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and
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The Disembedded Regional Economy: The Transformation of East German Industrial Complexes into Western Enclaves

Gernot Grabher

INTRODUCTION: THE 'HALF REVOLUTION' IN EASTERN GERMANY

Three years after the events of autumn 1989, it now appears that only 'half a revolution' took place in eastern Germany. Although the 'revolutionary subjects' of 1989 triggered the implosion of the old tired-out system, they played hardly any role in the creation of the new. Moreover, the revolutionary developments almost completely lacked innovative, future-oriented ideas (Habermas 1990: 181). In this vacuum, instead of the development of new social visions, the immediate implementation of the blueprint of western German society and economy rose to the top of the agenda. This obvious preference for the successful western German model was clearly endorsed by an overwhelming majority of eastern Germans in the 1990 elections, for various reasons such as the hope for a quick improvement in living conditions, distrust of all eastern German élites, and fear of regressive developments in the Soviet Union. This decision reduced the transformation of eastern Germany to a mere *cloning* of the western German institutional framework. The new economic and social institutions of eastern Germany were to be set up simply as branches of the western German institutions—at a speed and with a vigour, however, that precluded any self-organization. In political terms, this rigorous cloning has led to a subject-less society (Häussermann 1992: 4), a representative democracy in an apathetic society. In economic terms, the vacuum resulting from blocked economic and social self-organization was abruptly and vigorously filled by foreign actors, above all western investors.

This chapter outlines the strategies of western investors and evaluates their impact on regional development in eastern Germany. This development is now largely determined by the western German investors: only 10.7% of investment and 9.1% of job commitments related to the privatization of the eastern German economy are of non-German origin. However, the dialectics of the unification process have been such that there are grounds to justify the inclusion of western German investors into

the category of 'foreign investors'. Unification has come to encourage cultural and political separation and even generate—at the moment when it was intended to be destroyed—a distinct East German (GDR) ethnicity. Partly for this reason the chapter starts with a glance backward at the organization of production in the old GDR.

THE BUREAUCRATIC FAÇADE OF THE GDR ECONOMY

Central Planning and the Formation of the Kombinate

In the western economies of the post-war period, the organization of production mainly followed the model of industrial mass production. This model, however, was also the leading paradigm for the East European economies: efficiency through economies of scale. In the GDR, this economic *Leibild* implied a thorough reorganization of traditional regional and sectoral production patterns based around small-scale craft production. Before World War II, industrial mass production did not play a central role in both the western and the eastern part of Germany. In the leading industrial centres of eastern Germany—Saxony and Thuringia—production was primarily organized in small to medium-sized firms. Typically, these firms, such as the printing-machine builders, printers, and publishers in Leipzig, were tightly knit together and formed locally concentrated sectoral clusters. Another typical example was the Jena-based production cluster consisting of small mechanical engineering firms, glassworks, and research departments of the local university, which together formed the nucleus of the later renowned Carl Zeiss Jena Optik. Although these regional clusters cannot easily be compared with the industrial districts of today, there remain certain parallels such as the tight horizontal and vertical linkages between independent firms which allowed for a high degree of cross-fertilization.

The history of industry in the GDR begins with a sweeping attempt to radically transform the traditional, craft-based production pattern. The three-level system of central economic planning through industry ministries and the confederations of state-owned firms (*Vereinigungen Volkseigener Betriebe*, VVB) sought to achieve higher levels of efficiency through industrial concentration and specialization: within the GDR no single product would be produced simultaneously by two different firms. This first attempt to improve the efficiency of production at the cost of demand flexibility, however, was only of limited success. The chronic shortages of intermediate goods and the poor reliability of suppliers—the recurring theme of the forty years of GDR industry—reflected the limitations of the central planning authorities to enforce their aims. Since suppliers usually were assigned to a different ministry from that for final producers,

economic planning and coordination did not follow the logic of the value chain, but fragmented the interconnections from the raw material to the final product (Voskamp and Witke 1990: 15).

At the end of the 1960s a second thoroughgoing attempt to increase economies of scale on a national scale resulted in the creation of the *Kombinate* (industrial complexes), which provided a new institutional framework for the process of concentration and specialization within individual industries. The intermediate level of planning, composed of the confederations of state-owned firms (VVB) was dissolved and the newly created *Kombinate* based on product value-chains were assigned directly to corresponding ministries. In order to enhance coordination between and control of the various stages of production, the main suppliers and R&D capacities were integrated into the *Kombinate* according to the principle of 'reproductive self-containment' (*reproduktive Geschlossenheit*). In this context, at the beginning of the Honnecker era in 1972, the majority of remaining craft-based private firms, which accounted for 13% of net industrial production, became also integrated into the *Kombinate* (Deppe and Hoss 1989: 38).

