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Transcending duality? From FDI-dominated to endogenous development

The development prospects of industrial cities in Central Europe
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Gabor Lux

PhD, Research Fellow

Hungarian Academy of Sciences
CERS Institute for Regional Studies
lux@rkk.hu

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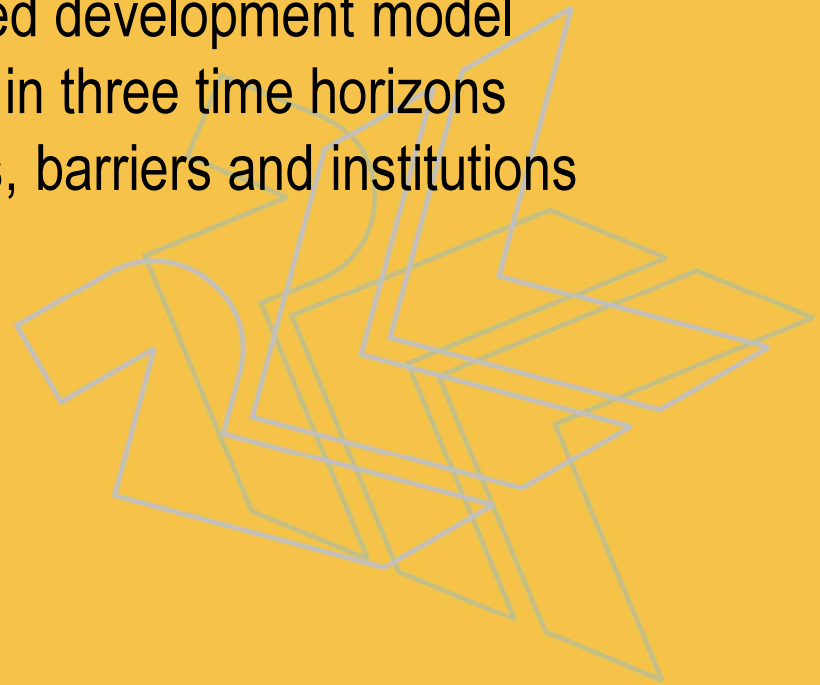
MAGYARORSZÁG MEGÚJUL



A projekt az Európai Unió támogatásával, az Európai Szociális Alap társfinanszírozásával valósul meg.



- Questions to be addressed:
 - The global context of industrial development
 - A spatial view of the CEE FDI-based development model
 - Reindustrialisation under the crisis in three time horizons
 - Endogenous development: policies, barriers and institutions





The globalised space economy

- „Globalisation without limits”
 - advances in transport and ICT, deregulation and improving border permeability → increasingly open spatial framework of competition
 - space-shaping role of Foreign Direct Investment flows
 - „you are accessible”
- Rescaling in the new space economy
 - agglomeration: spatial framework **and** process
 - city-regions: ideal spaces of agglomeration; underpinned by spatially limited location advantages
- The winners: metropolitan city-regions
 - world cities (Sassen, Saxenian, Taylor etc.)
 - the most valuable segments of the post-Fordist economy
 - high global concentration in innovative branches, hub and gateway roles
 - medium-sized metropolitan cities
 - linked to world city networks
 - increasingly specialised in specific economic branches
 - Idealised case studies



Global competition in industry

- In industrial development
 - low barriers of entry in mass production
 - massive competition from emerging economies (TNCs and national champions)
 - TNC advantages: global location strategies, offshoring, optimal mixture of activities (factor intensity, added value, knowledge content) → „bird's eye view"
- Development challenges for advanced economies:
 - unlimited competition
 - low „global average"
 - „the disappearing middle" → erosion of medium-skilled jobs (white and blue-collar)
 - upgrading strategies in global value chains → technological and non-technological innovation
 - „sticky places in slippery space" (Markusen 1996) as a spatial framework for upgrading → **endogenous development**



Endogenous territorial development strategies

- Same philosophy...
 - resource concentration, exploiting agglomeration advantages in less dense (non-metropolitan) space
 - increasing the embeddedness of production through a form of upgrading
 - accessible development paths for SMEs/SME networks
 - preserving the „European values” of social cohesion and the welfare state
 - part of the dominant development policy paradigm
 - ...different expressions
 - regional clusters and industrial districts
 - growth poles
 - regional innovation systems and the learning region
 - and so on
- ➔ „old wine in new bottles”? (Bennett Harrison 1992)
- ➔ „universal medicine”?



