

# **Overcoming Fragmentation in Southeast Europe**

**Spatial Development Trends and  
Integration Potential**

*Edited by*  
**Panayiotis Getimis**  
*and*  
**Grigoris Kafkalas**

# OVERCOMING FRAGMENTATION IN SOUTHEAST EUROPE

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Spatial Development Trends and Integration Potential

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# Preface

This volume originates in two recent Interreg CADSES (Central, Adriatic, Danubian and Southeast European Space) projects that were implemented under the leadership of the editors during the last six years. The two projects are: the ESTIA (European Space and Territorial Integration Alternatives) financed under Interreg IIC CADSES and its successor ESTIA-SPOSE (Spatial Planning Observatory for Southeast Europe) financed under Interreg IIIB. Many of the insights and arguments presented here emerged during the meetings of project partners and from the drafting and exchange of reports. However the scope of the book differs significantly in substance from these two projects as it focuses more on scientific understanding and argumentation and less on identifying policy priorities. In a sense the book provides a view from scientists who in many occasions were themselves involved in the process of socio-political change variously defined as transition and/or Europeanization of the countries of Southeast Europe. Involvement, however, does not imply biased treatment of the complex and controversial issues addressed in the different contributions. It means the expression of active interest and the use of experience that were reshaped in order to become accessible to a wider audience not always familiar with the intricacies of this troubled area of Europe.

The situation of the countries of Southeast Europe in relation to the process of European Unification in the middle of the first decade of the 21st century remains a highly controversial issue. The present volume questions in particular whether the elaboration and the pursuit of a common vision for the spatial development of Southeast Europe is possible in the context of the ongoing debate and of the initiatives taken by transnational cooperation frameworks of global and European scope. A general conclusion is that in an area where for many years socio-economic fragmentation has been accentuated by political conflicts and geomorphology, any common territorial perspectives should be forged against the complex background consisting of antithetical – integrative and segmental – forces and trends. Thus the various contributions in the book can be taken as different responses to the question of whether the combined dynamics of integrative initiatives are capable of overcoming the cumulative momentum of fragmentation forces at work.

Reflected in the structure of the book is its aim to combine the social, economic and political aspects with the spatial dimension of development trends and policies in order to study the prospects and the contradictions surrounding both the internal fragmentation and the placement of Southeast Europe within the evolving European architecture. Thus, the authors have been invited to focus upon the ongoing and overlapping trends of transition and integration on various geographical scales in order to describe the actual situation and to identify factors and paths leading to the promotion of spatial integration in the region. In the countries of Southeast Europe

these trends have led to specific problems and conflicts, associated on the one hand with the need to deal with elements persisting from the past and, on the other hand, to difficulties involved in implanting the new economic and political structures. In such a polyvalent and volatile situation exemplified by the countries of Southeast Europe, the book offers the opportunity of a challenging and fruitful testing ground for the analysis and explanation of the prospects of overcoming fragmentation through the emergence of a long-term process of social and economic integration in an area which could probably be seen as the weakest and most fragile link out of the entire European territory.

Alarming warnings about the dangers and negative repercussions involved in the transition in Southeast Europe overwhelm the existing literature. While this book does not ignore the reality of these negative aspects, it begs to differ by providing evidence and by arguing that any negative sides need to be balanced by an active interest in the dynamism and the positive potential of an area that shares a common history with the rest of Europe. This endeavour presents two fronts: on the one hand the book deals with spatial development and planning issues and the economic geography of European integration, while on the other hand it plays a part in the already significant and growing debate about the transition and Europeanization processes in Southeast Europe. The intention of the editors and authors is to contribute to the development of a more integrated approach than the approach presently prevailing in the existing literature. The manner in which this is attempted can be seen as threefold: first it is expressed by a conceptual framework that addresses the issues of spatial development emphasizing the multi-level, multi-sectoral character of the process of European integration and enlargement; second, it lies in the empirical content that provides an informative insight into the real present-day situation across the territory of Southeast European countries; and, third, it is embedded in its emphasis upon the integrative elements inherent in the Europeanization process *vis-à-vis* the disintegrative consequences of unevenness and fragmentation.

This collective effort derives most of its merits from the knowledge and the commitment of our contributors to whom we are deeply indebted. Grigoris Kafkalas wishes in particular to thank them for their stimulating responses to his detailed comments on their drafts. However we take full responsibility for this final volume any remaining weaknesses in either structure or appearance of which are only due to our own choices and limitations. Nevertheless, we are confident that the present book provides in all honesty valuable information and arguments which reflect real commitment and quality of thought and which, as input, we hope will prove useful in the ongoing scientific and political debate on the priorities of the socio-political and territorial trajectories of both the individual countries and the entire geographical region of Southeast Europe.

Panayiotis Getimis and Grigoris Kafkalas

# Acknowledgments

During the course of the six years of implementation of the two Interreg projects ESTIA and ESTIA-SPOSE that lie at the core of the inspiration behind this volume we have enjoyed the partnership, cooperation and support of many individuals and institutions from all the countries of Southeast Europe. We are indebted to all though it is not possible to mention them by name in relation to this collective venture.

It would be a reflection of ingratitude, however, not to acknowledge explicitly the role of Interreg officials at the Greek Ministry of Economy and the various managerial organs of this important European Initiative that provided the financial means needed to conduct primary and secondary sources of knowledge and information in an area notorious for its fragmentation and lack of reliable and compatible data. At the same level we should thank the Universities and research institutions hosting our activities and/or providing a fertile source of collaborators and of discussions for many ideas that found their way – directly or indirectly - in the chapters of this book. To be mentioned in particular are the Spatial Development Research Unit, Department of Urban and Regional Planning, Aristotle University of Thessaloniki and the Institute of Urban Environment and Human Resources at the Panteion University of Social and Political Science in Athens. One cannot overestimate the role played by the continuous exchange of views and information, which we had with the scientific and managerial team of the parallel projects VISION PLANET and PLANET CENSE. In particular, we wish to mention Friedrich Schindegger and Gabrielle Tatzberger at the Austrian Institute for Regional Studies and Spatial Planning (ÖIR), Vienna and Jens Kurnol and Peter Schoen at the Federal Office for Building and Regional Planning (BBR), Bonn.

Turning now to the work that was carried out backstage to make this venture possible, we thank the following individuals for providing the valuable expertise without which we would still be far from completing the work. We acknowledge our debt to the Spatial Development Research Unit, the staff and the premises of which supported the production of the book. This task required considerable skill and imagination and included the preparation of textual and non-textual material such as the redrawing of maps and diagrams. In particular, Dimitra Konstadinidou did much of the secretarial work at the launching stage, Sofia Alexiadou was responsible for the detailed handling of all material in order to produce a comprehensive and homogenous draft, while Dimitris Foutakis, besides his role as a contributor, kept an editorial eye on the work as a whole, throughout the entire technical process leading to the final draft. We are also indebted to Sarra M'Barek for the undertaking of the difficult but absolutely necessary task of editing the texts by authors with different native languages writing in English. Finally, we should like to thank Carolyn Court and Neil Jordan and the editorial staff at Ashgate for their active support in the production of the book.

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# PART 1

## Introductory Overview on the Main Themes of the Book

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## Chapter 1

# Overcoming the Fragmentation of Southeast Europe: An Introductory Overview of Main Themes

Grigoris Kafkalas

The introductory chapter (Part 1) refers to the territorial perspectives of Southeast Europe within the evolving European Unification in the first decade of the twenty-first century and provides the context for the contributions included in this book. The relevant arguments are presented in the two main parts of the book. The first (Part 2) on ‘integration vs. fragmentation in Southeast Europe: forces, structures and trends’ addresses the socio-economic and political situation, while the second (Part 3) focuses on ‘spatial development perspectives: concepts, facts and visions’ in order to examine key aspects of spatial organization and spatial development trends. In a concluding chapter (Part 4) the prospects for the integration of Southeast Europe are outlined. The introductory chapter itself consists of three sections and an epilogue. In the first section the changing geography of Southeast Europe is presented with reference to basic historical, geographical and socio-economic features while EU policies are taken into account in an attempt to assess their impact upon the territorial integration of the area. The second section turns to a larger scale by looking on European spatial development trends and the ongoing debate on European spatial planning, while special emphasis is given to the decisive role played by the Interreg Initiative for the promotion of trans-national cooperation. Together, the above sections form an appropriate background for reading of chapters, and the synopsis of these can be found in the third section of the introduction. The epilogue comments upon the relevance of spatial visions as a tool for promoting the territorial cohesion of the area and its emergence as a Southeast pole in a more polycentric Europe.

### **The Changing Geography of Southeast Europe**

#### *The general context*

In the beginning of the twenty-first century, the world looks significantly different and much more open to shifts of geopolitical patterns and trends than was believed to be possible throughout most of the last century. In Europe, the restructuring of all national economies under the new order of globalization and in particular the transition of the centrally planned economies towards various combinations of

liberal democracy and the free market, has led to a recognition of the importance of the spatial aspects of development and to the increasing interest of both researchers and policy-makers in the role of geography and territory (Allen and Massey 1984, 5–6; Henderson and Castells 1987, 7–8; Krugman 1998, 59–64; Storper 1997, 3). Europe, after coming out of a long divide between East and West or Plan and Market, has entered a slow process of peaceful unification with the European Union as the leading institutional experiment of European integration.

The prospect of the insertion of the countries of Southeast Europe into the new European architecture should be seen against the evidence that in all major divides of the last century these countries have followed diverging paths, turning the Balkans into the miniature of a divided world (Glenny 2001, esp. ch.5; Mazower 2000, esp. ch.4; Simic 2001). Thus, in this part of Europe, any hopes and controversies associated with the major socio-political options and ideologies of the twentieth century were real and verifiable in a practical, empirical sense. It is in this context that the fragmentation of Southeast Europe, rather than being treated as a historical paradox, is viewed as a historical laboratory where it becomes possible to study the various conflicts and contradictions in the restructuring and transition of national economies, which are shaped by the combination of their internal dynamism and the powerful forces of European integration and globalization.

### *Elements of history and geography*

In the context of European spatial development the area of Southeast Europe is always understood to be a periphery with very weak links and a lack of comparative advantages in relation to the major centers of European development. On the other hand the term ‘Balkanization’ is widely used in various circumstances to describe a geopolitical area consisting of a number of national states and sometimes of parts of national territories that is politically fragmented and inherently unstable (Simic 2001, 22; Todorova 1997, 32–35). It is therefore a crucial issue whether this area could be treated as a sufficiently coherent territory of mutually interdependent states constituting a separate geopolitical entity (Lampe 2004, 1).

The geographical area of the Balkan Peninsula, as the south-eastern part of Europe, is bounded by the Black Sea, the Sea of Marmara, and the Aegean, Mediterranean, Ionian, and Adriatic seas. The countries commonly included in the Balkans are Albania, Bosnia and Herzegovina, Bulgaria, FYROM, Montenegro, Romania and Serbia. There is, however, some controversy as to whether Greece, Turkey, Hungary, Moldova, Croatia and Slovenia are also part of the Balkans and it is not uncommon to include or exclude selectively any of these countries in specific cases. In order to avoid the confusion associated with the boundaries of the Balkans and the reluctance of many countries to accept an adjective that is associated with ethnic conflict and backwardness, the entire area is increasingly recognized as Southeast Europe (SEE) though the ambiguity over its boundaries continues on different grounds (Map 1.1).



### Map 1.1 The countries of SE Europe

Source: ESTIA-SPOSE 2006, elaboration by Spatial Development Research Unit (SDRU-AUth).

For both scientific analysis and conventional wisdom the fact that with minor exceptions this area constituted most of the European territory of the Ottoman Empire for over four centuries accounts for the relative backwardness of the Balkans. The Balkans as the boundary of Europe became the arena of many wars with the Ottoman Empire, a fact that defines its specific historical trajectory *vis-a-vis* the major centers of European development. This trajectory is somehow reflected in the religious diversity of the area. Thus, Orthodox Christianity is the principal religion in Bulgaria, Greece, Romania, Serbia and Montenegro, Catholic Christianity the principal religion in Croatia and Slovenia, and Islam the principal religion in Albania and Bosnia and Herzegovina.

In the beginning of the twentieth century the Balkan wars of 1912–13 led to the formation of the territorial boundaries of the Balkan nations and the retreat of Turkey to its present borders. After the Second World War and during the subsequent Cold

War era, with the exception of Greece and Turkey who became NATO allies, the rest of the Balkan countries came under communist regimes. However their evolution took different directions. Thus Bulgaria was a COMECON/Warsaw Pact ally, while Romania, though a COMECON member, followed a path marked by many autonomous elements. Yugoslavia took an even more independent path towards self-managing socialism and became a key player in the non-aligned Movement of Third World Countries. Albania, after being the only European ally of Communist China, turned to an isolationist position. In the 1990s, after the collapse of the communist regimes in Europe, the Balkan countries entered a stage of transition towards political democracy and free market but with many obstacles and weaknesses stemming from their relative backwardness that further complicated an already difficult process. Yugoslavia in particular experienced severe armed conflicts between its former republics, resulting in intervention by the NATO forces. The gradual breaking-up of Yugoslavia during the 1990s led to the emergence of Slovenia, Croatia, Bosnia and Herzegovina, FYROM, and more recently Serbia and Montenegro as new independent states.

#### *Basic socio-economic features*

In this light it is more than obvious that in the middle of the first decade of the twenty-first century significant differences exist among SEE countries in terms of critical parameters of socio-economic development such as institutional structures, levels of economic performance and income. On the political front there remain many unresolved issues relating to ethnic minorities and border disputes. Most importantly, the status of Kosovo remains uncertain while Montenegro, which after a referendum in May 2006 became an independent state, faces the challenge of placing itself on the world scene. The difficulties are accentuated by the presence of many non-institutional barriers such as those associated with geographical relief and the conditions of transport and communications infrastructure. Overall it seems that there are extremely diverging trajectories and strong fragmentation forces, which delay the integration of the SEE territory within the evolving European architecture and give rise to specific spatial patterns of economic activity (Petrakos 2000, 44; Resmini 2003, 16).

The combination of structural and contingent elements does not seem to promote the convergence of the paths followed by the different countries of the area. The Table 1.1 and the Figure 1.1 below reflect the significant variation existing in some key figures concerning the area, population, GDP and GDP per capita in Purchasing Power Parity (PPP) among the SEE countries. Romania is the largest country with almost one third of the area and population while Greece is the stronger economy producing more than one third of the area's GDP. Greece and Slovenia have the highest per capita GDP that is over 75% of EU25 average. Inequalities in GDP per capita within the SEE (=100) range from a low of 36.8 in Montenegro to a high of 214.9 in Greece at a ratio of 1 to 6. If we consider the figures of the SEE area against those of the EU25 we observe that SEE corresponds to 19.2% of its area and 14.7% of its population but only 5.7% of its GDP. This fact reflects the existing development gaps that have negative consequences for the integration of SEE (Sicherl 2000). The above, together

**Table 1.1 Basic socio-economic features of the SEE countries (2005)**

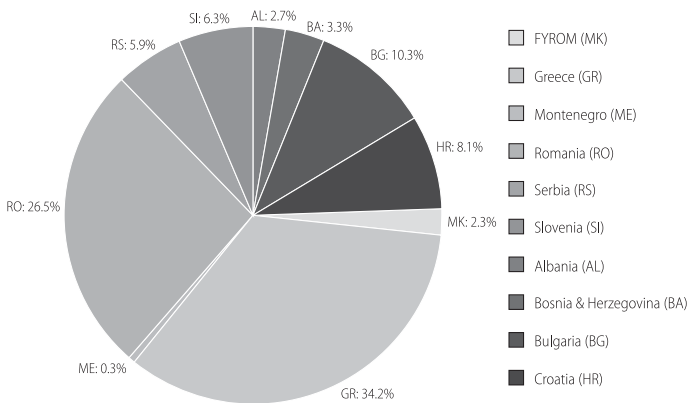
|                                   | <i>Area SQ.<br/>KM</i> | <i>%<br/>SEE</i> | <i>Population</i> | <i>%<br/>SEE</i> | <i>GDP (\$ PPP)</i> | <i>%<br/>SEE</i> | <i>GDP per<br/>capita<br/>(\$PPP)</i> | <i>SEE=100</i> | EU25=100 |
|-----------------------------------|------------------------|------------------|-------------------|------------------|---------------------|------------------|---------------------------------------|----------------|----------|
| <b>Albania</b>                    | 28,728                 | 3.8              | 3,581,655         | 5.3              | 18,970,000,000      | 2.7              | 4,900                                 | 47.4           | 17.4     |
| <b>Bosnia and<br/>Herzegovina</b> | 51,129                 | 6.7              | 4,498,976         | 6.7              | 22,890,000,000      | 3.3              | 6,800                                 | 65.8           | 24.2     |
| <b>Bulgaria</b>                   | 110,910                | 14.5             | 7,385,367         | 11.0             | 71,540,000,000      | 10.3             | 9,600                                 | 92.9           | 34.2     |
| <b>Croatia</b>                    | 56,542                 | 7.4              | 4,494,749         | 6.7              | 55,760,000,000      | 8.1              | 11,600                                | 112.3          | 41.3     |
| <b>FYROM</b>                      | 25,333                 | 3.3              | 2,050,554         | 3.1              | 16,030,000,000      | 2.3              | 7,800                                 | 75.5           | 27.8     |
| <b>Greece</b>                     | 131,940                | 17.3             | 10,688,058        | 15.9             | 236,800,000,000     | 34.2             | 22,200                                | 214.9          | 79.0     |
| <b>Montenegro</b>                 | 14,026                 | 1.8              | 630,548           | 0.9              | 2,412,000,000       | 0.3              | 3,800                                 | 36.8           | 13.5     |
| <b>Romania</b>                    | 237,500                | 31.1             | 22,303,552        | 33.3             | 183,600,000,000     | 26.5             | 8,200                                 | 79.4           | 29.2     |
| <b>Serbia</b>                     | 88,361                 | 11.6             | 9,396,411         | 14.0             | 41,150,000,000      | 5.9              | 4,400                                 | 42.6           | 15.7     |
| <b>Slovenia</b>                   | 20,273                 | 2.7              | 2,010,347         | 3.0              | 43,360,000,000      | 6.3              | 21,600                                | 209.1          | 76.9     |
| <b>TOTAL SEE</b>                  | 764,742                |                  | 67,040,217        |                  | 692,512,000,000     |                  | 10,330                                |                |          |
| <b>TOTAL EU25</b>                 | 3,976,372              |                  | 456,953,258       |                  | 12,180,000,000,000  |                  | 28,100                                |                |          |
| <b>SEE/EU</b>                     | 19.2                   |                  | 14.7              |                  | 5.7                 |                  | 36.8                                  |                |          |

*Source:* Many different sources including national statistics and experts have been examined. The table adopts the data provided in CIA's, World Factbook, 2006 edition, available over the internet, not because it is considered more reliable than other sources but because of its comprehensiveness and apparent comparability. The reader is warned that the data is used here in order to provide an overall picture and may contain inaccuracies due to different reasons.

with the fact that the SEE's average GDP per capita is slightly above that of the EU25, underline both the significant potential but also the current weakness of the relative position of the SEE macro region within the European territory.

As Southeast Europe includes some of the poorest and most unstable countries of Europe, the objectives of political stability, economic growth and social cohesion, constitute basic pre-requisites for the pursuit of all other goals. In this context emerge the contradictory forces of integrative and segmental approaches which shape the background of the key dilemmas for the spatial development perspectives of the SEE macro-region. On the one hand the damaging combination of limited resources and extensive needs supports arguments favouring integrative approaches in order to make the most efficient use of scarce assets. This entails the coordination of national and sectoral priorities and the concentration of efforts through the adoption of a comprehensive 'regional approach' parallel to the process of efforts to follow the most appropriate national paths towards European integration. On the other hand the extreme fragmentation and the diverging national trajectories reassert themselves in order to focus the efforts upon the most critical domestic targets. This is a key dilemma for the prospects of Balkan integration (Wallden 1994, 358–9).

**Figure 1.1 GDP share of SEE countries**



*Source:* Data provided in Table 1.1.

### *The role of the EU policies and the territorial perspectives of SEE*

In the countries of SEE the transition process continues despite the existing real weaknesses and delays. The general context for their development and integration within the evolving European architecture is shaped by various international cooperation initiatives that require the active participation of the governments. The most important framework is provided by the 'Stability Pact for South Eastern Europe' (Gligorov et al.1999). In its founding document, adopted at the initiative of the EU in Cologne on 10 June 1999, more than 40 partner countries and organizations

undertook to strengthen the countries of South Eastern Europe 'in their efforts to foster peace, democracy, respect for human rights and economic prosperity in order to achieve stability in the whole region'.<sup>1</sup> The Donors Coordination Process, which is under the auspices of the EU and the World Bank, is the main financial source for this international strategic plan. The most important political instrument of the Stability Pact is the Regional Table. There are three Working Tables, which operate under the Regional Table: *Working Table I*: Democratization and Human Rights; *Working Table II*: Economic Reconstruction, Cooperation and Development; *Working Table III*: Security Issues (with two Sub-Tables: Security and Defense, and Justice and Home Affairs). The aim is to develop strategies which promote regional cooperation among countries of the region, facilitate coordination between donors and allow adequate prioritization of investments in Southeast Europe (EU/WB 2003).

Within this context the relationships between the European Union and the countries of the area have followed different trajectories. Three broad directions could be identified. First there are the countries which have recently become members or will soon join the EU. These include Greece, an EU member since 1981, Slovenia and Hungary which have been EU members since 2004 and Bulgaria and Romania which are expected to join the EU in January 2007. Second there are the countries with candidate status for which negotiations for accession continue. This category includes Croatia, Turkey and FYROM for which there are no commitments concerning the pace and the end date of negotiations. Third, there are the countries of the West Balkans which have either signed a Stabilization and Association Agreement (SAA)<sup>2</sup> with the EU (i.e. Albania) or are in a process of negotiating a SAA (i.e. Bosnia and Herzegovina, Serbia and Montenegro as well as Moldova which has a Cooperation Agreement). These relationships are presented in Table 1.2 overleaf.

Southeast Europe (SEE) is an extremely fragmented geographical area in many respects and especially in its relation to the Europeanization process. Most

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1 According to the official Stability Pact website (<http://www.stabilitypact.org>) the partners are:

- a) The countries of the region: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR of Macedonia, Moldova, Romania and Serbia and Montenegro
- b) The European Union Member States and the European Commission. Other countries: Canada, Japan, Norway, Russia, Switzerland, Turkey, USA
- c) International organizations: UN, OSCE, Council of Europe, UNHCR, NATO, OECD
- d) International financial institutions: World Bank, International Monetary Fund (IMF), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Council of Europe Development Bank (CEB)
- e) Regional initiatives: Black Sea Economic Cooperation (BSEC), Central European Initiative (CEI), South East European Cooperative Initiative (SECI) and South East Europe Cooperation Process (SEECp).

2 The SAA's are signed as part of the EU's approach for the Stabilization and Association Process (SAP), which is designed to encourage and support domestic reform processes in the West Balkan countries. In the long run, the SAP offers these countries the prospect of full integration into the EU's structures, provided that certain political and economic conditions are met.

**Table 1.2 SEE countries: Status of relationships with the EU in August 2006**

| SEE countries          | Status of relationships with the EU in August 2006                               |
|------------------------|--|
| Albania                | Stabilisation and Association Agreement with the EU signed in June 2006          |
| Bosnia and Herzegovina | Stabilisation and Association Agreement (SAA) negotiations                       |
| Bulgaria               | EU Accession Treaty since April 2005. EU membership is scheduled for 1/1/2007    |
| Croatia                | Candidate status granted in June 2004 Accession negotiations started on 3/10/05  |
| FYROM                  | Candidate status since December 2005, no date for the start of membership talks  |
| Greece                 | EU member since 1981   |
| Hungary                | EU member since 2004   |
| Moldova                | Partnership and Cooperation Agreement signed in 1998 for a period of ten years.  |
| Montenegro             | Stabilisation and Association Agreement (SAA) negotiations                       |
| Romania                | EU Accession Treaty since April 2005. EU membership scheduled for 1 January 2007 |
| Serbia                 | Stabilisation and Association Agreement (SAA) negotiations                       |
| Turkey                 | Candidate status since 1999. Accession negotiations started on 3/10/05           |
| Slovenia               | EU member since 2004   |

Source: <http://www.euractiv.com/en/enlargement>

researchers do not provide a cautious response to the question regarding the degree of integration of the SEE macro region that according to Uvalic (2001, 61) was less integrated in 2000 than it had been in 1990. Thus, despite the fact that in 2006 all countries of SEE seem to be looking forward to their integration within an enlarged European Union (EU), a common European future for the entire regions seems distant and uncertain.

The Western Balkans represents the non-EU territory of SEE and constitutes a particular challenge to the EU to demonstrate its power of transformation in a region where states are weak and societies divided. A convincing political perspective for

eventual integration into the EU is crucial to keep their reforms on track (Kaminski 2003). At the Thessaloniki European Council in June 2003 an '*Agenda for the Western Balkans*' which includes an enrichment of the current SAP through the provision of new *European Integration Partnerships* was adopted. Inspired by the pre-accession process and tailor-made to each country's needs, these partnerships will identify on a regular basis priorities and obligations to be fulfilled. EU financial assistance will be directed to the priorities set out in the partnerships. Each country will draw up a national action plan for implementation of the partnerships, which will provide a clear agenda against which to measure progress.

The Union supports the reform agenda contained in the European Partnerships with a range of instruments. EU assistance to the Western Balkans comprises an allocation of € 539 million in 2005 alone, including support to the regional programme for which Croatia remains eligible. This assistance focuses on the challenges identified within the framework of the European Partnerships. Most new EU support instruments agreed at the 2003 Thessaloniki Summit have now been put in place. The countries have been afforded the possibility to participate in Community programmes, in order to familiarize them with EU policies and working methods. During the period 1990–00, the European Commission (EC) provided € 5,550 billion to the region, through several programmes (ECHO, Obnova, Phare), as well as through macro-financial support for transition countries suffering from crises. All these instruments were gradually abandoned because they no longer responded to the different needs of the countries and they even began to be themselves a source of problems. Nowadays, they have been replaced by the Stabilization and Association process, which is the cornerstone of the EU's policy towards the region. Since 2000 the EU established the CARDS program (Community Assistance for Reconstruction, Development and Stabilization) aiming to support the participation of the countries of the Western Balkans (Albania, Bosnia and Herzegovina, Croatia, Serbia, Montenegro and the former Yugoslav Republic of Macedonia) in the Stabilization and Association Process (SAP). Through the program € 4,6 billion were provided to this region in the period 2000 to 2006 for reconstruction investment, institution-building, and other measures promoting regional cooperation. European Union assistance in Albania, Bosnia and Herzegovina and Croatia is managed by the European Union's Delegations in those countries while CARDS assistance is implemented in Serbia and Montenegro (including Kosovo) and in FYR of Macedonia by the European Agency for Reconstruction (EAR).<sup>3</sup> In order to ensure the focus on vital problems and the concentration of resources, CARDS identifies only four priority objectives: (1) Promoting integrated border management approaches, (2) Promoting democratic stabilization, (3) Building the capacities of cooperation between state institutions, and (4) Developing regional infrastructure approaches. The EuropeAid Cooperation Office manages all regional programs.

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3 The European Agency for Reconstruction was established in February 2000 and has its headquarters in Thessaloniki, Greece. It has operational centres in Pristina, Belgrade, Podgorica and Skopje. An independent agency of the European Union, EAR is accountable to the Council and the European Parliament and overseen by a Governing Board composed of representatives from the 25 EU Member States and the European Commission.

The CARDS assistance program to the Western Balkans (including the five SAp countries – namely Albania, Bosnia and Herzegovina (BiH), Croatia, the Former Republic of Yugoslavia (FRY) and the Former Yugoslav Republic of Macedonia (FYROM)) has produced a Regional Strategy Paper 2002–06 (EC 2002). In this paper the existing regional infrastructure is examined within its wider political and economic context. With regard to the regional political situation there are both positive and pessimistic observations. On the positive side the establishment of democratic administrations and the fact that all SAp countries have already joined or are in the process of joining international community organizations is underlined. On the negative side the paper draws notice to the fact that there are still insecure borders and weak institutions, and a future major political crisis cannot be entirely ruled out. The regional economic situation is closely interrelated with the political one, since a future political crisis would pose an additional burden on the already fragile economic state of the region. Evidence shows that the region is capable of growth, should structural reform, trade and foreign investment be boosted. However, the high unemployment rates, in combination with the low productivity levels, the limited privatization and the rudimentary reform of the financial sector do not allow the region to attain economic development. In this context regional infrastructure is considered highly inadequate while infrastructure investment levels, though significant, are still not enough to cover the needs of the SAp countries. Poorly maintained transport infrastructure that is not regionally interconnected, energy problems and lack of coherent and cost effective strategies continue to be the region's major characteristics (CEC 2005).

## **European Spatial Development Perspectives**

### *European spatial development trends: visions of polarization and polycentrism*

The second half of the twentieth century was memorialized by the cold war division of Europe into geopolitical blocks headed by the two nuclear superpowers of the USA and the USSR. Since the beginning of the 1970s the modes of development prevailing in the two sides of Europe, mass production and welfare policies in the West and central planning in the East, had entered a long period of socio-economic restructuring. The collapse of the Soviet bloc at the end of the 1980s ended the cold war division of Europe into two hostile political regimes and by the same token started an era characterized by the almost unchallenged supremacy of the market as the dominant model of economic development and societal organization.

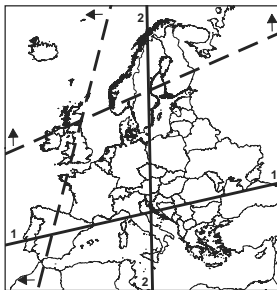
In this context the countries of East Europe had to cope with the double challenge of societal transition and structural change, while the countries of West Europe were facing the pressures arising from increasing social and economic polarization and the massive inflow of economic migrants. The above trends created enclaves of wealth and poverty as well as of ethnic and/or religious groupings in all major European cities and even in smaller towns and the countryside. By the end of the twentieth century multi-culturalism, individualized consumption, and social polarization had become standard features throughout the European continent.

During this period the prospect of accession into an enlarged European Union gradually became the commonly shared goal of almost all European countries still outside the EU. In 2004, the EU enlargement included ten countries of Central and Eastern Europe and the Mediterranean, i.e. the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovakia and Slovenia, in a move that underlined the re-unification of Europe after five decades of division. On the other hand there were already signs that Europe had entered a phase where both the national state and the supranational EU institutions had been revealed as rather weak and inadequate apparatuses as guarantees of social cohesion and economic convergence against both the weight of the problems and the predominance of the free market. The national state seemed weak after the long period of restructuring that severely restricted its ability to intervene and regulate the economy, while the EU seemed unable to convince its citizens that it is was capable of overcoming the legitimization crisis stemming from its intergovernmental mode of operation.

All studies of the spatial patterns associated with the above major historical trends and shifts occurring in the European continent recognize the difficulty of capturing the outcome let alone the dynamics of the new European geography. All efforts however recognize the persistence of major divides between developed and less developed parts of Europe. A formal illustration of these divides is provided in Figure 1.2 below.

The recognition of divides has triggered the imagination of spatial theorists who have produced some widely accepted abstractions which as either descriptive slogans or images have become an integral part of the ongoing debate on European

**Figure 1.2 Spatial Divisions in Europe**



**Axial Divides of Europe**

**Main Axial System**

Main North - South divide



1-1

Main East - West divide

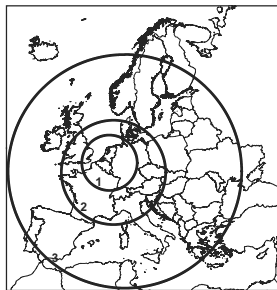
2-2

**Secondary Axial System**

North periphery



West periphery

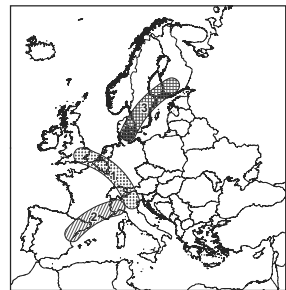


**A Polarised Europe**

1. Metropolitan core

2. Diffusion ring

3. Periphery



**European Development Corridors**

1. The central growth zone

2. The south sunbelt

3. The Baltic corridor

Source: Andrikopoulou and Kafkalas, 2000, p.38.

spatial planning. Such abstractions or, better, metaphors, translate in spatial terms the most visible cumulative results of the above mentioned processes and trends. It seems that the analysis of European spatial development is susceptible to the use of metaphors. In this respect among the most well known metaphors of the European space are, on the one hand, 'the pentagon' and the 'blue banana' and, on the other, the 'bunch of grapes' and 'polycentrism'. The former intend to describe the existing trends of uneven development while the latter seem to visualize an alternative spatial future of more balanced polycentric growth.

According to Williams (1996) the spatial image known as the 'blue banana' sees in this vision the first of a series of metaphors that characterize the discussions on the uneven geography of European development. According to Faludi (2002, 10–11), the original notion figured in a French study (Brunet 1989) concerning the position of French cities. Based on an analysis of all 165 major cities in twelve countries of the EC-12 plus Austria and Switzerland the study found that almost half of them were situated on a 'dorsale' extending from England to Lombardy and bypassing the French heartland. This banana shaped figure is identified as the developed European core. This image captures also the neglected areas (lacunae) and the new growth areas (Nord du Sud). Brunet himself elaborates further on this idea in a later work (Brunet 2002). The initial idea was adopted in 'Europe 2000: Outlook for the Development of the Community's Territory' (CEC 1991) that was the first in a series of documents and initiatives of the European Commission's DG Regional Policy concerning the establishment of a European spatial planning domain.

Another prominent metaphor present in most descriptions of European spatial development patterns refers to the existence of a European core where population and economic activities tend to concentrate. As one interpretation of this European core the European Spatial Development Perspective (ESDP) has introduced the 'pentagon', referring to an area that links London, Paris, Hamburg, Munich and Milan. In this area which comprises about 20% of the Community territory, live about 40% of the inhabitants producing around 50% of the GDP (CEC 1999, 8). As the combined outcome of intersecting historical trajectories, this European core illustrates the results of polarization trends accumulated during many decades of European spatial development.

Against the reality of an unevenly developed Europe, other metaphors stress the polycentric character of the European spatial geography and introduce images of polycentrism such as, for example, the 'European bunch of grapes' (Kunzmann and Wegener 1991; quoted in Faludi and Waterhout 2002, 51) or the 'red octopus' linking most European cities to the core via longitudinal corridors (van der Meer 1998; quoted in Salet et al. 2003, 27). Taylor and Hoyler (2000) point out that the variety of different spatial metaphors available suggests that these images are based less on empirical evidence than on creative geopolitical representations. While polarized metaphors have been used as warnings, the polycentric metaphors tend to inspire proposals promoting regional specificity and the formulation of polycentricity as a concept of sustainable spatial development to guide European spatial planning (Kunzmann 1996; Richardson and Jensen 2000; Waterhout 2002).

In a recent study (CPMR 2002), the analysis of polycentrism reflects a two-dimensional pattern: 'European polycentrism', the main objective of which is to

enhance, on a Europe-wide scale, conurbations and urban systems with enough demographic weight and economic potential to enable them to interact directly with the main European and global decision-making centres and spread their influence over large peripheral areas, and ‘functional polycentrism’, which aims to encourage better complementarity between the European urban areas so that they may play a more structuring role in achieving a greater balance between the territories. Functional polycentrism is a concept that can be applied to a wide variety of different levels, according to the kinds of functions that need to be better integrated. According to Davoudi (2005) polycentrism could have multiple meanings including its use as a strategic spatial planning tool, a specific form of urban structure and a socio-economic policy goal.

Summarizing, it seems that the visions of European polarization develop hand in hand with the visions of European polycentrism. However the former visions reflect more the result of a diagnostic approach while the latter seems better suited to inspire policy makers. However there are strong symbiotic elements in the above visions which are the two sides of a synthetic polarization-polycentrism dilemma that occupies a central position in the debate on European spatial planning.

#### *A short history of the debate on European spatial planning*

In so far as European spatial planning is concerned, 1991 was a remarkable year in many respects. First, the Committee on Spatial Development bringing together the spatial planning ministers and high ranking officials from the member states was established. Second, the publication of the document ‘Europe 2000: Outlook for the development of the Community’s territory’ (CEC 1991) introduced the concept of trans-national regions and literally launched the debate on a common European approach independently of whether or not a Community competency in the field of spatial planning will eventually emerge.

The logic behind this initiative was the study of the spatial development trends shaping the European Territory from the point of view and in the context of European Integration and the Single Market (Faludi and Waterhout 2002, 50–51). In a parallel move the Dutch National Physical Planning Agency report ‘Perspectives in Europe’, published in 1991, developed the concept of supra-national spatial planning.<sup>4</sup> Finally, it should be noted that, roughly at the same time, the Maastricht Treaty (signed in February 1992) introduced the idea of developing Trans-European Networks (TENs) in order to promote the spatial cohesion of the European territory.

The European Commission Directorate – General for Regional Policy (known also as ‘DG Regio’) that since its establishment in 1967 was responsible for regional development policies over the European territory began to take a

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4 It should be mentioned that already in 1984 the Council of Europe prepared the European Regional/Spatial Planning Charter in Torremolinos (CoE 1984). The Torremolinos Charter sought balanced socio-economic development of the regions within Europe, improvement of the quality of life, responsible management of natural resources and protection of the environment, and rational land use. It called for international cooperation to achieve ‘real European planning’.

more active stance by advancing the role of spatial planning. In the previously mentioned document 'Europe 2000' the pressures on Europe's territory arising from socio-economic developments as well as from national, regional and Community interventions are analyzed. Europe 2000 identified two core growth regions. These were North-West Europe and the 'North of the South', a belt from North-East Spain to Northern Italy and Southern Germany. The report stressed the need to give concerted attention to the balanced and harmonious development of the Community's territory.

The next major landmark was the Leipzig Informal Council of Ministers of Spatial Planning in 1994 that somehow marked the road to be followed for the completion of the European Spatial Development Perspective (Faludi and Waterhout 2002, 72). At the same time the document 'Europe 2000+: Cooperation for European territorial development' (CEC 1994) was published as a sequel to 'Europe 2000' with the explicit aim to pursue further its initial ideas for a European spatial development and planning approach and made the case for cooperation in the field of spatial planning across Europe.

Perhaps the most decisive turning point in the short history of European spatial planning is the approval of the European Spatial Development Perspective (ESDP) by the Informal Council of Ministers for Spatial Planning of the EU at Potsdam in May 1999 (CEC 1999). The ESDP deals with a wide range of 'spatial issues of European significance' including trends in the urban system, the changing rural-urban relationships, accessibility to infrastructure networks, and the management of natural and cultural heritage. The ESDP is intended as a policy framework that, in order to achieve its potential, requires major efforts in coordination, between levels of government, sectors of government activity, between cities and regions in similar positions in different parts of Europe, and across borders (para 7/8). The promotion of *polycentric development*, 'to ensure regionally balanced development' (para 67) is a key objective of the ESDP.

Next in line comes the establishment of the European Spatial Planning Observatory Network (ESPON). The main aim of this move together with its predecessor Study Program of European Spatial Planning (SPESP) (respectively both financed by the INTERREG programme) was the diffusion and setting into operation of the ESDP approach and the establishment of a European policy domain – including the development of conceptual and methodological frameworks and the reproduction of the relevant scientific community – in the field of spatial planning.

Finally, the most recent step taken in this gradual evolution of a European spatial planning theoretical and policy domain is the formulation of a European Territorial Agenda. At the second session of the informal meeting of Ministers in charge of regional policy and territorial cohesion, held on 20 and 21 May 2005 in Luxembourg, the European Ministers in charge of Spatial Planning discussed territorial cohesion issues. They addressed the operational contribution of the territorial dimension to the Lisbon and Gothenburg strategy on the basis of a framework document entitled 'Territorial State and Perspectives of the European Union'. This study, using results from the 'European Spatial Planning Observation Network' (ESPON) deals with the interconnections between the 'European Spatial Development Perspective' (ESDP) and the Lisbon Strategy. In his speech at the

EU Stakeholders Conference in Amsterdam (28 June 2006), on the forthcoming Territorial Agenda for Europe, Wolfgang Tiefensee, the Federal Minister of Transport, Building and Urban Affairs, summarized the six action areas agreed in Luxembourg (Tiefensee 2006). These are:

- to strengthen metropolitan areas and cities as engines for European development
- to promote urban-rural partnerships, in particular by integrating regions that are lagging behind in their development
- to develop trans-national clusters of regions of innovation and promote knowledge-based societies
- to make greater use of trans-European corridors in both the transport and energy sectors
- to improve risk management, for example in coastal areas and river basins, and
- to improve the marketing of ecologically and culturally valuable areas.

Of key significance in the European spatial planning debate is the reference to the existence of ‘dynamic global integration zones’. According to the ESDP (para 70) several such zones, ‘well-distributed’ throughout the EU territory, should be promoted, ‘comprising a network of internationally accessible metropolitan regions and their linked hinterland (towns, cities and rural areas of varying sizes), to play a key role in ‘improving the spatial balance in Europe’. There is no doubt that the analysis of such dynamics across Europe is a challenging task. The SPESP (2000) approach has emphasized the need for

...a relational analysis of the networks of relations of different activities, and the driving forces which shape these networks, their nodes and their inter-sections. In this perspective, in a ‘dynamic integrated growth zone’, there is a high density of dynamic networks, intersecting with each other. But dynamic growth networks are not necessarily always spatially concentrated. They are often fragmented, creating all kinds of opportunities for spatially dispersed and polycentric growth patterns. This network perspective allows us to consider the multiple ways in which activities in rural and urban areas are connected to other areas, either urban or rural, both adjacent and distant creating a complex mosaic of spatial fragmentation and overlapping of multiple relationships....

Though there are contrasting arguments and doubts – sometimes expressed within the very efforts of its own making – as to whether a European policy of Spatial Planning should or could ever exist, it seems that the relevant debate has secured a place in many national academic and political arenas. Though it is still very early to conclude whether European Spatial Planning will consolidate and expand its role, a key term for its agenda, the concept of ‘trans-national cooperation area’ or alternatively, the ‘macro-region of European significance’ has already established itself in scientific debates and policy making processes. The introduction of this term has played a central role in the emerging domain of European Spatial Planning because on the one hand it helped to cope with the unavoidable conceptual confusion arising from the multitude of national concerns

and traditions while, on the other hand, it constructed a new geographical arena that sometimes was visible only from the European perspective. Furthermore, the 'trans-national cooperation area' was constructed as a specific entity of European significance by the fact of its financing by the European budget. This trajectory has of course its own cost depending on whether non-viable partnerships have been financed or alternatively, neglecting other really existing opportunities of cooperation on different spatial scales.

There is no doubt that in a globalizing world where the national states are entering into a multitude of formal and/or informal relations and 'regional' groupings there are no easy ways to stabilize both the content and the boundaries of the various types of 'regions' (Soderbaum and Shaw, 2003). However, by temporarily restricting the analysis at the European scale, we may consider the term meso-region as an intermediate level of governance between the entire European Union territory as a world macro-region and the national member states as regions consisting in turn of micro- or sub-regions.<sup>5</sup>

### *The crucial role of the INTERREG initiative*

The European concern with patterns of regional development intensified after the Single European Act (1987) and the move towards the Single Market (1992). Innovative actions under Article 10 of the ERDF were first launched in 1989 for a five-year period. Benefiting from a budget of ECU 326 million, pilot projects and studies during this period focused on such themes as spatial planning, cross-border cooperation, cooperation networks between towns and regions (under programmes such as PACTE, RECITE, ECOS, OUVERTURE) and issues relating to urban problems. Furthermore, Article 10 of the ERDF makes provision for the 'support for studies or pilot schemes concerning regional development at Community level'<sup>6</sup> as follows: a) Studies on the Commission's initiative aiming to identify: (i) the spatial consequences of measures planned by the national authorities, particularly major infrastructures, when their effects extend beyond national boundaries, (ii) measures aiming to correct specific problems of the border regions within and outside the Community, and (iii) the elements necessary for the establishment of a prospective outline of the utilization of Community territory, and b) Pilot schemes which: (i) constitute incentives to create infrastructure, investment in enterprises and other specific measures which have a marked Community interest, in particular in the border regions within and outside the Community, (ii) encourage the pooling of experience and development of cooperation between different Community regions, and innovative measures.

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5 This definition differs in relation to the scale of reference –though not so much in terms of its logic– from the more standard view of the emergence of the meso-level as an intermediate level of government between the locality and the national centre. According to Sharp (1992), the rise of the meso-level has radically altered the character of the state, and even called into question the very nature of the unitary state in Europe.

6 According to regulation no. 2081/93 (amending reg. 2052/88) and no. 2083/93 (amending regulation 4254/88)

It is worth noting that after two years, cross-border cooperation measures carried out under Article 10 developed into the INTERREG initiative, one of the largest Community Initiatives. In the same way, the urban pilot projects of 1989–93 formed the basis of the URBAN Community Initiative which was launched in 1994. The Community initiative INTERREG IIC was launched by the European Commission for the 1996–99 period and represents a new type of action in trans-national cooperation in the sphere of spatial development within the European Union. Here, in contrast to cross-border cooperation, extensive regions are included where mainly spatial development questions in the widest sense are up for discussion.

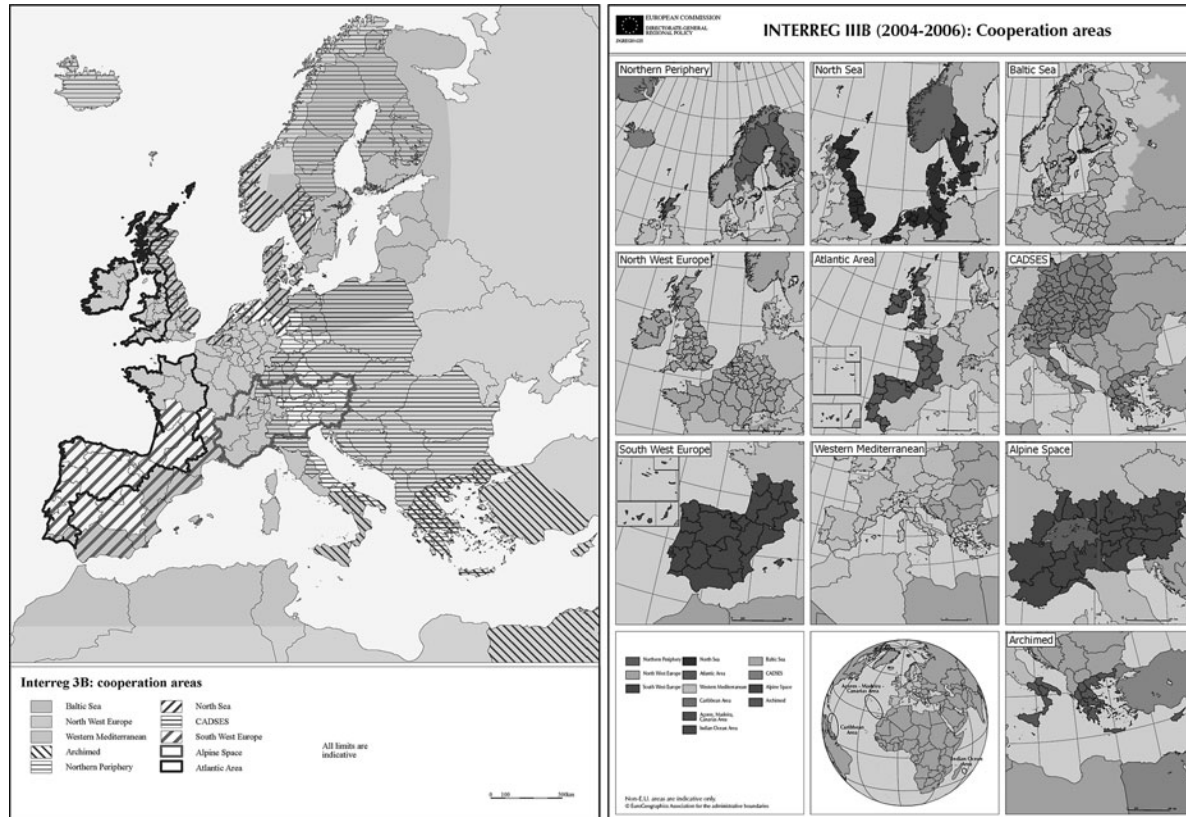
The spatial development objectives of INTERREG IIC are: promotion of harmonious and balanced development of the European Union through spatial integration, support of trans-national cooperation between member as well as non-member states, increased spatial effectiveness of Community policies, and support for member states and their regions, so that through cooperation they might overcome common problems arising from water management related to floods and drought.<sup>7</sup> INTERREG IIC Programmes provide a practical means to take initial steps to explore spatial planning issues linked to the broad framework of the ESPD, putting into practice concepts of sustainability and spatial planning. The emphasis on trans-national partnerships is a key aspect of INTERREG IIC. According to the EC guidelines each trans-national region should develop a long term spatial vision or strategy for the long-term development of their areas through trans-national cooperation. The significance of spatial visioning as a tool is analyzed together with a comparison of the spatial visions developed for the Interreg cooperation areas by Nadin (2002).

The INTERREG IIIB is the next phase of Interreg Initiative and it is also committed to promote the harmonious balanced development of the European territory by encouraging trans-national cooperation on spatial planning. The Initiative ran from 2000 to the end of 2006. Its budget increased twelve times in relation to Interreg II and reached the level of € 4.9 billion<sup>8</sup> with 14% to 44% depending on decisions by the member states to be allocated to strand B. This reflects also the fact that whereas projects under IIC were primarily research based studies, the emphasis under IIIB will be towards more concrete projects including small scale infrastructure. Trans-national cooperation under INTERREG happens in a number of large European areas. According to the INTERREG Guidelines, the total Union territory as well as adjacent regions in the framework of ten trans-national cooperation areas is eligible for funding.

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7 The overall INTERREG IIC budget was above 400 Mio Euro with general trans-national cooperation regions having a budget totalling 120 Mio Euro.

8 The total budget is € 4,875 million for the period 2000–06. Strand A will be allocated between 50 and 80% of this total, strand B between 14% and 44% and strand C will be allocated 6% of the total (fixed). The breakdown between strands will depend on decisions by the Member States.



**Map 1.2 Interreg IIB Cooperation Areas**

Source: [http://ec.europa.eu/regional\\_policy/interreg3/carte/cartes\\_en.htm](http://ec.europa.eu/regional_policy/interreg3/carte/cartes_en.htm) (original in colour).

## **The Integration/Fragmentation and Spatial Development Landscapes in Southeast Europe: a Review of the Contributions**

The four contributions of the part 2 of the book deal with the various forces, structures and trends shaping the integration and fragmentation landscape in Southeast Europe. The aim of this effort is to elaborate on such themes as: the interaction between external and internal forces at various geographical levels, the national trajectories of transition and the role of territorial governance in the construction of a multi-tier Southeast Europe; the Europeanization process and the scope and character of the many international and regional cooperation initiatives; the flows and trends of investments and industrial location patterns; and the prospects of spatial integration perceived by one of the most developed regions in the area.

The experience of the EU New Member States during the first decade of transition and integration represents according to Petrakos and Kallioras (Chapter 2) the most appropriate empirical ground for the re-evaluation of the experience of the new EU members with respect to shifts in their territorial structures and balances. Thus, by using examples from southeast, central and Baltic areas the authors emphasize that the parallel and interacting forces of transition and EU integration have been the driving force and the catalyst of change. They argue that the EU new member-states and especially the weakest countries of Southeast Europe have experienced these changes, often in a painful way, on the promise that they are the necessary pre-conditions for their integration into the European Union. The ongoing twin processes of transition and integration have already left their marks through the collapse of the old and the emergence of new market-driven economic activities, the patterns of regional specialization and sectoral concentration and the emergence of new types of regional inequalities. As Petrakos and Kallioras argue, the extent and type of structural change at the regional level and their implications for the spatial patterns of growth have not been studied in detail despite the fact that the regional and structural shifts in the territorial structures and balances of the new EU members is a crucial component of transition and Europeanization processes. The chapter describes the efforts towards EU membership through the relative position of the new members in the enlarged European environment in demographic, economic, geographic and structural terms. Accession to the enlarged EU was practically a one-way road for the studied countries and the measure against which to judge policy options, achievements and alternatives. Despite the fact that significant changes took place in economic and structural terms the level of their economic and institutional development remain far below the EU average, creating new economic divides in the enlarged EU area. Much emphasis is also put upon the spatial patterns of regional economic development in the new EU member countries while it is stressed that the impact of the economic integration process was not homogeneous on either regional specialization or regional structural change and sectoral concentration during the entire pre-accession period. On the basis of the above observations the impact of the twin process of transition and accession on regional structural change and cohesion is also presented diagrammatically and cartographically in an effort to highlight its less known dimensions and provide valuable inflows for future policy making. On the basis of the experience of the pre-accession period the authors argue that regional

convergence and cohesion in the new economic space of the EU is, for the time being, at risk. Thus the chapter ends with a warning concerning the effectiveness of the policies of transition and accession and the need for a critical reassessment of structural and cohesion policies.

In Chapter 3, Palne Kovacs studies the shaping of national administrative systems with a focus on their ability to meet internal and external requirements in the field of regional policy. It is argued that the invasive effect of the Structural Funds on national administrations can be explained by the motivation of domestic actors to acquire development resources for various targets, while taking into consideration the priorities of the Community. Thus, the author stresses that though the European Union in general considers the structure and functioning of public administration as a national internal affair, it has put a fair amount of pressure on adaptation, which reflects the fact that regional policy is one of the most effective political means of deepening and enlarging the integration process. The principles of subsidiarity, partnership and programming have raised the status of the regions to a level closer to that of national governments in the decision-making processes of the Union and strengthened their role as one of the most vital factors of multilevel governance. And here lies an apparent paradox. While on the one hand the effective implementation of European regional policy would have required a strong integration and territorial decentralization in the accession countries, on the other hand the political values and ambitions enforced in the course of the systemic change did not seem to favour these requirements. Moreover, as is pointed out by the author, one of the main characteristics of the public administrations in these regions was precisely fragmentation and correspondingly 'short-termism' rather than comprehensive planning. The fragmentation and lack of cooperation give rise to difficulties and malfunctions in regional policy needing strong partnership among actors and administrative levels as well, according to the requirements of European cohesion policy. In her conclusions the author argues that despite the fact that the European Union supports integration through emphasis on the regional scale the new democracies in Eastern Europe elaborate their territorial public administration in parallel with the EU institutional system of regional support. Thus, again paradoxically, the institutionalization of regional policy often leads to fragmentation or duplication. Despite the significant innovations during the adaptation process to the new requirements the resulting 'organizational chaos' may hardly be called 'institutional thickness' as it can only expand but not act as a substitute for the role of the traditional administration. The geographical borders of the new meso-levels, or units, are unstable: The political legitimacy of medium tier governments is weak as it is often leaning on a closed circle of political elites and therefore, despite reforms, the position of medium tier governments in relation to central government can not be improved. The author concludes that, despite some initial decentralization steps taken subsequent to the change of the system, we have witnessed processes of recentralization in respect of low local and regional administrative capacities as a result of fragmentation. If this trend becomes dominant Palne Kovacs argues that the most important stimuli to regional integration will be lost.

Labrianidis and Kalogeressis in Chapter 4 explore the recent trends concerning FDI in the Balkans, within the wider context of increasing globalization and

expansion of FDI and trade to developing and accession countries. The authors argue that FDI-led growth cannot be taken for granted and that its pursuit is often an illusion. The current fixation displayed by most aspiring developed countries/regions/cities on FDI may easily give rise to two types of problems. First, it may divert them from other, more 'endogenous' sources of growth (such as sound macroeconomic policies, or investment in human resources and technology) and, second, it may lead to wasteful competition between the concerned parties or lead to 'low-road competition'. The chapter analyzes the general situation by focusing first upon a presentation of the recent global trends in FDI and trade and the fact that the world is steadily becoming more complex. Second it stresses that openness is but an ingredient, and perhaps not the most important one, of the necessary policy mix. Instead it is rather knowledge that plays the most central role. In this context the authors turn on Central and Eastern European Countries (CEECs) and their transformation from plan to market, which leads it to focus on what appears to be the less successful group – the Balkan countries. From the analysis of this situation the authors infer that of the various strategies that have been adopted by the countries that succeeded in catching-up during the post WWII period, knowledge appears to be one of the few common elements of paramount importance. Regardless of the specificities of national approaches, the creation and constant upgrading of rather unique knowledge bases has been central in most of the celebrated cases of catching-up. In the quest for more knowledge, FDI currently appears to be an increasingly useful medium. Although the causality between a country's level of technological development on the one hand and, on the other, the types of FDI it attracts is not yet clear, the two appear to be significantly correlated. In view of this conclusion the distribution of FDI in SEE could be seen as a reason for either optimism or concern. In fact, Labrianidis and Kalogeressis observe that in the case of the larger countries, a more balanced mix of inward FDI is starting to re-shape the overall picture while the smaller countries are still the victims of the region's most recent turbulent past and of the fears that this is causing for the future. This mixed picture calls for more concerted action with a view to resolving the, as yet, unsettled political issues and the ambiguities surrounding the upcoming accession of three Southeast European countries to the EU. The main challenge lies in the formulation of policies promoting the assimilation of the knowledge which the FDI – regardless of its type – offers to the countries of the region.

In Chapter 5 which is the last part 2 of the book Foutakis and Thoidou explore the integration prospects and the consequent regional policy priorities and measures in the context of the recent and future developments in SE Europe focusing on the example of the Greek region of Central Macedonia. The broader developmental picture of the region is one of particular complexity. The economic restructuring that is pursued at the global level, the intensified competition, the neo-liberal economic policies being promoted, all in turn add to the considerable pressure that is being placed on every state of the European Union and the Balkans. The authors stress that although recently there were decisive developments towards the European integration of the area, it remains the most volatile and least integrated European region. The area is characterized by highly fragmented physical and technical infrastructure, low economic integration and lack of competitiveness. The chapter has a four-fold

structure consisting of the following: a discussion on the significance of the spatial factor for the creation of competitive advantages, the general socio-economic picture of the Balkans and the region of Central Macedonia, the description of the Greek regional policy in the 1990s with particular reference to Central Macedonia from the viewpoint of its developmental priorities, and the results of an in-depth investigation of Central Macedonia in its relation to the economic space of Southeast Europe. Foutakis and Thoidou pay particular attention to the emerging policy priorities and the significance of relations between this region and the other countries and regions of the Balkans as well as to the emerging directions of the new European Union regional policy. They argue that the new geopolitical situation that has been created in the past fifteen years provides the opportunity under certain preconditions of a common developmental prospect for all the countries of the region in the framework of a European Union extended towards the South East. In this context the authors see the experience of Central Macedonia as an example of a less-developed region of the European south which, despite its years of experience of planning and implementation of developmental programmes, in the present conjuncture continues to face problems of efficient implementation. In their conclusions the authors make clear that any positive developmental prospects that exist are interlinked with the corresponding prospects of the neighboring countries and regions. Thus the endeavor to achieve economic and spatial integration in the Balkans through joining efforts in the building of a common developmental prospect for the entirety of the area represents a challenge that, despite its uncertain outcome, is worth taking.

The purpose of part 3 'Spatial development perspectives: concepts, facts and visions' is the examination of the spatial development prospects of Southeast Europe as a southeast dimension of the enlarged European Union. This investigation is attempted on the background provided by part 2 of the book concerning the importance of both external and internal factors and forces influencing the national trajectories and framing the spatial development trends of Southeast Europe. Thus part 3 includes four contributions that attempt to examine themes such as: the placement of southeast Europe within the changing European geography; the relevance of European spatial planning documents for SEE countries; the balance of the settlement networks and the patterns of uneven socio-economic development in terms of transport infrastructure.

In Chapter 6 Schön and Pelster pose questions concerning the placement of Southeast Europe within emerging European geographies and its potential for integration. They stress that ever since the European events of 1989, the Central and South-East European countries have operated a fundamental change of orientation and started a process of opening up to, and competing on, the world markets. In their struggle to position themselves on the world markets they meet and compete with other 'newly industrialized countries' which are combining high-tech and low-wage strategies. Together with the ongoing restructuring of the more developed European economies the repositioning of the Central and South-East European countries is affecting Europe as a whole and is leading to changing European geographies. In this context the authors stress that the crucial questions that arise are the following: How is European integration taking place in this context? What are the basic integration patterns and how are they changing? And how does European policy deal with

these changing geographies? Thus the chapter proceeds to explore some of these European integration issues. The geographical focus for the investigation of some main integration forces and their spatial patterns is Southeast Europe. The evidence refers to investment flows, trade exchange patterns and trans-national cooperation structures (i.e. Interreg). The strengths and weaknesses in view of further integration are seen in relation to three different spatial levels: a European level (exploring West-East relations), a South-East European level (exploring trans-national patterns), and a national level for the South-East European countries (exploring internal regional patterns). Taking as a basis the elaboration of their evidence Schoen and Pelster suggest that despite the fact that the traditional West-East divide is vanishing, a general core-periphery pattern remains the distinguishing feature of European geographies. However, despite the fact that the enlargement has so far not fundamentally changed the concentration of economic power and wealth, new pockets of high growth are emerging outside the core area. This generally very positive integration process has at the same time, according to the authors, its drawbacks. First, it is characterized not only by a core-periphery pattern at European level, but also at lower levels (e.g. between new and non-EU member countries, between capital city regions and the remaining areas of a country). Secondly, as demonstrated by the example of trade exchange patterns, a very dynamic integration towards EU 15 comes along with a less dynamic internal integration. Growing disparities and weak internal integration suggest that cohesion especially in South-East Europe will be for a long time an objective difficult to achieve. European spatial development policy tries to counteract these negative trends. Especially in South-East Europe, an area that is characterized by the existence of many smaller countries, trans-national cooperation needs to be seen as an important “soft” tool to activate untapped potentials by pooling and combining resources. In summing up the chapter warns that within changing European and global geographies South-East Europe is running the risk of being further fragmented. It is therefore crucial to promote its internal integration in order to strengthen its competitiveness on the European or global arena.

In Chapter 7 Vujosevic examines the experience of Serbia and Montenegro in relation to an assessment of the relevance of a number of European and regional documents, schemes and initiatives on sustainable development. Over the last few years a number of pan-European and regional development documents were drawn up and enacted in the European Union and other European countries, regions and local communities. What distinguishes them from former documents is a strong emphasis, at least nominally, and often truly and effectively, on the issue of sustainability. Outside the EU, many of such novel documents have been replicated in other European countries. Vujosevic refers to the attempts made by Serbia and Montenegro in the mid-1990s to prepare spatial development strategic schemes in which a fair number of corresponding categories from the later European documents were used. Although there has been neither systematic monitoring nor ex post evaluation the fragmented evidence existing indicates that in both cases the majority of the provisions included in the Plans have not been implemented. It is also recognizable that both documents put forward a number of propositions that, at least nominally, fairly correspond to the categories in the subsequently elaborated European documents of the kind. Reflecting the views of some commentators who are critical of the mainstream developments

in the economic, spatial and urban planning policy in Serbia and Montenegro, the author stresses that the planning system and practice are lagging far behind the more recent European trends and experience. Under the present circumstances, they insist, it would be extremely difficult to draw any new development documents to match the European equivalents. This reflects the fact that in the 1990s the planning system and practice did not evolve in a 'normal' way that is, in a way that corresponds to that of the majority of ex-socialist countries. On the contrary, in those years there has been a total break in all aspects, followed by very modest improvements as from 2000 onwards. Thus, it is argued that the analyzed evidence points to the fact that Serbia and Montenegro largely lags behind the majority of European countries in applying the principles, criteria and policies of sustainable spatial development, as they have been formulated in the recent pan-European and regional documents of the kind. Such findings may lead at least to two courses of action. On the part of the European actors they would have to work more on the operative and analytical concepts of sustainability, to match the development fixities and prospects of the countries of Southeast Europe. As for Serbia and Montenegro a complex set of measures would have to be undertaken, to make up for the losses and stagnation of the past 15 years or so. This involves complex institutional and organizational adjustments that will ultimately result in the preparation of the new generation of sustainable development documents compatible with good European standards and practices. In the conclusion, it is stressed that the resolution of the above-mentioned issues would largely depend on the future evolution of planning in the EU and other European countries, since they will predictably carry a strong demonstrational effect in a broader context.

The focus of Zavodnik-Lamovsek in Chapter 8 is upon the growing necessity to understand the internal dynamics of the settlement systems. It points out that so far the research related to settlement systems is directed especially into their socio-economic effects on spatial development. However, the answers to questions concerning some problems related to the different levels and scales of observation, unsolved methodological questions, different goals and policies at different levels of decision-making as well as transitional processes in most of SEE countries are not always to be found in the repetition of the same kind of research at a larger scale, or in the improvement of the existing methodology. Instead, the author argues that we should look for answers in different, new approaches that study the settlement systems from the viewpoint of distribution of built structures, activities, infrastructure and other spatial factors. The chapter offers an example of such an approach. It is based on the morphological analysis of built structures in space. These structures make up settlement patterns that reach beyond national borders and are in many ways independent of the social, political, economic and cultural development in a society. This was supported by evidence stemming from four case-studies showing settlement patterns in the selected SEE countries (Austria, Italy, Slovenia, and Croatia). The question of settlement patterns and systems in a region, country, or common Europe is a question of many meanings and layers. Numerous facts and phenomena linked with settlement patterns should be mutually compared. These are spatial phenomena which rely on many factors: not only on the geographical situation but also on the historical development, as well as socioeconomic, political, legal and

administrative changes through time. Thus in the conclusion several observations are discussed resulting from the comparison of settlement patterns of the chosen study cases. However, many questions remain unanswered, and they need to be solved by new research into settlement systems within the concept of polycentric spatial development which will provide the next phase of European projects, with the goal of ensuring territorial connectivity and integrity in a broader European territory, which includes the SEE countries. Similar trends can be observed in the current settlement patterns in all of Europe, irrespective of national borders or differences in historical, socio-economic and political situations in single countries in the past or at the present time. This means that we should continue to direct our efforts towards the improvement and harmonization of the methodology for assessing the potentials for polycentric development in Europe. In addition, there is a need for more knowledge about the processes underway in the SEE area, which is one of the most complex and contingent areas in the European territory. Their special geographic, historical, economic and political position give a whole new meaning to considerations of polycentric spatial development as they are trying to build up new decentralized systems of governance. The author suggests that new studies are needed in order to find the ways to connect and develop settlement systems in accordance with the European concept of polycentric spatial development. The goal is to ensure a higher connectivity and territorial cohesion of the entire European territory, which will no longer be divided into central and peripheral parts. Especially in the latter parts, which also include the area of SEE there are many opportunities, and cities such as Budapest, Bucharest, Sofia, Belgrade and other important centres are already considered today as important nodes in the polycentric development of Europe in the periphery of the common European territory.

Finally, in Chapter 9 of the part 3 of the book, Pitsiava examines the common elements and the main differences in the strategic orientation of the major actors in the field of transport infrastructure policies in Southeast Europe, including international organizations, the EU and the countries of the area. The general context concerning the development and integration prospects of Southeast Europe is shaped by major external driving forces consisting of the international cooperation initiatives and interests which mostly proceed with the active involvement of the governments of the region. The chapter provides an overview of the present situation with regard to transport infrastructure, examining in particular, the main features and problems, and discusses the overall strategic framework and the formulation of strategic priorities for the development of transport infrastructure in the area. Based on recent studies and resources the chapter argues that transport infrastructure is relatively underdeveloped in comparison to most other European countries, while in addition, important differences exist between the countries of the area. The author emphasizes that the transport strategy adopted by the EU for South East Europe provides a common ground for the development of a multimodal transport infrastructure network adjusted to the expected requirements of passenger and goods transport in the area. This network should meet the transport needs of the Community which are derived from the single market and the objectives of economic and social cohesion and sustainable mobility. By abiding by the same set of guidelines the strategy for South Eastern Europe will, in the long run, contribute

towards the whole of Europe's being served by an integrated multimodal network. The integration of Southeast Europe is an objective shared by the countries of the region and the EU. In this context, the prospects and the strategic priorities which are adopted and pursued by the main actors involved in the development of transport infrastructure, allow for some useful observations concerning both their areas of convergence and of differentiation. Keeping in mind all the activities mentioned so far and directed to the development of an efficient transport infrastructure in the SEE region in view of its integration, it is possible to identify the major actors in the field of transport infrastructure policies. These actors, starting from the lower level upwards, include first, national governments either separately or, on occasion, jointly, forming cooperative initiatives, second, the EU and third, International Financial Organizations. Despite all the activities undertaken by these actors for the furthering of the development of transport infrastructure, it has become apparent that a differentiation exists in strategic orientation according to the level of the involved actors, for instance national interest and regional interest for highway infrastructure improvements may not necessarily be the same. The conclusions emphasize the prospects of policy integration in the midst of the diverging priorities pursued by the main actors involved in the field of transport infrastructure.

The adaptation of administrative and institutional capacity in the context of transition and the capability of the SEE states to actively participate in cooperation schemes that seek to adopt and implement an integrated vision of spatial development are the focus of Chapter 10 which is the last and concluding chapter of the book by Getimis and Demetropoulou. The authors begin by recognizing that in post-1989 Europe the EU was *de facto* upgraded into becoming the most coveted integrative institution and the generator of pan-European norms and practices and acted as a motor of cooperation across its eastern borders. The EU attempts led to the establishment of trans-national cooperation areas such as the Central, Adriatic, Danubian and Southeast European Space (CADSES), seeking to facilitate spatial integrative arrangements among eighteen countries ranging from EU member states to accession countries and potential candidates. Getimis and Demetropoulou argue that the different historical traditions, varying political cultures, diverging development routes, unresolved minority problems and incomplete state building processes have combined with the catastrophic consequences of the violent disintegration of Yugoslavia and the incomplete transformation process of the 1990s to create a complex and multi-tier Balkan reality which is particularly hostile to cooperation and integration schemes. While not ignoring the involvement of a large number of international actors in the region and the existence of a considerable number of endogenous and exogenous cooperation initiatives, two factors have set the broader scene for the development of the institutional structures for spatial planning and regional development in the SEE countries: the complex transformations that followed the collapse of the communist regimes and the extent of the institutionalization of their relations with the EU. In this respect the chapter focuses on the recent decentralization reforms and institution building attempts of the SEE states in order to demonstrate that a number of institutional shortcomings such as the existence of different legal, administrative and political systems, considerable socio-economic disparities and a broader institutional deficit hinder the development of sustainable cooperative arrangements

and the integration prospects of the region. The authors seem to believe that the extension of common principles to all the countries of the region would provide the required common vision that would integrate the various endogenous or exogenous development plans for the SEE. Meanwhile, the provision of support towards the establishment of EU-compatible regional development processes and institutions working for the socio-economic cohesion of the SEE would no doubt create the pressures for adaptation and the road map that the region is missing. However, the implementation of the EU cross-border and trans-national cooperation initiatives have so far demonstrated the limitations of the cooperation potential that exists in the region in the field of spatial development. Getimis and Demetropoulou conclude that real commitment should originate from within SEE through the adoption of a more integrative approach to planning and despite the importance of EU initiatives the countries of the area should not rely on the doubtful expectation that the EU will adopt a more active role in the promotion of spatial integration in SEE in the near future.