After a first wave of formation of the *Kombinate* at the end of the 1960s and the beginning of the 1970s, covering about one-third of total industrial employment, there followed a second, all-encompassing, wave at the end of the 1970s. In the era of Honnecker, the giant corporation, economies of scale, and technological progress became the mutual guarantors of economic growth. In 1989 industry in the GDR consisted of 126 centrally coordinated *Kombinate* with twenty to forty plants and more than 20,000 employees each on average. In addition, plants which were coordinated at the level of the district, as was the case, for example, in the construction or food-processing industry, were integrated into 95 *Kombinate*, each with 2,000 employees on average (Institut für angewandte Wirtschaftsforschung 1990). The concentration of production within the highly specialized, primarily vertically integrated, *Kombinate* allowed for larger batch sizes and, thus, favoured a shift towards larger production units. For example, while in the GDR less than 1% of the industrial workforce was employed in plants with less than 100 employees, in the Federal Republic of Germany the share amounted to 22% (OECD 1991: 84). Production within these units was organized on a quasi-Taylorist basis (Deppe and Hoss 1989: 92). At one level, the chronic shortage of intermediate goods and spare parts called for permanent *ad hoc* interventions and a high degree of flexibility on the shop floor and, hence, did not allow for the application of strict Taylorist work organization. On the other hand, the macro-economic prerequisites for Taylorist work organization, that is a well-functioning social division of labour and market cooperation at the level of the economy, were only partially fulfilled: cooperation between and within the geographically dispersed *Kombinate* (the Pentacon

Kombinat, for example, consisted of sixty-five widely scattered plants) was seriously hampered by the desolate condition of the transport and communication infrastructure in the GDR (Schwarz 1991: 9).

The dissolution of the intermediate level of the confederations of state-owned firms (VVB) led to a concentration of strategic sector-wide functions (e.g. planning, financial targets, price-setting, and trading decisions) within the central administrations of the *Kombinate*. The consequences of this process of concentration were twofold. First, the administration of the *Kombinate* came to hold considerable power *vis-à-vis* the respective ministries. Second, integration into the *Kombinate* implied a concentration of all central management functions (training, R&D, sales, and purchasing) within headquarter plants (*Stammbetriebe*). Due to the strategic (and political) importance of these *Stammbetriebe*, financial and technical resources were barely allocated to other plants in a *Kombinat*. Although initially the formation of the *Kombinate* increased the productivity of GDR industry it had, at least from a contemporary perspective, two disastrous consequences for the regions.

First, although this model of economic development, based on autarkic large mass producers, led to an increasing level of industrialization in the lagging northern and eastern regions and, hence, reduced the traditional North-South divide, it also favoured the deepening of already existing and new regional monostructures. As a consequence, in no less than fifty-four districts (of a total of 189 districts) the leading industry accounted for 40–60% of total employment in the district (Maretzke and Möller 1992: 156). Second, as a result of the internalization of economic interactions, the notion of the region as a supply-base for firms no longer had any economic meaning. Beyond the utilization of the local labour force, the individual plants of the *Kombinate* had no economic relation with the region in which they were located. The pre-existing rich tissue of intra-regional, forward, and backward linkages was torn apart and superseded by inter-regional linkages within the *Kombinate*. As a consequence, the basis for regional multiplier effects was destroyed. Through the internalization of all economic interactions, from the supply of raw materials to the production of the final product, the role of the regions as a source of agglomeration economies was truncated, i.e. economies that arise from a diversified regional economic structure and which are essential for the long-term adaptability of regions. In other words, the rationalization of production within the *Kombinate* and across regional boundaries, as a thoroughgoing attempt to increase the efficiency of production at the cost of demand flexibility, ended up destroying a flexibility once provided by localized production clusters.

Behind the Bureaucratic Facade: Reciprocity and Barter within Informal Networks

Behind the facade of the centrally coordinated *Kombinate*, however, lay anything but the 'precision, promptness, clearness, continuity, discretion, uniformity, strict subordination, savings on frictions, material and personal costs' celebrated by Max Weber (1972: 561) in defence of bureaucracy. The GDR economy corresponded with textbook models of bureaucratic planned economies about as much as do western European economies with textbook models of market economies. In the GDR, as in the other central and eastern European countries, resources were by no means allocated exclusively by the central planning authorities. In addition, informal exchange networks within and between the *Kombinate* played a key role in not only compensating for the chronic shortages of raw material, spare parts, and equipment, but also dealing with the continual *ad hoc* interventions of various power groups, such as local party members and trade unionists.

