



# Local empowerment through economic restructuring in Brazil: the case of the greater ABC region

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## Abstract

Regional and local capacity building in Brazil, as in other Latin American countries, has traditionally been linked with democracy. Whereas periods of dictatorship usually saw the establishment of a tight grip by the centre over state and local governments, democracy has been linked to greater autonomy at the regional and local levels. The revival of regional and local governments in Brazil over the last decade and a half seems to fall into this latter category. In this paper we will argue that the advent of democracy is however not the only factor behind the recent dynamism at the sub-national level, but that economic restructuring is becoming a major force behind the adoption of more pro-active attitudes and policies by local and regional governments. We will illustrate this theory with the example of the greater ABC region, in the São Paulo metropolitan area, where economic crisis and restructuring has led to inter-municipal co-operation and the creation of a local economic development council. © 2001 Elsevier Science Ltd. All rights reserved.

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## 1. Introduction

Over the last few years Brazilian state and local governments seem to have become more active than before. Whether it is as successful promoters of local development programmes, as in the case of support programmes for SMEs in the state of Ceará (Tendler and Amorim, 1996; Looye, 1998) or in Paraná (Ferguson, 1992), as sponsors of regional development chambers, as in the case of the ABC region (Rodríguez-Pose and Tomaney, 1999), or as competitors for foreign direct investment, Brazilian regional and local governments seem to be playing a greater role in trying to shape economic performance. This greater involvement of sub-national tiers of government in economic policy and governance should at first sight come as no surprise. On the one hand some commentators have identified the emergence of a 'new regionalism', in which nation-states in general are concerned with devolving responsibility

for social and economic policies to sub-national political authorities. On the other hand, traditionally periods of democracy have coincided across Latin America with greater local and regional autonomy and thus with a greater capacity of local and regional government bodies to adopt a more pro-active stance. Brazil is no exception to the rule, and the advent of democracy has coincided with a revival of politics and policy at the local and state levels, and with a greater involvement of local and regional politicians in national affairs.

Yet, Brazil's last leap towards democracy has represented more than a change in the political panorama. Whereas in the past transition from military to civilian elected governments did not imply any significant shift in economic policy and governance, during the 1990s successive Brazilian democratic governments have embarked in a process of liberalisation to trade and foreign investment, which is provoking a profound restructuring of the Brazilian economy (Blumenschein, 1995). In the late 1980s the government of José Sarney started a process of trade and financial reforms – later followed by Collor's government – which led to greater economic liberalisation in Brazil. The progressive demise of import prohibitions and the reduction of import tariffs

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were continued throughout the 1990s by the Franco and Cardoso governments, whose step-by-step policy of reduction of tariff barriers is having a profound impact on the distribution of economic activity in Brazil (Valença, 1998).

In this paper we will argue that it is precisely this process of economic restructuring, the threats and opportunities it offers and its impact on local revenues, that is the main force behind the greater activity of local and regional governments in Brazil. Local and regional governments either feel for the first time in decades that their traditional sources of revenue are under threat, or feel that they are capable of increasing their resources by attracting economic activity to their territories. Hence, the process of globalisation and economic liberalisation in Brazil is presenting local and regional politicians and decision-makers with a whole new set of conditions for local and regional politics. We will support this theory with a case-study of the institutional transformations and local empowerment in the greater ABC region: an area of 2 million inhabitants situated in the heart of the São Paulo metropolitan region, which has undergone a serious crisis in recent years.

## 2. Democracy and decentralisation in Brazil

The decentralisation of political authority from nation-states to sub-national governments appears to be a process that is observable across the globe. Typically observers identify factors that contribute to the increased salience of sub-national political authorities. Firstly, they identify the alleged decline of the role of the nation-state and the corresponding growth of supra-national forms of political authority, with a key role in economic management (e.g. EU, NAFTA, and, to a lesser extent, Mercosur). As national identities are challenged, social groups have found new modes of allegiance and mobilisation at the sub-national level (e.g. Keating and Loughlin, 1997). Secondly, the globalisation of economic activity means that the traditional forms of distributive policies practised by nation-states are no longer viable. In this context, the onus is placed on sub-national political authorities to promote the 'competitiveness' of their locality in an increasingly open international economy (Cheshire and Gordon, 1998; Amin, 1999). At the same time, new forms of economic activity favour the 'resurgence of regional economies' (Sabel, 1989). Storper (1997), pointing to a number of highly successful regional economies, has referred to the importance of 'untraded interdependencies' that operate at the regional level, while Cooke and Morgan (1998) have identified an 'associational economy' or 'network economy' rooted in regional production systems in which SMEs play an enhanced role. In these accounts, sub-national public institutions often act to underpin

these new production spaces by facilitating networks that promote upgrading of supply-side conditions.

These views have by no means gone unchallenged. Firstly, critics suggest that the trend toward political regionalism is by no means universal. Even where sub-national governments are gaining authority, the process is frequently complex and patterns of decentralisation owe much to existing national traditions of conflict and accommodation. Secondly, even if 'resurgent' regional economies, utilising 'untraded interdependencies' can be identified in some cases, it is less certain that they signal the emergence of a 'new paradigm'. The barriers to emulation of these systems are high, not least because they probably owe a large part of their dynamism to institutional and cultural structures that have been built up over a long period. Moreover, even among the new industrial spaces there are many differences, often deriving from their particular national setting, making it difficult to offer a general account of their characteristics. Even now it is not clear whether the 'resurgence' of the region represents a contingent response to turbulent economic conditions in the late 20th century or a new model of economic development for the 21st. Certainly, there is evidence that large firms, far from being eclipsed by networks of small firms, are reasserting their power and, as a result, retain their ability to shape regional fortunes (Harrison, 1997). There is also compelling evidence pointing to the enduring importance of the national context in shaping the terms of regional development (Rodríguez-Pose, 1998). Relatedly, the 'new regionalism' has been accused of showing a 'striking lack of interest in macro-economic questions, at both the global and national/regional levels', and particularly in the role of the finance capital in the economy (Lovering, 1999, p. 386).

While there have been significant structural and economic changes over the past two decades, it is very difficult to generalise about (or 'read off') their impacts on regions. Accounts of regional economic change need to be grounded firmly within an understanding of the dynamics of respective national political economies and the relationship of these to the international environment. The following account of regional economic development in the ABC region and in the state of São Paulo therefore attempts to analyse its present predicament, and the policy response to it, in relation to the interaction of political and economic changes within Brazil and the external economic environment.

Certainly within Latin America recent studies have noted that decentralisation appears to be a general trend affecting most large countries, with Brazil itself being the most fiscally decentralised. In part the fashion for decentralisation is a reaction to the authoritarian centralism of military dictatorships in countries like Argentina, Chile, and Brazil, but the specific form in which power is dispersed from national governments varies considerably

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