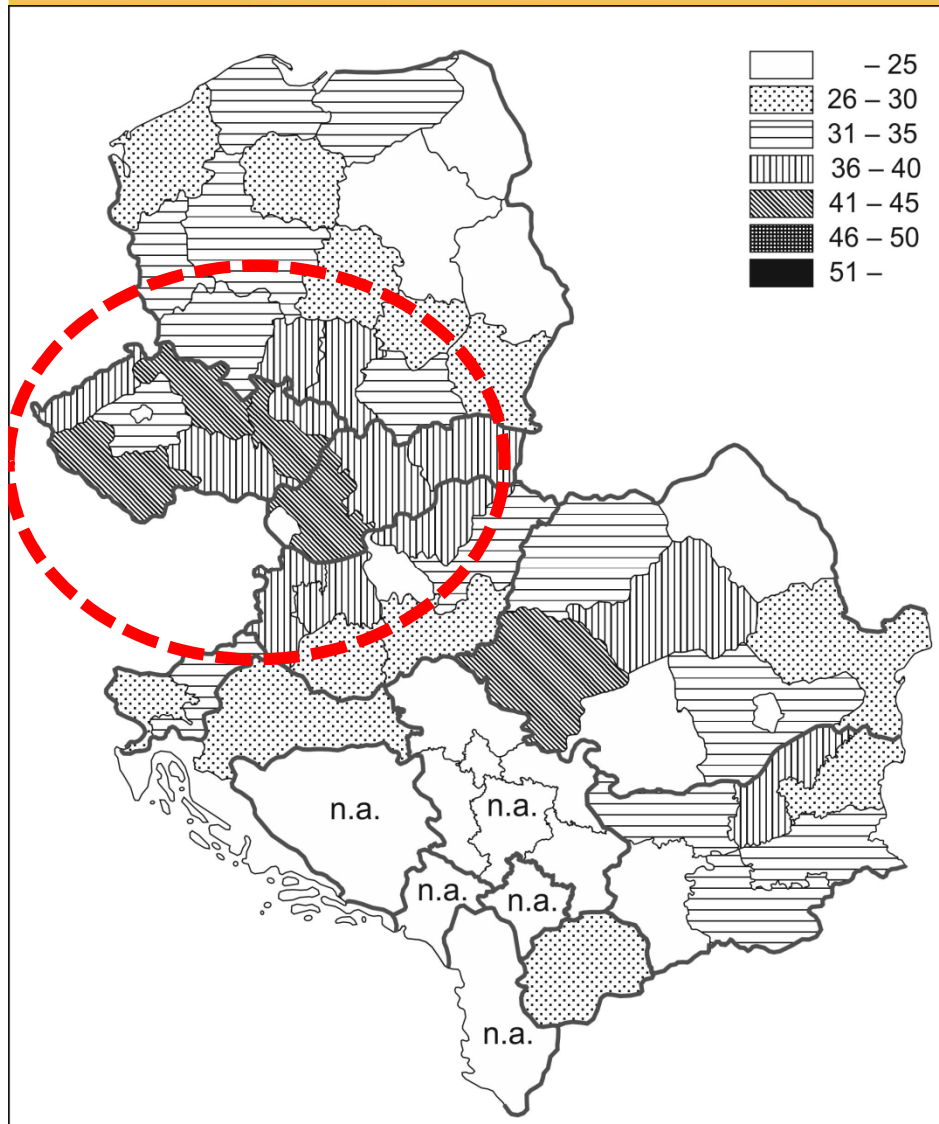
Challenging endogenous development in successful regions

- Continuing pressures...
 - „small is beautiful” (1990s) \leftrightarrow TNC rule with many small niches (2010s)
 - increasing cost-based competition from emerging economies
 - internal consolidation (Silicone Valley, Third Italy)
 - new entrants and buyouts in lucrative local markets
 - organisational consolidation (M&As)
 - strengthening hierarchies, horizontal \rightarrow vertical relationships
 - hub-and-spokes districts, satellite platforms
 - ...changing societies
 - cultural transformation, more open societies
 - weaker informal ties
 - less integrated social & firm networks
- \rightarrow decreasing embeddedness
 \rightarrow increasing transaction costs
 \rightarrow is it still sustainable?





FDI-dominated industrial competitiveness in CEE

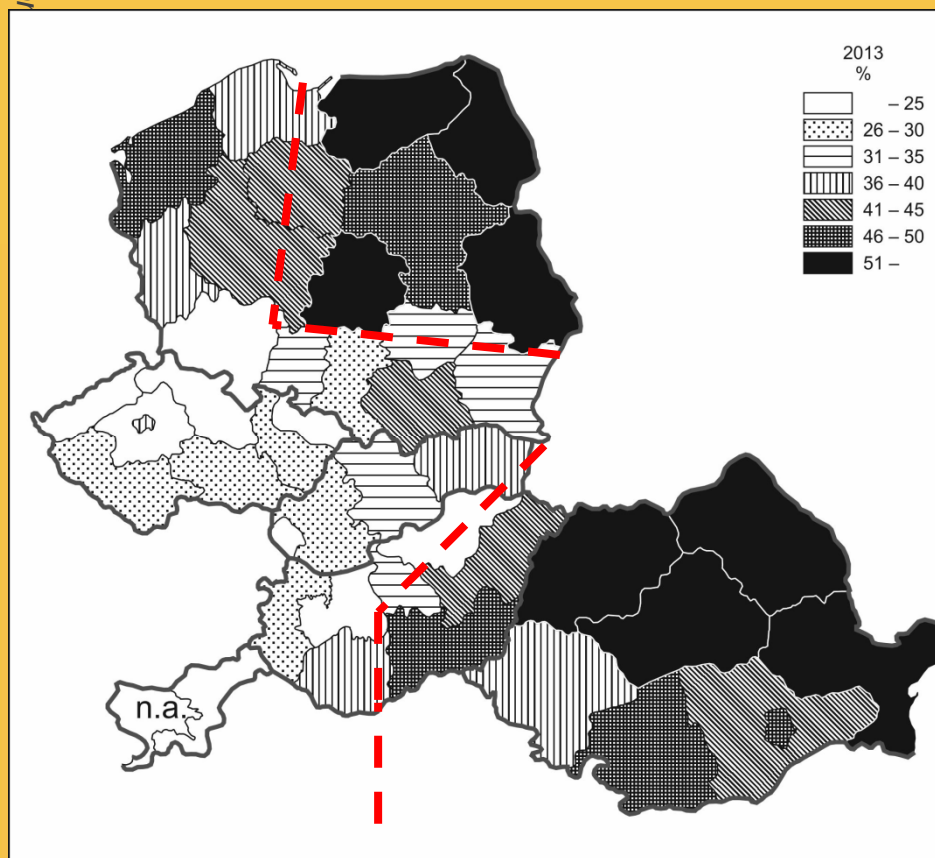


- Visegrad countries, competitiveness in central regions is mainly service-based; outside them, it is industrial
- South-Eastern countries: slower structural change, weaker capitalisation, role of traditional industries
- Implications → **threefold regional typology of development**
 - central (service-based)
 - intermediate (industrial)
 - peripheral („hollowed-out”)
- **Industrial legacies matter, while**
- **FDI is the main differentiating force**
- Sectoral and regional duality

