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## **Globalization, Interregional Competition and Economically Relevant Institutions in Rural Areas**

### **Different Sources of Institutional Change**

Nowadays and, as far we can see, in the near future there are several important factors which are shaping and reshaping institutions in the rural areas of Central and Eastern Europe. At least the following four influential factors can be named, whose effects on institutions are very closely inter-linked: First of all, there is the transformation process from socialist to liberal states and societies. Some institutions, such as former socialist mass organizations or agricultural cooperatives, have vanished or have been fundamentally reorganized. Others, such as private leisure or professional associations, have been or will be founded. Often the incentives and duties to have more individual freedom and responsibility may have grown and reshaped the organizational structures and the interactive behaviour in rural institutions (e.g. on farms, other enterprises, public and private associations). But the struggle to set the most appropriate rules which are of basic importance for rural institutions is continuing (e.g. the administration reform in Poland). And even where the "rules of the game" have been transformed, it often happens that the old mentality and the same people who were there in communist times have remained in their jobs so that the efficiency of the institutions and the service-orientation and kindness of their personnel may de facto only partly have improved.

A second impulse for institutional change is the expected membership of Central and Eastern countries in the European Union. The implementation of the so-called "acquis communautaire", the large number of rules being a precondition for entering the EU, will not only create new bureaucracies to, for example, spend EU subsidies to farmers, but will also introduce new ecological and hygienic standards, which will inevitably change given patterns of production, transportation and storage of agricultural and industrial

commodities, and so on. We can expect that this implementation process will not be an easy, streamlined change of indigenous institutions as wished by national and European negotiators, but a difficult transition process where, as far as I see, many misinterpretations and resistance have to be overcome.

The third source of institutional change in rural areas of Central and Eastern Europe which is related to the already mentioned factors of system transformation and EU-membership, but also independent from them is the sectoral transition of rural economies, which are now largely based on agriculture, to a new structure where the industrial and, even more, the service sectors play the main role for employment in rural areas. Of course, Western countries cannot be immediate models for development in Central and Eastern Europe, but one figure may indicate the long way ahead in their rural areas. In a third wave to research the same ten West German villages as formerly in 1952 and 1972, we found in 1994 that 51 per cent of their working population were employed in the services sector, whereas only 39 per cent had jobs in industry and 10 per cent in agriculture (Hainz 1999: 48). It should not be forgotten that in the German rural context this is still an exceptionally high agricultural percentage because of the unusually strong agricultural background of these specific ten villages.

The conclusion is clear: the sectoral change in Central and Eastern European countries will only be successful if a changed set of rural institutions, public and private, supports the creation of non-agricultural employment in rural areas. Looking to the future, scholars should not equate rural areas with agriculture, but take part in efforts to shape rural institutions so that considerably higher rural employment in manufacture, industry and services can be created.

There is a fourth factor of institutional change in rural areas of Central and Eastern Europe: the process of globalization. Looking at "rural provinces", you might wonder why I mention globalization in this context at all. I shall concentrate on this factor in my paper, because, as far we can see, the level of coping with the challenges of globalization will — at least in the future, but beginning now! — decide on the relative welfare position of an area.

### **Perspectives on Globalization and Rural Areas**

Looking from a macro- and output-oriented perspective to the effects of globalization on rural areas in Central and European Europe, there seem to be strong arguments to expect negative results, which are described in terms of marginalization, "globalization trap", "proletarianization" of the non-farming and "re-peasantization" of the farming population (Starosta 1999: 380–383). To mention two arguments: as can be demonstrated by

Polish figures, foreign investment in the Polish economy almost entirely concentrates upon big cities (Warszawa, Gdańsk, Poznań, Wrocław, Szczecin, Łódź, Kraków), so excluding rural areas from the direct benefits of the forthcoming regional division of labour. Moreover, and more generally speaking, advanced technological production, organization facilities and powerful marketing strategies of Western based firms (inter alia "global players") are able to substitute Central and Eastern products and services not only on foreign markets (e.g. Russia), but also on the home market; additionally, their perceived "invincible" superiority may create strong disincentives for potential indigenous economic newcomers to start their own production activities. Certainly such exclusive and restraining effects of globalization will also reach rural areas.

Will rural areas in Central and Eastern Europe inevitably be among the losers of globalization? And to what extent may this be true? These are of course also empirical questions, and solid data-based research is needed in order not to contribute by incompetence to the self-fulfilling winner-prophecies of powerful global players.