### **Conclusions: The Southeast Dimension of a More Polycentric Europe**

In relation to the debate on European spatial planning, Southeast Europe has not emerged as a separate geographical or planning entity. This fact probably reflects the unstable status of the SEE countries in relation to the evolving European architecture. It is characteristic that on many occasions the area is treated as an empty space by cartography, statistical analysis and economic studies. However, the entire Southeast Europe is subsumed under the CADSES (Central, Adriatic, Danubian and South European Space) trans-national cooperation area of the Interreg initiative. This fact placed the area in the picture of European spatial planning as the non-EU territory of CADSES.

The book focuses upon the study of the conditions for the construction of a common spatial integration framework within which national and sectoral priorities could be made compatible with the spatial development priorities that promote the spatial integration of the entire area. Given the fact that Southeast Europe includes some of the poorest and most unstable countries of Europe, the objectives of economic growth and social cohesion constitute the basic pre-requisites for the pursuit of all other goals. Within the conditions of limited resources and the extensive needs and problems of transition, the need for cooperation and joint planning efforts with the aim of coordinating national sectoral policies becomes an emergency. It is precisely the critical character of many aspects of the prevailing situation in the Balkans that support the argument for innovative and cooperative solutions which trigger positive multiplying effects and promote synergy and complementarity between national and sectoral policies through the introduction of the common aim of spatial integration to which all policies should contribute. Hence, arises the need for the examination and assessment of the area-wide implications of spatial objectives such as the common planning of border connections, the reinforcement of the polycentric articulation of the settlements system, the accommodation and securing of the inter-operationality of the various infrastructure networks (i.e. transport, energy, telecommunications)

and the facilitating of technology transfer. Thus, the book explores the question of whether under the prevailing conditions the promotion of the integrated and sustainable development of Southeast Europe by combining the aims of economic growth, protection of the environment and social cohesion is a realistic goal. In this respect it is argued that the pursuit of accession to an enlarged EU tests the limits of the existing institutional capacity of the countries of Southeast Europe which strive to cope with the organizational and financial prerequisites of a model of spatial development that combines competitiveness in the Single Market with environmental concerns and substantial social protection.

The scope of the book is reflected in the series of four Interreg projects started under Interreg IIC and continued under Interreg IIIB. These projects which in a sense have inspired the conception of this book, aim at the construction of a framework for intensifying trans-national cooperation in the field of spatial development and planning. These projects are on the one hand the ESTIA and ESTIA-SPOSE projects that under Greek coordination focus upon Southeast Europe explicitly promoting its spatial identity as a European region with integrative potential and on the other hand their parallel counterparts VISION PLANET and PlaNet CenSE that under joint German-Austrian coordination cover the entire CADSES territory.

The objectives of all the above projects were to develop a common understanding of problems, challenges and strategic perspectives for spatial development in the CADSES area consisting of EU members, accession countries and third parties. The overall approach of these projects is reflected for the VISION PLANET in the 'Guidelines and Policy Proposals' (VISION PLANET 2000) document and for the ESTIA in the 'Spatial Planning Priorities in Southeast Europe' (ESTIA 2000) as a guide for action. The key objective was the preparation of trans-national cooperation in parallel and within the framework of the ESPD. The two projects maintained close cooperation at the coordination level in their effort to exchange experience and to remain compatible both between themselves and with the broader European spatial planning debate. However there were also differences in approach. The VISION PLANET emphasized the networking of planners and planning institutions around the creation of a spatial vision for the CADSES area, while ESTIA was more concerned with spatial planning systems and the territorial integration of policies.

The intention of the VISION PLANET (and subsequently of PlaNet CenSE 2006a, 2006b) was to trigger a process of trans-national cooperation in view of the enlargement consisting of a series of steps including the elaboration of concrete project proposals for specific issues/areas, the use of the experience and commitment of the institutions and persons involved for advisory functions in the framework of the Interreg and in parallel with the European Spatial Planning Observatory Network (ESPON). In fact the VISION PLANET Project Panel acted as a potential basis for building a counterpart/supplement to the Committee on Spatial Development (CSD) of the EU representing the ministries responsible for spatial development of the countries of Central and Southeast Europe. Such a body could take over functions as a bridgehead for connecting the (already networking) candidate (at that time) countries to the CSD and at the same time for preparing the full integration into it. The documentation of the existing situation in relation to major spatial development issues such as the overall spatial structure, the urbanization process, the transformation of rural areas, the

networks of infrastructure including transport, energy and telecommunications, and the state of natural and cultural resources is the basis upon which the policy priorities and guidelines are constructed as elements of a spatial vision for the CADSES area.

The ESTIA and ESTIA-SPOSE projects, on the other hand emphasized the spatial specificity of Southeast Europe stemming from the intersection of different spatial configurations with different internal structures and different speeds in relation to the process of European Integration and Enlargement. This approach recognizes that the area is characterized more by its fragmentation than its homogeneity and, despite the difficulties, sets for itself the aim of exploring and developing the integrative potential. Thus it becomes important to analyze this multi-tier reality by establishing the strengths and weaknesses of the area stemming from the combination of external and internal factors that define them as peripheral in economic, geographical and political terms. The policy priorities set by this approach are expected to be defined as the synthetic outcome of both the national priorities reflected in the national plans and the bilateral and multilateral agreements and cooperation initiatives between the countries of the area, also taking into account the ongoing international interest and involvement. In this manner the ESTIA and ESTIA-SPOSE projects intend to provide additional value added to the synthesis of existing priorities by attempting to construct a common policy integration framework in which the southeast is viewed as a potential pole in a more polycentric Europe.

The policy priorities are defined by the existing and/or under preparation national plans and give emphasis to various areas and sectors of the respective national territories. These priorities are identified here in order to provide the basis for a comparative evaluation and better coordination and synergy among policy fields in the future. The combination and synthesis of these objectives and policy priorities with the corresponding objectives and policy priorities of the ESDP and the emerging European spatial planning should lead to the exploration of the basic orientation scenarios that correspond to the requirements of spatial development and spatial integration in SE Europe (Petrakos and Economou 2003).

In the above context the relevance and the usefulness of the emerging European Spatial Planning approach that emphasizes trans-national cooperation and the construction of a common spatial development vision for the European territory and its macro-regions acquires critical importance. The key process is the promotion of a spatial development vision of an integrated and sustainable development of SEE by the adoption of the main EU and ESDP aims of economic growth, protection of the environment and social cohesion, which is an attainable policy target in view of the evolving balance of fragmentation/integration processes characterizing the area. However, the critical question concerns whether the tensions which are triggered by the organizational and financial requirements associated with the adoption of the *acquis communautaire* will override the limits of the existing capacities of SEE countries. The main source of pressure stems from the fact that in a period when most SEE countries strive to cope with their internal problems of transition and stabilization, the integrative ESDP approach imposes an external logic that has been formulated on the basis of a European model of sustainable development that presupposes already high levels of competitiveness, environmental quality and social

protection as well as an efficient institutional apparatus for the implementation of multi-level governance.

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## PART 2

# Integration vs. Fragmentation in Southeast Europe: Forces, Structures and Trends

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## Chapter 2

# Integration and Structural Change: Pre-Accession Experience in the Regions of the European Union New Member-States

George Petrakos and Dimitris Kallioras

### Aim and Methodology

The systemic change, which has been taking place in Central and Eastern Europe since the late 80s and following the collapse of the bipolar world, has radically changed the politico-economic map of the European continent. A significant number of the countries of the former Eastern bloc, those that are now the European Union New Member-States (EU NMS),<sup>1</sup> have been feeling the impact of transition from central planning to a free market economy and of their integration into the economic space of EU, which were the preconditions for the historical (re)unification and for catching-up with the economies of the prosperous Western European (EU-15)<sup>2</sup> countries (Landesmann 2000; Petrakos et al. 2000).

The dynamics generated (or set free) under these parallel and interacting market-driven processes,<sup>3</sup> which are still in motion, have resulted into an upheaval which is reflected in the shock registered by the key economic indicators of the EU NMS. They are the cause of the important changes in their economic structures and of the increase in their levels of regional disparity, within a newly emerging free-market economic environment (Petrakos et al. 2004a). These processes bring to light the spatial and structural pressures experienced by the EU NMS aspiring to accession into the EU, and even more so following the signature of the European Agreements. With the activation of market forces and the adoption of certain political alternatives, the old internal organization and external relations structures collapsed and are

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1 These are the countries of Slovenia, Hungary, Slovakia, Czech Rep., Poland, Latvia, Lithuania and Estonia that became EU members in May 2004, and the countries of Bulgaria and Romania that are going to become EU members in January 2007.

2 These are the old EU member-states.

3 Henceforth, the notion of integration incorporates that of transition since the impact of these two processes is inextricable with regard to the EU NMS during the pre-accession period.

presently being replaced in ways often felt to be painful and forceful (Cornett 1999; Petrakos and Totev 2001).

The study of the impact of integration on the EU NMS patterns of structural change has recently attracted the attention of the related literature as development prospects and spatial imbalances seem to be affected by structural parameters. The manufacturing sector has received the greatest attention because of its inherent importance in the former regime (Gács 2003) and because of the changes it has undergone in the new economic environment. This strand of literature, however, despite its growing importance has not yet fully analyzed or understood the experience of the EU NMS in the above context, especially considering the regional level (Resmini and Traistaru 2003).

A number of key-questions connecting issues of integration and structural change, and also geography, to issues of growth and performance are still to be convincingly addressed, as regard the EU NMS pre-accession experience: Have advanced and less advanced regions developed similar or different types of regional specialization? Have metropolitan and peripheral regions developed the same or a different mix of economic activities? Are there particular types of structural change that are more closely related to strong growth performance? Finally, is the process of integration, according to the experience to this date, associated with winners, but also with losers at the regional level, and if so, what are the policy implications of this evidence?

The objective of the chapter is to carry out a new evaluation of the experience of the EU NMS economies with respect to changes and adjustments in their territorial structures and balances. We take a cross-country analytical perspective in order to identify possible relations between integration, regional structural change and cohesion. The analysis is conducted on the basis of employment and output data, disaggregated in manufacturing branches according to NACE rev.1 2-digit classification,<sup>4</sup> with an emphasis at the NUTS III spatial level.<sup>5</sup> Data limitations,<sup>6</sup> at the lower spatial and structural levels, restrict the analysis to the regions of Bulgaria, Romania, Hungary, Estonia and Slovenia. This country sample, however, can be considered as quite representative of the whole EU NMS area in terms of economic, demographic and geographic characteristics.

The analysis covers the period between 1990 and 2000, which is an important period since it includes both the early shocks (sub-period 1990–95) and the more recent trends (sub-period 1995–00) that the EU NMS have experienced. In the next section we summarize the most interesting aspects of the broad discussion that exists in the literature on the interplay between integration, industrial structure and economic performance. In section 2.3 we describe the impact of the accession process, into the EU, of the EU NMS on their trade patterns with regard to the EU-

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4 NACE: Nomenclature for Classification of Economic Activities.

5 NUTS: Nomenclature of Territorial Units for Statistics.

6 The analysis is based on the elaboration of secondary data taken from REGIO, COMEXT and REGSTAT databases. REGIO and COMEXT are EUROSTAT databases and present regional and trade data, respectively. REGSTAT presents regional-structural data and it was created within the EURECO Project, under the coordination of the Center of European Integration (ZEI) of the University of Bonn.

15 area, whereas in section 2.4 we present the emerging spatial pattern of regional development in the EU NMS in the context of economic integration. In Section 2.5 we provide evidence concerning the industrial experience of the EU NMS during the pre-accession period, with a critical discussion of its regional dimension. In Section 2.6 we detect the determinants of regional-industrial performance. In the last section the conclusions of our research are presented.

### **Integration, Industrial Structure and Economic Performance: A Survey of the Literature**

Theoretical approaches concerning the issue of the location of economic activities, on the one hand, and simple empirical observation on the other hand, agree that the matter of the uneven spatial distribution of economic activities is a commonplace issue. The questions that arise concern the reasons behind this uneven distribution. An examination under the conditions of integration and internationalization that define the activities of the majority of the advanced and the less advanced economies, gives these questions a high level of importance.

Economic integration eliminates border obstacles for factor movements and further intensifies itself (self-sustained process) via the reduction of trade costs. Closed borders distort market size (Niebuhr and Stiller 2002) whereas the abolition of economic barriers generates (releases) all kinds of spatial dynamics that relate to better access to foreign markets and to import competition (Brühlhart et al. 2004). Even though economists accept, almost unanimously, that economic integration is a positive-sum game, an ongoing theoretical and empirical debate is currently taking place concerning the distribution of these gains (Petrakos et al. 2006a).

The advanced, in terms of income, economies are concerned with the fact that the abolition of trade barriers and the free movement of capital may bear negative implications on their economic performance as a result of their inability to compete successfully in terms of (low) production costs, especially in economic sectors mainly based on unskilled labour. Skepticism is nevertheless also present in the background of less advanced economies on the issue of their ability to take advantage of the opportunities offered by economic integration, as they are thought to be unsatisfactorily adjusted, in terms of economic and institutional structures, human capital and technology, to the conditions and requirements of the international economic environment (Melachroinos 2002).

The changes taking place in the spatial patterns of economic activities, in the context of an ongoing integration process, can be perceived in the theoretical scientific literature through the study of trade theories. The neoclassical trade theory supports the idea that economic integration leads to higher levels of specialization as the result of an increase in the demand for the goods that a region is able to produce at low cost, and on the basis of inherent comparative advantages. The new economic geography claims that economic activities associated with increasing returns to scale (IRS) tend, at intermediate stages of integration, to locate in the most populated regions in an attempt to exploit the benefits of agglomeration economies, whereas, at advanced stages of integration, they tend to present more dispersed location patterns

having ensured their access to large regions and attempting, on the contrary, to avoid the burden of agglomeration diseconomies.

The neoclassical theory is in favour of regional convergence, claiming that the enhancement of the regional specialization patterns is the cause of the equilibrium of factor prices (Stolper and Samuelson 1941). The new economic geography, on the contrary, does not hold such a clear view, detecting centripetal and centrifugal forces that have an uneven impact on regional economic performance (Krugman and Livas 1996; Paluzie 2001). The empirical investigation of the regional convergence/divergence issue has produced, so far, mixed results, not having allowed the neoclassical school to verify its theoretical claim, at least not in all cases. In an attempt to reconcile the conflicting results appearing in the EU context, Petrakos et al. (2005) argue that trends of divergence and convergence coexist; divergence is more closely related to short-term market processes, while convergence is more likely to identify with long-term dynamics in which policy responses are also embedded.

Head and Mayer (2003), endeavouring drawing up a list of the parameters that characterize the EU economic environment, claimed that factor prices tend to be higher in regions with good market access, that mobile sectors tend to be disproportionately clustered in these regions because of a higher demand for their goods, and that reductions in trade costs provoke the agglomeration of industries. These parameters reveal that, despite the ongoing EU integration process, the EU economic space remains highly heterogeneous, with externalities (Ciccone 2002). Even small differences between the EU regions are of high importance and result in shifts in production organization and location. Under these conditions, it is possible that regions with industries associated with IRS activities can do better than others since imperfect competition can result in adverse effects i.e. uneven distribution of the benefits of trade (Martin and Ottaviano 2001) and the possibility for some regions to become net losers (Venables 1996).

As Hanson (1994) indicates, if the externalities generated by a market expansion – this is the case of the EU eastwards enlargement – are important, then higher economic growth is observed in the regions spatially close to the new market centre since these regions have the ability to attract the majority of the IRS activities. Regions at a geographical disadvantage cannot benefit as much as others, mainly because they face higher transportation costs (Lima and Venables 2001). Engaged in an integration process with distant and possibly more economically advanced partners, peripheral regions tend to develop unbalanced inter-industry types of trade activity<sup>7</sup> that have an unfavourable impact on their industrial bases (Petrakos and Christodoulakis 1997).

The EU experience includes, indeed, examples of negative effects of economic integration on the economic performance of the less advanced countries and regions (Aiginger and Davies 2004), mainly through the negative effects of economic integration on their productive structures. Lagging-behind countries and regions

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7 Inter-industry trade is conducted mainly between economies with different productive structures, whereas intra-industry trade is conducted mainly between economies with similar productive structures. The latter type of trade activity is considered to be more beneficial because it stimulates innovation and exploits economies of scale (Ruffin, 1999).

that have weak economic bases with a high share of sensitive (labour-intensive) sectors and unfavourable geographic index suffer during the process of integration since they have failed to effectively redeploy their resources in order to mitigate its adverse effects (Aiginger 1999; Petrakos and Zikos 1996). It is evident that the less advanced peripheral economies did not manage to react successfully to the radical changes that have already taken place in the competitive environment of European economy, and especially of European manufacturing.

The pressure to produce high-quality products at attractive prices forces firms to focus not only on low production cost but also on quality and innovation. The external environment of firms - proximity to clients and suppliers, level of infrastructure, availability of skilled labour force, *inter alia* - has become the decisive factor that affects their decisions concerning location (Fujita and Krugman 1995; Venables 1996). The EU economic integration process has generated competition among regions (Malmberg et al. 1996) as differences concerning the above factors contribute significantly to variations in regional competitiveness (Budd 1998), while the availability of low labour cost has lost much of its significance in relation to competition (Best 1990). As low labour cost is, typically, a characteristic of the less developed economies, the emerging new conditions are depriving them of a competitive advantage (Petrakos and Pitelis 2001).

Under these emerging conditions significant structural changes recorded in many EU countries, leading to a plethora of structural patterns. The impact these patterns bear to economic growth and performance remains, however, an issue of theoretical controversy. In addition, no comprehensive empirical investigation is available, mainly because existing empirical work varies widely with respect to spatial and temporal scales, databases and statistical methods used (Aiginger 2000; Combes and Overman 2003).

In the framework of neoclassical theory, the increase in the level of regional specialization is considered to have a positive impact on economic performance since it enhances comparative advantages to be exploited more intensively (Feenstra 2003). Such a perception is not found in the new economic geography school, however (Redding 1999). On the one hand, it has been argued that an increase in the level of specialization leads to an increase in productivity through the exploitation of scale economies (Benito and Ezcurra 2004; Weinhold and Rauch 1999). On the other hand, the argument has been put forward that this stands true only in the case of the dynamic, high-growth regions (EU 1999) either because specialization in 'wrong' sectors (sectors that are not associated with IRS activities) might have a negative impact on economic performance (Grossman and Helpman 1990) or because highly specialized regions may be more vulnerable to asymmetric, industry-specific, shocks (Acemoglu and Ziliboti 1997).

A somewhat different dimension was added to the discussion by Pasinetti (1981) who suggested that the degree by which the productive structures of the less developed economies are getting more similar to the respective structures of the more advanced ones determines their potential to achieve higher rates of economic growth. Lau (1992) accepted this view, claiming that specialization in sectors associated with IRS activities enhances economic growth. On the contrary, Dalum et al. (1998) supported the view that the less developed economies should differentiate

their productive structures from those of the advanced economies, in order to present trends of convergence.

Certainly the relation between structural changes and economic performance is complex and needs to be further investigated. Structural patterns and their evolution are seen as critical determinants of regional economic performance, under an economic integration context (Kamarianakis and Le Gallo 2003). In such a context, we study the impact of regional economic integration on regional-industrial change and, consequently, on regional economic performance in the EU NMS.

The EU NMS provide 'lab conditions' to carry out such a study since they have only recently been adapted to the EU free-market economic environment. We believe that the assessment of the pre-accession experience of the EU NMS regions is going to contribute to the empirical evaluation of the competing hypotheses mentioned above and thus contribute to the debate on the issue.

### **The Accession Process of the European Union New Member-States**

Despite their common politico-economic past, the EU NMS do not constitute a homogeneous area. In fact, they present significant differences in terms of size, demography and economy, as it is shown in Table 2.1.

During the socialist period, the EU NMS were under Soviet dominance and members of the Council for Mutual Economic Assistance (COMECON). COMECON

**Table 2.1 Basic demographic and economic characteristics of the EU NMS, Year 2000**

|            | <b>Area</b>              | <b>Population</b> | <b>Population Density</b> | <b>GDP</b> | <b>GDP Per Capita</b> |
|------------|--------------------------|-------------------|---------------------------|------------|-----------------------|
|            | thousand km <sup>2</sup> | million inh.      | inh./ km <sup>2</sup>     | billion €  | €/ inh.               |
| BULGARIA   | 111                      | 8.2               | 74                        | 13.6       | 1,653                 |
| ROMANIA    | 238                      | 22.4              | 94                        | 39.5       | 1,764                 |
| CZECH REP. | 79                       | 10.3              | 130                       | 55.2       | 5,360                 |
| HUNGARY    | 93                       | 10.0              | 108                       | 48.9       | 4,891                 |
| POLAND     | 323                      | 38.7              | 120                       | 169.4      | 4,378                 |
| SLOVAKIA   | 49                       | 5.4               | 110                       | 21.1       | 3,909                 |
| SLOVENIA   | 20                       | 2.0               | 99                        | 19.4       | 9,693                 |
| ESTONIA    | 45                       | 1.4               | 30                        | 5.6        | 4,020                 |
| LATVIA     | 65                       | 2.4               | 36                        | 7.8        | 3,239                 |
| LITHUANIA  | 65                       | 3.7               | 57                        | 12.7       | 3,440                 |

*Source:* Data from REGIO Database (EUROSTAT)

carried out almost no economic transaction with the rest of the world. Its break-up, after the collapse of the Soviet system, led the (future) EU NMS to a state of economic downturn and isolation. The prospect of accession into the EU economic environment, under these circumstances, was considered by the EU NMS to be a one-way road – ‘one of the greatest historical and economic chances’<sup>8</sup> (Daianu 1995, 15; Kawecka-Wyrzykowska 1996, 251). The EU itself, on the other hand, aiming at the expansion of its economic and political influence, got the necessary procedures in order to incorporate these countries in its body. The signature of the European Agreements constituted the legal background for the creation of the necessary economic conditions for the EU NMS gradual embedment on the EU context. The EU Accession Treaty, signed at the Athens European Summit on April 2003, finalized the accession of EU NMS in the EU.

The signature of the European Agreements was accompanied by an impressive increase of the EU NMS trade transactions with the EU-15 countries, until the end of the 90s (Kaminski 2001; Resmini and Traistaru 2003; Zaghini 2003). This increase can be attributed to the normalization of the trade transactions procedure between the EU NMS and the EU-15 countries i.e. this would have been the level of trade transactions between them, according to their size and economic potential, if no economic restriction had been set from the beginning (Fidrmuc and Fidrmuc 2000).

Such an increase had a strong geographical dimension, since the countries of Central and Eastern Europe indicate a greater potential in their trade activity with the EU-15 countries, as compared to their trade activity with the Balkan countries (Petrakos 2003). From the data presented in Table 2.2 we can observe that the

**Table 2.2 Exports (X), Imports (I) and Balance of Trade (in millions of \$) for the Balkans, Central and Eastern Europe and the EU-15, Years 1990, 1995 and 2000**

|                               |     | 1990   | 1995    | 2000    |
|-------------------------------|-----|--------|---------|---------|
| BALKANS                       | X   | 9,990  | 16,180  | 13,853  |
|                               | M   | 12,700 | 14,711  | 17,658  |
|                               | X-M | -2,710 | 1,469   | -3,805  |
|                               | X/M | 0.79   | 1.10    | 0.78    |
| CENTRAL and EASTERN<br>EUROPE | X   | 46,892 | 102,396 | 124,505 |
|                               | M   | 43,842 | 102,753 | 144,742 |
|                               | X-M | 3,051  | -357    | -20,237 |
|                               | X/M | 1.07   | 1.00    | 0.86    |

Source: Data from Petrakos (2003:50)

8 It is noticeable that ‘the process of EU accession was supported even when former communist parties regain the power in their countries’ i.e. Hungary and Poland (Thirkell et al. 1998, 39–40).

countries of Central and Eastern Europe have more than doubled their exports (increase of 166%) and more than tripled their imports (increase of 230%) with the EU-15 countries during the 1990–00 period. The Balkan countries, on the contrary, have registered significantly lower increases (39% in imports and 39% in exports), while indicating, in addition, a decreasing trend in the absolute values of their exports during the second sub-period of analysis (1995–00).

Despite the recorded increases both groups of countries experienced a trade deficit (negative balance of payments) confirming their inability to rein in the penetration of foreign products into their markets. This is a clear indication that the process of economic integration of the EU NMS in the EU economic environment has not proved to be free of cost (Petrakos 2003).

The levels of economic integration of each EU NMS into the EU can be assessed through an Index of Economic Integration (IEI) expressed as the proportion of each EU NMS trade activity with the EU-15 countries<sup>9</sup> to their respective total trade activity, in value terms, in the sector of manufacturing<sup>10</sup> (D), for a given year (t) (Petrakos et al. 2005). The IEI is defined as:

$$IEI = \frac{(IMPORTS_{EU-15\_D\_t} + EXPORTS_{EU-15\_D\_t})}{(IMPORTS_{TOTAL\_D\_t} + EXPORTS_{TOTAL\_D\_t})}$$

The above expression takes values within the interval [0, 1]. The lowest value indicates absolutely no economic integration, while the highest value indicates complete economic integration. The idea behind IEI is to assess the trade interdependence between a country and the economic union to which it belongs.

The figures of the IEI, presented in Table 2.3, verify the increasing level of economic integration of the EU NMS into the EU-15 area, indicating, however, that these levels were uneven. The countries of Central Europe present overall higher IEI figures, as compared to the countries of the Baltic and the Balkans, pointing to the fact that the EU NMS economic integration process had a strong geographical dimension.

In addition to the increase of the trade flows – and, consequently, to the levels of economic integration – between the EU NMS and the EU-15 countries, a change in the structure of the EU NMS trade activity started to take place during the late pre-accession period, when the latter increased their exports of capital-intensive, technologically-advanced, products (Kaitila 2001; Landesmann 2000). The share of the intra-industry type of trade activity started to increase out of the total trade activity between the EU NMS and the EU-15 countries. This has significant implications on the structural changes recorded in the EU NMS, in order for them to become

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9 The EU-15 is the most integrated part of the enlarged EU (Petrakos et al. 2005).

10 The exclusion of agriculture possibly tends to underestimate the economic integration level of the less advanced areas, despite the restrictions imposed by the European Agreements. However, since the emphasis of the study is on the sector of manufacturing, we preferred to use only the data concerning this sector for the estimation of the IEI.

**Table 2.3** Economic integration of each EU NMS into the EU-15 area, Index of Economic Integration, Years 1990, 1995 and 2000

|            | 1990* | 1995  | 2000  |
|------------|-------|-------|-------|
| BULGARIA   | 0.346 | 0.374 | 0.459 |
| ROMANIA    | 0.400 | 0.440 | 0.586 |
| CZECH REP. | 0.484 | 0.523 | 0.668 |
| HUNGARY    | 0.602 | 0.622 | 0.670 |
| SLOVAKIA   | 0.257 | 0.322 | 0.580 |
| SLOVENIA   | 0.624 | 0.629 | 0.631 |
| POLAND     | 0.525 | 0.527 | 0.534 |
| ESTONIA    | 0.470 | 0.491 | 0.597 |
| LATVIA     | 0.353 | 0.378 | 0.476 |
| LITHUANIA  | 0.311 | 0.329 | 0.402 |

\*1990 data stand for Czechoslovakia

Source: Data from COMEXT Database (EUROSTAT) elaborated by the authors.

reliable trade partners for the EU-15 countries with regard to such products (Fidrmuc 2005).

The level of the intra-industry trade activity between the EU NMS and the EU-15 countries can be estimated through the performance of the Coefficient of Asymmetry (CAS) expressed as a correlation of the allocation of imports (M) and exports (X) of each EU NMS to and from, respectively, the EU-15, among the sectors of manufacturing (i), for a given year (t) (Jackson and Petrakos 2001). The CAS is defined as:

$$\text{CAS} = \text{Cor} (M_{i,t}, X_{i,t})$$

The above expression takes values in the interval [0, 1]. The lower the value of the correlation coefficient between the exports and the imports of a country, the more asymmetric its trade structure is and the more likely it is that trade is dominated by an inter-industry type of activity. The higher the value of the correlation coefficient between the exports and the imports of a country, the more symmetric its trade structure is and the more likely it is that trade is dominated by an intra-industry type of activity.

The figures of the CAS, shown in Table 2.4, reveal an overall trend towards a reduction of sectoral asymmetry in trade, although Bulgaria and Romania experienced a clear trend towards increasing asymmetry in the early years of transition. Bulgaria and Romania, also, register the highest asymmetry in their trade relations with the EU-15 countries and are therefore characterized by trade structures that are dominated mainly by the inter-industry type of trade.

**Table 2.4 The EU NMS trade patterns, Coefficient of Asymmetry, Years 1990, 1995 and 2000**

|            | 1990* | 1995  | 2000  |
|------------|-------|-------|-------|
| BULGARIA   | 0.169 | 0.136 | 0.380 |
| ROMANIA    | 0.228 | 0.209 | 0.247 |
| CZECH REP. | 0.395 | 0.763 | 0.885 |
| HUNGARY    | 0.330 | 0.641 | 0.817 |
| SLOVAKIA   | 0.395 | 0.597 | 0.801 |
| SLOVENIA   | 0.623 | 0.800 | 0.876 |
| POLAND     | 0.119 | 0.336 | 0.530 |
| ESTONIA    | 0.229 | 0.178 | 0.551 |
| LATVIA     | 0.172 | 0.137 | 0.409 |
| LITHUANIA  | 0.152 | 0.119 | 0.370 |

\*1990 data stand for Czechoslovakia

*Source:* Data from COMEXT Database (EUROSTAT) elaborated by the authors.

The above differences indicate that the EU NMS do not present the same levels of economic integration into the EU economic environment. A strong geographical component characterizes the EU NMS economic integration process, indicating that it is very likely that its spatial and structural impact might also be uneven.

### **Patterns of Regional Development of the European Union New Member States in a Context of Economic Integration**

The EU NMS experienced a major fall of their GDP figures during the period of early transition, at the beginning of the 90s. Despite the partial reversal of this trend during the later period of transition, the EU NMS still recorded significant hysteresis when comparing both with the EU-15 economy and with their earlier figures, as shown in Table 2.5. With the exception of Slovenia which has GDP levels comparable to the corresponding levels of the countries of the European South (Objective 1 countries), the gap with the EU-15 countries is wide, indicating the existence of an 'east-west' pattern of development in the enlarged EU. It is characteristic that in the year 2000, only the countries of Central Europe presented higher or slightly smaller GDP figures comparing to the respective of the year 1990. The situation was even worse concerning the countries of the Baltics and the Balkans, as an indication that the EU-15 'core-periphery' pattern has been 'reproduced' in the EU NMS area.

Such a performance makes it clear that even with the most optimistic of scenarios (Brzeski and Colombatto 1999; Petrakos 2000) most of these countries will take many decades to converge with the EU-15 average in per capita GDP terms. Nevertheless,

**Table 2.5 The EU NMS economic performance, Year 2000**

|            | <b>GDP</b> | <b>Per Capita GDP</b> |
|------------|------------|-----------------------|
|            | GDP90=100  | PCGDPEU-<br>15=100    |
| BULGARIA   | 67         | 7.4                   |
| ROMANIA    | 76         | 7.9                   |
| CZECH REP. | 95         | 24.0                  |
| HUNGARY    | 99         | 21.9                  |
| POLAND     | 122        | 19.6                  |
| SLOVAKIA   | 100        | 17.5                  |
| SLOVENIA   | 109        | 43.4                  |
| ESTONIA    | 77         | 18.0                  |
| LATVIA     | 60         | 14.5                  |
| LITHUANIA  | 62         | 15.4                  |

Source: Data from REGIO Database (EUROSTAT) elaborated by the authors.

some sort of external convergence has been eventually recorded in all EU NMS in the last years.

Unfortunately, we cannot claim the same for internal regional convergence (Petrakos et al. 2004a and 2004b). As can be observed in Figure 2.1, capital and western border regions enjoy a relatively better performance, especially in the Central European countries, while the performance of eastern border regions has in general been worse.

We have estimated the level of regional inequalities, in per capita GDP terms, for the period 1995–00, employing the indicators of the weighted coefficient of variation, the maximum to minimum ratio, the  $\gamma$ -density coefficient and the  $\beta$ -convergence coefficient.

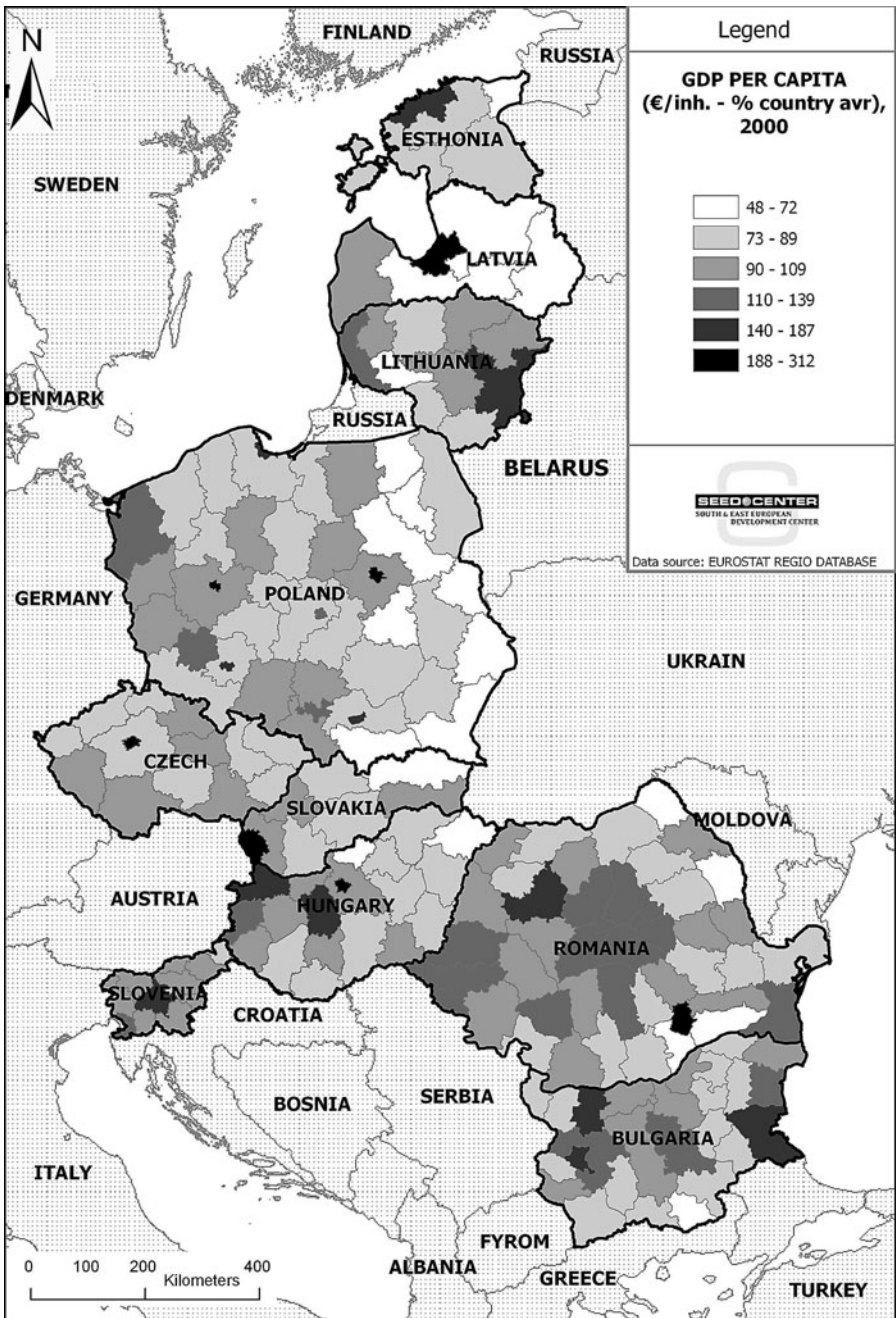
The weighted coefficient of variation depicts income disparities among regions taking into consideration their relative weight in population terms, with the expression below:

$$CV_w = [ \sum_i (Y_i - \bar{Y})^2 * (P_i / P) ]^{1/2} / \bar{Y}$$

In the above expression,  $Y_i$  is the regional GDP per capita,  $\bar{Y}$  is the average regional GDP per capita,  $P_i$  is the regional population and  $P$  is the population of the country.  $CV_w$  takes values greater than 0. The low values indicate greater equality in the economic performance of the regions, whereas the high values indicate greater inequality.

The maximum to minimum ratio is the ratio of the incomes of the richest ( $Y_{\max}$ ) and the poorest region ( $Y_{\min}$ ), defined as:

$$MM = Y_{\max} / Y_{\min}$$



**Figure 2.1** Regional inequalities (NUTS III) in the EU NMS (GDP per capita as % of country average), Year 2000

Source: Data from REGIO Database (EUROSTAT) elaborated by the authors.

This expression takes values greater than 1, from lower to greater inequality.

The  $\gamma$ -density coefficient is the slope coefficient of the regression between the levels of regional per capita GDP and regional population density:

$$y_t = \alpha + \beta D_t + \epsilon_t$$

Positive values of  $\beta$  imply that regions with a higher population density ( $D_t$ ) enjoy a higher level of per capita GDP ( $y_t$ ). This coefficient is a measure of inequality based on agglomeration economies.

The  $\beta$ -convergence coefficient is estimated from the regression between the levels of the initial regional per capita GDP ( $y_t$ ) and the regional per capita GDP growth ( $y_{t+1}/y_t$ ):

$$y_{t+1}/y_t = \alpha + \beta y_t + \epsilon_t$$

Positive prices of  $\beta$  imply that regions with higher initial per capita GDP tend to experience more growth. Negative prices of  $\beta$  imply that regions with lower initial per capita GDP tend to have a better growth performance. This indicates that positive values of the  $\beta$ -convergence coefficient are associated with tendencies of regional divergence, while negative values are associated with tendencies of regional convergence.

From the evolution of regional inequalities, presented in Table 2.6, a number of interesting conclusions are derived.

The EU NMS (with the exception of Bulgaria) are characterized by an increase of the coefficient of variation and the max/min ratio in the period 1995–00. This general trend indicates that the market-based processes of integration and transition are accompanied by a significant increase of regional inequalities. This trend, which was evident from the early stages of transition (Petrakos 2001), has continued to prevail in the late 1990s at an unrelenting pace. Based on the value of the weighted coefficient of variation, the countries with the greatest disparities in the year 2000 are Latvia, Hungary, Estonia and Poland. Romania, the Czech Republic and Slovakia follow, whereas Bulgaria, Lithuania and Slovenia register the smallest inequalities. Based on the maximum to minimum ratio, the greatest inequalities are found in Poland, Latvia and Romania and the smallest in Slovenia and Lithuania. These figures indicate that country size by itself is not a criterion for the magnitude of regional inequalities (Petrakos et al. 2004b) since the group of countries with the greatest inequalities includes both large (Poland), medium (Hungary) and small countries (Estonia).

The  $\gamma$ -density coefficient is positive and statistically significant in all EU NMS (with the exception of Slovenia, which has a positive but statistically insignificant coefficient) in both the years 1995 and 2000. This implies that as regional population density increases, regional GDP per capita also increases as a result of higher productivity, which is the consequence of agglomeration economies. Furthermore, the increase of the value of the coefficient implies that this relationship is getting stronger and the role of agglomeration economies in the process of spatial development is therefore becoming more important. This means that regions with

**Table 2.6 Evolution of regional inequalities in the EU NMS (t-statistics in parentheses), Years 1995 and 2000, Period 1995-2000**

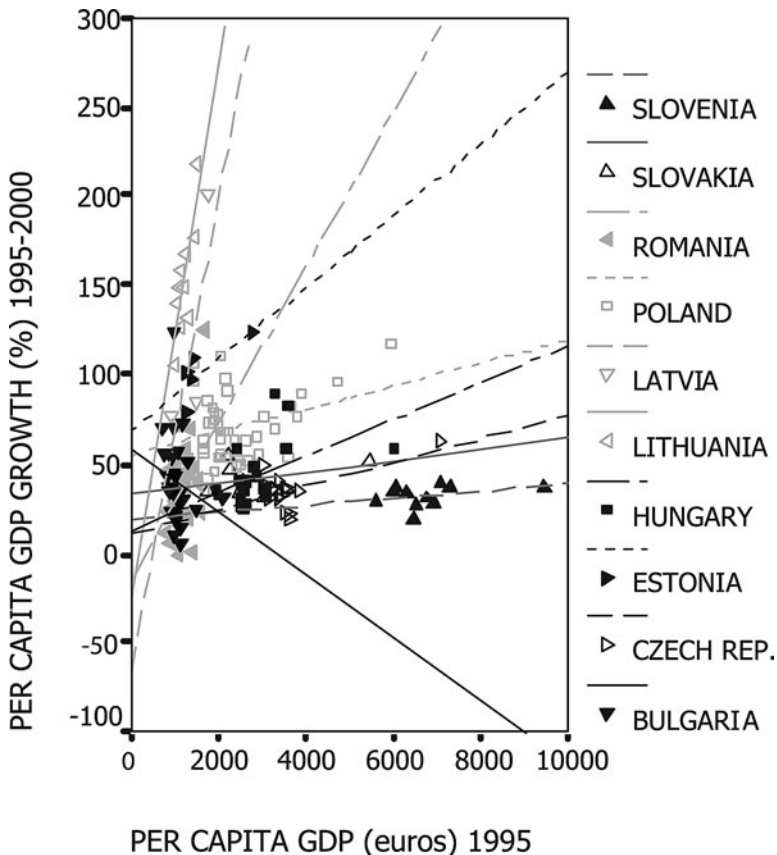
| COUNTRY    | INDEX                       | Level of inequalities |                 |
|------------|-----------------------------|-----------------------|-----------------|
|            |                             | 1995                  | 2000            |
| BULGARIA   | CV <sub>w</sub>             | 0.394                 | 0.391           |
|            | max / min                   | 2.878                 | 2.617           |
|            | - density (t – student)     | 1.332 (7.002)         | 1.626 (4.560)   |
|            | - convergence (t – student) |                       | -2.462 (-0.970) |
| ROMANIA    | CV <sub>w</sub>             | 0.211                 | 0.478           |
|            | max / min                   | 2.140                 | 4.316           |
|            | - density (t – student)     | 0.415 (2.533)         | 1.849 (5.964)   |
|            | - convergence (t – student) |                       | 6.115 (2.874)   |
| CZECH REP. | CV <sub>w</sub>             | 0.328                 | 0.448           |
|            | max / min                   | 2.359                 | 2.765           |
|            | - density (t – student)     | 1.571 (15.156)        | 3.093 (19.037)  |
|            | - convergence (t – student) |                       | 0.934 (2.620)   |
| HUNGARY    | CV <sub>w</sub>             | 0.483                 | 0.583           |
|            | max / min                   | 3.054                 | 3.597           |
|            | - density (t – student)     | 0.911 (7.195)         | 1.710 (5.130)   |
|            | - convergence (t – student) |                       | 1.444 (2.302)   |
| POLAND     | CV <sub>w</sub>             | 0.415                 | 0.527           |
|            | max / min                   | 4.213                 | 5.188           |
|            | - density (t – student)     | 0.902 (10.773)        | 2.020 (11.100)  |
|            | - convergence (t – student) |                       | 0.896 (2.136)   |
| SLOVAKIA   | CV <sub>w</sub>             | 0.372                 | 0.414           |
|            | max / min                   | 3.080                 | 3.486           |
|            | - density (t – student)     | 15.065 (8.503)        | 24.906 (10.286) |
|            | - convergence (t – student) |                       | 0.428 (1.043)   |
| SLOVENIA   | CV <sub>w</sub>             | 0.207                 | 0.236           |
|            | max / min                   | 1.681                 | 1.780           |
|            | - density (t – student)     | 8.740 (1.577)         | 10.703 (1.175)  |
|            | - convergence (t – student) |                       | 0.273 (1.078)   |
| ESTONIA    | CV <sub>w</sub>             | 0.463                 | 0.562           |
|            | max / min                   | 2.164                 | 2.718           |
|            | - density (t – student)     | 12.436 (3.679)        | 32.205 (3.223)  |
|            | - convergence (t – student) |                       | 2.802 (2.153)   |
| LATVIA     | CV <sub>w</sub>             | 0.341                 | 0.747           |
|            | max / min                   | 2.041                 | 4.327           |
|            | - density (t – student)     | 2.500 (2.113)         | 13.747 (4.664)  |
|            | - convergence (t – student) |                       | 18.454 (2.876)  |
| LITHUANIA  | CV <sub>w</sub>             | 0.156                 | 0.314           |
|            | max / min                   | 1.574                 | 2.432           |
|            | - density (t – student)     | 4.909 (2.943)         | 25.849 (3.558)  |
|            | - convergence (t – student) |                       | 20.744 (4.122)  |

Source: Data from REGIO Database (EUROSTAT) elaborated by the authors

a critical threshold of activities, permitting agglomeration economies to operate, will experience a faster rate of growth than in the past. On the contrary, regions lacking such a critical scale of activities are going to face difficulties in their efforts to maintain significant growth rates. The increased value of the coefficient at the end of the decade may be a sign that the future spatial divides will be more intense than in the past.

The value of the  $\beta$ -convergence coefficient is positive and statistically significant for all EU NMS (with the exception of Bulgaria, which has negative and statistically insignificant coefficient). This indicates that in the period 1995–2000, the more advanced regions of each country have been experiencing higher growth rates than the less advanced ones, as presented in Figure 2.2.

Although the use of the  $\beta$ -convergence coefficient for the evaluation of regional inequalities has been questioned in the literature (Petrakos et al. 2005), the fact that almost all countries recorded the same trend and the fact that the other indices of



**Figure 2.2** Evolution of the  $\beta$ -convergence coefficient in the EU NMS, Period 1995–2000

Source: Data from REGIO Database (EUROSTAT) elaborated by the authors.

inequality provide similar results, allow us to safely draw the conclusion that the EU NMS have been facing significant and increasing inequalities during the specific period.

This is an indication that market forces, when introduced in a system with no active regional policy, do not support any automatic convergence mechanisms and tend to generate greater regional inequality. This evidence casts doubts on the claims of the neoclassical school, according to which markets have self-correcting mechanisms for regional imbalances. The economic divides that already existed in the EU-15 economies (Petrakos et al. 2004c), were 'reproduced' in the EU NMS area. The levels of per capita GDP in the EU NMS regions reveal an emerging 'east-west' and 'core-periphery' pattern of regional economic development.

### **The Industrial Experience of the European Union New Member States and their Regions**

In a context of generalized economic recession, a critical element of the pre-accession period is the significant changes that were recorded in the EU NMS economic structures. In Tables 2.7 and 2.8, we present the GDP and employment shares, respectively, of the 3 basic sectors of production: primary, secondary and tertiary. In the majority of the EU NMS the shares of the secondary sector decreased dramatically during the 1990–00 period, mainly as a result of the intense pressures that the manufacturing sector has taken. For the majority of the EU NMS, the trends of the shares of the primary sector of production were also towards decreasing; these shares, however, remained rather high, as compared to the corresponding EU-15

**Table 2.7: GDP structure (%) of the EU NMS, Years 1990 and 2000**

| GDP        | PRIMARY SECTOR |       | SECONDARY SECTOR |       | TERTIARY SECTOR |       |
|------------|----------------|-------|------------------|-------|-----------------|-------|
|            | 1990           | 2000  | 1990             | 2000  | 1990            | 2000  |
| BULGARIA   | 17.70          | 15.10 | 51.30            | 23.40 | 31.00           | 61.50 |
| ROMANIA    | 20.20          | 12.80 | 50.00            | 36.30 | 29.80           | 50.90 |
| CZECH REP. | 8.40           | 3.96  | 48.80            | 38.52 | 42.80           | 57.51 |
| HUNGARY    | 14.50          | 4.27  | 39.10            | 33.03 | 46.40           | 62.70 |
| POLAND     | 8.00           | 3.53  | 48.30            | 31.99 | 43.70           | 64.49 |
| SLOVAKIA   | 7.40           | 4.64  | 59.10            | 33.78 | 33.50           | 61.58 |
| SLOVENIA   | 4.71           | 3.16  | 43.65            | 36.49 | 51.64           | 60.35 |
| ESTONIA    | 16.60          | 5.69  | 49.70            | 26.64 | 33.70           | 67.67 |
| LATVIA     | 21.90          | 4.52  | 46.20            | 23.30 | 31.90           | 72.18 |
| LITHUANIA  | 27.00          | 7.80  | 30.90            | 29.81 | 42.10           | 62.38 |
| EU-15      | 2.74           | 2.55  | 31.27            | 28.75 | 65.99           | 68.70 |

Source: Data from REGSTAT Database (ZEI).

**Table 2.8      Employment structure (%) of the EU NMS, Years 1990 and 2000**

| EMPLOYMENT | PRIMARY SECTOR |       | SECONDARY SECTOR |       | TERTIARY SECTOR |       |
|------------|----------------|-------|------------------|-------|-----------------|-------|
|            | 1990           | 2000  | 1990             | 2000  | 1990            | 2000  |
| BULGARIA   | 18.51          | 25.77 | 45.45            | 28.85 | 36.04           | 45.38 |
| ROMANIA    | 32.92          | 41.17 | 37.10            | 28.42 | 29.98           | 30.41 |
| CZECH REP. | 8.46           | 5.16  | 44.02            | 32.63 | 47.52           | 62.21 |
| HUNGARY    | 12.13          | 7.38  | 33.18            | 27.91 | 54.69           | 64.71 |
| POLAND     | 24.84          | 26.34 | 31.53            | 26.82 | 43.63           | 46.84 |
| SLOVAKIA   | 12.70          | 5.96  | 41.90            | 30.44 | 45.40           | 63.61 |
| SLOVENIA   | 14.33          | 12.59 | 41.78            | 32.61 | 43.89           | 54.80 |
| ESTONIA    | 19.73          | 7.60  | 37.19            | 28.31 | 43.08           | 64.09 |
| LATVIA     | 18.15          | 16.34 | 35.85            | 19.32 | 46.00           | 64.35 |
| LITHUANIA  | 18.84          | 19.83 | 43.23            | 22.05 | 37.93           | 58.12 |
| EU-15      | 5.92           | 4.16  | 30.81            | 26.21 | 63.27           | 69.63 |

*Source:* Data from REGSTAT Database (ZEI).

average. The dissimilarity between the EU NMS and the EU-15 economy, despite the recorded trends, remains, in many cases, significant, indicating that the process of transition is still a long way to come, especially in the Balkan countries (Petrakos and Totev 2001).

The fall in the output and employment shares of the secondary sector indicates that the manufacturing sector has indeed been affected the most by the process of transition, from plan to market, and by the process of openness and internationalization, as it is possible to gather from the industrial GDP and industrial employment figures presented in Table 2.9. Manufacturing is the EU NMS underwent the most pressure from the external environment, being a central element in the productive structure of the former regime (Gács 2003). A series of transition policies – privatizations of the industrial enterprises and deregulations of the markets – were implemented in the sector, with the restructuring of the industrial base as the ultimate goal (Bevan et al. 2001). Despite the fact that industrial restructuring was considered to be the main element of the transition process, the outcome of these policies has rarely been openly discussed and evaluated.

In addition to the declining figures of industrial GDP and employment during the period 1990–00, a serious structural shift inside the manufacturing sector has taken place in many EU NMS, as is apparent from the figures presented in Table 2.10.

Overall, the EU NMS tend to concentrate more activities in labour-intensive (LINT) industrial sectors presenting a different industrial structure from the corresponding EU-15 average. However, a number of countries in Central Europe are start to develop industrial structures closer to that of the EU-15, as they increase their shares of capital-intensive (CINT) industrial sectors, a tendency that is strongly associated with the presence of IRS activities (Jackson and Petrakos 2001).

**Table 2.9 Industrial output and industrial employment in the EU NMS, Years 1990 and 2000**

|            | INDUSTRIAL OUTPUT<br>(millions of €) |        | INDUSTRIAL<br>EMPLOYMENT<br>(thousands of employees) |       |
|------------|--------------------------------------|--------|--|-------|
|            | 1990                                 | 2000   | 1990   | 2000  |
| BULGARIA   | 3,799                                | 2,158  | 585  | 364   |
| ROMANIA    | 18,806                               | 9,723  | 1,742  | 887   |
| CZECH REP. | 17,986                               | 14,550 | 1,717  | 1,425 |
| HUNGARY    | 23,027                               | 10,592 | 1,355  | 1,029 |
| POLAND     | 42,052                               | 30,866 | 3,528  | 3,170 |
| SLOVAKIA   | 2,371                                | 4,576  | 677  | 538   |
| SLOVENIA   | 5,630                                | 4,904  | 357  | 263   |
| ESTONIA    | 1,287                                | 901    | 243  | 151   |
| LATVIA     | 585                                  | 1,003  | 384  | 188   |
| LITHUANIA  | 4,909                                | 2,160  | 592  | 320   |

Source: Data from REGSTAT Database (ZEI).

**Table 2.10 Sectoral industrial employment shares (%) in the EU NMS, Years 1990 and 2000**

|            | LINT* SECTORS |       | IINT* SECTORS |       | CINT* SECTORS |       |
|------------|---------------|-------|---------------|-------|---------------|-------|
|            | 1990          | 2000  | 1990          | 2000  | 1990          | 2000  |
| BULGARIA   | 47.95         | 51.19 | 16.52         | 20.72 | 35.53         | 28.09 |
| ROMANIA    | 42.27         | 50.02 | 25.46         | 25.78 | 32.27         | 24.20 |
| CZECH REP. | n/a           | 39.73 | n/a           | 31.83 | n/a           | 28.44 |
| HUNGARY    | 49.59         | 45.96 | 26.25         | 25.32 | 24.16         | 28.72 |
| POLAND     | n/a           | 46.44 | n/a           | 29.37 | n/a           | 24.19 |
| SLOVAKIA   | n/a           | 39.95 | n/a           | 29.57 | n/a           | 30.48 |
| SLOVENIA   | 44.11         | 44.27 | 27.71         | 30.30 | 28.18         | 25.43 |
| ESTONIA    | 51.32         | 68.02 | 21.74         | 16.49 | 26.94         | 15.49 |
| LATVIA     | n/a           | 72.23 | n/a           | 13.60 | n/a           | 14.17 |
| LITHUANIA  | n/a           | 69.30 | n/a           | 15.48 | n/a           | 15.22 |
| EU-15      | 30.16         | 29.71 | 30.52         | 29.33 | 39.33         | 43.26 |

\* LINT (Labor-Intensive Sectors): Food, Beverages and Tobacco, Textiles and Wearing Apparel, Leather Products, Wood Products, Paper, Publishing and Printing, Other Manufactured Products, IINT (Sectors of Intermediate Intensiveness): Fuel Products, Chemical Products, Rubber and Plastic Products, Non-Metallic Mineral Products, CINT (Capital-Intensive Sectors): Machinery (excl. Electrical), Electrical Machinery and Optical Equipment, Transport Equipment

Source: Data from REGSTAT Database (ZEI)

The dissimilarity of the industrial structures, in employment terms, between the EU NMS and the EU-15 average economy can be estimated using an Index of Dissimilarity in Industrial Structures (IDIS) defined as:

$$\text{IDIS} = \sum_i (a_i - b_i)^2$$

The above index takes values greater than 0, from lower to higher dissimilarity. An increasing trend of the IDIS diachronically reveals that the economies under consideration are getting more dissimilar whereas a decreasing trend reveals that the corresponding economies are getting more similar. An increasing dissimilarity between the industrial structures of an economy under analysis and its benchmark is associated with a negative (defensive) structural change whereas a corresponding decreasing dissimilarity is associated with a positive (offensive) structural change (Jackson and Petrakos 2001).

The industrial structures of each EU NMS are compared to that of the EU-15 economy since the latter, despite its own structural problems (Aiginger 1999), constitutes a benchmark for the EU NMS economies (Suhrcke 2001). From the figures of the IDIS, presented in Table 2.11, we can observe that the countries of Central Europe present either low or decreasing levels of dissimilarity with the EU-15. On the contrary, the countries of the Baltics and the Balkans present the exact opposite trends.

The structural similarity and convergence of Central Europe and the structural dissimilarity and divergence of the Balkans and the Baltics may be one of the factors behind their differential growth performance in the post-1989 period.

Such differences are even more intense at the regional level, as the previous analysis of the emerging patterns of regional development revealed. In order to gain

**Table 2.11 Structural dissimilarity, in industrial employment terms, of each EU NMS with the EU-15, Index of Dissimilarity in Industrial Structures, Years 1990, 1995 and 2000**

|            | 1990 | 1995 | 2000  |
|------------|------|------|-------|
| BULGARIA   | 378  | 480  | 665   |
| ROMANIA    | 610  | 612  | 800   |
| CZECH REP. | n/a  | n/a  | 140   |
| HUNGARY    | 643  | 683  | 441   |
| POLAND     | n/a  | n/a  | 192   |
| SLOVAKIA   | n/a  | n/a  | 100   |
| SLOVENIA   | 520  | 520  | 388   |
| ESTONIA    | 241  | 768  | 1,202 |
| LATVIA     | n/a  | n/a  | 630   |
| LITHUANIA  | n/a  | n/a  | 687   |

*Source:* Data from REGSTAT Database (ZEI) and REGIO Database (EUROSTAT) elaborated by the authors

more insight into the causes lying behind the emergence of this uneven pattern of regional development in the EU NMS area, we undertake here a similar analysis. Data limitations restrict the analysis to 5 EU NMS i.e. Bulgaria, Romania, Slovenia, Hungary and Estonia. These EU NMS under examination, however, represent in a satisfactory way the economic, geographic and demographic variations of the whole EU NMS area. In order to assess some general trends at the regional level we classify the EU NMS regions into five broad categories: the CAP (capital regions), the INT (internal regions), the BEU (regions that have borders with the EU-15), the BNM (regions that have borders with other EU NMS) and the BEX (regions that have borders with third countries) regions, following Resmini (2002).

The EU NMS regional-industrial patterns can be extracted on the basis of the shares of each manufacturing sector in each EU NMS region (Petrakos et al. 2006b). Towards this, a Coefficient of Structural Change (CSC) is estimated, defined as:

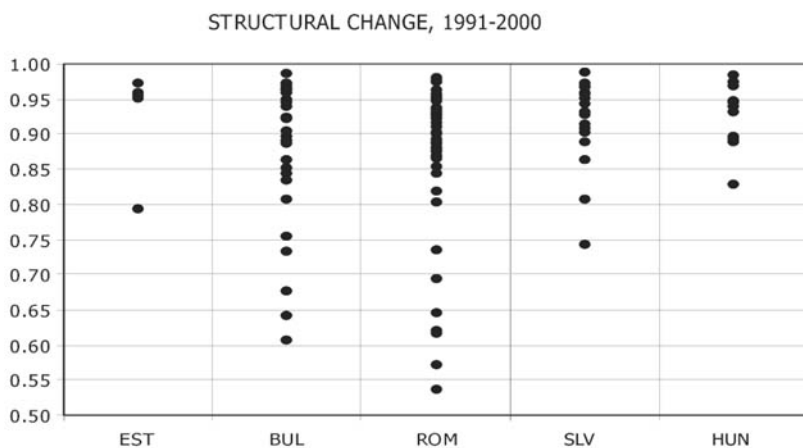
$$CSC = \text{Cor} (X_{i,t}, X_{i,t+k})$$

CSC is an index correlating the industrial employment shares (i) of each region in two different time periods (t, t+k) and its values fluctuate within the interval [0, 1]. Values close to 0 indicate that significant structural changes have taken place, whereas values close to 1 indicate that almost no structural change has taken place during the period under examination. We use this index in an endeavour to capture the level of structural changes that took place during the pre-accession period in the EU NMS regions.

As Figures 2.3 and 2.4 indicate, each EU NMS region had a different reaction to the pressures of the emerging internationalized economic environment, experiencing its own level of structural adjustment. While some regions have undergone a more severe degree of structural change, others have undergone a modest degree. On average, the regions of the more advanced EU NMS under examination (Hungary, Slovenia and Estonia) tend to register lower levels of structural change, while the regions in the less advanced EU NMS (Bulgaria and Romania) tend to register higher levels. In addition, capital regions (CAP) and their satellites and western regions bordering with the EU-15 (BEU) seem to have a more modest experience of structural change than the other groups of regions.

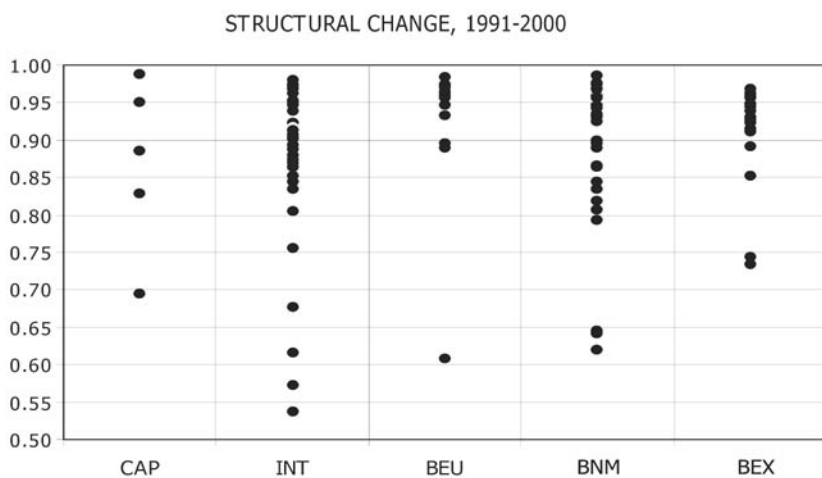
The sign of severe structural changes in regions with relatively poor performance is an indication that structural change has mostly been an adjustment of both a forceful and a defensive nature, imposed by the need for internationalization and economic integration. In addition to the diminution of activities in weak regional economic bases, it seems that the process of economic integration has also altered significantly the composition of regional-industrial activity.

A two-way causality process seems to be in motion. Weak and vulnerable or mono-structure regions, lose the part of their industrial base that is in several cases in capital and intermediate sectors, and as a result, end up being more vulnerable to international competition. These lost industries used to represent the largest or the most dynamic part of the local economy. As a result, structural change and industrial decline go hand in hand, in a vicious cycle that results in less output, less employment and a loss of existing sectoral specialization.



**Figure 2.3** Structural changes, in employment terms, recorded in the EU NMS regions, Coefficient of Structural Change, Period 1991–2000

*Source:* Data from REGSTAT Database (ZEI) elaborated by the authors.



**Figure 2.4** Structural changes, in employment terms, recorded in the EU NMS regions, Coefficient of Structural Change, Period 1991–2000

*Source:* Data from REGSTAT Database (ZEI) elaborated by the authors.

The structural changes that have taken place in the EU NMS regions have led to a variety of regional specialization patterns. These patterns are analyzed with the use of the entropy index introduced by Theil (1967):

$$\text{Theil}_r = \sum_{i=1}^I ((\alpha_i / \alpha) * \log(\alpha / \alpha_i))$$

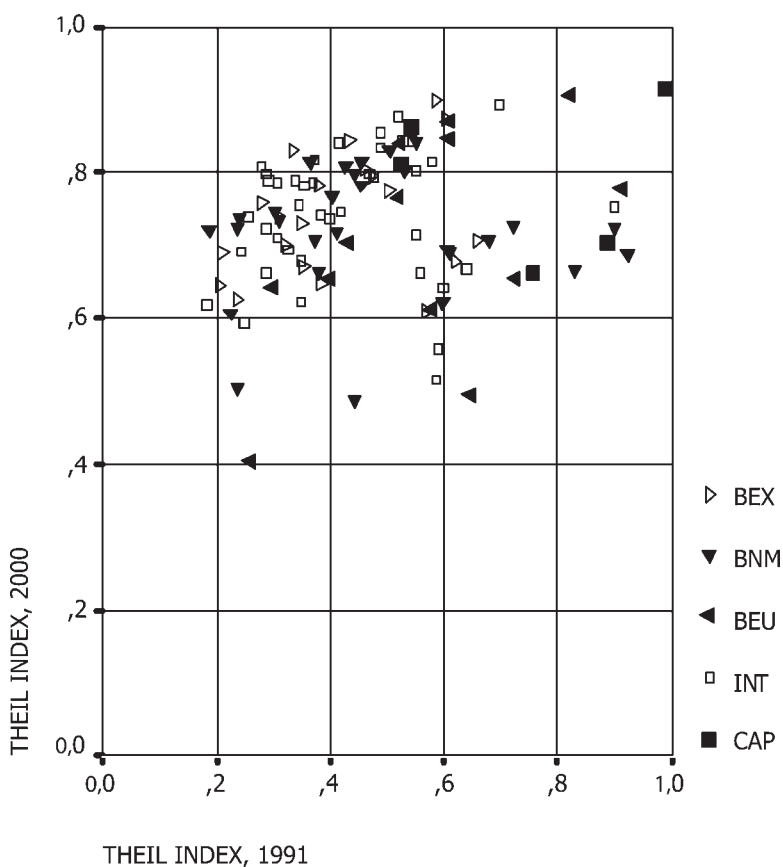
In the above expression,  $\alpha_i$  is the level of employment of each industrial sector (i) and  $\alpha$  is the level of total industrial employment in a region (r). The index takes values in the interval [0, 1]. Its lower limit indicates complete specialization (no diversification), while its upper limit indicates complete diversification (no specialization). The advantage of the Theil index is that it allows for international comparisons since it provides absolute values, and not values relative to the national averages (Petrakos et al. 2006a).

The estimation of the Theil index reveals a diachronic trend towards regional diversification, as it is evident from Figure 2.5. The great majority of the EU NMS regions under survey have recorded a decrease in their level of specialization and an increase in their level of diversification during the 90s. This rather impressive trend provides a strong indication that the EU NMS regions exposed to greater competition have lost their comparative advantages in – and consequently their share of – the sectors in which they were specialized. At the same time, the other industrial sectors remained roughly unchanged.

Although this explanation is likely to apply in many regions, it may not be an adequate explanation of the experience of capital and western border regions. In these regions, high levels of diversification point to a type of structural change that also included significant positive elements. Factors such as agglomeration economies, home market effect or proximity to western markets have favoured the location of foreign investment in a variety of sectors, including capital-intensive sectors (Resmini and Traistaru 2003). In these regions, increasing diversification is often the outcome of the expansion of the manufacturing sector, not the outcome of de-specialization.

In order to further assess the nature of the emerging structural patterns in the EU NMS regions we use once more the Index of Dissimilarity in Industrial Structures (IDIS), in employment terms, of each EU NMS region under examination and the EU-15 average economy. Figure 2.6 describes the change in the index during the period 1995–00. A positive change indicates an increase of structural dissimilarity with the EU-15, while a negative change indicates a decrease. In general, the IDIS figures at the regional level are in line with the corresponding ones at the country level. The majority of the Bulgarian and Romanian regions has experienced a defensive structural change and has further diverted from the average EU-15 industrial structure. On the other hand, the majority of the Slovenian and Hungarian regions has experienced a positive type of structural change and has converged to the EU-15 industrial structure. The regions of Estonia present mix trends as concerns their dissimilarity levels with the EU-15 average.

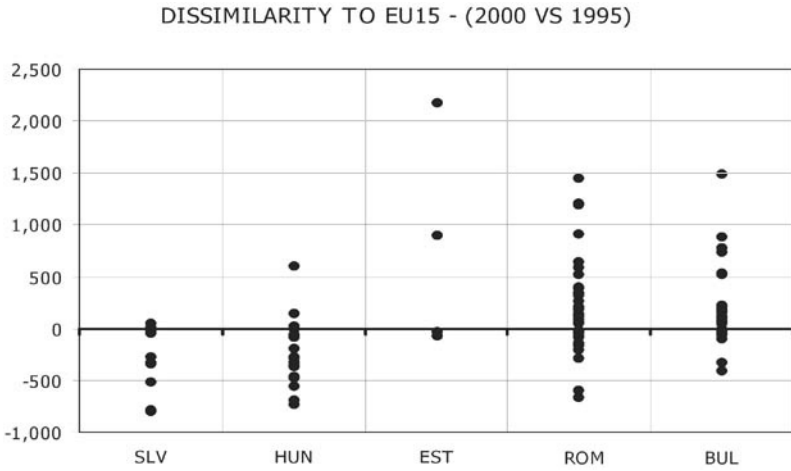
The industrial experience of the EU NMS and their regions indicates that a multiple-direction relationship among industrial performance, structural change, integration, geography and specialization is taking place. The process of economic



**Figure 2.5 Levels of regional-industrial diversification in industrial employment terms, Theil Index, Years 1991 and 2000**

*Source:* Data from REGSTAT Database (ZEI) elaborated by the authors.

integration exposed the EU NMS regions to international competition resulting in negative effects in their industrial performance. Significant structural changes took place especially in the less advanced regions, revealing defensive structural change phenomena. These phenomena contributed to the recorded de-specialization trends in the EU NMS regions as the latter lost their comparative advantages in the sectors in which they were specialized. The capital and the western border regions of the countries of Central Europe, however, managed to alleviate these negative effects by attracting industrial activities either from other regions of their country or from the EU-15 area. These regions have benefited from their favourable geographic position, close to national and European development centres, and managed to exploit the dynamics of agglomeration and proximity.



**Figure 2.6 Evolution of dissimilarity with the EU-15 in industrial employment terms, Period 1995–2000**

*Source:* Data from REGSTAT Database (ZEI) elaborated by the authors.

### The Determinants of Regional-Industrial Economic Performance in the European Union New Member States

The analysis of the EU NMS regional-industrial patterns revealed the uneven impact of integration on their levels of economic performance. The dynamics of agglomeration and proximity determine, to a large extent, the impact of greater market interaction and the allocation of economic activity in space. Existing patterns of income growth among the EU NMS states and their regions tend to favour the arguments held by non-conventional approaches, such as the new economic geography school. At the macro-geographic level, core countries in Central Europe enjoy better structure and performance than peripheral countries in the Baltic Sea and the Balkans. At the micro-geographical level, metropolitan regions (based on agglomeration) and western border regions (based on proximity) have done better than internal, eastern border or rural regions.

These relationships are described in a more formal way in Table 2.12 and Figures 2.7–2.11, which present the correlation coefficients between industrial performance (measured by industrial GDP per capita) and a number of structural, geographical or international factors of the new economic environment.

