Introduction

For over 30 years, parallel to the intensification of the process of economic integration and globalization, multiple local development experiences emerged and unfolded in Latin American countries (Aghon et al., 2001; Altenburg and Meyer-Stamer, 1999; Vázquez-Barquero, 2002, 2007). Local initiatives change from one place to another because they are designed and implemented for a specific locality or territory. For the old industrialized regions, such as the Greater ABC in Sao Paulo, Brazil that is experiencing a strong industrial restructuring process; for rural areas with development potential, such as the region of the Sierra de los Cuchumatanes in Guatemala, that is in the early stages of the process of development; for places that are trying to eradicate poverty, as in the case of the UNDP project in Cartagena de Indias, Colombia, or to overcome the effects of a natural disaster such as the earthquake in the case of Villa El Salvador, Peru.

But the economic, political and institutional environment in which local initiatives emerged has changed since the middle of 2007. Developed and emerging economies have found themselves affected by the financial crisis, which spills over into the real economy. The developed economies have begun a process of economic recession and the emerging economies have seen their growth rates substantially reduced, industrial activity has shrunk, internal and foreign demand is falling, unemployment rates grow, and poverty is increasing once again. Faced with this scenario, the response to the crisis should combine measures that aim both at re-establishing trust in the financial markets and expanding bank credit, and at increasing productivity and competitiveness. This chapter argues that local development policies are useful for approaching the problems that characterize the crisis of the real economy. As in the past, the objectives are to make the productive system more competitive, to create jobs and improve social well-being, and local development policy acts as a catalyst of the development mechanisms through local initiatives. They facilitate entrepreneurial development and the creation of firm networks; they encourage the diffusion of innovation and knowledge; improve urban diversity; and stimulate the development of the institutional fabric. The local development tools act on the determining forces of capital accumulation and contribute to economic and social progress.
This chapter is organized as follows. After describing the current crisis and its financial and economic effects, some policy measures adopted to counter the growing financial crisis by advanced and emerging economies are presented. Following this, the chapter argues that local development tools foster increased productivity and make economies more competitive, and, therefore, local initiatives can help overcome the crisis. The chapter ends with some final comments on the strengths and weaknesses of local development.

Economic and financial crisis: some facts

The current crisis is a global financial crisis that is spilling over into the real economy. It started in the United States in August 2007 with the lack of liquidity and the decline in solvency in the financial markets when the banking system incurred important risks because of the default on an important part of the subprime mortgages. After the collapse of the investment bank Lehman Brothers and the nationalization of the insurance company AIG, in September 2008, the crisis spread to international markets through the stock exchange, the international banking system, and the monetary standard (Bordo, 2008).

The financial crisis is contaminating the functioning of the economy and this generated a decline in the GDP during the last quarter of 2008, and this contraction is expected to worsen throughout 2009 (IMF, 2009a). According to the update of the IMF World Development Outlook of July 8, the global activity will contract by 1.4 per cent in 2009. GDP, in real terms, will decline by 2.6 per cent in the United States; and by 4.8 per cent in the Eurozone; it will fall by 6.2 per cent in Germany; and by 4.2 per cent in Spain. The forecasts for Latin America show a GDP growth rate decline of 2.2 per cent; of 1.5 per cent for Argentina; of 1.3 per cent for Brazil; and of 7.3 per cent for Mexico. Growth projections in the most dynamic emerging economies have been revised for 2009 (GDP growth rate of 7.5 per cent in China; and of 5.4 per cent in India); while for Russia a significant fall of 6.5 per cent in 2009 is foreseen.

The advanced economies are experiencing a strong restructuring process in their service sectors. Financial activities are re dimensioned, following the shutdown of investment banks and their absorption by commercial banks. In any case, as a consequence of the reduction of financial activities, job loss increased and branch networks are being restructured. It is estimated that up to January 2009, 325,000 jobs were lost in the global banking system, and 20 banks have declared themselves bankrupt in Europe.

At the heart of the crisis is the restructuring of industrial activities in developed and emerging countries. In the Eurozone, a rapid decline in industrial production took place during the second semester of 2008, and continued in 2009. Eurostat reported that in April 2009 compared to the same period a year ago, the European Industrial Production fell 21.6 per cent in the Eurozone; 24.2 per cent in Italy; 23.2 per cent in Germany; 21.2 per cent in Sweden; and 19.7 per cent in Spain. Activities in sectors such as automobiles, consumer electronics, suppliers for the construction sector, textiles and garments and the food processing industries, have sharply reduced their production.