Rather than being paralysed by staring at the purely empirical outcome of globalization it may be more interesting theoretically and politically and economically more effective to take a closer look at the inner side, the "motor" of globalization: choosing not a macro- and output-oriented perspective, but perceiving persons and institutions who and which are, in a wider sense, of economic relevance. I want to raise two main questions in this paper:

Firstly: how does globalization challenge rural institutions? i.e. in which direction does globalization tend to push the shape of rural institutions in Central and Eastern Europe? Or, which are the features of rural institutions to be successful in the era of globalization?

Secondly: which are the conditions for these institutions to de facto meet these requirements?

This is only a first, preliminary attempt to tackle these questions. Far more use of existing theoretical literature and of available data still has to be made before a well founded answer can be presented. In this process of trial and error I also look forward to learning from the discussions at this autumn school. Here I can only present quite general first considerations.

### **Causes and the Main Effect: What is Globalization?**

There seem to be three main interlinked causes of globalization: first, the technological development of faster, bigger and cheaper means of transportation has created opportunities for easily transporting goods and persons over long distances and across national borders. Secondly, linked with this, the revolution of information technology has, inter alia, allowed

to organize global production and distribution more efficiently, by the decomposition of the processes of production and thus creating a new division of labour, therefore using the cheapest and best suitable resources worldwide and, in the end creating, the most efficient ways for customers. A third cause of globalization has been the liberalization of the rules of world trade and of financial markets (within the framework of GATT and WTO), which created new economic incentives and again stimulated the international exchange of goods and services. Without looking at the theoretical framework of globalization (cf. Starosta 1999: 373–376) and at indicators for globalization (e.g. much more direct investment and circulation of capital; cf. Wissenschaftliche Arbeitsgruppe 1999: 15–23), I define “globalization” as the “intensification and acceleration of border-crossing interactions, which in fact potentially link all institutions and state into a complex system of mutual, however often unbalanced dependencies” (Wissenschaftliche Arbeitsgruppe 1999: 12; own translation, as always in this paper). So in effect, globalization refers to the fact or the higher level of consciousness of a more intense and faster economic competition which is at least potentially “fuelled” by participants and resources all over the world.

### **Challenges for Rural Institutions and Directions of Change as Pushed by the Process of Globalization**

We come to the main question: what effect does globalization have on rural institutions? Does globalization exert a specific drive or direction of change on rural institutions? For reasons of logic, taking into account the overall effect of globalization, I take the position, that globalization means the same challenge, understood as direction of change, for rural and urban institutions. Only then, as I will argue in the next part, — possible, not necessary — differences in the quality and quantity of regional resources to the extent to which they allow or restrict to cope with these global challenges condition the economic performance which will then also differ between urban and rural spheres.

A second remark has to be made in order to define the term “institution”. In this paper I understand “institution” as “a specific set of formal and informal rules aiming at solving a specific, often recurring problem”. I stress the dynamic, constructive sense of institutions, which are constantly being shaped and reshaped by actively defining and negotiating persons and groups of persons.

Referring to “economically relevant institutions” in the rural context, I would roughly like to include three sorts of institutions:

a) business institutions in the strict sense, i.e. entrepreneurs and organizations of entrepreneurs in all economic sectors;

b) indirectly economically active institutions, i.e. groups of persons and organizations within civil society, which try to improve conditions of economic performance, e.g. by systematically reflecting on the weaknesses and strengths of regional development, offering training, organizing cultural programmes or combatting ecological problems.

c) formally political institutions, i.e. political office-holders, bodies and administrations, being legitimized to foster local and regional economic development.

Now back to the main question: which challenges or directions of change arise from globalization on such institutions? Being or feeling more threatened and provided with opportunities by the process of globalization, economic actors find themselves under pressure to act along the following four imperatives when they — according the concrete situation — create new institutions, reshape existing institutions or shut down old useless institutions:

There is, *f i r s t l y*, the new need to use faster and far-reaching means of information in order to know about the threats of given market positions and about new promising market opportunities and in order to make known to others, namely customers, their own products and services. This skill means not only handling new computer facilities, but, what is culturally a much more demanding step, also judging, processing and using the received information properly.

These are some examples of how new information facilities are already used in rural areas in Germany: dynamic farmers compare via the internet the prices of relevant markets in order to sell their cattle or strawberries best or buy the cheapest available fertilizer. Innovative craftsmen or marketing experts in specialized industrial spheres or computer services offer their “products” virtually on their home pages — and successfully overcome the disadvantages of narrow and dispersed rural markets, by making offers to all potential customers, not only rural ones.

Of course, such a shift towards the use of faster and far-reaching information technologies will, to some extent, be in contrast with widespread rural mentalities and social structures: mentalities which are locally or regionally closed and fixed, and social structures which are dominated by elderly, conservative people (in German we say “Platzhirsche”) will be challenged — if this happens at all — by young, non-conventional outsiders, who often develop computer skills first.