Gravity is measured by a Gravity Index under the formula:

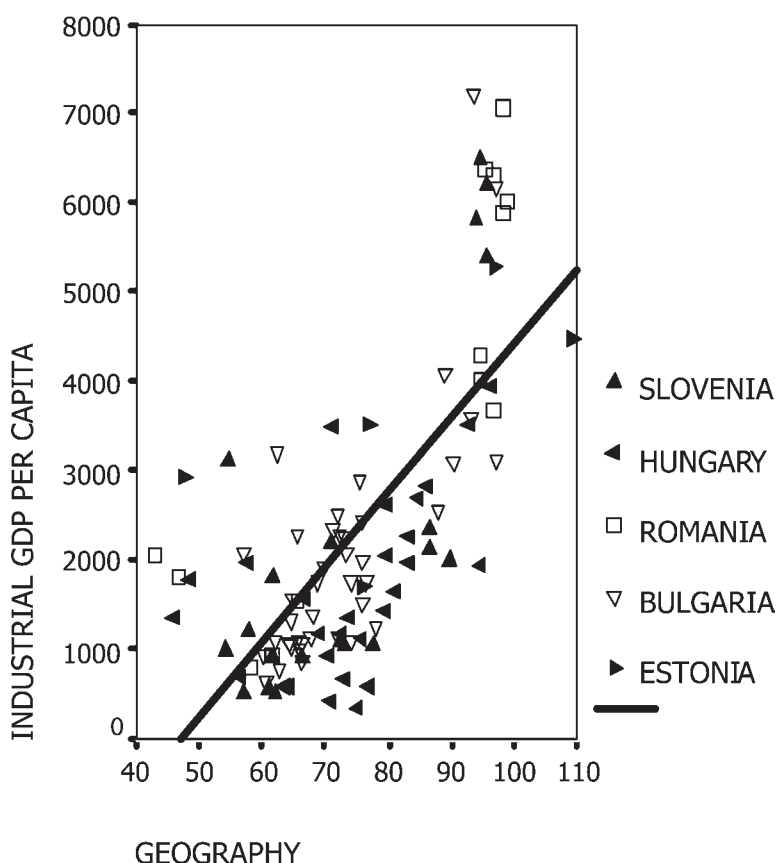
$$Gi = \sum_i^j \frac{P_i P_j}{d_{ij}}$$

The index takes into account the distances between each EU NMS region and all other regions,<sup>11</sup> on a pan-European scale, and weighted by their population. The

<sup>11</sup> Distance is measured between the centroids of the NUTS III regions.

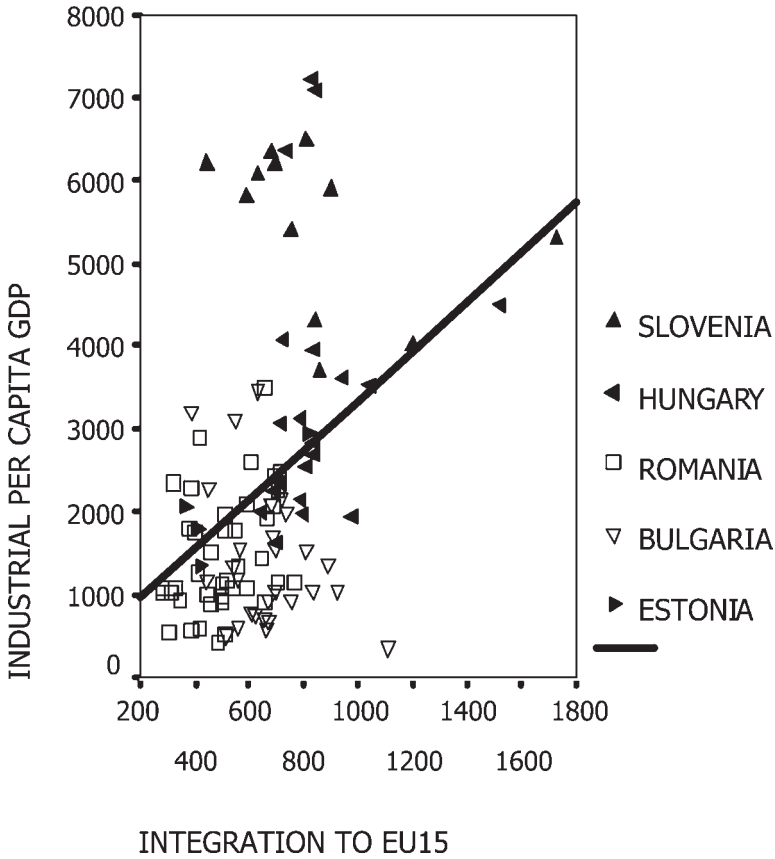
values of the Gravity Index reveal the ability of the EU NMS regions to attract economic activities, and especially activities associated with IRS. The index takes values greater than 0. High values indicate a more central place in the enlarged EU and, as a result, a more attractiveness to investment location. The positive, strong, significant and increasing over time correlation coefficient with the industrial per capita GDP is a strong indication that geography matters to industrial performance and development. It is also an indication that geography generates an unbalanced pattern of development, favouring Central European over Balkan and Baltic regions, and capital and western border regions over peripheral regions. The relationship between regional industrial performance and the levels of the Gravity Index is presented, for the year 2000, in Figure 2.7.

The concentration of the majority of economic activities in certain types of regions, according to their geographic position, provides a strong indication of the



**Figure 2.7** The relationship between regional industrial GDP per capita and geography (Gravity Index), Year 2000

*Sources:* Data from REGIO Database (EUROSTAT) and REGSTAT Database (ZEI) elaborated by the authors.



**Figure 2.8 The relationship between regional industrial GDP per capita and economic integration to EU-15 (IEIr), Year 2000**

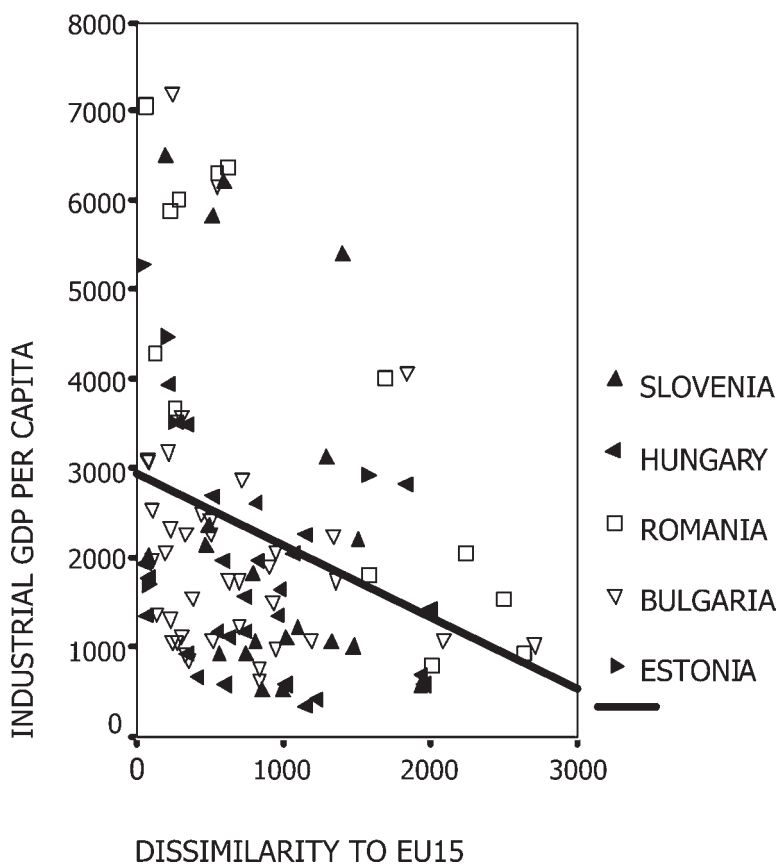
*Sources:* Data from REGIO Database (EUROSTAT) and COMEXT Database (EUROSTAT) elaborated by the authors.

uneven impact of the process of economic integration on the EU NMS regions. We have estimated a proxy of the index of economic integration (IEI) at the regional level<sup>12</sup> by calculating first the Index for each manufacturing sector at the national level and then multiplying by the location quotient (LQ) of each sector (i) in each region (r) and summing up over sectors with the formula:

$$IEI_r = \sum_i (IEI_{i\_NAT} * LQ_{ir})$$

The positive and statistically significant relation between regional economic integration and industrial per capita GDP, for the year 2000, presented in Figure 2.8,

<sup>12</sup> Since COMEXT Database has no trade data at the regional level.



**Figure 2.9** The relationship between regional industrial GDP per capita and dissimilarity with EU-15 (IDIS), Year 2000

*Source:* Data from REGSTAT Database (ZEI) elaborated by the authors.

implies a two-way causality. Obviously, the industrially advanced EU NMS regions are the ones enjoying greater industrial trade relations with the EU-15 countries, in an ongoing integration context. This pattern is further enforced, however, since economic integration is a spatially selective process, favouring certain types of regions. These regions, according to our previous analysis, are the capital and the western border regions of Central Europe that have been favoured by geography and size to develop trade relations and integrate into the EU market.

Of course, standard trade theories would maintain that trade is beneficial and should increase the welfare of all parts involved. However, the low and statistically insignificant value of the correlation coefficient between industrial performance and trade integration at the regional level in the year 1995 casts some doubts on this hypothesis. Integration may increase aggregate welfare, but welfare gains may not spread (equally) to all regions.

The relation between the level of dissimilarity, in terms of industrial employment, with the EU-15 average and the industrial performance, presented in Figure 2.9

**Table 2.12: Determinants of industrial performance in the EU NMS regions (p-values in parentheses), Years 1995 and 2000**

| RELATION  | DEGREE (p-value) 1995 | DEGREE (p-value) 2000 |
|---|-----------------------|-----------------------|
|   | Year 1995             | Year 2000             |
| Industrial Performance – Geography                  | 63.7%<br>(0.000)***   | 71.2%<br>(0.000)***   |
| Industrial Performance – Integration (IEI)          | 12.3%<br>(0.209)      | 22.3%<br>(0.019)**    |
| Industrial Performance – Dissimilarity (IDIS)       | -3.1%<br>(0.751)      | -30.4%<br>(0.002)***  |
| Industrial Performance – Employment in CINT sectors | 26.9%<br>(0.006)***   | 31.9%<br>(0.001)***   |
| Industrial Performance - Regional diversity (THEIL) | 9.9%<br>(0.316)       | 50.9%<br>(0.000)***   |

\*\* statistically significant at 5% level

\*\*\* statistically significant at 1% level

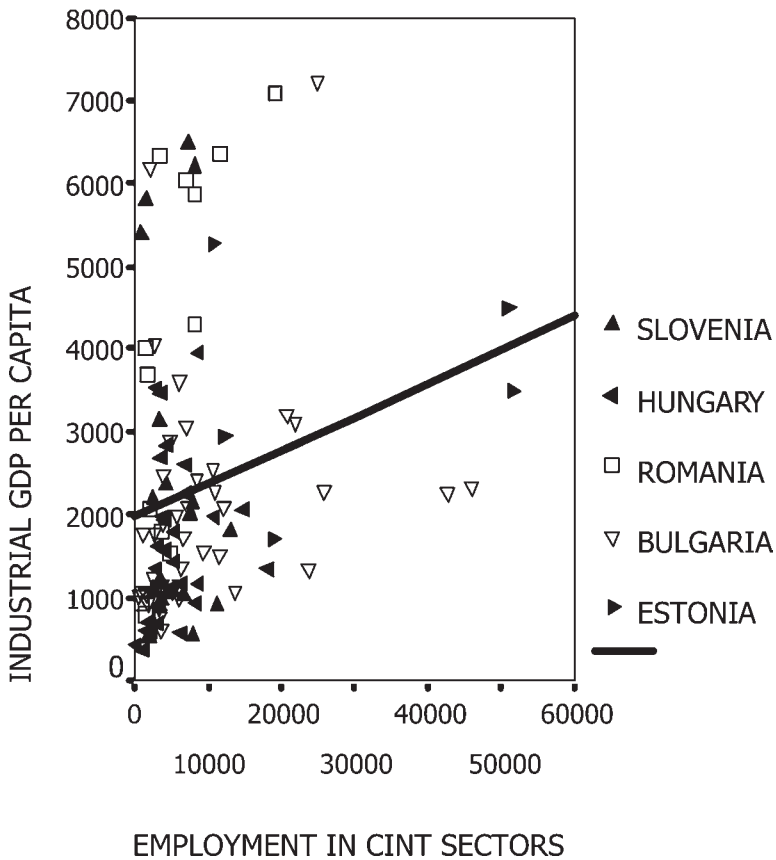
Sources: Data from REGIO Database (EUROSTAT), COMEXT Database (EUROSTAT) and REGSTAT Database (ZEI) Database elaborated by the authors

indicates that structure and composition of activities play a significant role in the process of development.

The negative and statistically significant, for the year 2000, relationship indicates that regions possessing an industrial structure that is converging towards that of the EU-15 have better chances of prospering. This is the case for many Central European regions that started to develop intra-industry type of trade activity with the EU-15 countries, during the late pre-accession period. On the contrary, regions with industrial structures diverging from the average structure of the EU-15 tend to have a lower industrial GDP per capita. As a result, structural divergence implies diverging paths of industrial development, with negative implications for the EU NMS industrial performance.

This claim is further supported by Figure 2.10, which describes the relationship between employment in capital-intensive industrial sectors and industrial GDP per capita for the year 2000. This relation is positive and statistically significant, providing another indication that the structural characteristics of the regions matter. Regions specializing in capital-intensive sectors, which are mainly associated with IRS activities (Jackson and Petrakos 2001), achieve a higher level of industrial performance. On the contrary, regions with a limited presence of capital-intensive sectors in their industrial activities tend to have a weaker industrial performance.

The presence of the CINT sectors in a region implies, also, that these regions have rather diverse industrial bases. Overall, the relation between the levels of regional diversification and industrial per capita GDP is found to be positive and statistically significant. This is a clear indication that the more diversified regions have proved to be more resistant to external industry-specific shocks. The relation between



**Figure 2.10 The relationship between regional industrial GDP per capita and employment in CINT sectors, Year 2000**

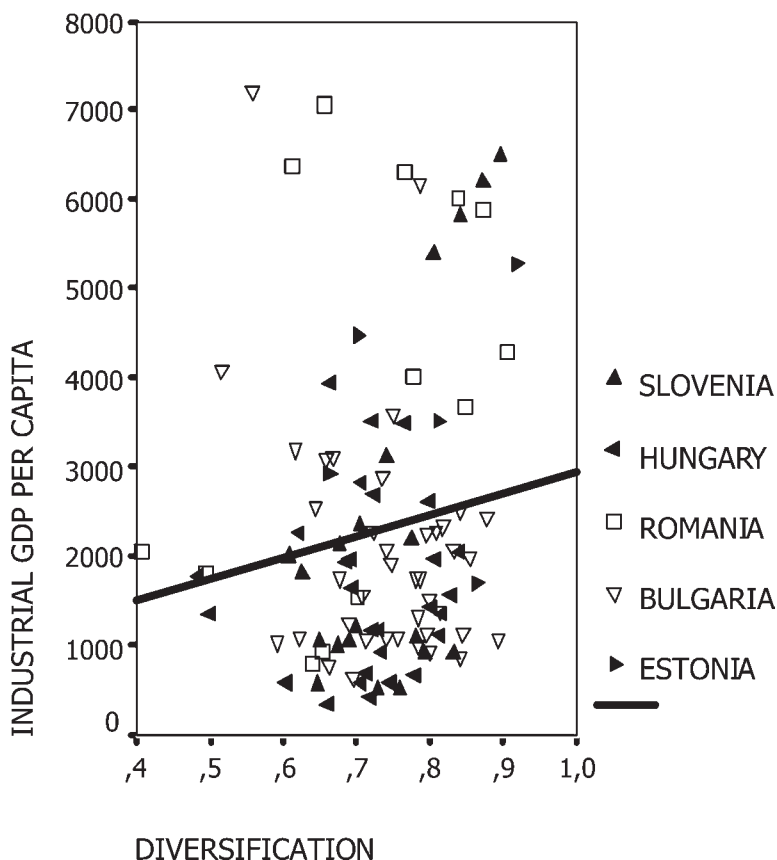
*Source:* Data from REGSTAT Database (ZEI) elaborated by the authors.

regional diversification and industrial performance for the year 2000 is presented in Figure 2.11.

The relations presented above attempt to explain the emerging patterns of regional-industrial performance in the EU NMS. They show that the post-1989 adjustment path of the formerly planned economies is a highly differentiated one and that geography and structure are important determinants of this process.

### **Conclusions: Integration and Regional Divides**

The interacting processes of integration and transition have been responsible, to a large extent, for the significant structural changes observed in the EU NMS regions during the pre-accession period. These processes affected regional balances, the patterns of regional specialization and the level of competition, in the new international environment.



**Figure 2.11 The relationship between regional industrial GDP per capita and regional diversification (Theil Index), Year 2000**

*Source:* Data from REGSTAT Database (ZEI) elaborated by the authors.

The impact of economic integration among the EU NMS regions has been uneven, revealing ‘winners’ and ‘losers’ of the process in relative – but in some cases also in absolute – terms. A series of economic divides emerged in the EU NMS area driven by structure, size, agglomeration and geography, favouring mainly capital and western border regions in Central European countries. Non-metropolitan peripheral regions in the Balkans and the Baltics are typically the least favoured by integration dynamics. As a result, regional inequalities have significantly increased in almost all countries in a very short period of time.

The pattern of structural change of the EU NMS regions is a critical element associated with their adjustment in the post-1989 era.

Manufacturing has been the sector that has undergone the most pressure from the internationalization of the markets and the increased level of competition. The first and immediate impact of this pressure has been a significant diminution of production and employment that in several cases reaches or exceeds 50% of the

initial levels. The second and more lasting impact has been a significant change in the production structure of manufacturing in most countries and regions.

This change in industrial structures has been the net outcome of opportunities and threats arising from the exposition of productive bases – characterized by a mix of advantages and disadvantages – in the new economic environment.

In a number of EU NMS regions, advantages and opportunities have had an overall stronger influence on their economic transformation. These are the capital and the western border regions that have creatively combined initial conditions with market dynamics in order to attract new economic activities and achieve a better growth record and an industrial structure which over time becomes similar to that of the EU-15 average. Economic and structural convergence with the EU-15 has been based, to a large extent, on the interacting forces of agglomeration, market size and accessibility. Moreover, positive structural change, that is, the strong presence of capital-intensive sectors and the increasing diversity of the industrial base, has further stimulated industrial growth, leading these regions into a virtuous cycle of growth and successful restructuring.

The majority of the EU NMS regions, however, have followed a rather different path. Endowed with an unfavourable set of initial conditions (mono-structure, rural or simply undeveloped regions) and peripheral in the national and European setting they have been faced in the new economic environment with fewer opportunities and more threats. Unable to attract a critical scale of mobile capital, they have witnessed the collapse of large parts of their industrial base, drastically cutting local demand and setting a real ceiling to indigenous efforts for growth. These de-industrialized regions have simultaneously experienced a decline of industrial employment and a serious limitation of the diversity of the economic base. These unfavourable developments have led them onto a path of economic and structural divergence from the EU-15 average.

This chapter has provided evidence that the process of integration of the EU NMS regions is characterized by a divide with respect to industrial performance and structure. The experience of the EU NMS pre-accession period shows that regional convergence and cohesion in the new economic space of the Union is, for the time being, at risk. These findings question the effectiveness of the policies of transition and accession and pose a serious challenge to policymaking in the next period indicating that a critical reassessment of structural and cohesion policy may be necessary.

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## Chapter 3

# Disintegrated (or Fragmented) Public Administration and Regional Development Policy in Eastern Europe

Ilona Pálné Kovács

### Introduction

The new East European democracies had to face a double challenge in the 1990s:

- First of all, they had to establish a democratic state and political system on the basis of political plurality, not simply as a democratic principle, but also a principle able to tackle the problems of systemic change effectively. Towards achieving these tasks, not only was the adaptation of the general model of Western democracies required, but also and at the same time the consideration of national characteristics and historical roots was necessary.
- The new democracies, on the other hand, hoping for accession to the European Union, had to search for such a state-institutional model able to adapt to the requirements of the *acquis communautaire*. The adaptation to this twofold, internal and external system of requirements and which, in addition, had to take place within a fairly short period of time, was not, by any standards, easy and was not free from contradictions either.

This chapter studies the shaping of national administrative systems with a focus on their ability to meet internal and external requirements in the field of regional policy. The choice of this concrete policy area is not accidental. The literature of the so-called Europeanization often states that European regional policy has a crucial impact on national public administration (Bache 1998; Bovaird et al. 2002). The invasive effect of the Structural Funds on national administrations can be explained by the motivation of domestic actors to acquire development resources for various targets, while taking into consideration the priorities of the Community. This statement also stands true in the case of the 'old' democracies, especially the member states of the European Union. Though the European Union in general considers the structure and functioning of public administration as a national internal affair, it has put a fair amount of pressure on adaptation, which reflects the fact that regional policy is one of the most effective political means of deepening and enlarging the integration process, by strengthening regionalism, for example. The principles of subsidiarity and partnership have raised the status of the regions to a level closer to that of national

governments in the decision-making processes of the Union and strengthened their role as one of the most vital factors of multilevel governance (Bache 1998). The principle of programming also had a very serious impact through an emphasis on the role of strategic planning in governance and the necessity of coordination among sectors at the same time. While the effective implementation of European regional policy would have required a strong integration and territorial decentralization in the accession countries, the political values and ambitions enforced in the course of the systemic change did not always favour these requirements. Moreover, one of the main characteristics of the public administrations in these regions was precisely fragmentation and correspondingly 'short-termism' rather than comprehensive planning. The question addressed by this chapter concerns the impact of the two oppositional trends upon the efficiency of public administration of these Central East European countries in the field of regional policy.

This chapter proceeds in two steps. First, by presenting some aspects of the relationship between public administration and regional development and, secondly, with a presentation of seven national case studies, after which the conclusions will be drawn.

### **Public Administration and Regional Development: General Aspects**

Before analyzing the special solutions in the selected countries, it is useful to summarize the main elements of change in public administration and regional policy that have been taking place during the last decades. These changes had crucial impacts on the accession countries in their model of public administration and public policies.

#### *General trends in the spatial component of public administration*

Over the last decades public administration underwent significant transformations and will probably continue changing in the future. These changes indicate two principal trends: the first type is structural, organizational transformation and the second is functional change concerning its operation. The role of these two types of changes and their interrelationship can hardly be generalized. Alongside structural changes, organizational changes, functioning and behaviour often remain unchanged (Lazareviciute 2000) and structural reforms may remain inefficient. This means that 'radical' reforms implemented on the surface reshaped only the structure but not the content, the values and attitude of the staff, and thus they often remained unsuccessful. In the spirit of incrementalism the slow but deep changes, the model of step-by-step adaptation, modernization is often applied. Despite this fact the modernization of national public administrations and local governments has been typically carried out in the form of structural reforms in Europe during the last decades (Wright 1997).

The spatial transformation of public administration in West Europe proceeded in two cycles. Until the 1970s, the reinforcement of the municipal tier was carried out mainly in the form of strong integrations, that is amalgamating the smaller administrative units into a single common organization (e.g. the example of the UK,

the Scandinavian states or Germany), or in the form of the association of autonomous municipalities (e.g. France). The integration of the local tier was carried out under the aegis of efficiency and decentralization and, in this process, the aspects of democratic representation and civil proximity were mostly neglected (Martins 1995) and it is only in the nineties that it was realized that participation and legitimacy also matter (Sharpe 1995).

However the 1980s and 1990s may be described by the phenomenon of regionalism and thus attention was focused, instead of on the local tier, on the *meso*-level. The rich literature of regionalism clearly distinguishes functional regionalism as the institutional adaptation to globalizing economic development, from the socially embedded, anchored wish of creating democratic regions, the so called new regionalism. However it is especially important to recognize that regionalism represents a group of phenomena more complex than the simple creation of a new administrative tier (Keating 2004, 585). The modernization of administrative structures often takes place in the forms of new institutions, economic and social interactions, development alliances, partnership networks (Kohler-Koch 1998; Paraskevopoulos and Leonardi 2004). It should be noted that, besides regionalism, a new phenomenon has been emerging: the spatial concentration of power structures often means space winning by larger cities (Barlow 1997). Although the networking functions of large cities have gained importance, their managers do not seem to be very keen on assuming the role of integrator and initiator in a special new administrative form (Berg et al. 1997). Public administration science and practice are wrestling with the problem of how to connect the active and larger cities and regions in more efficient organizational forms because, paradoxically, cities could become integrative elements through the development of public services policy. These ambitions however are not in harmony with the functions of regional governance.

These phenomena underlining the fact that, besides the integrative and rescaling trends in public administration, transparency is not present as a result of parallelism and new networks, and this is also connected with the multilevel governance system of the EU.

Overall, we can claim that the dominating trends in public administration are spatial integration or the evolution of larger territorial scales, besides the emergence of strategic governmental planning. But we have to underline that no general schemes exists for territorial integration, which is why it is not by chance that the Central East European countries are having their own way.

### *European regional policy and its impact on territorial administration*

The model of regional policy, which appeared in the 1980–90 decade, represented a challenge to the public administrations of EU member states. During the last programming period, between 2000–06, in the development of the EU regional policy, ‘sound management’ became one of the key priorities following the recognition of the fact that organizational and management framework are as yet unexploited sources of efficiency and of further development, besides the proper identification and correction of objectives and tools. The challenges for the management of development policy are as follows:

- First, development programmes were designed to cover more and larger areas. After dealing with *ad hoc* projects handling the problems of crisis areas, the system became more holistic or comprehensive, covering larger areas of territory. This phenomenon launched a series of reforms establishing new administrative levels or amalgamating former ones, encouraging regionalization (Keating 1998).
- Second, development programmes became more complex, which necessitated the improvement of performance capacity and the introduction of new functional solutions in management: (a) the preparation of long run programmes instead of development projects (planning), (b) the implementation of programmes by coordination among different branches and sectors.
- The increasing public involvement in economic development and the new, market-oriented system of economic support required: (a) more flexible behaviour of the public administrative staff making them interested in performance, (b) outsourcing activities, (c) new institution building – market-oriented administration.
- The necessary involvement of external resources and the increasingly comprehensive measures naturally strengthened horizontal relationships as opposed to vertical ones – partnership involving economic and civic actors into formal and informal networks.

The deepest impact was obviously experienced in countries that benefit most from EU grants and subsidies, and where the structure, logic and culture of national public administration were the least compatible with European requirements. For these countries it was not enough to make smaller corrections, establish special institutions or adopt special regulations. They needed comprehensive reforms of both the structure and methods of operation (Spain, Greece, etc.). In another group of member states, the need for adaptation did not result in fundamental changes, even if the institutions established were apparently conform to Europe, and a certain decentralization process also started there (Finland, Portugal, and Ireland). It should be emphasized at this point that the pressure to adapt to the Structural Funds did not result in public administrative reform in all countries. There are forms of adaptation which do not require dramatic changes in national public administrative structures. The member states had to choose between protecting their national administration, or changing it if other requirements made it also necessary. It is crucial that only the requirements of the Structural Funds did not comprise the need of public administrative reform.

As a result of an unfit public administrative establishment, and partly due to the specific needs of regional policy, the territorial-regional levels underwent a specific institutionalization process in Europe, which could be labeled as pluralism or institutional thickness (Amin and Thrift 1994). For regional development purposes, so-called quasi-governmental or non-governmental, corporative organizations were established. The new types of institutions in some cases were motivated by political intentions as well, strengthening the central power against locally elected authorities (Duncan-Goodwin 1988). The mingling of elected and non elected 'mixed' institutional models is clearly indicated in the occasional terminology used to wipe

out differences between elected and non elected organizations, focusing exclusively on whether the institutions acting at various levels have sufficient jurisdiction or not (Armstrong 1997).

Unlike the centralistic model mentioned earlier, which emphasizes the role of the state, the other institutional model pays more attention to the process of networking, avoids local 'nationalization' of the state, emphasizing the importance of 'governance', that is the embedment of institutions into local society. These efforts are rather praxis-oriented combining pure economic considerations with social aspects (Amin and Thrift 1995; Cappellin 1997). Representatives of this approach recognized the fact that the success of regional programmes depends not only on the availability of all (technical and professional) components required for planning, but also on the availability of political representation (legitimacy) and sufficient capacity to govern (Roberts 1997).

As regard the processes that have taken place in the management of regional policy, it can be concluded that we have here such a dynamic phenomenon – especially as far as economic development is concerned – that it is more important to develop the proper mechanism of adjustment than to continuously rely on 'temporarily institutionalized' solutions. In this respect, institutionalization networks are more important than drawing the new administrative borderlines. It is the processes of adaptation, changing and learning that should be institutionalized (Haynes et al. 1997). What is needed is not the development of the 'federalist' structures, but the application of such 'federalist principles' as flexibility and partnership. Public institutions are supposed to be integrating organs, initiators of strategic programmes and managers of cooperation among the actors concerned (Cappellin 1997).

Overall, we can conclude that the EU's regional policy has proved a crucial motivation for modernizing national public administration in the sense of regionalism, managerialism, partnership or more flexible governance. But the new challenges could be answered by functional adaptation as well, and several member states could be successful in the absorption of Structural Funds without dramatic structural changes in public administration. The reason for that may be that Western democracies have had a much more stable (and integrated) public sector than the newcomers (Potucek 2004).

### **The Restructuring and the Adaptation Difficulties of Public Administration in East European Countries**

According to an increasing number of opinions, if the homogenization of national public administration does not take place, the European Union may split into two groups: the leading, pioneer states on the one hand and, on the other hand, other states reinforcing the centrifugal effects (D'Orta 2003). Because of the growth of states, population and territory the administration of the European Commission has become less able to overtake directly the implementation of the common policies. (Lazareviciute 2000). The homogenization of national administrative capacities may not, on the other hand, mean unification. The convergence between public administrations proceeds alongside different needs, power structures and values. It is

generally recognized, as an UN report states (Globalization and the state, UN 2001), that former, top-down managed supply oriented reforms are usually not successful. If knowledge transfer can not meet the needs of the recipient country it will be unable to provide sustainable results. Empirical research aimed at the evaluation of the signs of convergence emphasized that there is no need, and no intention on the part of the member states to unify public administrations, and thus the variety of public administrations was maintained (Bossaert 2001, 251).

As it is well known, the expectations of the European Union for the public administration of the countries involved in the last round of accession were much more definite than during any other previous enlargement phase. What was expected of accession countries in the domain of public administration can be seen in the Copenhagen criteria on the one hand, and in the country reports issued by the European Commission since 1997, on the other. However, these expectations are hardly more than a loose framework and are not even consistent. Many believe that the insistence on meeting the criteria of administrative capacities would be justifiable if the concept itself were clear and if it contained equal expectations for everyone (Hughes et al. 2004). The accession states had to adapt to an almost 'moving target'. Notwithstanding, the annual progress reports on the states revealed a fairly critical attitude towards the common public administration of the ten accession states, even though the criteria of evaluation allowed a fairly large space for subjectivity. This means that evaluators, experts involved in the preparation of reports had great personal freedom to formulate their opinion on the performance of national public administration. It was also evident that accession can hardly be hindered for this reason (Moxon-Browe 2005).

In the shaping of the territorial administration model of the transitional countries, the necessity for a democratic but decentralized state and the political aspect of reinforcement of the local roots were simultaneously present reflecting the thesis of Sharpe on 'democratic maturation' (Sharpe 1993).

Besides the challenge in the choice of model, it is also a fact that the systemic change of Central East European countries proceeded under the functional influence of the New Public Management. These countries were challenged on the basis that they should have implemented both legitimacy (democracy) and managerialism and that they needed too much and too little bureaucracy at the same time. The execution of the NPM reforms was carried out mainly for the sake of foreign experts and only symbolically. No one paid any attention to the adaptation of the borrowed instruments to the concrete situation in the country. The recommendations formulated by research programmes carried out in the framework of the common programmes of OECD and the European Union labeled as *SIGMA* (1998) confirmed that the public administrative systems of certain member states are extremely different; the recommendations formulated by the OECD could simply provide some reference points for the accession states. The evaluations regarding the implementation of recommendations were fairly careful. These evaluations pointed out that several Central and East European countries had launched significant reforms but that these reforms had come to a standstill in many places. The manageability of changes in the countries of systemic change is highly dependent on the intentions and knowledge of the bureaucrats. 'If homo sovieticus at all exists then we shall find him within the

public administration of the countries of systemic change', since institutions and rules can more easily be changed than humans (Tönnesson 2004, 2003). The medium tier was considered as problematic, not only because there were no really clear scientific concepts in this domain but also because the strongest social resistance might be forecasted exactly in this domain (COR 2000). This fear, anyway, was proved to be as real as it appears from very heavy protests and political debates that took place during the Polish or Slovakian reform (Regulski 2003). It was also emphasized in different reports that the monitoring and evaluation systems tracing the performance of public administration and of professional support, promoting mechanisms based on those, have scarcely been set up.

Due to these facts, it must be asked whether these countries, in terms of professionalism and capacity, are appropriate and prepared for the European adaptation process and for dealing with fragmentation to take place at the same time. In this region, the changing or reform processes in public administration have to be implemented in a much shorter time and under much stronger external pressure than in the former member states. This fact only forecasts the failures and paradoxes in the shaping of public administration in Central-Eastern Europe.

### **National Case Studies on the Conversion of Fragmented Public Administrative Structures**

Before examining the public administrative characteristics and reform efforts of some states, it is appropriate to mention some common features of the forms of fragmentation (Surazska et al. 1997) and especially those hindering the adaptation to the regional policy of the European Union:

- 'Municipal democracy', that is the extremely fragmented settlement resulting from the fragmentation of local services, administrative apparatuses and staff. The elimination of this fragmentation is, in a political sense, not an easy task and the protectors of local autonomy could often successfully confront the target of rationalization.
- The other form of fragmentation is the medium tier, where sectoral fragmentation is represented by the inferior de-concentrated organs, subordinated to the central organs on the one hand and, on the other, often missing strong territorial governance which would be able to integrate the local-territorial interests against the central power.
- And thirdly, fragmentation is present besides institutional structures with insufficient coordinating and cooperation mechanisms. There is no coordination within the central governance, the impact of planning is weak and the division of resources is not transparent.

Several aspects of the above properties are characteristic not only of the new accession countries but also of the new democracies evolving in the Balkans. Where the system of local governances was established, the competencies of local tiers were reinforced and extended (mainly without financial guarantee) while in the *meso*-tier

either no self-governments were set up or their role was declining for the benefit of the extending, strengthening de-concentrated state administration (Kandeva 2001). In the next section we will see the efforts invested and the ways employed by several countries to try to correct these phenomena, adapting to the challenges of regional policy.

### *Hungary*

In 1990 in *Hungary* the main target was the strengthening of the municipal tier by dissolving and disintegrating the former soviet type system. Municipalities became the focal point of the system. It is a fact, on the other hand, that in the spirit of democracy and decentralization, the number of local decision-making units was doubled: more than 3000 local governments/municipalities replaced the former 1600 local (soviet) councils. A very important change was the nearly full elimination of the elected county government which was the most powerful territorial unit of the Hungarian state known in history (the new counties suffer from lack of competencies and means, unstable political legitimacy and the loss of social trust). Instead of county governments, ministries expanded, 'capturing' as much as possible from public operations and resources. Some 40 different types of de-concentrated organs subordinated to the ministries were established (administration of labour, construction, education, environment protection, consumer protection, and agriculture).

The Act on Regional Development was passed in 1996 bringing fundamental changes into territorial power use (Pálné 2001). The institutional system of regional development in Hungary does not rely on the territorial public administration or on the local government system. On this administrative basis, it was simply impossible to integrate regional policy into this fragmented administrative structure lacking a strong territorial/*meso*-level of public power.

The ambivalence towards county self-governments led to the introduction of a specific, 'inter-sectoral' construction, the system of development councils. The Act on Regional Policy established special development organizations in three spatial units contributing or preserving fragmentation on territorial level:

- The smallest spatial unit, the so-called micro region (statistically delimited in number 158), formally the association of municipalities, is basically the 'most democratic' tier of the entire institutional system.
- The next category in terms of size in regional development became the county. The 19 county development councils decide upon the development programmes and distribution of decentralized state resources.
- The seven planning-statistical regions cover the NUTS II units. The main contradiction of the system is that the regional tier remained quite unimportant having left without competencies and resources although, since 1996 already, it was a professional commonplace that the strengthening of the NUTS II regional tier is crucial to regional development.

From a ten years perspective we can conclude that the three territorial tiers and their fairly complicated institutional system were unable to counterbalance the weight of the central government. This solution contributed to the fragmentation of development resources, to the competition among tiers and to several conflicts due to the ambiguous division of labour. The regional development policy – in spite of all official intentions – remained centralized, naturally frustration, local conflicts and finally disillusionment.

From the point of view of public administration negative consequences can also be detected:

- The expansion of non-profit organizations, indirect public administration (development councils, agencies) contributed to the fragmentation of administrative capacities and to the fluctuation of staff working for public bodies.
- The Act on Regional Development set long term planning as the precondition of acquiring development resources. The actors learned their lesson fairly quickly and within a relatively short period they prepared their development concepts and programmes. However the plans were mainly elaborated by expert companies based on fairly formalized 'EU conform' schemes and the involvement of the local community and economy was only formal. It is therefore not accidental that the real implementation of quickly prepared planning documents was hardly launched. The integrating power of planning is also missing, due to the fact that the legal background of sectoral and national planning is entirely absent. Sectoral plans reflect a strong sectoral egoism and is therefore not in harmony with regional planning. The scheduling of plans does not match with other scheduling and the implementation of plans is not guaranteed by an adequate financing system.
- The principle of partnership could neither bring a real success for cooperation with the civil, non-profit sector, first of all because of the unwillingness of local politicians and civil servants. The formal, ceremonial elements and *ad hoc* interest alliances are rather more characteristic than a systematic collaboration or common implementation of programmes (Pálné et al.2004). The literature often cites opinions indicating the negative effects and consequences of partnership, corporate institutions, associations, *ad hoc* groupings and informal networks (Olsson 2001). Transparency and direct participation may easily be violated especially when regional and local self-governments and the civil society are not strong enough. Experiences show, that development councils have not tended to share power with their environment. On the territorial level a new elite is emerging, based on power, influence and the division of development resources (Morlino and Bolgherini 2005). This 'corporate type of networking' (Marks 1993), became a major feature of Hungarian public administration.

As a whole, we can conclude that Hungary has attempted to adapt to the challenges of European regional policy. This adaptation process was successful in terms of institution building and technocrats' and top officials of public administration

acquisition of know-how. On the other hand adaptation was only formal and did not contribute to the rationalization of public administration.

### *Poland*

The initial situation in 1990 was one where 49 medium size state administrative regions and 2800 communes existed in *Poland*. At the beginning of the 1990s, sectoral fragmentation and the preference of local, municipal, technical infrastructure was specifically characteristic in terms of the weakness of medium tier (Davey 2003). After recognizing the necessity of change, one of the reform alternatives was the equipment of the 49 units with the right of self-governance, while a second alternative was the establishment of larger regions and a further county tier. Poland followed a more ambitious model of adaptation to European regional policy. At the end of a hard and long battle, Poland applied a complete territorial reform introducing new self-government units at regional and county levels in 1998. As regards the reform process and the problems of implementation, though development policy was among the rationales of the reform, no decision was made with respect to this domain during the reform process (Emilewicz and Wolek 2002). Although the biggest debates were generated by the number and the delimitation of the regions in the course of the preparation of the reform (originally 12 regions were planned and, it was only but because of the strong opposition the number of regions increased) competencies were the key elements in the assessment of the success of decentralization. From this angle, the Polish regionalization also failed in spite of the deliberate structural coincidence of regional development and public administrative units. The new regions established were not equipped with competencies and funds and the creation of regions was in fact not accompanied by the decentralization of competencies and tasks (Regulski 2003).

Ever since the reforms took effect in 2000, 16 voivodships equivalent to the NUTS II, 315 powiats (and 65 urban gminas with powiat right) corresponding to NUTS IV (of them 45 NUTS III sub-regions are not administrative units) have come into existence. For all that the former and the current territorial units of Polish public administration (17 regions till 1975, 49 regions 1975–98) can not be compared with each other, only in their scale can similarities be detected and only in their concrete geographical borders do they differ.

Traditionally there is a dual structure of public administration at regional level in Poland leading to fragmentation. The governmental office is headed by the voivode and the self-government is lead by the marshal. The regional assembly is empowered by the adoption of the development strategy of the region. The marshal is responsible for creating a proper environment for regional development, shaping the regional labour market, developing regional infrastructure, financial management of projects, regional innovation etc. The marshal is the key institution responsible for the preparation of a regional development strategy. The voivode as a representative of central government has only legal supervisory competencies and is responsible for the transfer of public finance flows to the region. The representative of the Minister of Economy in the region is the voivode, heading the voivodship office. It acts as an intermediary between the central government and regional self-government.

Besides public administrative structures, the other institutional forms of regional development were set up way earlier in Poland. A certain regional role in the decision making process was played by regional development agencies (ca. 70 in the whole country were established during the previous 10 years by the state and banks etc.). The agencies provide support for the formulation and implementation process of regional policy at national, regional and local levels. At national level it is the Agency for Enterprise Development, which cooperates with regional development agencies created in many voivodships, which is responsible for the implementation of regional development programmes. The National System of Services, the Incubator Foundation, and the Regional Development Agency are responsible for the implementation of all EU programmes supporting the development of SMEs and managing loans targeted at SMEs.

In the year 2000, an act was passed on the principles of regional support. Among the Community's principles, programming has the greatest impact on Polish regional policy (Karasinska et al. 2002). National Development Plans were adopted in 2000 and 2002 and, in parallel with all regions, adopted their own regional development programmes. The very fragmented and difficult system is coordinated by the so called voivodship contracts. The voivodship contracts – as the main instrument for the implementation of the support programme – are agreements between the central government and regional self-governments in which the rules of public and public-private partnership are laid down. During the realization of contracts, a number of actors are involved, including territorial self-government units. The contracts are signed according to the applications submitted by voivodships. The contracts have pioneer character since they introduce modern regional development policy and guarantee a more rational and effective utilization of resources combined with the process of decentralization. The contract, as a kind of mutual obligations for the central government and regional self-governments, relies on the priorities defined in national and regional development strategies.

As already mentioned, the biggest controversy lies in the fact that the delegation of tasks from national to regional level was not accompanied by the transfer of money. The limitation of the own resources of the newly created self-governmental tier acted as a major hindrance in the implementation of an autonomous development policy. In this context, 80% of the voivodship's budget originates from state budget. Because the amounts of fund were very low, the programmes launched were in turn of fairly low significance. Notwithstanding, the trend is improving in terms of concentration. According to an evaluation study, regional policy principles succeed with the lowest efficiency in the financing of sectoral programmes (Davey 2003, 123). This means that regionalization had a positive impact on development policy and that, despite fragmentation and weak competencies, regions still offer a more effective institutional framework than sectoral ministries.

With reference to the first experiences of operation and to the utilization of Structural Funds we can conclude that formal adaptation has been achieved although the problem of power division has not yet been solved. Further decentralization and the dominance of representative organs against central state administration could be strengthened by the process if, over the next programming period, regional self-governments holds key position in regional operative programmes.

*Slovakia*

Public administrative reforms proceeded in *Slovakia* at a rather slow speed and taking contradictory steps. In 1990, settlements were authorized for self-governance and the territorial tier of public administration underwent significant restructuring. Former regions were eliminated from the system and were replaced by 121 districts. The next reform wave followed the first wave of 1996 in Slovakia, which had in the meantime become an independent state making explicit centralizing efforts, quite understandable in view of its nation building ambitions. There were also hidden political intentions behind the new spatial structure, such as the division of territories settled by the Hungarian minorities, and different electoral technical considerations (Mezei and Hardi 2003). Most of the escalating conflicts emerged alongside nationalistic and partially modernization ambitions. The story of coalition-building also demonstrates the macro-political importance of minority issues (Malikova and Staronova 2005).

After 1996 the territory of Slovakia was divided into 2866 municipalities, 8 large state administrative regions and 79 districts. The seats of the administrative regions were appointed on the basis, sometimes, of political considerations considering the Hungarian minorities. Similar techniques were also applied in the course of the delimitation of districts. It must be mentioned that the drastic divergence from the former traditional administrative configuration was even criticized by the Council of Europe when giving its opinion on the territorial reform. The legal status of self-government was first granted to settlements only. A further important feature of this period is that, despite all intentions, the process of fragmentation could not have been made to recede in territorial state/de-concentrated administration. Ministries were powerful enough during the reforms of 1996 to maintain the network of de-concentrated organs that were set up subsequent to the systemic change (Bucek 2002).

The next reform of public administration was carried out in 1998 at the outcome of long lasting debates. Political discussions between the parties were coloured, again, by the national minorities dimension (Ficza 2005). In 2001, a decision was made on the direct election of county assemblies in the former eight-state administrative regions. However, the empowering of counties into self-governmental units was a slowly progressing process, especially in terms of competencies and financial conditions as it is usual in post-communist countries (Bryson and Cornia 2004). The formerly territory-based de-concentrated public administration was of course not willing to delegate its powers.

In 2004 a more comprehensive territorial reform was implemented, the former 79 districts were eliminated and their competencies were taken over by the 8 state administrative county offices, by 50 district offices and 221 special state administrative *bureaux*.

The facilitation of the institutional system of regional development is characterized by conceptual changes in terms of public administrative spatial division and by various uncertainties. The 4 NUTS II regions rely on counties/districts- division, the NUTS III level is equivalent to that of the eight counties and the NUTS IV (today called as Local Administrative Units LAU 1) consist of the former 79 districts and

not from the new 50!. This means that the NUTS division differs completely from the administrative one, showing the unstable character of the territorial vision of the state.

The institutional system of regional development is, in practical terms, the network of regional development agencies which were set up by the government in the year 2000. The total number of agencies is 21 (indicating by this figure that the territory of the agencies differs both from the NUTS and the administrative division!). The aim was to enable the realization of the development ambitions of the regions and to provide them with some kind of institutional-organizational support but possibly independent from the state sector. The agencies are non-profit organizations supported financially by the state budget in accordance with the contract signed by the assigned ministry. However, it is a requirement of an unwritten rule that agencies should as much as possible acquire their own resources, in order to be able sooner or later to fund their activities from their own resources.

Besides agencies, 13 regional consulting and information offices are operated. These were designed to support the business sector mainly (we have to note that in the course of the regional reforms process, the idea was also put forward of establishing 12 regions). It is clear that these institutions do not follow the NUTS system, and this indicates that the territorial reform in Slovakia was not exclusively motivated by the compulsory adaptation to the European Union and the fact that public administrative reform did not take the NUTS II system into consideration attracted criticism (Nemes 2002). In the 4 NUTS II regions the so-called regional managing and monitoring committees and their secretaries were set up, with the task of participating in the management of the Structural Funds of the European Union. Within the NUTS III counties, the management of development policy and the adaptation of development programmes are the responsibility of county assemblies. But managing and monitoring committees were set up at this tier also, with partnership organization including local government, state administrative and non-profit professional organizations (Ficza 2004).

In Slovakia not a great deal of experience has been acquired yet in the operation of the institutional system of regional development. However, it has been clear ever since that, from the first steps onwards, the management of programmes is a kind of alien body within – or to put it better, outside of – the ordinary public administration, and experiencing problems of functioning of its own.

Fragmentation is fairly evident in planning as well. All ministries and territorial authorities prepare plans, but these are not harmonized with each other and this territorial disintegration was not corrected by the overall national development plan either (Bucek 2002).

This situation, of course, could not provide an appropriate basis to organize the management of Structural Funds and could provide an acceptable explanation as to why the European Commission chose the centralized model of the management of Structural Funds in Slovakia as well.

*Czech Republic*

The *Czech Republic* local government system was traditionally fragmented. In the communist era the number of municipalities was first reduced from 11,000 to 4100 by the year of 1989, and therefore, subsequently to 1989, several settlements opted for separation. Thus, their number increased by 2001 (Davey 2003, 20).

The second cause of fragmentation was the dissolution of medium tier governance in 1989, mainly for political reasons. The previous medium level competencies were delegated to districts (77) or to the central tier. The necessity for the correction of the fragmented public administrative system because of its rather low efficiency was recognized relatively quickly. One solution to deal with this was the establishment of 380 settlement networks (associations), while another lay in the amendment of the constitution in 1997, according to which 14 self-governing regions were set up in 2001. We have to understand that the delimitation of the 14 regions was a political compromise, since before 1989 there were only 8 regions. Moreover the 14 regions proved to be too small for carrying out regional development plans, and therefore the former 8 regions became the NUTS II units. This spatial structure was consequently unable to correct the fragmentation of the medium tier.

This reform was followed by financial reforms. In spite of reforms, regions do not enjoy any freedom in spending their own revenues as they are below 20% and, therefore, they are up to 80% dependent on state 'labeled' subsidies. These percentages also happen to be typical of the region. Despite the formal creation of decentralized units without revenues of their own granting them some freedom of operation, they are not in a position to represent their own/territorial interests but only to implement the will of central government. As a further step towards reform, first the plan of the territorial re-delimitation of districts was put forward (Blázek et al. 2003), which finally resulted in the disappearance of the organization of districts. Their competencies and resources were transferred temporarily to regions and cities. A specific feature of the Czech territorial public administration is that instead of the usual dual structures, the central state administration and the elected government were merged into one single organizational framework. This organizational 'integration' would eventually be the source of conflicts in the political sphere rather than offer a rational solution to the lack of coordination of the operation of elected and de-concentrated sectors.

Regional policy made efforts subsequently to 1990 to treat the growing regional inequalities, though in the Czech Republic disparities were not as marked as in the neighbouring countries. The main characteristics of regional policy in the period was 'the institutional fragmentation and the absence of horizontal coordination at governmental level' (Blázek et al. 2003, 29) which was coupled by the lack of regional governance. The ministry responsible for regional development was set up in 1996 and the Act on Regional Development was passed in 2000. The new institutional system met the requirements of the European Union, and a National Management and Coordinating Committee was set up. Despite of the emergence of European-style regional policy and territorial arrangement, the overwhelming dominance of 'municipalism' remained. Evaluating the development policy before 2003 it was stated that, because of the financial crisis they were experiencing and their

annual budgetary approach, municipalities focused on smaller projects, which again drastically increased the costs and efficiency of support administration. The solution according to analysts could be the reinforcement of beneficiary municipalities on the one hand, and on the other the replacement of the annual budgetary scheduling by a longer-term approach that would contribute to the elimination of the so called 'temporal fragmentation' or short-termism (Davey 2003). It must be added that real regional actors could truly reshape the development policy, integrating the local efforts and rescaling the horizon of development projects.

In terms of the future of Czech regional policy, a fundamental breakthrough could be achieved if the elected medium tier of self-government became responsible for development programming and resource division. Only this transformation could counteract centralization (Brizova 2001) and, accordingly, the fragmentation deriving from the separate management of regional policy. The very careful regionalization process in the Czech Republic had also lost its impetus after EU accession. With the centralized management of Structural Funds, only a limited role was left to regional actors to play towards the planning and the allocating of funds.

### *Romania*

In *Romania* accession is by now a reality and therefore the impetus for adaptation resides in the formulation of the system of management of regional policy. The incompetence of background public administration will be the least in the formation of a Romanian regional institutional system, not only in structural but also in contextual terms also. The changes in the public administration of the territory after 1990 have not resulted in real decentralization and therefore the institutional system of regional policy was built in parallel to public administration.

Following the political change, an act on public administration was passed in *Romania* also, though it did not change the structure and the content of public administration substantially. It is generally believed that the *Romanian* constitution does not provide stable guarantees for local autonomy as compared to the requirements of the European Charter of Local Governments (Kassay 2003). The local administrative level can be regarded as being very integrated due to a systematic integration process in the second half of the twentieth century (Illés 2002). 13,092 villages are integrated by 2,686 municipalities. The micro-regional tier in the public administrative sense is hardly operating and the association of municipalities can not be considered to be systematically established. Usually, rather larger cities build connections with their surrounding settlements in an *ad hoc* way in the pursuit of occasional projects.

The territorial public administrative system is also unchanged; the country is divided into 42 counties. Municipalities are extremely weak and the counties are in the focal point of power. As already mentioned, the self-governance status of the entire system is questionable, especially considering the role of prefects (Horváth 2003). The prefect subordinated to the central government is a very strong agent within the territorial context and the control over local and county governments and coordinating the de-concentrated units of ministries is within the competence of this prefect. As in *Poland*, there is a dual structure in *Romania* and, by comparison

to county self-governments, prefects hold significantly more power. These play a significant role, since they are well placed to lobby effectively for central resources. Excluding the prefect from county-tier planning may lead to the prefect using influence precisely against county-tier planning. The political constellation in the elected body of the county and the establishment of an alliance between the president of the council and the prefect happen to be crucial issues. In comparison, the competence of the apparatuses seems to be a secondary issue and therefore the process of self-government is dependent on profit oriented consulting companies during the preparation of plans and applications.

These characteristics show that in Romania it is not fragmentation but centralization that represents the main obstacle in the adaptation to European regional policy.

The eight development regions were set up on the basis of a professional convention which was financed by the Phare programme (Borboly 2004). Foreign professionals played a significant role in this convention. The Green Book for Romania's regional development was prepared in 1997. The legislative work was done during the 1998–99 period. As in the case of Hungary, the development regions were built upon the traditional county-tier public administrative units following the EU regulation of NUTS system. As an effect of the Phare support, the National Council for Regional Development and its Agency (which later, in 2000 was integrated into the ministry responsible for regional development), with regional councils and agencies, was set up.

The delimitation of regions in 1998 formally carried out through a democratic process, since the government's decision was in need of reinforcement which the concerned county governments provided. This means that, formally, the concerned county-governments decided whether or not to join the region. Since, formally, the establishment of the regional development councils was regulated as a bottom-up process, the county governments of the concerned regions could decide whether they joined or not, but this was the precondition of acquiring development resources too. Even though local agents, as in the case of the central government, were not really eager, the delimitation of regions can be evaluated as an important step forward in the light of the comparison with the former strongly centralized, nationalistic political culture (Horváth and Veress 2003). The territorial division was argued under many angles since it was not based on the units built on historical-economic cohesion, and an especially large number of the debates that took place concerned the appointment of regional seats, which implied that both borders and seats were equally considered to be the object of power ambitions by those concerned. The precarious character of regional delimitation is reflected in the fact that some counties (mostly populated by Hungarian minorities) would like to change the borders of the NUTS II regions.

The eight regions were subordinated to the management of regional development councils. The members of the councils are the presidents of county assemblies, and three additional members are from the cities enjoying county-ranking, towns and municipalities which has obtained their mandate at county election meetings. The prefect participates in the meetings of the development council does not have voting privileges. The council elaborates and sanctions the development plan of the region and has the right to decide upon the distribution of regional development funds. The

resources of the county development fund come from the National Development Fund, from the budgets of the county and municipalities and from the private sector. In reality however, the fund is basically left empty. Local agents concerned with their own local financial problems, and the economic actors concerned with the lack of funding are not willing to pay for the fund. Central resources were used to replenish central development funds. It is not by chance that councils meet no more than three times a year on average and that the establishment of working committees was launched only at a later stage. The very formal and loose functioning of the councils shows, first, that the 'empty box' is getting filled very slowly since following the formal establishment of the new institutions the central government is not ready to decentralize competences and resources and, second, that it is not the representative body, but the 'working' agency, that is most influential in decision-making. Anyway the traditional tension between laymen and professionals is more apparent in this policy domain because of the European requirements of regional policy. Skills, language proficiency, personal networks with European agents are all prerequisites that provide the staff of agencies with access to privileged positions. This phenomenon is more characteristic in Eastern Europe where the capacities of administrative and representative bodies are weaker than in the developed Western democracies.

Regional development agencies, which are the professional preparatory organs of the councils, were set up in the regions. Their legal status is that of non-profit companies, since their operating requires more flexible contacts with the business sector. Through the Phare Programme, the agencies dispose of a relatively good infrastructure and professional staff, at least in comparison to the conditions prevailing in public administrative machinery. Practice has demonstrated that these agencies bear a significant degree of influence on the division of regional resources and the management of programmes because of their above-mentioned privileged position within the institutional system of regional policy. The power of the agency is further enforced by the fact that the facilitation of state subsidies targeted towards SMEs is also part of its responsibilities, i.e. they have public resources targeted at the business sector to strengthen the network with economic agents.

However, it must be mentioned that no vital relationship has yet developed between development agencies and local/municipal actors. The fact that, for the last 6 years, the institutional system of regional development has been unable to convince the concerned about the usefulness of its activity calls for severe judgment. This very loose embedding or legitimacy relating to public policy and local/ civil sector shows that the new networks are often exclusive and contribute to the low efficiency of development activity in the Eastern countries.

Territorial aspects and local dimension are very weakly represented in the regional policy of Romania. The study evaluating the utilization of the pre-accession funds in Romania shows that real disparities are not to be detected between the development regions but rather between the settlements within the counties. The proportion of inequalities among the counties is 2:1 while the inequalities within the counties correspond to the ratio of 5:1 in wealthier counties and 2.5:1 in poor counties (Davey 2003, 131). The distribution of resources clearly takes place within sectoral frameworks and integrated programming is not characteristic yet. On the

national level the national development plan until 2005 has been prepared but it is of a dominant sectoral character, although it theoretically supports the principle of cooperation between ministries. Without their own income, local governments are the most vulnerable in the distribution of national resources and of resources from the European Union, which is why it is especially worrying that there is no transparency in respect of the volume of resources and that it is difficult to make predictions about it. The incalculable and insufficient character of local resources is representative of several Eastern European countries and this basically hinders the effectiveness of the principle of additionality (Davey 2003, 163).

In summary, it must be emphasized that the new European style of regional policy is only in its earliest phase in Romania and that its chances of having a positive impact are hindered by the unchanged and mostly centralized administrative and political structures. The new agents and institutions tend to be islands in the machinery, rather than main centres of development policy.

### *Slovenia*

The local government system of *Slovenia* is strongly integrated. Following constitutional rules, the former 462 communes were replaced by 147 municipalities keeping in mind that only the settlements with more than 5,000 inhabitants have the right of self-governance (Brjec-Vlaj 2001). At present there are 193 local governmental units. A number of cities (11 named as urban municipalities) enjoy special legal status within the Slovenian self-governing system. In local level management, therefore, the integrating elements may be described as strong and the strengthening of municipal cooperation, plays a distinguished role among other reform efforts.

Considering medium tier-management, 58 state administrative units are operated as NUTS IV or LAU 1 units, and these units are connected to settlements by a consultative board. These units consist of different departments of ministries but they can not provide a coordinated model of central control (Leben 2002).

The Act on Public Administration encourages the creation of special territorial units. The government elaborated a concept for the creation of larger administrative units. According to the model based on the current Constitution, municipalities are entitled to associate 'into' regions. Another solution would be the establishment of self-governing regions with legal entity, but experts tend to adopt a cautious stand with regard to this alternative (Brjec- Vlaj 2001).

The Act on Regional Policy of 1999 mainly focused on the establishment of the institutional system of regional development. Local governments have set up until now 22 agencies but the institutional and resource system of regional development remained fairly centralized (Tüske 2003).

Administrative reforms are still slow in Slovenia, as the country is strongly centralized and the development resources of the European Union are utilized in a centralized way. The relatively rapid economic development, the relatively insignificant regional differences, and the small scale of the country – as it seems – do not activate the forces of decentralization. This fact may be the reason why the NUTS division (1 NUTS II region, 12 NUTS III regions) does not motivate any adaptive

changes in territorial public administration, and the 8 regional administrative units have no development functions.

### *Bulgaria*

In *Bulgaria* the territorial reforms of 1998 resulted in disintegration replacing the former integration conditions. The former nine administrative regions, created after the change of the system, were replaced by 28 regions (so-called districts). Districts correctly eliminated ten years earlier are exclusively state administrative units with a governor. The territorial self-government role, on the other hand, is less absent, since the municipal tier is strongly integrated with only 262 local governmental units operating for 5,340 settlements (Drumeva 2001; Geshev 2001).

Following territorial reforms, the Act on Regional Development was passed. The establishment of 6 NUTS II regions was carried out explicitly in the interest of the accessibility of the resources of the European Union. However planning units have no organization and the frequent modification of territorial units implies the absence of a clear concept of regional division. At this point, we have to mention that the delimitation of regions were averted by several disputes (and finally 6 regions were delimited, replacing the previously existing 9 – Illés 2002), and at the time of their establishment it was an explicit requirement that the regions without any traditions and institutions should serve exclusively as planning and resource absorption targets and that their transformation must be based on the agreement of the governors of districts (Geshev 2001). In its national development plan for 2000–06 the central government resolutely formulated as a target the further reduction in the number of municipalities in order to improve the efficiency of local development policy. According to the Act on Regional Development, the medium tier of development planning consists of 28 districts which compose the national regional development plan (Gyurova 2001). Regional /district governors have competences over regional development since their duty is to coordinate governmental and local interest during planning (Drumeva 2001). This power configuration projects the strongly centralized management of structural funds after the accession to the EU, which model is rooted also in the centralized distribution of public resources (Alexandrova 2005).

### **Conclusions**

While the regional policy of the European Union supports integration because of its emphasis on the regional scale, it must be concluded that accession countries, the new democracies in Eastern Europe, elaborate their territorial public administration in parallel with the EU institutional system of regional support. Paradoxically, the institutionalization of regional policy often leads to fragmentation or duplication:

- The territorial harmonization of the two systems is not always successful and the replacement of traditional public administrative units by new, larger ones is a difficult task. As we have seen, in the process of territorial reforms it was not always possible to identify the space of action of the European regional

policy, the NUTS II regions, with the units of national public administration. The institutionalization of the flexible management and partnership required by regional policy often takes place outside the ordinary public administrative system. As a solution, it is easier than the improvement of rigid bureaucratic apparatuses. The changing geographical borders and the coincidence of organizational structures are new phenomena, which actually indicate steps towards democratization and decentralization but their real success can hardly be measured yet, and depend on actual political (parliamentary) relations (Wolmann 1997).

- Western European experiences show that adaptation is not always achieved by structural reforms. More flexible, informal formations may contribute positively in the case of the 'misfit' scenario. However, attention must be paid to the fact that the new challenges of regional policy may not threaten the politically controlling role of the units of territorial self-government. It must also be mentioned that transitional countries have also applied a number of functional modernization techniques (such as association, financial incentives, contracting-out of services – Horváth 1997), but these were unable to efficiently eliminate the structural disadvantages of the system.
- It is undeniable, that the European Union significantly contributed to the territorial public administrative modernization of these countries. But at the same time we have to emphasize that this effort did not necessarily lead to real decentralization. At least, the events following the accession seem to verify this fact. It seems that regional policy was an insufficient motivation to change the territorial structure of power. Following the instructions of Brussels, the newly accessed countries were forced to introduce a strongly centralized system of management for the reception of structural funds. To sum up, the main adaptation pressure of the accession can be taken as a push towards centralization or neglecting regions, whereas the previous decade was characterized by regionalism and decentralization. This is why the dilemma of whether there might be regional operational programmes in the programming period starting in 2007 in the Central-Eastern European countries and of the extent to which regional actors can participate in decision-making, gained a special importance in the planning phase of the second national development plan. The first drafts of national development plans and the debates over them present little promise of achieving decentralized systems.
- The question concerns whether there are any other motivations besides the Structural Funds for achieving a more professional and flexible public administration at all levels. These countries have to find new (inner) driving forces of the new phase of modernization and regionalism. The management of the Structural Funds does not need directly elected regional governments, so we should not by any means the reform of territorial public administration with the management of development policy. An efficient regional policy needs a sound professional management able to meet the principles of cohesion policy and to generate the activity of eligible actors who can function in transparent and inclusive ways.
- The other question concerns why the external adaptation pressure have

more influence on public administration than the everyday internal, personal experiences of malfunctions and failures? In order to be in any way able to answer this question, a deeper and more intensive analysis of the interest background of structural reforms with the evaluation of the objective and subjective conditions of their implementation would be necessary. This type of evaluation of the Polish territorial reform was completed and a lot could be learned from it (Emilewicz and Wolek 2002; Regulski 2003). Comprehensive public administrative reforms, otherwise and elsewhere, are not always successful and it is increasingly admitted that step-by-step changes are more efficient. It is also a fact that a real evaluation of the efficiency of the concrete local government systems to be introduced requires more than ever a greater amount of time and of results from comparative research (Elander 1997). The shaping of administrative systems in transitional countries is determined by various factors, and the main trends can be identified only by longer-term experiences. A more deliberate governmental policy is needed to improve administrative capacities and, consequently, as mentioned above, a more professional institutional background for the continuous evaluation of public administration. The delay in the response to the challenges of 'better governance' is not only due to the political culture and degree of motivation that are prevailing, but to the absence of a systematic scientific analysis and of real political intentions to face the problems of public administration, which need to be dealt with regardless of the issue of the European accession. It is only possible to prove through a systematic public policy analysis that the fragmented management and service organization and a shared local and territorial system of management are the reasons why there have been significant failures in the development and modernization processes of the country.

Fragmentation is a general feature of *meso*-level public administration in the Central-Eastern European countries:

- Medium tiers are rather divided from an organizational point of view. State administrative, corporate and other formations have appeared beside, or instead of, elected governments. These innovations represent important contributions during the adaptation process to the new requirements but they also cause the fragmentation of the decision-making process. This 'organizational chaos' may hardly be called 'institutional thickness' (Jones 1999) because new actors (agencies, council, partnership forums, networks) can only expand but not act as a substitute of the role of the traditional administration.
- The geographical borders of the new *meso*-levels, or units, are unstable: there often are even more different medium tiers, and administrative borders are often modified because of the lack of internal cohesion. It means that at a time when several countries are looking for a new and more rational scale of governance, a greater amount of time is necessary to consolidate the mechanism and the institutional settings in order to test the geography of the scale, the borders and the seats.

- The political legitimacy of medium tier governments is weak as it is often leaning on a closed circle of political elites (Pálné et al. 2004) and therefore, despite reforms, the position of medium tier governments against central government can not be improved.

Finally it should be pointed out that the most important current issue concerns the weakness of the local tier which is characterized by a fairly low quality of performance. Despite some initial decentralization steps, following the change of the system we have witnessed processes of recentralization in respect of low local and regional administrative capacities as a result of fragmentation (Elander 1997). It is also obvious that the number of arguments against the maintenance of the fragmentation of settlements is steadily on the decrease, although neither the more democratic character of the fragmented municipal system, nor the advantage of the proximity to citizens were testified (Pickvance 1997, 2005).

At the same time we have to face the fact that the dominance of municipalities in the early 1990s must be replaced by regionalism. Until the consolidation of local governance is achieved, there will be no chances for decentralization on the *meso*-level. Regionalism and the decentralization of the governmental power to the medium tier, could act as an integrating force, which may contribute to improving the rather weak performance of the Central East European countries. The question only concerns the orientation which processes in the European Union will take. European integration was a very important motivation for *meso*-level decentralization or, at least, for the formation of regions in Central-Eastern Europe, though this process has been accompanied by a number of paradoxes. If the EU and, first of all, European cohesion policy does not give the preference or its support to regional dimensions and if centralized management dominates the regionalization process, one of its most important stimuli in this region will be lost to regional integration.

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## Chapter 4

# Delocalization of Labour Intensive Activities in a Globalized World: Can Things Become Better for the Countries of Southeast Europe?

Thanassis Kalogeressis and Lois Labrianidis

### Introduction

Over the course of the last decade the world has been witnessing the intensification of a new kind of competition. Countries, regions, cities and often villages, even, in all parts of the world have become players – as competitors or as collaborators – in the fierce and apparently lucrative game of FDI attraction.

In fact, although FDI is often considered to be a panacea, at least by policy makers, the reality is substantially more complex. More specifically, although we are great deal more aware of the ways FDI positively affects growth, there appears to be cases, on the other hand, when FDI may in fact reduce growth.

This chapter explores the recent trends surrounding FDI in the Balkans, within the wider context of increasing globalization and expansion of FDI and trade to developing and accession countries. We argue that FDI-led growth cannot be taken for granted and that its pursuit is often an illusion. As the examples of most of the countries that managed to catch-up in the course of the last two centuries indicate, sustainable growth is always a dialectic process between a country's internal (e.g. human resources, technology and institutions) and external environment. The current fixation displayed by most aspiring developed countries / regions / cities on FDI may easily give rise to two types of problems. First, it may divert them from other, more 'endogenous' sources of growth (such as sound macroeconomic policies, or investment in human resources and technology) and, second, it may lead to wasteful competition between the concerned parties or lead to 'low-road competition', as Malecki (2004) coined it.

The three subsequent sections of the chapter refer to the general setting. Section two includes a presentation of the recent global trends in FDI and trade. We show that our world is steadily becoming more complex and economic power (at least at the top) increasingly divided between more countries. Section three elaborates a critical discussion of the currently dominant view on economic development. More specifically, we argue that openness is but an ingredient, and perhaps not the most

important one, of the necessary policy mix. It is rather knowledge, as we argue in section four, that plays the most central role.

In section five the discussion takes a new turn towards the Central and Eastern European Countries (CEECs) and their transformation from plan to market, which leads it to focus, in section six, on what appears to be the less successful group – the Balkan countries. Section seven concludes.

## **Global Trends in FDI and Trade**

The last quarter of the twentieth century was characterized by an increasing incorporation of enterprises and geographical areas into a world-wide web of manufacturing and distribution. According to Feenstra (1998) the defining feature of global and European integration in labour-intensive industries has been a rising integration of trade, paralleled by a progressive disintegration of production processes. Indeed, companies are now finding it increasingly profitable to outsource parts of the production process, a trend which has captured the attention of many prominent researchers. Feenstra (1998) refers to Bhagwati and Dehejia (1994), who describe it as ‘kaleidoscope comparative advantage’, as firms shift location quickly; Krugman (1996) uses the phrase ‘slicing the value chain’, while ‘delocalization’, or ‘intra-mediate trade’ are also among the terms that have been used to describe the phenomenon. There is no single measure that captures the full range of these activities: the specificities of the processes at work vary considerably from industry to industry, depending on the characteristics and recent developments in technology and product markets.

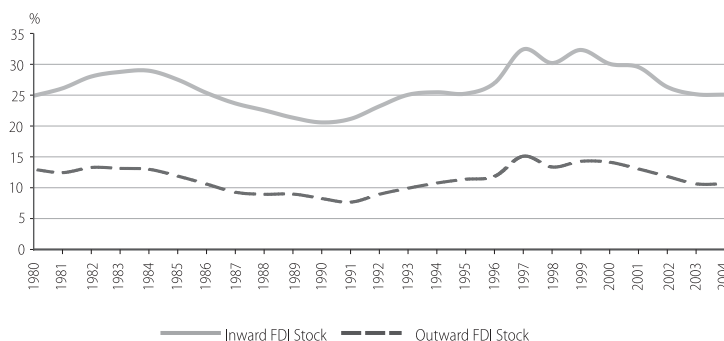
Globalization goes hand in hand with a process of ‘delocalization’, mainly of labour intensive companies (not only of manufacturing industries but also of services) seeking more profitable locations across the globe for their activities.

This relocation has given rise to a number of paradoxes encapsulated in the increasing importance of developing countries in terms of production, trade and FDI, coupled with a persistent and often increasing divergence of the levels of development between developed and developing countries.

### ***FDI***

Despite the widespread fears that developing countries will be taking away an increasing number of jobs from developed countries through FDI, recent history has been pointing to the opposite (Figure 4.1). While there are significant fluctuations, both the inward and outward FDI stocks of developing countries registered no upward trend over the course of the last 25 years.