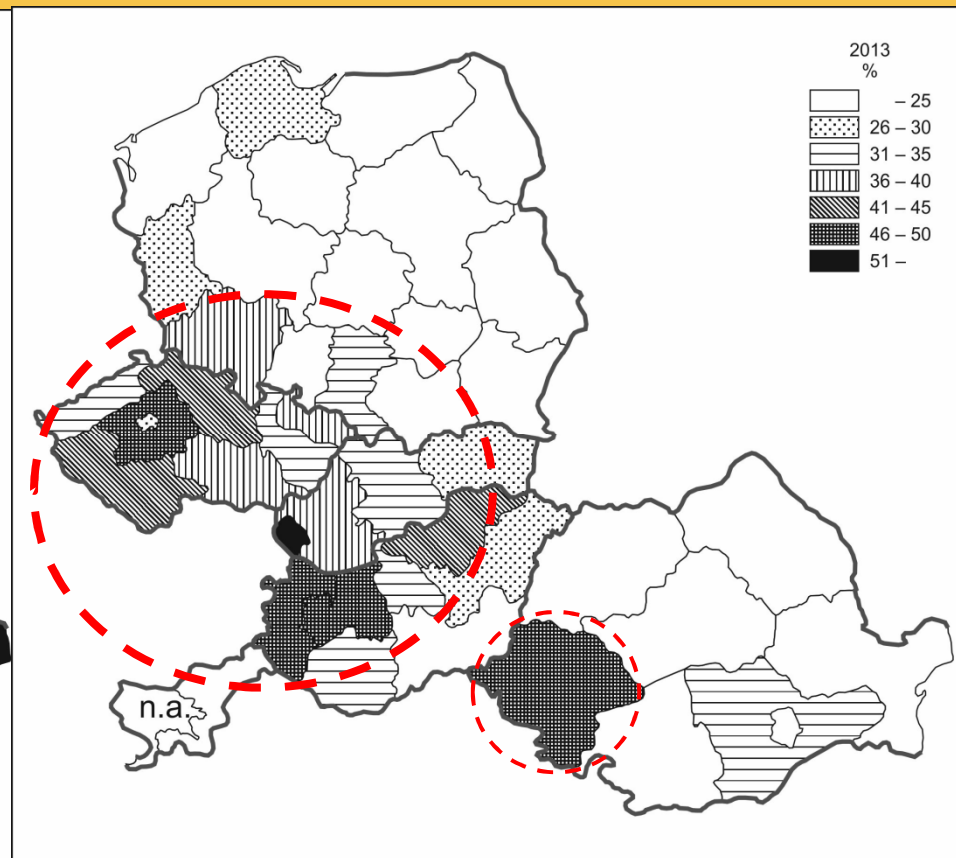


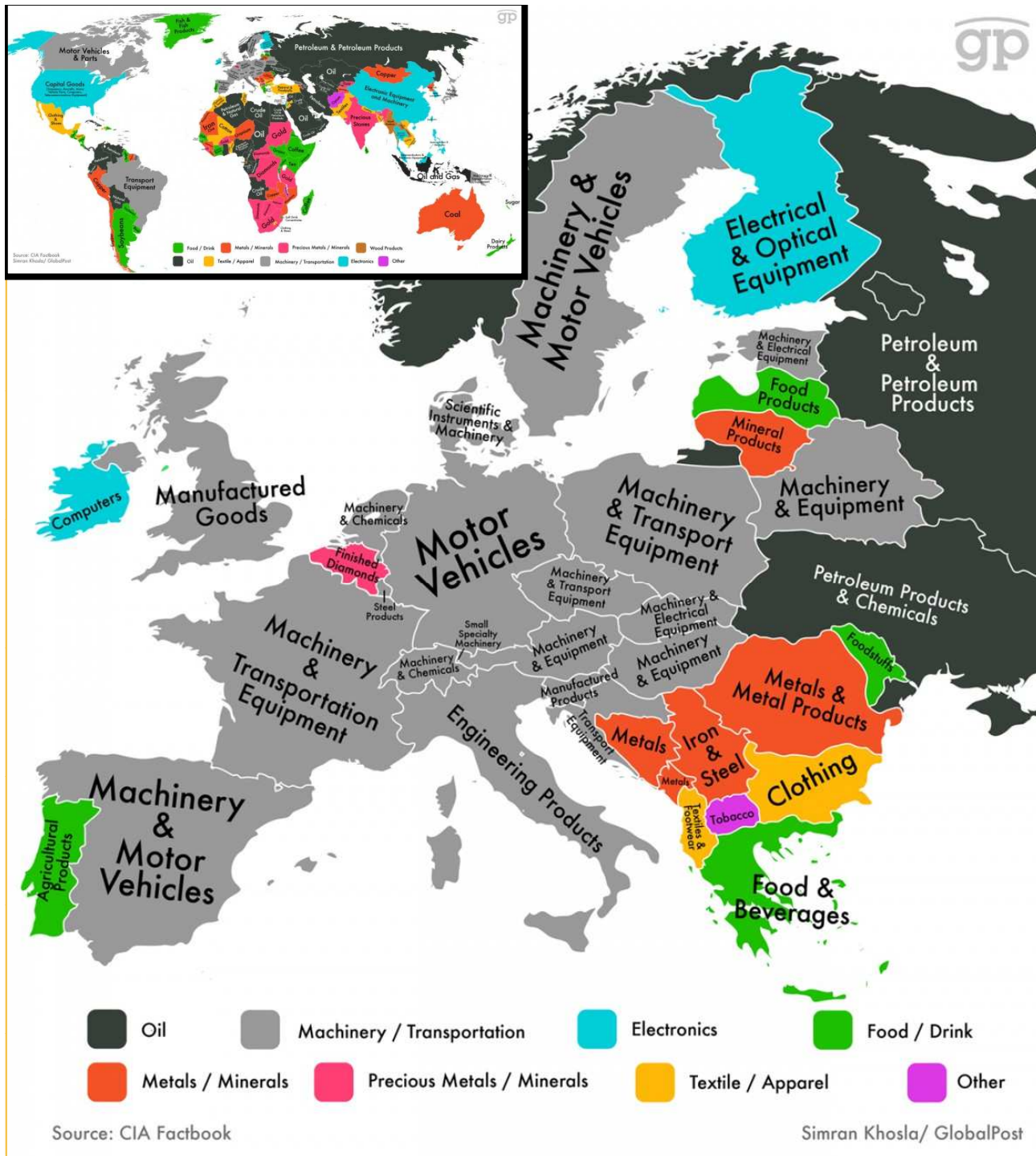
Sectoral breakdown: the industries of the periphery and the core