Compared, however, to other central and eastern European countries, the relative importance of these informal networks in the early GDR economy remained limited since the private sector compensated for the weaknesses of the shortage economy. However, in the 1970s the private sector largely lost this compensatory role. The recentralization of the economy in the course of the second wave of the formation of the *Kombinate* reduced the share of the private sector in total employment by two-thirds, from roughly 15% to about 5% (Deppe and Hoss 1989: 38). This severe restriction of private economic activities, which, after the beginning of the 1970s were confined to the retail and the craft sector, served, however, to increase the importance of informal networks, especially in the industrial supplies sector. These networks provided a diffuse infrastructure for barter governed by the principle of reciprocity. Reciprocity is a more general pattern of exchange than the principle of equivalence which supposedly governs market transactions, since exchanges are not expected to balance in every single act but over the entire exchange relation (Grabher 1993: 8). Thus, if a member of such an informal network received spare parts or equipment from another member of the network, he was not obliged to return the service immediately. However, the receiver was expected to assist other members of the network in a similar situation. To be sure, the exchanges did not involve only the supply of raw materials or spare parts, but also payment through the offer of labour or accommodation in the *Kombinat*-owned holiday homes. Although the larger part of such exchange took place in the grey area of personal networks reinforced by mutual obligations, some *Kombinate* turned it into an auxiliary organizational device: they circulated special 'pendulum lists' (*Pendellisten*) among different production sites of the *Kombinate* indicating

the resources and capacities that were idle and of potential use as a buffer inventory to cope with unforeseeable shortages.

DISEMBEDDING THE EAST GERMAN ECONOMY AND ITS SOCIAL INSTITUTIONS

The peculiarity of the GDR economy was not based so much on the mere *existence* of a discrepancy between the bureaucratic façade and the informal networks behind it, as in the systemic importance of the latter (Heidenreich 1992). This systemic importance of informal networks, however, was revealed only after their complete destruction. The surprise of West German politicians and experts at the sudden implosion of the GDR economy after the introduction of the *Deutschemark* reflected the ignorance of their central role in 'getting the job done'.

These networks fell victim to the decision taken after unification to decompose and privatize the *Kombinate* by the *Treuhand*, the privatization agency in eastern Germany. This approach led to an abrupt separation of the individual plants of the *Kombinate*; a radical down-scaling or shutdown of departments such as R&D whose future financial returns could not be calculated precisely, but were crucial for long-term adaptability; and the separation of social facilities such as child care, hospitals, holiday homes, or sports clubs once tied to the *Kombinate*. Roughly three-quarters (9,988) of eastern German firms were privatized in September 1992 and stripped of their role as a central institution of social integration, and it is becoming more and more clear that this strategy has resulted in not only a dramatic loss of training and R&D capacities (Grabher 1992: 222), but also in the dissolution of basic social institutions which could have formed a nucleus for developing the institutional fabric of a modern (local) civil society.

This strategy probably also paralysed the potential for developing a social infrastructure for new economic activities. The loss of a supportive tissue goes beyond simply the loss of networks of personal ties, but represents, above all, the demise of entrepreneurial skills and experience related to the development of *ad hoc* solutions within the informal networks. It is unclear whether in reality the informal ties and the 'chaos-qualification' (Marz 1992: 9) embedded in these networks would have encouraged and supported start-ups. However, it is becoming all too clear that the rupture of 'old ties' and the subsequent atomization of economic and social actors did not lead to the effects for which it has been justified, namely to unleash market forces. This was an expectation based on the sociological assumptions of classical and neoclassical economics, invoking, not distant from the Hobbesian concept of 'state of nature' or Rawls's 'original position', an idealized state of affairs in which economic behaviour and institutions remain untouched by social structure and social

relations (Granovetter 1985: 481). However, the atomization of social and economic relations in eastern Germany has in no sense unleashed market forces. Instead, it has blocked the generation of indigenous economic activity.

In this context, great hope has been placed on inward investment by large western corporations. They are not only expected to transfer capital and the most advanced technical and organizational know-how to eastern Germany, but also to reshape the sectoral and spatial structure of its tired regional economies. Furthermore, they are expected to play an active role in constructing *ex novo* a new network of institutions such as chambers of commerce and trade associations supporting the emerging market economy. These rather ambitious expectations are based on the assumption that access to the eastern German and the wider eastern European market would motivate western investors to establish large facilities in eastern Germany to supply these markets. However, the assumption as yet has failed to materialize in most industries. First, trade with eastern Europe has collapsed since January 1991, when foreign trade came to be based on convertible currency. Second, western investors have been caught in the implosion of the eastern German productive system. Both these setbacks have forced most of the western investors to revise considerably their initial strategies—with rather ambivalent consequences for the eastern German regions.