*A s e c o n d l i n e* of institutional change: in the era of globalization economically active persons and institutions can no longer rely on given, “fixed” economic positions, but have to be constantly active in order to create new or better opportunities according to possibilities and the specific market situation. This new constructive, dynamic way of proceeding is not only in conflict with rural attitudes of constancy, but also with the wide-

spread strategy of certain farmers and other rural losers who complain to state officials, make scapegoats of others (e.g. politicians or the EU) and passively wait for solutions to appear from "outside".

Thirdly, a particular field where the new active and constructive attitude is needed in times of globalization is the creation of an economically relevant, unique profile, for example of products, organizations or services. Creating such a profile, a kind of logo or symbol, is just the final point and the peak of a long and often painful creative process in which available and sometimes firstly disadvantageous resources (e.g. regional raw materials, landscapes or talents of persons) have to be transformed and made profitable.

I wonder whether a rural institution normally comes to such profitable products, crowned with a unique symbol, without such a labourious creative, transformation process: there may sometimes be the opportunity to affiliate to a dominant global player, this means being included in his production sphere and selling products (cars, cakes or chips) by using his already established market logo. But this direct way to globalization will also demand changes in order to achieve the necessary high quality, as is needed in this case. If the diagnosis that rural areas tend to be marginalized in the process of globalization is correct, this process of painful economic creativity has to be started.

Vigilant people will start by taking a critical look at the given local or regional resources, then they will compare these with existing market offers and opportunities and in the end invent (or reinvent) new products or services in a given place or region. As the EU LEADER-Project which aims to find viable solutions for rural crises has demonstrated, such innovative ways for rural areas can consist in reanimating forgotten traditions of producing ceramics or saffron, developing the landscape of river deltas or mountain valleys as a tourist attraction, reopening former pilgrimage routes or creating regular cultural programmes etc. (Europäische Beobachtungsstelle LEADER 2001).

As I have already mentioned, both the creative and laborious economic process contrasts with the former rural habit of repetitive, not creative perseverance and with the inclination to avoid finding one's own solutions, by blaming others and/or making them responsible for one's own misery.

A fourth line of institutional change was stressed by the evaluators of the LEADER-Project: the need to find new partners, cooperate with them and create productive networks. Such innovative communication skills are seen as a "key element" in all the steps of the earlier mentioned economic process: the information, training and marketing of products of such "strange" economic activities as producing saffron, reopening pilgrimage routes or developing river deltas as well as training the rural population in modern IT-technologies ("how to create my own home page"), all this demands finding new partners and extending given or building new

networks. In the framework of the LEADER-Project partners from distant rural areas in different European countries have linked in order to find out and develop new economic opportunities and products (Europäische Beobachtungsstelle LEADER 2001).

According to the different tasks and functions to be fulfilled, different sorts of networks have to be created. The evaluators of the LEADER-Project speak of "territorially-related networks of variable geometry" (Europäische Beobachtungsstelle LEADER 2001: 30 f). These can be real or virtual networks, and taking part in them tends to create the feeling of a "multiple belonging" (59).

This challenge to create far-reaching new networks with often new, unknown partners and to develop a sense of belonging to them contrasts with the former rural preference for the existing, well-known community and with the sometimes widespread ignorance and depreciation of "others" outside.

### **Conditions for Coping with the Challenges of Globalization**

A question arises: which are the most important conditions for the creation and shaping of rural institutions to cope with these economically relevant challenges of globalization: to use fast and far-reaching information tools, develop an active and dynamic ability to act, create unique symbols for "products" which incorporate the strengths of a region and build productive networks? What has to be given or done so that these patterns of institutional change pushed forward by globalization will in fact be translated into reality?

To give a general, theoretical answer to this question, I refer to the approach of development economics which was designed by the German economist Jochen Röpke (1977, 1978). In his theory innovative economic behaviour is a function of three complexes of variables:

- a) restrictions of behaviour (norms, rules) which guarantee a space of freedom to act;
- b) competence of individuals and organizations to act, their knowledge, skills and motivation in order to "fill" these spaces of freedom productively;
- c) the degree of challenges arising throughout the world.

I have already dealt with this third point, by outlining the challenges of globalization. The degree of certain challenges for an institution can be determined by the size of the gap between these challenges and the existing competences to act. Behaviour will only be innovative and successful with a medium degree of challenge. If the challenging stimulus is far too small or too big in relation to the available competences, there will be no innovative, successful behaviour.