In fact, TNCs are still mainly concentrated in DCs: Low labour costs alone are not sufficient for a country to attract FDI. There are other more important factors including, for example, physical and non-material infrastructure, socio-economic stability and human capital. More than 70% of multi-national investment not only originates from DCs but is also directed to DCs. In 2004, the inward FDI stock of DCs amounted to \$6,766 per capita, while the corresponding figure for Developing



**Figure 4.1 Evolution of Developing countries' inward and outward FDI stocks (as % of total) 1980–2004**

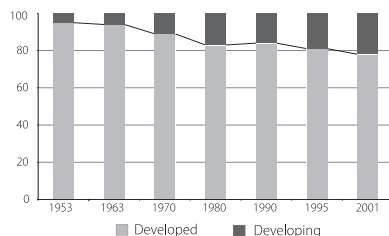
Source: UNCTAD FDI database online.

countries stood at only \$438. Furthermore, the stock of outward FDI of DCs stood at \$9,005 per capita, while the equivalent figure for Developing countries stood at only \$223 (UNCTAD FDI Statistics). For the last 30 years, 10 countries have accounted for around 85% of the outward investment stocks; it is understood that during this period there were major changes in the importance of individual countries, the most prominent being the decline in importance of the USA (Table 4.1).

### *Production and trade*

Despite the relative stability of their position with respect to FDI trends, the share of Developing countries in world manufacturing has significantly increased during the second part of the twentieth century. In 1953, Developing countries contributed no more than 5% of the global Manufacturing Value Added, a figure which in 2001 had become 22% (Figure 4.2).

As concerns the shares of manufacturing exports of Developed and Developing countries (Figure 4.3), it is observed that the latter have made significant progress since 1986, when they accounted for 20% of the world total product exports (down from almost 30% in 1980). In 2003, the same figure stood at 32%.



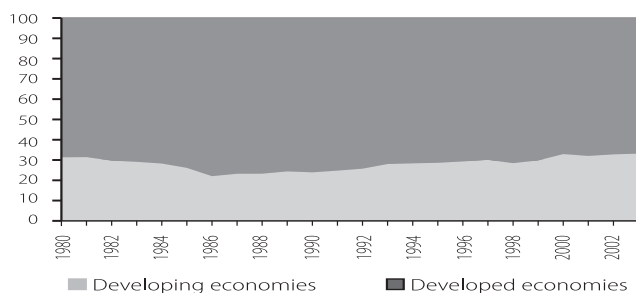
**Figure 4.2 Share of Developing countries Manufacturing Value Added**

Sources: For 1953–1980, Dicken P. (1998, 93), for 1990–01 World Bank, WDI online.

**Table 4.1 Outward investment cumulative stocks by country: main players (%)**

| 1967                          |      | 1980               |      | 1990               |      | 2000                        |      | 2004                        |      |
|-------------------------------|------|--------------------|------|--------------------|------|-----------------------------|------|-----------------------------|------|
| <b>USA</b>                    | 50.4 | <b>USA</b>         | 37.8 | <b>USA</b>         | 24.1 | <b>USA</b>                  | 21.4 | <b>USA</b>                  | 20.7 |
| <b>UK</b>                     | 14.1 | <b>UK</b>          | 14.1 | <b>UK</b>          | 12.8 | <b>UK</b>                   | 14.6 | <b>UK</b>                   | 14.2 |
| <b>Germany</b>                | 2.7  | <b>Germany</b>     | 7.6  | <b>Japan</b>       | 11.3 | <b>Germany</b>              | 8.8  | <b>Germany</b>              | 8.6  |
| <b>France</b>                 | 5.3  | <b>Netherlands</b> | 7.4  | <b>Germany</b>     | 8.5  | <b>France</b>               | 7.2  | <b>France</b>               | 7.9  |
| <b>Belgium/<br/>Luxemburg</b> |      | <b>Brazil</b>      | 6.8  | <b>France</b>      | 6.2  | <b>Hong Kong,<br/>China</b> | 6.3  | <b>Netherlands</b>          | 5.6  |
| <b>Netherlands</b>            | 9.8  | <b>France</b>      | 4.2  | <b>Netherlands</b> | 6.0  | <b>Netherlands</b>          | 5.0  | <b>Hong Kong,<br/>China</b> | 4.2  |
| <b>Japan</b>                  | 1.3  | <b>Canada</b>      | 4.2  | <b>Canada</b>      | 4.8  | <b>Japan</b>                | 4.5  | <b>Switzerland</b>          | 4.0  |
| <b>Switzerland</b>            | 2.2  | <b>Switzerland</b> | 3.8  | <b>Switzerland</b> | 3.7  | <b>Canada</b>               | 3.9  | <b>Japan</b>                | 3.8  |
| <b>Canada</b>                 | 3.3  | <b>Japan</b>       | 3.4  | <b>Italy</b>       | 3.4  | <b>Switzerland</b>          | 3.8  | <b>Canada</b>               | 3.8  |
| <b>Italy</b>                  | 1.9  | <b>Taiwan</b>      | 2.3  | <b>Sweden</b>      | 2.8  | <b>Italy</b>                | 2.9  | <b>Spain</b>                | 3.4  |
| <b>Subtotal</b>               | 91.0 | <b>Subtotal</b>    | 91.6 | <b>Subtotal</b>    | 83.6 | <b>Subtotal</b>             | 78.4 | <b>Subtotal</b>             | 76.2 |

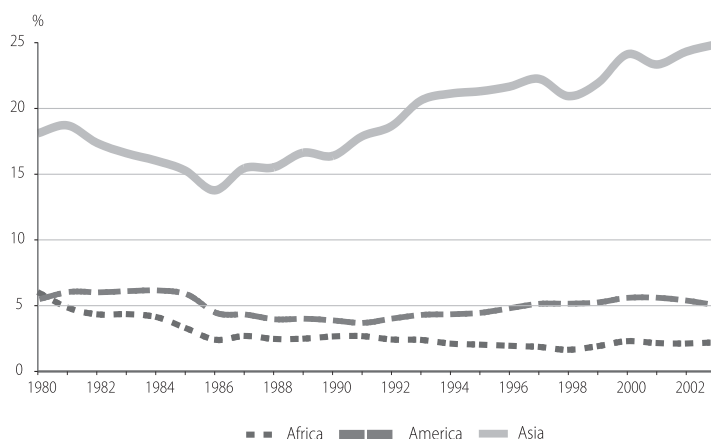
Source: Dunning (1993: 17) year 1967, and UNCTAD FDI years 1980, 1990, 2000



**Figure 4.3** Distribution of product exports between Developed and Developing countries

Source: UNCTAD Handbook of Statistics Online.

Figure 4.4 makes it clear that whatever progress was made can be attributed to the Asian countries. The share of the Central and Latin American Countries (CLAC) has remained more-or-less stable over the 1980–03 period, while the share of Africa, which in 1980 was higher than that of Central and Latin America, was more than halved in 2003.



**Figure 4.4** Breakdown of Developing countries exports, 1980–2003

Source: UNCTAD Handbook of Statistics Online.

Even more importantly, developing countries, or at least some of them, are showing remarkable signs of changes in specialization.

The composition of the main export products of the Developing countries highlights the structural changes that have taken place in the group as a whole. In 1980, with the exception of refined petroleum products, not a single manufactured product<sup>1</sup> could be found (at the SITC 3-digit level) among the 10 most important export products. Furthermore, the fact that petroleum products accounted for

<sup>1</sup> The product technology classification used is based on UNIDO (2005,155).

**Table 4.2** Shares of main product groups of Developing countries exports, 1980, 1990 and 2003

| 1980                    |      | 1990                    |      | 2003                    |      |
|-------------------------|------|-------------------------|------|-------------------------|------|
| Primary*                | 50.6 | Primary*                | 22.9 | Primary*                | 16.8 |
| Manufactures, of which: | 0.0  | Manufactures, of which: | 13.3 | Manufactures, of which: | 24.4 |
| Low tech                | 0.0  | Low tech                | 7.1  | Low tech                | 1.7  |
|                         |      | Medium - high tech      | 6.1  | Medium - high tech      | 22.7 |
| Medium - high tech      | 0.0  | Other                   | 2.1  | Other                   | 0.0  |
| Other                   | 3.7  | Total                   | 38.3 | Total                   | 41.2 |
| Total                   | 54.3 |                         |      |                         |      |

\* Primary includes Resource-based manufacturing

Source: UNCTAD Handbook of Statistics Online

almost 40% of the total exports value is a clear indication of the weakness of the manufacturing sector. In fact, in 1980, the share of non primary exports accounted for only 43.2%.

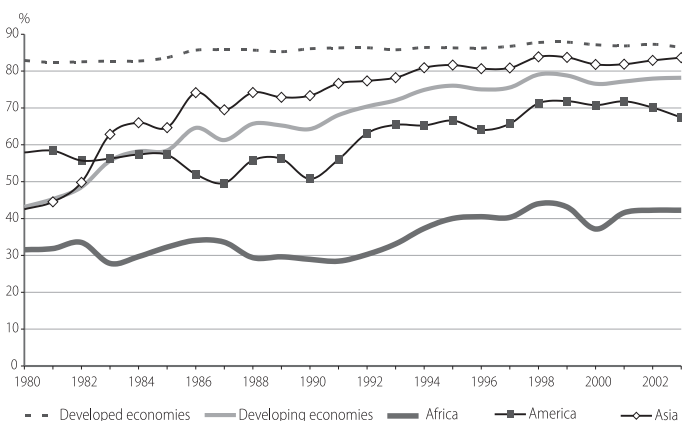
A decade later, primary products (among the 10 most significant product groups) accounted for no more than 23% of the total product exports, with low tech manufactured products (mainly related the textile-garment and footwear industries) gaining in importance, leading to a radically change of the overall picture. Changes carried on without stopping in 1990, and the current picture is again significantly different, with medium-high tech manufactures overcoming in importance both the primary products, and the low tech manufactured products.

The share of non primary exports also expanded significantly, from 43% in 1980 to 78% in 2003 (Figure 4.5). With the exception of Africa, where the share of primary exports has only slightly been reduced, the general structure of exports of Developing countries shows strong signs of convergence with that of the Developed world.

The most spectacular case of convergence is, of course, that of Asia. In 1980, the combined exports of primary products and resource-based manufactures accounted for 73.2% of the region's total exports. 23 years later, in 2003 the figure had fallen to 23%. What is more interesting is that the region is unique in the sense that it is the only wider geographical area of the Developing world where high tech exports represent the most significant segment of total exports.

## The Impact of Trade Liberalization

Regardless of whether the main cause happens to be globalization, our world is characterized by massive inequalities between countries and this gap is becoming increasingly wider: today, while countries such as Luxembourg, Japan, Norway, and the USA have incomes per capita exceeding \$35,000, there are numerous countries (such as Ethiopia, Eritrea, and Nigeria) with a corresponding income of less than \$150.

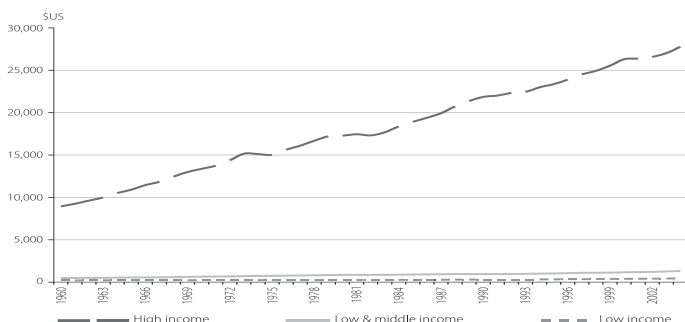


**Figure 4.5 Contribution of manufacturing exports (as % of total) in the product exports: Developed – Developing countries, African, American and Asian Developing countries (1980–2003)**

Source: UNCTAD Handbook of Statistics Online.

Although the above figures refer to the very extreme cases, the general picture is not so different. In the figure below, the widening gap between three very broad groups of countries since the 1960s is more than apparent.

Given all these problems, how should the world and especially the countries falling behind proceed? What should the role of international trade be? The prevailing (certainly in mainstream thought and policy-making) answer given so far is what is known as the ‘Washington Consensus’, i.e. the most certain way to help poor countries is to push them towards greater liberalization and market opening strategies. Although, as Taylor (1997) argues, trade liberalization is perhaps the most significant element of the current economic orthodoxy, the conclusive link between openness and growth is yet to be established. The majority of the theoretical approaches of the market liberalization proponents, as outlined by Vamvakidis (2002), fail to establish



**Figure 4 6 Evolution of GDP/capita in three broad groups of countries, 1960 – 2004**

Source: World Bank, WDI online.

a direct link between openness and growth. In fact, under certain circumstances openness may lead to divergence. For example, according to Grossman and Helpman (1991), economic integration between two dissimilar countries might lead one of them to specialize in a slowly growing sector (as numerous studies on the location of European industry appear to have confirmed, see Hallet 2000; Midelfart-Knarvik et al. 2000), implying that protection of a fast-growing sector could lead to faster growth.

On the other hand, there is a long line of theoretical studies supporting the view that selective trade interventions may bring about the increase of growth under certain circumstances. Theories influenced by the infant industry argument or the Mundell-Fleming model actually identified cases in which openness could in fact reduce growth. In a recent paper, Redding (1999) develops a model in which Developing countries may face a trade-off between specializing according to existing comparative advantage (in low-tech goods), and entering sectors. While they currently lack one in these sectors, they may acquire a comparative advantage in the future, as a result of their potential for productivity growth (in high-tech goods). In such a model, specialization according to current comparative advantage under free trade may lead to the reducing of welfare, while selective intervention may lead to the improving of welfare.

The empirical evidence of the growth-openness connection is quite a different story. To be more specific, the majority of the relevant literature including, *inter alia*, Dollar (1992), Barro and Sala-i-Martin (1995) and Sachs and Werner (1995), detected a positive relationship between openness and growth. Nevertheless, more recently a stream of papers made their appearance, seriously questioning the universality of the relation. For instance, Rodrik (1997) argued that trade openness had little to do with the varying development trajectories of Developing countries. He argued instead in favour of the fact that import substitution industrialization strategies worked quite well for a period of almost two decades for most countries that adopted them (including not just East Asian and Latin American countries, but also countries in the Middle East and Sub-Saharan Africa). Adhesion to such strategies had had little to do with the downturn of many of these countries since the mid-1970s. The most significant factors were rather the adoption of decisive macroeconomic policies, along with deeper social determinants (e.g. the ability to cope with the social turbulence created by the oil crises). Rodriguez and Rodrik (1999) questioned the robustness of the positive openness-growth correlation, either on the grounds that the openness measures used were inadequate, or because other important variables had been omitted. Levine and Renelt (1992) argued in a similar vein that openness affects growth indirectly only, through higher investment, while Wälde and Wood (2004) claim that not only is the causality between openness and growth unclear, but also the link between trade policy and growth is yet to be established.

As Shaikh (2003) argues, Japan, South Korea and Taiwan are typical cases of successful development achieved with the help of very selective policies of trade liberalization. On the other hand, Chile (1974–79) and Mexico (1985–88), that followed policies of full liberalization of their trade for some time, not only saw the disappearance of their weaker sectors, but also of the sectors that had the potential to gain in strength, often at a great cost in social terms.

The liberalization of international trade is not, therefore, a panacea. If the goal is to reduce poverty and improve living conditions in Developing countries, greater openness appears to be one of a number of (usually complementary) policies, often including the selective liberalization of international trade as particular sectors become competitive. This, naturally, is not an argument in favour of protectionism. As Rodriguez and Rodrik (1999, 39) argue, there is 'no credible evidence, at least for the post-1945 period, that suggests that trade restrictions are systematically associated with higher growth rates'. *The critical choice for a country does not lie in deciding whether or not to be included in the international market, but rather in deciding under what conditions it will choose to be included.*

If further liberalization of international trade is not the recipe for growth, what is the recipe? Alas, the answers to such important questions are never as simple as the dominant prescriptions imply. Trade liberalization, as is the case with investment-led growth, which was the dominant policy prescription during the 70s and 80s (Easterly and Levine 2001) have been found to explain very small fraction of the actual growth. This can only mean that there are no easy recipes. Nelson (2004) argues that all successful catching-up instances in the past involved the three following elements: a. Movements of people; b. Active government support for the catching-up process, even involving some forms of protection and c. Intellectual property regimes in the developing countries, which allowed companies to easily emulate the technology of advanced countries.

All countries that managed to catch-up in the course of the nineteenth and twentieth centuries made use of a mix of the above strategies. The first element concerns the flows of people, either originating from the less developed country in the direction of the developed country, in order to work or to study, and then returning to their home country; according to an other scenario, the flow might originate from the developed country in the direction of the less developed country, to bring support in an advisory capacity or to settle there. The amount of evidence surrounding the significance of such trans-border flows is considerable. According to UNIDO (2005), many of the pioneers of the American chemical and engineering industries during the nineteenth century were trained in Germany. In the case of Japan, this transfer of knowledge embodied in people became an explicit target for the first time during the Meiji restoration period which began in 1868 (UNIDO 2005, 47). The Japanese and foreign scholars invited to Japan are believed to have played a significant role towards building a highly successful education system and enriching the national knowledge base. The Republics of Korea and Taiwan, although for different reasons, also benefited by the large numbers of nationals who had sought postgraduate studies in the US to subsequently return to their home countries.

FDI appears to have played a similar role towards the transfer of knowledge. Up until the late nineteenth century, FDI (as described by Wilkins 1988 and Dunning 1993) was given concrete expression mainly through structures such as the autonomous entrepreneur or the free standing company, which have often been described as forms of emigrant entrepreneurship. According to Cain and Hopkins (1980, 476) one of the main drives behind the competition which Britain's industrialization process faced with regard to its textile industry (the US, mainly, but also some countries on the European continent) was its inability to restrict the immigration of the specialized

labour force from Britain to these countries, while it was capital exports that were often blamed for the stagnation of the British economy (for a review of the relevant literature see Pollard 1985).

In relation to the second element, according to Shaikh (2003), numerous Developed countries (e.g. Britain, USA, Netherlands, Germany, Sweden, Japan and South Korea) were extremely protectionist during their catching-up<sup>2</sup> process.

As documented by Ha Joon Chang (2002), from the fourteenth century onwards, Britain systematically cut out its competitors, by taxing or banning the import of foreign manufactures and banning the export of raw materials (wool and unfinished cloth) to countries with competing industries. The state extended similar protection measures to the new manufactures that began to develop in the early eighteenth century. Only when it had established technological superiority in almost every aspect of manufacturing did Britain discover the virtues of free trade. It was not until the 1850s and 1860s that it opened most of its markets.

The United States, currently one of the countries most in favour of free trade, protected its markets just as defensively during its key development phase. In 1816, the tax on almost all imported manufactures stood at 35%, rising to 40% in 1820 and, for some goods, to 50% in 1832. Taking into account the combination of this tax with the cost of transporting goods to the US, domestic manufacturers enjoyed a formidable advantage within their huge and relatively homogeneous home market. The US remained the most heavily protected nation in the world until 1913. Throughout this period, it was also the fastest-growing market.

All of the three nations which developed the most spectacularly over the past 60 years – Japan, Taiwan and South Korea – did so not through free trade, but through land reform, protectionism and support of key industries and the active promotion of exports by the state. All three nations imposed strict controls on foreign companies seeking to establish factories. Their governments invested massively in infrastructure, research and education. In South Korea and Taiwan, the state owned all the major commercial banks, which allowed it to make the crucial decisions about investment (Brohman, 1996). In Japan, the Ministry of International Trade and Industry (MITI) exercised the same control by legal means.

The last element is exemplified by the cases of Switzerland and the Netherlands. During their key development phases (1850–07 for Switzerland; 1869–12 for the Netherlands), neither country recognized patents in most economic sectors. Switzerland's industrialization in particular took off in 1859, when a small company based in Basel 'took' the formula for the aniline dyeing process that had been developed and patented in Britain two years earlier. The company was later named Ciba. In the Netherlands, in the early 1870s, two enterprising firms called Jurgens and Van Den Bergh 'took' a patented French recipe and started producing something called margarine. They later merged to form a company named Unilever. In the

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2 Even today, developed countries often support free trade very selectively. For example, the EU protects agriculture and animal farming products, as well as labour intensive industrial sectors, while it is in favour of free trade in the sectors of industry and services, where it is internationally competitive.

1890s, Gerard Philips ‘took’ Thomas Edison’s design for incandescent lamps, and founded Europe’s most successful electronics company.

## **The Importance of Knowledge in Promoting Development**

Notwithstanding, the world appears to be moving in the opposite direction. The enforcement of property rights is likely to become tighter, and protection measures, even for the poorest countries, increasingly difficult. However, it is not our purpose to argue that Developing countries should be allowed to steal the property rights of developed countries or to protect their budding industries. The reason behind the latter statement is not that we believe that markets are always more efficient. In fact, in the case of some industries they are not. However, as Krugman (1996) argues, although strategic trade policies in the presence of, let’s say, economies of scale may be a better option than the workings of the market, the existence of such choices (i.e. which industry to support) give rise two major issues: The first lies in the fact that they involve a great deal of speculation<sup>3</sup> and the second regards the pressures of concerned industries, often affecting the decision making process.<sup>4</sup> Because these two issues arise and, following Krugman (1996, 24) argument on the limited impacts of protection, the market appears to be an overall better option.

This, of course, does not mean that growth and convergence in any sense happen automatically. Central to any effort to catch up is the *growing importance of knowledge and innovation* in practically all economic processes. In fact, widespread acknowledgement of the increased use of knowledge (facilitated among others by progress in science and in ICT) in economic activities, has resulted in the adoption of the term ‘knowledge-based economy’ (OECD, 1996) in order to describe its relevance to growth and competitiveness, at least in developed modern economies. Reaching beyond the idea of an accumulated ‘stock of knowledge’ and stressing the increasing rate at which new knowledge is created and existing knowledge replaced, Lundvall (1994 and 1997) introduced the term ‘learning economy’ (as opposed to ‘knowledge-based’) thus emphasizing the need for modern societies to develop their learning capabilities in order to thrive (or just survive) in an internationally competitive globalizing economy. Other scholars (Coenen et al. 2004) add that while the term ‘knowledge-based economy’ refers primarily to innovativeness in high-tech sectors, the term ‘learning economy’ maintains that all branches can be innovative.

The emphasis put on knowledge, learning and innovation over the last two decades has revived the interest of academics and policy makers in a number of related areas, such as the processes and mechanisms of knowledge production and diffusion (e.g.

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3 Krugman (1996, 23) mentions the failure of Japan to predict the future of the semiconductor industry. For a number of reasons, the Japanese authorities decided that DRAMs would turn out to be a monopolistic market, and therefore specialisation in that sub-sector would enable the Japanese companies to dominate it. The predictions turned out to be completely wrong.

4 For example in Greece, over the last decades, most of the protection was directed towards agriculture not only because it was the most threatened sector, but also because it represented a formidable asset (or liability) to any party interested in re-election.

Brown and Duguid 1996; Cohendet 1999), the different types of knowledge (e.g. Asheim and Gertler 2005; Laestadius 1998), the interactive and systemic nature of innovation (e.g. Cooke 1992; Freeman 1987; Lundvall 1992; Nelson 1993), the role of networks (e.g. Dahl and Pedersen 2003), the role of industrial agglomerations and clusters (e.g. Porter 1990; Storper 1997) and the relations between localized learning and globalization (e.g. Asheim and Herstad 2003).

What all these approaches hold in common is the move away from the 'linear model' of innovation (which assumes a 'linear' transition from basic to applied research and then to economically useful outcomes in the form of new products or/and processes) and the perception of innovation as a complex phenomenon involving interactive learning processes between economic agents which are socially and territorially embedded and culturally and institutionally contextualized (Lundvall 1992).

### *The role of FDI in transmitting knowledge*

In the light of the growing difficulties faced by Developing and, to some extent, transition economies to gain access to technology,<sup>5</sup> FDI is widely believed to be one of the few effective knowledge transmission mechanisms. In fact, the impact of FDI on the host economy has turned out to be one of the most extensively researched domains in the study of FDI and the TNC. The ways in which TNCs may benefit the recipient (usually developing country) are numerous. More specifically, according to Blomström and Kokko (1998, 9) TNCs may help accelerate technology transfer and diffusion through: (a) Breaking supply bottleneck, therefore contributing to efficiency; (b) Introducing new technologies through learning by doing; (c) Depending on the structure of the indigenous industries, TNCs may either stimulate competition through the elimination of existing monopolies, or increase the level of concentration; (d) Transferring, or enforcing higher standards to local suppliers or distributors, and (e) Exposing local competitors to more fierce competition, therefore making them more competitive in the local or international market.

In a meta-analysis of studies about TNCs productivity spillovers, Görg and Strobl (2001) identified 13 out of 21 studies in which the productivity spillovers were positive (i.e. increased foreign presence increases the productivity of local firms), however, those positive findings may be influenced by a number of characteristics of the studies.

On the other hand, in examining the empirical findings about the influences mentioned immediately above, Blomström and Kokko (1998) conclude that although there is enough evidence to support the claim that spillovers from FDI to host countries do exist, it would be mistaken at this stage to draw generalizations

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5 Following Archibugi and Michie (1998) we view technology as a 'multifarious human activity' (ibid, 4) with four main characteristics: a. It is a quasi-public good; b. With a largely (although not exclusively) tacit nature, and thus not easily transferable; c. Coming in many different flavours (industry, country or technological field-dependent) and finally; d. It is highly path dependent.

about their nature. Furthermore, it appears that competitive environment and local capabilities of the host country are likely to enhance the positive impact of FDI.

It would seem that the key factor lying behind the nature of spillovers and, eventually, of growth and catching up processes, resides in the more general policies devised for technology and innovation. Although, as it has already mentioned, national specificities are extremely important, since all countries that successfully caught-up during the last two centuries (UNIDO, 2005) managed to do so by means of more or less different strategies, the development and accumulation of a local knowledge base appears to be by far the most important factor in the catching-up process.

The main problem facing all developing countries can thus be encapsulated in the following question: what strategy can we follow to most effectively – and rapidly – enhance our knowledge base? The caveat here is that the experiences of the developed (or ex-developing) countries simply cannot be reproduced. For example, the ‘utilitarian’ education system of the USA (UNIDO 2005) was to a large extent a mirror of the fiercely competitive American economy and society of the early nineteenth century. In the same way, the strict controls imposed by MITI on the Japanese firms throughout most of the post World War II period, or the similar policies of the South Korean government, during the country’s catch-up period (Pack and Saggi 1997), could not have easily be implemented in, for example, a European country.

Pack and Saggi (1997, 94) quite rightly claimed that ‘international technology transfer and domestic education – technological effort are two blades of a scissors whose joint effect will be considerably greater than the impact of either one alone’. While we cannot but agree with this view, it would appear that in the current, increasingly open global environment, it is the blade related to domestic education – technological effort that eventually determines the sharpness of the scissors.

### **The Economic Transformation of the CEEC**

The process of ‘deepening’ European integration has – rather perversely – accentuated the importance of location. While traditional factors of production are supposed to become increasingly mobile across member states, other location-specific factors remain highly concentrated in space, promoting further intra-area specialization (Krugman 1991). Thus, differences between European regions in terms of entrepreneurship, organizational capacity, skills, propensity for innovation and technological competence may actually receive an additional boost from the integration process (Iammarino and Santangelo 2000). This implies that weak regions may not be able to generate new jobs whilst at the same time facing the threat of significant losses in traditional labour-intensive industries. Consequently, the possible outcome might be an ongoing and self-sustaining process of marginalization of peripheral areas.

Swain and Hardy (1998), argue that the degree of integration of post-socialist economies – that occupied a semi-detached position in the global marketplace for the best part of the post-war era – with the global economy has been highly uneven.

Whilst some countries, namely Poland, Hungary and the Czech Republic, already members of the EU, are deemed to have made sufficient progress, others, such as the majority of the South-Eastern European (SEE) countries and the CIS countries, have achieved only a modest degree of integration. Martin (1998) attributes the relatively slow inroads of globalization in the latter group of countries partly to the tentative approach of TNCs to the regions, manifested in a preference for low commitment strategies, and partly to the fact that the relationship between incoming Western capital and national governments has often been of a problematic nature (Hausner et al. 1997; Swain and Hardy 1998; Van Zon 1998).

While tendencies exist towards the creation of Europeanized systems of production linking diverse locations within the continent, there are important differences in their geographies. There is increasing qualitative differentiation in technical and social divisions of labour within and across these systems, with a general tendency for more sophisticated and higher value added activities to locate in core regions with routine production dispersed to peripheries, especially those of the East and South (Hudson 2002, 275).

Automobiles and clothing are two sectors that illustrate this point. As concerns the automobiles industry, out of the SEE countries (including Greece) only Romania has become part of trans-national systems of production, with two companies involved.<sup>6</sup> The first is the French manufacturer Renault who acquired Dacia, a formerly state owned firm that was producing cars designed by Renault during the communist period. The second is the Korean manufacturer Daewoo who set up a new plant in the country. In contrast, countries in Central Europe (especially the Czech Republic, Slovakia, Hungary and Poland) have become so well embedded into global and European networks of production that they have turned the corridor from Warsaw to Bucharest into 'one of the world's fastest-growing centres of auto manufacturing, second only to China' (Edmondson et al. 2006).

On the other hand clothing is perhaps the most important element in the process of integration of the CEECs (especially the most peripheral ones) in the global networks of production and distribution. Within the workings of extremely complex value chains (Gereffi 1994, 1996 and 1999) small towns or even villages in areas such as the mountainous Southern Bulgaria, Albania or FY Republic of Macedonia have become part of wider systems through a number of modes included in, but not limited to, triangular manufacturing (Labrianidis and Kalantaridis 2004) and FDI.

The different trajectories of the two large groups of Eastern European countries (i.e. Central and SE European countries) are evident in almost every aspect of their economies. We will distinguish three groups in the remaining of the article. CEEC is the all encompassing term, EU- 8 refers to the more advanced new members of the EU and SEE covers the countries of South-East Europe.

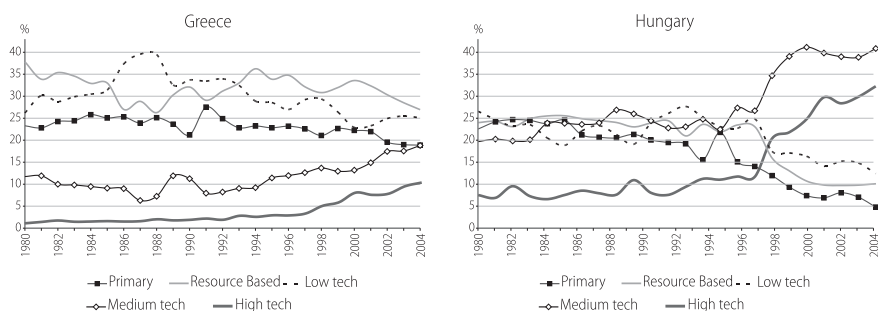
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6 However, it should be mentioned that factories producing automobile parts have been established in other countries (Croatia, Bulgaria). However, the two sub-sectors (automobiles and automobile parts) differ significantly in their structure, as well as in their labour requirements, with the parts sector being significantly more labour intensive.

# Industry structure, trade and FDI

Within 15 years, a small group of CEECs, including Hungary, the Czech Republic, Poland and the Slovak Republic have managed to restructure their economies. In many senses, these four countries have been more successful than some of the former EU cohesion countries. The comparison of the Greek and Hungarian experiences highlights this point (Figure 4.7). Within a time-span of no more than a decade (1991–00), the structure of Hungarian exports was so completely transformed as to become surprisingly similar to that of a ‘typical’ EU country.

On the other hand, the unique structural characteristics of Greece are evident from the graph. The country’s main export product groups throughout the whole period considered have been low-tech and resource based manufactures along with primary products. There are definite signs of change, though, which are interesting from two perspectives.



**Figure 4.7 Exports of products classified according to the technological intensity of their respective industries (as % of total trade) in Greece and Hungary**

Source: UNCTAD Handbook of Statistics Online.

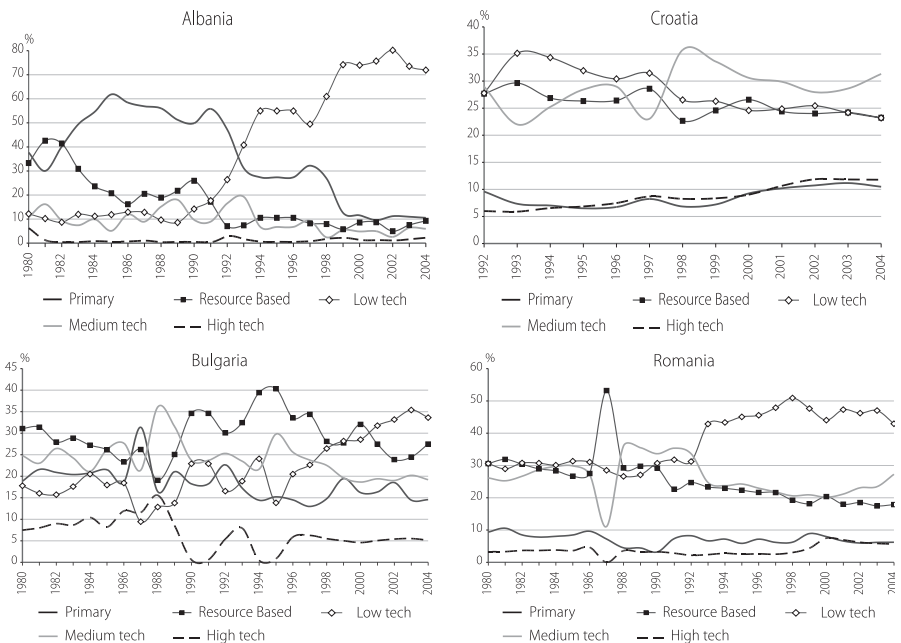
Firstly, change is very slow. The remarkable persistence of primary products highlights the case and, in a way, confirms our arguments about the inherent difficulties of protection, since agriculture was, during the course of the country’s recent history, the most heavily subsidized and protected sector. Another perspective relates to the timing of the acceleration of change, which took place around 1991, linking the change with the CEECs’ transition in a natural process. The reason why this observation is of significance relates to a discussion that has been underway throughout the last decade in Greece regarding the overall impact of the opening up of the CEECs to the Greek economy. A number of researchers (among others, see Labrianidis and Kalogeresis 2001) have argued that the transformation of the CEECs could have a negative impact on the structure of the Greek economy. Figure 4.7 points to the opposite, and calls for the need to reassess the earlier hypotheses.

While the industry structure of the EU-8 countries, characterized by a rising participation of medium, and to a lesser extent high-tech products, appears to be

converging towards the ‘average’ EU industry structure, the trend of SEE countries indicate quite different tendencies. The differences between the two groups of countries concern not only the intensity of the process of change but, more importantly, its direction. In this context, Croatia stands out as the most dissimilar SEE country (Figure 4.8), with low-tech exports steadily decreasing since 1993. Furthermore, apart from the fact that it is the only SEE country in which medium-tech products represent the most significant product group, Croatia is also the only country in the region that registers an increase of the share of high-tech exports. The country’s uniqueness (also evident in the FDI data to be discussed further down) allows us to consider the country as an exception.

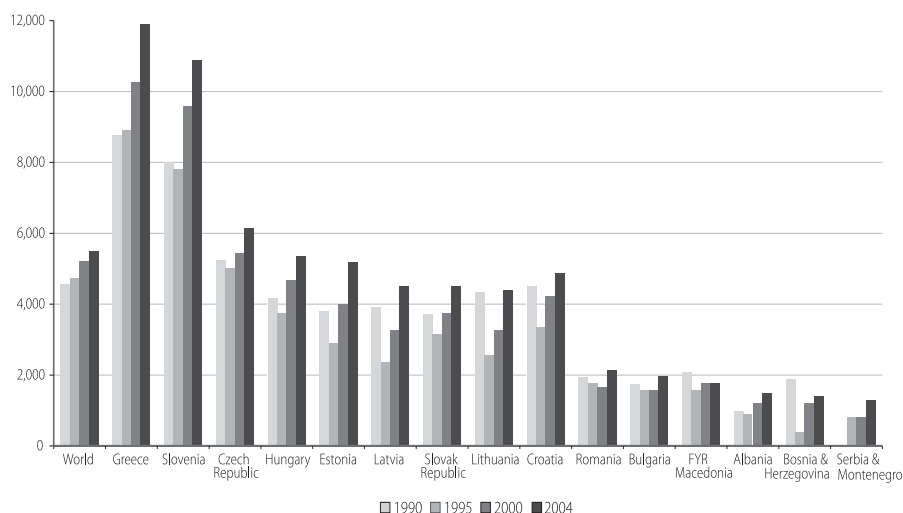
As concerns the other three SEE countries of Figure 4.8, it is possible to make a number of observations in general terms. Firstly, the changes, since 1989, were not nearly as abrupt as in Hungary; secondly, low-tech products are by far the most significant export group in all countries; and finally, high-tech exports have been either stagnant or decreasing throughout the whole period.

Apart from industry structure, the different performances of EU-8 and SEE are evident in almost all other measurements. In terms of GDP/capita, EU-8 countries are, on average, more than twice as rich as the SEE countries (Figure 4.9). More importantly, the inequalities between the CEE countries have steadily become more marked, with the standard deviation of the GDP/capita of the 14 countries of Figure 4.9 increasing from \$US 1,890 in 1990 to \$US 2,628 in 2004.



**Figure 4.8 Exports of products classified according to the technological intensity of their respective industries (as % of total trade) in Albania, Croatia, Bulgaria and Romania**

Source: UNCTAD Handbook of Statistics Online.



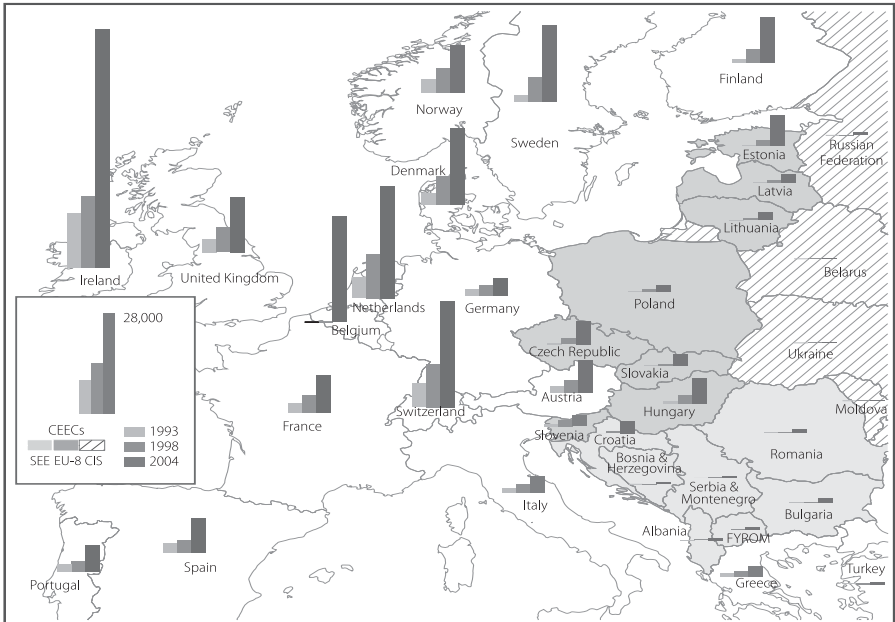
**Figure 4.9 GDP/capita (constant \$US 2,000) of selected EU-8 and SEE countries**

*Source:* World Bank, WDI online.

Moreover, within the CEECs, the SEE countries are worse-off in terms of FDI attraction. This is due to a number of reasons including the lower levels of economic prosperity (lower GDP/capita and higher levels of unemployment), the difficult transition to a market economy and parliamentary democracy, and a higher degree of corruption.<sup>7</sup> There are also areas of the Balkans having to cope with ‘special’ political situations: Kosovo; Bosnia and Herzegovina; Montenegro; FY Republic of Macedonia. Of course, a great number of historical reasons account for the difficulties which the Balkan countries have been facing in their transition. On the one hand, we have a long history of conflicts, of which the wars associated with the disintegration of former Yugoslavia represent only the most recent chapter. On the other hand, with the entire region having been part of the Ottoman Empire (in certain cases until the 1920’s), we are dealing with relatively newly formed nation states with as yet unsettled external boundaries. The structure of their economies has contributed little to help. The most frequently cited example is Bulgaria’s heavy and high-tech industry, which was largely an artificial outcome of the wider Warsaw Pact planning and therefore not related to the country’s comparative advantage. When the USSR collapsed, so did the Bulgarian high-tech exports, which were not competitive by any (market-based) standards.

<sup>7</sup> According to Transparency International’s ([www.transparency.org](http://www.transparency.org)) Corruption Perception Index (CPI) Bulgaria, Croatia and Romania had the lowest levels of corruption, followed by Bosnia and Herzegovina, Serbia and Montenegro, FY Republic of Macedonia and Albania. Among 159 countries analysed in the CPI Bulgaria was ranked 55<sup>th</sup>, while Albania was 126<sup>th</sup>. The only EU-8 country that scored worse than Bulgaria was Poland.

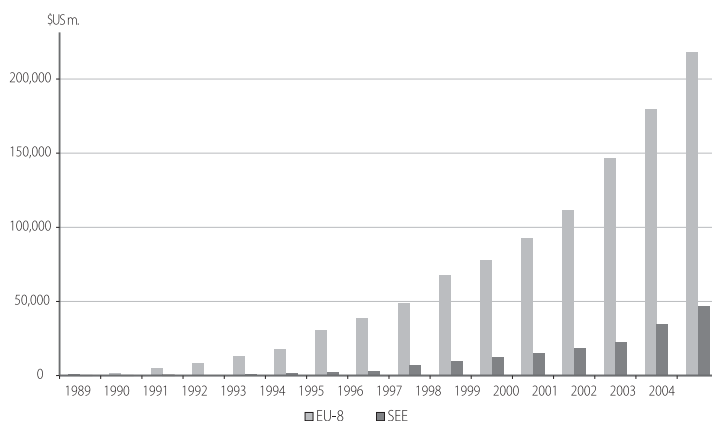
Finally, the Balkans would appear to be adversely affected by geography. With geographic proximity being an important factor in the determination of a country's attractiveness (Labrianidis 2001), the success of Slovenia (geographically – at least until recently – part of the Balkans) and Croatia in attracting FDI can to a significant extent be attributed to their proximity to countries such as Germany, Italy and Austria. Apart from the obvious economic reasons, political parameters have also played an important role, since the powerful neighbours of these two countries were capable of beneficial influence within the countries in addition to bringing in international agencies.



**Map 4.1 Inward FDI stocks per capita, 1993, 1998, 2004**

### **The Composition of FDI in the Balkans**

When it comes to FDI SEE countries are far behind EU, in fact the EU-8 countries have received four times more FDI than the SEE countries (Figure 4.10). Moreover,



SEE itself is in almost no respect a homogeneous area. There are wide variations in income levels, political stability, size and proximity to the European core.

All these differences lead to significant variations in the attractiveness capacity of the countries in terms of inward FDI. Considering absolute values, the larger countries are the most significant recipients. Croatia<sup>8</sup> is a notable exception,

**Figure 4.10 Inward FDI stocks in the new EU-10 and SEE countries, 1989–2004 (\$US m.)**

Source: UNCTAD Handbook of Statistics Online.

something that is also reflected in the country's per capita inward stocks<sup>9</sup> (Table 4.3), which are almost three times higher than those of Bulgaria, the second most important country in SEE.

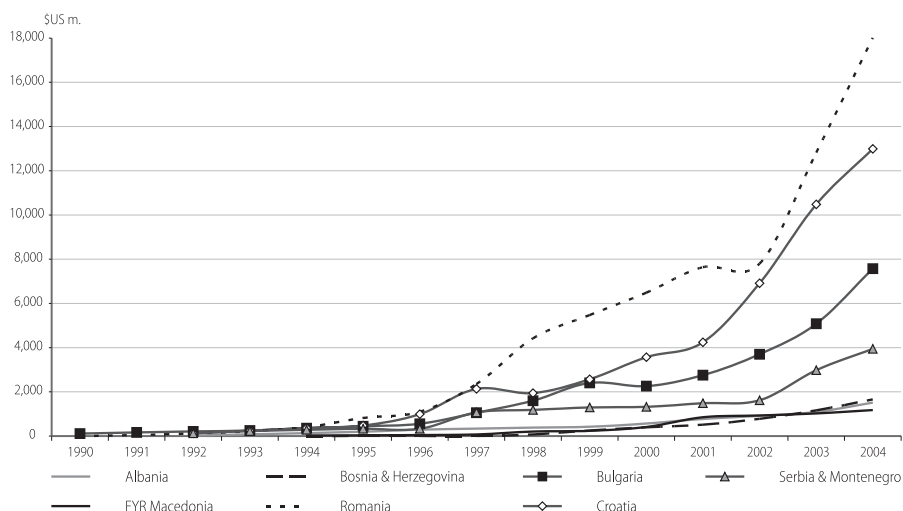
Regarding the origin of FDI in the region, in all countries it is the European continent that hold the primary position. To illustrate the point, in 2004, in Bulgaria, of the 15 countries accounting for more than 1% in the total inward FDI stock of the country (collectively responsible for 94% of total), only two non-European countries could be counted (Bulgarian National Bank 2005<sup>10</sup>). There was a very comparable situation in the case of Romania, where again only two non-European countries could

8 The reasons for this are most likely to be of a non-economic nature. Historical, religious and above all geographical reasons have allowed Croatia, along with Slovenia, to take rather different paths from the remaining SEE countries.

9 We should, however, note that although per capita values are often more informative than absolute values, in the case of FDI one should be more cautious in interpreting such findings. In this context, the fact that the figures for Romania and FY Republic of Macedonia are comparable does not imply that the impact of FDI in the two countries is comparable. In all respects, except wages where per capita FDI is more significant, more FDI (in absolute terms) is better than less, since it is much more likely to lead to more spillovers for the benefit of the local economy.

10 <http://www.bnb.bg/bnb/home.nsf/fsWebIndex?OpenFrameset> (accessed 3 Feb. 2006).

be counted-National Bank of Romania, (2005).<sup>11</sup> On the other hand, while Croatia, is similar with respect to the importance of Europe (Croatian National Bank 2006<sup>12</sup>), it nevertheless differs in the sense that greater concentration is observed with only 10



countries accounting for 92.9% of total inward FDI stocks. In the smaller countries, conclusions about such issues are not easy to draw, a point which is highlighted by the case of FY Republic of Macedonia: in 2001 the national telecommunications

**Table 4.3 Per capita inward FDI stocks in the SEE countries, 2004 (\$US)**

|                          |       |
|--------------------------|-------|
| Croatia                  | 2,861 |
| Bulgaria                 | 972   |
| Romania                  | 826   |
| FY Republic of Macedonia | 578   |
| Albania                  | 486   |
| Bosnia and Herzegovina   | 424   |
| Serbia and Montenegro    | 375   |

Source: UNCTAD FDI Database online

company (Makedonski Telecommunicakii AD) was purchased by a joint venture formed by a Greek and a Hungarian company. This acquisition alone turned Hungary into one of the most significant investors in the country.

11 2005, 'Survey on foreign direct investment (FDI) as of 31 December 2004 conducted by the National Bank of Romania and the National Institute of Statistics'[http://www.bnro.ro/def\\_en.htm](http://www.bnro.ro/def_en.htm).

12 <http://www.hnb.hr/statistika/estatistika.htm> (accessed 3 Feb. 2006).

**Figure 4.11 Inward FDI stocks in the SEE countries, 1990–2004 (\$US m.)**

Source: UNCTAD FDI Database online.

Furthermore, within Europe there appears to be a further discrimination between the countries bordering the wider CEE region and those further away. Thus, in the case of Bulgaria, 54.3% of total inward FDI stocks originated from seven countries (Austria, Greece, Germany, Italy, the Czech Republic, Hungary and Turkey), which are either bordering with, or are themselves located inside the wider region. This phenomenon is much more evident in the case of the smaller countries, including Croatia, where two countries (Austria and Germany) alone account for 43.1% of the total inward stocks to the country. A similar role is played by Greece, and partly by Italy, in the cases of FY Republic of Macedonia (UNCTAD 2003<sup>13</sup>) and Albania.

Regarding the sectoral distribution of inward FDI to the region, data appears to be even more difficult to obtain. Overall, there are two factors which appear to be of significance. The first factor is the level of development of each country. More specifically, it appears that the more developed a country the more it is likely to

**Table 4.4 Distribution of inward FDI stocks in Croatia by activity, 1993–2006 Q1–Q2**

| NACE | Activity   | %     |
|------|--|-------|
| 65   | Financial intermediation, except insurance and pension funds | 31,6% |
| 64   | Post and telecommunications                                  | 15,8% |
| 24   | Manufacture of chemicals and chemical products               | 10,6% |
| 23   | Manufacture of coke, refined petroleum products              | 5,2%  |
| 26   | Manufacture of other non-metallic mineral products           | 4,7%  |
| 11   | Extraction of crude petroleum and natural gas                | 4,4%  |
| 51   | Wholesale trade and commission trade                         | 4,0%  |
| 52   | Retail trade, except of motor vehicles and motorcy           | 3,4%  |
| 55   | Hotels and restaurants                                       | 3,0%  |
| 15   | Manufacture of food products and beverages                   | 2,5%  |
|      | Other activities   | 14,7% |

Source: Croatian National Bank, <http://www.hnb.hr/statistika/estatistika.htm>, (accessed 20 Nov 2006)

13 UNCTAD WID country profile: The former YUGOSLAV REPUBLIC of MACEDONIA.

attract services, (in order of significance) medium or high-tech manufacturing and low-tech manufacturing (the Croatian case – Table 4.4 – illustrates this argument). The primary sector is rather insignificant in almost all countries.

The second factor is related to the size of the country. The joint Greek – Hungarian investment in FY Republic of Macedonia already mentioned turned telecommunications literally overnight into the most important sector. This could not easily happen in countries like Romania or even Bulgaria. In these two countries the situation appears much more balanced, with manufacturing occupying a significant share of inward FDI (45.7% in Romania and 30% in Bulgaria) while services are, however, gaining in importance.

At closer inspection it would appear that there are great similarities between the export structures of the SEE countries and the industries that have attracted foreign investment. In this context, the manufacturing sectors of all countries – except Croatia – are dominated either by resource or by labour intensive industries. In Romania those industries accounted for 74% of all inward FDI stocks (National Bank of Romania, 2005<sup>14</sup>), while the relevant figure in Bulgaria stood at 65% (UNCTAD 2001<sup>15</sup>).

What, if anything, do these figures tell us about the prospects of growth of the SEE countries? It is evident that some of the countries, especially those currently facing political instability which is greatly reducing their attractiveness, have more-or-less become marginalized in relation to the world FDI map. Hence, the first, and indeed by far the most difficult, step on the way to increased growth is ensuring long-term political stability in the wider region. In a second group of countries (Croatia, Romania and Bulgaria) more fundamental changes are underway, partly influenced by their upcoming accession to the EU. The first signs of change are evident in the shifting composition of inward FDI. Nevertheless, the final outcome, that is whether accession will lead to marginalization or convergence, which in the last instance will determine the volume and type of FDI directed to the region, will depend on the success of the policies devised by the countries in respect of enhancing their knowledge base. All being considered and with the benefit of hindsight, the South Korean or Taiwanese societies, which emerged after World War II with only one university each, were faced with much more inaccessible targets, and yet managed only after a few decades to become equally, if not more, competitive than the most advanced countries.

## Conclusions

It is now apparent that there are many routes to growth. However, it seems that there are no off-the-shelf strategies and recent evidence points to the fact that this also stands true for the most recent recipe on offer, that is unconditional liberalization. Naturally, this does not imply that liberalization should not be a central focus of a developing country's catch-up strategy, but simply that it cannot be the only foci.

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14 2005, 'Survey on foreign direct investment (FDI) as of 31 December 2004 conducted by the National Bank of Romania and the National Institute of Statistics' [http://www.bnro.ro/def\\_en.htm](http://www.bnro.ro/def_en.htm).

15 UNCTAD WID country profile: BULGARIA.

It follows that the main question springing to mind regards what the other – and, in our view – more significant foci should be. Of the various strategies that have been adopted by the countries that succeeded in catching-up during the post WWII period, knowledge appears to be one of the few common elements of paramount importance. Regardless of the specificities of national approaches, the creation and constant upgrading of rather unique knowledge bases has been central in most of the celebrated cases of catching-up.

In the quest for more knowledge, FDI currently appears to be an increasingly useful medium. Although the causality between a country's level of technological development on the one hand and, on the other, the types of FDI it attracts is not yet clear, the two appear to be significantly correlated. The distribution of FDI in SEE is consequently a reason for both optimism and concern. In the case of the larger countries, a more balanced mix of inward FDI is starting to re-shape the overall picture, not as rapidly however, as in the remaining CEECs. The smaller countries are still the victims of the region's recent turbulent past and the fears that this is causing for the future.

This mixed picture calls for more concerted action in view of resolving the, as yet, unsettled political issues (and the upcoming accession of three of the region's countries to the EU is certainly a positive step in this direction). However, it is the two issues of the degree of assimilation of the knowledge which the FDI – regardless of its type – offers to the countries on the one hand, and, on the other the policies devised towards this end that will represent the main challenge.

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## Chapter 5

# Development Planning and Territorial Integration Prospects in South Eastern Europe: A Foresight Exercise in the Region of Central Macedonia

Dimitris Foutakis and Elisavet Thoidou

### **Introduction: The Overall Development Context in South Eastern Europe**

The world has witnessed radical reversals and other changes of magnitude at both the economic and the political/geopolitical level over the last twenty-five years. These changes have primarily concerned shifts on the predominant capitalist development model, with the world's leading economic powers and international organizations adopting neo-liberal conceptions and policies.

It is above all the last fifteen years, however, that have been characterized by accelerated change and dramatic geopolitical reversals. The key feature has been the collapse of the socio-economic systems of central planning that had predominated for over three quarters of a century in a large part of the European continent and shaped the image of a Europe geopolitically divided throughout the latter half of the twentieth century. In their place new market-oriented socio-economic systems emerged and, in many cases, new state formations, whether peacefully and by consensus or, as in the case of Yugoslavia, following protracted and intense warfare.

South Eastern Europe is perhaps the region most deeply affected by these changes since, apart from the process of transition of its countries to the market economy, it also happened to be an arena where the conflicts between the new states of the former Yugoslavia had taken place, and an area of focus for external – international – military interventions. The above factors, taken together or separately, consequently triggered off waves of mass emigration, chiefly (but not exclusively) from Albania to Greece and Italy.

While a return to normality has not altogether been achieved, the situation today is very different from the situation prevailing in the region a decade ago. The larger proportion of the population of SE Europe belongs to states which either already are (Greece, Slovenia) or will become (Bulgaria, Romania) members of the European Union, with the other states having expressed the wish to become members in the immediate or not-too-distant future. This fact carries a major degree of significance for all the states in the region, given that joining one of the world's most powerful politico-economic entities entails the prospect of normalization and of a consensus on the resolution of conflicts and disputes.

The prospect of the integration of a number of countries of the region into the European Union (EU) is a multifaceted issue which reflects, in a final analysis, the complex political and economic facts of the EU itself. On the one hand there is the prospect of collaboration, institutional modernization and solidarity in the accomplishment of social and economic convergence; on the other there is economic competition and conflict between distinct economic interests, all too often within a policy framework established for the European Union as a whole through complicated – and in certain cases not altogether transparent – bureaucratic procedures and bargaining.

The overall situation of the region in respect of development is particularly complex. This also stands true for individual countries. The on-going globalization process, that is, the economic restructuration, the intensified competition, the neo-liberal economic policies being promoted, each in turn places considerable pressure on every state of the European Union and the Balkan countries. The issue of development prospects is becoming particularly complicated given that, as a result of the weakening of centralized policies and of mechanisms of state regulation, the regions are increasingly acquiring autonomous significance in respect of development, at both the national and the international level. As – in accordance with recent theoretical concepts – performance in technology and innovation appears to be the crucial factor determining competitiveness, it is vitally important that policies be adopted at both the national and regional level to support these processes in the long-term and, more generally, to contribute to the creation of competitive advantages across different economic sectors and territories.

This chapter examines the experience of Central Macedonia (Kentriki Makedonia), a Greek region that shares borders with two Balkan countries, and focuses on the evolution of regional policy and its priorities in relation to the Community Support Frameworks (CSFs) implemented in Greece during the 1990s. The development prospects for the region will also be analyzed in the context of its relations with neighbouring Balkan countries and regions that will soon be facing the challenges and the opportunities which Greece itself has been facing for the last twenty years. The central focus is on the implementation of policies with a bearing on the preconditions for transforming the economies of the region into competitive 'knowledge economies'.

From this standpoint, the case of Central Macedonia as one of the area's more developed region, which for approximately twenty years has now been implementing a series of development programmes within the framework of the EU structural policy, is one of exemplary interest, particularly for countries that have recently joined the EU (Slovenia) or that are about to join (Bulgaria, Romania), but also for other countries aspiring to join in the longer term. The chapter emphasizes the need for the territorial integration of South Eastern Europe, as the trajectory followed by the individual countries and regions and the relations between them *de facto* affects their development prospects. At the same time the gradual territorial and economic integration of the region constitutes a prerequisite for its development and prosperity.

The argument developed in this chapter broadly unfolds across four sections. The first section briefly presents the current debate on development, with an emphasis

on the importance of the spatial dimension (particularly at the regional level) in the global context in view of creating competitive advantages in the domains of technology and innovation. The second section focuses on a number of aspects of the socio-economic situation prevailing in the Balkans, with the corresponding data on the region of Central Macedonia. The third section examines regional policy in Greece in the 1990s with particular reference to Central Macedonia, from the viewpoint of its development priorities. The fourth section elaborates on the results of a regional foresight exercise in Central Macedonia in relation to the economic space of South Eastern Europe, over a time-span of fifteen-year, with particular attention paid to emerging regional policy priorities. In the final section, some conclusions are drawn, in relation to the new European Union cohesion policy.

### **Spatial Development: Conceptual Breakthroughs and Policy Orientation**

There has evidently been a change in recent years in the importance acquired by the regions in the development-planning domain. Whereas in the preceding – post-war – decades the chief object of planning from the spatial viewpoint was the country taken as a whole, from the early-1990s onwards the focus on the regional level has been considered equally ‘legitimate’ in spatial reference. This represents an important turn in regional development theory and policy. It is the composite outcome of a number of different factors, including, notably, a gradual evolution in the dominant attitudes concerning the importance and the role of the regions today. Some of the basic factors lying behind this shift are the fact that regions became exposed to competition in consequence of globalization and that the importance of the regional milieu in the shaping of the regional system of innovation became recognized.

One important development taking place in the European Union is the gradual emergence of a geographical-spatial conception of development as elaborated in the series of European Commission documents *Europe 2000*, *Europe 2000+*, and the *European Spatial Development Perspective* (CEC 1992; EC 1995; EC 1999). In parallel, there has been a gradual shift in European Union policy away from a primarily redistributive focus towards priorities of strengthening competitiveness.

It seems that the argument lying behind this approach is that *space and economy in complex interrelationship* generate the conditions which determine the competitiveness of regions and countries. Two related issues are central to the comprehension of the spatial dimensions of development and, in particular, of the importance of the regions and the metropolitan areas: *globalization and spatial economic agglomerations (clusters)*.

Globalization – however interpreted – forms a central concept in present-day economic and political developments. Whether we maintain a reserved stance *vis-à-vis* its extent and significance (e.g. Hirst and Thompson 1999, 1–7) or regard it as an ‘iron law’ of the economy (that is to say, of the markets) or, still, as a deliberate ‘neo-liberal political procedure for deregulation’ (Getimis 2000, 470), the implications which globalization has on the significance, the role and the structuring of the state, irrespective of the factors underlying its emergence, are undeniable. Given that the past decade has been characterized by a reduction in regulative state

intervention and by the opening up to international competition of virtually all the production branches, spatially oriented regulation acquires crucial significance both for regional and for overall national competitiveness. Various sub-national spatial entities (regions, metropolitan areas) emerge as significant parameters both in issues of employment and competitiveness. The regions and the metropolitan areas, that is, the local level, have now come to represent a spatial level of analysis necessary not only for the comprehension of complex present-day development processes but also for the implementation of employment policy and development policy (Dunford and Kafkalas 1992, 5). While we have not yet reached the stage of the disappearance or of the 'end of the nation state' nor of the emergence of a globalized 'borderless' world 'of region states' (Ohmae 1995, 4–5, 145–9), the regional level is no doubt acquiring more significance than ever before. The regional level is crucial in technology and innovation production as long as proximity is an essential element of the technology and knowledge spillovers, and of other territorially based processes (tacit knowledge, intangible relations, and 'conventions'), which are at the core of the emerging knowledge economy (Storper 1997, 3–56). The state, on the other hand, is under reconstruction and its domains of power and competencies are being redefined (Brener 1999, 438–1). The process of globalization has the apparently contradictory effect of simultaneously highlighting the global and the local-regional level as significant factors in development (Swyngedouw 1992, 40–5 and 2004).

The factors favouring national and regional development in the face of competition, may be analyzed from the viewpoint of either of two theoretical approaches dominating the debate within economic geography over the last decade: what has been termed 'new economic geography' (Fujita et al. 1999; Krugman 1991 and 1995) and the approaches that constitute what has been termed 'new regionalism' (Cook 2002; Cook and Morgan 1998; Morgan 1997; Storper 1997). While the 'new economic geography' approach mostly emphasizes factors of a purely economic nature, such as the increasing return to scale, and makes use of mathematical models for the interpretation of spatial economic agglomerations, the economic geographers proper (of the latter approach) are moving gradually away from narrow economic interpretations to 'softer' sociologically-derived ones. These interpretations emphasize the importance of institutional and cultural factors (e.g. 'social capital'), in promoting technology development and innovation, which in turn are of vital importance for regional competitiveness.

Abstract and intensely mathematical in character, the 'new economic geography' does not yield policy guidelines while, by contrast, the 'new regionalism', at least in some of its variants, suggests strategies for strengthening spatial competitiveness.<sup>1</sup> The focus of such strategies is on regional systems of innovation and technology development, strengthening regional and local institutions in particular, upgrading the quality of human capital and supporting local and regional economic clusters,

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1 For the 'new regionalism' and the concept of spatial competitiveness, see also Camagni 2002; Foutakis 2002 and 2004.

especially in knowledge-intensive sectors (Cook 2002, 187–200; Morgan and Nauwelaers 1999).<sup>2</sup>

The basic sources of inspiration for the territorial innovation models (Moulaert and Sekia 2003), such as the new regionalism are a number of specific instances of successful regions. Key regions that might serve as archetypes are: the Third Italy, Silicon Valley in California, Baden-Württemberg in Germany, Cambridge in England and others.<sup>3</sup> While the debate remains open regarding the extent and the duration of the ‘success’ achieved by at least some of these regions, e.g. Third Italy (Dunford and Greco 2006, 159–69, 288–92; Hadjimichalis 2006; Whitford 2001), when it comes to policy options the basic prescription is to reproduce those elements of their socio-economic structure (i.e. institutions, social capital etc.) that are perceived as having led to successful development paths. Thus, the European Union (but also other supranational institutions such as the World Bank) promotes policies for the strengthening of the institutional capacities of less developed countries and regions, ultimately aiming at utilizing new technology and/or even innovating.

In the EU in particular these policies have progressed beyond the state of pilot applications and are now part of the regional structural policy for the less developed regions of Europe, above all in the form of regional innovation programmes (RIS/RTP, RITTS, etc.)<sup>4</sup> but also through incorporation into the Community Support Frameworks.

The main issue regards the question of whether these policies are appropriate for regions and countries which – within the global framework – are perceived as being at an intermediate level of development – such as Greece and the region of Central Macedonia in particular – and much more so for countries and regions that occupy lower positions on the international development scale (on the basis, for example, of Human Development Index indicators), such as the majority of the Balkan countries. The question is crucial if we take into account that ‘new regionalism’ is itself not very clear about how the convergence is to occur. The most developed regions and countries which are based on the knowledge economy are actually like ‘moving targets’ because they themselves continue to learn, ‘... sustaining a desirable form of imperfect competition characterized by ongoing product-based learning’ (Storper 1997, 266 and 287 endnote 4). Given that technology development is pre-eminently ‘path-dependent’, that is dependent on the initial conditions or chosen path (David 1985), and that technology is characterized by increasing returns to scale (Arthur 1988 and 1996), the outcome is that development tends to reproduce itself primarily in the developed countries and regions of the world.<sup>5</sup>

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2 For a formulation of such a strategy for Central Macedonia, see Kafkalas and Komninos 1999; Komninos 1998, 99–75; Tsiouri 1998. For an account of the CSFs contribution to the strengthening of regional and local institutions in Central Macedonia, see Kafkalas and Thoidou 2000, 123–35.

3 The literature on success regional stories is extensive. Indicatively see: Cook and Morgan 1998; Piore and Sabel 1984; Saxenian 1994.

4 For a review see Komninos 2002, 105–9.

5 As is in any case evident from the preceding successful examples, all of them are found in the high income countries of the former G7 ‘club’ (Canada, France, Germany, Italy, Japan, UK, and USA).

However, despite the fact that the discussion of the concept of the knowledge economy has evolved in relation to ‘problems of growth and development in the high-income countries of the North’ (Lundvall et al. 2002, 225), in recent years its scope has been extending to the potential of less developed regions and countries to participate in the emerging global knowledge economy (ibid.; Scott 2002; Storper et al. 1998). As Bellak and Cantwell (1998) suggest, along with the severe difficulties it generates, globalization does appear to offer some development potential to certain less-developed countries and regions, to the extent that they are prepared to pursue appropriate policies. However, it is worth noting that the content of these policies is still at the stage of elaboration (Storper 1998, 37) and that *de facto* the process of convergence and development embraces only a very small number of the less developed regions and countries (Bellak and Cantwell 1998, 72).

The approach taken by this chapter is inscribed in the above framework, while at the same time assuming that the answer to the question remains historically open to every possible outcome. It will be attempted to: (a) sketch the existing problems of fragmentation but also stress the need and the potential for integration of South Eastern Europe, (b) outline the regional development policies for the region of Central Macedonia during the 1990s, emphasizing the relationship between ‘traditional’ and ‘innovative’ regional development policies, and (c) highlight the prospects for the region over the next fifteen years in the context of the Balkans with a focus on technology, innovation and the knowledge economy along with the corresponding policies, on the basis of the relevant research findings.

### **South Eastern Europe: Elements of Fragmentation and Potential for Integration**

The broader region under investigation includes ten countries (Albania, Bosnia and Herzegovina, Bulgaria, Greece, Croatia, Montenegro, Romania, Serbia, Slovenia, and the Former Yugoslav Republic of Macedonia-FYROM). These countries historically comprise the geographical area which has been known as the Balkans for the past two-hundred years (Map 5.1). The area is made up of those parts of the European continent that, for approximately five centuries, have corresponded to the European segment of the Ottoman Empire and – earlier still – to one of the core regions of the Eastern Roman and then Byzantine Empire. This shared historical heritage is at the heart of a common cultural tradition that, given certain preconditions, could prove to be an asset for cohesion in the Balkans.

The very name of the region (Balkans) is, in a large part of the international bibliography, burdened with such negative associations (e.g. nationalistic antagonisms, conflicts, violence and under-development), that the very countries that *de facto* make up the Balkans seem reluctant to accept it (Todorova 1997, 38–61).<sup>6</sup>

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6 For the region’s successive names (the Haemus Peninsula, the Balkans, South Eastern Europe) and the symbolic meaning attached to them by the peoples of the Balkans and even more so by Western analysts, see Mazower 2000, xxv–xliii; Todorova 1997, 21–37. The new version of the region’s name, i.e. South Eastern Europe, aims at overcoming these problems

Differences of opinion are also evident in scientific circles.<sup>7</sup> The most recent period – after 1990 – has been characterized by the resurgence of tensions and stereotypes concerning the Balkans, but at the same time, by the end of division between Eastern and Western Europe, the gradual transformation of the centrally planned economies into Western-style democracies and market economies, and the prospect of an enlarged European Union.

On the basis of this prospect, the upgrading of the geopolitical significance of the broader region of South Eastern Europe should be expected. Nevertheless, despite the fact that SE Europe is an inseparable component of the European territory, its incorporation into the new European architecture is proving particularly difficult given that it is Europe's most unstable and least economically developed zone.

The South East European economic space is characterized by fragmentation and a low level of market integration and competitiveness, both in the region as a whole and in the individual national settings. At the same time, in terms of infrastructure, serious deficiencies prevail and have either deteriorated as a result of the lack of adequate investment over the last fifteen years or been destroyed in the region's recent wars. These deficiencies have meant that much-needed improvements expected in the domain of transportation have been delayed, while the conditions are aggravated by the extreme roughness of the terrain (Map 5.1). Moreover, there is a limited degree of development of the banking system while the notion of 'market economy' is still widely unfamiliar. This phenomenon pervades society as a whole given that the countries in question are still in the throes of transition from the systems of planned economy to the conditions of deregulated markets and globalization that have come to prevail over the last fifteen years. Furthermore, with the exception of Slovenia and Greece, the countries of the region are characterized by the low performance in development of technology and innovation.<sup>8</sup> South East European integration is a wide-ranging pan-European goal of central importance that presupposes the involvement of the countries of the region in various cooperative schemes, which could be developed in parallel, for example in the CADSES region (Central, Adriatic, Danubian, South-Eastern European Space), in the Central Mediterranean, and the Black Sea cooperation areas.

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and is currently considered the most 'politically correct'. In this chapter the two names are used interchangeably.

7 Mentioning thirteen texts written about the region during the last century (from 1897 to 1995), Hall and Danta (1996, 5–7) stress the significant differences over which countries are to be included in the Balkans. It seems that the greatest degree of uncertainty lies over the characterization as Balkans of the European section of Turkey and Romania (six of the thirteen writers exclude them), with some reservations also being expressed about Greece, Slovenia, Croatia, and Montenegro.

8 For more details on the countries for which data exist (Bulgaria, Greece, Romania, and Slovenia), see the Innovation Scoreboard 2005 website (TrendChart-CORDIS 2006).



**Map 5.1 The Balkans at the dawn of the twenty-first century**

*Source:* Geographical data provided by Spatial Development Research Unit-Aristotle University of Thessaloniki (SDRU-AUTH).

In the current conjuncture, a combination of internal and external pressures has led to the creation of a tripartite, multi-levelled politico-economic situation. The first level embraces Bulgaria and Romania which, overcoming enormous political and economic difficulties, have succeeded in reining in domestic conflicts and carrying out critical reforms. The second level involves Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia and the FYROM, that is, the Western Balkans, which face great uncertainty and are struggling to secure the minimum necessary conditions for national cohesion and political stability. Finally, Greece, which is a member of the European Union and the Eurozone, is to be found on the third level, and Slovenia, which since May 2004 has been full member of the European Union.