In emerging economies industrial restructuring is also taking place, because of the sharp contraction of international demand, foreign trade and direct investment. In China a noticeable slowdown in the growth of industrial production can be seen, dropping from 11.4 per cent in September to 5.4 per cent in December 2008. Furthermore, thousands of companies have closed down, especially in the provinces of Guangdong and Zhenjiang, during this period, and the steel, car, petrochemical, and textile sectors are, as the Chinese authorities recognize the...
need for profound restructuring. In Korea, industrial production has fallen since October 2008 and it is foreseen that it will continue to fall during 2009, as indicated by the reduction in car sales and exports.

According to the International Labor Organization, unemployment is increasing as a consequence of the recession of the international economic system. The OECD (2009) report states that the unemployment rate in the United States was 5.8 per cent in 2008 and is foreseen to worsen and surpass 9.3 per cent in the course of 2009 (10.1 per cent in 2010). Unemployment rose in the Eurozone during the second semester of 2008, and it is foreseen that this trend will continue throughout 2009, reaching 10.0 per cent at the end of the year (12.0 per cent in 2010). In Spain, which has the highest unemployment rate in the Eurozone, the foreseen unemployment rate will be over 18 per cent in 2009 (20 per cent in 2010). In the emerging economies, unemployment is on the rise because of plant shutdowns. In China, the unemployment rate was 9.2 per cent in 2007 and the situation may worsen during the coming months if the growth rate of the economy falls below 8 per cent in 2009, and this is because the capacity of the economy will be reduced for the absorption of the new workers in the labor market.

The economy’s incapacity to absorb new workers and the increased unemployment rate are having a negative effect on the living conditions of the people, especially in the territories with a low per capita income. During the last 30 years poverty was reduced spectacularly throughout the world; according to the estimates of Chen and Ravallion (2008) the share of the poor has fallen from representing 51.8 per cent of the developing world population in 1981 to 25.2 per cent in 2005 (in Latin America it fell from 11.5 per cent to 8.4 per cent). Nevertheless, the tide may turn during the near future, if international demand is reduced, the slowdown of global economic growth continues, and the labor absorption capacity worsens.

Inequalities increase in the emerging economies, which is why the reduction in the growth rate may increase social unrest, especially when it combines with an increase in poverty and a worsening in the functional and regional income distribution. In Latin America, where the number of poor fell by more than 12 million between 2002 and 2005, the poverty rate continues to be high: 21.0 per cent of the total population for Argentina in 2006; 33.0 per cent for Brazil; and 31.7 per cent for México. Income distribution continues to be very unequal in Latin American countries as shown by the Gini coefficient: in Brazil it was 0.590 in 2007; in México it was 0.506 in 2006. In China, where the number of poor fell from 835 million in 1981 to 208 million in 2005, income distribution worsened in a singular manner since the beginning of the reforms in 1978, as the Gini coefficient increase from 0.33 in 1980 to 0.49 in 2005 shows.

**Structural policy measures for the economic crisis**

The current economic crisis is like no other, as it affects, in a singular manner, the financial system, and is destroying the productive fabric of most of the dynamic regions and countries, which is why it cannot be resolved, as on other occasions, by monetary policy measures alone. What is needed are policies that stimulate the quantitative expansion of the money in circulation, but the reality in the economies also asks for a treatment that combines a number of measures that aim, on the one hand, at re-establishing the trust in the financial system and extending bank credit, and, on the other hand, at improving the productivity of firms and making economies more competitive.

A necessary condition for overcoming the economic crisis is to make the financial system of the advanced and emerging economies work again. The combined action of
several countries has as its main objective to satisfy the needs for liquidity, if and when the banking system requires it, and to act decisively in cases of bankruptcy of financial firms and banks. Therefore, actions aimed at rescuing banks in difficulties vary from country to country: the nationalization in the case of insolvent banks and firms, as announced in the United Kingdom and the United States; the injection of funds into solvent banks that are short of liquidity; the encouragement of mergers between financial entities; and the support of the banks’ recapitalization through public and private funds, as the Federal Deposit Insurance Corporation in the United States is doing (Tamames, 2009).

