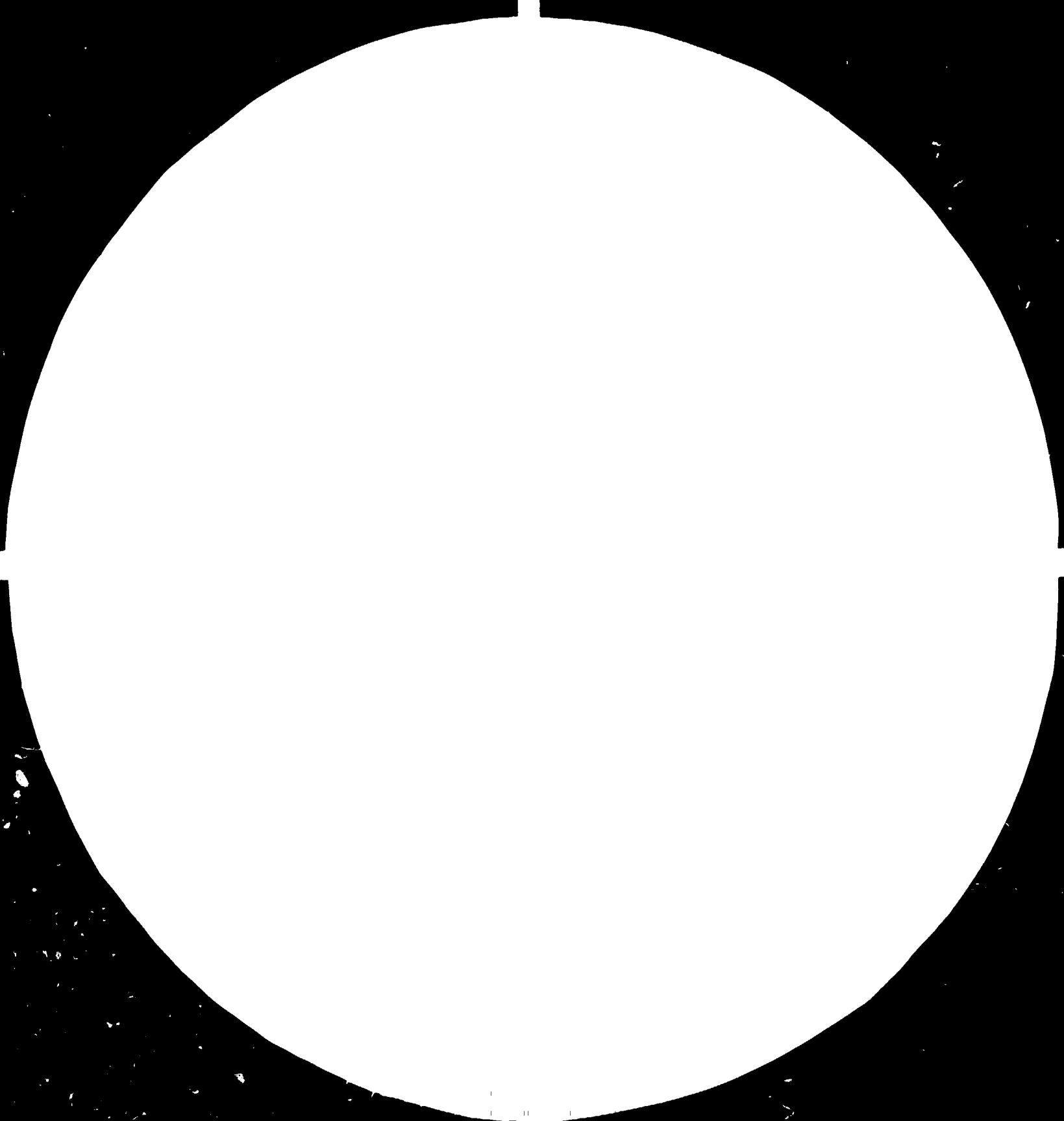
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UNIDO WORKING DOCUMENT ON ECONOMIC RESTRUCTURING AND THE REGIONAL COMMUNITY.