Light and food industries
(2013)



Machine & electronics industry
(2013)





Highest value added export commodity by country (2014)

- an evidence of economic integration
- the „complete space” of German industry (Frigant – Layan 2009)
- automotive industry, supplier networks and R&D (Pavlinek – Domanski – Guzik, 2009)



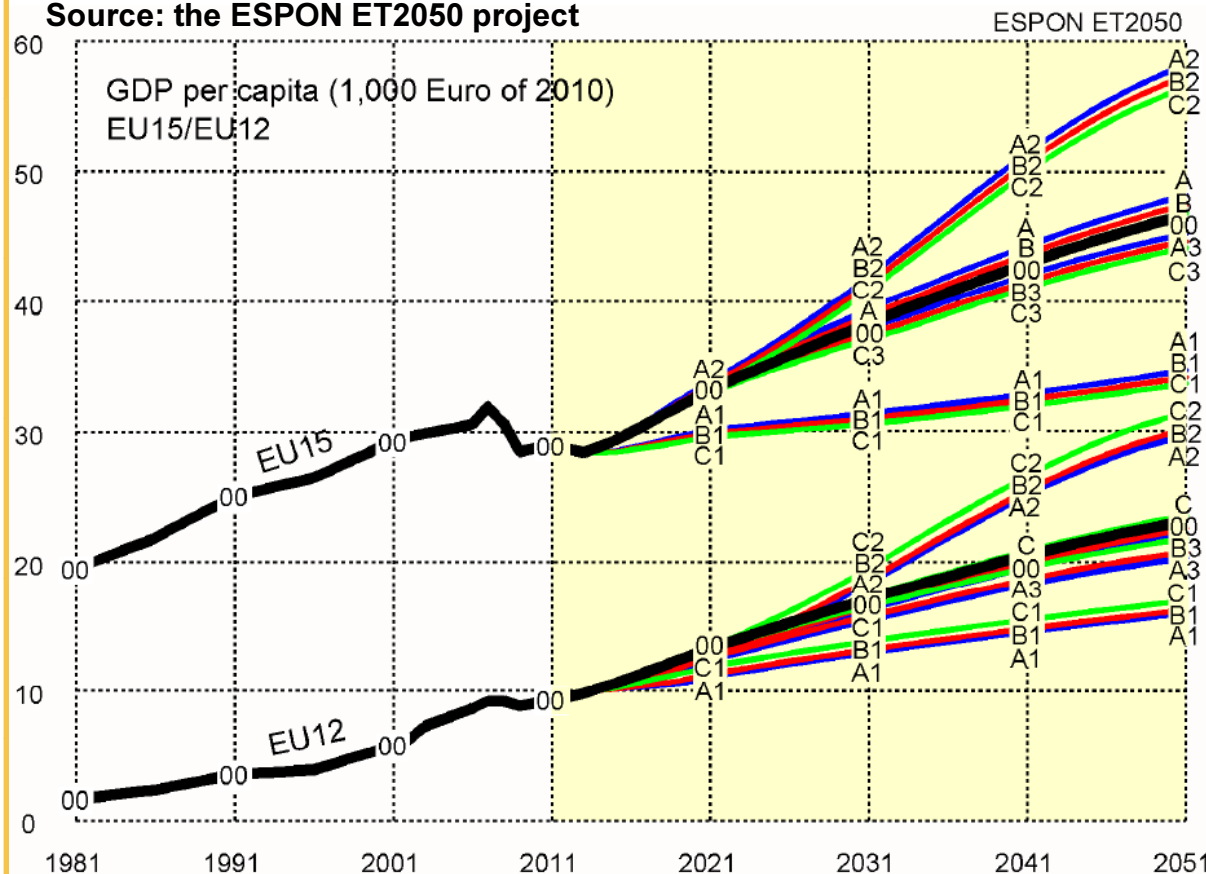
FDI-based development: success story with an emerging dilemma

- Division of labour beyond the Centre – Periphery model...
 - medium-skilled jobs and activities \leftrightarrow EU-15's disappearing middle
 - strong upgrading in competitive branches, increasing factor intensity
 - slowly emerging supplier networks
 - knowledge and innovation transfer
 - ...but characterised by strong capital dependency
 - different firm behaviour on „home markets” and abroad
 - profit repatriation / capital mobility risks
 - geographically uneven distribution, concentration in the „manufacturing core” & selected centres
 - crowding-out and congestion effects \rightarrow product and labour markets, development niches
 - destructive „post-industrialisation” instead of delocalisation
- \rightarrow mostly beneficial for intermediate regions, but increased vulnerability for peripheries

ESPON European Territorial Scenarios 2050

Spatial orientation of the scenarios	Framework conditions			
	As in the Baseline Scenario	1 Economic recession	2 Technology advance	3 Energy/ climate
Promotion of metropolitan areas	A	A1	A2	A3
Promotion of large European cities	B	B1	B2	B3
Promotion of peripheral regions	C	C1	C2	C3