The banks’ task of recovering their role as financial intermediaries, as well as to activate the functioning of the markets through the credit system is not easy. The adjustment of the assets nominal value to their real value is a win-lose game and countries are seeking a negotiated solution to the problem. In any case, changing the rules and norms of the financial system’s functioning seems urgent, and this requires an agreement between the economic operators and the institutional agents. The purpose is to recover trust in the financial system so that the market regains its role within the economic activity.

Nevertheless, economic recovery requires a number of stimuli to foster increased productivity and competitiveness. The International Monetary Fund (2009b) describes some measures that the G20 countries have adopted, or plan to adopt. Among these the following should be emphasized:

i) A fiscal stimulus to demand. On the one hand, some of the G20 countries have announced reductions in personal income tax, indirect taxes, and corporate income taxes. But they also plan to stimulate consumption through a line of credit to citizens with low income levels.

ii) Increased spending on transport and communications infrastructure, either through the central or local administrations, is an initiative that the majority of the G20 countries take into consideration.

iii) Policies for entrepreneurial development play a key role among the measures that the countries have announced they will try in their attempt to neutralize the effects of the economic crisis. Among these are support to small and middle-sized companies, the fostering of strategic activities, such as high technology or defense, and the development of renewable energies.

iv) Social policy measures can also be found among the initiatives that have been proposed during the last months. Some actions aim at improved health care (such as those that affect the endowment of hospitals and doctors) and education (improving the quality of human resources); but also measures that aim at supporting vulnerable groups such as the unemployed, poor, and pensioners.

Local development and the economic recovery

Local development policy emerged and developed in poor and late developing countries, as an answer on behalf of localities and territories to the challenges of poverty, productive restructuring and increased competition. Is local development a strategy for fostering entrepreneurial development in places that are affected by the current crisis? Why are local development tools useful in times of crisis?

The search for a territorial response to the crisis

Local development and structural policies share the same objectives: increased productivity, improvement in social cohesion, and conservation of natural and cultural resources.
But their approach to the crisis problem is different. Whilst structural policies choose a functional approach, local development policies define their actions under a territorial viewpoint that seems more effective in the process of structural change. The reason for this is that actions carried out in territories must interact with the social, institutional, and cultural dimensions of the places. Therefore, measures are more efficient when they make use of local resources and are articulated toward the investment decisions of the local actors.

Two aspects condition the results of policy actions: the development potential that exists within the territory, and the organizational capacity of the local actors. From this perspective, all localities and territories have their development potential. This is true for rural areas, such as the Cuchumatanes in Guatemala, as well as for dynamic cities, such as Rosario in Argentina. At the local, regional or national level one can find a determined production structure, labor market, technical knowledge, entrepreneurial capacity, natural resources, social and political structure, or tradition and culture, on which local initiatives are based.

On the other hand, the development of a locality or territory requires public and private actors to carry out the investment programs in a coordinated manner. In Latin America, the local development projects are coordinated and managed through new forms of governance where public and private actors, international organizations, and non-governmental organizations participate. In Villa el Salvador, Peru, the ‘Autoridad Autónoma del Parque Industrial del Cono Sur’ was created, and unites public and private actors with the goal of building up the industrial park. In Jalisco, Mexico, local entrepreneurs, including the managers of multinational corporations, participate jointly with public actors in the creation of local supplier networks.

Finally, the local development strategy differs from one case to another, because the demands of each territory are different, the capacities of the inhabitants, companies, and local community change, and, also, the priorities to be incorporated in their development policies differ from one local community to another. Territorial strategic planning has turned, therefore, into a valuable instrument for the rationalization of decision-making and management in cities and rural areas. There are multiple examples of this, such as Rosario and Córdoba in Argentina, or cities and regions in El Salvador, Guatemala, Honduras, Repúblca Dominicana, Ecuador, and Colombia where UNDP and ILO encourage the creation of Local Economic Development Agencies, on the basis of strategic plans.