## TABLE OF CONTENTS

Foreword

General Introduction

### I GLOBAL DYNAMICS AND THE REGION

Introduction

- a) F. Froebel/J. Heinrichs/O. Kreye - The effects of international development on domestic economies and social development in developing countries.
- b) M. Castells - Technological change, economic restructuring and the spatial countries.
- c) G. Tichy - A sketch of a probabilistic modification of the product cycle hypothesis to explain problems of old industrial areas.
- d) A. Andersson/B. Johansson - Knowledge intensity and product cycles in metropolitan regions.

### II SPECIFIC ENTREPRENEURIAL STRATEGIES

Introduction

- a) S. Borner/B. Burgener/B. Stuckey/F. Wehrle - The changing international division of labour and the internationalization of Swiss industry.
- b) S. Christopherson/Y. Gradus - Multinational research and development in Israel: its intra-national origins and consequences.
- c) N. Thrift - The internationalization of producer services and the genesis of a world property market.
- d) B. Bluestone - Coping with labour and the community: capitalist strategies in the 1980s.

### III EMERGING SPATIAL PATTERNS

Introduction

- a) R. Auty - The product life cycle and the global location of energy-intensive industries after the second oil shock.
- b) Th. Noyelle - The shift to services, technological change and the restructuring of the system of cities in the United States.

- c) R. Townsend - Spatial redeployment through plant closure and redundancy by foreign companies in the UK, 1976-1981.
- d) G. Maier/F. Toedtling - The international division of labour and industrial change in Austrian regions.
- e) A. Shachar/E. Razin - The organizational structure of industry in Israel and its effects on national spatial policies.
- f) B. Helmsing - Colombia: Economic structure, trade and regions

#### IV THE REGION: ACTING AND ADAPTING

##### Introduction

- a) W. Stoehr - Regional development strategies and the spatial division of labour.
- b) P. Sjøholt - New trends in promotion of development in local communities in Norway.
- c) J.-C. Perrin - Local dynamics, the international division of labour and the third industrial revolution.
- d) J. Abiodun - Industrial policies and patterns of manufacturing in Nigeria.
- e) B. Becker - The frontier at the end of the 20th century: eight propositions for a debate on Brazilian Amazonia.
- f) C. Lilaia/I. Pinho - Development internationalization and foreign investment - some considerations on the Portuguese situation.
- g) F. Moulaert/F. Willekens - Decentralization in industrial policy in Belgium: towards a new economic feudalism?

#### V CONCLUSIONS: A RESEARCH AND POLICY AGENDA

(not drafted yet)

Addendum: annotated list of conference documents

## Foreword

The basis for this publication is formed by papers presented at the Symposium on Regional Development Processes and Policies and the Changing International Division of Labour, which was held at the Vienna International Centre in August 1984. The Vienna Economic University and the United Nations Industrial Development Organization formulated the concept of the symposium and instigated its planning. Funds were provided by the Vienna Economic University, UNIDO and the Austrian Federal Chancellery. One hundred participants from countries all over the world presented some fifty papers for discussion.

From one perspective this report is about the fate of regions in the face of the increasing pace of change in the international market economy. The book contains analyses of the economic structures of various types of regions and of the problems these regions have encountered during the past decades of structural adjustment to the internationalized industrial economy. Other authors, focussing more specifically on the productive units within this global economy, analyze entrepreneurial behaviour and strategies of large, medium and/or small firms.

Further, there are articles concerning local and regional responses to the structures of the global economy. Marginally, political, social, cultural and environmental aspects of regional problems were also dealt with. Some of the papers emphasize structures or forms; others emphasize processes or activities which take place within these forms. Some papers emphasize voluntarism at the regional level, some the determinism at the international level.

