

## Governance of Economic Regeneration of the City of Ostrava

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### Abstract

The paper focuses on the economic governance structures, actors, and policies tackling the main causes of urban shrinkage which are deindustrialization, unemployment and job-related out-migration. However, there are other causes of demographic shrinkage as well such as suburbanization and changes of demographic behavior, e.g. drop in birth rates. Ostrava is a slightly shrinking city (approximately 7% population loss from 331 000 in 1990 to 306 000 in 2010). Thanks to appropriate urban and economic governance in the period 2004-2008 the population decline caused by job-related out-migration slowed down. The strategy and policy of the economic governance structures was to attract foreign direct investment, create jobs, modernize and diversify economic base. In the period 1998-2008 the Ostrava city region, in partnership with other economic regeneration actors, managed to attract foreign direct investment (FDIs) and create approximately 40 000 new jobs in different economic sectors. In the theoretical chapter urban governance is conceptualized and an operationalization of the concept is outlined.

**Key words:** Ostrava, deindustrialization, economic regeneration, governance, policy.

### Introduction

The city of Ostrava, Czech Republic, has been a traditional industrial city with the local and regional economy based on coal mining, coke processing, iron and steel production, and related heavy engineering (Sucháček 2005). The economic development history of the city of Ostrava began symbolically in 1828 with the foundation of the leading company Vitkovice Ironworks, which gave impulses to the further extensive development of coal mining. Thanks to this resource and economic base, the economy and population grew for more than 150 years. Moreover, in the period 1948-1989, the communist regime supported the industrialization and urbanization of Ostrava in accordance with the communist economic ideology despite the environmental damages and opposite deindustrialization trends in Western countries since 1970s. At the end of 1989, the communist regime broke down due to the democratic revolution. In 1990, the political and economic transformation of the former Czechoslovakia began and the main goal of the new political elites was to return Czechoslovakia back on the natural development trajectory of Western European democratic countries with a market economy. The economic reforms were based on the introduction of the free market economy and adjustment of all economic structures to the economic structures of the most developed Western countries. The highly industrialized Ostrava was hit by deindustrialization processes, unemployment and job-related out-migration. In order to face

these challenges Ostrava city developed new economic regeneration governance and implemented policy initiatives to create jobs.

### Conceptual and analytical framework for urban governance

In our research we deal with urban regeneration policy in Ostrava using the concept of urban governance and some related concepts such as the concept of modes of urban governance by DiGaetano and Strom (2003), which will be described and assessed partly through political cycles analysis. However, in our research we worked with the definition of urban governance that is provided by the UN-HABITAT: "Urban governance is the sum of the many ways individuals and institutions, public and private actors, plan and manage the common affairs of the city. It is a continuing process through which conflicting or diverse interests may be accommodated and cooperative action can be taken. It includes formal institutions as well as informal arrangements and the social capital of citizens" (UN-HABITAT, [www.unhabitat.org](http://www.unhabitat.org)).

After explaining and defining the theoretical concept of urban governance we have concentrated our efforts on the operationalization and practical questions of empirical research on urban economic governance of Ostrava. The basic problem here is how to study policies and governance systems and processes. DiGaetano and Strom's study on urban governance and policies is very illuminating in this respect (2003).

**Figure 1:** Urban governance: issues and related research questions

Issues	Possible research questions
Key actors / key decision makers / dependence of (financial) resources	Who are the key decision makers in the respective field such as economic development (i.e. formal institutions, individuals, public, private, developers, managers, owners and economic leaders, politicians, opinion makers, officials etc. at local, regional, national, supranational level)? What are the resources (i.e. know-how/knowledge, funding / money, powers etc.)?
Relations of actors / coalitions / forms of cooperation / institutional thickness	Which actors come together in determining strategic decisions, are included in decision making and which are not? Are these relations formed on an issue-by issue base, or are they permanent? Which spatial levels are integrated?
Governing logic	How can the relations between key-actors be characterized (i.e. bureaucratic procedures, clientelistic relations, informal club, populist inclusion etc.)? What is the determining logic of intractor relations (i.e. hierarchy, market, networks)?
Political objectives / agendas	What are the typical characteristics of the development agenda (i.e. pro-growth, job creation, social reform, environmental concerns)?