Source: the ESPON ET2050 project

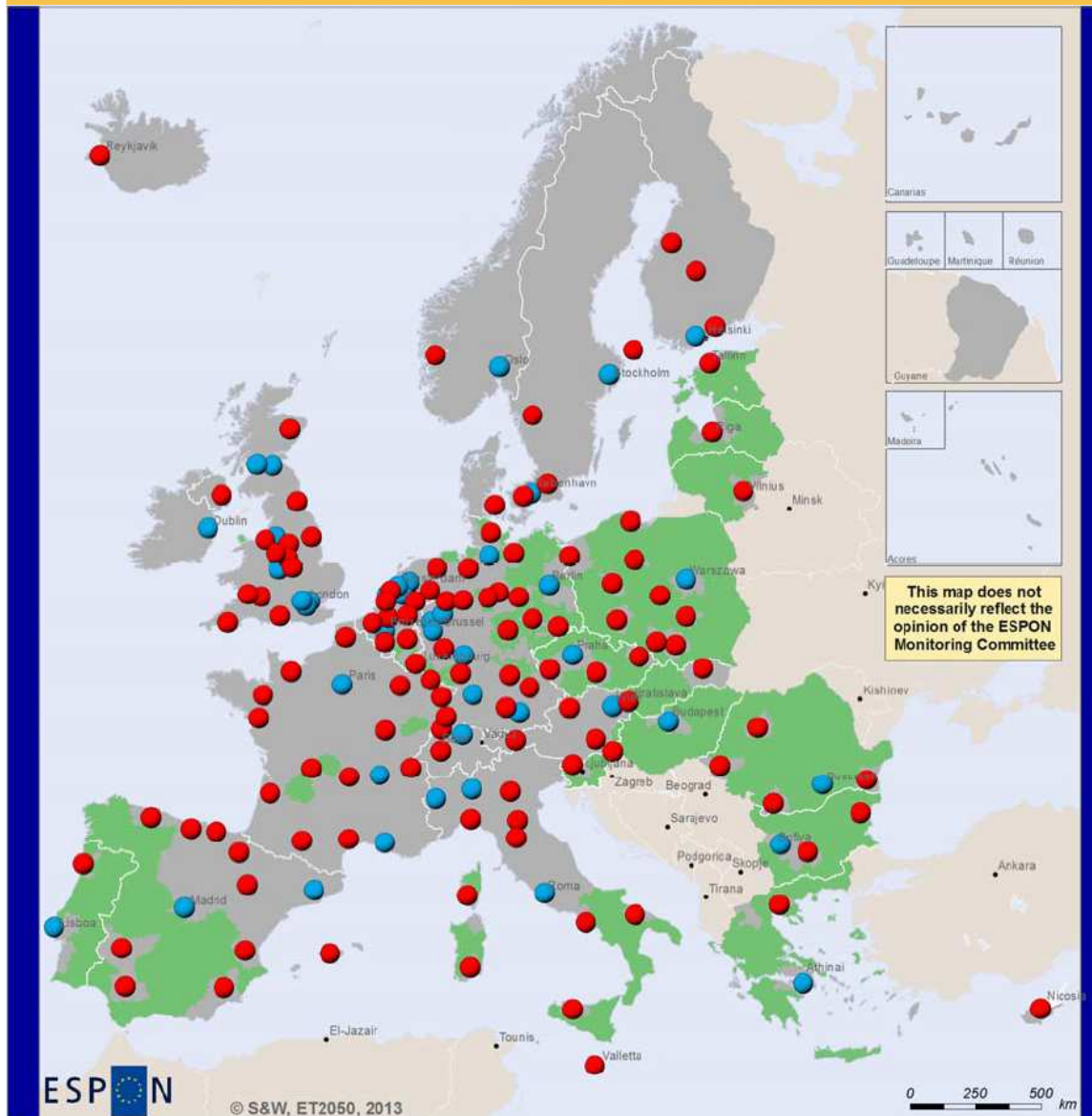


Project objectives:

- territorial development scenarios: 2030 and 2050
- SASI simulation model (production + population)
- „00” baseline scenario („continuing trends”) vs. exploratory scenarios
 - „MEGAs”
 - „Cities”
 - „Regions”
- NUTS3 level data
- Persistent GDP gap** in the current development model