From this point of view, this document is a contribution to the ongoing work of critical social science research work on global structures, social behaviour, and local response. The goal of this approach is to lay bare conflicts, tensions and interdependencies within social structures and between groups of actors and thereby to create an awareness of these features at the international restructuring process and to enable the design of policies.

Outside the actual sessions of the symposium, there was an exchange between individuals or within small groups of participants. The subject matter of the symposium was translated in the experiences of the participants

as individuals. Economic and technological development, the central topics of the Vienna symposium, were integrated in these discussions on widely ranging valuations of the present economic-technological upheaval and its implications on the structures of society.

These discussions showed that the issue of regional development cuts across the various dimensions of the development process. Hence, the historical pattern and the emerging driving forces relating to regional development need to be analyzed and conceived in a multidisciplinary approach. For many participants it was essential to be able to confront their research orientation on regions within the developed countries with the global dimension of industrial restructuring, and in particular of the restructuring between developed and developing countries. For the ongoing activities of UNIDO on the other hand, it was important to obtain an insight into the forces at work at the regional level.

This document attempts to illustrate these various dimensions and to pass on the most innovative presentations and discussions of the symposium to a wider audience. It is also an attempt to put the traditional analytic methods in a new context. Thus, it does not only bring together reports on regional and general economic change of a widely varying nature and contrasting outlook. In formulating the problems actors will have to deal with in the future (be they regional scientists, politicians, UN-experts, businessmen or "social entrepreneurs"), as is done in the concluding chapter to this report, the need is also stressed to go beyond what is the conventional wisdom and method of policy-making of the day, to arrive at a truly global understanding of, and policy approach to human affairs.

(Acknowledgements to follow)



## GENERAL INTRODUCTION

Industrial restructuring and corresponding spatial changes, whether on local or international level, are nothing new. As pointed out in one contribution to this book (Stuckey 1984), early European manufacturing moved to the countryside in search of cheap labour and natural resources, and this search, not yet accompanied by industrialization, repeated itself on an international scale during the colonial period. The international division of labour, however, became an industrial division of labour only from the 1960s onwards, when industrial restructuring began to affect spatial patterns on a global scale. This restructuring process affected national core areas, their hinterlands and the peripheries in the developed world; and it also involved the developing countries. On a supra-national scale this pattern of cores, hinterlands and peripheries is repeated as well.

A number of factors have given rise to this new spatial division of labour. The more important (Froeben, Heinrichs, Kreye 1977, Borner 1980, Stuckey 1980, UNIDO 1981, Massey 1983, Ballance and Sinclair 1983, Andersson and Johansson 1984) are:

- "(...)- the reduction in transport and communication costs due to rapid innovation in these fields;
- the creation of new production technologies permitting the segmentation of production and distribution into discrete units which can be located separately from each other in space, thereby permitting the spatial segregation, e.g. of standardized routine production processes, research and development, managerial planning and control functions;
- the international standardization of production processes and product characteristics;
- liberalization of trade barriers and an intensified integration of national and international commodity markets;
- the emergence of multinational corporations organized to work across the boundaries of nationally or continentally integrated markets and therefore able to make use of the optimal location

for each of these specific functions on a world-wide scale;

- increasing integration of inter-regional and inter-national finance and capital markets permitting rapid and extensive capital mobility and a reduction of related political risks; and
- the mobilization of a potential reservoir of industrial workers in practically all not yet industrialized parts of the world, along with the increasing preparedness of territorial (national, regional, local governments to offer incentives to new industrial activities (Stuckey 1980, p.39/40) (Stoehr 1984).

These factors have led both to a process of concentration and a process of dispersal. In the developed countries, the old industrial regions have lost much of their manufacturing capacity. These regions were dominated by industrial activities in the late stages of the product cycle, activities which have often been relocated to the developing countries; in some cases they have been kept alive through government intervention or have withered away. Productive activities with a greater viability, those in the early stages of the product cycle, tend to be concentrated in core regions. Entrepreneurial decision making also remains concentrated in these areas, and the same may be said for innovative activities and other essential producer services - although these have shifted from major metropolitan areas to other core regions in a number of cases. (cf. Noyelle 1984, Thrift 1984). Thus, at the national level in developed countries, there has been a process of concentration. In only a few cases (cf. Aydalot 1984, Hansen 1984) industrial activities in these countries have shifted to areas which - from the point of view of industry - were hitherto relatively marginal.