THE IMPACT OF WESTERN INVESTMENT ON EASTERN GERMAN REGIONS: RE-EMBEDDING THE EASTERN GERMAN ECONOMY?

The Merits of Eastern German Stones and Potatoes: Locally Integrated Production Complexes

Compared to other industries of the eastern German economy, the construction and the food, drink, and tobacco industries have been rather successful in attracting investors and in consolidating local production networks. This has occurred for two reasons. On the one hand, location decisions in these industries are largely influenced by the need to minimize high transport costs and the need for prompt delivery. Second, the enormous level of private demand and the large public investment programmes related to the improvement of the transport infrastructure (24.0 b DM in 1992), the federal railways (10.0 b DM), and housing construction (5.0 b DM) has been decisive for the take-over plans of western investors (Deutsches Institut für Wirtschaftsforschung 1992: 144). Amongst the more important western investors in the construction industry of eastern Germany are the RMC Group (UK) and Lafarge Coppée (France), who plan to invest 470 m DM and 350 m DM

respectively to modernize cement plants and establish networks of distribution outlets for ready-made concrete (Morgan 1992: 4). However, also the smaller investment projects of the Italian RIVA Group and Feralpi SpA in the steel industry have to be seen in the context of the immense demand for bridges, railroads, and plant construction.

Since these plants serve local markets they enjoy a relatively high degree of local autonomy. They are equipped with basic managerial functions and sales and purchases departments. However, for technological reasons, the share of highly qualified managerial and technical staff is rather low. But, for the same reason, both forward and backward linkages within the region are relatively strong: the weight-price ratio of the basic materials of the construction industry does not allow for long transport distances. Some of the investors have even acquired shares of firms who once supplied the construction plants with raw materials such as gypsum and gravel. This strategy, which is not too far from the organizational logic of the *Kombinat*, might secure the survival of suppliers whose prospects as *Treuhand* firms were rather precarious (Deutsches Institut für Wirtschaftsforschung 1992: 141). This also may explain why especially in the first stages of the unification process a rather large share of investments was dedicated to the sand and stone industry. Already by 1991 western German corporations alone had invested approximately 2 b DM in this basic goods industry (Institut für Wirtschaftsforschung 1992: 9).

A similar pattern of corporate integration and regional embeddedness characterizes investment projects in the food, drink, and tobacco industry, which at present plays a key role in eastern Germany. Building on investments of 2.2 b DM in 1991, the investments of western German corporations will probably amount to 3.5 b for 1992. The significance of this scale of investment can be derived from the fact that the ratio between investments in eastern Germany and investments in western Germany within this industry is considerably higher than the average of 1 : 6 for manufacturing industry as a whole. Indeed, the development of the industry has to be seen in close connection with the strategies of the major western retail chains. The breathtakingly quick and nearly complete takeover of the eastern German retail and distribution sector by the major western German corporations Metro Group, Spar AG, Tengelmann Group, and REWE AG led to an equally breathtaking collapse in the eastern German food, drink, and tobacco industry. In the second half of 1990 production in the east Berlin food, drink, and tobacco industry, for example, dropped by 71.3% (Institut für Wirtschaftsforschung 1991: 43). Since the western retail chains maintain close relations with their western suppliers, eastern German producers had no chance of getting on to the order lists of the retail stores. However, this also reflected the sudden stigmatization of eastern products by eastern German consumers who preferred, regardless of quality and price, western products. However, this

new consumer zeal of the eastern Germans was shortlived. One contributory factor was that the escalation of unemployment turned consumer preferences into a political issue: 'buying east' became more and more a demonstration of the disillusion with the unfulfilled promises of western capitalism. Another factor was the rediscovery by the eastern Germans, after a short period of experimentation with western products, of their customary liking of eastern German products.