**Innovation, a strategic factor in production adjustment**

Understanding the crisis as an opportunity for transforming the production system, and making the economy stronger and more competitive at the international level, should be at the core of the strategy for overcoming the crisis. The key element is the introduction and diffusion of innovations throughout the productive fabric. Local development policies face the question of the adjustment and restructuring of production systems in order to make firms more competitive in product and factor markets. Income growth and the changes in demand have led to the diversification of production in cities as well as in rural areas. The development of the tourist activity in the cities of Cartagena de Indias and Havana, as well as the strength of cultural tourism in Chiapas and in the Yucatan Peninsula show how changes in international demand stimulate a diversification of production and therefore create the conditions for the continuous introduction of innovations that upgrade local resources and make them competitive.

When economic integration increases, firms try to develop their competitive advantages in local and international markets. In this way, production systems are always evolving
and, frequently, the activation of change is carried out on the basis of a renovation of traditional know-how by introducing new knowledge during the structural change process. In the case of Cuchumatanes, for instance, reproduction and feeding techniques have improved in ovine production, and the technological package that led to the restructuring of natural coffee production into organic coffee was perfected and brought about increased coffee output and quality (Cifuentes, 2000). The adaptation and transfer of technology allowed the differentiation of production that has made local products more competitive in national and international markets.

In other localities and territories the question is not so much the differentiation of production or the reduction of cost but the finding of new products for markets in which local companies may maintain their competitive advantage. This is the case in Tapachula, in Mexico, for instance, where the coffee producers had to react in the face of strong competition from Vietnam in their markets, with whom they could not compete over prices. The answer was to change their production activities and start cultivating tropical flowers for markets such as the United States, for which the farmers had to adopt new production technologies from abroad, to enter into new markets, and to adapt their knowledge to the new productive and commercial reality.

Firms and territories can also opt for the production of new goods and services for which the demand in markets is increasing, such as for products that incorporate high-tech components and for which a strong internal and international demand exists, as occurs in the electronics cluster in Jalisco, Mexico (Rasiah, 2007).

**Local initiatives and increasing productivity**

It is through development actions that local initiatives can make an important contribution in the search for overcoming the economic crisis. Its strength rests on the fact that the local policy tools used stimulate capital accumulation, and therefore contribute to increasing productivity and competitiveness (Vázquez-Barquero, 2002).

One of the objectives of local initiatives is fostering entrepreneurship and the formation and development of firm networks. The start-up and development of firms is a necessary condition in the development process, as firms transform savings into investment through entrepreneurial projects; furthermore, when the development of networks and clusters of firms is encouraged, it favors the appearance of external economies of scale and the reduction of transaction costs.

Fostering firms’ development is used often by local initiatives in Latin America, as seen in the case of the Cuchumatanes mountain area (Cifuentes, 2000). The project was launched by Guatemala’s Ministry of Agriculture, Cattle and Food in 1994, and affected 9,000 poor rural families, with a net income per family of less than $1,200 per year. In order to favor sustainable development, the improvement of local entrepreneurial and managerial capabilities was encouraged. The experience and knowledge of self-management that existed within the local population before the civil war was recovered, and cooperatives and associations of peasants began to acquire full legal capacity. Moreover, more informally structured organizations, or Interest Groups were encouraged, and this brought people with common productive and commercial interests together.

On the other hand, fostering cluster development has become more frequent during the last decade, as shown by the case of Jalisco, Mexico. The Jalisco state government created the Jalisco Development Corporation (JDC), whose main objective was the formation and development of an electronic cluster (Rasiah, 2007). The JDC helps strong systemic coordination locally and fosters clustering and human resource synergies, and motivates new firm creation. In this way,
the cluster makes an important contribution toward differentiation of production and division of labor, and the diversification of the local productive fabric, job creation and economic development.

Another main axis of local development policy is the diffusion of innovation and knowledge throughout the local productive fabric, which allows for the introduction of new products and the differentiation of existing ones, changes in production processes, and the opening of new markets. All of this contributes toward the increase of productivity and competitiveness of the companies.

A particularly interesting case is that of the Technological Centre do Couro, Calçado e Afins (CTCCA) of Novo Hamburgo, Rio Grande do Sul in Brazil. This is a private, non-profit institution established in 1972 and founded for the purpose of helping the footwear firms during the early stages of their export activity, by providing services that would allow them to maintain the quality standards required by international markets. After more than 30 years, it has become an institution capable of stimulating research activity and product and process development in the shoe industry of Brazil.