International dispersal of industrial activities related to the late stages of the product cycle has taken place on a very large scale. It has assisted the emergence of newly industrializing countries in Asia, African and South America. Yet, if one looks at the international spatial pattern of diffusion, it is obvious that in many cases relocation has favoured a relatively small group of countries. And inside the developing countries, the industrialization process tends to be highly

concentrated in a few regions as well, those surrounding national capitals and major ports. The national economy as a whole often does not benefit much from linkages and spin-offs. Moreover, international restructuring to an extent takes place within transnational firms, as an intra-company transaction, with decision-making remaining firmly located in a First World metropolis.

The process of economic expansion of the 1960s and early 1970s was accompanied by great disparities and imbalances. These came dramatically to light during the recent restructuring crisis. The developed countries, where social and political imperatives clashed with the imperatives of industrial restructuring, returned to protectionism to protect the stagnating markets of weak industries from developing country competition. As a consequence of the disruption of their development process, developing countries ran into difficulties repaying and servicing the debts they had incurred to finance their economic build-up under the assumption of stable interest rates, market outlets and prices.

The global restructuring crisis has prompted a broad re-examination of established concepts of the international as well as the (sub-)national and interregional division of labour. The 1960s ushered in the First Development Decade with hopes for expansion, growth, and social transformation in the developing countries. By the mid-1970s the Lima Declaration paid witness to the new realization that the project of closing the gap was not going to be an easy one. Moreover, the debates surrounding the Lima Declaration made it patently clear that there would be no automaticity in the existing economic system for closing the gap. The Second Development Decade thus saw the switch from a vocabulary of assistance and co-operation to a vocabulary of conflicting goals and tensions, which reflected the transition of the boom period of the 1960s and early 1970s to the crisis which set in during the 1970s. By the 1980s the problem of development was seen in terms less euphoric than those that dominated the discussions of the previous decades.

The growing contradictions between developed and developing countries and regions, between private gain and public loss, between haves and have nots, between human activities and the resource basis of all development, the natural environment (cf. Friedmann 1984 II, 4f) triggered off a series

of attempts to formulate new policy measures at the national and international level and new concepts of the social and spatial aspects of the global economy.

In industrialized countries like Sweden and France, governments have intervened in the regions to make regional industrial structures more internationally competitive. Developing country governments have confronted the regional problematic as well. An interesting example of government support for the industrialization of hitherto peripheral regions can be found in the Abiodun paper included in this report. Parastatal organizations have begun to lay the foundation for agro-industrial development in widely varying regions in Cameroun.

The Fourth General Conference of UNIDO, held in Vienna in August 1984, stressed the fact that "(...) international restructuring and redeployment processes in the largely failed to attain the established industrial and socio-economic objectives and to create a basis for sustained economic and industrial development in the developing countries?" (UNIDO 1984) The conference, seeking to create a new basis for a consensus on international restructuring was confronted with such questions as:

"Can the interdependence of the world's industrial production be made more "equitable"? Can an international industrial policy or set of principles be found that encompasses both the right of national sovereignty and a collective responsibility for the industrial advancement of the developing countries? Can global industrial restructuring become the common denominator to which the treatment of finance, trade, manpower and technology issues should be linked? How then are national policies and international agreements to be gradually adjusted to these new concepts? "(UNIDO 1984)

It was suggested that, to help answering these questions, UNIDO should give particular attention to the following activities:

"(...) setting up a system of information exchange on international industrial restructuring and related policies drawing on information systematically accumulated by UNIDO; (...) establishing a special programme of feasibility studies for developing countries' programmes to adjust current structures; (...) establishing special programmes

of technical co-operation and promotional services to assist developing countries in formulating programmes to adjust current structures; and (...) providing systematic support to more dynamic measures to create and retrain human skills and to the establishment of stronger links between education and training and the skills required by industry." (UNIDO 1984)

A response to the global crisis also came from the academic community, where researchers tried to grasp the dynamic and identify the processes and the actors which had instigated and were sustaining the transformation. Some emphasized the need to abandon the traditional, mainstream framework within which both the global economy and regional problems had been viewed. The search reflected the realization that conflicts and tensions within the international division of labour must be seen as central issues and not as momentary disequilibria:

"During the last decade or so, political economy has become the most adequate theoretical mode of inquiry into this process of restructuring and crisis. There are dramatic differences between the explanatory models of political economy and those of neoclassical economics that they replace. Neoclassical economics looks towards the harmonization of the system of economic relations; they describe a state of equilibrium. Political economy models, on the other hand, seek to account for change and movement. Their point of reference is history and the struggles that animate it. These struggles are political in nature, and they take various forms: between social classes; between fractions of a class; between regional class-alliances and the state; between states. They are fought for different reasons, but mostly for material interests and power." (Friedmann, in Moulaert/Salinas).

Out of the debate, a new awareness grew - an awareness of the firm as an individual entrepreneurial decision-making unit, caught up in the international process of restructuring. There was a rebirth of interest in the work of Joseph Schumpeter as researchers began to delve into the dynamics of firm behaviour from a perspective of the firm as a history-maker rather than from the traditional neoclassical approach which saw the firm as a passive price-taker. The word innovation came in to replace the long-standing vocabulary of supply and demand economics. At the same time,

the traditional analysis of economic relationships between countries - the theory of trade and comparative advantage - came to be replaced by theories which took account of innovative processes at the level of the firm - product cycle analysis came into vogue as the basis for analysis of disparities among firms, disparities among nations, and disparities among regions. From the point of view of the region, from the point of national governments and regional policy-makers, the central question is no longer how to spread growth and clear away temporary bottlenecks - but rather the fundamentally different question: why are particular regions and nations being abandoned by entrepreneurial interests altogether?

The long-standing theoretical realization that capital was mobile started to take on the eerie concrete connotation of abandoned regions, abandoned activities, leading to an entirely new pattern and pace of employment creation and destruction - both nationally and internationally. Countries and regions, even cities, saw themselves coming directly for jobs with others. Strong regions in Europe saw themselves competing with regions in Japan and the US. Weaker regions in the North saw themselves competing with stronger regions in the South, and regions in the South competed among each other to attract whatever industrial activities were shifted to developing country locations.

This emergence of a global competitive economy has led to an awareness that: "The role of specific, local, regional and national communities in this spatial division of labour has recently become increasingly volatile, not only due to the complexity of the factors involved and their accelerated rate of change, the volatility in the movement of interest and exchange rates, in prices of natural resources and energy that shocked industries (Ballance and Sinclair 1983), but - and this particularly since the reduction of aggregate economic growth rates around the middle of the 1970s - also through the emerging "war between states" (regions and localities) waged within the public sector to retain or attract private sector investment (Bluestone 1981)." (Stoechr 1984)

To use the expression formulated by Castells (Castells 1984) the "space of places" has been replaced by a "space of flows". As long as these flows actually flowed world-wide, trickling-down effects to underdeveloped regions might be expected and took place in a number of

areas. With the global crisis, the flows appear to be withdrawing into the developed world and within the transnationals which generate large part of these flows. Yet, very few regions can now exist outside these flows, "no region is an island to itself" (Friedmann 1984, I, 3) any longer. A re-examination of the concept "region" is called for. Obviously units of analysis which are in all respects (geographically, economically, socially, politically) as different as the "Pacific Basin", the Swiss watch-making region, the US Northeast, the Warsaw region and Central Nigeria cannot be treated on the same level; individually, they cannot even be treated as contiguous spatial units for all analytical purposes. In the present day international economy, it may make more sense to think of Tokyo and San Francisco as being part of one region than an Indian village and an agro-industrial estate in Brazil's Mato Grosso.