The larger western investors in the food, drink, and tobacco industry—Coca Cola (USA), which committed investments of 700 m DM, Unilever (UK, 100 m DM), Philip Morris (USA), 60 m DM, and EAC (Denmark, 40 m DM)—tried to adapt to the local market with a twin strategy. First, they met the demand for popular western products by acquiring additional production facilities in eastern Germany. In a few cases, these corporations decided to establish, with much fanfare, new greenfield Euro-plants, which are dedicated to supply the EC market with a few Europe-wide brands (*Handelsblatt*, 31 December 1991). Second, and partially responding to the limits to any Europeanization of brands or any change in the preferences of eastern German consumers, they maintained the production of traditional eastern German products. The most prominent victim of these limits was the largest western German cigarette-producer, Reemtsma, which failed spectacularly to penetrate the eastern German market with western brands. In contrast, Philip Morris successfully pursued a strategy of 'regionalization' (Philip Morris jargon) by relaunching the most popular eastern German cigarette *f6* with minimal modifications to the design and the material of the cigarette box (*Handelsblatt*, 4 December 1991). Imitating this strategy of 'regionalization', Reemtsma finally decided to relaunch the eastern German brands Cabinet and Juno, leaving their unparalleled flavour untouched. In the food industry, too, popular eastern German brands are celebrating a spectacular comeback. A handful of eastern German products, such as Nordhäuser Korn, a rather strong grain gin, were even promoted as German market leaders by their western German parent firm. In the largest western retail chain Metro AG, for example, the share of eastern German products in the total turnover realized in eastern Germany amounts to 10%; however, this share as well as the number of 300 eastern German products that are offered in western German retail stores are expected to grow (*Handelsblatt*, 2 February 1992). From a regional point of view, this twin strategy has had important implications. As in the construction industry, the need to monitor the local market calls for a minimum level of management autonomy and marketing capability within the branch plants. This implies the creation of a tier of middle-management and qualified white-collar positions within rural labour markets suffering extraordinarily high levels of unemployment and massive deskilling of the labour force. The western investors also benefit from cheap inputs, especially in agricultural products, for which transport

costs as well as the need for rapid delivery favour locational proximity. Indeed, the relatively high local content of meat, grain, and vegetable production may prevent the complete collapse of the eastern German agriculture. However, even the intense regional backward linkages of the food industry into the agricultural sector cannot prevent the massive loss of production capacity and skills in the industrial sector.

Eastern Pioneers of Lean Production? Post-Fordist Production Complexes in the Automobile Industry

New organizational developments in the automobile industry also favour the formation of regional backward linkages. According to the announcements of the two largest investors in eastern Germany in the passenger-car industry, Volkswagen and Opel (GM), supplier relations will resemble those characteristic of the most advanced just-in-time delivery automotive companies such as Toyota.

As the largest single manufacturing investment in eastern Germany, Volkswagen plans to erect a completely new automobile plant in Mosel near Zwickau, where from 1994 on 6,800 workers will produce 1,200 cars daily (Golf, type 3). Together with nearby supplier firms, Volkswagen intends to create 35,000 jobs (*Handelsblatt*, 26 September 1991). To achieve this ambitious aim, Volkswagen plans to invest 4.6 b DM over the next five years with 1.3 b DM contributed by federal budget grants (Lungwitz and Kreisig 1992: 179). Similarly, GM has committed itself to investing approximately 1 b DM to establish a plant at Eisenach, with an annual production capacity of 150,000 passenger cars (*Handelsblatt*, 13 December 1990). Like the Spanish GM plant in Saragossa, the chassis of the Opel models Corsa and Astra will be assembled at Eisenach while the engine and the gear unit will be supplied from other European GM plants.

Both investors based their entry on the foundation of a 'joint corporation' in which they hold 12.5% of the shares. However, although the *Treuhand* owns 87.5% of the shares, a syndicate contract assures the western investors of the management of the 'joint corporation'. In fact, 18.5% of all investments in the manufacturing industries are based on such 'joint corporations', accompanied by strategies which sharply contrast with the rhetoric which surrounds western investors as pioneering, risk-taking capitalists. Since land and property relations within the 'joint corporation' are also included in cost-sharing calculations, the *Treuhand* has had to cover the bulk of the costs of preparing the sites and premises of the new greenfield plants of the western investors. These costs have included above all the costs of making good of past ecological damages, selecting and qualifying a workforce for the new plants and of financing assembly in the transition stage between the close down of lines devoted to the production of GDR cars and the opening up of the new plants. In other words, the

'joint corporation' forms part of a strategy to create an economic and social *tabula rasa* upon which can be erected a plant with a hand-picked élite of well-trained and highly motivated workers utilizing the most advanced technology—at the cost of the *Treuhand*. Eventually the western investors will fully own the 'joint corporation', and thereby assume all costs and risks, but not before this costly transition stage has been completed.