ESPON European Territorial Scenarios 2050



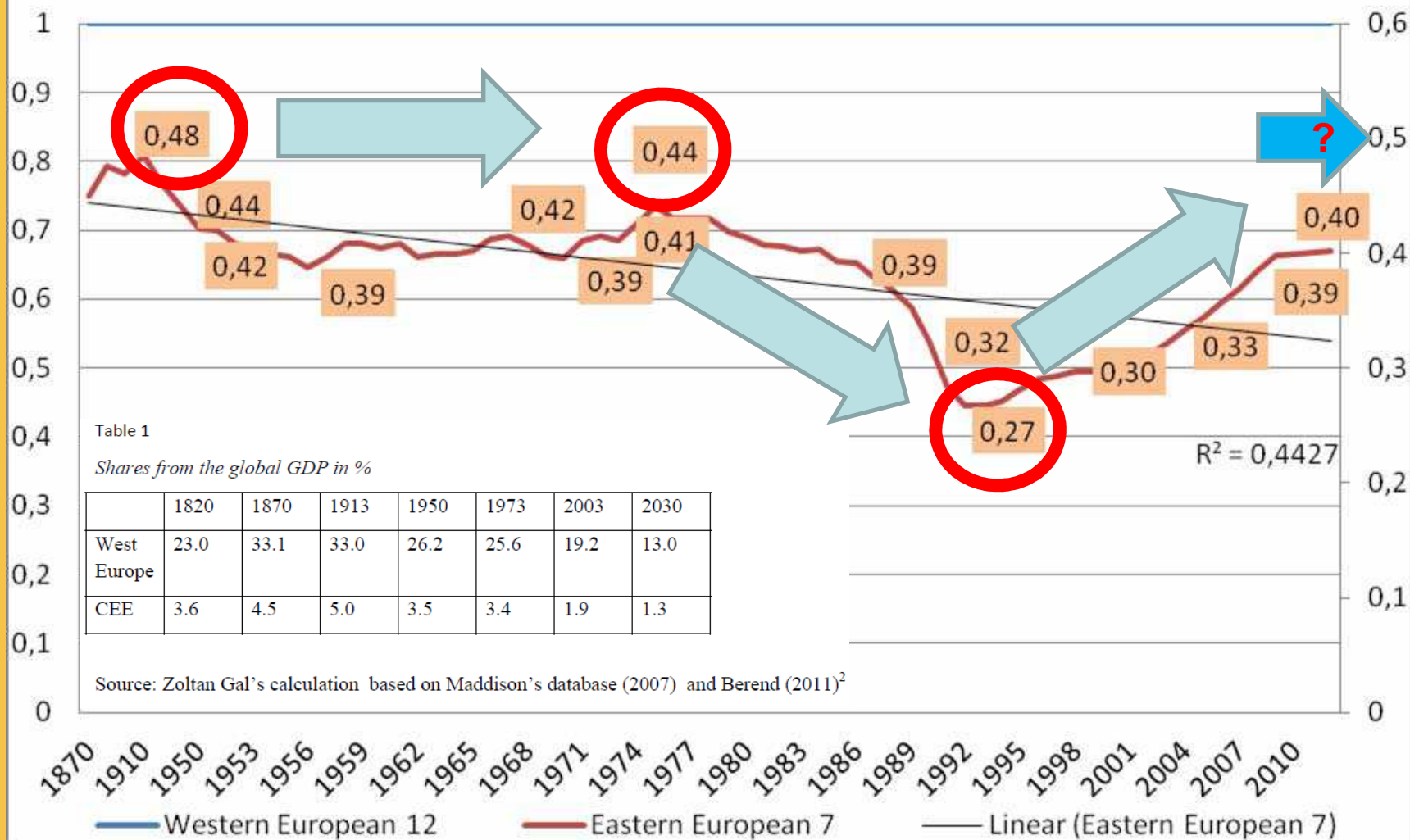
Main beneficiaries of alternate development scenarios:

- MEGAs (Blue): metropolitan city-regions
- Cities (Red): medium-sized cities
- Regions (Green): sub-metropolitan tier





Long-term problems of capital accumulation (CEECs-7 vs. WE-12)





The risks of external capital dependency

- Low-income based competitiveness, „iron curtain” → „wage curtain”
- Development trap (Zoltán Gál):
 - low accumulation of financial and social capital
 - reinvestment vs. profit repatriation?
 - encourages migration to high-wage regions
 - surviving dual economy
- Neglect of domestic capital accumulation & the „Mittelstand”
- Unequal and increasingly unsustainable distribution of positive and negative outcomes
- The threat of the periphery: „non-creative” destruction
 - dissolution of industrial specialisation
 - loss of productive traditions
 - the „homogenisation of space”



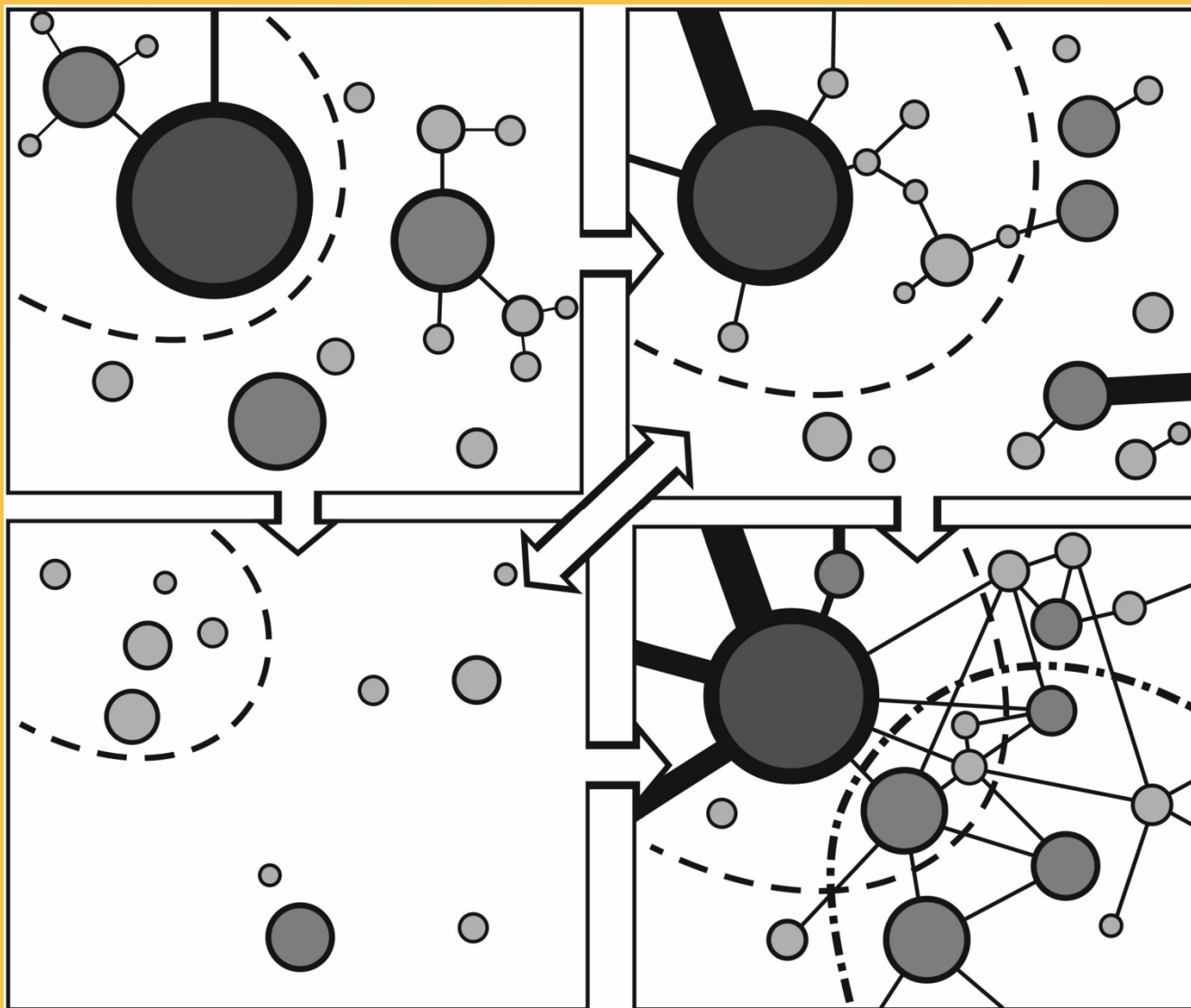
low-level equilibrium?