Especially in times when "trickling down" effects have become unlikely, and the entrenchment both of governments and large enterprises have reduced the probability of "top down" forms of economic development, development initiatives will have to come from the "bottom up", from a confidence in forces at the local level, many social scientists feel (cf. Galtung, O'Brien, Preiswerk, Stoehr/Frazer Taylor). The Perrin, Stoehr, and Sjøholt contributions to this book show that, at least after a certain level of know-how and development has been reached, such "bottom up" strategies can be initiated. Of course, a reasonably favourable political and economic climate is needed for such initiatives to succeed. In the highly competitive world of modern industry, such initiatives are more likely to be successful in developed than in developing countries. In the latter countries, given a sufficiently strong and capable national government, "top down" strategies may be successful, although several authors (Djilali, 1984, for Algeria; Abiodun, Gana and

Philippe for Nigeria) have pointed out the serious obstacles (technological dependence, financing) such policies may be confronted with in the present day international politico-economic environment.

In all its aspects - economic, political, policy-wise, intellectual - the present crisis represents a major break. The following chapters will take stock of a wide variety of aspects of the situation, as highlighted by the papers presented at the conference and by the discussions surrounding their presentation. Both the organization of the chapters and the nature of the papers selected represent an attempt to clarify issues about the fate of regions in the context of the transformation of the global economy. The various parts are preceded by separate short introductions, where it is attempted to situate the various contributions into philosophical/scientific traditions as well as into the historical background and political relevance of the conflicts which researchers identify and describe. Care also is given to illustrate that the subjects chosen, the methods of research and the conclusions drawn from the analyses are intimately related to the world view of the researcher. Contributions may carry the stamp of structural analysis of a rather mechanistic kind, of differentiated examination of actors and human conflicts, of a search for ways in which global trends can be adapted or challenged. Precisely, the lack of methodological homogeneity forced the participants to be precise in describing the problems they researched, the methodologies they used, and the results they obtained. The conference made a step forward in revealing that the varied analytical frameworks and methodologies - despite their diversity - have something in common. They all represent an attempt to understand the movement and mobility of capital, in particular, the entrepreneurial dynamic.



The essays which make up Part I, "Global Dynamics", analyze, at a general level what is going on. Part II, "Entrepreneurial strategies", focusses on the who, the actions of what are perceived to be the main actors. Part III, "Emerging spatial patterns", is a series of essays illustrating the question "where does it happen?" In part IV, we have collected a variety of examples of how regions react - be it passively or actively. Throughout these parts of the book it becomes clear that capital, the developed countries' entrepreneurs, sets the pace. Capital is viewed as the history maker of the moment. Labour and the developing countries were seen by most authors to play largely passive role, the role of history takers. Unfortunately, very few papers on processes in the centrally planned economies were presented at the symposium. A contribution from Poland, however, has played an important role in formulating Part V, the concluding section of the book, where we deal with the question: now what can social scientists and policy-makers do? Here, the most far-reaching analyses, discussions and comments made during the symposium were used to formulate a research and policy agenda, raising basic questions about human development, the region, international relations, about the relationship between philosophy, general and specific theories and empirical research. In this context, Grochowska's paper on the Warsaw region represents a global approach to region analysis, an awareness of the often contradictory activities competing for the same space. This is an approach which, combined with thorough investigations of specific problems, could be an analytical step forward from the "intermediate level" theories in social science which deal only with one aspect of social reality. For the present economic and technological transformation, so it was argued by many participants in the conference, are part of a more general crisis which also involves human value systems and the relationship of humanity to its natural basis; and this transformation, this crisis, affects all of us, whether we live in the North or the South, in the East or the West.