Applying Röpke's theory to the challenges by globalization for rural institutions, we should also look at the restrictions of behaviour and to the relevant competence to act. For purposes of this paper, I fill the term "competence to act" with two relevant resources which can be seen as important in the time of globalization: human capital and social capital. Then, I equate "restrictions of behaviour" with informal norms (e.g. within a given community), formal rules (set by legitimate political bodies) and infrastructure (material restrictions for rural areas). As I have already mentioned, informal restrictions which contrast with the challenges of globalization and as the category of social capital also deals with informal norms, I do not have anything more to say about them.

So I sum up by shortly commenting on four conditions for rural institutions to cope with the challenges of globalization:

a) *Human capital*. Two decisive questions arise here. How much human capital is regionally built by processes of socialization and in educational institutions (schools, professional training, universities, media)? How many people with such human capital will stay in rural areas after training? The size of human capital in rural areas may be indicated by the percentage of qualified people (e.g. in terms of school and university degrees and professional diplomas) living and working there.

However, we might find a dilemma concerning dynamic, well trained young people. They are desperately needed in rural areas if they are willing to cope with the challenges of globalization, but at the same time unequal opportunities for taking part in the fruits of globalization — interesting jobs, stimulating personal contacts, pleasant leisure opportunities being concentrated in urban areas — will probably in most Central and East European rural areas create strong incentives for these people to leave for urban areas or even better places abroad.

b) *Social capital*. The research on this rather new topic still has a long way to go. We can simply define "social capital" as the "ability" of a social system "to cooperate and to network" (cf. Wissenschaftliche Arbeitsgruppe 2000: 7). This concept refers to the quality and quantity of social networks, which arise around norms for mutual, reciprocal relations and which support the confidence and, therefore, the readiness of citizens to act in a common or, better, social way, so that they refer to one another (ibidem: 11).

Three dimensions of social capital can be distinguished:

i) "Community-building" social capital consists of all close social relations within families, between friends, neighbours and other groups.

ii) "Bridge-spanning" social capital means relations which link differing social entities which are separated by, e.g. economic status, gender, membership of different religious, political or ethnic groups.



iii) "Connecting" social capitals is used for making contact between individuals and societal groups on the one hand and the system of official institutions on the other (ibidem: 2000: 11 s.).

In so far as in a regional area all these three forms of social capital can be found, it can be stated that this region will successfully cope with the above mentioned challenges of globalization.

a) *Politically set rules*. This category consists of all sorts of legal rules which influence economic behaviour, e.g. contractual rights and safeguards, laws on property and competition, the rights of assembly and founding enterprises etc. Instead of counting and checking this immense number of regulations, it will certainly be more fruitful to look at some basic qualitative functions of economically relevant rules. Do they keep the balance between freedom and justice, that is, do they — according to the "feeling" and experience of the people — create on the one hand enough freedom of space and worthwhile incentives for people to be economically active and do they, on the other hand, secure, as far as possible, the fair access to the markets for everybody and a just contribution of all to the common good (e.g. by paying tax, working, being interested and cooperating in public affairs)?

b) *Infrastructure*. The missing or underdeveloped material infrastructure in rural areas can still be an important disadvantage which excludes these populations from proper participation in the means and fruits which are relevant in times of globalization. Such material infrastructure includes access to the internet and e-mail, mobile and classic phones, television and radio, roads and, at least in the German rural context far less important (Hainz 1999: 98–107), means of public transport.

Two hopeful remarks can be made: firstly, for a successful regional development of course the broad spectrum of these different parts of infrastructure should be built up; but even if some classical parts of the infrastructure are not in a good state (e.g. bad roads in distant rural areas), then good connections for the internet or mobile phones may at least to some extent compensate for such disadvantages, by allowing easy communication and the virtual participation in cultural programmes, thus promoting the feeling for these people of belonging to the modern world. Secondly, as can be demonstrated by the example of German rural regions which have practically the same standard of infrastructure as urban areas. They also have the same level of economic performance as well as some advantages. Rural areas are preferred by economic actors because rural administrators do not impose such a troublesome bulk of rules and duties as more specialized urban bureaucrats and of course, the rural nature and silence are more pleasant, houses and gardens there are cheaper and larger than in cities (Johaentges 1996; Hainz 1999: 115–125).

Certainly, existing resources in rural areas of Central and Eastern Europe are not yet as favourable as in some Western countries. So it will be more difficult in the eastern regions to cope with the challenges of globalization. An ethical and practical consequence for us social scientists of different origin should be to have to work hard to support as far as possible the rural population in Central and Eastern countries to build up adequate institutions so that they can also enjoy the fruits of globalization.

### Literature

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