Re-integrating economic space?

The space of state socialism

TNC-dominated space
in intermediate regions

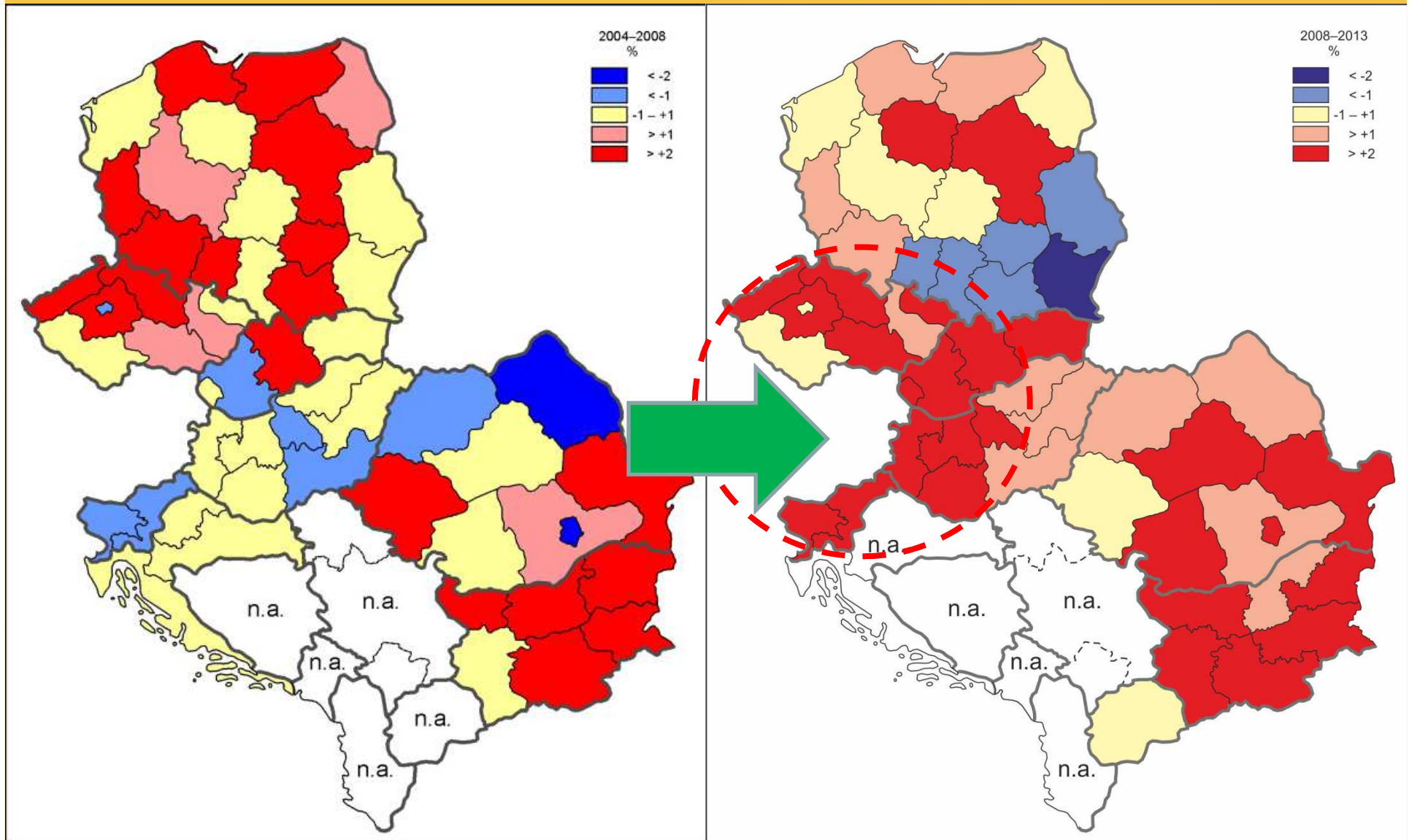


The de-industrialised periphery

Re-integrated space



Reindustrialisation patterns: Accession vs. crisis period





Reindustrialisation under the crisis: three time horizons

- Short-term crisis reaction: „main loser of the recession”, but stabilising role of domestic demand (Poland!)
- Medium-term adaptation: reversed relationship – export-driven industry regains its role in growth \longleftrightarrow weakening domestic consumption due to austerity
 - „everyone wants to be Germany”
 - ➔ multinationals and the Mittelstand („structure”)
 - ➔ skilled labour („factor supply”)
 - ➔ strong export performance, budget surplus („outcome”)
 - contradiction: weak domestic capital, external dependency, slowing FDI flows
 - Hungarian „mercantilism” (capital shortage, high external indebtedness) ➔ public control over outwards cash flows, emphasis on export income
 - industry-friendly structural reforms
 - ➔ **rebirth of national industrial policy**
 - ➔ **elements of favouritism / protectionism?**