P A R T I

GLOBAL DYNAMICS AND THE REGION

## Introduction to Part I

This part opens with the Froeben/Heinrichs/Kreye paper which reviews the general situation of the present international political and economic system. The crisis is seen to be the consequence of the erosion of power held by the foremost market economy, United States, and of the internal contradictions facing the group of developed countries as a whole: expanding mass incomes have squeezed profit margins, which forced entrepreneurs to innovate and to redeploy. As a consequence of global economic stagnation, the position of the developing countries is weakened. The essay by Manuel Castells takes a closer look at the US.

The current technological revolution, leading to major restructuring, spatial and economic, must be seen as a new form of production within an existing mode of production, Castells argues. Important aspects: greatly increased labour productivity, governments creating new markets (military spending) for new products (most obvious example: US). Growing internationalization leads to a global division of labour, coupled to a centralization of decision-making. Nations and regions are losing importance as economic units.

Tichy poses the question of the relation of product life cycles to the economic rise and fall of regions. As products move from the R & D stage through initial production stages and market growth to standardization and a levelling off of demand, the regions producing might be seen as moving through a life cycle as well. Numerous factors of course contribute to this general picture, and Tichy isolates the most important among these.

The major factor in the product life cycle, so Andersson and Johansson argue, is knowledge, innovation. In their study of the location factors of R & D they come to the conclusion that creative activities tend to cluster in metropolitan centre where very intensive and extensive communication is possible; these locations also provide initial markets for new products. Examples from a highly developed country, Sweden, are given by the authors.

PART II

SPECIFIC ENTREPRENEURIAL STRATEGIES

Introduction to Part II

According to Borner et al., the partial shifts in points of gravity of the international economy to Japan and the NICs cause special problems for small, open, developed economies, like Switzerland. One strategy for survival is internationalization of enterprises. Firms develop a division of labour of their own, between home country (headquarters, R & D, etc.) and various production routine activities abroad. "Inimitable know-how and performance" take over from hardware as the most essential, the "core" product, an echo of the Andersson/Johansson paper presented in Part I.

Whereas previous contributions have stressed the location of know-how in large metropolitan centres, in some cases, R & D activities because of the availability of highly qualified, co-operative labour, limits to "intellectual competition" (spin-off ventures are unlikely), security consciousness and government stimuli. The contribution of these activities to national development, however, is limited, and regional/social inequalities tend to be exacerbated, so Christopherson and Gradus argue.

It is clear, from the available literature, that producer services are closely linked to the location of firms' headquarters. With corporate activities, these services have become internationalized. Nigel Thrift describes how in the past decades Hong Kong has emerged as a major headquarters for activities in the Pacific Basin. Its political future, however, is uncertain. In response, the core of the Pacific Basin real estate market has begun to shift to Australia, which also attracts firms from Southeast Asia, because of its great political stability and the liberalization of investment laws.

In the final contribution to this part, Bluestone has a different perspective on entrepreneurial strategies. The increased mobility of capital, in this example from the US, enables it to play off its old adversaries in the public sector and the labour movement against each other, resulting in deregulation and reduced social/labour legislation. Fundamental contradictions between private gain and social costs become more clearly visible. Although the present (inter-)national economic structure will stand in the way of a radical solution of these contradictions, their consequences can be mitigated, according to the author, by a "social compact" between capital, labour and government agencies.

P A R T   I I I

EMERGING SPATIAL PATTERNS

### Introduction to Part III

As some major energy-intensive industries - steel, petrochemicals, aluminium - enter the last stage of the product cycle, demand in the developed countries levels off and becomes relatively less important. Production shifts, which are world-wide, have been speeded up, to an extent, so Richard Auty argues, by rising energy prices, and to an extent by the desire of developing countries to build up domestic processing capacity.