**Source:** Rink, D. et al. according to DiGaetano and Strom (2003), modified by Rumpel

Bernt et al. (2010) states that it is impossible to cover in detail all aspects of urban governance and thus we have to focus on some helpful concepts about the central dimensions of governance. Those 3 central dimensions, crucial to governance analysis, are actors, structural conditions, and normative frameworks. Actors have their interests and their patterns of interaction with other actors. Here, it is most important to explain who is responsible for what and who is taking the initiative in defining a policy or a support program. Structural conditions are legal frameworks, support programs at different spatial levels such as the EU, nation-state or region, favorable or unfavorable market conditions etc. Structural conditions determine partly the policy of actors and their behavior. In reality, both private and public actors are everything but free to do what they want. Every policy is limited by the lack of capacities such as funding, know-how, legal powers or professional personnel. Normative frameworks are shared norms, goals, values, beliefs, ideas, persuasions, discourses such as e.g. beliefs in the only positive impact of neoliberal economic policy, free markets and inflow of foreign direct investment etc. Normative frameworks influence political action by actors (or non-action as well).

### **Research approaches and methodology**

The research design draws on the conceptual and analytical framework of urban governance and economic regeneration governance and its operationalization. The research questions are as follows:

What was the main cause of economic regeneration policy in Ostrava?

How does economic decline, job losses, unemployment and job related out-migration influenced the creation of new particular institutional arrangements or modes of governance in Ostrava? Who were the new actors and what role in the economic regeneration governance did they have?

What were / have been the strategies and policies of the economic regeneration governance like? Were the strategies dealing with shrinkage "successful"?

What have been the results and outcomes of the economic regeneration policy?

A mixed-method research design including both quantitative and qualitative approaches was applied. For the elaboration of this case study we used the following research methods and techniques: desk research – literature review for elaboration of the conceptual and analytical framework, quantitative data analysis and interpretation for the assessment of policy results, documentary analysis i.e. analysis of planning and analytical documents for exploration of policy initiatives by different actors, and qualitative research techniques such interviews (with 16 stakeholders), focus groups (stakeholder meetings with presence of the mayor and deputy mayors) and participatory observation for the evaluation and critical discussion on the empirical findings.

### **Governance of Economic Regeneration of the City of Ostrava**

The dominant policy initiatives of Ostrava's governance system during 1990-2010 were motivated economically due to the problem of high unemployment rates, losses of jobs and job related out-migration. The major goal of the governance system was to strengthen the local economic base in the course of deindustrialization and restructuring, induce economic growth and help create new jobs.

It may be correct to state that in its last 150 years history and especially in the communist period 1948-1989 Ostrava was not the master of its fate but rather the prisoner of its external environment and structural conditions and constraints. The development of the city and the associated region (and of course, of the whole Moravian Silesian region and the Czech Republic) was strongly determined by external geopolitical and geoeconomic structures and external decisions made elsewhere.

Economic restructuring and the regeneration of the Ostrava city region has been on the top of agenda setting by local actors since 1990s. Local authorities (the city council, commission and city office) at the beginning of 1990 was very inexperienced, unprofessional and the whole governance structure immature and fragmented. The transformation of the political and economic system was implemented in a very centralized way "top-down" by a few reformists with Václav Klaus as their leader who repeatedly and convincingly put through the idea of a neoliberal free market economy without limits and based on private initiatives. At the central government level, the decision was made to close down the inefficient coal mines, coke plants, iron works and related plants in Ostrava, which caused high unemployment.

In the course of, and after, the main stage of the political and economic transformation in Czech Republic, the institutional milieu and governance structures in the Czech Republic and Ostrava changed. New actors emerged and new institutions had been created for the formulation and implementation of new economic development strategies and policies. The new economic development strategy of most Central European countries was based on the attraction of foreign direct investment (Pavlínek 2002). These new actors and institutions were Czechinvest for the attraction of investment and business support (established in 1992) at the state level, the Regional Development Agency at quasi "regional" level (1993) and the Department of Economic Development at the level of the local authority of Ostrava (1998).

According to Pavlínek (2002), after the collapse of state socialism in Central and Eastern European countries (CEECs), Western liberal economists and multilateral institutions suggested that a successful "transition" from the centrally planned economy to a market economy system could only be achieved with large inflows of foreign direct investment (FDI). FDI was supposed to play a "critical role" in the economic development of CEE and generate industrial restructuring that would spread throughout the entire economy and ultimately lead to national prosperity (Dunning 1992). FDI was often attributed such a critical role because it is often viewed as an "engine of development", a vehicle of economic modernization and a driving force of productivity development in the CEE countries. To attract large FDI inflows, the CEE countries only needed to develop appropriate institutional and policy frameworks to position themselves within the flows of global capital.