This tripartite reality is, to a large extent, also reflected in the data shown in Table 5.1. If Greece is considered in the Balkans context, it stands at an advantage because it has been a full member of the European Union since 1981 and of the Eurozone since 2001. It differs substantially from the other countries of the region in terms both of living standards and of economic power (accounting for 50% of the total GDP of the Balkans), as well as of infrastructure and, above all, in terms of institutional capacity, which corresponds to the EU's *acquis communautaire*. Slovenia, on the other hand, differs significantly from the other countries, while the consequences of the dramatic military and political clashes in the Western Balkans are very evident. In some cases (Bosnia and Herzegovina and Kosovo) the unemployment rate averages 40%. Croatia also stands out in terms of GDP per head, with Serbia and Montenegro very much lagging behind.

Generally there are striking differences between the member states of the European Union (Greece, Slovenia) on the one hand, and the remaining countries of the region on the other, above all in terms of GDP per head and infant mortality, where they are often recorded at a 1:4 ratio and even higher. This is also reflected in the significantly different positions occupied by the countries of the region in the global ranking (of 177 countries) based on the UN's composite Human Development Index (HDI) (Table 5.1).

An interesting picture of the differences at the regional level (NUTS level 2), among the countries for which reliable data is available, is illustrated in Map 5.2.<sup>9</sup> Obviously there is an important difference between most regions of Greece (and of, to some extent also, Slovenia and Croatia) and the regions of the other Balkan countries which enjoy a relatively high per capita GDP (around 60% of the EU-25 average) in the vicinity of their capital cities only.

The preceding data point to the difficulties which these countries will probably encounter in their endeavour to converge with the European Union, and all the more so if the experience of Greece and the other cohesion countries are taken into account. The EU funding, mainly through the three successive Community Support Frameworks along with significant national resources, did indeed considerably improve the country's performance, but over the relatively long period of around twenty-five years.<sup>10</sup> It should, of course, be borne in mind that the relative situation of Greece at the time of joining the EU (1981) was considerably more favourable than the situation of the Balkan countries in this respect today (Table 5.2).

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9 As concerns the remaining countries of the region, despite the absence of detailed data, indications based on the figures for each country in Table 5.1 suggest that the differences are even more dramatic (for example, see per capita GDP for Kosovo), the relevant figures falling well short of 10% of the average EU-25 GDP per capita (in PPS).

10 The experience of Spain and Portugal is similar, while significant difficulties were encountered with regard to the convergence of the former Eastern Germany regions.

**Table 5.1 Main socioeconomic data and indicators for the Balkan countries (2003) <sup>(a)</sup>**

|                       |                     | <div></div>                      |                         |                        |                |                                   |                    |         |                       |                                |   |   |                                  |      |   |                              |       |                                       |                |                                    |      |
|-----------------------|---------------------|----------------------------------|-------------------------|------------------------|----------------|-----------------------------------|--------------------|---------|-----------------------|--------------------------------|---|---|----------------------------------|------|---|------------------------------|-------|---------------------------------------|----------------|------------------------------------|------|
|                       |                     | (1)                              | (2)                     | (3)                    | (4)            | (5)                               | (6)                | (7)     | (8)                   | (9)                            | (10)  | (11)                                    |                                  | (12) | (13)-(14)                                     |                              | (15)  | (16)                                  | (17)           |                                    |      |
|                       |                     | Country                          | Area (Km <sup>2</sup> ) | Population (thousands) | Population (%) | Density (inhab./Km <sup>2</sup> ) | GDP (tallion EURO) | GDP (%) | GDP per capita (EURO) | GDP per capita (PPS EU-25=100) | GDP per capita (\$ PPP US, estim.) <sup>(a)</sup> | GDP per capita EU-25=100 <sup>(b)</sup> | Life expectancy at birth (years) |      | Infant mortality rate (per 1,000 live births) | Human Development Index 2004 |       | Productivity per employed (EU-25=100) | Unemployment % | Hi-Tech exports % of total exports |      |
| EU integration status | Members             | Greece                           | 131,940                 | 11,006                 | 16.5           | 84                                | 154                | 49.9    | 14,000                | 80.5                           | 22,800  | 81.1                                    | 77                               | 82   | 4   | 24                           | 0.912 | 100.5                                 | 9.7            | 7.4                                |      |
|                       |                     | Slovenia                         | 20,273                  | 1,995                  | 3.0            | 99                                | 25                 | 8.1     | 12,500                | 76.1                           | 20,900  | 74.4                                    | 73                               | 81   | 4   | 26                           | 0.904 | 72.5                                  | 6.5            | 5.8                                |      |
|                       | Acceding            | Bulgaria                         | 110,910                 | 7,847                  | 11.8           | 70                                | 18                 | 5.7     | 2,258                 | 29.8                           | 9,000   | 32.0                                    | 69                               | 76   | 12  | 55                           | 0.808 | 32.0                                  | 13.6           | 2.9                                |      |
|                       |                     | Romania                          | 237,500                 | 21,773                 | 32.7           | 91                                | 51                 | 16.5    | 2,332                 | 28.9                           | 8,300   | 29.5                                    | 68                               | 76   | 17  | 64                           | 0.792 | 32.9                                  | 7.0            | 3.3                                |      |
|                       | Candidate           | Croatia                          | 56,542                  | 4,442                  | 6.7            | 79                                | 25                 | 8.2     | 5,700                 | :                              | 11,600  | 41.3                                    | 72                               | 79   | 6   | 45                           | 0.841 | 56.3                                  | 14.4           | :                                  |      |
|                       |                     | FYROM <sup>(c)</sup>             | 2,5333                  | 2,024                  | 3.0            | 79                                | 4                  | 1.3     | 2,025                 | :                              | 7,400   | 26.3                                    | 69                               | 76   | 13  | 59                           | 0.797 | :                                     | :              | :                                  |      |
|                       | Potential candidate | Albania                          | 28,748                  | 3,126                  | 4.7            | 108                               | 5                  | 1.6     | 1,588                 | :                              | 4,900   | 17.4                                    | 69                               | 74   | 16  | 72                           | 0.780 | :                                     | 15.0           | :                                  |      |
|                       |                     | Bosnia and Herzegovina           | 51,129                  | 3,830                  | 5.8            | 74                                | 6                  | 2.0     | 1,642                 | :                              | 6,800   | 24.2                                    | 70                               | 77   | 13  | 68                           | 0.786 | :                                     | 41.1 (2002)    | :                                  |      |
|                       |                     | Serbia-Montenegro <sup>(d)</sup> | 102,350                 | 8,097                  | 12.2           | 89                                | 18                 | 5.9     | 2,239                 | :                              | 4,300   | 15.3                                    | 70                               | 75   | 13  | :                            | :     | :                                     | 15.2           | :                                  |      |
|                       |                     | Kosovo <sup>(e)</sup>            | :                       | 2,429                  | 3.6            | 223                               | 2                  | 0.7     | 930                   | :                              | :   | :                                       | :                                | :    | :   | :                            | :     | :                                     | 49.7           | :                                  |      |
|                       |                     | Balkan countries (total)         | 764,725                 | 66,569                 | 100            | 87                                | 309                | 100     | 4,642                 | :                              | :   | :                                       | :                                | :    | :   | :                            | :     | :                                     | :              | :                                  | :    |
|                       |                     | European Union (25 countries)    | 3,976,372               | 455,023                | -              | 118                               | 9,874              | -       | 21,700                | 100                            | 28,100  | 100                                     | :                                | :    | :   | :                            | :     | :                                     | 100            | 9.0                                | 18.4 |

(a) All the data contained in the table are for the year 2003, except that of the columns 9, 10, 13 and 14 (2005) and columns 11 and 12 (2004).

(b) Source for the data is CIA 2006 (World Factbook), estimations for the 2005. The currency is PPP (Purchasing Power Parity) \$ US. The data should be considered and treated as indicative. They are used for comparative reasons only due to the lack of comparative data from any other source for all the countries of the area. The official GDP data (in PPS) from Eurostat (columns 5-8) exist only for EU member-states and acceding countries. The data of column (10) are based on the data of column (9) (own calculations).

(c) The Former Yugoslav Republic of Macedonia

(d) Serbia and Montenegro are from June 3<sup>rd</sup> 2006 on two independent states. Data for these two countries are not yet available (September 2006).

(e) Under the UN Security Council Resolution 1244/1999. The data for Serbia-Montenegro include Kosovo except that of the columns 2 to 7.

(-) No data

(-) Not applicable

Sources: Eurostat 2006 (columns 1–4, 7, 8, 15, 16, 17), CIA 2006 (column 9), WHO 2006 (columns 11 and 12), UNDP 2005 (columns 13 and 14), and own calculations (columns 3, 5, 6, 10 and all the data of the row ‘Balkan countries total’).

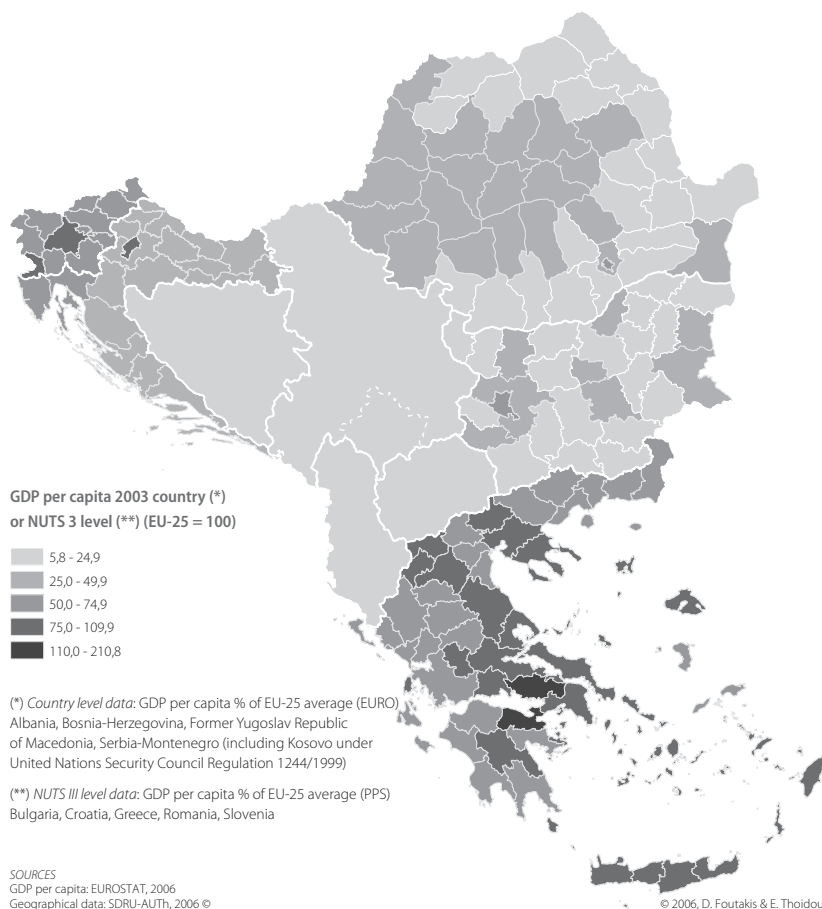
**Table 5.2 Convergence of cohesion countries to EU average, 1981–2005(\*)**

| <i>GDP per capita in Purchasing Power Standard, EU-15=100</i> |      |      |      |      |      |      |         |
|---|------|------|------|------|------|------|---------|
|   | 1981 | 1986 | 1991 | 1996 | 1999 | 2002 | 2005(f) |
| Ireland   | 60   | 62   | 77   | 97   | 111  | 121  | 128     |
| Greece  | 62   | 60   | 60   | 68   | 65   | 71   | 77      |
| Portugal  | 57   | 56   | 63   | 70   | 70   | 70   | 66      |
| Spain   | 70   | 71   | 80   | 79   | 84   | 86   | 91      |

(\*) GDP per capita for the years 1981 to 1996 are based on ESA-79 Eurostat system of national accounts. Years 1999 to 2005 are based on ESA-95.

(f) forecast

Source: Eurostat 2003 and 2006, own calculations.



### Map 5.2 Regional disparities in South Eastern Europe (2003)

Source: GDP per capita: EUROSTAT 2006, Geographical data provided by SDRU-AUTH.

Yet, for all the evident difficulties, certain prerequisites are present today that did not exist in previous periods. The most important is that the Balkans, perhaps for the first time in their history, are able to look forward to the prospect of their development in the setting of the European Union. From this standpoint, they possess certain advantages such as a sizeable market (around 67 million inhabitants) which, despite the current low level of purchasing power of its population, may well have substantial development potential. The quite well-trained workforce and the relatively homogeneous cultural tradition are also an asset, despite the existing – in certain cases – historical divisions, which could nevertheless be smoothed away by prospects of common development.

Perhaps the most significant issue in the face of these prospects is the need to carry out the necessary economic restructuring and to create the preconditions required so that the countries of the region might avoid falling into the trap of being transformed, within the framework of the international division of labour, into low labour-cost countries. To this end, they must strike a balance between investment in the necessary basic infrastructure to counteract the deficiencies and support the spatial integration of a naturally fragmented territory, and investment in intangible ‘assets’ (such as education, research, etc.) that can open up perspectives towards knowledge economy without compromising the social cohesion and the environment.

The setting out of appropriate objectives and strategies and the implementation of coherent development programmes constitutes a crucial step in this process. In the framework of the European Union cohesion policy, development programmes have been in progress for three successive programming periods (and the fourth is already at the planning stage) with a view to supporting the convergence process of the less developed regions. It is anticipated that in the near future all the countries of the region will benefit from corresponding programmes, in the first instance those countries already involved in the accession process.

The case of Central Macedonia, which is presented in the next section, provides some empirical evidence which suggests that it is not always easy to allocate resources to the high-priority objectives in the context of the Lisbon strategy (e.g. human capital, technology development, innovation, entrepreneurship etc.).

## **Regional Policy in Central Macedonia: Orientation and Dilemmas**

### *The structure and the key characteristics of the region of Central Macedonia*

The region of Central Macedonia (rCM) is, from an economic perspective the most important region of Greece after Attica (where the capital city of the country is situated). It currently contains some 20% of the total population of the country and accounts for a similar percentage of the country’s GDP (Table 5.3). In the Balkans context, the population of the rCM is roughly equivalent to that of Slovenia and Croatia while its total GDP is five times as high as that of Albania, six times as high as of the FYROM and around half the GDP of Romania.

**Table 5.3 Central Macedonia and Greece: main data**

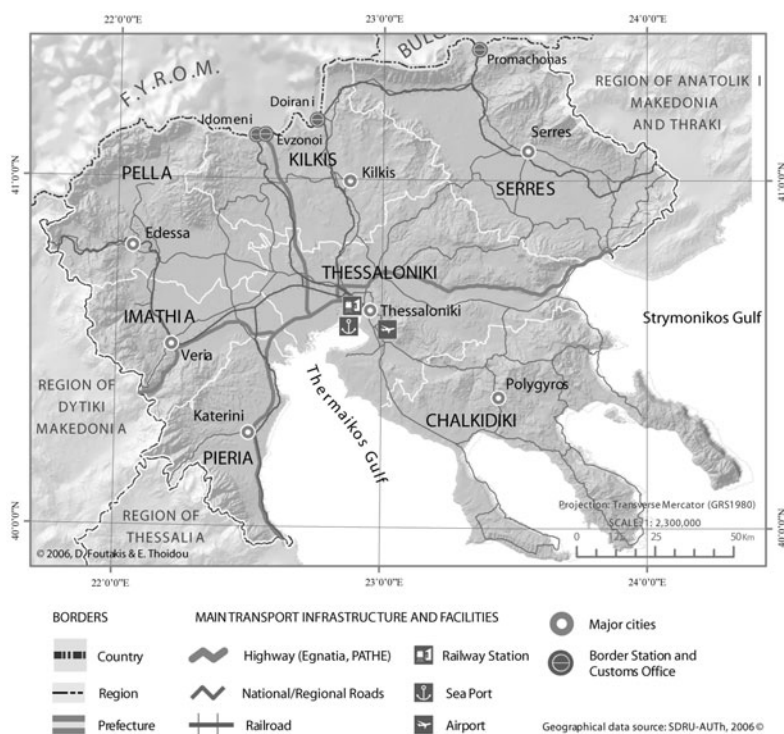
|                                 | <b>Greece</b> | <b>Central Macedonia</b> | <b>CM % of Greece</b> |
|---------------------------------|---------------|--------------------------|-----------------------|
| Area (km <sup>2</sup> )         | 13,195,743    | 1,914,616                | 14.5                  |
| Population 2001                 | 10,939,771    | 1,862,833                | 17.0                  |
| Population change 1991–2001 (%) | 6.9           | 9.6                      |                       |
| Active population               | 4,615,470     | 788,673                  | 17.1                  |
| Active population (% total)     | 42.2          | 42.3                     |                       |
| Employment 2002 (thousands)     | 3,924.8       | 659                      | 16.8                  |
| Employment structure 2002 (%)   |               |                          |                       |
| Primary Sector                  | 16.2          | 16.9                     | 17.6                  |
| Secondary Sector                | 23.8          | 26.5                     | 18.7                  |
| Tertiary Sector                 | 60.0          | 56.6                     | 15.8                  |
| Unemployment 2004 (%)           | 10.5          | 12.2                     |                       |
| GDP 2002 (millions EURO)        | 141.668,7     | 24.861,7                 | 17.6                  |
| Gross Value Added (%) 2002      |               |                          |                       |
| Primary Sector                  | 7.1           | 7.4                      | 18.4                  |
| Secondary Sector                | 22.3          | 21.9                     | 17.2                  |
| Tertiary Sector                 | 70.6          | 70.7                     | 17.6                  |

*Sources:* NSSG 2006, EUROSTAT 2006, own calculations.

Central Macedonia is one of the thirteen administrative regions of Greece and is divided into seven prefectures.<sup>11</sup> It plays an essential role in the development of the relations which Greece entertains with the other Balkan countries, both because of its geographical position and the development potential of the Thessaloniki metropolitan area (which is the second largest conurbation in Greece after Athens) and because of its relatively high economic performance in virtually all sectors. The region of Central Macedonia continues to occupy a prominent position within the Greek regional system, as a significant pole for the wider Balkan region, a gateway of the European Union on its South Eastern periphery and a hub for the main axes of the transport, energy and telecommunications networks at the national and international level.

The region of Central Macedonia shares borders with two neighbouring Balkan countries (Bulgaria and the FYROM). This, taken together with the internationally important airport and harbour located in the city of Thessaloniki makes it one of the country's most important gateways (Map 5.3). The region's infrastructure endowment is adequate, particularly following the investments of the last decade and especially insofar as intra-regional road connections are concerned. An up-to-date network of motorways connects it, as does the railway network, to neighbouring regions and countries. There is however a problem of intermodality and interoperability of the transport networks and nodes as well as problems with urban transport

11 The region of Central Macedonia comprises the prefectures of Imathia, Thessaloniki, Kilkis, Pella, Pieria, Serres and Chalkidiki (Map 5.3).



**Map 5.3 Region of Central Macedonia (Kentriki Makedonia): main features**

Source: Geographical data provided by SDRU-AUTH.

infrastructures, notably in the Thessaloniki metropolitan area. The region possesses a sufficient system for the distribution of electricity as well as modern landline and mobile telephony networks, although deficiencies are identified in the provision of broadband networks.

The region's productive system could be described as dynamic, with a performance above the average performance of the country. In addition, the region has managed to converge towards the EU average at a slightly higher rate than that of Greece (Table 5.4). This has led to an improvement of its relative position, but it has been accompanied by geographical restructuring within the region, and a growing intraregional polarization between the metropolitan area of Thessaloniki and the region's other prefectures (Table 5.5). This is primarily the result of the restructuring of the productive system, characterized by a decline of the primary sector, a significant growth of the tertiary sector and a relative shrinkage of the secondary.

It should also be noted that in the secondary sector traditional branches and productive structures coexist with very small productive units. The relatively high (by comparison with the European average) share of employment in the primary sector, in conjunction with ongoing restructuring has led to high levels of unemployment

(more than 10%) over the last decade.<sup>12</sup> However, an increasing number of economic immigrants are at the same time offered work in the region, particularly since the beginning of the 1990s. Most of them come from the neighbouring Balkan countries (above all Albania but also Bulgaria and Romania) and various countries of the former Soviet Union (Georgia, Russia, Armenia and the Ukraine).<sup>13</sup>

From the perspective of technology development and innovation, the region is relatively well endowed given that the educational level of the population roughly corresponds to the national average and that the workforce includes a relatively high proportion of people with tertiary level education.<sup>14</sup> At the same time, the existing niches of tertiary education, research and specialized business services introduce dynamism into the system, notwithstanding the fact that collaboration between business enterprises and the region's education and research institutions<sup>15</sup> remains somewhat weak (Komninos 1998, 78–9, 83–5).

**Table 5.4 Convergence of Greece and Central Macedonia to EU average, 1995–2002**

| <i>GDP per capita in Purchasing Power Standard, EU-25=100</i> |               |                          |
|---|---------------|--------------------------|
| <b>Year</b>   | <b>Greece</b> | <b>Central Macedonia</b> |
| 1995  | 72.1          | 70.1                     |
| 1996  | 71.5          | 73.4                     |
| 1997  | 72.2          | 74.8                     |
| 1998  | 71.8          | 73.5                     |
| 1999  | 71.8          | 73.3                     |
| 2000  | 72.4          | 73.8                     |
| 2001  | 73.5          | 74.7                     |
| 2002  | 77.6          | 78.9                     |

*Source:* EUROSTAT 2006.

12 Since 1995 unemployment rate averages 10% in the region. In 2004 around 100,000 people were unemployed (12.2% of the workforce, Table 5.3).

13 The 2001 census registered 121,000 foreign immigrants in the region of Central Macedonia, 44% of whom came from Albania. Most of the region's immigrants (66%) were living in the prefecture of Thessaloniki accounting for around 7% of the total population or 16% of the workforce.

14 In Central Macedonia 15.4% of the population has a post-secondary (non-tertiary) level of educational attainment and 12.3% has a tertiary-level of educational attainment (the same is true for Greece as a whole) (NSSG 2006). The proportion of workforce aged 25–64 with a tertiary level qualification is 19%, which is higher than the national average (17.1%) but lower than the EU-15 average (21.2%) (Eurostat 2006).

15 Four tertiary educational and research institutions are sited in the region, namely the Aristotle University of Thessaloniki, the University of Macedonia, the Technological Educational Institute (TEI) of Thessaloniki and the TEI of Serres. Moreover a number of research institutes are located in the Thessaloniki Technology Park (Komninos 1998, 73–5).

**Table 5.5 Regional GDP by prefecture in Central Macedonia (%)**

| Prefecture               | 1995       | 1998       | 2002       |
|--------------------------|------------|------------|------------|
| Imathia                  | 8          | 7          | 6          |
| Thessaloniki             | 63         | 65         | 67         |
| Kilkis                   | 4          | 4          | 4          |
| Pella                    | 7          | 6          | 6          |
| Pieria                   | 5          | 5          | 5          |
| Serres                   | 8          | 7          | 7          |
| Chalkidiki               | 5          | 6          | 6          |
| <i>Central Macedonia</i> | <i>100</i> | <i>100</i> | <i>100</i> |

*Source:* EUROSTAT 2006, own calculations.

This summary presentation of a number of key characteristics of the region suggests that Central Macedonia is in the throes of a structural adjustment, with consequences not only for employment but also for intraregional disparities. The main source of pressure on the productive system originates in the broader restructuring that is occurring both globally and within the European Union. The wind of reformation that has taken place over the last fifteen years in the Balkans has also made a contribution by increasing the pressures on certain labour-intensive branches of production in the region and also by creating opportunities for the collaboration and expansion of a number of different productive sectors of the region.

With regard to development planning, it is interesting to examine how the above procedures are perceived and how the interventions are carried out. For this purpose, we now turn to development planning in Greece during the 1990s with an emphasis on Central Macedonia. Particular reference is made to the region's development priorities both at the planning stage and during implementation, and to the emerging prospects for the next planning period.

*The planning experience: The form and characteristics of development plans*

The implementation of the European Union's regional structural policy after 1989 established the characteristics of regional policy in Greece. Since then it has moved away from the older practice of indicative planning and has adopted specific procedures including binding plans with a firm financial framework implemented through horizontal (sectoral) and regional Operational Programmes with EU co-funding (Community Support Frameworks).

Following the experience of the first two programming periods (1989–93 and 1994–99), and with the third period (2000–06) soon coming to an end, both the Greek and the European regional policies face the challenges of the upcoming 2007–13 period. At the European level, two basic parameters in these developments are the enlargement of the Union on the one hand, and the endeavour to link cohesion policy with the Lisbon strategy on the other.

Regional policy in Greece is directly influenced by enlargement, given that certain Greek regions will be affected by the 'statistical effect'. This will result in

a differentiation in the eligibility criteria under the cohesion policy objectives and, consequently, in the establishing of policy priorities among regions. This calls for the introduction of a regional policy specialized by region according to the new European Union cohesion policy objectives (Convergence, Regional Competitiveness and Employment, and European Territorial Cooperation). It should be noted that, up to now, Greece as a whole is eligible under Objective 1 (development of the least favoured regions). Substantial consequences are also to be expected from the pending accession of two neighbouring Balkan countries (Bulgaria and Romania) as this will lead to a transformation of the spatio-economic conditions in SE Europe. For example, for the first time Greece will share borders with another EU member-state while, from the perspective of the EU, there will be a contiguous territory in SE Europe.

Given that preparations for the fourth, 2007–13, programming period have now commenced, reflection on past experience of regional planning and the examination of new challenges might contribute to establishing policy priorities for each region. The experience and the prospects of regional policy in the region of Central Macedonia will be explored through questions on: (a) transformation of regional policy – in the framework of the EU structural policy – over the successive programming periods after 1989 and (b) prospects for regional development planning in view of the next programming period. To be more specific, the review is focused on both the form and the priorities of the development programmes, namely Community Support Frameworks (CSFs) and Regional Operational Programmes (ROPs).

Since 1989, the country's Five-Year Economic and Social Development Programmes have been replaced, and indeed in a way that has been deemed effective, by the procedures associated with the preparation and drafting of CSFs (EC 1997a, 76). The preceding 1980s decade had been transitional, given that in the course of these ten years new forms of intervention were introduced, enriching the institutional framework of regional planning.

For the country as a whole the 1989–93 programming period is marked by the effort to utilize the structural policy of the European Union and adjust to the provisions set out by the Structural Funds Regulations. The selected priority axes aimed either at tackling problems or at exploiting potentials in various domains of public intervention. New features of the programmes could be primarily identified, on the one hand, through their form and structure (i.e. medium-term programmes with a binding funding framework, structured by sub-programmes, measures, projects and actions) and through planning procedures (i.e. the EU partnership framework), on the other. Moreover a new feature of the programmes was the highlighting of regional dimensions (CEC 1990, 21–22).<sup>16</sup>

Over the programming period 1994 to 1999, the new structure and the new procedures for planning, monitoring and evaluating development programmes were established both at the national and at the regional level. The effort made to adapt to the framework of the European Union structural policy was evident not only in

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16 The spatial dimension is supported through the regional section of the CSF (i.e. the ROPs for the 13 regions), which, in the planning phase, accounted for 40.9% and, during implementation, 50.3% of the total CSF Objective 1 budget (CEC 1994a, 13).

the form of the CSF but also in the fact that its priorities were being structured around the three main areas of intervention of the Structural Funds (CEC 1994a, 25). Priority was given to the promotion of economic development in view of the country's entry into the European Monetary Union (Ministry of Economy and Finance 2005, 5). During this period more emphasis was placed on major projects of a national character towards which available funds were concentrated. This pursuit of the effectiveness of public intervention and of the maximum absorption of funds did not give specific importance to regional and local particularities. As a consequence the spatial dimensions of development programmes had receded in importance in terms of both financing and geographical specificity.<sup>17</sup>

In the current 2000–06 period great emphasis is being placed on administrative and organizational support for the implementation of the Community Support Framework. From the outset, the existence of a central objective linked to prevailing conceptions of productivity and employment was declared: 'The 2000–06 CSF aims to contribute to Greece's further integration in the EU and in the knowledge-based world economy by promoting structural change, higher productivity and employment' (Ministry of Economy and Finance 2004, 6, 23). It is anticipated that the implementation of CSF will create the prerequisites for further development and real convergence. During this period the spatial dimensions of development programmes are continuing to recede. According to the initial programming, the regional dimension (i.e. the Regional Operational Programmes for the country's thirteen regions) accounts for 28.7% of CSF resources as compared to 31.6% for the preceding programming period. Despite their specialization by region, the ROPs share several common features. The support for local government and local development initiatives that got under way in the first programming period and was maintained in the second, takes the form of integrated interventions in urban and rural areas (*ibid.*, 109–10, 97–9). This means placing more weight on the problematic characteristics of the regions and less on the integrated, dynamic character of endogenous local development.

Examining specifically the Regional Operational Programmes (ROPs) for Central Macedonia it is evident that the ROP of the period 1989–93 was transitional in character. Original features are to be found mainly in its structure which, as with the CSF, is adapted to the specifications of the European Union regional policy (sub-programmes, measures, projects/actions). At the same time it retains features of the Mediterranean Integrated Programmes (1986–92), of the geographical analysis in particular, as well as features of the Five-Year Economic and Social Development Programmes, such as the setting out of sectoral objectives. The development strategy applied in the region from 1989 to 1993 was lacking a specific orientation, while the priority axes were sectoral, grouping together actions on the basis of the European Structural Fund from which they were financed. An exception was the integrated local development programmes implemented in each prefecture of the region.

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17 More specifically the regional section constituted 31.6% of the total CSF Objective 1 budget (CEC 1994a, 122–5). Its content was homogenized, with a number of identical 'sub-programmes' common to all the ROPs. With a view to the 'prompt utilization of the resources' and 'on the basis of past experience' there was an attempt to focus on large-scale projects that could promote the development of the region in question (CEC 1994a, 66–7).

During the 1994 to 1999 programming period, the original features of the ROP for Central Macedonia expanded from form and structure to content, as planning was organized around a particular development vision for the region. This was based on a growth pole strategy aiming to boost the development of both a geographical centre of the region (Thessaloniki) and a main sector of the regional economy (industry). A third objective (counterbalance intra-regional disparities) was adopted aiming to offset the negative impact of that model. For the first time the Thessaloniki metropolitan area was approached exclusively as a basic geographical and developmental asset for the region, with emphasis being placed on strengthening its metropolitan role in the Balkans. This prospect is part of a wider political reorientation of the perception of the role of Greece in the Balkans that started during the 1990s, following the change in the geopolitical conditions.

In accordance with the framework set out by the CSF, the 2000–06 ROP for Central Macedonia continues to some extent to homogenize the interventions at the regional level and, at the same time, places particular emphasis on the managing procedures. Regarding its content, the objectives of the third period follow the same lines as those of the preceding period. Among the three strategic objectives, the one that has to do with ‘the exploitation of the key position of Thessaloniki in the Balkans, the European Union, the Black Sea region and the eastern Mediterranean; also exploitation of the special circumstances created by new technological, political, economic and social developments in the region’ (RCM 2005, 2) may be considered of key importance. Thus the programme seems to pursue the vision of the preceding period, re-formulated and adapted to the new facts on the ground. This formulation seeks to widen the one-sided Balkan orientation of the metropolitan centre that prevailed in the preceding period and to follow the country’s orientation towards the knowledge economy, as posited in the CSF.

A discussion of development planning entails comparisons between the priorities of development programmes. However, is not possible to make direct comparisons between programming periods or between regions. What is possible is to group together the interventions foreseen within the framework of each regional development programme on the basis of the main areas (categories) of intervention of the Structural Funds (namely Infrastructure, Human Resources, and Productive Environment). This makes it possible for the priorities to be homogenized both in chronological and spatial terms.<sup>18</sup> Concentration of expenditure on these major policy areas is indicative of the priorities of the corresponding programmes. For the country as a whole, there have been some changes in the distribution of funds among the three intervention categories that resulted in a progressive shift of the CSF’s priorities towards Infrastructure. For the region of Central Macedonia, in the course of the three successive programming periods, more than half of the funding foreseen in the context of the successive ROPs is concentrated on Infrastructure. At the same time, the level of interventions foreseen for the region in the domain

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18 The interventions by the Structural Funds in the Objective 1 regions are also separated into these categories (EC 1997b, 92; EC 2001, 126). According to a relevant study (Cambridge Econometrics et al. 2003, 2–32), these categories also group together the factors that determine regional competitiveness.

of Productive Environment almost doubles, while interventions in the domain of Human Resources are experiencing considerable decrease.

**Table 5.6 Indicative breakdown of Structural Funds by intervention category (%)**

|                                      | Greece |      |      | European Union<br>(Objective 1 regions) |      |      | Region of<br>Central<br>Macedonia |      |      |
|--------------------------------------|--------|------|------|---|------|------|-----------------------------------|------|------|
| Intervention Category <sup>(a)</sup> | C      |      |      | C                                       |      |      | C                                 |      |      |
| Infrastructure                       | 40.9   | 45.9 | 56.5 | 35.2                                    | 29.5 | 41.3 | 55.7                              | 51.4 | 52.9 |
| Human Resources                      | 25.6   | 24.6 | 19.0 | 29.6                                    | 29.8 | 23.1 | 26.0                              | 16.2 | 13.9 |
| Productive Environment               | 34.7   | 27.8 | 21.9 | 33.6                                    | 37.1 | 33.8 | 17.4                              | 27.5 | 32.3 |

: 1989-1993, : 1994-1999, C: 2000-2006

(a) The sum total of interventions also includes the category 'Other'

Sources: CEC 1994b, C 1997b, EC 2004, RCM 1990, RCM 2001 (own calculations).

Combining the options for Central Macedonia, as expressed on the one hand by the priority axes set out by the successive ROPs and, on the other, by the concentration of the interventions foreseen in the main policy areas, some findings emerge that are presented in the following section.

### *Cohesion policy after 2007 and the prospects for regional policy in Greece*

With the conclusion of the current period of the Structural Funds programmes, which is the third following the reform of the Structural Funds in 1988, the priorities of the new generation of *cohesion policy* programmes are still under discussion. In any case the enlargement of the Union is one of the key events that will determine the future shape of cohesion policy. At the same time cohesion policy is considered to make an important contribution to the achievement of the Lisbon and Gothenburg strategies' objectives (European Council 2000 and 2001).<sup>19</sup> It is argued that, on the

19 For the course of the European Union as a whole, the Lisbon Council of 2000 had already set out a strategy that aimed to make the Union, 'the most successful and competitive knowledge based economy in the world by 2010' while at the Council of Gothenburg (2001) the Lisbon strategy was extended and given 'a new emphasis on protecting the environment and achieving a more sustainable pattern of development' (CEC 2004, 2-3). However economic growth in the Union slowed down after 2001 with a resultant increase in unemployment in many of its parts and related social implications. Moreover the Union faces challenges stemming from the European and the global context. So that the Lisbon and Gothenburg objectives might be supported by all possible means, during preparation for the fourth programming period, linkage to cohesion policy was promoted (ibid.).

one hand it must be seen as an integral part of these strategies, while on the other it needs to incorporate their objectives. Hence, it is stated that cohesion policy must be mobilized to achieve these objectives (CEC 2004, 3).

To equate the priorities of cohesion policy with those of the Lisbon strategy is not without its problems. As is confirmed by analysis of the 2000–06 Structural Funds programmes, overlapping between the objectives of cohesion policy and of the Lisbon strategy ‘is greater in regions undergoing conversion than in regions whose development is lagging behind’. In the former, 80% of the actions would coincide with the priorities of the Lisbon strategy, while in the latter, this is true of 30% in cohesion countries and 60% outside (European Parliament 2005, 7). It is argued that the Commission’s proposal for a major restructuring of cohesion policy ‘in terms of goals and expertise acquired on territorial, social and economic development, ... is abandoning a number of instruments which have helped establish Community added value, such as the integration of funds, Community Initiative Programmes and the mobilization of private funds’ (European Parliament 2005, 39). The cutting short of the debate is also stressed for certain policies transferred into other budget headings such as rural development. This orientation is based upon the argument that Europe is not just a free trade zone and that cohesion policy is not confined to redistribution of funds but constitutes a political, social, and economic project, ‘geared to the needs of a development model in which solidarity and cooperation play an active role’ (ibid., iii–iv). Dunford, questioning in a similar way the view that ‘the Anglo-American economies have outperformed Europe’, maintains that a basic role must be played by social and territorial distribution and cohesion policy, these being significant components of the European social model (Dunford 2004, 10–11).

The linking of findings from the experience of regional development planning in Greece with findings at the European level suggests that, as concerns policy priorities, the increased concentration of expenditure on Infrastructure along with the relatively low share of expenditure on Human Resources and Productive Environment, constitute a policy pattern that has up to now characterized regional policy in Greece, and that is relatively different from that for Objective 1 European regions (Table 5.6). This differentiation is now of particular importance insofar as cohesion policy has become more closely linked to the Lisbon strategy, with an increasing emphasis on competitiveness. Factors regarded as particularly determining for competitiveness, such as research and technology development, production and implementation of innovation, human capital development, are considered to be in the core of this strategy. Given that, in Greece, the preparation of the next generation programmes has already been started, there is a need for a revision of the priorities among the policy areas with a view to promoting competitiveness of regional productive systems.

On the other hand, the spatial dimension of development programmes in Greece has been steadily on the decrease in the course of the last ten years, while at the same time sectoral approaches of a horizontal dimension have been gaining ground in development planning. This process could be legitimated in part by the fact that in the context of the EU structural policy all the Greek regions and thus the country as a whole constitute a single Objective 1 region. Nevertheless, for the next programming period, Greek regions will not all come under the Convergence Objective (the

former Objective 1) experiencing improvement in their relative positioning on the European scale, according to the GDP per capita that in part is the ‘statistical effect’ of enlargement (‘phasing-out’ and ‘phasing-in’ regions). This will probably affect the uniform mode according to which the regional programmes are planned in Greece since 1989. It also highlights the fact that, despite the overall improvement, inter-regional imbalances still exist.

The above highlights some challenges facing future regional policy in Greece. First, it can be argued that it should be carried out on the basis of national specifications, in parallel to, and in synergy with, the corresponding European cohesion policy, to the extent, that a ‘re-nationalization’ in the implementation of certain Community policies seems to be on the cards (European Parliament 2005, iii, 11–2). Second, the new framework of development planning along with the intensified competition at the national and international level, are driving regional and national planning authorities towards more specialized regional development strategies.

In the following – fourth – section of the chapter, there is a presentation of the key results of a regional foresight for Central Macedonia up to 2018. This investigation provides the framework on the basis of which regional development strategies could be targeted and evaluated.

## Prospects for the Region of Central Macedonia and the Balkan Context<sup>20</sup>

### *Framework and methodology of the regional foresight*

The endeavour to forecast (or assess) the basic developments and the positioning of a regional economy on a medium-term time scale in today’s complex system of economic relations is a key element in every coherent planning and policy-making process. But the elaboration of a development strategy for the region, built on technology development and innovation is *de facto* quite a difficult matter, with many uncertainties, arising from the very nature of technological change. At the same time, it is necessary for policy planners to have at least a medium-term frame of reference for the orientation and establishment of development objectives and priorities, despite the high degree of uncertainty involved.

Regional Foresight<sup>21</sup> is a process that aims at medium (and long-) term forecasting or assessing of the future political, socio-economic and technological developments

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20 The section draws on findings of the previous research *The SE European economic space*, conducted by the Spatial Development Research Unit at the Aristotle University of Thessaloniki in 2004 (coordinator G. Kafkalas, research team: P. Angelidis, D. Kairidis, N. Koutsoupas, L. Labrianidis, S. Tsiakiris, D. Foutakis). For details, see Kafkalas and Foutakis 2004. The research was part of a broader research project *Technology foresight in Central Macedonia: Central Macedonia towards 2018* (coordinator I. Tsoukalas), conducted by the Research Committee of the AUTH (Maroulis and Tolias 2004).

21 The term ‘foresight’, which was first used in the 1980s, should not be understood as equivalent to forecast, prediction or prognosis. It is based on the assumption that there is not one single future but rather many different possible futures from which only one is realized. The latter depends on ‘actions or non-actions in the present’. In this sense foresight

and of the positioning of a region in a nodal position changing international (and national) environment and, furthermore, at highlighting policy priorities (Cariola and Rolfo 2004; Gertler and Wolfe 2004; Grupp and Linstone 1999).

Among the Greek regions, Central Macedonia represents an interesting case of a region in a nodal position in South Eastern Europe. It combines central with peripheral, and metropolitan with regional features. An analysis of the region's development prospects must take into account these different dimensions in the light of its development potential towards knowledge economy. Therefore, a central hypothesis in the following investigation is that the elaboration of a regional strategy for Research and Technological Development and Innovation is an indispensable factor for the ability of the region both to confront challenges and to exploit opportunities.

The aim in the regional foresight exercise for Central Macedonia – the key conclusions of which are presented below – was to outline, for a fifteen-year time frame (up to 2018), future socio-economic developments and the region's positioning in South Eastern Europe as well as to identify policy priorities and fields of public intervention in the region. Two methodological tools were used for this purpose: the Delphi method and the SWOT analysis.

The Delphi method<sup>22</sup> is considered suitable as a decision-making tool when dealing with particularly complex issues. It has been used in a range of scientific fields with specific application in technology, in medicine, in urban planning, and in regional and national development planning.<sup>23</sup> It pertains to the wider category of methods that use groups of experts for generating new ideas and policies (similar to the methods of 'brainstorming' or 'workgroups') (De Loe 1995, 56).

The SWOT analysis is a method, which has its origins in business management, helping with organizing and highlighting basic behavioural issues about the positioning of a subject in relation to its environment. It has to do primarily with future situations and developments. It organizes the features and the qualities of the subjects *vis à vis* four situations emerging through interaction between internal and external environment: (a) Strengths, (b) Weaknesses, (c) Opportunities, and (d) Threats. The first and the second ones have to do with the internal environment while the rest with the external environment of the subject. SWOT may be implemented in a variety of instances, from the analysis of a personality and the behaviour of an individual, to the analysis of the development prospects of an enterprise, a business sector, a region or a country.

The SWOT analysis is actually based on the conclusions of studies performed in previous stages in the context of a number of selected issues. Its power thus depends on the credibility and coherence of the answers given in the preceding stages, as well as, on their basis, on the way in which the SWOT table is compiled. To the extent to which the table is constructed adequately, it is able to highlight policies and strategic movements or future dangers, through suitable restructuring. In the latter instance

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is a process 'to select a desirable future and to facilitate its realization' (Grupp and Linstone 1999, 86).

22 The method was developed in the early 1950s by the RAND organization in the framework of a United States Air Force research programme (Dalkey 1969; Dalkey et al. 1969).

23 Such applications have been known since the 1970s (Linstone and Turrof 1975).

the initial SWOT table should be transformed into a double-entry TOWS matrix (Dyson 2004, 632–3; Kafkalas and Foutakis 2004, 434–5).

To facilitate the SWOT analysis, the basic issues concerning the situation in the region are organized into five wide thematic categories henceforth identified through the acronym STEEP, corresponding to: Society, Technology, Economy, Environment, and Policy/Politics. The foresight exercise is carried out in three stages:

- (a) Drawing up of a comprehensive document about the key points that illustrate the present-day situation both in South Eastern Europe as a whole and in the region of Central Macedonia.<sup>24</sup>
- (b) Compilation of a SWOT table for the region of Central Macedonia and SE Europe based on the key points of the preceding document that are also organized according to STEEP categories. This results in a twenty-cell double entry SWOT-STEEP table. Thus each cell contains one key point (statement) about the situation (i.e. in SWOT terms) in the specific STEEP categories.
- (c) Compilation of a Delphi ‘questionnaire’ based on the SWOT-STEEP analysis of the preceding stage. The ‘questionnaire’ comprises twenty statements (‘questions’)<sup>25</sup> corresponding to each cell of the SWOT-STEEP table (Table 5.7 and Appendix).

The questionnaire was then evaluated by a panel of selected experts. Evaluation of the statements includes responses in terms of: (1) the validity of each statement, (2) the time of realization of each statement (three five-year periods up to 2018), (3) the factors influencing the realization of each statement, (4) the significance and the impacts of each statement on Central Macedonia in relation to important regional policy fields (e.g. the priority axes of the 2000–06 Regional Operational Programme for Central Macedonia).

**Table 5.7 SWOT table and STEEP categories (\*)**

|                    | Strengths | Weaknesses | Opportunities | Threats   |                    |
|--------------------|-----------|------------|---------------|-----------|--------------------|
| <b>Society</b>     | S-S [2]   | W-S [7]    | O-S [12]      | T-S [17]  | <b>Society</b>     |
| <b>Technology</b>  | S-T [1]   | W-T [6]    | O-T [11]      | T-T [16]  | <b>Technology</b>  |
| <b>Economy</b>     | S-E [3]   | W-E [8]    | O-E [13]      | T-E [18]  | <b>Economy</b>     |
| <b>Environment</b> | S-En [4]  | W-En [9]   | O-En [14]     | T-En [19] | <b>Environment</b> |
| <b>Policy</b>      | S-P [5]   | W-P [10]   | O-P [15]      | T-P [20]  | <b>Policy</b>      |

(\*) The numbers in brackets correspond to the code numbers of the actual statements (see Appendix)

24 Selected data has already been presented in the second and third sections of the chapter. For a more detailed analysis, see Kafkalas and Foutakis 2004.

25 The statements are quoted in the Appendix.

It should be noted that the following findings and policy priorities are based exclusively on the views of the experts, who were invited to respond to the above questions/statements. In this sense, the conclusions of the exercise constitute the synthesis of individual expert opinions on the future situation and prospects for the region and it is in this context that their reliability should be considered. There were 43 experts invited, from whom 13 participated up to the second (final) Delphi round. The panel was comprised of experts from various fields i.e. academia 54%, industry executives 23%, and others (researchers, public administration executives etc.) 23% (Kafkalas and Foutakis 2004, 397–8). Although the number of participants seems to be fairly small, one must bear in mind that the Delphi method is not a method of statistical inference and must not be judged merely on statistical grounds.<sup>26</sup>

### *Regional prospects and policy priorities*

In general, the research findings indicate that for the entire fifteen-year period between 2004 and 2018 Central Macedonia is particularly well placed when it comes to the social, economic and political categories while problems are evident in the technology and, above all, the environment domains. In particular, as regards the five STEEP categories:

1. *Society*: Central Macedonia is evidently a place of strong social cohesion which has the ability to promote the inclusion of immigrants who function as a 'bridge' with their country of origin.
2. *Technology*: While the overall situation appears positive, there seems to be some doubt as to the region's dynamics and prospects in respect of technology. Central Macedonia appears to acquire a central role in the new division of labour in South Eastern Europe given that it evidently develops knowledge-intensive sectors, while labour-intensive and raw-materials-intensive production are relocated to other countries of the area. It is doubtful, however, whether it is in a position to make use of this advantage, and to also export technology to other countries of South Eastern Europe.
3. *Economy*: The economy of the region, given certain prerequisites, comes over as its strong point. The overall image that emerges, is one of a strong economy, experiencing problems on a level that can, however, be dealt with, if properly handled. There are a number of grey areas but their origins are external to the course of the economies of the countries of South Eastern Europe.
4. *Environment*: The environmental dimension appears to be the weakest, given the region's apparent inability to help the countries of South Eastern Europe deal with environmental problems. Central Macedonia does not itself appear to enjoy any significant advantages in this connection. Nevertheless, it is fair to expect that this state of affairs can be helped by increased funding.

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26 The literature on the Delphi method suggests that a minimum number of 8 to 10 participants is adequate (Fitch et al. 2001, 24; Scapolo and Miles 2006, 688). Furthermore, several studies suggest that there is no 'consistent relationship between panel size and effectiveness criteria' (i.e. accuracy) (Rowe and Wright 1999, 375).

5. *Policies.* This field is characterized by particularly favourable prospects, with Central Macedonia possessing a number of the necessary prerequisites. The fact that Central Macedonia distinguishes itself as a region of twenty-five years' standing within the European Union, places it in a distinctly advantageous position to take initiatives in relation to the institutional adaptation of other countries. In conjunction with the strong presence of the Thessaloniki metropolitan area, it evidently strengthens Central Macedonia insofar as the region is able to acquire a more powerful political profile.

The prospects for the region project a different picture depending on whether they are considered in the short, the medium or the long-term:

*In the short-term (first five-year period up to 2008)* the wider geo-political environment in which the region is situated is likely to be characterized chiefly by a degree of socio-economic instability and uncertainty, not to mention persistent internal weaknesses. Positive developments in the economy (strengthening of competitiveness) could, however, generate improved prospects for subsequent periods.

*In the medium term (up to 2013)* the prospects appear particularly positive insofar as there are no threats on the horizon and that no weaknesses show up in the various sectors. The period is characterized by the strengthening of the economy and its conversion to a technology-intensive knowledge economy. The Thessaloniki metropolitan area maintains a key role in the area as a location centre for international organizations. The region's enterprises expand into the countries of South Eastern Europe through the use of public subsidies. Finally, on the social level, the inclusion of immigrants into the local communities of the region is expected to take place smoothly, without dramatic social conflicts.

*In the long term (up to 2018)* although the considerable share of uncertainty involved in forecasting must be kept in mind, the prevailing opinion of the panel is that there will be an expansion of economic collaboration in South Eastern Europe in which Central Macedonia maintains a central role by virtue of (i) the utilization of information technologies and (ii) its institutional potential.

Overall, it turns out that, insofar as the response to both the challenges and the shortcomings of the first five years is positive, it is expected that the next decade will be favourable for the region in all sectors (particularly the social, economic and political sectors). It would appear that Central Macedonia (with Thessaloniki claiming a key role) will be upgrading its position in the medium-term as a significant political centre in South Eastern Europe and will at the same time develop into an important economic and (to a lesser extent) technological centre without, however, compromising the social cohesion of the region.

However, the materialization of the positive and optimistic prospects for the region, which the results of the Delphi exercise indicated, is not unconditional. There are certain preconditions which the experts defined by a process of association (linking) of their answers in this exercise with the factors which are perceived to have an influence on the successful realization of the region's prospects. These factors might be identified as policy fields, that is to say, fields of public intervention of a financial or institutional nature. In fact, these policies represent the key preconditions for the

realization of the abovementioned statements and, consequently, of the prospects for the region.

These policy fields (factors of influence) are presented in Table 5.8 organized by STEEP categories. Actually, each policy field is made to correspond with the STEEP categories under which the corresponding statements that are influenced by it are subsumed (in the initial SWOT-STEER table). The policy fields that are associated with all the STEEP categories are regarded as horizontal, the remainder being sectoral (or thematic).

**Table 5.8 Policy fields by STEEP category**

| Policy fields   | S | T | E | E | P |
|---|---|---|---|---|---|
| International cooperation                                 | + | + | + | + | + |
| Human capital (education, skills)                         | + | + | + | + | + |
| Reinforcement or imposition of regulations and controls   | + |   | + | + | + |
| Development of markets, access to markets                 | + | + | + |   | + |
| Promotion of innovation                                   |   | + | + |   | + |
| Social inclusion  | + |   | + |   |   |
| Environmental conditions                                  |   |   |   | + |   |
| Infrastructure for research and technological development |   | + |   |   |   |
| Information provision, public awareness                   | + |   |   |   | + |
| Technology transfer                                       |   | + |   |   | + |
| Relaxation or abolition of regulations and controls       |   |   |   | + |   |
| Availability of investment capital                        |   |   | + |   |   |

Specifically, the horizontal and the most important sectoral (thematic) policy fields are the following:

*International cooperation (mainly in the Balkans):* This field belongs par excellence to the competencies of the central state. It is very much influenced by external and, to a large extent, imponderable factors. A parallel field of action exists for regional agencies, for developing relationships in the form of joint activities across various sectors (e.g. environment, education, culture, etc.). The civil society plays an important role in developing relationships of collaboration and mutual understanding that have long-term positive effects in all sectors. In any case this prospect should be

facilitated by the strengthening of political initiatives at the regional level and by the upgrading of the region's political profile.

*Human capital:* Educational attainment level, knowledge and skills of human resources of the region, emerge as a crucial factor in the prospects for Central Macedonia in South Eastern Europe. The strengthening of the human capital should be based on the development of appropriate strategies in respect of human resources for the upgrading of education at every level, on the strengthening of links between enterprises and tertiary education and research institutions, and on the promotion of vocational and life-long training. Central government, but also local and regional institutions will have an essential role to play in this process. Enterprises must also take the initiative to adapt the general skills provided by the education system to their specific production requirements through the enhancement of intra-enterprise training. These policies must take into account the existing needs of the regional productive system and above all its prospects over a time-scale of at least a decade.

*Enhancement of institutional capacity and imposition of legality:* This policy field involves mainly environment, labour market and immigration-related issues but evidently influences almost all aspects of economic and social life. It concerns the need to enforce existing laws and regulations in various domains and to strengthen them, principally in the environment and the labour market domains. Not only is the legislating parliament involved, but so are government and institutions that introduce regulations and implement laws and regulations at both the central and regional/local level.

*Development of markets and access to new markets:* The development of markets is contingent firstly on the creation and promotion of new innovative products and services. This policy field involves both the expansion of the economic activities of enterprises in South Eastern Europe and the deepening and broadening of the internal market. The relevant public policies are mainly institutional in nature and relate to the support of initiatives that must derive from the private sector of the economy.

*Research and Technological Development (RTD), Innovation, and Technology Transfer:* This policy field includes all measures, both institutional and financial, for the creation and enhancement of RTD infrastructure with a view to promoting innovation. The interventions must involve the public as well as the private sector, which should be encouraged to be more inclined to invest in research and technology development, and in innovative activities and products.

Finally, a significant influence is also exerted by policies aimed at strengthening social cohesion by raising public awareness on matters pertaining to economic immigrants from the Balkan countries who have come to represent over the last decade an important portion of the regional labour market and to play an important role in the everyday life of various local communities in the region.

Furthermore, the strengthening of *environmental regulations* and the enforced implementation of existing environmental protection provisions should be considered an indispensable regional policy field for Central Macedonia.

The temporal dimension is generally of great importance in planning and programming. Planners have to decide not only which initiatives will be launched but also when this should be done and in which order. In the context of the Central Macedonia regional foresight exercise, the temporal dimension was integrated in the process through asking the experts to define the time necessary to the materialization of the prospects corresponding to the statements listed in the questionnaire. Using this temporal estimation, and with the help of the TOWS matrix, the related policy fields were grouped under three time periods. In this way a policy implementation

**Table 5.9 Timetable for policy implementation**

|    |   |
|----|---|
| A. | <i>Short-Term (2004-2008): Rectifying internal weaknesses and moderating external threats</i>   |
| 1. | Policies for strengthening international cooperation in conjunction with support measures for direct political representation in the region |
| 2. | Policies for human capital development  |
| 3. | Legislation on environmental standards  |
| 4. | Enforcement of legislative provisions in the areas of environmental protection and labour market  |
| 5. | Policies facilitating social inclusion of economic immigrants   |
| 6. | Investment in RTD and policies for the development of the regional system of innovation   |
| B. | <i>Medium-Term (2009-2013): Creation and utilization of opportunities towards the knowledge economy</i>                                     |
| 1. | Policies for strengthening international cooperation  |
| 2. | Policies for human capital development  |
| 3. | Policies supporting the development of innovative products and services   |
| 4. | Policies supporting the development of existing markets and the expansion to new markets in South Eastern Europe                            |
| 5. | Utilization of the metropolitan role of Thessaloniki  |
| C. | <i>Long-Term (2014-2018): Towards sustainable spatial development in South Eastern Europe</i>   |
| 1. | Policies for strengthening international cooperation  |
| 2. | Enhancement of institutional capacity and social cohesion, and development of the knowledge economy   |

Source: Kafkalas and Foutakis 2004, 446

timetable was compiled (Table 5.9), at the same time highlighting the key policy objective for every period (for details see Kafkalas and Foutakis 2004, 434–46).<sup>27</sup>

As it is evident from Table 5.9, the reinforcement of international cooperation turns out to be the most significant policy in favour of development prospects for the region over the entire fifteen-year period. It is obvious that the normalizing of political relations and developments within the Balkans area is a contributing factor in the region's development. Also of particular interest are some other aspects of the relationships between the region and the rest of the Balkan countries – such as the normal social and economic integration of immigrants, the development of markets, and the social and economic development of the neighbouring Balkan countries in general.

Two final conclusions may be drawn from these findings. The first is that above and beyond whatever necessary policies are to be exercised within the region, the external geo-economic framework within which a policy operates has a direct influence on its development and outcomes. The second conclusion is that the factors of influence and the corresponding policies that appear to significantly affect the prospects for the region, have little to do with the creation of new infrastructure and much more to do with the development of the 'intangible assets' of the region, for example the development of human capital and innovation capacity, and the enhancement of 'institutional thickness'.

### **Epilogue: A Future in Common for South Eastern Europe**

With the dawn of the twenty-first century, it is perhaps the first time that the entire Balkans area has been able to envisage the prospect of a common development and prosperity trajectory unimpeded by the divisions that predominated in the past. The new geopolitical situation of the last fifteen years provides the opportunity, under certain preconditions, of common development prospects for all the countries of the region in the context of their integration into the European Union.

Despite the fact that in the 1990s the Yugoslavian crisis to a great extent had put its stamp on the image of the Balkans, 'other countries in the region followed a more peaceful path' (Mazower 2000, 251–2). The various nationalistic problems which in earlier periods of history were of central political importance 'are today faint

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27 The original SWOT-STEOP matrix is decomposed into five SWOT tables, each corresponding to a STEOP category. Each SWOT table is then transformed into a TOWS matrix. The Strengths and Weaknesses columns are eliminated and inserted in the new TOWS matrix as rows, while the Opportunities and Threats columns remain unchanged. In this way internal and external factors 'interact' and produce four distinct situations (S-O, S-T, W-O and W-T) of particular policy interest. For example where Strengths coexist with Opportunities a particularly favourable future is 'foreseen' given that the region is able to exploit the (externally) created Opportunities, because of the existing (internal) Strengths. The temporal dimension is of major importance being able either to facilitate or to cancel the developments. Obviously Strengths have to be developed before or at least simultaneously to the emergence of Opportunities. If Opportunities emerge before Strengths are realized, then the outcome will be that of a missed opportunity.

and meaningless echoes of issues that provoked wars and invasions a century ago: politics there have ceased to revolve around expansionism and national glory. ... [T]he problems and perspectives of South Eastern Europe are not those of the past, but dilemmas familiar in one form or another to most European countries' (ibid.). It could be argued that these are problems of development in the present context of capitalist globalization and dilemmas arising from the contradictions and conflicts that are generated by the attempt to reconcile social cohesion and environmental protection with an ever-intensifying competition.

These problems, particularly in the Balkan countries which are characterized by a relatively low level of prosperity in terms of the European Union average, raise dilemmas for development policy. This is due to the fact that the transition to the particularly competitive knowledge economy requires the long-term commitment – in the face of uncertain prospects – of resources, which are perhaps needed to meet pressing basic needs. At the same time, the necessary adaptation of institutional frameworks and programming methods takes considerable time. In the European Union recent developments and the ongoing discussions and negotiations foreshadow what is perhaps the most significant change of the EU structural policy to have taken place since the radical reform of 1988. The main goal of the changes is the adaptation of cohesion policy to the Lisbon and Gothenburg objectives, that is to say the enhancement of competitiveness and the reinforcement of development through the support of technology, innovation, and entrepreneurship, in conjunction with environmental goals. The high quality of specific key infrastructures and services is seen as a prerequisite for the success of such a strategy but does not appear to constitute its real subject matter. However it remains unclear how the needs of regions with an inadequate level of infrastructure and services – regions which are for the most part also the least developed – are to be met. These issues are just some of the problems faced by less developed countries and regions in their attempt to adapt to the knowledge economy.

In this context, the experience of Central Macedonia is representative of a region of the European south which in the present conjuncture continues to face similar challenges. The transformation of the mainly redistributive structural policy into a policy promoting competitiveness, along with the need to concentrate interventions in sectors that will facilitate transition towards the knowledge economy, clearly do not only create tensions within the planning process, but also social conflicts. The displacement looks very much like a Schumpeterian 'creative destruction', as 'in fact there is little learning without forgetting' (Lundvall et al. 2002, 226). In all likelihood this development trajectory and the choices made will place pressures on social cohesion in the form of 'polarization in terms of incomes and employment' (ibid.). Dealing with these tendencies requires broader social consent and the elaboration of appropriate policies. In the light of former developments, it is now perhaps even more necessary that clear-cut choices should be made by national and regional authorities. Development policies elaborated for every region and country should promote regional and national priorities in conjunction with, but not merely confined to, the reformed cohesion policy.

On the other hand, insofar as the development trajectories of individual countries are interdependent, the imminent integration of Balkan countries into the European

Union represents an opportunity for the whole region to envisage a common vision. As has been made clear from the case of Central Macedonia, its favourable development prospects, to a large extent, depend on the corresponding political and development prospects for neighbouring countries and regions. The endeavour to achieve political stability, economic prosperity and social and territorial cohesion for the Balkans as a whole has, as a basic prerequisite, the overcoming of the manifold fragmentation of the region. Spatial integration and a common development vision for the entirety of the Balkans territory represent a wager which, despite the inherent uncertainty of its outcome, deserves to be made.

## Appendix

Table 5.10 Delphi research statements

| SWOT-<br>STEEP<br>category | Statement<br>code<br>number | Description  |
|----------------------------|-----------------------------|--|
| <b>. Society</b>           |                             |  |
| S-S                        | 2                           | Immigrants from the countries of South Eastern Europe are integrated normally into the local communities of the region of Central Macedonia on the basis of common cultural features.  |
| W-S                        | 7                           | The accumulated national disputes and confrontations in the South East European territory and the uncontrolled influx of illegal immigrants of various nationalities lead many areas in the region of Central Macedonia to social fragmentation and conflicts. |
| O-S                        | 12                          | The existence of social capital (social networks and institutions) in the region of Central Macedonia, in conjunction with the growing use of the Internet, expand economic transactions with the countries of South Eastern Europe.                           |
| T-S                        | 17                          | The revival and prevalence of nationalist conflicts invalidates the climate of cooperation and understanding and undermines the economic and social cohesion of the South East European region.  |
| <b>B. Technology</b>       |                             |  |
| S-T                        | 1                           | The economy of the region of Central Macedonia promotes knowledge-intensive as well as, technology-intensive and capital-intensive sectors, while the countries of South Eastern Europe promote labour-intensive sectors and provide raw materials.            |
| W-T                        | 6                           | The region of Central Macedonia contributes significantly to the transfer and adaptation of new technology to the countries of South Eastern Europe by utilizing its institutional and technological advantages.   |
| O-T                        | 11                          | The region of Central Macedonia exploits its technological advantage and its geographic proximity and develops structures and tools for transfer and adaptation of technology to the countries of South Eastern Europe.  |
| T-T                        | 16                          | The region of Central Macedonia has a dualistic productive system, a great part of which is technologically lagging behind because of its confinement to the markets of South Eastern Europe.  |
| <b>C. Economy</b>          |                             |  |
| S-E                        | 3                           | The influx of low-cost and high-skilled immigrants from the countries of South Eastern Europe boosts the competitiveness of the region of Central Macedonia.   |

Table 5.10 continued

| SWOT-<br>STEEP<br>category | Statement<br>code<br>number | Description  |
|----------------------------|-----------------------------|--|
| W-E                        | 8                           | Dealing with the serious structural weaknesses of the economy of Central Macedonia makes it possible to exploit the opportunities arising in South East European markets.  |
| O-E                        | 13                          | Enterprises in the region of Central Macedonia exploit investment opportunities in the institutionally well-developed economic environment of the South East European countries, by making use of national public subsidies.   |
| T-E                        | 18                          | Proximity to countries at a low economic development level with fragmented markets accentuates the structural weaknesses of the economy of the region of Central Macedonia.  |
| <b>D. Environment</b>      |                             |  |
| S-En                       | 4                           | The region of Central Macedonia makes a substantial contribution to the handling of issues of environmental degradation and of environmental hazards originating in the countries of South Eastern Europe.                     |
| W-En                       | 9                           | Inadequate funding under unfavourable conditions hinders the implementation of environmental protection measures and the prevention of environmental hazards in the region of Central Macedonia and South Eastern Europe.      |
| O-En                       | 14                          | Enterprises and public agencies in the region of Central Macedonia launch initiatives towards the implementation of institutional and technological innovation in matters of environmental protection in South Eastern Europe. |
| T-En                       | 19                          | Uncontrolled economic growth in the countries of South Eastern Europe greatly increases the levels of 'imported' environmental pollution in the region of Central Macedonia, creating conditions of environmental crisis.      |
| <b>. Policy</b>            |                             |  |
| S-P                        | 5                           | In its capacity as a region of the European Union, Central Macedonia launches initiatives aiming the fastest possible institutional adaptation of the countries of South Eastern Europe to the <i>acquis communautaire</i> .   |
| W-P                        | 10                          | The lack of direct political representation of the region of Central Macedonia obstructs the process of taking of political initiatives on matters of technological collaboration with the countries of South Eastern Europe.  |
| O-P                        | 15                          | The common European prospects for the countries of South Eastern Europe attract enterprises and international organizations to Thessaloniki, and reinforce its metropolitan role.  |
| T-P                        | 20                          | The region of Central Macedonia is unable to play a central role in economic developments in South Eastern Europe as a result of inadequate preparation and harsh international competition.                                   |

Source: Kafkalas and Foutakis 2004, 411-2

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PART 3

Spatial Development Perspectives:  
Concepts, Facts and Visions

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## Chapter 6

# Southeast Europe within Changing European Geographies – Tracing Socio-economic Disparities and Potentials of Integration

Peter Schön and Petra Pelster

The current worldwide and European political and economic processes have led to the emergence of new (world-scale) geographies. New markets are emerging and offering new opportunities to the export industry. Especially as concerns 'old' industrial products, Europe, and similarly the USA and Japan, are shifting their production to countries at the bottom end of the wage scale (e.g. China).

The need to adapt to this new worldwide state of affairs (usually referred to as globalization) is a challenge which all economies are facing. The more 'mature' economies (of Western Europe, Japan, USA) are endeavouring to achieve the restructuring of their economies on the basis of specific strengths (high technological standards) and restrictions (high cost of labour). These countries are trying to focus on, for example, high-quality and highly-priced consumer goods, investment goods of high technological standards (machinery), Research and Development, Knowledge Society. This is accompanied by worldwide sourcing and inclusion of a low-cost labour force into the production lines.

Ever since the European events of 1989, the Central and Southeast European countries have operated a fundamental change of orientation and started a process of opening up to, and competing on, the world markets. In their struggle to position themselves on the world markets as 'transformation countries', they meet and compete with other 'newly industrialized countries' (e.g. Korea or Taiwan) which seem to have already established themselves on the world economy scene combining high-tech and low-wage strategies.

This double process, the restructuring of the well established Western European countries and the repositioning of the recently opened Central and Southeast European countries is affecting Europe as a whole and is leading to changing European geographies. The questions that arise are the following: How is European integration taking place in this context? What are the basic integration patterns and how are they changing? And how does European policy deal with these changing geographies?

In this article we will explore some of these European integration issues. The geographical focus is on Southeast Europe. We will investigate some main integration forces and their spatial patterns, and will look for signs of weakness and potentials in view

of further integration. We will use some evidence based on research on investment flows, trade exchange patterns and trans-national cooperation structures (i.e. Interreg); and we will refer to three different levels: a European level (exploring West-East relations), a Southeast European level (exploring transnational patterns), and a national level for the Southeast European countries (exploring internal regional patterns).

This article has its origin in a trans-national Interreg III B project ESTIA-SPOSE. Notwithstanding any usual political or geographical boundaries, we refer to Southeast Europe as the macro region formed by Albania, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, the Former Yugoslavia Republic of Macedonia, Greece, Hungary, Italy, Romania, Slovenia, Serbia and Montenegro. We thus refer to the area definition, which formed the basis for the project ESTIA-SPOSE.

## **The European Situation**

The twentieth century has handed over a Europe which is still trying to cope with the transformation of what used to be the East-West divide into a new East-West integration. The main economic structures of the international division of labour in particular are currently being rearranged. This is not just a European but a worldwide phenomenon. This article will however exclusively focus on European countries – world-wide aspects of an increasingly global economy are not examined here in detail. This restructuring finds its reasons in differences in respect of regional characteristics and endowments, and bears consequences on regional development paths and opportunities.

At present, Europe is characterized by the existence of important differences and disparities, the most significant lies in the mark left by the pre-1989 borders of Western and Eastern Europe. Although these West-East disparities are the most pronounced in Europe, marked internal differences can also be detected in both Western and Eastern Europe.

As concerns Western Europe, in 1999 the European Spatial Development Perspective (ESDP) coined the term the European ‘Pentagon’, illustrating the fact that a large part of European economic power is concentrated in the core of the then EU-15 territory, marked by the five poles London, Paris, Milan, Munich, and Hamburg (European Commission 1999). The ESDP states that within this area defined by the Pentagon 40% of the EU-15 population produces 50% of its joint European GDP over just 20% of its area. In contrast to this ‘global economic integration zone’, other regions of the EU-15 are only weakly integrated in the world economy and mainly so through some single cities (e.g. Lisbon, Dublin, or Stockholm) operating as ‘internationalized islands’, some of which being within rather weakly structured macro regions.

With the recent enlargement of the EU in 2004 which brought ten new member states into the European Union, this pattern of differences has only been confirmed and even aggravated. The ten new members bring about 25%-30% in terms of additional surface and population but less than 5% of GDP to the old EU-15. The internal spatial disparities in the European Union are more important than they ever were. In addition, following the enlargement of the EU, the concentration of economic wealth and strengths remains concentrated in the old member states, and

especially in the pentagon area (which, however, seems to be widening and enlarging and thus slowly changing forms).