Initially, the western investors did not plan to close down the production of the old GDR cars completely. However, plans to maintain a small output of the passenger cars Wartburg and Trabant and of the trucks W50 and L60 for the eastern European market were abandoned when the *Treuhand* refused to cover the differential between production costs and sales price. The subsidy for the production of the Wartburg alone would have amounted to approximately 100 million DM annually (*Frankfurter Rundschau* 1991). Initially, Volkswagen also intended to partially shift the assembly of its smallest car Polo from its Spanish plant in Pamplona to the eastern German plant. However, as it became more and more clear that the rise of eastern German wage levels would make the assembly of small cars in Spain more profitable again in a relatively short period, Volkswagen decided to develop its eastern German branch as a major assembly plant for its compact car. Faced with the collapse of the market for eastern products and the prospects of diminishing wage differentials between eastern and western Germany, Volkswagen and GM decided to proclaim their eastern German plants as prototypes for the production of automobiles of the future (Heidenreich 1992: 350).

GM, in particular, largely inspired by the crusade-like, anti-Japan advertising campaigns of its American headquarters lays claim to the adoption of the latest management fetish of 'lean production'. Although the rhetoric varies from corporation to corporation (Mickler and Walker 1992: 30), all major western car-producers seem to adhere to key elements of the corporate philosophy of Toyota, considered to be a winning formula to be beaten by its own standards. These include the decentralization of competences and responsibilities; the introduction of market elements within the corporate hierarchy; the reduction of the level of in-house production and the generalization of just-in-time supplier networks; the integration of production, maintenance, and quality control; and other celebrated new dogmas of automobile production (Womack, Jones, and Ross 1990). For the western German investors, eastern Germany appears as an almost perfect location for implementing this new 'best practice'.

Most importantly, the (vague) hope of getting a job in one of the prestigious western German corporations has facilitated a vigorous demolition of pre-existing work standards and individual aspirations, notably those regarding job security, frequency of changes in work organization, work intensity, etc. Western managers, indeed, revel in the possibilities of experimentation opened up—in the words of a

manager—by the 'salutary cultural shock' to which eastern Germans have been exposed. This 'salutary cultural shock' allows them to introduce forms of work organization, which in the context of the highly institutionalized and negotiated system of industrial relations in western Germany would be much more troublesome to implement. Viewed from the perspective of western investors, the beneficial economic impact of social 'cleansing', however, must not be hindered by administrative and infrastructural backwardness. Thus, in the medium term, there is an enormous effort to renew the transport and telecommunication infrastructure as well as administrative structures, which will transform the former GDR into one of the infrastructurally most advanced production sites in Europe. A high-quality infrastructure is a basic precondition for the smooth integration of the eastern German plants into the European production networks of Volkswagen and GM.

The regional impact of the strategies of the large western investors is likely to be ambivalent. First, the implementation of new organization and management practices copying Toyota implies decentralized managerial competence at the operational level. The GM engine plant, for example, will be managed as a profit centre. However, all these plants will also be integrated within wider European corporate networks, with headquarters as well as the main research and development facilities outside eastern Germany (Mickler and Walker 1992: 42). Second, a key element of the concept of 'lean production' is a reduction in the ratio of in-house production. VW, for example, intends to achieve a ratio of between 25% and 30% in its plant in Saxony as compared to a ratio of 43% in its western plant at Wolfsburg (*Handelsblatt*, 26 September 1991). In order to encourage the development of a competitive regional supplier infrastructure and in order to guarantee Volkswagen quality standards, the company organized 'supplier conferences' to bring together pairs of eastern and western German producers of the same component. These conferences resulted in approximately forty take-overs and forty licensing agreements which will serve to supply the plant assembling the Golf type 3.

This strategy has enabled Volkswagen to shift the costs of monitoring and upgrading potential eastern suppliers to its western suppliers. Most probably, the eastern branches of the western suppliers will be integrated as second-tier suppliers within the supply pyramid controlled by large western first-tier suppliers (Doleschal 1991: 35–63). In any event, the eastern branch plants of western suppliers will not be equipped with their own R&D facilities. At best, they will be provided with small engineering departments for customer-specific adaptations of their products and for the development of special tools (Lungwitz and Kreissig 1992: 182). In addition the logistic competence of the eastern branch plants will have to be improved to meet the high requirements of just-in-time delivery. Most probably, the large eastern plants of Volkswagen and GM with their

surrounding regional supplier networks will resemble the 'transplants' of the Japanese automobile producers in the United States: tightly integrated regional production complexes with extraordinarily high levels of quality and technological flexibility, but whose destiny is exclusively dependent on the strategy of one single corporation.