Within the major market economy, the United States, Noyelle shows us two tendencies in spatial redeployment: a limited decentralization (and growth) of high-level services, a centralization of scattered production and consumption facilities (with job losses in old industries). Medium-sized diversified centres become more important; regional inequalities are growing. The latter may also be said for Britain, where job losses due to recession/restructuring were to a large extent borne by the more peripheral areas, where traditional production activities are located. Employment in externally owned firms was high in these regions, but Townsend argues against the common assumption that non-UK firms (being to an extent uncontrollable) have been more than proportionally responsible for job losses.

Maier and Toedling show us, that the Austrian economy, dependent on foreign capital to a larger extent than the UK economy, let alone the United States, shares some of the same general restructuring characteristics; jobs are lost in old industrial regions, the service sector grows, including the knowledge intensive activities which tend to concentrate in centres of high accessibility. Specific for the Austrian situation is the unusually high proportion of personal services related activities in rural areas, a fact connected with the important role of the tourist industry in the national economy.

Shachar and Razin focus on another country with an unusual economic structure: Israel. Here, publicly-owned industries attract most of the R & D facilities in the countries. Although, government is officially committed to balanced regional development, it is shown that these industries and their producer services tend to concentrate in the nation's core areas.

In conclusion, a study on Columbia shows the variety of regional development processes as a developing nation moves towards national integration, and selected regions are drawn into the modern international economy, using a historical perspective, and showing great attention to the specific characteristics of development processes, Helmsing then against a background of international trade relations and the (trans-)nationalization of industry and agriculture.



PART IV

THE REGION - ACTING AND ADAPTING

#### Introduction to Part IV

This part of the book introduces us to a variety of reactions at the regional level. Against a detailed description of the entrepreneurial strategies corresponding to various product cycle stages and local situations, Stoehr examines the "countermoves made by two regions in Northern Spain and Northern Italy to attract the benefits of industrial development.

In an essay by Sjøholt, after an overview of Norwegian regional policies during the 1960s and 1970s, reactions to the economic crisis are described. In several regions of Norway, a variety of both official and private development initiatives has blossomed in a number of localities. Relative (political) autonomy at the Norwegian regional level was essential for these initiatives to be successful.

The contribution by Perrin also describes how development at the local level (in a rural and an old industrial region in France) can be successful in a time of crisis. In this case, the importance of organizing multidisciplinary working groups using local and regional expertise stands out.

In developing countries, social and physical infrastructure may not be strong enough to support such "bottom up" initiatives. Here, the state must necessarily play a larger role. Abiodun's essay shows that the Nigerian government has pursued an active policy of attracting foreign capital since independence. From the 1970s onwards, a policy aiming at indigenization, industrial dispersal and diversification has been followed, a policy which has been partly successful, though technological dependence has not diminished. A case study on Kwara State analyzes some of the results.

The Brazilian government is playing a major but apparently less successful role in the development process as well. Becker's analysis focuses on its activities in the Amazonian region, one of the last "frontier areas" in the world. In this, government agencies focus on providing the infrastructure and a basis for agricultural development, which, on the whole, has not led to integrated development yet -- the "frontier" remains an area of highly contradictory developments.

Another country confronted with serious development problems is Portugal, on the periphery of Europe. Its underdeveloped industry is very highly concentrated around Lisbon. A considerable part of mining and manufacturing is in foreign hands, attracted by low wages, favourable legislation, geographical location. Few of these industries are engaged in early product-cycle activities. It is hoped that with Portugal's entry into the EEC funds will be made available to dynamize the industry and to decentralize industrial activities - the country, according to Lilaia and Pinho, itself is incapable of doing much.

In conclusion, the special case of a developed country which may lose much of its economic independence as a consequence of regional antagonisms which are often the bane of less developed countries, Belgium, Moutaert and Willekens, show how ethnic differences, strengthened by unequal industrial development through time, have led to very serious political rifts. The country may eventually be divided in 2 partly independent regions which would probably mean (further) regional stagnation for at least one of these regions, and a further reduction of the manoeuvring power of labour vs. capital.

*Costa - "at a glance"*  
*Summary for the*  
*(1961, 1962, 1963)*