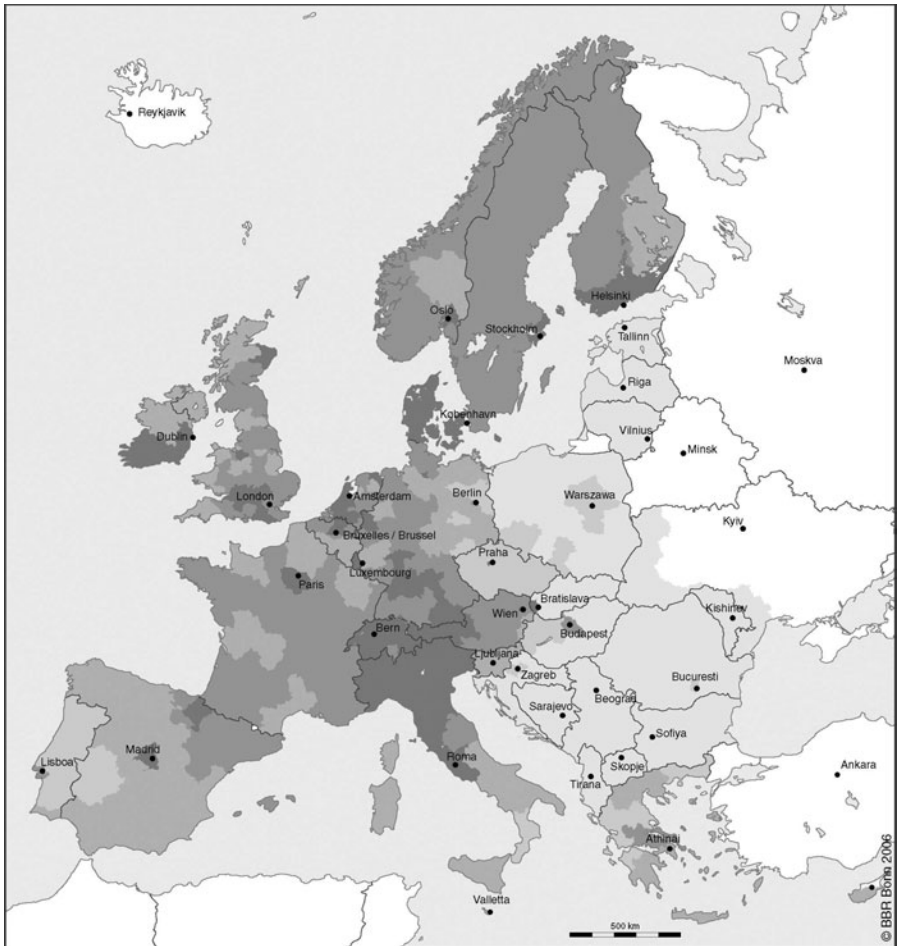
This emerging geography is often referred to as 'core-periphery pattern', because accessibility analyses have revealed similar patterns. Accordingly, European, and especially Southeast European geographies are characterized by immense internal disparities. Southeast Europe includes some of Europe's richest (Vienna, Lombardia, Emilia-Romagna) regions in terms of GDP (per capita in PPS, 2002). These are highly accessible and located in or close to the European economic core. But it also includes some of Europe's poorest regions (Kosovo, Albania, Central Serbia), situated from a European perspective in the European periphery. The difference in GDP (per capita in PPS, 2002) between these regions in Southeast Europe is more than 18fold, which exceeds differences in the rest of Europe (EU 25: 10fold, EU 10: 5fold) (cf. Figure 6.1).

### **The Role and Position of Southeast Europe in Europe**

A look at the (political) situation in Southeast Europe reveals its rather heterogeneous nature. Combining old and new EU member states, acceding, candidate and potential candidate countries, Southeast Europe is the crucial testing ground for the European integration process as a whole. Besides and in wider geopolitical terms, Southeast Europe is taking on an important role in Europe - sometimes seen as a bridge between Europe and the East (Asia/Turkey, Russia).

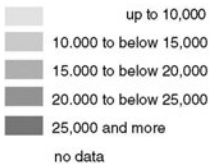
This heterogeneous situation and positioning in Europe has its implications on emerging patterns of flows. As regards the political integration process, and more specifically the effects of regional funds, infrastructure investments, common regulatory framework etc., the new EU member states (and, to some extent, the candidate countries) are without any doubt in a favourable position. Trade barriers have been removed and incentives given for regional development and European integration.

This certainly bears positive implications on foreign direct investment (FDI) and on trade patterns, which are apparently resulting in a shift of economic activity from West to East: It is possible to observe that FDI flows from West to East European countries have increased significantly in recent years, both in absolute and relative terms (cf. Figure 6.2). Before 2000 especially, the new EU member countries had benefited from growing FDI flows, with Poland, the Czech Republic and Hungary ahead. Since 2000 the non-EU member countries from Southeast Europe could also profit and in particular the candidates Romania, Bulgaria and Croatia (cf. Figure 6.3).



**Gross domestic product in purchasing power standards per inhabitant 2002**

UA + MD = 2001

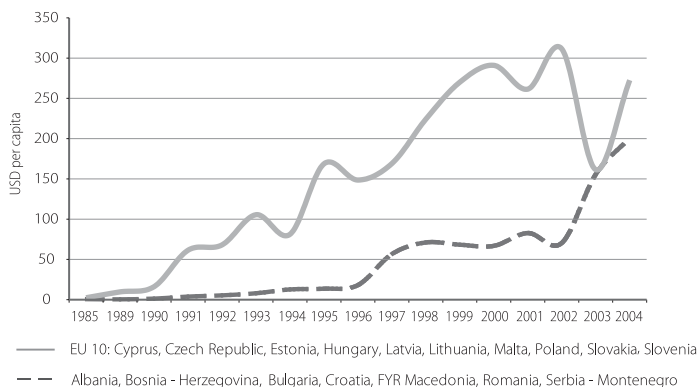


Map based on ESPON ECP Transnational Networking Activity "Westernbalkans" (2006); data for UA + MD added by PlaNet CenSE

**Source: ESPON database**

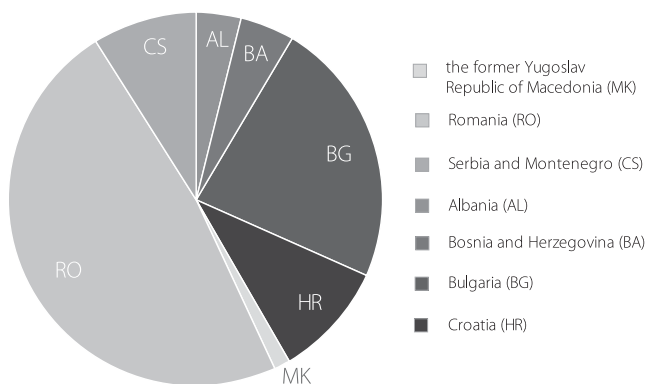
Origin of data: EU25 +2 +2: Project 3.1. BBR; AL, BA, HR, MK, CS: National Statistical Offices; UA, MD: Centre for Regional Studies (RIK)

**Figure 6.1 GDP per capita in Europe, 2002**



**Figure 6.2 Foreign direct investment flows to EU-10 and non EU member countries in Southeast Europe from 1985 to 2004**

*Source:* own calculations based on UNCTAD database.

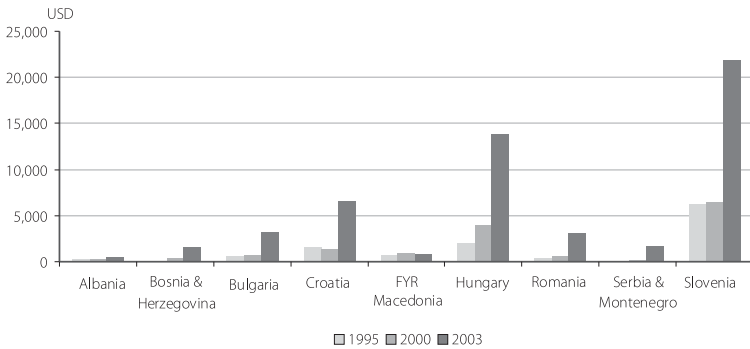


**Figure 6.3 Share of FDI inflows (absolute volumes) to non EU Southeast European countries in 2004**

*Source:* own calculations based on UNCTAD database.

Foreign direct investments from Western to Eastern European countries lead to new production facilities in the East either newly established or created through a removal of existing enterprises. New production facilities lead to higher trade exchange volumes, in both directions, mostly as producer goods or semi-finished products in the one direction, and as consumer goods in the other. This is clearly mirrored by intensified trade flows between Western and Eastern Europe. Trade between the non-EU-15 Southeast European countries and the EU 15 has steadily increased since 1995. Again the new EU member countries (and besides them the

candidate countries) have benefited most. Shortly before the accession of Hungary and Slovenia to the EU, the growth pattern of trade enjoyed a rather significant increase with growth rates above 230 % (cf. Figure 6.4).



**Figure 6.4 Trade of non EU-15 Southeast European countries with EU-15 in USD per capita (1995, 2000 and 2003)**

*Source:* BBR's continuous spatial monitoring of Europe, based on im- and export data of the Federal Statistical Office Germany, own calculations.

Proximity would appear to have an influence on trade relations. From the perspective of the EU-15, Germany, Italy and Austria are benefiting most from the growing (economic) integration of West and East. Of all EU 15 countries, Germany, Italy and Austria are the most important trade partners of (non-EU-15) Southeast European countries (cf. Table 6.1).

What is, however, also becoming apparent is that the economic integration process (towards cohesion) also has its drawbacks. As concerns wage differences, some evidence is already available according to which with their increasing income level even the new EU member states are becoming too expensive for low-cost industries. Consequently, these move on to other European countries (Bulgaria, Ukraine) or even to some countries on the Asian Continent. As a general trend, FDI flows as well as exports of high-technological investment goods from West to East, and increasing flows of consumer goods from East to West are driving forces for a new European division of labour; and there is more recent evidence that high-tech goods play an increasingly important role in the shaping of East-to-West export patterns (cf. Laaser and Schrader 2005). In other words, the new division of labour in Europe is complemented by new patterns of (re-) integration of the emerging partial economies.

These patterns are still coined by marked East-West differences in respect of wages and income in Europe. This means that Europe is in a position to keep alive, at least on a temporary basis and to some extent, some industries (like textiles) which tend to be relocated in low-production cost countries (e.g. China). On the other hand, more technology-oriented industries, such as the car or computer industries, are relocated in Central and Southeast Europe, with new plants being built in specific clusters.

**Table 6.1** Most important EU-15 trade partners for (non EU-15) Southeast European countries in 2003

|                        | <b>First important trade partner</b><br>(share of total trade volumes) | <b>Second important trade partner</b><br>(share of total trade volumes) | <b>Third important trade partner</b><br>(share of total trade volumes) |
|------------------------|--|---|--|
| Albania                | IT 59%   | GR 23%  | DE 7%  |
| Bosnia and Herzegovina | IT 36%   | DE 31%  | AT 13%   |
| Bulgaria               | DE 25%   | IT 23%  | GR 13%   |
| Croatia                | IT 33%   | DE 27%  | AT 15%   |
| Hungary                | DE 47%   | AT 11%  | IT 9%  |
| Romania                | IT 33%   | DE 26%  | FR 12%   |
| Serbia & Montenegro    | IT 30%   | DE 26%  | AT 11%   |
| Slovenia               | DE 32%   | IT 26%  | AT 16%   |
| FYR Macedonia          | FR 22%   | GR 21%  | IT 16%   |

*Source:* BBR's continuous spatial monitoring of Europe, based on im- and export data of the Federal Statistical Office Germany, own calculations.

Overall it can be said that the evolving process of West-East integration is leading to a considerable degree to an economic upswing in Central and Southeast European countries. An examination of GDP reveals that this is growing much faster in Central and Southeast Europe than it tends to do in the EU-15 countries (cf. Figure 6.5). However, this catching up process is starting from a low GDP level.

The first years after 1989 led the East European transformation countries into a severe economic crisis caused by the huge challenges of the internal economic (and political) transformation processes and the collapse of accustomed external markets and trade exchange patterns. In many countries the economic output (e.g. as indicated by per capita GDP) fell well below the 1989 level and only slowly recovered. But considering the last decade (since 1995), the East European countries, and in particular the new EU member states, are currently on the path of considerable economic growth, indicating a better performance than most West European countries.

In 1995 the gap between the better positioned (in terms of GDP per capita) Western EU member states and the below-European-average economic output of the East European countries was clear cut. Only the four (at that time) cohesion countries (Ireland, Spain, Portugal, and Greece) were below the average of today's 25 EU member states.

Until today, there has been no fundamental change to this pattern. However, since 1995, seven out of nine EU-25 members experiencing the highest GDP growth rates are in Eastern Europe, four of which are in Central Europe: Hungary, Slovakia, Poland, Slovenia (with, in addition, the three Baltic States in the lead). Outside the



**Development of gross domestic product in purchasing power standards per capita GDP in percent (annual average)**

(EU25 +2 +2 +MK = 1995-2002; AL = 1995-2003;  
HR = 2001-2003; BA + Kosovo = 1999-2003;  
CS = 2000-2002; UA + MD = 1995-2001)

- up to 2.5
- 2.6 to below 5
- 5.1 to below 7.5
- 7.6 to below 10
- 10.1 and more

no data

© EuroGeographics Association for administrative boundaries

Map based on ESPON ECP Transnational Networking Activity "Westernbalkans" (2006); data for UA + MD added by PlaNet CenSE

**Source: ESPON database**

Origin of data: EU25 +2 +2: Project 3.1, BBR; AL, BA, HR, MK, CS: National Statistical Offices; UA, MD: Centre for Regional Studies (RIK)

**Figure 6.5 GDP growth in Europe**

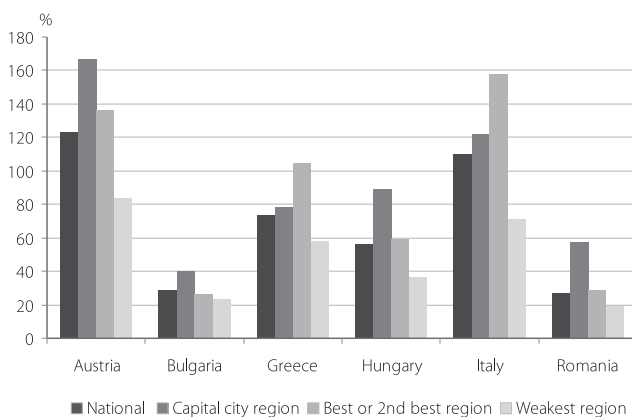
EU, growth rates in candidate and neighbouring countries are generally lower but still comparably good (Schön 2006). These sound growth rates support a catching up process. But due to low GDP starting levels no general overtaking manoeuvre is

likely to take place in the near future. The clear distinction between the two groups – the Eastern and the Western European countries – is nevertheless slowly vanishing and is being replaced by a more diversified distinction.

### A More Regionalized View on Southeast Europe

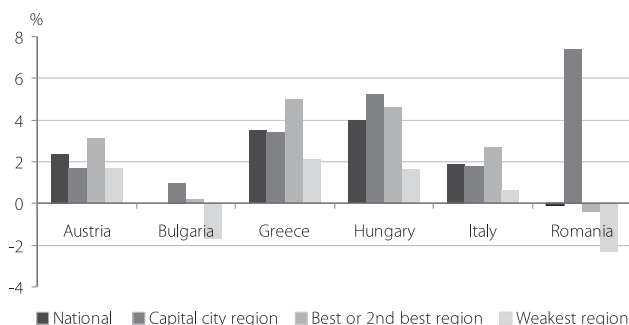
The uneven development pattern characteristic of today's Europe continues to prevail when matters are viewed from a different perspective. An examination of trans-national structures in Southeast Europe reveals that the notion of 'European core-periphery pattern' is a too generalized statement and not quite correct, as it suggests that Southeast Europe is as part of the 'European periphery' in itself relatively homogenous. It is the opposite which is true: Trans-national patterns indicate that the issue of disparities does not only lie between countries in Europe but is found to exist to an even greater degree at a regional level.

In Southeast Europe, the capital city regions (here: NUTS 2 regions) have strengthened their position within the national settlement system. In non-EU member states, they are usually the most important development catalysts. The per-capita GDP of the capital city regions stands considerably higher than that of the second best performing region in a county, sometimes (e.g. in Romania) even twice as high (see Figure 6.6). In addition, these capital city regions have a GDP growth performance above national average, so that the gap between them and the rest of a country is continuously widening. In Romania the capital city region is even the only region that has grown between 1995 and 2001 in absolute terms (see Figure 6.7).



**Figure 6.6 GDP per capita (in PPS) of capital city regions in 2001 (EU-25 = 100)**

*Source:* based on regional indicators taken from European Commission 2004.

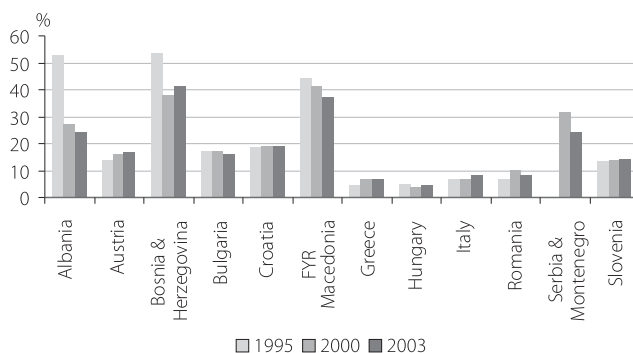


**Figure 6.7 GDP growth of capital city regions (annual average change in %) 1995–2001**

*Source:* based on regional indicators taken from European Commission 2004.

On the basis of these indicators it is fair to assume that socio-economic cohesion is currently lacking in Southeast Europe. A regular and ongoing process of polarization can be observed instead. Regional disparities are likely to increase even further in the future not only because of above average growth rates of capital city regions in the process of catching up but also because foreign direct investment is mainly directed towards the well equipped and accessible capital and metropolitan regions of Eastern Europe. This polarization process will continue as long as the attraction abilities of non-capital areas remain weak and the push factors of capital areas remain low. The former are dependent on political interventions (strengthening second order urban areas), while the latter is related to inherent economic logics.

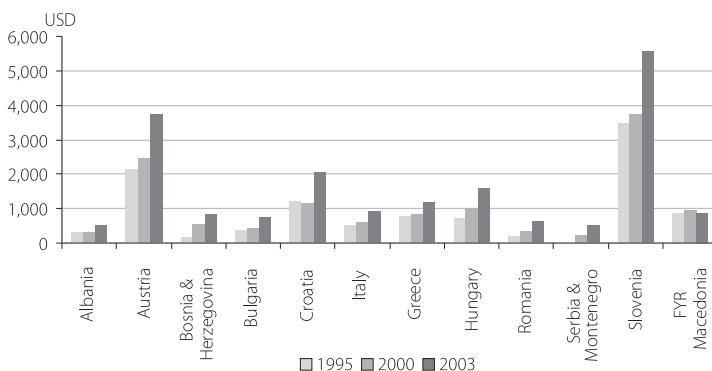
In Southeast Europe, there are not only certain deficits of internal cohesion within countries but also a relatively limited level of integration between them, as an analysis of trade flows shows. The average share of foreign trade among Southeast European countries represents about 9 % of their total trade volumes. EU member states in Southeast Europe are outwards oriented (towards the EU), while the non-EU member states (and non-candidate states) enjoy a significantly higher degree of interconnectedness with South-Eastern countries: 41 % of the trade of Bosnia and Herzegovina and 37 % of the trade of the FYR Macedonia in 2003 was directed towards other Southeast European countries, whereas it represented only 5 % of the world wide trade of Hungary and 7 % of that of Greece (cf. Figure 6.8). While the latter countries are stabilizing on this lower trade level, the former start to reorient their trade relations so that also their share of internal trade is decreasing. European-wide efforts to harmonize trade relations seem thus to slow down internal trade relations in Southeast Europe. This observation is verified by an examination of trade volumes between countries in Southeast Europe.



**Figure 6.8 Share of trade with Southeast European countries from total trade volumes (1995, 2000, 2003)**

*Source:* BBR's continuous spatial monitoring of Europe, based on im- and export data of the Federal Statistical Office Germany, own calculations.

Though trade volumes (both absolute and per head trade volumes) between Southeast European countries have steadily increased between 1995 and 2003 (see Figure 6.9), internal integration is not increasing accordingly: In fact, the level of trade amongst Southeast European countries is rising, but at a rate much slower than that between Southeast European countries and the EU 15: Growth rates of intra-trade (absolute volumes) increased from 23 % between 1995 and 2000 to 55% between 2000 and 2003 while during the same period growth rates between Southeast Europe and EU 15 indicate an explosive rise from 48 % (1995–00) to 281 % (2000–03). The marked orientation of the trade towards EU countries might suggest that the economies (economic structures) especially of the 'Western Balkan' tend to compete instead of to complement each other.



**Figure 6.9 Trade between Southeast European countries in USD per capita (1995, 2000, 2003)**

*Source:* BBR's continuous spatial monitoring of Europe, based on im- and export data of the Federal Statistical Office Germany, own calculations.

Italy and Austria are the biggest trade partners in Southeast Europe with a significant positive trade balance towards other Southeast European countries. This polarization

process has grown between 1995 and 2003. The already negative foreign trade balance of Albania, Bosnia and Herzegovina, Croatia, Greece, Romania and Serbia and Montenegro has become more pronounced, while the positive achievements of the foreign trade balance of Austria and Italy have grown in parallel.

To sum up, an analytical examination reveals that the EU integration status acted and still acts as a powerful development factor for Southeast European countries. Emerging geographical patterns clearly indicate that Southeast European countries fall into four groups, with distinctions between old and new, EU candidate and neighbouring countries: EU member countries perform much better than EU candidate countries, which in turn perform better than EU neighbouring countries. Disparities between and within Southeast European countries are on the increase.

While socio-economic cohesion in Southeast Europe seems to be hampered by the (bilateral) integration process of Southeast European countries with the EU on the one hand, on the other hand cohesion seems to be lacking due to a weakly developed internal integration of the area. Consequently, internal integration might be regarded as being the 'key' to better socio-economic cohesion and to a more balanced distribution of positive impacts deriving from the EU integration process. The extent to which regional cooperation might contribute to better internal integration is the issue which will be debated in the following sections.

### **Spatial Development Policies and (Trans-national) Cooperation**

As was shown above, the Southeast European countries are integrating rapidly in the EU, with an orientation mainly towards the West (old EU-15), and driven by exogenous forces (FDI etc.) originating in that direction. In contrast, the internal integration within Southeast Europe is still slow to progress and take root.

European Spatial Development policy is trying to investigate the regional development potentials that could be activated by more integration, cooperation and coordination. In the European Union, EU Member States and the European Commission have been working together for the last 15 years in order to identify common goals and strategies for a more balanced sustainable development in Europe, and aiming at strengthening economic performance as well as environmental needs and social integration. These joint efforts have led to the adoption of the European Spatial Development Perspective (ESDP) in Leipzig 1999 by the then 15 EU Member States and the European Commission. One year later, in September 2000 in Hannover, a wider European adoption of the ESDP, the 'Guiding Principles for a sustainable development in Europe' was discussed and acknowledged by the European Conference of Ministers responsible for Regional Planning (CEMAT) of the Council of Europe, representing the larger context of over 40 European states.

Already at that time, new European cooperation models were established to implement the jointly agreed goals and strategies of ESDP and CEMAT documents. The Interreg (IIC/IIIB) programmes on trans-national cooperation were established to promote trans-national cooperation of regional actors (fostering integration) beyond national borders. While they stem from the EU context, from the beginning these programmes have tried to include non-EU neighbouring countries. In addition, within

the framework of the European Spatial Planning Observation Network (ESPON), the 25 EU Member States, adding Rumania and Bulgaria and also Norway and Switzerland, have started working on a better information basis to analyze territorial structures, trends and policy impacts for the European territory. The 35 ESPON projects have been a source of considerable insight into the European territory.

Based on ESDP, the European knowledge base on trends and factors of European territorial development as provided through the ESPON network and the experiences from trans-national projects, the ESDP is currently prolonged through a new 'evidenced-based document'. This strongly refers to the issue of economic growth (Lisbon strategy) and of how it relates to territorial cohesion, and will lead to a new Territorial Agenda for the enlarged European Union that will be adopted by the Spatial Planning Ministers at their meeting in Leipzig in May 2007. For the first time the new EU member states are fully involved in elaborating and giving consent on EU-wide strategic territorial thinking.

In the following section we shall explore the extent to which the Southeast European countries are actively taking part in trans-national cooperation and if regional cooperation links follow east-west or south-north patterns; our interpretation will give some indication for the ongoing European integration within Southeast Europe and between Southeast Europe and the EU-15.

### **The Need for Regional Cooperation in Southeast Europe**

As is the case for the European integration process, the European Union plays a significant role in terms of internal integration, too. Fostering internal integration through intensified regional cooperation is a declared goal of numerous initiatives, the emergence of which Southeast Europe has been witnessing for many years (Altmann 2003). Some are of a multilateral character (e.g. Southeast European Cooperation Process, SEECP), while others deepen bilateral relations (in particular with regard to free-trade agreements). The EU has been both initiator and – through providing an accession perspective – driving force of many such regional cooperation initiatives. Within the framework of the Stabilization and Association Process (SAP) regional cooperation became not only a means for stabilization but above all a condition for deeper integration with the EU (Altmann 2003; Anastasakis 2002).

Regional cooperation across international borders is in itself far from an easy task in the area. In fact, regional cooperation between Southeast European countries was hardly imaginable only a decade ago. The violent collapse of former Yugoslavia has not only led to mistrust among various stakeholders but has also brought about the existence of new physical borders. Accessibility and the free movement of people and goods have been weakened as a direct consequence of new international borders. Over a length of 7,096 km, Southeast Europe has on average one international border crossing point only per 100 km. The least permeable border in this respect is the border between Serbia and Montenegro and Bosnia and Herzegovina: there are two international border crossing points only along their joint 527 km long border. A source of even more problems is the mental barriers. Stemming from a great social,

cultural and religious heterogeneity in the area, 'mental borders' turn cooperation initiatives into anything but an easy task.

The mere size of Southeast European countries (with their multiethnic population) is nevertheless an indication of how important it is to overcome both mental and physical borders. Size indeed matters when it comes to the economic development of a country, where less rigid trade barriers can help to expand markets and to overcome fragmentation (not only important for national but for foreign investments also). Size also matters when it comes to challenges that are per se border-less, such as natural hazards. As concerns the processes of globalization and European integration, it seems increasingly unlikely that such challenges can be met on a regional or national level alone. Effective and efficient infrastructure networks (e.g. transport and energy) are, for example, as reliant on good cooperation with neighbouring states as is the management of the natural and cultural heritage. Hence, (international) regional cooperation initiatives are certainly of increasing importance for Southeast Europe. Cooperation initiatives in particular between spatial planning institutions can in this regard help to deal with territorial challenges that can only be met on a trans-national level.

### **Trans-national Cooperation: An Emerging New Policy Field**

Trans-national territorial cooperation is an emerging new policy domain that has the potential to strengthen integration between countries in Southeast Europe. As it specifically deals with spatial development issues it has in addition the potential to actively tackle emerging disparities and disintegration trends. In Southeast Europe, it is however still in its infancy not only because cross-border or trans-national cooperation initiatives seemed impossible only a decade ago, but also because of the fact that the development of spatial planning across borders has been traditionally weak in this area (cf. BFLR 1997).

The European Union is playing a significant role towards the emergence of trans-national territorial cooperation in Southeast Europe. The foundations of the movement had originally been laid by the creation of the European Community Initiative 'Interreg' aiming at speeding up the European integration process. Put into action in 1990, Interreg had originally been designed to speed up the EU integration process in regions where a success or a failure would be more evident, that is in border regions.

Since the creation of Interreg, regions on both sides of EU borders have been given special funding for joint cross-border cooperation projects. The integration of border regions outside the EU was very difficult in the beginning but has been continuously strengthened over different programming periods. Today 17 out of 68 Interreg III cross-border programmes are located in Southeast Europe.

Without any doubt, Interreg has so far been a successful and useful instrument for the support of cross-border development and the promotion of bilateral relations in Southeast Europe. Even more interesting for the integration of the whole area is however a second strand within Interreg which focuses on trans-national cooperation efforts (Interreg II C 1996–99 continued as Interreg III B 2000–06). Since the creation

of Interreg II C in 1996, the EU has been funding trans-national cooperation projects within 13 designated trans-national cooperation areas (10 continental, 3 overseas areas) consisting of large groups of European regions. In contrast to the cross-border strand, which is concentrating on regional development between bordering regions, strand B focuses on cross-national cooperation projects where partners from two or more countries can cooperate also outside border regions. Interreg III B aims at promoting the better integration of European regions and at contributing to a balanced and harmonious development of the European territory. It thus also explicitly promotes better integration between member and non-member states.

The Interreg IIIB initiative follows the recommendations of the European Spatial Development Perspective (ESDP). It has been developed as a tool for testing, concretizing and implementing the political options and aims of the ESDP within common administrative and financial structures. It makes it possible for member and non-member states to cooperate on a trans-national scale within the field of spatial planning and development policies. The establishment and development of cooperation networks and structures as well as the mutual exchange of knowledge and experience becomes an explicit goal of European funding.

Southeast Europe is part of the trans-national cooperation area CADSES (Central, Adriatic, Danubian and South-Eastern European Space). CADSES is, in comparison to other European macro regions, in many ways specific: it is the largest and one of the most complex and diverse cooperation areas. With a population of about 221 Million CADSES is characterized by a big population mass potential. It includes regions of nine EU member (Austria, Czech Republic, Greece, Hungary, Poland, Slovak Republic and Slovenia in full, Italy and Germany in part) and nine non EU member countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Serbia and Montenegro, the Former Yugoslav Republic of Macedonia, the Republic of Moldova, Romania in full and the Ukraine in part). The regions jointly define common aims and priorities for the development of the area, and also jointly maintain institutions and administration structures for the implementation of the cooperation programme (cf. CADSES Community Initiative Programme (CIP) and the Programme Complement (PC)).

The jointly elaborated CADSES programme (Interreg IIIB) promotes projects within four thematic fields: 1) promoting spatial development approaches and actions for social and economic cohesion, 2) efficient and sustainable transport systems and access to the information society, 3) promotion and management of landscape, natural and cultural heritage, and 4) environment protection, resource management and risk prevention (cf. Interreg IIIB CADSES 2004). By means of trans-national cooperation projects on diverse thematic issues, project partners test and develop a common trans-national territorial cooperation step by step. Joint solutions are elaborated and implemented for common problems: a true innovation within a policy field which has so far been weakly developed in Southeast Europe.

The scope and scale of projects may vary significantly. But a common feature of all projects is the generated 'trans-national value added'. Through promoting cooperation between countries and regions, projects contribute to an exchange of knowledge and experience as well as joint problem solving (see Figure 6.10). As a testing and implementation tool of the ESDP, the initiative moreover contributes

to a more balanced development and a more harmonized European spatial development.

The Planner Network for Central and South East Europe (PlaNet CenSE) exemplifies a project, where emphasis is laid on building up communication and cooperation structures and on elaborating a strategy for the whole area. The network consists of 25 project partners from 15 different countries, including stakeholders from ministries, regional governments, research institutes and universities dealing with spatial planning. As the understanding on spatial development policies and instruments varies significantly between regions in CADSES (and Europe in general), PlaNet CenSE aims first of all at building up a common understanding on spatial development issues by means of a constant transfer of information, of know-how and experience between all partners. The common understanding is then translated into a strategic spatial development document setting up goals and objectives for the future development of the area. Through establishing a common discussion and planning process in South-East Europe the project helps on the one hand to overcome mental and technical barriers. On the other hand it directly integrates participating institutions and actors from non EU member countries into European spatial development networks and their corresponding debates (e.g. ESPON, EU Territorial Agenda).

**Figure 6.10 Interreg III B project PlaNet CenSE**

Being the Interreg area including EU member, EU candidate, EU potential candidate and EU neighbouring countries alike, CADSES might be regarded as the most crucial trans-national cooperation area in Europe, playing a significant role for the European integration process in general. This results in specific barriers for cooperation because EU member and non member countries are subject to different European funds. For participation within the assistant programme Interreg III B CADSES, EU member countries obtain funding from the European Regional Development Fund (ERDF). If partners from non EU countries want to participate in CADSES projects they have to use their own national funding programmes or apply for funding from PHARE (Poland and Hungary Action for Restructuring the Economy, available for acceding and candidate countries) or CARDS (Community Assistance for Reconstruction, Development and Stability in the Balkans; which applies to Western Balkan countries).

In practice, this has proved a major drawback for true/full integration among regions in Southeast Europe so far. Not just the priorities and measures of the different assistant programmes but their programming and decision making structures also vary significantly, with the implication that proposed CADSES projects might be approved for ERDF funding but disapproved in another funding programme. In addition, different financial planning horizons for CARDS and PHARE (yearly) on the one and ERDF (six-year period) on the other hand have led to considerable management and financing difficulties (Schäfer 2003).

To better integrate non-member states into CADSES, regulations and mechanisms of trans-national cooperation have recently been altered. Following the Commission Communication on a 'New Neighbourhood Instrument', the Community Initiative Programme CADSES was transformed into a Neighbourhood Programme in December 2004. The regulations and mechanisms of trans-national cooperation already existing have been altered taking special regard to EU enlargement process and the integration of the Balkan area. The CADSES managing authority succeeded in harmonizing the different community instruments operating in the area. At the 4th call for proposals, partners from member and non-member states had to submit one single joint application. They can now simultaneously apply for grants from ERDF, (TACIS), CARDS and PHARE. The application is jointly assessed and approved, according to harmonized criteria. It remains to be seen when the last step of this ongoing integration process is reached: As the next stage, the European Commission proposed for the upcoming programming period (2007–13) the elaboration of a single funding instrument operating on both inside and outside the EU (cf. Commission of the European Communities 2003).

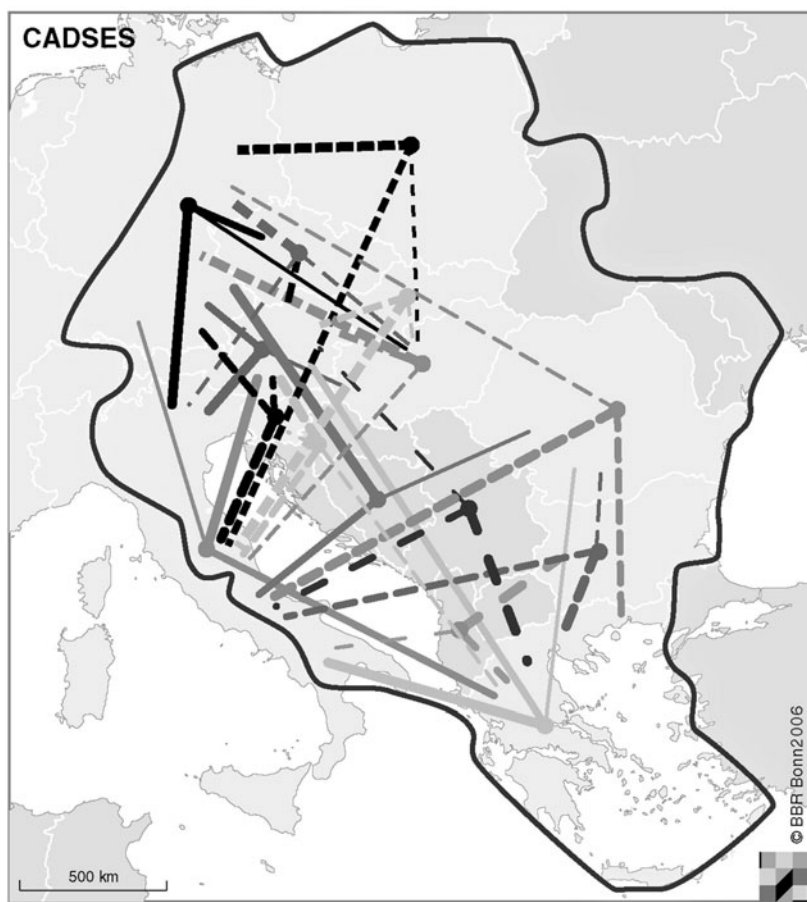
### **Integration Through Trans-national Territorial Cooperation**

Taking administrative barriers into account, the degree of participation of Southeast European partners in the CADSES programme is nevertheless already remarkable: The Interreg III B CADSES programme approved 136 projects within the current programming period. Nearly one fifth of all projects are running exclusively with partners from Southeast Europe. Only four projects include no participant from Southeast Europe. The project partner statistics reveal that 71 % of all project partners in CADSES are from Southeast Europe. Partners from EU member countries generally appear more frequently than partners from non member countries. Italian partners undoubtedly play a prominent role, providing 21 % of all CADSES partners and 30 % of all partners from Southeast Europe. The most common partners in CADSES projects from non EU countries are from Bulgaria and Romania, while Bosnia and Herzegovina and Macedonia are proving to be the weakest project partnership members out of all Southeast European Countries (cf. Table 6.2). The analysis of emerging clusters of cooperation reveals that neighbouring regions do not necessarily cooperate more frequently with each other (cf. Figure 6.11).

**Table 6.2** Number of Interreg III B CADSES projects and project partners from Southeast European countries (in May 2006)

|  | <b>CADSES</b> | <b>Albania</b> | <b>Austria</b> | <b>Bosnia<br/>&amp; Herzegovina</b> | <b>Bulgaria</b> | <b>Croatia</b> | <b>Greece</b> | <b>Hungary</b> | <b>Italy</b> | <b>FYR Macedonia</b> | <b>Romania</b> | <b>Slovenia</b> | <b>Serbia &amp;<br/>Montenegro</b> | <b>South-East<br/>Europe</b> |
|--|---------------|----------------|----------------|-------------------------------------|-----------------|----------------|---------------|----------------|--------------|----------------------|----------------|-----------------|------------------------------------|------------------------------|
| Number of projects                               | 136           | 18             | 71             | 8                                   | 45              | 34             | 72            | 68             | 102          | 6                    | 47             | 50              | 24                                 | 132                          |
| % of all projects                                |               | 13             | 52             | 6                                   | 33              | 25             | 53            | 50             | 75           | 4                    | 35             | 37              | 18                                 | 97                           |
| Number of partners                               | 1611          | 23             | 172            | 8                                   | 66              | 50             | 187           | 116            | 342          | 10                   | 62             | 67              | 35                                 | 1138                         |
| % of all partners                                |               | 1              | 11             | 0                                   | 4               | 3              | 12            | 7              | 21           | 1                    | 4              | 4               | 2                                  | 71                           |
| % of partners from<br>South East Europe<br>(SEE) |               | 2              | 15             | 1                                   | 6               | 4              | 16            | 10             | 30           | 1                    | 5              | 6               | 3                                  | 100                          |

*Source:* BBR's Interreg III B project database



**Interreg IIIB - Cooperation structures of states regarding transnational projects in CADSES\***

— Partner states with the highest share of project participation

— Partner states with the second highest share of project participation

— Partner states with the third highest share of project participation

Germany

Austria

Italy

Greece

Poland

Czech Republic

Hungary

Slovakia

Slovenia

Bulgaria

Romania

Croatia

Serbia and Montenegro

Bosnia and Herzegovina

Albania

Geometric Basis:

Eurostat GISCO

Source:

INTERREG IIIB-Database (BBR)

As to 2005-07-06

\*At least one partner from one state participates, several partners from one state per project are summarised as one participation unit. States participating in less than five projects are not considered.

**Figure 6.11 Cooperation patterns in the Interreg III B CADSES area**

The results of the analysis reflect the fact that partners from participating non EU member countries are already included in a considerable trans-national cooperation network. Evidence further shows that there is a great demand in the macro region for cooperation with partners from Southeast Europe – also from non EU member countries. With the fourth call for proposals more than 200 applications have been submitted.

So far the step by step integration process of non EU member states into the administrative and funding structures can be regarded as great success. Integration by means of cooperation takes place on both programme and project level. On programme level the participating countries and regions cooperate in joint implementation structures. At a lower level integration is fostered through numerous, steadily growing cooperation networks between different regions and actors. The initiative has so far been successful in initiating such cooperation structures and networks among regions and countries in Central and Southeast Europe. Considering that the projects have to be co-financed by national or private funding, the initiative has in addition succeeded in mobilizing large financial resources across borders (cf. BBR 2005).

As is indicated by the increasing number of project partners (from 211 project partners cooperating in Interreg II C to 1611 project partners cooperating up to now in Interreg III B), an increasing number of institutions is becoming aware of this new domain of cooperation and of the funding mechanisms of the Structural Funds in general. The programme has succeeded in generating considerable demand for the trans-national value added of cooperation projects. By means of common discussions and planning processes Interreg has opened up a new dimension in international relations. Trans-national cooperation can thus be considered to represent a valuable contribution towards the strengthening of internal integration and towards fully integrating Southeast Europe within the European Union.

### **Conclusions: Which Future for Southeast Europe in Changing European Geographies?**

In this article we have set the scene for changing European geographies. Driven by globalization and the European integration process, the former distinctive West-East pattern is slowly breaking away and being replaced by a more heterogeneous patchwork with different regional potentials and performances in both Western and Eastern Europe.

Though the traditional West-East divide is more and more vanishing a general economic (and accessibility) core-periphery pattern nevertheless remains a distinguishing feature of European geographies. The enlargement of the EU has so far not fundamentally changed the concentration of economic power and wealth in the Western European core area. But driven by a very dynamic East-West integration process (e.g. strong trade flows between Eastern Europe and the EU 15), new pockets of high growth and wealth are emerging also outside the core area in what is often referred to as the so-called European periphery, especially in (South-) Eastern Europe.

This generally very positive integration process of new EU member and EU candidate countries with the EU-15 has at the same time its drawbacks. Firstly, the polarized character of the EU integration process towards EU-15 is reinforcing the disparities between and within (Central and) Southeast European countries. Changing European geographies are thus characterized not only by a core-periphery pattern at European level, but also at lower levels (e.g. between new and non-EU member countries, between capital city regions and the rest of a country). Secondly, as demonstrated with the example of trade exchange patterns, a very dynamic integration towards EU 15 comes along with a less dynamic internal integration. Growing disparities and weak internal integration suggest that cohesion especially in Southeast Europe will be an objective difficult to reach for a long time.

We have shown that European spatial development policy tries to counteract these negative trends. Polarized ('hard') integration forces towards EU-15 like investment flows or trade exchange patterns are balanced by means of ('soft' forces like) supporting cooperation within the area. In this respect we have introduced trans-national cooperation as important new policy domain bearing considerable potential to foster integration not only in terms of involving non EU member countries into European programmes (into newly emerging cooperation structures) but also in terms of jointly exploiting existing opportunities of the area. Especially in Southeast Europe, an area that is characterized by the existence of many smaller countries, trans-national cooperation needs to be seen as important 'soft' tool to activate untapped potentials by pooling and combining resources. The envisaged separation of CADSES into a 'Central European' and a 'Southeast European cooperation area' might further support the process of building up an own profile of the macro region. The programme implementation should however be complemented by cross-cooperation-area activities in order to avoid the risk that new borders are created.

To sum up, within changing European and global geographies Southeast Europe is running the risk of being further fragmented. In this situation, it becomes ever more important to integrate the macro region as a whole to strengthen its competitiveness on the European or global arena. Trans-national cooperation is an important step towards a more integrated, competitive and cohesive Southeast Europe.

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## Chapter 7

# The New Generation of European Sustainable Development Documents and Strategic Development Schemes of Serbia and Montenegro – The Problem of Correspondence

Miodrag Vujošević

### Introduction

Over the last few years a number of pan-European and regional development documents were drawn up and enacted in the European Union and other European countries, regions and local communities. What distinguishes them from former documents is a strong emphasis, at least nominally, and often truly and effectively, on the issue of sustainability.

Outside the Union, many of such novel documents have been replicated in other European countries. Serbia and Montenegro (in the sequel: S&M) are an exception, however. Mostly as a consequence of the miss-events as from the beginning of the 1990s, the country is still in a deep social, economic and political crisis. The trend towards sustainability has been reflected mostly in a part of the pertinent legislative, while there is still a very small number of veritably sustainable development documents that have been prepared so far.

In Serbia and Montenegro two attempts took place in the mid-1990s to prepare spatial development strategic schemes at the republican level, in which a fair number of corresponding categories from the later European documents were used.

In 1996/97 The Spatial Plan of the Republic of Serbia/Prostorni plan republike Srbije was adopted, in which a large number of basic reference points and strategic commitments and general goals were set up, *viz.* (9–12):

- A higher degree of functional integration of Serbia's space
- A considerably greater number of communication and economic links between Serbia and its neighbours and with other European countries
- The lessening of regional disparity (a more balanced regional development), based on the development of a number of regional centres for pertinent functional (gravitational) areas, designed with the aim of rationalizing management and organization of public services and the efficient coordination of local community activities

- The improvement of the quality of life in macro and regional centres, supported by the incentives for the development of small towns
- The effective introduction of the principle of polycentric development
- The development of rural settlements and areas as multifunctional production, social and cultural entities
- The improvement of attractiveness of the zones with considerable development potential, in order to selectively relocate some economic activities and population
- The priority development of insufficiently developed hilly, mountainous and border areas
- The introduction of rigorous locational, technical, techno-economic and environmental criteria in the investment-decision procedures
- The careful management, rational use and protection of natural resources, and concomitant protection of natural and cultural heritage
- The priority protection of the best-preserved ecological areas, as well as of those areas with the best prospects for sustainable development
- The provision of a timely reservation of space in the corridors of technical infrastructure
- The fight against illegal construction and non-planned utilization of space, etc.<sup>1</sup>

In more spatial ('physical') terms, a number of development axes of various ranks (I-III) have also been designated.

Also, a very elaborate system of implementation measures and support was stipulated, to be elaborated in detail in the sequel, which, however, did not happen.

Although there has been neither systematic monitoring nor ex post evaluation of the implementation of The Spatial Plan of the Republic of Serbia (1996–97), even the fragmented evidence existing indicate that the majority of its provisions have not been implemented. An exception to this relates to the preparation of spatial plans at lower planning levels, which made fair progress in recent years, albeit not at the pace stipulated by the Plan, an implementation, as good as it is indirect, of some of its

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1 The *Plan* is a wordy document comprising some 300 various propositions, i.e. prospects/perspectives, forecasts/prognoses, goals, aims, objectives, targets, policy measures, implementation instruments, and so forth, for mid- and long-term planning period. The majority of those propositions have not been operationalized afterward, i.e. 'brought down' to directly implementable stipulations; the majority of them have been expressed in rather glowing terms. However, as Boisier (1981) states, it is indispensable for a development planning documents to have a fair number of its propositions operationalized ('finely elaborated'), even to the level of very concrete targets, i.e. the most worked out propositions, in order to provide for 'readable' implementation stipulations, and reliable planning instruments for monitoring and ex post evaluation of development aims, goals, objectives and targets. Should this not be provided, we add here, especially vague and malleable notions, and 'development', 'sustainability', 'polycentric development', 'territorial cohesion', and many other, notably belonging to this group, will be open to many different and often disparate interpretations, which by itself render the implementation process very complex and almost unmanageable.

propositions via spatial and urban plans at sub-national governance/planning levels (cf. Vujošević and Petovar 2002).

Similarly, The Spatial Plan of the Republic of Montenegro/Integralni tekst Prostornog plana Republike Crne Gore do 2000. godine was adopted in 1997, defining a number of strategic aims, viz.:

- Rational utilization of space
- Lessening the regional disparities
- More rational utilization of the available economic potentials in industry, agriculture, tourism, forestry and transportation
- Priority protection of agricultural lands
- Protection of natural and cultural heritage
- Lessening the seismic and other natural risks and hazards
- Polycentric spatial organization
- Regional differentiation of spatial structure
- Strengthening the ecological component of the spatial structure
- Improving the integrity of spatial structure
- Improving the connections with the neighbouring areas, etc.

This Plan also was not implemented in terms of its key propositions (cf. Ocjena stanja i perspektive prostornog razvoja Republike Crne Gore, Nacrt, Decembar 2005).<sup>2</sup>

It could be easily recognized that both documents put forward a number of propositions that, at least nominally, fairly correspond to the categories in the subsequently elaborated European documents of the kind. However, as they were not effectively implemented, this apparently happened to have been undertaken in vain.

In this chapter, a presentation of a number of European and regional documents, schemes and initiatives of sustainable development is undertaken, followed by a brief assessment of their relevance for S&M. Some key general and specific characteristics of the state of development in the country are commented in this context. The paper concludes with some suggestions regarding how to proceed towards more pro-European approaches and practices both now and in the immediate future.

The paper draws extensively on the earlier research of the author (cf. References), as well as on many other sources. Also, the work presented here follows, in broad terms, a number of recent streams in planning theory and practice, viz.:

- In the first place, it indirectly reflects the discussion and concomitant controversies regarding the current and future role and consequences of the ESDP (European Spatial Development Perspective) and related documents (cf. Faludi 2000; Faludi 2002; Faludi 2005a; Jensen and Richardson 2004).
- Next, it draws from the research on the new planning modes and planning heuristics in the post-socialist transition (cf. Nedović - Budić 2001; Nedović -

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2 The preparation of a new republican spatial plan for Montenegro is under way, to be approved in the beginning of 2007.

Budi and Vujošević 2004; Thomas 1998; Vujošević 2003a; Vujošević and Filipović (red/eds) 2006; Vujošević and Nedović-Budi 2006).<sup>3</sup>

- The discussion is based on the findings of a large number of scholars who draw attention to the phenomenon whereby a wide range of European policies, combined with strong competitive forces, tend to favour the more advanced cities and regions in the European core, at the expense of the less developed areas (cf. Petrakos et al. 2000).
- Finally, it also reflects an urge to conceive a new generation of development policies and cooperation at pan-European and regional (here: Balkan) level, to cope with the recent changes in the EU architecture (Healey 2004; Petrakos and Liargovas 2003; Vujošević and Getimis 2003).

## New European Development Documents and Schemes

As from the end of the 1990s, a new generation of development documents have been produced for the European Union and other European countries, which focus on the issue of spatial sustainability and related matters. Two of these are of prime interest here, *viz.*, European Spatial Development Perspective, Towards Balanced and Sustainable Development of the Territory of the EU, ESDP, adopted at the informal meeting of Ministers Responsible for Regional Planning of the European Union in Potsdam in 1999, and Guiding Principles for Sustainable Spatial Development of the European Continent, accepted by the CEMAT in Hanover in 2000, for the member countries of the Council of Europe. They are also matched by a number of similar regional research and development projects, for example, CADSES/VISION PLANET, ESTIA/SPOSE, etc. The regional schemes more or less replicate the categories from the pan-European documents, and elaborate on them *vis-à-vis* the regional fixities and givens.

### *European Spatial Development Perspective (ESDP)*

The European Spatial Development Perspective (ESDP) was adopted in 1999, after a very complex professional and political process that lasted more than 20 years (Faludi 2002). It appeared from a tense and complex, on the one hand, and ultimately successful liaison, on the other, of two dominant European planning traditions, *viz.* (Faludi 2002, 3–17):

- German (and parallel Dutch) tradition of spatial planning and policy, which is based on the notions of *Raumordnung* ('spatial ordering') and *Raumplanung* ('planning of a space of an area', or 'systematic preparation of spatial policies'), and thus of a more regulatory character.
- French tradition of combined regional economic planning, and spatial planning, based on the concept of *aménagement du territoire* ('shaping of the territory'),

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3 Unlike the prolific research on the spatial and urban planning theories applying to the market economies, there has been a relatively small number of such insights referring to the socialist transitional societies, resulting so far in few rudimentary attempts only.

with an ambition to reach a balanced territorial allocation of economic activities by means of appropriate strategic schemes. It has traditionally been more centralized, but recently (as from some ten years or so) the roles of regional and local actors have been seen as essential in efforts to rebalance this centralized system and practice (Faludi 2004, 1351).<sup>4</sup>

The document consists of two parts, i.e. Part A, 'Achieving the Balanced and Sustainable Development of the Territory of the EU: The Contribution of the Spatial Development Policy', and Part B, which is a technical appendix.

Chapter 1 of Part 1 introduces territory as a new dimension of European policy, and defines the goal of balanced and sustainable spatial development, to reconcile social and economic of development with the key ecological and cultural aims and criteria.

Chapter 2 focuses on the (new) concept of European spatial policies, pointing to three key policies, i.e. regional policy, development of trans-European networks, TENs, and environmental policy, and recommending an integrated and multi-sectoral spatial development approach.

Chapter 3 defines a number of policy options, grouped under three strategic guidelines:

- Polycentric spatial development and a new urban-rural partnership, covering more specific objectives, viz.: 1) Overcoming the obsolete relationship between urban and rural areas. 2) Development of attractive and competitive cities and urbanized regions. 3) Autochthonous development of diverse and productive rural areas.
- Parity of access to infrastructure and cultural heritage, which focuses on: 1) Promoting the concepts of integrated transport and communication. 2) Efficient and sustainable use of the infrastructure. 3) Diffusion of innovation and knowledge.
- Wise management of the natural and cultural heritage, which includes: 1) Preservation and development of natural heritage. 2) Water resource management. 3) Creative management of cultural landscapes and heritage.

Thus, each of the strategic aims, consisting of several topics, is supported by 13 more specific policy aims and some 60 policy options in total.

Chapter 4 dwells on the application of the ESDP at European and trans-national level, as well as in cross-border and interregional cooperation.

Chapter 5 discusses the issue of enlargement of the EU, a topic still dominating the professional and political scene.

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4 There are two other planning traditions: the land use management, where the key role of planning, rather narrower as compared to the key streams, is the controlling of the land use changes (the most notable example being that of the UK planning practice); and the tradition of 'urbanism', based on local zoning and building codes and rule (mostly in the Mediterranean countries of Europe). However of relevance, they were of less significance in the preparation of the ESDP (Faludi 2000, 244).

Being primarily a political document of non-binding nature, the ESDP propositions are formulated as indicative guidelines.

The ESDP is based on the paradigm of sustainable development, understood and interpreted in its broader sense, i.e. comprising all key spatial, environmental, economic and social aspects and contents of development. This broad tenet is reflected in the key development objectives mentioned above, i.e. economic and social cohesion, conservation of natural resources and cultural heritage, and a more balanced competitiveness of the European territory.

The above listed objectives of the ESDP are aiming at the conservation and enhancement of regional identity, as well as at the maintenance of natural and cultural diversity of the EU regions and cities, which is of high importance in the process of globalization. In this respect, the ESDP takes into account the major differences in the spatially important indicators of development between the countries and regions of the EU. It came to the surface after several years of analysis, planning and coordination, and proceeded from the finding that EC policies and measures (competition policy, the TEN, structural funds, the common agricultural policy, environmental policy, research, technology and development and the loan activities of the European Investment Bank) have the spatial impact of changing the spatial structures and potentials in the economy and in society, and in this way the methods of using land and landscapes. The ESDP represents an 'agreement' on the above principles, whereby EC policies and measures must be spatially differentiated, and it sets out the necessary guidelines for this, thereby growing into a framework for determining policies and their fulfillment. The implementation of the ESDP is both based on, and paralleled by, a number of corresponding Community initiatives and programmes supported by appropriate finance schemes, *viz.*, INTERREG, TERRA, RECITE, PHARE, TACIS, MEDA and LIFE, and projects such as ARCHI-MED, the Northern Periphery, Alpine Area/Eastern Alps, Mediterranean Gate and VASAB 2010 (Sustainable Spatial Development of Slovenia – Challenges and Opportunities, 2003, 9–10).

The ESDP was developed against a backdrop of a new European development philosophy and thinking. It is a strategic spatial framework for the spatial coordination of the on-going and future EU policies. On the one hand, it identifies the need for global economic integration zones developing outside the 'pentagon' of London-Paris-Milan-Munich-Hamburg, but without, on the other hand, introducing more distributive policies. Rather, the ESDP banks on networking between actors in the field, to improve on the competitiveness of the EU and its regions. In this respect, being a document of spatial/territorial policy of the EU, it addresses a key issue, and shares it at the same time with another Community policy, that with the regional development theme of – how to harmonize (or – supplement) traditional approaches based on 'catching-up' policy for countries and regions lagging behind, i.e. regional policy, with (by) a policy of helping regions/countries to improve their competitiveness, which is an eminently spatial or territorial policy (Faludi 2004, 1363). This is of particular significance regarding the enlargement of the Union, whereby a successful and sustainable structural policy capable of reducing regional disparities, paralleled by the policy of territorial cohesion, is of unprecedented importance. Namely, the strategic aim is to develop 'dynamic zone of global

economic integration' throughout the territory of the EU, to ultimately result in the current and pending disparities between core and periphery considerably reduced.

Thus, the ESDP promoted the key concept of competitiveness, but it also advocated that complementarity of European regions should not be focused solely on economic competition but be expanded to cover all urban functions such as culture, education and knowledge, and social infrastructure, within a framework of preferable 'balanced competitiveness' (Tewdrw-Jones and Morais Mourato 2005, 70–71). It is still to be seen how the ESDP will be coordinated with a more interventionist regional and related policies aiming at overcoming the problems of the lagging-behind regions (i.e. cohesion policy) and with the eminently anti-interventionist competition policy and the policy of full market integration (71). True, the ESDP carries a strong market- and competition-oriented spatial development orientation (Jensen and Richardson 2004, 21), which is by itself likely to keep high on the political agenda, and for a longer time period, another key issue, namely, that of how it is possible by means of this strategy to promote the EU ideals of equity, justice and political legitimacy (Getimis 2003, 85).

To note, the ESDP aims at three dimension of coordination (Schafer 2005, 50):

- Coordination among European sector policies affecting territorial development (horizontal coordination)
- Coordination of activities in different European regions that should be achieved by cooperation among Member States' governments (or the institutions responsible for regional planning in Member States)
- Coordination among spatial policies at different levels, i.e. European, national and regional planning (vertical coordination).<sup>5</sup>

However, at the end of this section it ought to be noted that, according to some commentators, the scope of coordination achieved so far has been rather modest. For example, Nicole Schafer (2005) points to the fact that so far, despite all attempts, the coordinating effect of the ESDP in spatial development 'remains minute', especially in terms of coordinating EU sectoral policies (e.g. transport, energy, environment, etc.) (44). She explains (45): 'The problem of deficient coordination of spatially relevant Community sectoral policy has not yet been solved', either in terms of coordination within European institutions and policies, or in terms of coordination between these institutions and member states. To a large part, this is a consequence of the still dominant sectoral orientation of the Commission, as European policies are, to a considerable extent, formulated by sectoral experts, and territorial know-how is not structurally incorporated in the political decision-making process (46).

Even more sceptic authors assert that the practice of spatial visioning at the EU and trans-national level has already come to a standstill. With the exception of the NEW North-Western Europe, even the INTERREG II B programmes do not follow

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5 The new Member States are only partly taken into account and the policy options of the document are not explicitly directed to them. Regarding coordination of spatially relevant EU policies, the document pertains to the entire territory of the EU 25 and to some regions beyond it.

the line of visioning, as they focus primarily on implementation and concrete action, via the approach 'planning as programming' (Zonnenveld and Waterhout 2005, 24). Faludi (2005c, 107) points to the apparent refusal of the European Commission ever since early 2000s to continue its support for the ESDP process, as no senior politician has since supported the ESDP process. Rather, the ESDP progressed thanks to the efforts of planning experts working in various administrations (113). Consequently, as the competence issue regarding the ESDP apparently evaporates, the EU would have to switch to an engagement in territorial cohesion policy instead (Faludi 2005b, 2).

On the other hand, this problem is not easy to resolve, since the notion of territorial cohesion, the significance of which was reiterated by the Third Cohesion Report (2004), broadly understood as sectoral coordination and balanced competitiveness, is still 'an undefined political objective'. To become meaningful, the general notion of territorial cohesion should become transparent in policy documents, and operationalized in parallel (Polverari and Bachtler 2005, 40).<sup>6</sup>

### *ESPON*

Following the adoption of the ESDP, in 2002 the ESPON (European Spatial Planning Observatory Network) was launched, in order to provide information on the spatial effects of common policies and to identify future prospects. This network has been established for a five-year period until 2006. It covers all EU member states, the accession states of Romania and Bulgaria as well as Norway and Switzerland (29 countries). The stated purpose has been to provide an analytical basis for the ESDP, i.e. an analytical basis to policy (Gestel and Faludi 2005, 82).

The ESPON pursues seven objectives in the broader area of spatial development and spatial planning (Gestel and Faludi 2005, 87–8):

- To add value to existing national research by providing a clear trans-national focus
- To specify implications of ESDP policy orientations on a trans-national scale
- To develop orientations for instruments and institutions for application of ESDP policy
- To contribute to an understanding of the spatial dimension of Structural Funds and policies
- To improve coordination of territorial decisions at all levels and sectors
- To bridge the gap between policy makers, administrators and scientists
- To create a network of EU scientists in spatial development.

So far, enormous empirical work has been accomplished within some 25 particular projects, paralleled by the construing of spatial sustainable development indicators, all based on the NUTS territorial division scheme. The content of theoretical work

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6 This is but one notion with malleable meaning in the new European jargon, alongside with, for example, sustainability, subsidiarity, coordination, etc.

on new concepts has however amounted to less (89). In sum, the ESPON has now acquired a broader scope than the ESDP (90).

The ESPON was proceeded by the Study Programme on European Spatial Planning (SPESP), which was set up as a text exercise (pilot project), with the aim to provide preliminary insights on how possible future European Spatial Planning Observatory Network (ESPON), i.e. European-wide research networking in the field of spatial planning, could be organized and on what could be expected of it. From the very beginning they were intended altogether as a knowledge/information support for the implementation of the ESDP, via: 1) selection of appropriate sustainable development indicators; and 2) suggested possible strategic direction, to serve in the sequel as the framework for general and specific implementation policies.

The SPESP specified a number of criteria for spatial differentiation, following the basic stipulations of the ESDP, out of which propositions, rural-urban partnership and its regional (spatial) differentiation was focused on most (including cartographic illustrations of indicators and possible policies).<sup>7</sup> Seven criteria that had been formulated in order to develop indicators for the monitoring of trends and evaluation of policies in the ESDP, were also used in the SPESP, viz. (<http://www.nordregio.a.se/spespn/welcome.htm>):

- Geographical position, i.e. the relative location of area
- Spatial integration, i.e. the opportunities for and levels of interaction between areas
- Economic strength, i.e. the relative economic situation of an area compared with others
- Natural assets, i.e. the importance, sensitivity, size of rarity of ecosystems and other natural areas
- Cultural assets, i.e. landscape characteristics and ancient and modern cultural structures
- Land-use pressure, i.e. the probability of conflicts of interest between different types of land-use
- Social integration, i.e. the level of interaction between social groups within and between areas

#### *ESDP and some other related documents of European sustainability*

The ESDP was made possible in a broader context of new EU documents imbued with the paradigm of sustainability. The Lisbon Strategy, which was adopted on 23 and 24 March 2000 by the European Council, defined a 'new strategic goal for the Union in order to strengthen employment, economic reform and social cohesion as part of a knowledge-based economy', so that the EU should 'become the most competitive and dynamic knowledge-based economy in the world' ([http://europa.eu.int/comm/lisbon\\_strategy/index\\_en.html](http://europa.eu.int/comm/lisbon_strategy/index_en.html)). The strategy is based on three pillars,

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7 Some 200 researchers, in a number of institutions (organizations) from all 15 member states were engaged in the period from December 1998 to February 2000, and coordinated via National Focal Points (NFP) and a common Coordination team.

i.e. economic and social renewal and the environmental protection, and also a few more concrete targets. It was followed by a number of other policy goals and actions for a broad range of issues, e.g. developing the information society, establishing European research programmes, creating a friendly environment for starting up and developing innovative businesses, modernizing social protection, etc. The progress achieved has been regularly reported to the European Council through 'spring reports', along a set of structural indicators developed for six area, viz.: economic performance; employment; education, research and innovation; economic reforms; social cohesion; and the environment. As from 2003 onwards, these reports and indicators have also covered the acceding and candidate countries.

Based on the Commission's communication on a sustainable development strategy of May 2001, the European Council in Gotheburg added a new, environmental dimension to the Lisbon process, as its 'third pillar' (apart from economic and social reform). The strategy stipulates that all major policies are subject to a procedure of sustainability impact assessment, and aims to better coordination of the existing national strategies ([http://europa.eu.int/comm/environment/index\\_en.htm](http://europa.eu.int/comm/environment/index_en.htm)). It focuses on 'prices reflecting the true costs to society', in a number of priority areas (e.g. climate change, transport, public health, and the management of natural resources). As compared to the Lisbon strategy, it is more detailed in terms of the key environmental objectives and targets set out, applied to the four priorities, at various strategic, political and legislative levels. In addition to these, six specific environmental action programmes have been laid down. As from 2002, the Gothenburg strategy has been subject to regular and systematic monitoring, evaluating, adjustments and reporting, annually presented to the spring European Council. A renewed Strategy is expected in the spring 2006.

### *Guiding Principles for Sustainable Spatial Development of the European Continent*

Following the first conference of the European Conference of Ministers Responsible for Regional Planning of the Member States of the Council of Europe (CEMAT) in Bonn in 1970, the ministers meet every three years in order to examine the results of activities and define priorities for the next three-year period. The basic aim of cooperation is a common contribution towards ensuring the sustainable spatial development of the European continent, at pan-European level and within the member states. Over the period of more than 30 years, a number of documents have been adopted. The 12th CEMAT, held in 2000 in Hanover, adopted the Guiding Principles for Sustainable Spatial Development of the European Continent (in the sequel: Guiding Principles), which represent a common vision of sustainable spatial development and a flexible framework for cooperation. The Guiding Principles upgrade and complement the common principles on the democratic, comprehensive, functional, and long-term spatial development policy, which should ensure balanced development, a better quality of life, wise use and management of resources, as well as rational land use (as defined in the previously adopted documents, e.g. that of the Torremolines Charter from 1983).

The Guiding Principles are a German initiative. They are similar to the ESDP, but are much wider in geographical terms, and less constrained by the auspices of

EU policies. Then, for the first time spatial planning at the pan-European level was introduced as a new concept, and recognized by a pan-European institution (Martin and Robert 2002).

The Guiding Principles were prepared within a more diverse political context (and discursive arena), and within less matured institutional and organizational arrangements of the Council of Europe in the field of spatial development policy (although recently rapidly growing). Also, their implementation is predictably to face a much larger scope of different interests at various governance levels of the member states. The CEMAT Guiding Principles more strongly focused on economic growth based on competitiveness and balanced territorial cohesion and rural and/or peripheral regions (in the latter aspect, they have been less urban-biased than the ESDP initially promoted). They strongly rely on the concept of endogenous regional and/or development, to generate a new wave of restructuring policies in accord with the demands of a globalized economy. However, it is still to be seen whether and how this strategic orientation could be realized in the future (Jensen and Richardson 2004, 216 and 229).

The Guiding Principles are comprised of six parts, covering the following broad themes/issues:

- The contribution of Guiding Principles to the implementation of the social cohesion strategy of the Council of Europe
- All European challenges and prospects of spatial development policy in Europe
- Emphasis on the specific role of the private sector in spatial development
- A proposal for spatial development measures to be applied for the implementation of general objectives in particular areas and for particular issues
- The principles for strengthening the cooperation between the member states of the Council of Europe.

Special attention is paid to the role of spatial development policies, the principles and measures of sustainable development policies, spatial development measures in particular areas, the promotion of cooperation between members, the cooperation between regions, locales and the public, and the role of the private sector in sustainable spatial development planning.

Thus, in addition to three long-standing components of sustainability, i.e. its economic, environmental and social aspects, a fourth dimension was also introduced, that of cultural sustainability.

As for the specific and exceptionally important role of the spatial development policies, at least five of them were emphasized, *viz.*: their distinctive trans-sectoral orientation; the multi-level nature of their creation and implementation; the significance of public participation; the prevention of mistakes in the past policies mistakes; and the specific problems of less developed areas with poor living conditions.

In Hanover recommendations were adopted encouraging all member states to use the Guiding Principles as the framework of all activities, measures and instruments

pertaining to the preparation and implementation of spatial development policies in individual projects (as appropriate), to be reported on at the next Conference of CEMAT in Ljubljana.

Over the three years to follow, the member states have undertaken many common activities, aiming at the implementation of the programmed activities.

Among them, of particular importance were international seminars (conferences, congresses, etc.) on a number of general or specific themes, *viz.*, integration of the greater European space; landscape heritage, spatial planning and sustainable development; role of local and regional authorities in regional/spatial planning; role of spatial planning in sustainable development of specific zones (i.e. mountains, coastal zones, rural zones, flood plains and alluvial valleys; inter-sectoral aspect and relations of sustainable spatial development; prevention of floods and other natural disasters in the sustainable spatial development framework; etc.

Another strand is the preparation of written national reports on the implementation of Guiding Principles in terms of the national documents and legislation, as well as the preparation of proposals on a number of issues (e.g. promotion of public-private partnership in the spatial development policies, training of authorities, developing new methods of protection against floods, ensuring sustainable rural development, preparation an entirely generation of sustainable development documents/decisions at various governance levels, etc.), altogether aiming at the enforcement of the adopted principles of sustainable development in the practical context.

The implemented activities in various European places were directed along a number of recurrent themes of sustainability, *viz.*: promotion of territorial cohesion through a more balanced social and economic development of regions and improved competitiveness; encouraging development generated by urban functions and improving the relationship between town and countryside; promoting more balanced accessibility; developing access to information and knowledge; reducing environmental damage; enhancing and protecting natural resources and the natural heritage; enhancing the cultural heritage as a factor of development; developing energy resources while maintaining safety; encouraging high quality, sustainable tourism; and limitation of the impacts of natural disasters.

Also, strong moves forward were reported regarding horizontal and vertical cooperation, as well as regarding participation of the civil society.

Within the discussion on contribution of spatial development policies to sustainable development (Ljubljana Declaration 2003, 63–5), particular attention was paid to the issue of operationalizing the concept, sustainable development being one of the most complex open aspects.

As the most important forthcoming challenges to sustainability, in relation to the role of spatial development policies, the following were pointed to (Ljubljana Declaration 2003, 65–7): globalization and the scale enlargement of European integration; preventing damage caused by natural hazards; local development for income generation and the reduction of social exclusion; strengthening the vitality and quality of rural areas; revitalizing cities and containing urbanization; managing flows of goods and people; promoting cultural identity and enhancing cultural heritage; and developing stronger partnerships with civil society.

*Ljubljana Declaration on the territorial dimension of sustainable development*

The 13th Session of CEMAT was held on 17th and 18th September 2003 in Ljubljana, where Resolutions (1–5) were adopted by the Ministers responsible for Regional Planning. As we understand this document, it does not contain the elements that are substantially different from those of the Guiding Principles (2000). In effect, no new strands were introduced. Rather, additional voices were heard and emphasis was put on the enforcement of those priority aims that have already been defined in previous documents of the kind.

The Ljubljana Declaration pays additional attention to the territorial dimension of spatial development, especially in relation to an integrated approach in ensuring economic, social and territorial cohesion; and the enforcement of spatial development approach in the preparation and implementation of development policies. Also, special attention is focused on the enlargement of the EU.

Three substantive Resolutions (and two others of basically procedural character) adopted at the 13th Session of CEMAT, covered the following themes:

- Public-private partnerships (PPP), in spatial development policy (especially regarding a clear and effective legal framework, careful preparation of PPP projects and effective implementation of PPP projects)
- Training of authorities responsible for sustainable spatial development
- The prevention of floods and better coordination of all activities designed to minimize the risks and the consequences of disastrous floods.

*The ESDP and the Guiding Principles – similarities and differences*

The Guiding Principles from Hanover referred to the EU as being merely one of several ‘large European regions’ (CEMAT 2000, 5), as the Council of Europe membership of 45 countries comprises (now) the EU countries, accession countries, and those that are not likely to become EU members for some time to come. The majority of the propositions of the Guiding Principles (at the pan-European level) are similar to those of the ESDP, but they do not merely replicate them on a larger scale (Jensen and Richardson 2004, 8–9).

The key similarities and differences between the two are as follows (cf. Jensen and Richardson, 2004: 95–8):

- The Principles are very brief, without more detailed propositions on the key themes.
- The Principles also put emphasis on the primary importance of social cohesion (now: in the wider Europe), more than they do on economic growth. Still, they keep to the same conundrum as the ESDP does, namely, how to embrace balance, sustainability and cohesion.
- Similarly, the Principles pay a great deal of attention to the need for intra-European east-west economic integration, to match the challenges of the globalization process.