Cathedrals in the Eastern German Deserts: Modernizing Fordism in Mass Production Enclaves

In contrast to the above future-oriented experiment with post-Fordist concepts of organization, the majority of the western investors have preferred to opt for technologically advanced versions of rather familiar Fordist concepts. This strategy underpins investment in the chemicals, electrical engineering, metalworking, textiles, and clothing industries. It aims at combining the benefits of modern mass-production technology with the use of cheap, narrowly qualified or unskilled labour, monitored by technologically and organizationally most advanced means of corporate control. This forward-into-the-past strategy appears more as an *ad hoc* reaction to the collapse of the eastern European markets than as the result of long-term considerations. Several of the plants that have been taken over by western investors were initially planned as bridgeheads to these markets.

A case in point is the take-over of the Falkensee plant of the *Kombinat Outer Wear* Berlin by Helsa, a western German textiles producer. Following the disappointing development of the eastern market which shattered the strategy to establish a bridgehead, the western investor integrated its eastern German plant closely into its European network of production plants. The former activity of producing outerwear was closed down completely, production facilities were renewed, and streamlined down to the mass production of a rather simple textile component for outerwear (shoulder pads, which somehow seem to capture the essence of the current cultural mood in eastern Germany). The production of these components for men's outerwear has remained in the western plants, while the eastern German plant exclusively produces components for women's wear, a market which is much more contingent on seasonal and fashion cycles. Because the plant is restricted to a small stage in the production cycle and draws all its input from the western plants (which also receive the pads), all managerial functions have been run down. After the transition, overseen largely by western managers, only a foreman remains, in charge of ensuring that orders from the western headquarters, transmitted daily by Datex-p exchange, are met.

A large part of these Fordist attempts to utilize capacity in eastern Germany for cheap mass production or as a completely dependent source

of supplies is based on wage agreements, an incentive which represents the most popular form of western integration into the manufacturing base (Institut der Deutschen Wirtschaft 1991: 6). The cost advantages of the eastern German plants do not only result from lower wages. (At present, for example, the tariffs in the chemical industry in eastern Germany amount to 55% of the western level. However, the real wages are considerably below this due to different Social Security regulations (Bispinck 1991: 22).) Of decisive importance, however, are the cost differentials resulting from the further fragmentation of the production process. At one level, this refers to the benefits resulting from the application of the technologically most advanced developments of the Babbage principle, that is, benefits from deskilling and related wage-reductions following from the further fragmentation of the production process. At another level, this fragmentation also allows some investors to escape from the highly regulated institutional environment of employer associations. The integrated production plants of the French Rhône-Poulenc group in western Germany, for example, are members of the employer association of the chemical industry. However, fragmentation of the production process has allowed Rhône-Poulenc to locate a few simple processing operations, now ascribed to the employer association of the textile industry, in eastern Germany. This guarantees, independently of the wage differentials between eastern and western Germany, permanent cost savings of approximately 15–20%, due to different agreed wage-tariff levels in the chemicals and the textile industries.

Clearly, the regional impact of the eastern German plants that are integrated into a wider corporate hierarchy on the basis of fulfilling a restricted number of low-order tasks, will be disappointing. They will probably remain 'cathedrals in the desert'. Since they are vertically integrated into the production chain of their parent corporation, they create limited regional supply opportunities and thus reduce the potential for multiplier effects within the region. As the survival of small, newly established firms frequently depends on the regional market, these 'cathedrals in the desert' constitute an impediment to the differentiation of a region's sectoral structure. In addition, regional linkages, particularly backward linkages, are the most important channel through which technological and organizational change is transmitted between firms. But, in the Cottbus plant of ABB, for example, the ratio of inputs supplied by western plants of the corporation amounts to approximately 80%. It is only in the area of construction and maintenance services that the eastern German electrical engineering plant of ABB draws inputs from local suppliers. Without doubt, the eastern plants of ABB, Rhône-Poulenc, or Helsa employ the most advanced production technologies and implement stringent quality control systems, but they fail to offer the transfer or demonstration effects which local firms need in order to raise their

technological status and improve their organizational structure (Dickens 1990).

The truncated functional status of the 'cathedrals in the desert' has also important consequences for the stimulation of entrepreneurship. The lack of decision-making functions, especially those related to technical, scientific, and management tasks, is also an absence of the 'seedbed' that produces future entrepreneurs. It hinders the development of a sizeable regional middle class and the 'culture' associated with this stratum (Massey 1983: 66), and in turn reinforces the difficulty of attracting upper-echelon technical and managerial staff to other firms in a region—a vicious circle. In addition, the type of work organization within the 'cathedrals in the desert' seems not to be conducive for the creation of a regional *Mittelstand*. Applying the Babbage principle neither allows for a type of work organization that stimulates the social competences which are the main ingredients of future entrepreneurship nor for a further development of the chaos qualification that was acquired in the informal networks of the old production system.