Reindustrialisation under the crisis: three time horizons

- Long-term dilemmas
 - emerging scarcity of skilled labour → **factor supply is becoming critical**
 - „cheap” is no longer „competitive” → Far-East, Eastern Europe, and...
the Southern Periphery?
→ **upgrading is necessary**
 - how to strengthen domestic industry? → clusterisation? niche markets?
national champions? development state? → **A „historical question”**
 - Transforming sources of competitiveness
 - quantitative → quantitative and qualitative
 - individual factors → collection of factors (complex factor supply)
 - general, externally determined → **locally/regionally embedded**
 - competitiveness increasingly linked to city-regions
 - emerging significance of local decision-making
- Relevance of endogenous development



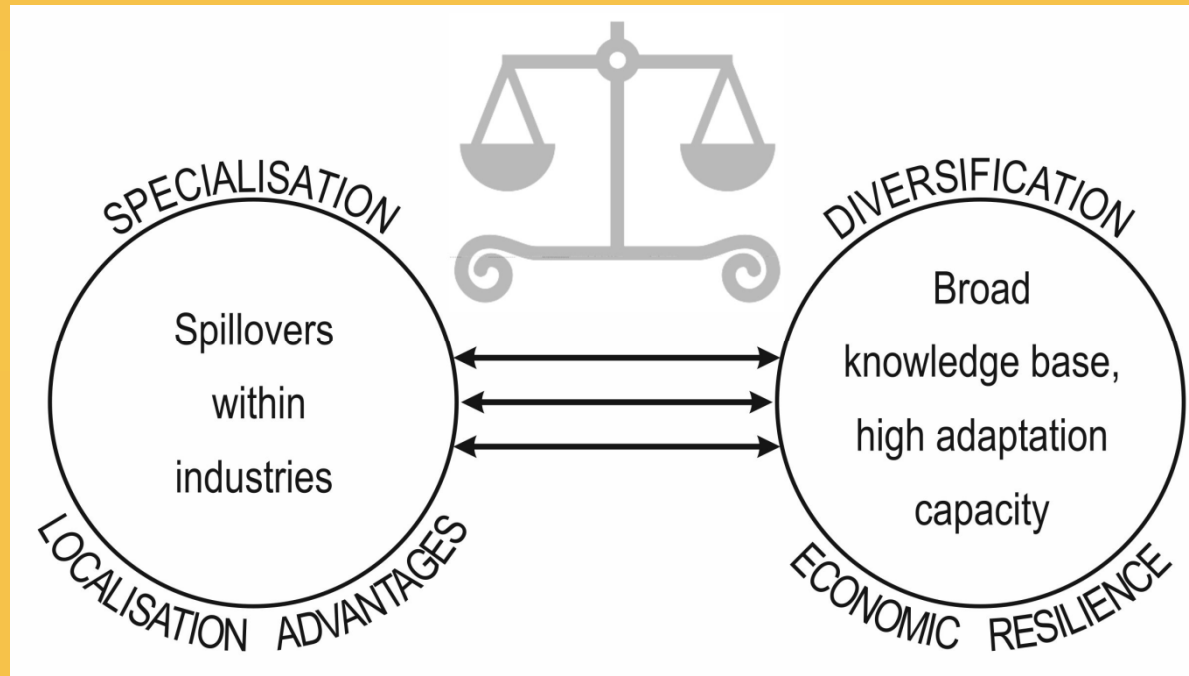
Endogenous development: the local context

- Content (economic policy)
 - the active shaping of restructuring processes
 - focus on key areas: renewal of inherited potential, resource mobilisation, **new combinations**
- Two philosophies of reindustrialisation
 - Direct : improved business environment → logic of resource concentration → **district/cluster-building**
 - **localisation advantages, re-specialisation**
 - Indirect: innovative development of the local factor supply
 - social capital → education, labour market intervention
 - institutions → network-building
 - knowledge base → traditional and new skills
 - **resilience, diversity**

...easier said than done!



A hard choice?



- Harnessing agglomeration economies in minor cities → too small to maintain both diverse & specialised economic profiles (↔ metropolitan cities)
- Can this relation be balanced?



Institutional framework?

- Can success stories be transplanted?
 - **path creation is very difficult**
 - the need for adaptation
 - step-by-step solutions
 - **exploit virtuous path-dependencies**
 - Weak governance
 - tradition of centralisation and top-down bureaucratic control
 - ‚planning vacuum’, lack of strategic planning competences in urban elites
 - focus on traditional „maintenance” tasks
 - Bottom-up organisation of the local business elite
 - weak and fragmented local business sector + branch-plant economies
 - valuable knowledge among senior company managers and in development organisations
 - leadership of medium-sized enterprises
 - willingness to participate in development cooperation
- Need for institutional solutions to collect and articulate interests and undertake strategic intervention



„institutions matter”



Institutional framework? II.

- Potential forms
 - informal, task-oriented development coalition mobilising for specific development goals / industrial branches?
 - formalised, neo-corporatist model of interest articulation to shape long-term restructuring? (Austria – Germany)
- Hungary: pivotal role of **chambers of commerce and industry**
 - crucial generators of relational and social capital
 - represent the interests of the domestic enterprise network, but have working relationships with FDI
 - resemblance to the German model → market development & policy transfer
- Outstanding dilemmas:
 - Efficiency?
 - Centralisation?
 - Legitimacy?





Cooperation is not an option – it is an imperative