- They explicitly refer to sustainable spatial development, linking it to human needs.
- The Principles also attempt to strike a balance within the triangle economic competitiveness and growth-ecological constraints-social equity, which is one of the main themes of the ESDP as well.
- Further, albeit they keep to the priority relevance of urban areas, they emphasize to a greater extent the problems experienced, and the role played by agricultural and/or rural regions, pointing to the virtues and needs for endogenous development of rural regions. Here, the objective of balanced development focuses on reducing migration and rural-urban movements.
- On the other hand, Guiding Principles emphasize to an even greater degree the necessity of enhanced mobility as critical for securing economic development. Now, this applies to the entire Europe, especially accentuating the problem of accessibility of various peripheral and/or remote areas, and the concomitant significance of trans- and pan-European transport corridors and networks. Also, the important role of secondary networks is stipulated, in order to improve accessibility, reduce the isolation of peripheral regions, and, in the case of many locales in Central and Eastern European countries, link smaller cities and towns to each other, as well to the major urban centres.

### *The community initiative INTERREG*

This initiative is one of the central institutional and organizational frameworks for regional, spatial and urban planning in the EU, and, to some extent, to some other European countries and/or regions. It is closely related to other EU policy, albeit not always without frictions. The INTERREG programme was originally initiated under the European Development Fund (ERDF), in order to overcome the barriers among the member states in implementing the Community's actions at regional level. Especially, trans-national cooperation initiated by Interreg IIC and IIIB can be regarded as a major progress in the evolution of the EU spatial development planning and policy. The first programme, INTERREG I, was aimed at cross-border regional cooperation, followed by the INTERREG II, to cover also cooperation between regions without common borders. INTERREG IIC (1994–00) enabled cross-border trans-national planning policy initiatives between national and European levels, within trans-national (macro European) regions depicted in the ESDP. For the period 2000–06 a new strand has been launched, INTERREG IIIB, representing the key instrument for implementing the rationale, recommendations, and policies of the ESDP, especially in drawing up of a number of 'spatial visions' at the trans-national level. Here, economic aspects of cooperation receive more emphasis, especially along the core-periphery line, as compared to the previous programmes of the kind. Also, the so-called 'project-oriented trans-national cooperation' for spatial development is preferred. To that end, strengthening the INTERREG III strand of the EU spatial policy may well introduce more of a 'bottom-up' approach, in contrast to the more 'top-down' elaborated and promulgated ESDP. In that respect, the INTERREG III initiative is seen as 'the test bed' for the successful implementation of the ESDP, and especially in terms of horizontal and vertical coordination of various spatial development planning policies. Really,

the Community Initiative INTERREG III is one of the key instruments for putting the ESDP into effect. The chief objective of this initiative is to promote the harmonious and balanced development. A number of schemes for the co-financing of projects and measures that contribute to sustainable development are available through this initiative (Jensen and Richardson 2004, 37–9 and 142–4; Tewdrw-Jones and Williams 2001, 30).

Even prior to launching the ESDP and Guiding Principles, the Community established a direct link between trans-national cooperation programmes and the new concepts of European spatial planning explained in the documents Europe 2000 and Europe 2000+ (and later in the ESDP). This had to be served by the Interreg IIC Guidelines, with the aim to (CEC 1996):

- Help restore balanced development among various areas of the EU
- Foster trans-national cooperation in the sphere of spatial planning by member states and other responsible authorities
- Improve the impact of Community policies on spatial development
- Help member states and European regions undertake new preventive and cooperative approaches to the problems of water resources management posed by floods and drought.

The document stipulated for three main types of programmes, to comprise various aspects of: spatial planning and related measures:

- Spatial planning and trans-national cooperation measures
- Spatial planning and trans-national cooperation against flooding
- Spatial planning and actions against drought.

Within the first group, the Guidelines launched seven programmes, *viz.*, Baltic Sea Region, North Sea Region, North-western Metropolitan Area, Atlantic Space, South-western Europe, Western Mediterranean and Latin Alps, Adriatic Space, and CADSES (Central European, Adriatic, Danubian and South-eastern Europe Space). In parallel, four trans-national cooperation pilot actions, initiated by the Commission in 1994, were to be realized, i.e. Northern Periphery, Mediterranean Gateway, Eastern Alps, and Archi-Med (Central and Eastern Mediterranean Space).

More specifically, the INTERREG III initiative is divided into programmes A, B and C, as follows (Mansoor 2003, 72):

- INTERREG III A is aimed at promoting cross-border cooperation in order to establish cross-border social and economic centres
- The basic purpose of the INTERREG III B programmes is to promote trans-national cooperation between national, regional and local authorities in order to achieve a higher level of balanced development in the EU and better territorial integration with acceding member states and other countries. It constitutes a continuation of INTERREG II C
- The INTERREG III C programmes are aimed at improving the effectiveness of regional policies and instruments, which should be ensured by establishing networks for sharing information and experiences.

The basic principles of the INTERREG III B programmes are:

- A common trans-national strategy and the formulation of a common development programme
- Partnership and a bottom-up approach, harmonization with EU structural funds
- A more comprehensive approach to the implementation of Community initiatives
- Effective coordination between INTERREG III and EU foreign policy instruments, especially from the point of view of enlargement processes (Phare, Ispa, Sapard, EDF, etc.).

The INTERREG III is being implemented across 11 regions. A large number of partners, from national and local institutions to economic and social partners, non-governmental organizations, researchers, and the like have been involved in the INTERREG III B initiative through specific projects. Through cooperation in projects, individual partners are able, by pooling their knowledge, to acquire ideas for their own development, increase their knowledge in specific areas, and establish contacts with leading international institutions and experts in these areas. On the basis of this, participants are subsequently able to better formulate their development strategy and to acquire the expertise required for the complex process of preparing and managing projects. In addition to these advantages, the results of these projects also constitute a basis for the more straightforward acquisition of European funds for the subsequent implementation of development ideas.

### *Project CADSES/PROJECT VISION*

VISION PLANET (Strategies for Integrated Spatial Development of the Central European, Danubian and Adriatic Area, CADSES) an INTERREG II C and PHARE project, which comprised partners from 17 European countries and/or regions has been among the European macro regional initiatives/programmes and is of crucial relevance for Serbia and Montenegro. It was a joint German-Austrian initiative. This project also followed in broad terms the key propositions of the ESDP, focusing on formulating spatial development guidelines, strategies and policies for the area, as well as on developing a more structured and thematically focused dialogue between the actors involved, based on a thorough study of spatial development trends, prospects and policy priorities (ÖIR 2000).

The principal objectives comprised:

- Competitiveness, efficiency and growth in the area
- Economic and social cohesion within the countries/areas and between them
- Conservation of natural and cultural heritage, protection of environment and sustainability of development
- Spatial integration of the area.

A number of fundamental objectives and specific tasks were formulated, within five thematic strands:

- Improving the spatial structure
- Shaping development of settlements and cities
- Transforming rural areas
- Developing transport and telecommunication
- Protecting environment and managing natural and cultural heritage.

The preconditions for implementing the spatial strategic framework (perspective) were also defined, comprising:

- A territorial-administrative system capable of implementing regional and urban development measures at various governance/planning levels
- A Spatial planning/policy system able to prepare and coordinate sectoral and other relevant aspect of spatial development
- A regional policy, to harness financial and economic instruments for development which is in accord with the objectives of spatial development.

As compared to other similar projects, the specificity of the CADSES pertained to the particular composition of the countries and/or regions of the area, comprising both the EU member states and some of their regions, and a number of the ex-communist countries. For that reasons, in addition to objectives, contents and methods practiced in the EU countries, also analogously applied here, more emphasis has been put on developing a common base of understanding of all relevant elements. The initiative came to the surface as a bottom-up process initiated by experts, and it was not preceded by any high level intergovernmental decision.

In the Resolution adopted by the Project Panel at the seminar on 12 January 2000 in Vienna, a number of follow-up activities were considered, which have all been more or less realized so far, *viz.*: elaboration of concrete project proposals for specific issues, to be implemented within the INTERREG framework; further research of the spatial development issues of common interest in the CADSES area, to supplement the work on the ESPON; integration of the VISION documents into the Guiding principles of the 12<sup>th</sup> CEMAT in Hanover; raising the VISION PLANET Project Panel into a regional counterpart to the Committee on Spatial Planning of the EU (CSD), in the capacity of assisting the candidate countries towards better preparation for the integration in the EU; and support the cooperation of partners involved in the ESTIA project.

### *Regional projects ESTIA, OSPE and SPOSE*

The project 'European Space and Territorial Integration Alternatives: Spatial development strategies and policy integration in SE Europe' was realized in the period 1998–00, as a Greek initiative within the regional initiative INTERREG IIC – CADSES. The ESTIA partners comprised planning institutions and experts from six Balkan countries, i.e. Albania, Bulgaria, Greece, the FYR Macedonia, Romania

and FR Yugoslavia. Starting from the general objectives of the ESDP and CADSES,<sup>8</sup> project ESTIA focused on the specificity of the southeast European space, especially on the study of spatial development trends, prospects and policy prioritizes. Aiming to formulate a comprehensive vision for the spatial development of the southeast Europe, to serve as a common framework for the coordination of spatial development policies, in the final ESTIA document, 'Spatial Planning Priorities in Southeast Europe' (Thessaloniki, 2000), four 'strategic axes of spatial planning priorities' were outlined, *viz.*:

- Balanced development of the urban system and the rural space
- Development and complementarity of the basic infrastructural networks
- Promotion and protection of the natural environment
- Promotion and protection of cultural heritage.

Within the strategic framework sketched out, a large number of more specific priorities were defined.

The document also pointed to the conditions and prospects for spatial integration of the southeast European area and for future cooperation, particularly emphasizing the relevance of:

- Metropolises and development corridors
- Port development and sea/route connections
- Internal cross-border areas
- External zones of cooperation.

Project ESTIA was parallel to a co-project OSPE, 'Observatory of Spatial Planning and Environment in Southeast Europe' (Athens, 2000), also as a Greek initiative. In effect, the OSPE acted as a regional pendant of the ESPON for the area of six countries. As a result of extensive activities of the actors involved, a number of deliverables were produced, to serve as a logical, procedural and institutional framework for the establishment of the regional observatory network.

In the period 2003–06 the two abovementioned projects have been followed by ESTIA-SPOSE ('European Space – Territorial Indicators and Actions for a Spatial Observatory in Southeast Europe'), an INTERREG III (CADSES) project, which comprised partners from more than ten countries and/or European regions. Within the by ESTIA-SPOSE, further, more detailed and specific elaboration of the key strategic directions from the two previous projects has been undertaken. Once its main components are realized, all necessary preconditions for the further regional cooperation in the field are expected to be fulfilled, based on continual activities of the Network.

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8 The general objectives which are referred to here are: economic and social cohesion; sustainable development; competitiveness of the territory; parity of access to infrastructure, knowledge and innovation; balanced development of urban and rural areas; and preservation and protection of natural and cultural environment.

## Development and Institutional Conditions in Serbia and Montenegro (S&M)

### *Socio-economic, spatial and cultural development*

Contrary to the institutional, economic and social progress experienced in the member states of the European Union (Community), the miss-events as from the end of the 1980s/beginning of 1990s directed S&M (then: the FRY) towards rather bleak development prospects. The country was isolated from the mainstream trends of European integration and convergence. Its comparative advantages and competitiveness have worsened in two key aspects, i.e. in terms of its structural qualities (1) and in terms of its territorial capital (2), whereby the country's 'endogenous capital' lost a large part of its value.<sup>9</sup> Especially, the FRY almost missed the wave of 'ecological modernization', which largely took place in the EU, and this left the country even more lagging behind the contemporary mainstream trends. Thus, S&M 'moored' even deeper in the periphery of Europe, i.e. it became a part of new 'inner peripheries' of Europe. These regions are characterized by rising enormous disparities in terms of economic and living standards between the metropolitan and their respective peripheries, as well as by regional fragmentation, as major elements of spatial development (Goler 2005, 205–11).<sup>10</sup> This may well worsen in the future, unless the steps are undertaken promptly to redirect the course of its development and concomitant spatial pattern of development. The process of development recuperation ought to start with improvements in the multi-faceted advantages of the country's geographical position, being at the same time a mid-European, Danubian, Balkans, South-Eastern, Mediterranean and, indirectly (via adjacent countries), mid-Eastern region (Mišovi 2005, 207). In its 'post-socialist Argonautic', the country had in parallel to cope with its historical baggage of socialism/communism, and with the challenges of being exposed early to 'wild free market' and uncontrolled privatization.<sup>11</sup> In sum, the outcome was a very poor development record in the 1990s, which has ultimately rendered S&M under-developed and weak, also with regard to its bargaining position in relation to Brussels (Vujošević 2003b). This particularly applies to the development problems and priorities of the country *vis-à-vis* the corresponding propositions in the more recent European documents, in view of dealing with how to resume at least some of the advantages destroyed in the 1990s, and how to improve the internal qualities and attractiveness of the country.

More specifically, in terms of its development record, as from the beginning of the 1990s S&M has experienced the deterioration of all key social, economic and environmental indicators. As a consequence of the retrogressive events of the 1990s, the country still finds itself in a deep social, political, economic and spatio-

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9 For a more detailed discussion on this issue, see Zonnenveld and Waterhout (2005, 17–9).

10 Goler, *ibidem*, describes this trend in more details, focusing on the location of the South-Eastern part on the edge of Europe, with a relatively small population and low population density, very low economic power, etc.

11 Apart from being insufficiently transparent, the process of privatisation in Serbia has been postponed and prolonged for the most part of 1990s, and is still incomplete with regard to public enterprises. In this regard, more progress was achieved in Montenegro.

ecological crisis. Although some economic and social progress has been made as from 2000 onwards, the economic recovery is slow and insufficient, to match the poor development characteristics, *viz.* (summarized from: Filipovi 2005; Vujošević 2005; Vujošević and Filipovi 2002):

- Still low development level, i.e. of some US\$ 2,900 (ca. € 2,400) of GDP per capita, albeit much improved as from 2000 onwards.
- Decline of many economic activities, reflected in the sharp decrease of total BGP in the 1990s.
- Insufficient inflow of total and foreign investments, to generate a new economic development cycle.<sup>12</sup>
- Extremely high rate of unemployment, which has exceeded 30%.<sup>13</sup>
- Extremely high total foreign debt, which in Serbia increased from US\$ 10.83 billion in 2000 to US\$ 14,099 billion in 2004, whereby it reached some 60% of the GDP. In Montenegro, the total foreign debt reached US\$ 5,13.3 million, ( 2005).
- Very low level of capital and other investments and maintenance of the technical infrastructure in the 1990s, followed by slight improvements as from 2000 onwards.
- Obsolete structure of the larger part of the economy, and concomitantly very slow pace at which the 'economic and ecological restructuring' has been carried out.
- Extremely high energy intensity, which has even increased since 1980s.<sup>14</sup>
- Extreme pauperization of the majority of population and concomitant deep social polarization. If one applies the EU criteria, even 80% of the total population of Serbia should be considered poor. This situation is similar in Montenegro (cf. A ko e to narod pozlatiti? And Who Is To Gild the People Though?, Economist magazine, 245, 31 January 2005).<sup>15</sup>

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12 After a sharp increase of the FDI (Foreign Direct Investments), from 55 million Euro in 2000, to 186 million in 2001, 502 million in 2002, and 1.2 billion in 2003, they have again decreased in 2004 and 2005, to 700 million Euro, and 1.0 billion Euro, respectively ('Ekonomске perspektive' 2005). In addition to this, the share of total investments in the GDP is still very low, not surpassing 16% over the recent years. According to the majority of economists, however, it ought to considerably increase to a level in the interval 25–30% of the GDP, to generate a steady economic growth at an average rate of not less than 5% for a mid-term period (Stamenković 2005).

13 According to the data from the National Bank of Serbia, the unemployment rate has constantly grown over the recent years, from 25.6% in 2000, to 32.6% in 2005 (cf. Negde na pola. Ekonomska tranzicija u Srbiji 2001–05/Somewhere at the Half-way. Economic Transition in Serbia 2001–05, 2006)

14 According to Kovačević et al. (2004), energy efficiency has worsened over that period. As measured by total primary energy supply per 1000 USD GDP generated (that is, energy consumption per unit of gross domestic product, GDP), in 2002 the country spent six more times in relative terms than it was the average for the EU-15.

15 The responsible authorities tend to underestimate the real number of the poor in the country. By applying weak criteria, that is, those for the most undeveloped countries, they

- Overall demographic retrogression – the current demographic situation in Serbia is ‘very bad...even depressing’ (Vukmirovi and Proki 2005, 351), which applies to all key demographic parameters, viz., decrease of total population during the period 1991–02, negative natural growth, external emigration of the most vital part of the population, a large number of refugees, rapid average ageing of the population, extremely large internal spatial polarization, etc.
- The rise in regional development disparities, especially in Serbia, with a strong concentration and polarization of activities and population in parts of the development axis of the rivers Sava – Danube, and particularly in the broader Belgrade metropolitan area. The Belgrade region, with its surface area of 3,224 km<sup>2</sup>, and population of 1,576,124, which makes less than 5% and 25%,<sup>16</sup> respectively, of the totals for Central Serbia and Vojvodina (i.e. 7,498,001 population, and 77,474 km<sup>2</sup> surface area), generated on average some 40% of the total National Income in recent years (cf. Statistical Yearbook of Serbia and Montenegro 2003, Statistical Office of Serbia and Montenegro; ‘/Belgrade sucks in all the money’ 2006).<sup>17</sup>
- An enormous illegal construction, which started in the late 1960s, and culminated in the 1990s, under the circumstances of a widespread societal anomie. During the preparation of the Planning and Construction Act of 2003, the responsible authorities were estimating that the total number of illegal buildings in Serbia surpassed one million.

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operate with the number of 10–30% poor in the total population, that is, depending on the daily consumption normative chosen (cf. Strategija za smanjenje siromaštva u Srbiji/Strategy for the Reduction of Poverty in Serbia, 2003). This sharply contrasts the more reliable evidence from independent sources (see the abovementioned), according to which some 23% of the total population of Serbia lived (2005) on the household income per capita (that is, per household member) less than 35 Euro per month, the other 25% with the per capita family income of 35–70 Euro per month, some 25% with the per capita family income of 70–140 Euro per month, 20% with 140–210 Euro per month, while some 7% of total population spent more than 210 Euro per household member monthly. Some 83% of the total populations of Serbia consider poverty and unemployment as the most important issues. Interestingly enough, not more than 2% of the total populations find that the Kosovo situation belongs to the set of the most important issues (!?) (‘And who will give to the people?’, 2005). To note, according to the definition of poverty used by the EUROSTAT, as the poor are considered those individuals, families and groups whose material, cultural and social well-being is under the minimal living standard in their country. In quantitative terms, the EUROSTAT applies the threshold of poverty in the interval US\$ 1–2.5 per capita per day, depending on the national standards (Pove anje siromaštva/Poverty expanding, 2005), as there is no ‘objective’ poverty line, to be recognized uniformly across the board.

16 In 2005 The City of Belgrade had population of some 1.1 million, which makes some 30% of the total urban population of Serbia (without Kosovo i Metohija).

17 In 2004 the most developed commune in Serbia, Apatin, had the GDP per capita 22 times bigger than that of the most undeveloped commune, Majdanpek. Measured by a synthetic indicator combining a larger number of specific indicators, the most developed commune, Apatin, ranks 27.6 times better than the worst ranked commune in this respect, that is, Tutin. What is even more indicative here is that the regional disparities have grown as from 2000 onwards (‘Sever sve dalji/The North Even More Farther’ 2005).

To make a synthetic presentation of all the above-mentioned indicators, as a result of a worsening of all key development indicators in the 1990s, in recent years the S&M ranks as the penultimate country in Europe in terms of the level of its Human Development Index/HDI, i.e. 74<sup>th</sup>, reflecting also a degradation of many cultural patterns (Više srednje. Izveštaj o humanom razvoju Srbije/Upper-middle. A Report on Human Development in Serbia 2005).

Particularly, the NATO bombardment of the FRY in the spring 1999 only rendered an otherwise miserable situation in the country even worse. In addition to huge human losses and many economic damages and ecological disasters, it has also caused a number of 'collateral' negative effects, out of which are still not removed, viz.: 1) Comparative advantages and development chances of the county partly lost. 2) Manoeuvring space for the transition reforms narrowed, making the restructuring more expensive and difficult. 3) Now, six years after the air strikes, only a minor part of the material damage has been recovered, which is in a sharp contrast with the official enthusiasm and pro-growth rhetoric and booster imagery of the old and two new political regimes.

Despite the isolation of the country resulting from the international sanctions towards the FRY that were introduced in 1992, in S&M a large number of development and related documents have been worked out in the 1990s. Although an increasing number of them has made use of the categories of sustainable development, this paradigm has been more a 'political and professional mantra', than it has exerted an effective impact on the development planning/policy.<sup>18</sup>

For example, although the representatives of Serbia took part at the CEMAT Conference in Ljubljana, among almost 200 specific initiatives and events aiming at sustainability and related matters, which were listed for various European spaces for a period after the Hanover Conference in 2000, none was referred to for Serbia (cf. Ljubljana Declaration on the Territorial Dimension of Sustainable Development 2003, 42–62).

Similarly, as Vujošević (2004, 15) reports, having examined the relevance of sustainable development as discussed in nine recent development documents at national, regional and municipal/communal levels in Serbia and Montenegro, this notion has been used more in nominal terms, than it has effected real changes in the utilization of development categories. Precisely: 'The *concept of sustainable development* has been only 'flirted with' in the plans under scrutiny, whereby a sound doctrine upon which development is to be directed and articulated is also missing... In this context, no system of operational and analytical concept of sustainable development indicators, applicable to a concrete city/area, has been worked out.'

Consequently, there has been a lack of documents that elaborate on more analytical and operative concepts of sustainability, as the majority of them still keep to the general principles and criteria of sustainable development. The documents in question do not reflect the pressing development problems and priorities of the

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18 The Republic of Montenegro declared itself the first 'Ecological state in the world' in 1991, upon pertinent provisions in its Constitution. For more details considering the implementation of this concept, see Vujošević (1998).

country.<sup>19</sup> Apart from that, the prolonged international sanctions against the FRY made the financial and other resources for the implementation of these documents virtually inaccessible. As from 2000, S&M received a fair portion of foreign assistance and support. However, the gross of assistance has not been directed strictly speaking to the sustainability issues, and no new documents of the kind have been worked out so far at the national and regional level (Few local sustainable development documents have been elaborated recently).

### *Legislative, institutional and organizational framework*

In political and institutional terms, a radical change took place in the formerly established balance within the quadrangle state (power) – market – planning – privatization as from the very beginning of the post-socialist transition. A new balance has also been sought, thus influencing each and every segment of development policy.

After the collapse of the former system and the practice of socio-economic development planning and policy, no new arrangements have been introduced, to match the influence of the key transition factors, i.e. marketization, privatization, deregulation, etc.

Some adjustments have been made with regard to spatial and urban planning, yet inadequately. In 2003 a new law was passed (*Zakon o planiranju i izgradnji/The Planning and Construction Act*), imbued with physicalism and other features that leave the new law quite incapable of dealing effectively with the actual challenges.<sup>20</sup> The legitimacy of planning has been widely disputed, and the planning/policy arena is increasingly dominated by various large capital groups. In many cases, there has been a strong criticism, and even an aversion towards any more ambitious mission of new planning, especially from the neo-liberal ‘neophytes’ who still believe in the efficacy of the ‘unrestricted market forces’. In sum, spatial and urban planning is still a predominantly government-cum-business-cum-professionals activity, with a relatively poor participation of other actors.<sup>21</sup>

Contrary to this, significant improvement has been achieved with regard to the environmental legislation. In 2004 three new acts were passed, whereby the state has started developing a formal (nominal) environmental protection apparatus, also including a segment for sustainable development (cf. Bogdanovi 2005).<sup>22</sup> However, its enforcement is predictably to take longer, since new business-minded tycoons,

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19 Once more, we refer to the pertinent discussion in Vujošević (2004).

20 The Act was assessed as a ‘blunt retrogression’, well below the already established standards of planning theory and practice in Serbia. In addition to this, the legislators have been found to be almost completely unreflecting upon the impact of the key factors of the transition period, i.e. political pluralisation/democratisation, marketization and privatization (for more detailed discussion, see Vujošević 2000).

21 According to Mercier (2005), this finding may also apply to the majority of post-socialist/communist countries.

22 That is, the Act on Environmental Impact Assessment, Act on Integrated Pollution Prevention and Control, and Act on Strategic Environmental Impact Assessment.

as well as many other actors tend not to observe the new legislation, along with the poor observance to the environmental legislation in the earlier periods.

To sum up, almost 15 years after the fall of the Berlin Wall, Montenegro and Serbia still find themselves in a post-socialist proto-democracy ('wild-capitalism', 'post-socialist proto-capitalist laissez-faire', and so forth), yet without more developed institutions of representative democracy, civil society and market economy.<sup>23</sup> On the one hand, the better parts of the former self-management system of the ideological and political monopoly have been in the meantime time abandoned and almost forgotten, and most prominently, for example, the practices of territorial and work participation, as well as highly decentralized planning.<sup>24</sup> On the other, many bad features of the old regime, e.g. paternalism, manipulation, clientelism, and so forth, have been kept intact by the retrogressive miss-events of the 1990s. 'Wild capitalism' and concomitant privatization of the kind have taken place without a veritable social and political dialogue and consensus on the strategic issues of the transition reforms.

Particularly, there has been a lack of theoretical and general methodological research regarding the alternative planning modes in the transition period. In this respect, the situation in S&M sharply contrasts with that in the Western planning. There has been neither a systematic study of the 'dark side of planning – the domain of power' (after Yiftachel 1998), nor of the transferred and newly generated distortions in the triangle power – knowledge – action (after Friedmann 1987), these aspects being most relevant for the reform of planning in the post-socialist transition. The planning academia, students and practitioners would all rather subscribe to preaching new politically and professionally fashionable mantras (e.g. 'more market, less planning', 'the minimum of state, the maximum of private initiative', etc.), than they would wish to undertake research within the more laborious formulas (Vujošević 2005). Although the notion of public interests as the key legitimizing base of planning has been widely disputed, the overwhelming majority of planners have grossly demonstrated power-blindness and power-free attitude when discussing various development concepts in the pertinent planning documents. The notable search in the Western theory for an escape from the discourse on the modern – post-modern impasse has had no parallel in S&M, as the vast majority of planners tend to bluntly avoid contemplating the impact of the key transition factors, viz., political pluralization and democratization, marketization and privatization, on the new planning concepts. Therefore, we may well sum up our view of the current situation in the following way: 1) In S&M planning theory is currently in a confused state, as a consequence of a number of changes over the last ten years ('post-socialist transition'). 2) The planning practice is grossly unreflecting of the impact of contextual factors, whereby the conundrums of the *Realpolitik* of planning are neglected, and a veritable social and political

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23 This broadly corresponds to the hybrid system in the contemporary China (of course, at completely different physical scale). Friedmann (2005) points to dual nature of municipal government – part state bureaucracy, part – what he terms 'buccaneering capitalism'.

24 As Vujošević and Nedović-Budi (2006) describe it, the former planning system of socialist self-management was hypertrophied and bureaucratized, in the country which was at the time deemed as the 'most-planned and decentralized'.

inquiry and practice is seldom reached (cf. Flyvberg 2003). 3) Notwithstanding this, the majority of planners have kept demonstrating an evangelical and bureaucratic zeal and arrogance against the criticism of the 'non-consecrated' (i.e. the proponents of 'frames' and 'narratives' other than the planners).

### **An Assessment of the Correspondence between the ESDP and the Guiding Principles, and the Development and Institutional Characteristics of S&M**

As we highlighted in the last section, the so-called 'structural' characteristics of S&M seriously deteriorated in the 1990s, and have not more substantially improved as from 2000 onwards, which is to strongly handicap the country for a long time to come. As the prospects for embarking upon a new path of dynamic economic growth are rather modest (Vujošević and Filipović (red/eds) 2006), one may better resort to examining how to improve the country's parameters regarding its geographical position and sustainable spatial development pattern – *vis-à-vis* the corresponding propositions in the EU and pan-European development documents. This equals assessing the potentials and limits for at least partial restoration of the now degraded comparative advantages of the geographical position of the country, which is undertaken in the sequel. Thus, attention is focused on the most significant spatial development issues strictly speaking, whereas some other, also important issues are ignored. Next, we also point to the necessity of catching-up with the mainstream European trend of ecological modernization, basing our comments on, first, the notion of very precious biodiversity resources of the country, and second, on the urge to embark upon the rehabilitation of the S&M, economy, which is obsolete to a large extent (Stevanović and Vasić 1995; Vujošević 2003).<sup>25</sup> Finally, we pay much attention to the fact that the country experienced international sanctions in the 1990s, which crippled it with regard to getting proper insights into the European and other international trend. The sanctions and isolation of the country caused an enormous material and institutional damage. This handicap is still strongly present in S&M, implying that steps of 'catching-up' with the current tendencies would urgently have to be undertaken. The issue of correspondence/non-correspondence is thus reflected through these features to a considerable extent, and the selection of propositions from two European documents is accommodated in the first place to serve the discussion on the theme.<sup>26</sup>

Using the above-mentioned as a starting point, a number of propositions of the ESDP and the Guiding Principles are commented on below, in the first place those, which carry the most relevant consequences and implications *vis-à-vis* the most burning and pressing development problems of S&M, and/or contrast with its development fixities and prospects.

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25 The authors point to the significance of the fact that the total area of S&M, of some 102,000 km<sup>2</sup>, shelters 2/3 of the known European eco-systems, thereby positioning the country regarding its biodiversity among few top regions in Europe.

26 Apart from that, the selection was also determined by the available space for this contribution.

*European Spatial Development Perspective (ESDP)**Polycentric spatial development and a new urban-rural relationship:*<sup>27</sup>

1. Polycentric and Balanced Spatial Development in the EU
2. Dynamic, Attractive and Competitive cities and Urbanized Regions
3. Indigenous Development, Diverse and Productive Rural Areas
4. Urban-Rural Partnership.

The policy aims listed are undoubtedly relevant for S&M as well, and they are reflected in their respective equivalents in the pertinent documents in Serbia and Montenegro. Especially, the issue of polycentric and balanced spatial development has been addressed in both republican spatial plans, although they have not been implemented in the sequel. On the other hand, the aims 2–4 are rather neglected. The role of dynamic, attractive and competitive cities of S&M in international competition and cooperation has been discussed only recently, and mainly in the professional arenas. In addition, a number of new initiatives concerning the autochthonous rural development have also come to the surface recently, while partnership among urban and rural areas has not been discussed in depth. Apart from that, neither of the three has been reflected in the development documents at the national or the state level.

Among the policy options listed in this part of the ESDP, of particular relevance are those pertaining to the strengthening of several larger zones of global economic integration in the EU (1), strengthening a polycentric and more balanced system of metropolitan regions, city clusters and city networks (2), and expansion of the strategic role of metropolitan regions and ‘gateway cities’, paying particular attention to the development of peripheral regions of the EU (6).

In the S&M documents all these options are highly underestimated, which is somehow strange, keeping in mind that the former Yugoslavia and, to a lesser degree, the now existing Serbia and Montenegro, has potentially been the most important regional node for transport routes in this part of Europe, which especially applies to the geographical position of the Belgrade regional area (Kovačević 1999; Paolini 2005). The issue of the Belgrade metropolitan area has been rudimentarily tackled in the two recent plans, yet no steps towards recuperating its comparative advantages in terms of its geographical position have been undertaken so far. In the two republican plans, few initial propositions aiming at better development control and governance in the broader area of the European corridors VII and X were formulated. However, no further implementation steps were defined. The respective missions of these two documents were put aside after their enactment, whereas the stipulated institutional and organizational adjustments, especially *vis-à-vis* general development pattern and regional development policy, were not realized subsequently. What is of particular relevance here pertains to strengthening the railway and road connections between

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27 The numbering applied here corresponds to that in the original document. The comments that follow also refer to the respective propositions of the Guiding Principles, in the first place to ten principles listed in its part IV Principles of planning policy for sustainable development in Europe.

the broader Belgrade area (in Serbia), on the one hand, and the region of Bar (in Montenegro) on the other. In this respect, no improvements have been achieved so far, whereas the comparative advantages of these two areas are still under-utilised. Albeit Belgrade has not been listed as one of the 'gateway cities' of regional relevance in the recent European documents, it obviously does have such a potential, provided the process of accession to the Union is accelerated.

As for the policy aim (5), that is, promoting cooperation at regional, cross-border and trans-national levels, there has been a number of improvements in recent years. What is still missing, however, is a common, well coordinated programme in the area, as well as the concomitant institutional and organizational arrangements. It seems that there is a lack of critical mass of knowledge and actors in the country who are capable of applying the conventional European approaches and practices in this area.

The issue of improving the economic basis, environment and service infrastructure of cities is, perhaps, the most neglected one in S&M (with the slight exception of the Spatial Plan of the Republic of Serbia, 1996, where it was tackled in a rudimentary way), especially in the light of the poor development record of the country in the 1990s, and a slow recovery as from 2000 onwards. This issue ranks among the most important ones, and deserves systematic and full attention, particularly in terms of additional research needed. The transition processes of privatization and marketization introduced a number of new moments in this respect, implying that an entirely new set of urban development policies would be needed, to properly address the most burning and pressing problems.

As for the promotion of integrated urban development strategies sensitive to social and functional diversity (9), a number of new initiatives have started recently, especially in Serbia. Following the enactment of the new environmental legislation, a new Strategy of Local Sustainable Development in Serbia (2005) was worked out, to be followed by a number of local sustainable development agendas. Also, in Montenegro much is expected from the completion of the new Spatial Plan of the Republic of Montenegro, scheduled for 2007. However, no effective integration of socio-economic development policy, spatial development policy and environmental policy has been undertaken at the state (republican) level in Serbia and in Montenegro. Particularly, the appropriate legislative solutions are needed regarding the new modes of socio-economic planning policy for the transition period.

In S&M both the critical mass of knowledge and corresponding development policy documents are missing, which are necessary to exert an effective impact with respect to the following policy aims listed in the ESDP, *viz.*: promotion of a wise management of the urban ecosystem (10); promotion of indigenous rural development strategies (13); strengthening of small and medium-sized towns in rural areas as focal points for regional development and their networking (14); development of sustainable agriculture and land utilization (15); promotion and support of cooperation and information exchange between rural areas (16); and, utilization of renewable energy sources in rural and urban areas (in line with regional/local tradition and conditions) (17). While initial projects of the kind have been introduced mainly regarding sustainable agriculture and land utilization, and, even to a lesser extent, regarding the utilization of renewable energy sources, with

respect to other issues the country still largely falls behind the more recent European approaches and practices. As for the wise management of urban ecosystems, so far practical activities have not gone beyond the theoretical controversies on the theme.

Almost obsessed with the transition, professional and political mantras of privatization, marketization, deregulation and the like, the overwhelming majority of the most influential actors, including also many planners, tend to blatantly disregard the role of land use planning (21) in the promotion of the public interest in this sphere. In effect, individual (private) interests rule the scene, often at the expense of common purposes and goals. Specifically, the gross of current practices in the land use planning still keep to the approaches and patterns of the traditional physical planning, thereby avoiding to introduce more relevant social and cultural themes, e.g. that of quality of life and similar, into its framework.

### *Parity of access to infrastructure and knowledge*

1. An integrated Approach for Improved Transport Links and Access to Knowledge
2. Polycentric Development Model: A Basis for Better Accessibility
3. Efficient and Sustainable Use of Infrastructure
4. Diffusion of Innovation and Knowledge

This group of policy aims are all highly relevant for S&M, albeit their understanding and interpretation may well differ from those in the more developed EU countries, taking into account that GDP per capita in S&M is considerably lower than that for the EU average. Also, of relevance are here two other moments. First, in S&M (formerly FRJ) the maintenance of technical infrastructure in the 1990s was low and grossly insufficient, effectively not exceeding more than 10% of what was needed. Despite the fact that many improvements have been introduced as from 2001 onwards, mostly thanks to donations and other foreign sources, the transportation network is still in poor condition in many respects, and largely insufficient as compared to the current and future needs. Second, the repair work undertaken tends to replicate otherwise bad structure of the infrastructure system and flows, as they do not contribute to the improved share of railway and water transportation. In effect, they 'fossilize' the existing structure. In this respect, with the exception of the corridor X, the priorities of S&M are somewhat different from those listed in the ESDP, TENs policy documents and other EU policy documents (after Vujošević 2003; Vukanović 2005): 1) To make best of the development corridor Belgrade – Bar, as well as to activate the potentials in the triangle Thessalonica – Bar – Belgrade, it is a priority to radically improve road and railway connections between Bar and Belgrade.<sup>28</sup> Also, the railway corridor Subotica – Novi Sad – Belgrade – Prahovo (Niš) should be improved. As concerns road transportation as well, the reconstruction

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28 Only recently has this been designated as a spatial development priority of Serbia, as the Government of Serbia has officially declared its intentions regarding the transportation corridors priorities, now also including the direction from Belgrade, via Požega, to the border

and improvements on some 15 roads of regional importance is needed. 2) In water transportation: a) The Danube river ought to be made fully navigable as soon as possible. b) Reconstruction and rehabilitation of the ports along the direction Novi Sad – Belgrade – Pančevo – Smederevo – Kostolac – Prahovo is also urgent. 3) Gas pipelines from Niš to Podgorica and Bar are urgent.

The key priorities concerning the access to knowledge go to: 1) Prompt clarification of the ‘exclusion/inclusion terms’ with regard to the accession of Serbia and Montenegro to the EU.<sup>29</sup> 2) General improvements of literacy. 3) A comprehensive package of programmes of ‘education for Europe’, to cover politicians, administration, business, educators, local authorities, and the public at large.

In an analogous way and equally relevant are the majority of the policy options formulated, *viz.*: strengthening secondary transport networks and their links with TENs (including regional public transportation systems) (24); promotion of spatially more balanced access to intercontinental of the EU (25); and improvement of transport links of peripheral and ultra-peripheral regions (both within the EU and with neighbouring countries) (26). For S&M, the relevance of these policy aims is equivalent to the relevance of the policy aims they derive from. However, keeping in mind the predictably narrow scope of domestic resources for introducing a more ambitious regional policy, an urgent access to the pre-accession assistance instruments would be needed.

As for the introduction of the territorial impact assessment as an instrument for spatial assessment of large infrastructure projects (transport) (29), not much has been done in that respect. In effect, a lot of benefit might accrue from the activities within the INTERREG III B Project ESTIA-SPOSE, especially once it is completed and the fully operational network is established.

Better coordination of spatial development policy and land use planning with transport and telecommunications planning (30), reduction of negative effects in areas subject to traffic pressure by strengthening environmentally compatible means of transport, levying road tolls and internalizing external costs (32), and coordinated and integrated infrastructure planning and management (34) all still rank low in the government activities (with the exception of levying road tolls). For the major part, this is a consequence of the collapse of the former governance and planning system, as well as of the lack of a new system, compatible to the key transition factors, that is, deregulation, privatization, marketization, and so forth. Although the system of spatial and urban planning has kept most of its former institutional and organizational structure, so far it has not proved capable of integrating sectoral and environmental policies within the common strategic framework. In parallel to this,

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of Montenegro, and further to Podgorica and Bar (U planu pet autostrada/Five major main highways planned 2006).

29 Of course, opposite resolutions of this problem are likely to exert opposite effects in the country, albeit they would resolve many existing dilemmas. The accession of the country to the Union will predictably give support to more pro-European actors in the country, thereby strengthening democratic momentums and openness to the Union. The opposite outcome would almost surely strengthen autarchy, xenophobia and authoritarian tendencies in S&M.

any more ambitious intentions of planners regarding the new modes of planning are strongly opposed by the key ‘architects’ of the transition reforms, that is, mainly economists of the neo-liberal provenance.

With regard to improvement of public transport services and the provision of a minimum level of service in small and medium-sized town and cities (31), the progress has evidently been slow, and falling behind the more developed European countries.

At least four, out of five listed, policy options regarding diffusion of innovation and knowledge (35–8): integration of knowledge-relevant policies; securing Europe-wide access to knowledge-relevant infrastructure, including that of SMEs; fostering networking among companies and the rapid diffusion of innovations; and supporting the establishment of innovation centres) are highly relevant for S&M as well. However, a number of ‘correctives’ would also have to be introduced, to care for the specific circumstances in which S&M has found itself after the collapse of the former Yugoslavia (Federal Socialist Republic of Yugoslavia) and the event following the collapse. In this case, also, an extensive assistance from the EU would be needed, especially regarding the support for ‘sustainable business’ and related matters. As for the Government’s support for education and research, this is still very limited and of poor quality, also lagging behind the EU. More assistance is also expected from the various strategic partners, both foreign and domestic, especially regarding the networking, diffusion of innovation and support for the establishment of innovation centres.

### *Wise management of the natural and cultural heritage*

1. Natural and Cultural Heritage as a Development Asset
2. Preservation and Development of the Natural Heritage
3. Water Resource Management – a Special Challenge for Spatial Development
4. Creative Management of Cultural Landscapes
5. Creative Management of the Cultural Heritage

Despite the miss-events of the 1990s, this sphere has on the one hand received much attention throughout the decade, and even more so in the recent years. On the other, its performance has been less successful. With the exception of Serbian Cultural Heritage in Kosovo and Metohija, which is highly endangered, and has partly been ruined and lost, this is, perhaps, the area in which most progress has been achieved in two respects, that is, new legislation, and the number of areas and objects protected.

In a similar way, all policy options seem as relevant as indicated in the ESDP, although they are much less formulated and implemented than in the majority of the EU countries. With the exception of the development of European ecological networks (40), in which ecologists and other naturalists from S&M take part on a continuous basis, all the options listed under 41–5 (that is, integration of biodiversity considerations into sectoral policies; preparation of integrated spatial development strategies for the ecologically/environmentally relevant areas; greater use of economic instruments in the environmental policy for specific areas; promotion of energy-

saving and traffic-reducing settlement structure, integrated resource planning and increased use of renewable energies in order to reduce CO<sub>2</sub> emissions; and protection of the soil through various measures) have been grossly neglected in Governments policies. Thus, the use of economic instruments has only recently been introduced (2004), almost no progress has been made regarding the promotion of energy-saving and traffic-reducing settlement structure, and so forth. Following the collapse of the previous governance system and practice, the economic and ecological restructuring was left to the predominant practices of 'wild capitalism', and, consequently, no integrated system of resource planning has been introduced so far, apart from few legal stipulations in the new environmental legislation, which is referred to above.

The water resource management practices have a long tradition both in Serbia and Montenegro, albeit they somewhat deteriorated through the 1990s. All the policy options are relevant for S&M as well, and some have already been included in the pertinent documents. However, their implementation is on average poor, *viz.*: 1) Introduction of economic water management instruments, as well as of integrated water management strategies (options 47 and 48 especially) has been insufficient, as compared to the current and future needs. 2) Although some measures have been introduced and applied regarding the preservation and restoration of large wetlands in specific regions of Serbia and Montenegro, they are still highly endangered, mainly as the result of the excessive water extraction, or inadequate agricultural and industrial practices (49). 3) Only initial efforts have been done regarding the concerted management of the Adriatic Sea (including the preservation and restoration of threatened maritime ecosystems) (50).<sup>30</sup> 4) No water management at the regional level of governance has been introduced so far, following the general lack of governance and planning at this level (51). 5) Similarly, there has been a lack of systematic environmental and territorial impact analysis (evaluation) of the large-scale water management projects (52).

The policy measures aiming at the better utilization of cultural landscape and cultural heritage (policy options 53–60) are only occasionally defined and implemented. Apart from that, no systematic effort has been so far to integrate various fragmented policies into a common strategic framework. This is strange, since S&M can obviously make large use of its heritage as a distinctive comparative advantage. With the exception of the most valuable sacral monuments and few ancient towns, even the barest evaluation of cultural values and motifs as development potential has not been undertaken so far for the following issues: cultural regions with special importance; special urban ensembles; and contemporary buildings with high architectural quality. Apart from that, creative restoration of the landscapes which have suffered through human interventions (including re-cultivation measures) falls behind even the level maintained in the earlier decade, for example, regarding the re-cultivation of the open cast lignite mines. The protection of particular urban complexes is practised on a piecemeal basis, primarily through the urban plans and projects. No national policy of the kind has been implemented so far, although the

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30 Related propositions were formulated in a strategic document titled *Pravci razvoja Crne Gore ekološke države/Development Directions for Montenegro Ecological State* (2002).

two republican spatial plans of Serbia (1996) and Montenegro (1997) did pay proper attention to these issues.

### *Guiding Principles for Sustainable Spatial Development of the European Continent*

*Contribution of the Guiding Principles to the implementation of the social cohesion policy of the Council of Europe* Here are two propositions of special importance, that is, the integration of economic and social requirements with the ecological and cultural needs of the territory, to result in the sustainable and regionally-balanced spatial development of all European regions (pp. 7–8).

In S&M, the integration of various policies is still rarely achieved, apart from the fact that the majority of departments (or ministries) do not cooperate satisfactorily during the preparation of development decisions. For that reason, as well as for many other reasons, regional disparities within the republics of Serbia and Montenegro have been continuously growing as from the 1990s. In addition to this, the country's development on whole lags behind that of the more developed European countries.

*Specific role of the private sector in spatial development* As from the beginning of the post-socialist transition, S&M has tended to see only the dark side of the Schumpeterian 'creative destruction' in the utilization of space, rather than the contribution of private initiatives towards more harmonized and balanced spatial development. In effect, private appropriations run at the expense of public space and other public goods. In large part, this is a consequence of the poor reputation of planning in general among the political and economic elites, as they are primarily engaged in promoting the new mantras and dogmas of unrestricted marketization, deregulation and privatization. Specifically, there have been only sporadic attempts at establishing new business that would better observe and interiorize the general principles and criteria of sustainability, resulting in rather a rare evidence of truly 'sustainable business'. Also, the overwhelming majority of local authorities in Montenegro and Serbia have poor institutional and organizational culture and capacity to cope with the newly emerging private sector, and to (re)direct its initiatives and intentions to common purposes and causes.

*Principles of a planning policy for sustainable development in Europe* Among the ten principles listed, the majority of which have already been commented upon in this contribution within the discussion on the ESDP, we are here dwelling more only on the issue of Section 5, reducing environmental damage. In essence, very little has been undertaken so far to that end. Namely, S&M represents a highly polluted country considering its state of development. Mainly as a result of its 'heavy' industrial structure, as well as of its somewhat 'late start' in environmental policy, many parts of the country are heavily degraded. Although some sanitation and remediation work started as early as in the late 1970s/early 1980s, the scope of rehabilitation measures is largely insufficient, to a large extent because of the lack of financial resources and availability of technologies. Consequently, the gross of the former environmental pollution has not been removed so far, implying that cleaning the polluted environment still ranks among the most important tasks for the future.

*Spatial development regions for different types of European regions* For S&M, this is perhaps the most valuable segment in all pan-European, EU and regional documents of the kind, as more or less all the measures listed (48–67) are of high importance for this country. However, the progress in this respect has so far been rather poor, since no systematic and well-rounded package of policy measures was formulated in the recent years. The piecemeal steps have been undertaken regarding the development of some rural areas, mountains, Euro-corridors, flood plains and water meadows, and border regions.

## Concluding Remarks and Suggestions

According to some commentators, and for the most part those who are critical of the mainstream developments in the economic, spatial and urban planning policy in Serbia and Montenegro, the planning system and practice are lagging far behind the more recent European trends and experience. Under the present circumstances, they insist, it would be greatly difficult to draw any new development documents to match the European equivalents. Instead, they suggest, some preconditions ought to be fulfilled prior to that, *viz.*, the necessary institutional and organizational adjustments should be undertaken first, in parallel to, or promptly followed by the provision of a number of support measures (cf. Predlog grupe autora/A Proposal from Group of Authors 2005; Vujošević and Filipović, (red/eds) 2006).<sup>31</sup> We follow this strand of thought as one angle of the frame of reference for drawing conclusions, followed by more details further on.<sup>32</sup>

In the 1990s the planning system and practice have not evolved in a ‘normal’ way, that is, corresponding to that of the majority of ex-socialist countries. On the contrary, in those years there has been a total break in all aspects, followed by very modest improvements as from 2000 onwards. Now, the key conundrum is – how to make it up for this loss, that is how to adjust the planning system and practice to the more recent European trends? A new generation of documents is first needed to provide new insights (‘diagnoses’) into the changes of urban and spatial patterns in the 1990s, followed by a systematic evaluation. Then, a series of new scenarios (perspectives) of predictable and likely futures would have to be worked out, under various assumptions (reaching the status of a pre-accession country – opposite to failing to get it; developing a Balkan-oriented strategy; etc.). At the professional level, what is the most urgent now is to bring improvements to the existing arena, by introducing forums and discourses on the most burning theoretical and practical issues.

From an other angle, we start with the assumption that the new generation of European documents on sustainable development and related issues will at the end prove meaningful, only if they provide for a Europe of *heterotopias*, in parallel to

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31 To note, the responsible authorities have grossly ignored such initiatives for more radical changes of the planning system and practice, most probably for the reasons that have at least partially been commented upon in this contribution with regard to the anti-planning stance of the majority of elites.

32 To a large extent, we draw from the sources indicated to.

aiming to assume many characteristics of Europe as *monotopia* (see Jensen and Richardson 2004, for a more detailed discussion on this issue).<sup>33</sup> This notion of Foulcaldian origin seems more appropriate here, as S&M might predictably not become a member of the Union in the foreseeable future, apart from the fact that it is difficult to forecast which course of development the country will take, should it not join the Union. By implication, this means that the new development documents for the country ought, to a considerable extent, be adjusted to structural, spatial, institutional and other specificities of this particular European space. On the other hand, Serbia and Montenegro would have to search for a common denominator with its neighbours and Europe at large, in order to take part in the European integrative processes.

Thus, our approach is somewhat ambiguous. On the one hand, it calls for 'more of Europe'. On the other, it does not call for a uniformly large place, but, rather, for a Europe as a multitude of various places. The former especially applies to our plea that the pro-European actors in S&M should be more firmly and decisively supported by the EU institutions, as well as to the necessity to have the public at large better informed 'on Europe'.

Our brief analysis in the previous parts of this contribution pointed to the fact that S&M largely lags behind the majority of European countries in applying the principles, criteria and policies of sustainable spatial development, as they have been formulated in the recent pan-European and regional documents of the kind. Such findings may direct one at least to two courses of action:

- On the part of the European actors, when acting in S&M (and other similar countries in the region), they would have to work more on the operative and analytical concepts of sustainability, to match the development fixities and prospects of the countries in question
- As for S&M, a complex set of measures would have to be undertaken, to make it up for the losses and stagnation in the past 15 years or so.

Regarding the former, the trend in the EU towards a more proactive planning (cf. Healey 2004; and The Third Report on Economic and Social Cohesion: Proposals for Regional Policy, 2004<sup>34</sup>) could be of great help also for S&M, as a specific 'external

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33 The authors denote the concept of *monotopia* as 'an organised, ordered and totalised space of zero-friction and seamless logistic flows', and discuss its various uses under different ways of imagining of Europe's territorial identity and image (3–4). They find that the ESDP and other related European documents and initiatives mostly reproduce a hegemonic discourse now prevailing in the European mainstream ('the policy discourse of *monotopia*'), whereas they might well contest, and also open to different interpretations (123).

34 Via the Third Report, The Commission proposed a new Objective for cross-border, trans-national and interregional cooperation. This is in line with a growing interest in and concomitant research on the new modes of integrative planning. Namely, an increasing emphasis on the territorial impact of sector planning has highlighted the need for better and enhanced vertical and horizontal coordination. Consequently, there is more interest in inventing appropriate planning systems, which seeks to proactively facilitate development as a means of boosting the competitiveness and cohesion of the regions. In this context, Healey (2004)

formative impulse' to institutionalize an appropriate development planning policy system and practice in the country.

As for the latter group of stipulations, S&M would have to embark upon the process of complex institutional and organizational adjustments (1), to ultimately result in the preparation of the new generation of sustainable development documents, compatible with good European standards and practices (2). In more details:

- The priority future activities should be directed along the line of adjusting to the more general European trends.
- The existing development documents would have to be reworked, and a number of new schemes prepared, applying the more operative and analytical concepts of sustainability. Specifically, a new spatial plan of Serbia (instead of that enacted in 1996), as well as a number of related strategic documents, ought to be worked out, based on a rigorous evaluation of the past events and of the current situation. Similarly, the work on the new Spatial Plan of the Republic of Montenegro should be completed as soon as possible, also carrying for the sustainability issues implied.<sup>35</sup>
- Next, a whole set of other documents will have to be prepared at the national (state) level, *viz.*: 1) National strategies of sustainable development. 2) National strategies for cooperation with foreign and other strategic partners regarding the spatio-ecological matters. 3) National strategies for protection of bio- and geo-diversity. 4) National environmental action plans. 5) National strategies for the sustainable utilization of natural resources.
- At regional and local levels, priority goes to the preparation of local agendas of sustainable development, plans of sustainable spatial and urban development, and schemes for establishing and integrating 'sustainable business' into local documents.
- There is a slight possibility that S&M might develop more on the common denominators with its neighbours, in order to have a number of regional documents prepared and adopted in the foreseeable future.

However, how might the interim period be bridged? In this respect, a number of steps should be undertaken, to care for the resolution of the long burning issues in the development policy and related matters, *viz.*:<sup>36</sup>

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points to a growing interest in new forms of governance, partnership working, the creation of networks and interregional cooperation. She argues that the changes that are occurring in spatial development and planning are so fundamental that they prompt new concepts and ways of acting. Ultimately, this might help reconcile, otherwise contradictory European context of competitiveness and cohesion.

35 The diagnoses in both Plans were based on the data from the end of 1980s/beginning of 1990s, which should be updated, to cover the considerable changes that have taken place afterwards.

36 In broad terms, we are here following the line of adjustments that is proposed in a number of more recent regional initiatives. For example, the actors involved in the Alpine-Adriatic Project found that it has been necessary to undertake considerable institutional, organisational and other adjustments to traditional spatial planning approaches, to make them

- The issue of a new balance between public interests and an enormous number of emerging individual interests
- A disturbed pattern of the dominant power structure practiced in the planning realm
- Relationship between various aspects of public policy, e.g. macroeconomic policy, environmental policy, spatial planning, etc
- The influence of social, economic and political dynamics on the dominant heuristic modes and pertinent procedural aspects of planning policy
- A lack of full expertise in the development planning matters
- A lack of new theory of planning, to match the key processes of the transition period, i.e. political localization, democratization, privatization, marketization, and the rise of institutions of civil society.

Thus, a number of practical steps may well be undertaken in the interim, *viz.*:

- Developing knowledge and skills in integrated spatial development and planning, especially through training of all actors involved in practical decision-making at regional and sub-regional governance levels
- Developing new procedures for the horizontal and vertical integration of policies and activities, especially regarding the integration of sectoral policies (activities) into common spatial strategic framework
- Introducing appropriate and concomitant changes into traditional (routinized) administrative cultures and practices
- Regarding education, developing a network of university planning schools to teach on the new approaches and practices in integrative planning
- Work on specific case studies, pilot and demonstration projects, aiming at practical problem-solving exercises.

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more effective in facing the contemporary development problems. A number of issues of significance were listed, *viz.* (With Spatial Planning Instruments to More Effective Solution 2002, 133–4): establishing a new legitimacy of planning *vis-à-vis* market mechanism, to counteract the opposite and extreme attitudes towards apparent de-regulation and liberalisation, with a view to develop a more balanced and contemporary approach; developing new modes of vertical and horizontal coordination; précising the role and contents of development documents; introducing new planning approaches that facilitate the implementation of new development planning categories (e.g. polycentric development, sustainability, territorial cohesion, balanced with economic competitiveness, etc.); introducing new planning procedures; improving the planning culture and capability at the local governance levels; broadening the scope of participation and introducing new forms of communication and interaction among the participants; improving the instruments that enhance possibilities for broader and more effective public-private partnership; introducing 'new styles' of planning, as well as new ('soft') planning tools, addressed towards the stimulation and management of citizens participation (*viz.*, For public hearing management, communication, consensus building, E-support, etc.); improving the EIA, TIA, SEA and related evaluation procedures in plans, programmes and projects; and so forth.

As has been emphasized many times in this contribution, the resolution of the abovementioned issues would largely depend on the future evolution of planning in the EU and other European countries, since they will predictably carry a strong demonstrational effects in a broader context. We are here pointing to the following open issues of the kind (summarized from: Faludi 2002; Faludi 2005b; Faludi 2000; Jensen and Richardson 2004; Zonnenveld and Waterhout 2005):

- The pace at which the sustainable spatial development will become a formalized responsibility of the Union, provided spatial planning it is included as a formalized EU competency in the Treaty on the European Union (or in its Constitution)<sup>37</sup>
- The modes that might additionally be introduced with a view to better coordinate sectoral policies/activities of the EU within a common strategic framework of spatial policy
- Ways of communication and interaction between various governance levels (i.e. supranational/communitarian, national, regional and local/municipal)
- Balancing the regional tradition in European development policy, i.e. French, with that of spatial ordering, i.e. German/Dutch, also at same time carrying for other two strands, i.e. British and that of 'urbanism'.
- Balancing more technocratic approaches, and those of more socio-cratice nature
- Balancing proactive and reactive modes of development planning interventions
- The role of sustainable spatial planning *vis-à-vis* other development policy interventions
- Ways of coping with various concepts of sustainability (sustainable development) in spatial planning
- Further evolution of more recently introduced notions of territorial (spatial) cohesion and integrated territorial management
- Whether to keep ESDP as single integrative document – or to fragment into more segments, to be applied to various and different European macro regions: Should it be extended to new members of the EU, as well as to would-be members?
- An open issue of whether ESDP2 ought to be prepared.
- In which way the strategic orientation of the EU towards territorial cohesion will be further elaborated – more market- and competition-oriented spatial policy, or a less competitive and more participative one?
- More of a 'Europeanization of national planning systems and practices' – or more of the historical legal styles within the large European planning families?

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37 It must be noted that, Faludi (2005c, 2) estimates that the competence of the EU for spatial development policy might even evaporate from a new European Constitution, and might well be replaced by that of territorial, economic and social cohesion policy. He at the same time admits that there is a sheer continuity between the ESDP and the more recent initiatives of the European Commission, as demonstrated, for example, in the Third Report on Economic and Social Cohesion Report ( 4–5 and 7).

- More binding pan-European spatial development policies – or an approach via a complex web of voluntary and less formal policy networks and institutional and organizational arrangements?
- In which way the policies applied to both the new member states and would-be members ought to be adjusted to these countries, as opposed to ‘old’ members?

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## Chapter 8

# Settlement Patterns in Europe: Elements and Comparative Typology

Alma Zavodnik Lamovšek

### **Introduction: Problems of Studying European Settlement Systems in Europe (With an Emphasis on SEE)**

The concept of the European polycentric urban system is a vague and ambiguous one. It is defined as something that is contrary to the mono-centric urban system. It also means something contrary to dispersed and scattered settlement. Polycentricity is to be taken as a concept used to describe settlement and regional structures of all scales (sizes) and at all levels, that is, from the European and national levels to the regional and local levels. At the same time, polycentric development is nowadays popularly considered as a normative concept and political orientation, which was laid down within the EU in the ESDP (2000). On this basis, it was adopted by many countries and inserted in national spatial development strategies (Sykora and Muli ek 2006).

Considering the central subject matter of this chapter, which deals with settlement patterns as elements of settlement systems, one first needs to discuss the major problems that emerge when studying and trying to provide a definition of the European polycentric (urban) system. These problems clearly indicate the need for further research and the adoption of different approaches and views with regard to the European urban/settlement systems as a whole.

One of the most crucial problems underlying the existing studies of the European urban system lies in the different levels and scales of observation mentioned above. The different size of the countries involved is a problem in itself, since the classification by size of cities and urban centres often does not lend itself to making comparisons. Even larger conflicts are apparent between the European urban network as a whole, and urban networks, at the levels of countries and regions. Small-sized countries and countries and regions outside the 'Pentagon' area, which includes the majority of South East Europe (hereafter SEE), experience important difficulties in meeting the strategic goals ('Lisbon strategy') on the one hand and, on the other, with complying with their own guidelines for achieving polycentric development. A similar situation has been identified in many EU projects, especially in the projects under the ESPON Programme. Besides the governing ESPON Project 1.1.1., which tried to provide the potential for polycentric development in Europe (Final report 2005, <http://www.espon.lu>), the ESPON Project 1.1.3. (Final report 2005, <http://www.espon.lu>) made a significant contribution and, in its final report, stated the main conflicts related to the meeting of the goals of polycentric spatial development policy in the EU. These

goals are given in Table 8.1 revealing the conflicts involved in achieving polycentric development, which is primarily attributed to the differently set goals and policies at different decision-making levels.

The reasons why the task of defining the European settlement and regional systems is difficult can be found in the extreme wealth of diversity and versatility of the European space. By this we are not restricting ourselves to the geographical features, but referring also to the profound differences of a political, cultural and economic nature. This may be most noticeable in the SEE area (SEE comprises most of the CADSES area and mostly includes the new member states and accession countries), which is heterogeneous in its structure and lacks the common denominators that would enable the adoption of efficient orientations and measures for achieving territorial integrity and polycentric spatial development of the entire region (cf. Vision Planet 2000). Besides, the fear exists that old EU members (EU 15) will profit the most from investing into improved urban systems and infrastructure in

**Table 8.1: Goal conflicts of polycentricity policies**

| Goal                                       | Policy   | Goal conflict   |
|--|--|---|
| Competitiveness at global scale ('Lisbon') | Strengthen highest-level global cities in the 'Pentagon'                         | Polarisation between the global cities in the 'Pentagon' and the cities in the rest of Europe will increase. The European urban system will be less balanced and polycentric. |
| Territorial cohesion at European scale     | Strengthen major cities outside of the 'Pentagon'                                | The competitiveness of the global cities in Europe may decrease. The urban systems of individual countries will be less balanced and polycentric.                             |
| Territorial cohesion at national scale     | Strengthen medium-level cities in the new member states and accession countries. | Competitiveness of major cities in the new member states and accession countries may decrease.  |
| Sustainability ('Gothenburg')              | Strengthen lower-level cities in the new member states and accession countries.  | Competitiveness of major cities in the new member states and accession countries may decrease.  |

*Source:* ESPON Project 1.1.3. 2006

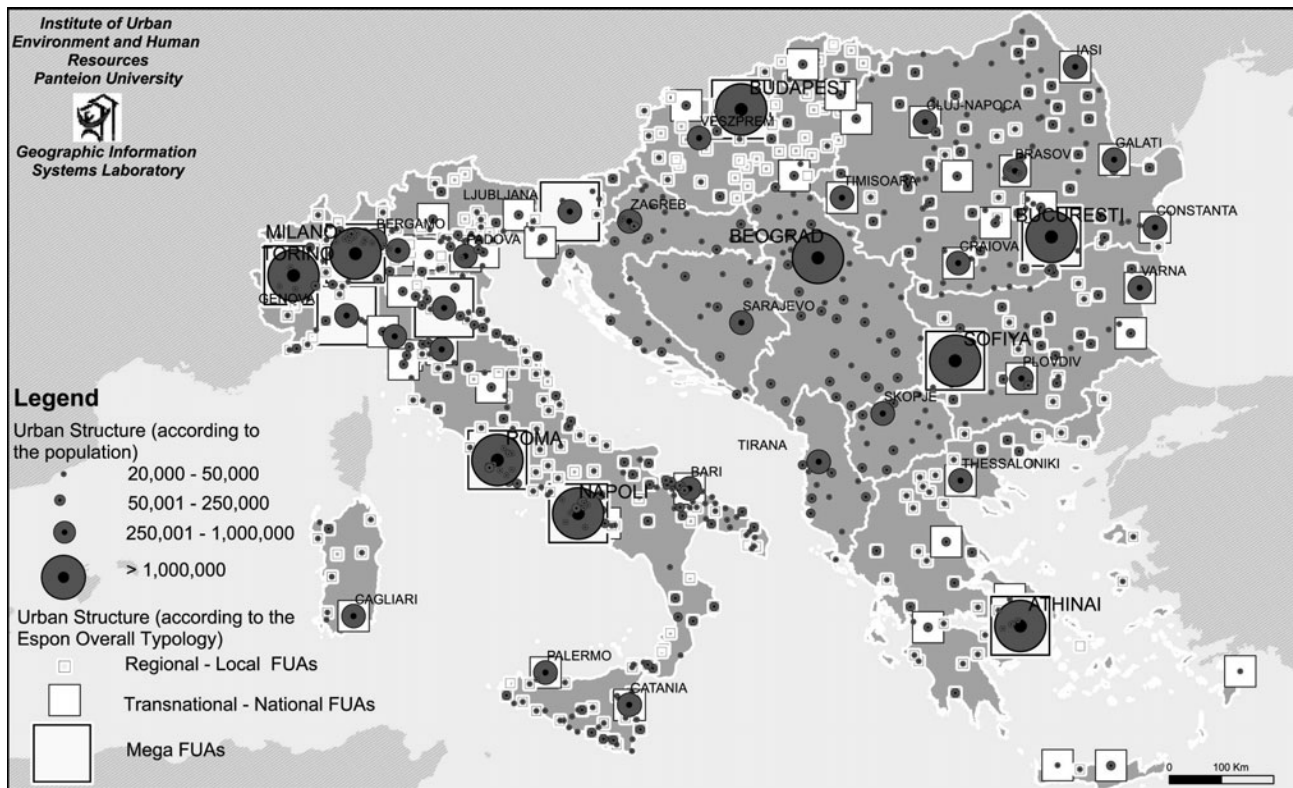
the SEE, which will above all contribute to higher competition and better territorial integrity (ESPON Project 1.1.3. 2006). In this way, the peripheral areas of today will become (remain) even more peripheral; we shall see the widening of the gap between the cities and the countryside, instead of the increase of cooperation and connections. The roles of medium-level and lower-level cities in the concepts of polycentric European development, which are oriented mostly towards higher-level cities (FUA, MEGA) as the key generators of EU development (ESPON Project 1.1.1. 2005), are disappearing.

The other profound problem can be attributed to the transition processes in the SEE countries, which have since 1990 pointed to a trend of polarization of the urban system. Primarily, the danger lies in the centralisation of public services and capital in urban centres and other centres of power. A consequence of this is the higher concentration of work positions in urban centres. The reasons for the unfavourable development of the urban system may well be in the understanding of the present urban and theoretical apparatus, which is strongly based on the notion of a city as the highest form of spatial and social organisation, which cannot be challenged or critically examined (Zavodnik Lamovšek 1998).

The study of settlement systems in SEE and EU thus cannot be based on the socio-economic indicators only, such as the number of inhabitants in urban centres, GDP per capita or indicators related to provisions of different, mainly social, activities. Also insufficient is the hierarchical distribution of urban centres based on a relatively simplified methodology, which cannot take into consideration all diversities of the European space. The lack of a uniform methodology for the identification of spatial indicators, the lack of uniform data and of a uniform approach of the required data in different European countries (several ESPON Projects, <http://www.espon.lu>) have become major obstacles. Such an approach indicates that a strong imbalance prevails in the urban system in the whole of the EU, and especially in the SEE area, which is clearly illustrated in Figure 8.1.

In this way, the issue of settlement systems at different levels and sizes is multi-layered requiring the in-depth knowledge of their spatial structures and not only of their socio-economic spatial components. The new studies need to shed additional light on historical, social/economic and administrative/judicial reasons underlying the development and emergence of settlement systems today. As a result of constant changes and renewed knowledge, the first (historical) set of reasons has led to the elaboration of urban theories that have built increasing connections with other sciences, the second set of reasons influences the aesthetic and value-related criteria of societies that are becoming saturated with the bulk of consumer products and burdened with environmental problems, while the third (administrative/judicial) set of reasons exerts a critical influence on spatial planning, spatial legislation and systems of control in different countries (Zavodnik Lamovšek 1998).

Also, in most cases, the existing studies were not oriented into studying the spatial components of settlement systems, such as analysis of settlement patterns, built structures, spatial distribution of population, activities and infrastructure. Only the 'real' spatial analysis can truly add clarity in respect of to the diversity and versatility of the European space and help to determine the common denominators for directing the urban development in accordance with the goals of increased



**Figure 8.1 Hierarchy of urban centres / urban structures according to population**

Source: ESTIA-SPOSE project 2006.

efficiency (competitiveness), territorial integrity (cohesion) and sustainable spatial development, as they are laid down in CEMAT (2000), ESDP (2000) and other existing European documents.

In the following section it will be attempted to present an example of a study that could considerably contribute to a better understanding of settlement patterns and hence lead to decisions related to spatial development. The study provided a methodological basis for the classification of settlement patterns as key elements of settlement systems. The proposed methodology is based primarily on the qualitative studying of phenomena of built structures in space (phenomenological and morphologic analysis of built structures) which, despite the described diversities in the SEE area, point to some common characteristics and similar spatial problems, regardless of national borders and difference in socio-economic and political systems in the countries. Only the key elements and results will be shown, which are also based on comparative study of settlement patterns in the selected SEE countries.

### **Morphological Analysis of Settlement Patterns: Methodology and Criteria for the Analysis of Settlement Patterns**

For a thorough understanding of the phenomena under investigation one needs to provide proper definitions of the terms that we use to describe and explain these phenomena. The key term of the investigated subject-matter is settlement, which has to also include, beside the static settlement elements, the notion of the dynamics of present processes in settlement systems. These systems are characterized by the duality of two communication systems that generate two completely different systems of values and possibilities. The first one is based on the increasing mobility of man, who uses modern highly efficient transport systems and commutes to work on the transcontinental scale. The other takes the advantage of the development level of modern telecommunications systems, which enable cosmopolitan connectedness in the distribution of work accompanied by home commitment. Under such conditions, any change, no matter how small, can bring about the dynamic process of the emergence of new spatial structures, or transition and adaptations of the existing ones to the new conditions and needs. This can be described as the individualization of form and content under the global conditions of the new economy (Castells 2000 and 2003), where adaptability has become the highest value.

The settlement may thus be defined as a system incorporating the prevalence of high dynamics of change and high levels of complexity of different structures and spatial activities. In this context it is important to understand the evolution of spatial structures, which can be illustrated by progressing from centralisation (concentration) and dispersion to diffusion (Mlinar 1994).

#### *Elements of settlement patterns*

Settlement systems can represent a combination of intertwining structures that act on the principle of their own dynamic flows. Each layer has its own coercive forces (represented by all social systems: political, economical, scientific, educational ...)

that overlap with other layers. Their intertwining, however, must enable fluidity and non-conflicting action in the transition from one structure to another. With the constant changing of these forces, the spatial structures, which are called settlement patterns, become part of a complex system, the (self) organization of which by no means indicates spontaneous evolution, nor is it the sole result of planning decisions. For their understanding and further orientation we must thus know the elements that make up settlement patterns, and the ways in which they work.