TOWARDS A CAPITALISM WITHOUT CAPITALISTS? THE TRUNCATED INDUSTRIALIZATION OF EASTERN GERMAN REGIONS

The eastern German map of western industrial investment resembles a patchwork that is shaped by three core elements. The first element consists of loosely knit localized production complexes in the construction as well as the food, drink, and tobacco industries, which at present draw the major investors in eastern Germany. Although the locations of these complexes do not resemble the symmetric pattern proposed in the simple equations of Johann Heinrich von Thünen and Alfred Weber, they most probably will be geographically dispersed, but to a lesser degree than their markets. Although the level of demand to be covered in these industries is geographically almost equally distributed, there is likely to be some geographical concentration along the lines of the old spatial pattern of GDR industry. This especially applies for the food, drink, and tobacco industry which will be somewhat over-represented in the south of eastern Germany. The localized clusters, however, will barely contribute to the economic regeneration of the eastern German regions: the demand for low qualified labour as well as building materials and agricultural products cannot compensate for the massive loss of industrial skills and production capacities in the eastern German regions produced by the contemporary industrial restructuring.

The second element, represented by investment in the automobile industry, will, in the medium term, also probably result in localized production clusters. However, the tightly integrated supplier networks

characteristic of the automobile industry will have nothing in common with the traditional clusters of the construction and the food, drink, and tobacco industries. For investors in the automobile industry, the economic and social *tabula rasa* of eastern Germany provides an almost ideal field for experimenting with the most advanced management practices and production techniques. In the eastern German plants, the European versions of the new management fetish of 'lean production' will be pioneered. Although this concept implies a decentralization of competences and, hence, some local autonomy at the operative level, these plants will be tightly integrated into the pan-European network of production plants controlled by western headquarters. To some extent, this sort of external control will be replicated within the regional supplier network of the eastern German plants: although the demand for flexibility and logistic competence favours local supplier autonomy on the operative level, a considerable share of the eastern German supplier firms will probably remain at the level of second-tier or sub-suppliers belonging to western parent firms which, in turn, are largely dependent on a few large western first-tier suppliers. The emerging regional production complexes will achieve extraordinary levels of productivity, technological flexibility, and quality. However, the dependence of these production complexes on the strategies of a single automobile corporation makes these regions equally extraordinarily vulnerable to external shocks.

The third element, contrasting this future-oriented approach, is composed of the vast majority of western investors, applying simply technologically more advanced versions of familiar Fordist concepts. In combining the Babbage principle with state-of-the-art technology, these investors utilize the eastern German plants as highly specialized mass production enclaves. Since these 'cathedrals in the desert' will not develop regional forward or backward linkages which exceed the modest demand for construction and low level maintenance services, they constitute an impediment for the development of a differentiated regional sectoral structure. The lack of qualified managerial and technical functions within these plants also constitutes a lack of the 'seedbed' which produces entrepreneurs. Finally, their formal rules of work organization do not allow for the emergence of the entrepreneurial skills and 'chaos qualification' which were a feature of the informal networks of the old production system. In fact, the paralysis of these networks as well as the socially integrative functions of the *Kombinate* has been a precondition for the tight integration of the 'cathedrals in the desert' into western corporate networks.

In this sense, the truncated industrialization that has resulted from all three investment strategies amounts to the development of a 'capitalism without (eastern German) capitalists': there seem to be few prospects that investment in the hands of western corporations will trigger self-sustaining

regional development. The activities of large western corporations favour a process of geographical integration of eastern Germany, based upon the inclusion of more and more regions into global corporate networks. However, this form of geographical integration should not be interpreted as an indication of an increasingly self-determined participation of eastern German regions in the international economy. With the exception of a few post-Fordist islands in the south of eastern Germany, most will probably remain at the fringe of the international networks of major corporate players. Worse still, with this western truncation of the inherited institutional and social networks, it will take a long time to create the cultural and institutional foundations for a new entrepreneurship which taps into local resources and strengths.

NOTES

The evidence is provided by sixty-eight interviews with managers and union representatives in the chemical, food, drink, and tobacco; metal; and textiles and clothing industries in the eastern German federal state of Brandenburg. These interviews form part of a research project 'Decomposition of *Kombinate* and Regional Development in Eastern Germany' which the author is leading at the Science Centre in Berlin.

1. The proper Granovetter notion is 'undersocialized'.

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