Thus, in these aforementioned structural conditions and normative frameworks, an exogenous "low road" development strategy of attracting FDI by promoting low-cost inputs was the most important economic development activity of the city of Ostrava in close cooperation with other regional actors such as the Regional Development Agency. Most politicians and experts believed that FDI would help to open the Ostrava region up and provide new innovative impulses to the regional economy and create jobs, which mirrored in the political discourse and normative frameworks at the local level as well. Throughout the second half of 1990s and up until 2008, local government actors and RDA gradually formulated and implemented a fundamentally "low road strategy", based on the promotion of low cost inputs for attracting FDI as a means of contributing to the increase of the strengths and diversification of the weakened local (and regional) economy. Additionally, certain policy measures were taken to strengthen the local and regional economy, such as the establishment of new universities and faculties, the establishment of business innovation centers, of the Science and Technology Park, and the improvements of accessibility of the city region of Ostrava or the city center renewal.

Major policy initiatives in the field of economic development by the governance system of Ostrava city region were since the beginning of 2000s the Science & Technology Park Ostrava, Business and Industrial Zone Ostrava – Hrabová, Industrial Zone Nošovice, and Mošnov Development Area – strategic business and industrial development zones. All these policy initiatives at the local level, in cooperation with the regional and national levels,

brought significant changes in employment and the degree of the diversification of the economy.

Consequently, between 2000 and 2010, in the whole Ostrava city work-commuting region, about 20 industrial zones with an area of more than 1000 hectares were prepared. Hundreds of firms established new locations in these zones, especially in Ostrava-Hrabová and Nošovice. This accelerated the re-industrialization of the local and regional economy through the influx of FDI into the automotive industry, electronics, ICT and business and personal services. These include one of the most important investments in the Czech Republic: the Hyundai Motor Company's investment in Nošovice (near Ostrava) which resulted in approximately 3,250 new jobs (X/2011) in the plant and additional roughly 7 000 jobs in supplier companies located mostly in the vicinity of the assembly plant. At the industrial zone Ostrava – Hrabová, thanks to the partnership of the local government with the development company CTP Invest, approximately 8 000 jobs have been created. The sectoral structure of the companies is very heterogeneous and diverse – advanced services – banking (GE Money), automotive (Sungwoo Hitech, CTS), logistics (DHL), media print (Ringier Print) or ICT manufacturing and services (Pegatron – Asus Czech Service). In the Science & Technology Park Ostrava (in Ostrava-Pustkovec, at the campus of the Technical University) 803 jobs in 30 companies had been created until December 2007, mostly in the new economy sectors such as ICT and R&D. In 2008-2010 the number of jobs dropped because of the crisis and in 2010 there were 650 jobs in 28 firms, plus jobs in services such as restaurant, facility management, sports center and security.

If we consider that the attraction of investors has been the main approach of economic development, job creation and diversification, then we can see that there is a correlation between the entry of investors into the particular industrial zone and the decrease in unemployment and increase in the regional GDP and wages. However, we have to mention the favorable structural conditions for economic development on the global and European market in the period 2004-2008. The drop of unemployment rate in the Ostrava city from 18.4% in 2004 to 8.4% in 2008 is an empirical evidence of the success of the economic regeneration strategy based on external resources such as FDIs and developers' resources. We have to critically state that the jobs are not in most innovative branches and they are thus vulnerable in the crisis. In 2009-2010 the unemployment rate has grown to 12.0% in 2010 again which was the case for the whole Czech Republic.

The Ostrava local authority and its representatives have supported the concept of the entrepreneurial city (Harvey 1989) supporting the private sector activities (as free market forces) in almost unlimited ways. This could be considered a good strategy in the unfavorable market conditions of an old industrial city, characterized by low local demand for economic factors, loss of attractiveness due to deindustrialization and job losses, air pollution, bad image etc. These structural conditions and normative frameworks mirror in the governance arrangements. The public sector and public policy is inferior to the interest and needs of private investors and developers. One of the reasons for that is the limited personal and financial capacity of the public sector and the missing know – how to be able to sort out the problem of economic development. The other reason could be, according to the mass media and statements by NGOs or even governmental advisory bodies (such as NERV – National economic advisory council of the government), a high level of clientelism and corruption, when politicians and officials misuse information on economic development and manipulate public procurements on behalf of their clients in order to gain all kind of benefits. The development of the city has been very dependent on the EU structural funding as well. EU financial support programs are very meaningful for the new stage of high road development strategy through innovation.

The political elites in the Czech Republic became aware of the risky dependence on FDIs and the normative framework (values, beliefs, discourses) is now slowly changing towards a more endogenous development approaches based on the mobilization of resources for high-added value and innovative activities.

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