Actions for training of human resources are strategic instruments for local development policy, for it is through this that knowledge is incorporated into the production of goods and services and in the management of their own development strategy. When training activities are included in the development strategy, the improvement in the quality of human resources can help increase productivity, stimulate competitiveness, and even affect the cultural model in which the development process must seek support.

In Rafaela, an industrial district in Argentina, training is a recurring objective issue in all the institutions created throughout the 1990s. Initially, the town promoted the improvement of personnel skills in order to strengthen municipal management. The Center for Entrepreneurial Development and the Regional Center in Rafaela consider training skills strategic in obtaining entrepreneurial and technological development for Rafaela, as does the Institute for Qualification and Study for Local Development, a municipal entity founded in 1997 to foster changes and transformations in the local community.

Finally, initiatives targeting the building up and improvement of overhead social capital and of infrastructures are instruments frequently used in local and regional development policies. Firms prefer locations in accessible places that are well endowed with services which allow them to make good use of economies of agglomeration and to have good accessibility to product and factor markets. Furthermore, the improvement of infrastructures attracts industrial and service activities to rural and peripheral localities and regions, generating economies of diversity and favoring an increase in productivity.

Sometimes, the question is to build up infrastructures, as in the Cuchumatanes Project, where in order to reach Guatemala City and international markets a link from the mountain area to the Panamericana highway was built. Other times, the question is the creation of a town, as in the case of Villa El Salvador, located 20 km south of Lima and close to the Panamericana highway (Aghon et al., 2001). This is an initiative that allowed the transformation of a deserted area into a city that at present has a population of over 400,000 inhabitants. A Self-managed Urban Community was created, and one of the main projects was the buildup of an industrial park in order to provide industrial land, equipment and the services required by micro-firms and small and medium-sized firms.

At times, the purpose is for transport infrastructures to become a tool for sustainable development like that of Curitiba, Brazil (Cambell, 2001). During the late 1990s, a project was launched that tries to integrate urban infrastructure actions (construction of a road that connects 14 neighborhoods in the periphery of the city) with business initiatives which use the premises
(community huts) in which micro-firms and small enterprises can be located with the support of the services available through professional and entrepreneurial training. The urban transport system was transformed into a surface metro system and it became the strategic element for local development.

Final comments

Advanced and emerging countries experience a process of important productive and social change due to the financial crisis and the bank credit crunch, which start to have profound effects on the real economy. Therefore, for solving these problems it would be helpful to combine measures that lead to the recuperation of trust in the financial institutions and to expand bank credit; with actions directed toward increasing productivity and competitiveness.

This chapter sustains that local development is an instrument for helping to overcome the economic crisis. Its strength is inherent to its strategy which focuses on the question of productive adjustments under a territorial perspective. This allows finding out concrete solutions to the problems of specific territories, using precisely the development potential that is not utilized because of the crisis. Its merits lie in that local development is a strategy that stimulates increasing returns to investments and, therefore, helps increase productivity and competitiveness.

Yet, local development also seeks social progress and sustainable development. Development is a process in which economic growth and income distribution are two aspects of the same phenomenon, given that the public and private actors, when they choose and carry out their investments, do so for the purpose of increasing productivity and improving social well-being. Local development is, likewise, a strategy that is based on the continuous improvement of available resources, and particularly the natural and historic and cultural resources, and in this way contributes to increasing the sustainability of the territory.

Finally, local development is not a strategy whose results are guaranteed. Local development policy seeks economic and social progress and job creation by stimulating entrepreneurial development; but, an excess of external aid would reduce the creative capacity of entrepreneurs and local actors and therefore would limit the results of local initiatives. Furthermore, it is a policy whose results depend on an efficient coordination of the measures and the actors in the territory; but it would lose effectiveness when actions are carried out in an isolated manner because the positive feedback effects from the interaction between the development instruments would be neutralized. Finally, local development is a participatory policy in which the local actors are the ones who design and control its implementation; therefore, its results would be affected when actions and/or objectives are imposed in a unilateral way, by local and external actors.

References

de productores, Huehuetenango, Guatemala: Ministerio de Agricultura, Ganadería y Alimentación.

Further reading