A criteria tool was elaborated for this purpose, which helps us to identify the single layers/elements of settlement patterns. This does not imply the classic analysis of total inventory of space, but an analysis in the sense of understanding the intertwining of different elements and possibilities of their coexistence and action. As a first step, some basic questions were put forward:

- What elements of built structures form the settlement patterns?
- Where in space do these elements occur?
- How do these elements relate to each other (having in mind different levels of observation)?

To provide answers we first had to choose appropriate spatial measures that provided the basis for definition and evaluation of single elements. The chosen measures were divided into five groups based on common spatial features:

- *Measures of adequacy of land use* which provide the means to assess spatial use from the aspect of preservation of cultural landscape, optimal and rational use of land and aesthetic and art effects
- *Measures of accessibility* which explain the equipment of space with transport connections and other communication measures, as well as connectivity of urban centres and activities related to basic services
- *Functional measures* that help us assess the adequacy of spatial planning and its implementation
- *Physical measures* showing material situation of areas, settlements and structures
- *Aesthetic (identity)* originating from assessing uniformity, attractiveness, legibility, identifiability, information of shapes and phenomenology of elements of built structures in space.

The questions posed earlier were answered in the same order as they were asked. The first part of the analytic work was to define the elements that make up settlement patterns. The measures given above were taken into consideration, and elements of built structures were first distributed according to their physical/typological and visual occurrence in space. Non-spatial measures were not included in the analysis, since any structure positioned in space occurs as a consequence of social, economical and cultural trends in the society, that is, in terms of its content, building materials, architectural and urban planning elements. In the first phase, we did not provide any definitions for the elements identified.

To illustrate them properly, we divided them into three groups which, at the same time, represent the levels of processing according to the scale of observation:

- Settlement patterns in the landscape
- Settlements and settlement structures
- Structures/objects as independent units in space.

Each level was also defined according to the time origin of the built structure:

- Historical forms until the beginning of the industrial revolution and the advent of the modern society
- Present-day forms.

*Settlement patterns in the landscape* The elements of settlement patterns were studied in the whole territory of Slovenia with the help of cartographic bases in a scale of 1:50,000. The settlement network of Slovenia is composed of approx. 6,000 settlements, which, by including hamlets, form nearly 10,000 settlement units (SORS 2002). The decision to focus on landscape was based on the natural-geographical diversity of Slovenian space. In this way we want to emphasize that the settlement patterns do not depend only on political and administrative (or national) borders, but that its characteristics are shown in areas of typical settlement patterns that are formed based on an inner logic of self-organization of settlements as a dynamic system.

At the landscape level, the elements of settlement patterns were divided into three groups:

- Conflux of settlements around larger urban centres
- Settlement development not related to constant settlements. It includes holiday areas, areas of business structures (vineyard cottages) and areas of mixed structure characterised by the prevalence of holiday buildings
- Forms of settlements on the basis of historical patterns.

*Settlements and settlement structures* At this level, the elements of settlement patterns are studied at the scale of a settlement, with its origin/time of origin, form, position, way of development and growth. In comparison to the settlement at the landscape level, single characteristics of settlements are identified, which on the one hand exist because of the characteristics of space and, on the other, because of human activities in space. Spatial planning legislation and the manner and control of its implementation have strong impacts on the occurrence of different structures. The settlements were divided into several groups:

- Compact settlements that include forms of historical development (cluster, ribbon, roadside type development) and newer types of spontaneous and organized compact building

**Table 8.2      Elements of landscape settlements**

| LANDSCAPE SETTLEMENTS                                      |   | Historical form | Present form |
|--|---|-----------------|--------------|
| Confluence around urban centres                            |   |                 |              |
|  | Areas of holiday buildings                      |                 |              |
| Settlement development not related to constant settlements | Areas of business buildings (vineyard cottages) | ◆               | ◆            |
|  | Areas of mixed buildings                        |                 |              |
| Forms of settlement based on historical patterns           |   |                 |              |

- Scattered settlements that include cottages (colonists, vinedresser) and alpine farmhouse settlements and all forms of historical scattered settlements
- Dispersed settlements that include working class residential settlements, shantytowns and all compact settlements, that have modified their (historical) form due to development/growth in one of the following ways:
  - by intervening with the outskirts of settlements, resulting in discontinuity with the functional ‘economical’ communications relevant to agriculture
  - building new structures at the edge of settlements, thus incorporating the core of the settlements into a new structure; the role of the settlement against the landscape is modified
  - by spreading the settlements along communication lines. There are two possible scenarios: 1. expansion along the main communication line through the settlement, causing linkage of more settlements into one connected roadside built-up area, and 2. expansion along lateral communications, which usually implies the growth of the settlement.
- Suburbanized areas, which can be described as a continuous built-up area extending from towns and cities (Howard 1970) and which is classified on the basis of its intended use (residential, industrial, commercial, mixed suburbanisation).

*Structures as solitary units in space*    In this section, structures that occur as separate (solitary) units are discussed. However, we have to focus on certain factors that generally accompany the building of any object, whether in a specific settlement area or as a separate structure in open space. The structure is influenced by: land allocation, positioning of the structure to the plot, infrastructure and functional equipment of space, amenity value, choice of building materials and architectural elements. At this level we obtained a broad list of structures, which are diverse in terms of their form and use. Some may occur in space (in a wider landscape area) only as a one-time phenomenon. They were divided into eight large groups for

**Table 8.3      Settlements and settlement structures**

| SETTLEMENTS AND SETTLEMENT STRUCTURES |   | Historical form | Present form |
|---------------------------------------|---|-----------------|--------------|
| Compact settlements                   | Cluster                                       |                 |              |
|                                       | Ribbon layout                                 |                 |              |
|                                       | Roadside layout                               |                 |              |
|                                       | Working class residential settlements         |                 |              |
|                                       | Other forms of (organized) compact building   |                 |              |
| Scattered settlements                 | Cottage settlements                           |                 |              |
|                                       | Alpine farmhouse settlements                  |                 |              |
|                                       | All forms of historical scattered settlements |                 |              |
| Dispersed settlements                 | Working class residential building            |                 |              |
|                                       | Shantytowns                                   |                 |              |
|                                       | Modified settlements                          |                 |              |
| Suburbanized areas                    | Residential suburbanization                   |                 |              |
|                                       | Industrial suburbanization                    |                 |              |
|                                       | Commercial suburbanization                    |                 |              |
|                                       | Suburbanization of mixed structures           |                 |              |

reasons of clarity, even though they differ substantially in terms of their form, size and time origin. These groups are:

- Independent economic units that comprise independent (solitary) farms or independent family and multi-dwelling buildings
- Independent farm buildings that include corn racks, granaries, shepherd huts, vineyard cottages
- Structures intended for tertiary and quaternary activities, which include craft workshops, warehouses, commercial units, banks and post offices, schools, hospitals, health care centres, courts, as well as saw mills, mills, and small electrical power stations
- Industrial units with factories, farms, electrical power stations, heating stations, mines, and quarries
- Infrastructure units that include airports, toll stations, border crossings, petrol stations, observation posts (hunting, meteorological), transmitters, transformers, water reservoirs and pumping stations

- Recreational and tourist facilities with hotels, motels, sports facilities (ski slopes, tennis courts, boat houses, pools), holiday units (public and private), mountain huts and hunting lodges, spas
- Sacral and castle units that include churches, monasteries, wayside shrines and chapels, castles, mansions, manor houses, and
- Defence units with fortifications, barracks and frontier guardhouses.

### *Spatial definition of elements of settlement patterns*

An attempt is made below at addressing and providing answers to the remaining two questions that were posed at the start which were: Where in space do these elements occur? And: What settlement patterns do these elements form?

For this purpose we first spatially located these elements, by taking into account the observations above. Three adequate layers of built-up space were identified. They were graphically represented in three separate, transparent layers on the scale of 1:50,000, which can freely overlap so that connections can be identified between them. For the sake of clarity, the layers were named by their most characteristic common element and shown in different colours, thus ensuring better resolution and transparency even during overlapping. Despite their apparently abstract nature, the settlement patterns represented below present the case of a real settlement in Slovenia. However, we did not want to link our analyses to a specific territory and therefore, with the exception of the elements of built structures, no other spatial elements are included in the description (such as geographical names, relief, road network ...).

*Merging around urban centres* In the first layer, the settlement elements are presented, which relate to towns and other urban centres:

- Compact urban tissue with streets, markets, car parks and other areas, which are mostly shaped as historical town centres (in Figure 8.2 marked in black), in some cases also as newer compact building. These settlements contain an abundance of different activities that provide for both the everyday and occasional supply of the inhabitants and the broader hinterland.
- Owing to spread of activities and immigration, the compact urban area, representing the core of the urban settlement, spreads outwards, into its hinterland. More or less extensive areas have developed, which covered the existing settlement structures (integration of villages and hamlets, only the names of which have been preserved in common language discourse as a reminder). At the same time, urban growth causes the rapid development of surrounding settlements, which grow nearer to the urban centres because of their own development. A two-fold effect of growth is observed, the consequence of which is even more rapid growth. These areas are mostly monofunctional, suburbanized areas, with the prevalence of dormitory towns, industrial, trade and commercial zones. (in Figure 8.2 marked in dark grey, dark red in original illustration).

**Table 8.4      Structures as solitary units**

| <b>STRUCTURES AS SOLITARY UNITS</b>                |  | <b>historical<br/>form</b> | <b>present<br/>form</b> |
|--|--|----------------------------|-------------------------|
| solitary economic units                            | solitary farms                                 |                            |                         |
| or solitary residential<br>buildings               | family and multi-dwelling<br>buildings         |                            |                         |
|  | corn racks, granaries                          |                            |                         |
| solitary farm buildings                            | shepherd huts                                  |                            |                         |
|  | vineyard cottages                              |                            |                         |
|  | craft workshops                                |                            |                         |
|  | saw mills, mills                               |                            |                         |
| structures for tertiary and<br>quartary activities | small electrical power stations                |                            |                         |
|  | warehouses                                     |                            |                         |
|  | commercial units                               |                            |                         |
|  | school, hospital                               |                            |                         |
|  | post offices, banks,<br>administrative offices |                            |                         |
|  | factories, farms                               |                            |                         |
| industrial units                                   | electrical power stations,<br>heating stations |                            |                         |
|  | mines, quarries                                |                            |                         |
|  | airports                                       |                            |                         |
|  | road toll stations                             |                            |                         |
|  | border crossings                               |                            |                         |
| infrastructural units                              | petrol stations                                |                            |                         |
|  | observation posts                              |                            |                         |
|  | transmitters, transformers,<br>radars          |                            |                         |
|  | water reservoirs, pumping<br>stations          |                            |                         |
|  | hotels   |                            |                         |
|  | motels   |                            |                         |
| recreational and tourist<br>facilities             | sport facilities                               |                            |                         |
|  | holiday facilities                             |                            |                         |
|  | mountain huts, hunting lodges                  |                            |                         |
|  | spas   |                            |                         |
|  | churches                                       |                            |                         |
| sacral and castle units                            | monasteries                                    |                            |                         |
|  | wayside shrines, chapels                       |                            |                         |
|  | castles, manor houses ...                      |                            |                         |
|  | forts  |                            |                         |
| defence units                                      | military barracks                              |                            |                         |
|  | frontier guardhouses                           |                            |                         |



**Figure 8.2** Convergence around urban centres

- A similar condition is observed in smaller urban centres, however, on a smaller scale. The fringe area of these settlements, the periphery, in both its appearance and function remains mostly rural (in Figure 8.2 marked in light grey, light red colour in original illustration).

*Patterns related to compact settlements* The second layer is represented, in terms of development, by other, more-or-less dynamic settlements, which are in their form and structure still connected to the rural way of living (by which we mean living in a quality natural environment which, however, no longer existentially depends on production and economic exploitation of agricultural land). In these patterns three groups of built structures can be identified:

- The first group is represented by settlements in their preserved historical form (in Figure 8.3 marked in dark grey, dark green in original illustration) which is represented primarily in the preserved image within a wider landscape space and corresponding inner structure (dilapidated buildings, poorly maintained outer areas), resulting from the lagging in development of the last decades. This is further confirmed by poor economic power (agriculture fails to produce sufficient income, there are no other employment possibilities) and age structure of population (emigration into larger centres to pursue better income). The form of settlements has been preserved due to inner restructuring in flatlands only. The settlements expanded inwards, not outwards, as a condensation of



**Figure 8.3 Patterns related to compact settlements**

the existing building. Besides, new (substitution) structures were built in the place of the old ones. The inner structure of settlements has been modified and has started to acquire the appearance of suburban dormitory towns.

- The other group is represented by settlements that have started to change their form. These settlements can be identified as solitary units in space; however, they have significantly increased in scale as a result of development (in Figure 8.3 marked in light grey, light green in original illustration). Expansions have occurred in all directions stated above: expansion and convergence of built-up areas along communication lines, physical merging with surrounding hamlets and/or individual farms, expansion along the margin, lacking connections with economic communications, or new image of the settlement against landscape – capture of the old structure into the new one.
- The third group is constituted of the extreme form of settlement expansion that is indicated by a fusion (convergence) of more settlements along roads and which is the consequence of the expansion of settlements and of the building of new structures between them (in Figure 8.3 marked in black, light blue in original illustration). When the number of structures reaches a certain level, there are no dividing lines between them and the original settlements to be identified. In some cases, there are still disconnections with belts of open space; however, these are mostly observed only after a detailed morphological analysis of specific settlements.

*Patterns of separate (solitary) structures and hamlets* The last layer is represented by separate structures and small hamlets. They mostly occur in hilly regions where, as a consequence of strong natural-geographic limitations, the conditions for compact settlements were not present:

- The pattern of hamlets is represented by small-size, non-perspective hamlets, which are mostly comprised of groups of several farms (in Figure 8.4 marked



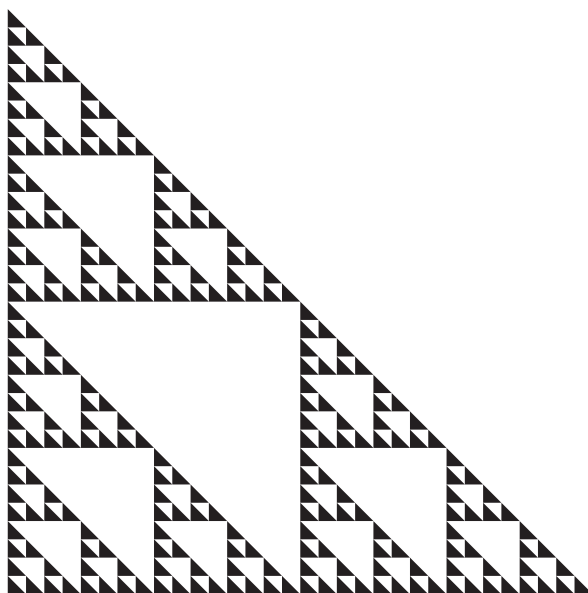
**Figure 8.4** Patterns of independent structures and hamlets

in black, brown in original illustration). These, too, experience problems of a similar nature, lagging in development, but with a preserved historical outline.

- All remaining areas are settled with independent structures (in Figure 8.4 marked in grey, yellow in original illustration), which differ in content, form, size and density.
- An exception as concerns the way the entire system is represented, regards areas above the level of continuous settlement (this level changes according to the natural-geographic features of a country; however, this does not influence the results of this analysis), which were determined on the basis of occurrence of settlement elements (in the analysis, marked in orange but not represented in Figure 8.4). In these areas, Alpine dairy farms which are populated only during the summer are found, in addition to hunting and observation posts, military and other structures. However, there are more and more structures for the purpose of tourism which is becoming the prevalent spatial structure in some areas.

Following the spatial representation of single elements, a presentation was made of the overlapping of layers and identification of settlement patterns. The criterion for identification of single settlement patterns was designed according to the prevalent elements of built structures. From there on, patterns were no longer sought in one or another scale (at the levels of landscape, settlement or structure), but rather in a concordance/symmetry of all scales (Gleick 1991; Kaye 1993). More precisely, this is a web of elements that are connected into a dynamic system, while they continue 'living their own lives'.

Each element is in itself a system that functions independently (e.g. solitary farm functioning as an independent whole; the same holds true for every settlement or for an individual house), while at the same time, the elements comply to the rules that apply to all (e.g. natural conditions for buildings, legislation, social conditions). All elements connected into settlement patterns may function as independent dynamic



**Figure 8.5** Sierpinski triangle. The pattern starts to repeat in itself, however, no part in any scale is similar to any other part (Figure is made by Ph. D. Helena Zakrajšek, dipl.ing. math., 2006)

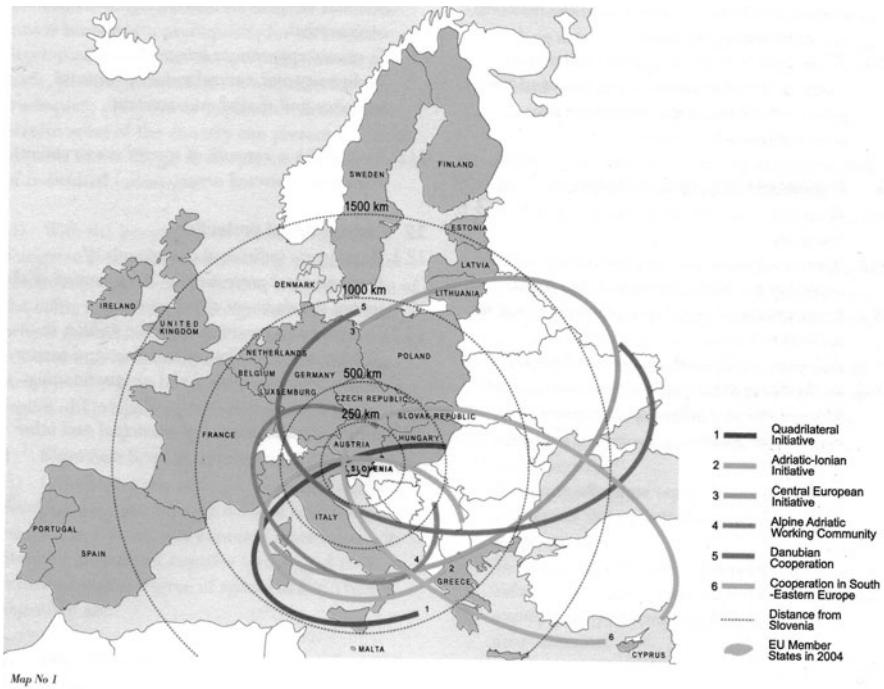
systems. This allows us assume that single elements form an infinite number of settlement patterns, and that is why the transition characterising them are not clearly defined in space. More or less clear transitions between settlement patterns will be illustrated in the case studies discussed in the section that follows. Nevertheless, it has been established that by taking into consideration the prevalent elements mentioned above, they can be divided into three large categories:

- Areas of spreading of urban areas
- Homogeneous patterns of compact settlement, and
- Areas of considerable dispersion of spatial structures.

Several other patterns could be added, of course, which appear as combinations of all patterns, as well as scarcely populated areas, where different spatial interventions and governance should be undertaken.

### **Case Studies: Examples of Settlement Patterns from Selected SEE Countries**

As was mentioned in the explanation, the analysis of settlement patterns was supported by the data for Slovenia. The contributing factors for such a decision were the availability and easy access to data and the importance of the geographical location of Slovenia. Geographically, it is located at the crossing of the Alpine, Pannonian and Mediterranean regions. The Republic of Slovenia is a Central European state with a total surface area of only 20,256 km<sup>2</sup>.



**Figure 8.6** Slovenia in Europe. It borders four countries: Italy (border length 232 km), Austria (330 km), Hungary (102 km) and Croatia (670 km), and the Adriatic Sea (coastal length is 46.6 km)

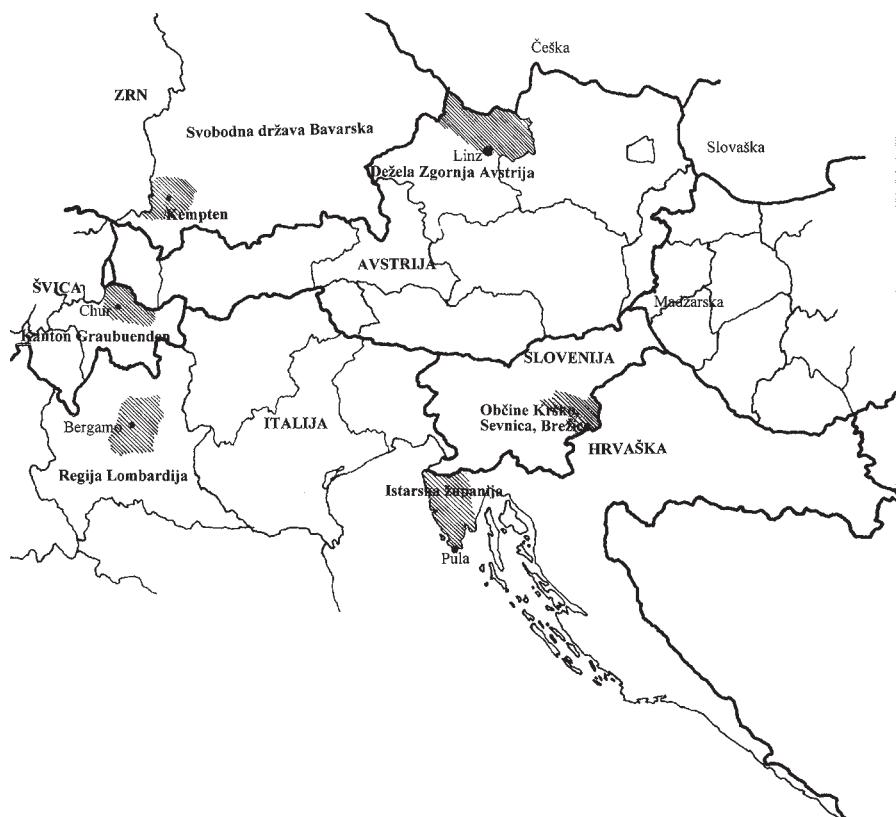
Source: MSPE 2004.

In order to show the variety and diversity of settlement systems, which in Europe typically cross borders, we showed the settlement patterns on four case studies chosen from countries of SE Europe:

- Austria (part of Mühlviertel province) and Italy (Bergamo in Lombardia province), as representatives of the old EU members (EU15)
- Slovenia (parts of Sevnica, Krško and Brežice municipalities) that entered the EU recently
- Croatia (Istria province) which is still preparing to enter the EU.

The criteria were also based on the recent different socio-economic situations in these countries, the legal structure and the administrative territorial breakdown.

First, for each of the countries, a short description of their spatial planning and breakdown of authority for spatial planning between different levels of planning is given. If available, the valid concept of the settlement development or at least the current state for the represented case is shown. Then follows the representation of the present state of each case (the material was developed using the topographic maps in scales of 1:50,000 or 1:100,000, and field survey which is represented by photos), which includes graphic materials and corresponding commentary.



**Figure 8.7** Four examples (Austria, Italy, Slovenia and Croatia) from selected European countries

**Table 8.5** Differences in legal structure and administrative breakdown between the chosen countries

| Country  | Country legal structure/territorial breakdown of space from the state to the local levels   |
|----------|---|
| Austria  | republic; Länder; political districts; municipalities; unions of municipalities; cities with their own status                     |
| Italy    | republic; regions; autonomous provinces; provinces; city metropolis; mountain communities; district communities; v municipalities |
| Slovenia | republic; municipalities (there is no regional level at the administrative level in Slovenia)                                     |
| Croatia  | republic; counties; city of Zagreb; districts and districts with their own status; municipalities; towns                          |

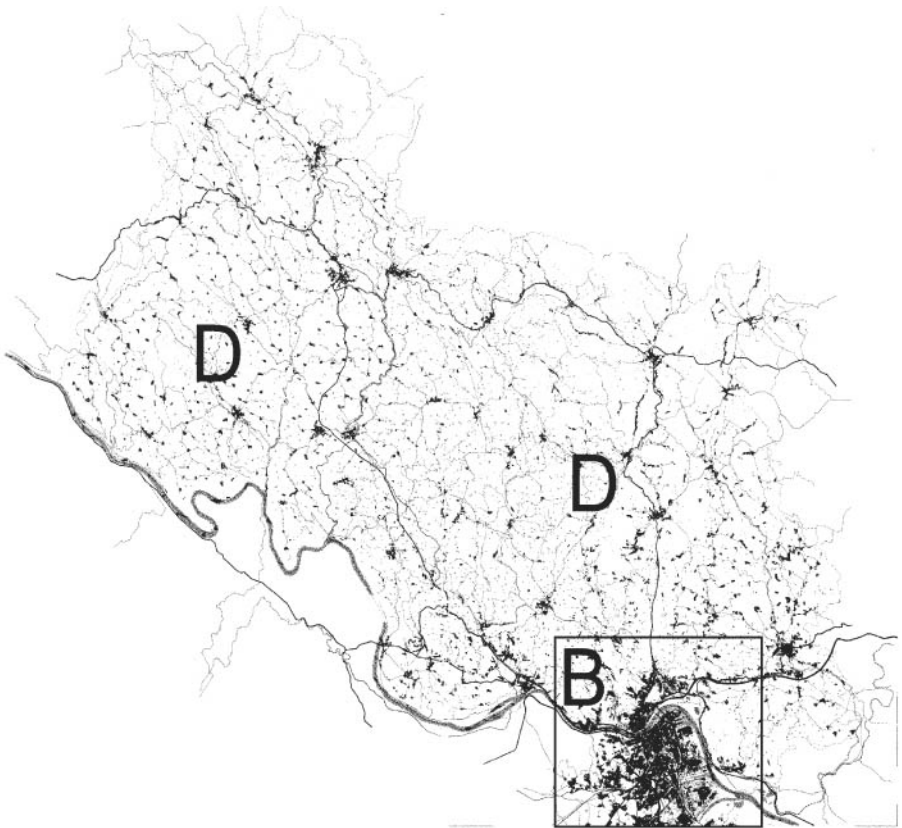
Source: DS Alpe-Jadran 1993

*Austria (Mühlviertel Land)*

Under the Austrian federal Constitution, local spatial planning is under municipal jurisdiction. Regional planning is related to 'spatial planning and environmental protection' and is under the competence of the federal constitution. There is no federal law on spatial planning, and the sectorial planning (industry, mining, agriculture, transport, communications) is coordinated by the Office of Federal Chancellor. Other matters of relevance to spatial planning belong to the jurisdiction and implementation of the *länder*.

To achieve the convergence of interests at all levels of spatial planning, the Austrian conference for Spatial Planning was established in 1971. The first elaboration of spatial planning was adopted in 1981 (DS-Alpe Jadran 1993). One of the concepts that introduced Austria into the broader European space was adopted in 1996. It is based on two complementary development perspectives:

- Balanced polycentric development oriented into the development of a network of urban centres



**Figure 8.8** Settlement patterns in the Mühlviertel land between the Danube, Germany and the Czech Republic with Linz as the only large urban centre in the area

- New concept for stabilisation and development of rural areas and for establishing closer connections between urban and rural areas (ÖROK 1996).

To illustrate the settlements in Austria we chose the Mühlviertel region between the Danube and the border region between the Federal Republic of Germany and the Czech Republic. This is a slightly undulating region, rising to the North from Linz (on the Danube) from 250 m a. s. l. to 560 m a. s. l. Besides Linz, which is the only large urban centre and the settlement structure is homogeneous (in Figure 8.8: area B). It is characterized by dispersed settlements acting in combination with nucleated settlements and small hamlets (in Figure 8.8: area D). The intensity of one or the other in the area changes (there are two types of settlement patterns, which are a variation of one pattern: in the western and eastern parts a combination of dispersed type of hamlets prevails while in the central part it is larger settlements that do).

The area is poorly accessible in terms of traffic connections. The highway that represents the most important traffic connection runs only towards the east along the Danube (Vienna, Budapest). In the opposite direction (Passau) the highway drops southwards and only at the border with Germany does it turn back towards the north. Westwards, the only direct connection is a regional road. The same situation is with transversal connections towards the north. Better connection is provided by the motor road towards the border crossing with the Czech Republic. All other roads are of narrow regional or local significance. Hence, in the region there are no large agglomerations, but it is rather characterized by dispersion. In this space which can be characterized as rural, the dispersion can be considered as a quality, which can be the basis for further development of the region, primarily in the sense of economical and demographic stabilization and connection with urban areas.



**Figure 8.9** The undulating Mühlviertel land



**Figure 8.10** Large homesteads have retreated from nucleated settlements and represent a typically dispersed pattern of solitary structures in landscape

*Italy (Province of Bergamo, Lombardy)*

In Italy, the jurisdiction of spatial planning has been transferred to the municipal level on the basis of the fundamental law. The harmonization and focus of urban activities in different parts of the country is under the competence of the Ministry of Public Works. With the foundation of regions, they were entrusted with the role of adopting spatial planning laws. This opportunity was seized not only in relation to the content of urban plans, but also with regard to tools and levels of planning.

At the state levels, sectorial plans are proposed (ten-year transport plan, national traffic plan ...), which all bear significance to spatial planning. The proposed sectorial plans related to land protection have been entitled catchment-wide plans.

The project entitled Project 80 (It. orig. Progetto 80) was based the principle of high trust in the state and in its economic development to achieve perfect welfare in the material sense. It was proposed under the Ministry of Budget and Economic Planning of the Italian Government, and a great emphasis was placed on the relationships between economy and space. Thus, as a spatial projection of a model of economic development the project was directed towards decentralization and the autonomy of its parts.

The project resumed in 1986. This time, the main emphasis was on dealing with the system of transport corridors that included urban centres. The concept was not based on physical structures, but on keeping the balance between demand and supply. The physical structures were only a consequence of these relationships (Ricci 1996).

The case study of Italy that has been selected is the only one dealing with a region that does not border on any neighbouring countries or large regions. The Province of Bergamo lies almost in the heart of the region of Lombardy. It is characterized by a diversity of terrain with two types of landscape: lowlands in the South and the Alpine areas to the North.

In the Lombardy region a law was proposed in 1995, laying down the content, levels and actors of spatial planning. The spatial plan of the region has to comply with the guidelines for the planning of settlements and the environment. Prior to adoption, the spatial plan is forwarded to the Republic of Italy, all provinces, mountain communities and comprensori (an intermediate level between the province and municipality). Comments can be submitted also by all other organizations and private entities up to a time-limit of 90 days.



**Figure 8.11** The observed settlement patterns in the Province of Bergamo, Lombardy region, Italy, are very densely settled

The making of general regulation plans, plans for residential buildings, production facilities, remediation plans and land allotment plans (DS - Alpe Jadran 1993) are all within the competence of municipalities.

The settlement structure that is composed of densely distributed nucleated settlements is mostly urbanized. From the centre (in Figure 8.11: area B) it spreads outwards along communication lines, and even in the narrowest valleys (in the North) it reaches into every available corner (other areas in Figure 8.11).

Along all main communication lines, different kinds of activities appear in a spontaneous and unorganized manner. This is especially evident in the lowlands. For comparison purposes, we chose an area south of Milan, which is also part of Lombardy. Chaos is the word that might best describe the situation; the idea of patterns that repeat themselves is well validated here. More precisely, this is a regular road network along which the settlements are developed; when there is no more space, the network repeats itself.

### *Slovenia (municipalities of Sevnica, Krško and Brežice in the Posavje region)*

Following the declaration of independence and the foundation of the new state, the Republic of Slovenia found itself in a specific stage, which was also a demanding period, of setting up new legislation. After the adoption of its Constitution in 1991, it had to propose a number of legal acts; with regard to spatial planning, the most important document was the Spatial Planning Act, which was adopted by the National Assembly in 2002.

The law introduced a new system of spatial planning and several new spatial documents at the state, regional and local levels. At the strategic level, the most important is the Strategy of Slovenian Spatial Development (2004), which provides for realization of the polycentric concept of spatial development (which was founded in the Yugoslav Constitution of 1974).

As examples of settlement structures for Slovenia, we selected the areas of the municipalities of Krško, Brežice and Sevnica (the Posavje region). In the territory, which is comprised of the plain which is part of the Krško-Brežice field, part of the Gorjanci hills, of the Bizeljsko region and part of the Posavje hills with Bohor, several settlement patterns were identified.

In the plain section of the region, with a prevalence of agriculture, the settlement is connected to the homogeneous pattern (cf. in Figure 8.15: area A). The development in these settlements is active, due to the proximity of an important road connection with the neighbouring Republic of Croatia. Part of the surfaces that are today intended for agriculture may in future be intended for the development of infrastructure and densification of settlements along the transport corridor, especially associated to the towns of Krško and Brežice, which today play the role of large urban centres (in Figure 8.15: area B).

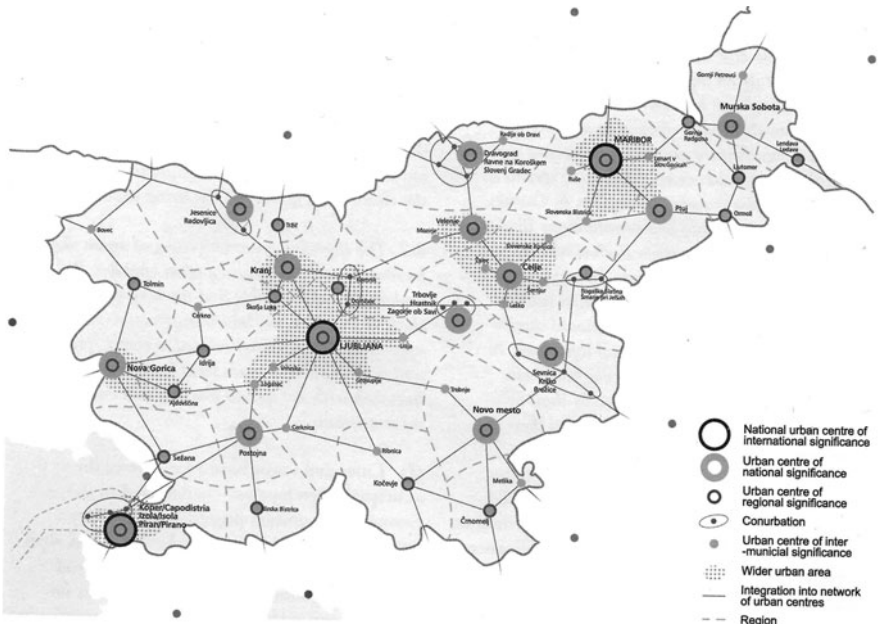
At its edges, the plain section crosses into wine-growing hills (in Figure 8.15: areas C). The settlement structure changes from the homogeneous pattern of compact settlements into dispersion, which is shown in different combinations with small settlements and hamlets. In the Bizeljsko region the 'pure' grained pattern of dispersion is present. In the areas of dispersion, larger concentrations are along important transversal transport communications.



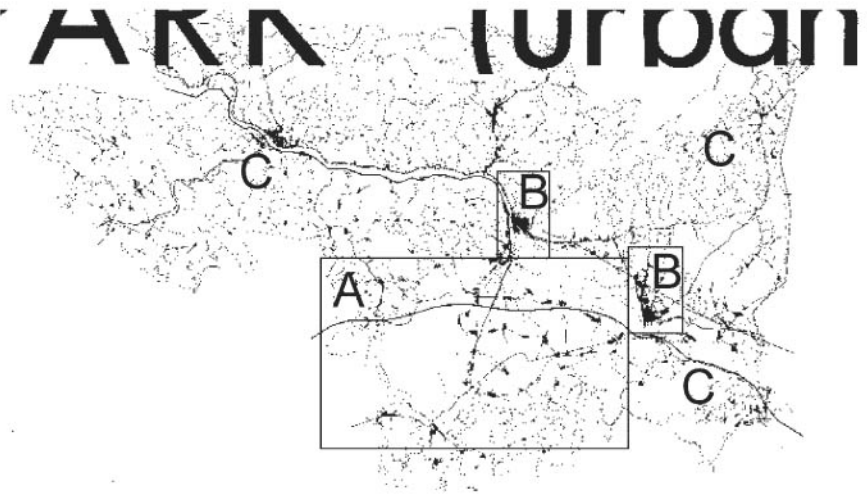
**Figure 8.12** The urban sprawl reaching far into the hinterland of cities



**Figure 8.13** Along main roads urban activities appear that adapt to current needs and demands following principles of self-organization



**Figure 8.14 Polycentric urban system in Slovenia**  
*Source: Strategy of Slovenian Spatial Development, MSPE 2004.*



**Figure 8.15 Current settlement pattern in the area of three local communities: Krško, Brežice and Sevnica (part of the Posavje region in Slovenia)**



**Figure 8.16** Dispersed spatial structure in vineyard hills above the Krško-Brežice field



**Figure 8.17** One of the settlements representing the homogeneous pattern of compact settlements in the Krško-Brežice field in the plain part of the region

*Croatia (Istria County; Croat. orig. Istarska županija)*

In accordance with the Constitution of the Republic of Croatia of 1990, the basic natural goods (sea, coastline, land, minerals and other natural and cultural goods) are under the special protection of the Republic. The conditions for their use are laid down by the spatial planning act of 1994 and the environmental protection act. In 1996 the Spatial Planning Strategy of the Republic of Croatia was put forward. However, as early as 1992, the Spatial Planning and Management Act of 1986 was abolished in municipalities affected by war. Despite this, the new state ensured a harmonized development based on the spatial plan facilitated by adoption of several guidelines and harmonization of measures.

An important part of the Spatial Planning Strategy is the structure of settlements and their functions in the Republic of Croatia. The general guideline for planning and development of settlements is putting a stop to further expansion and reduction of the existing built-up areas.

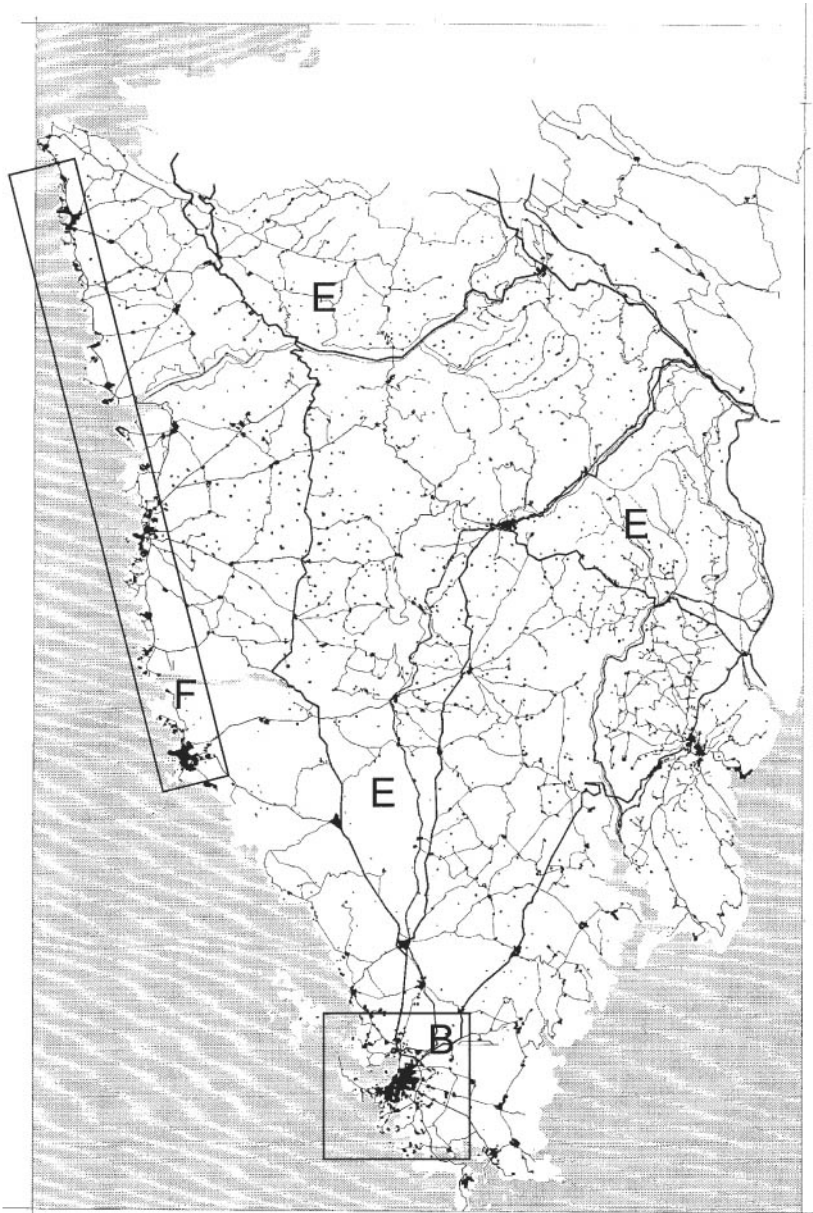
The most significant feature, however, is prevention of building on the coastline, in other waterside areas and in areas of special quality. Special attention was paid to the establishment of different kinds of activities at the level of local communities. It has been estimated that the development in space will run parallel to the level of large systems and small interventions. It has been recognized that the main scenes of action for preserving the identity and spatial quality are a priority at the local level.

The municipality takes care of the implementation of the spatial planning policy with municipal plans, which have to be approved by the Ministry competent for spatial planning in cooperation with sectorial ministries. Municipalities make autonomous decisions that relate to spatial planning, municipal activities and land use (DS - Alpe Jadran 1993; Spatial Planning Strategy of the Republic of Croatia 1995).

Istria is located on the large peninsula in the northern part of the Adriatic Sea. Owing to the Mediterranean climate and karst topography, the living conditions are fairly harsh (water shortage, barren, rocky soils ...). Adverse natural conditions have caused rather poor economic development, which today results in a poor infrastructure. Next to the newly built motorway, the Adriatic highway is the only road of high significance, which connects the centre of the country with the Adriatic coast. The rest are poorly maintained local roads. The settlements in the interior are hard of access and the everyday supply of the inhabitants is not easy.

The settlement pattern to be identified in the territory is the homogeneous pattern of compact settlements (in Figure 8.18: area E), which are evenly distributed across the territory. Dispersed settlement is non-existent, with the exception of the narrow coastal belt, where the settlement concentration resulting from tourism is large (in Figure 8.18: area F). Here the settlement extends along the entire coastline, which implies a poorer quality and decreased amenity value of the natural environment for the further development of tourism.

For these reasons, the level of preservation of the historical identity of the space and settlement pattern is quite high in the interior of the Istrian peninsula. However, there are problems related to poor development and emigration, which might lead to modifications in the cultural landscape and to the disappearance of the qualities that are still identifiable today.



**Figure 8.18** A very rare example of a homogeneous pattern of compact settlements in the Istrian peninsula, Croatia

Large (urban) settlements have developed at the junction of several important roads (Pazin, Buzet) or at port towns (Umag, Rovinj, Pula, Labin), which today lack developmental prospects. The rest of the towns are of rural character and lack any significant developmental possibilities. At the level of settlements and structures,

the consequences of decline are to be observed in the deterioration of the existing built structures.



**Figure 8.19** The prevalence of a homogeneous pattern of compact settlements



**Figure 8.20** Dense settlements characteristic of the coastal area. Owing to tourism, the settlements grew quickly, spreading along the entire coastline

*Conclusions of the comparison of settlement patterns*

When speaking of settlement systems/patterns we do not have to limit ourselves to national and other society-based borders. In all case studies, the settlement patterns spread out across national or narrower regional, municipal and other borders. The decision to restrict the physical limitations of the case-studies to a specific territorial context was made for sake of practicality and for reasons of easier representation. The criterion for the selection of case study areas in different countries was designed in such a way that the areas differed greatly – or as much as possible under the given conditions – in their built/spatial structures in the settlement patterns, and that they still represented an integrated whole. Compared to Slovenia, the natural-geographical regions in other countries would provide exceedingly large units to study, and it was therefore decided to deal with administrative areas. These also differ as to their significance and size within their countries, so we needed to find such spatial units that would provide comparison in terms of size.

Observations and conclusions representing the result of the comparison of the described settlement patterns can be summarized as follows:

- It has become evident that assessment of phenomena and forms of settlement patterns is different on different levels of observation (landscape, settlement, solitary units). What can, at one level, be recognized as a quality, can on another level pose a spatial problem: preserved historical patterns can, on the scale of landscape, mean a recognized quality; however on the scale of the settlement of individual structure, actual problems of dilapidated built structures occur. However, the reverse is also true: quality and ‘sound’ architecture (construction-wise) may mean the visual degradation of a settlement and broader space.
- The same stands true for different settlement patterns that we observe. The following questions are posed: how is it possible to incorporate the old structure into the new one; where should the settlement patterns be made denser and where should we ‘encourage’/allow dispersed building; how is it possible to embed new interventions into the existing structures?
- Settlement patterns in settlement systems are phenomena that are – on more detailed observation – becoming more and more complex and susceptible to the social, economic and cultural conditions that bring about changes in space.
- In the case studies, we can identify the single elements of built structures and settlement patterns in a way similar to that discussed in the second section: we could identify the areas of expansion of urban centres (such as Bergamo in the Lombardy region, Italy, and Linz in Muehlviertel land in Austria), settlement related to homogeneous compact settlement patterns (e.g. Istria County, Croatia, and part of Krško-Brežice field in Slovenia) and areas of extreme dispersion (part of Muehlviertel land, Austria, and vineyard area in the observed part of the Slovenia case).
- Settlement patterns occur in innumerable forms and variants with more or less expressed attributes of single elements. Each settlement pattern expresses its

own identity and recognizable natural and man-made qualities (preservation of landscape, urban and architectural elements) that represent an important potential for their further development. It should be possible to direct development by means of a sound spatial policy, which is/will be based on agreed societal decisions. The implementation of the spatial policy is only possible with adequate fiscal and municipal (public utility) tools as well as land and housing policy tools which must work in harmony with the spatial conditions for the given areas. The recognised level of quality thus depends on the level of harmonization of all activities in a society. The concepts of development of settlement systems, however, show that they all lean in the direction of the preservation of diversity and complexity of settlement patterns, their autonomy and simultaneous connection in the broad (European) space.

### **Conclusions: Proposal for Further Study of Settlement Systems within the Context of European Polycentric Development**

Our starting point was the discussion on the problems facing the European urban system. In our conclusion, however, we wish to put forward a number of proposals that entail further research. Firstly, we have to continue to direct our efforts towards the improvement and harmonization of the methodology for assessing the potentials for polycentric development in Europe, which has partly been achieved (ESPON Project 1.4.3. 2006).

In addition, there is a need for more knowledge about the processes underway in the SEE area, which is one of the most complex and contingent areas in the European territory. The special geographic, historical, economic and political position of most of the New Member States (EU10) and the other accession countries give a whole new meaning to considerations of polycentric spatial development. Even though their role after 1990 has changed considerably, they still remain as an economic buffer between the economic power of Europe and the economy in transition of Russia. Many of these states are fairly new players in the market economy and are relatively new in building up decentralized systems of governance. (ESPON Project 1.1.3. 2006).

Finally, we make further suggestions for new studies of urban / settlement systems that need to be directed into finding the ways to connect and develop settlement systems in accordance with the European concept of polycentric spatial development. The goal is to ensure a higher connectivity and territorial cohesion of the entire European territory, which will no longer be divided into central and peripheral parts. Especially in the latter parts, which also include the area of SEE (considering EU15), there are many opportunities, but also dangers, for further spatial development. Cities such as Budapest, Bucharest, Sofia, Belgrade and other important centres in SEE are already considered today as important nodes in the polycentric development of Europe in the periphery of the common European territory.

Hence, future research should be oriented towards achieving the following goals:

- Decentralized urban system with flexible and horizontal structure of cooperation and competitiveness between cities at different levels of their function, role and importance in SEE
- Integration and cooperation between medium and small-sized cities, as well as small settlement patterns, in view of forming a critical mass (this is very important for small countries or countries with large number of small scale settlements), which will enable competition between countries and the SEE at a wider spatial scale
- Networking of medium and small cities with major urban centres
- Strategic integration of cities as well as small settlement patterns (e.g. small compact centres and settlements, as well as areas with dispersed spatial structures) on all possible levels of their function, role and / or importance in view of ensuring the continued success of spatial development of SEE countries in Europe.

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## Chapter 9

# Transport Infrastructure Priorities and Territorial Cohesion Prospects in SE Europe

Magda Pitsiava

### **Transport Infrastructure and the General Context of Transition in SEE**

Infrastructure in general and transport infrastructure in particular are widely considered to be related to the economic development of an area. This observation is of special interest for the countries of Southeast Europe which, over the past fifteen years, have experienced drastic changes as the process of transition from socialism to market was accompanied by a series of wars, political unrest and strong economic decline. In this context, transport infrastructure could act as a contributing not only to its economic development and cohesion, but also to the security and the political stability of the area. This chapter seeks to analyze the relevant issues in the following two parts. The first part provides an overview of the present situation with regard to transport infrastructure, with an examination, in particular, of the main features and problems, while the second part discusses the overall strategic framework and the formulation of strategic priorities for the development of transport infrastructure in the area. The conclusions emphasize the prospects of policy integration in the midst of the diverging priorities pursued by the main actors involved in the field of transport infrastructure such as the international financial organizations, the EU and the national governments of the area.

In the countries of Southeast Europe (see Map 9.1) the transition from the system of planned economies prevailing during the second half of the previous century to the system of free market democracies in the context of globalization at the beginning of the twenty first century, is proceeding in the face of significant obstacles and delays. Furthermore, the prospects of their integration into the European architecture are shaped by the combination of the internal forces of transition and of intense international interest. The basic expression of this interest is the Stability Pact for South Eastern Europe which was adopted after an EU initiative on 10 June 1999. The Stability Pact is basically a framework agreement for international cooperation aiming at elaborating a shared strategy for the stability and growth of SEE.<sup>1</sup> The

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<sup>1</sup> In the founding document, more than 40 partner countries and organizations undertook to support the countries of S.E. Europe 'in their efforts to foster peace, democracy, respect for human rights and economic prosperity in order to achieve stability in the whole region'.

most important political instrument of the Stability Pact is the Regional Table under which three Working Tables operate: Working Table I for Democratization and Human Rights, Working Table II for Economic Reconstruction, Cooperation and Development and Working Table III with two Sub-tables one for Security and Defence and the other for Justice and Home Affairs.

Within the framework of Working Table II, the Infrastructure Steering Group (ISG) was set up. The ISG consists of experts from the European Commission, the World Bank, the European Bank of Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Council of Europe Development Bank and the Office of the Special Coordinator of the Stability Pact. Its mission represents part of an overall effort to integrate the countries of SE Europe amongst themselves and into the EU through the adoption of a common regional approach for the design and implementation of infrastructure projects. Thus, the elaboration of infrastructure policy aiming, on the one hand, at the modernization and development of the transportation, energy and telecommunications networks and, on the other hand, at their expansion and connection with the corresponding European networks, emerges as one of the key objectives of the Stability Pact for SEE.

On the basis of the above approach, a series of strategic studies have been undertaken (an energy and transport infrastructure study prepared by the European Commission, a water strategy supported by the EBRD and an Air Traffic Infrastructure study developed by the EIB) shaping the core of the ongoing process to promote cooperation among the countries of the region, to facilitate coordination between donors and to allow adequate prioritization of the regional infrastructure investments in SEE (EC/World Bank 2003). The orchestration of the necessary financial sources for the implementation of this international strategic plan is the Donors Coordination Process, which operates under the auspices of the EU and the World Bank.

In parallel with the Stability Pact framework, the EU pursues complementary policies towards SEE and in accordance with the different trajectories of the countries in the region. Thus, on the one hand, Bulgaria and Romania have signed (on the 25<sup>th</sup> of April 2005) Accession Partnerships with indicative date for joining the EU January 1, 2007. In the context of the accession process the European Union provides assistance to Bulgaria and Romania through the budget lines of the PHARE program (general accession aid for adopting the 'acquis communautaire') and the EU pre-accession funds ISPA (transport and environment) and SAPARD (agriculture). Together, the two countries receive approximately € 900 million per year in pre-accession aid and they are eligible for loans from the European Investment Bank. On the other hand, the Stabilization and Association Process (SAP) and, in particular, the Stabilization and Association Agreements, were signed with the countries of the West Balkans (Croatia, Bosnia and Herzegovina, Serbia and Montenegro, Albania, FYR Macedonia) as the means to begin to prepare themselves for the prospect of their accession to the EU<sup>2</sup> (EC 2004).

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2 The rationale for the SAP was set up by the European Commission in May 1999 and was officially sealed at an EU/Balkans Summit held in Zagreb in November 2000. The SAP was designed to support the domestic reform processes which these countries have embarked upon in a long-term perspective with, as main objective, their integration to the EU.

The cornerstone of the SAP is the conclusion of specific bilateral agreements between the EU and each of the five countries, designed to draw them closer to the EU. At the Thessaloniki European Council in June 2003, an ‘Agenda for the Western Balkans’ was adopted which included an enrichment of the current SAP through the provision of new ‘European Integration Partnerships’. Inspired by the pre-accession process and tailor-made to each country’s needs, these partnerships identify, on a regular basis, priorities and obligations to be fulfilled. The EU financial assistance is directed to the priorities set out in the partnerships which, through their implementation, evaluate the progress made.



**Map 9.1 The countries of SE Europe**

*Source:* ESTIA-SPOSE 2006, elaboration by Spatial Development Research Unit (SDRU-AUTH).

It should be mentioned that in the framework of SAP, since 2000, all instruments of financial support were integrated into the CARDS Program.<sup>3</sup> In order to ensure focus on vital problems and concentration of resources, CARDS identifies four priority objectives, (1) *Promoting integrated border management approaches*, (2) *Promoting democratic stabilization*, (3) *Building the capacities of and cooperation between state institutions*, and (4) *Developing regional infrastructure approaches*. The issue of infrastructure is mainly addressed through the regional program, because its object is, by definition, of a cross-border nature and its development requires the agreement of more than one country. The relative Commission services are responsible for its implementation, while CARDS national programmes can also be used in certain priority cases, in order to ensure that Objective 4 is achieved, that is the developing of coherent strategies for infrastructure, with an international dimension. This could be achieved through the support of meetings and networking that will enable the governments, the IFIs and the EC to discuss, and agree on, strategic options and choices as well as the elaboration of regional *infrastructure studies* concerning the three priority areas (energy, transport, and environment).

The CARDS assistance program has produced a Regional Strategy Paper 2002–06 in which the existing regional infrastructure is examined in the light of its wider political and economic context. According to this paper the regional economic situation interrelates closely with the political situation, since a future political crisis would add an additional burden on the already fragile economy of the region. Evidence shows that the region is capable of growth, should structural reform, trade and foreign investment be boosted. However, the high unemployment rates, in combination with the low productivity levels, the limited privatization and the rudimentary reform of the financial sector do not allow the region to reach a state of economic development.

## Overview of the transport infrastructure supply in Southeast Europe

### *General features of road and rail networks in SEE (according to recent strategic studies)*

Transport infrastructure and regional development seem to be interrelated in ways that, in most cases, lead to mutually beneficial outcomes. This, in its most simplified form, implies that regions enjoying better access to the locations of input materials and markets are more productive and competitive than more remote and isolated regions (Linneker 1997).

It is in this context that investment in transport infrastructure is generally considered as a vital policy for the economic growth of regions. It is characteristic

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3 It is estimated that through this program € 4.6 billion will be provided to this region over the period 2000 to 2006 for reconstruction investment, institution-building, and other measures promoting regional cooperation. Europeans Union assistance in Albania, Bosnia and Herzegovina and Croatia is managed by the European Union's Delegation in those countries and in Serbia and Montenegro and the FYROM by the European Agency for Reconstruction. In general all regional programs are managed by the EuropeAid Cooperation Office (EC 2001a).

that in the EU space the differences in transport infrastructure follow, roughly, a similar geographic distribution as that of the per capita GNP (EC 1994), indicating that there is a positive correlation between transport infrastructure and the state of the economy (Keeble et al. 1982). However, this correlation may merely reflect historical agglomeration processes rather than causal relationships effective today (Bröcker et al. 1988).

In this situation, the EU expects that the development of the trans-European transport networks (TEN-T) – one of the most ambitious initiatives since its foundation<sup>4</sup> – could contribute to reducing the socio-economic disparities between its regions. (Schürmann et al. 2002). Nevertheless, what the most appropriate types of investment in transport infrastructure are and which types of regions get the highest benefits remain open questions. Thus, for example, it has been argued that trans-European networks increase spatial unevenness via their impact upon accessibility and thus upon the relative economic prospects of regions (Vickerman et al. 1999). In the face of this uncertainty, the consistent prediction and rational and transparent evaluation of socioeconomic impacts of major transport infrastructure investments in Europe – in particular of different scenarios of TEN-T development – has become an issue of great political importance. For this purpose a comprehensive simulation model was developed in the project ‘Socio-Economic and Spatial Impacts of Transport Infrastructure Investments and Transport System Improvements (SASI) for DGVII (Transport)’ which was further developed in the project ‘Integrated Assessment of Spatial Economic and Network Effects of Transport Investments and Policies’ (IASON) for DGTREN (Schürmann et al. 2002; Spiekermann and Wegener 2006).

In a more recent article Vickerman (2003) explores the dynamics of the relationship between the transport system and the rest of the economy which is set against the pressures arising from EU enlargement and leads to questions concerning the sustainability of existing transport policies which place emphasis on mobility.

In this context, for the countries of SEE the development of an efficient transport infrastructure is of vital importance not only for the economic growth and cohesion of the region but also for their political stability as well as for their integration to the European Union.

The transport infrastructure in SE Europe is considered to be inadequate, while the amount of investment, although significant, is not sufficient to meet the transport needs of the countries in the region. Both the inadequately maintained infrastructure which does not serve the intraregional connections and the lack of coherent and effective strategies represent the main features of the region. The underdevelopment of transport infrastructure is mainly due to the direct and indirect effects of the continuous conflicts and to the resulting instability of the region. From recent conflicts direct war damage, i.e. the destruction or the rendering useless of important components of the infrastructure in the Federal Republic of Yugoslavia and in Bosnia and Herzegovina (including roads, railway lines and airports) was recorded. More specifically, the destruction of bridges across the Danube and Sava River is still

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4 The master plans for rail, road, waterways, ports and airports together require public and private investment amounting to between 400 and 500 billion Euros until the year 2010.

severely impeding road and rail traffic flow as well as inland navigation. Additional indirect damage from the conflicts is mainly the under-investment, which has led to severely curtailing periodic and current maintenance and renewal activities.

The description of the current state of infrastructure which follows is mainly based on the two strategic technical studies – i.e. TIRS and REBIS – for the region, with as main objective the strategic development of transport infrastructure in SEE. It is also based on a number of more recent projects concerning transport infrastructure in the area. The methodology followed by these studies was the calculation of a number of relevant indicators (i.e. density, capacity and level of service of the network) which, in most cases, was completed by a comparison with EU average values for the corresponding indicators. In this process, the length of road/rail network which was related to the surface area and the population living there was used as a basic indicator by all the studies in order to express infrastructure endowment, thus giving the density of road/rail networks per surface and per population.

In the following, the basic findings from these studies/projects are summarized with the intention of presenting a general picture of the transport infrastructure in the form of an inventory showing how it stands in the region and how it compares to EU levels. The drawing up of an inventory – of the characteristics of the various transport subsystems (road, rail, air and water transport) is of great importance as it describes the differences in their state, their quality of service but also their needs and priorities. It should therefore be based on the most reliable data.

However, it should be pointed here that it was found through all studies carried out that more recent data – especially that concerning the road network – is limited and lacks comparability, a fact which is mainly due to the existence of different national classification systems of the road network in each country. By contrast, statistics concerning the railway sector seem to be more consistent and able to provide comparable data. Nevertheless the rationale behind the following description of the transport infrastructure through all studies carried out concerns the investigation of its relevance, complementarity as well as of its comparability whenever possible.

According to the Transport Infrastructure Regional Study in the Balkans<sup>5</sup>, (TIRS 2002) the comparison of transport infrastructure in SE Europe with that of the EU shows that the area, lags behind in all the relevant indicators (i.e. density, capacity and level of service) standing at much lower levels than the mean average of the EU. With respect to the density per surface (km of network per 1,000 sq km) the road network of the area indicates an average density 50% below the EU average, while the comparison of the rail network with the European Union gives better results.

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5 The Transport Infrastructure Regional Study (TIRS) in the Balkans was undertaken in the context of the Stability Pact and constitutes actually the first phase of a longer exercise (2001–02). The study area encompasses seven countries Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the FRY, the FYROM and Romania and the main objectives of the study were the identification of major international and regional routes in the region, the definition of a coherent medium-term network to be used as a framework for planning, programming and coordinating infrastructure investments and the definition of short term priority projects suitable for international financing.

The worst situation concerns the motorways where development is very limited (the density of motorway networks in Bulgaria and Romania is 2.9 and 0.5 km of network per 1,000 sq km respectively, while the EU-15 average is 16) with the exception of Slovenia with a density of 21.5 (Ward et al. 2002).

It should also be mentioned that significant variations in transport infrastructure exist between the countries of the area with Slovenia, Bulgaria and Romania standing generally in a better position than the others and especially than the countries of the Western Balkans.

In addition, according to the Regional Balkan Infrastructure Study (REBIS, 2003)<sup>6</sup>, which covers only the countries of the West Balkans, the geometrical characteristics of the road network in the region varies substantially – from narrow two-lane roads in many areas to dual carriageways and motorways at main links. This study seems to indicate that the road and rail networks generally have a capacity which is sufficient to carry the present and the estimated short- to medium- term increase in traffic, but the lack of coherent maintenance policies has resulted in a general degradation of their infrastructure. More specifically, recent estimations indicate that over 70% of the roads are in need of some form of resurfacing while most railway lines are in need of modernization. (85% of the network is single track, and only 10% is classified as being in good condition). In addition, in railways maintenance is experiencing a severe backlog, which in some areas reduces substantially the operational capacity and travel speed.

In a recent project (Holzner 2006)<sup>7</sup> in addition to an examination of the supply of infrastructure which is expressed by the indicator of density, the quality and efficiency of the road/rail network are also examined. For the evaluation of the quality of road network, two indicators were used: the percentage of paved roads in the total network and the length of motorways per 1,000 km of road, while for the quality of railway infrastructure, the indicator used was the percentage of double-track lines in the total rail network. For the evaluation of the efficiency of both networks, the data refers to passenger-kilometres and freight tonne-kilometres in relation to the length of the total network.

This analysis provides some very interesting findings which are summarized below for the SEE-8 countries. As far as road density is concerned, Romania obtains the highest value for both indicators i.e. density per surface and per population. With regard to the percentage of paved roads the average value of SEE – 8 is 67% while the EU countries obtain on average a result of 92% of their roads paved. The result for Albania indicates the lowest share of paved roads (39%). As far as the length of

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6 The Regional Balkan Infrastructure Study (REBIS) (2003) was financed by EU Commission and covers the countries of West Balkans (Albania, Bosnia and Herzegovina, Croatia, FYROM and Serbia and Montenegro, including Kosovo). The main objective of this study is to assist these countries in developing coherent strategies for transport infrastructure development through the definition of a regional core network and the identification of projects suitable for international co-financing.

7 The project IBEU (Integrating the Balkans in the European Union) explores the current state of road/rail infrastructure of SEE countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Moldova, Romania and Serbia-Montenegro) in a comparison with the Central and East European Countries and the EU.

motorways per 1,000 km of roads is concerned the only SEE country that obtains the same share as the EU average is Croatia, with 15 km of motorway per 1,000 km of roads. This can be partly explained by the fact that most of the former Yugoslav motorway between Zagreb and Belgrade went through Croatian territory and that Croatia made substantial efforts over the recent years to increase its motorway network, especially the part connecting the hinterland with the coast.

As far as rail density is concerned, in terms of both indicators (density per surface and per population) the highest values are found in Croatia and the lowest in Albania (this is due to Albanian isolationist policy prior to 1990 and thus to lack of connection with the international railway network). The quality of the railway system expressed as percentage of double track in the total rail network was found to be better in Bulgaria and Romania (22% and 24% respectively) as compared to the EU average of 39%, while in West Balkans it seems to be very poor and inadequate for fast passenger transport.

### *Comparative and synthetic aspects of road and rail network in SEE*

The on-going INTERREG project ESTIA-SPOSE (2006) (in which Slovenia, Croatia, Hungary, Albania, Bosnia and Herzegovina, Bulgaria, Romania, FYROM, Serbia and Montenegro and Greece are involved) explores the conditions under which SEE could become a sufficiently integrated macro-region in order to contribute to a more balanced development of the EU territory. In this context transport infrastructure is examined in the Parity of Access component of the project. The other two components of the project are Polycentric Growth and Natural Resources which are in accordance with the priorities of ESDP defined as: polycentric and spatial development, parity of access to new infrastructure and prudent management and protection of natural and cultural resources (CEC 1999). The analysis starts with the assumption that practically all exchanges between cities and regions take place via transport and communication infrastructure networks. Accessibility to those multi-modal networks and connectivity to terminals – which express the parity of access concept – are considered as crucial enabling factors towards the realization of the territorial cohesion potential of the area. Inversely, the presence of infrastructure networks enables the promotion of polycentricity, which is an ESDP policy priority, in order to confront socio-economic polarization and promote the territorial balance of the EU.

Within the framework of this project the following approach and the identification of the basic indicators for the evaluation of road/rail infrastructure were based on the ESPON projects (2002–04) compatible with ESDP policies.<sup>8</sup> More specifically,

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8 ESPON (2004): Transport services and networks: territorial trends and basic supply of infrastructure for territorial cohesion. This project is based on the assumption that access to infrastructure networks is increasingly becoming a crucial factor for territorial development. The project refers to the ESDP concept of 'parity of access to infrastructure and knowledge' understood as a guideline promoting a better territorial equity or balance.

ESPON (2005): Territorial Impact of EU Transport and TEN Policies. This project is focused upon the territorial evaluation of the effects of TENs (transport, energy, and

two broad categories of indicators were calculated, transport infrastructure supply indicators and accessibility indicators.

In the first category, apart from the two indicators of density (per surface and per population) for both road and rail network, the connectivity to transport terminals<sup>9</sup> was calculated in order to evaluate the ease of access in terms of time. In the second category two indicators were calculated: daily accessibility<sup>10</sup> and potential accessibility.<sup>11</sup> All the above indicators were calculated on the basis of data provided by the GISCO database for the road and rail network figures and other complementary national and international statistical sources whenever appropriate.

In addition, the following three synthetic indicators were calculated and mapped in order to combine the parity of access with socioeconomic phenomena and to contribute to the identification of spatial typologies in the area under examination:

- Combination of road density per surface with the ratio of 1,000 inhabitants per km of road network called – use level – in order to estimate the adequacy of infrastructure in relation to the needs of population
- Combination of potential accessibility and GDP per capita providing an indicator of the relationship between transport infrastructure and the level of economic performance, and
- Combination of connectivity to transport terminals with road density per surface.

In the following, the mapping of some selected indicators is presented, that is the road/rail density per surface and per population, (Maps 9.2–9.5), the potential accessibility (Map 9.6) and the synthetic indicator of the combination of connectivity to transport terminals with road density per surface (Map 9.7) at NUTS II level. The observation of these maps leads to some very interesting remarks concerning the state of the transport infrastructure in the region.

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telecommunication). The project refers to policies and measures promoted by both the ESDP and the white Paper ‘The European Transport policy by 2010’ (EC 2001c).

9 Minimum travel time by car from the regional centroids to the closest transportation node (railway station, airport, port).

10 Population accessible from a given place (NUTSII capital), in a given time (3 hours trip) allowing for business daily round trips by road. Its scope is to indicate the transport system effectiveness serving the most demanding trips, i.e. those which are more closely related to development opportunities for most economic sectors.

11 As potential accessibility is defined the overall activities and/or opportunities (expressed by population) to be reached from any origin to all destinations spending the least time to reach them, (Schürmann et al. 1997) and is expressed by the equation:

$$A_i = \sum_j g(W_j) f(C_{ij})$$

Where:

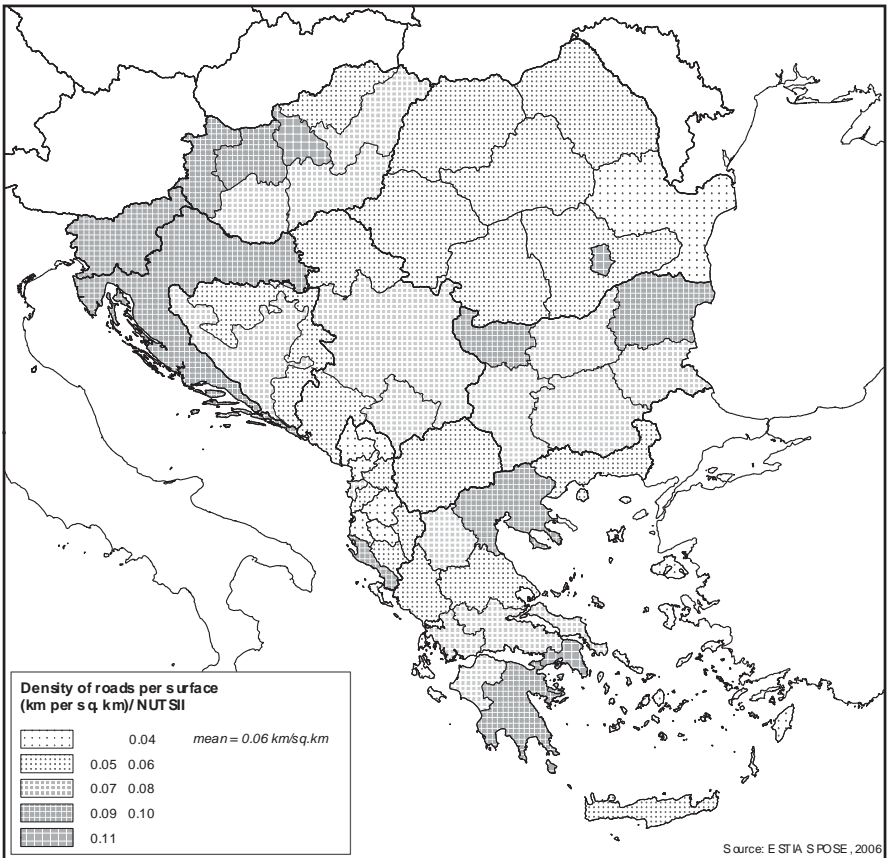
$A_i$  is the accessibility of area  $i$ ,

$W_j$  is the activity  $W$  to be reached in area  $j$  (expressed by population) and

$C_{ij}$  is the generalized cost of reaching area  $j$  from area  $i$  (calculated as the least travel time).

As far as the road network is concerned (Maps 9.2, 9.3) the higher densities (above average) per surface and per population are found in Croatia, Slovenia, west Hungary and many regions in Greece and Bulgaria. The majority of regions fall within the middle range of values while the lowest values of density for both indicators (per surface and per population) are found in Albania. In addition it can be noted that the capital regions in Greece, Hungary and Romania (i.e. Attiki, Koezep Magyarorszag and Bucharest) present very low density of road network per thousand inhabitants because of the demographic polarization.

As far as the rail network (Maps 9.4, 9.5) is concerned, Hungary seems to obtain the highest values of rail density per both surface and population, followed by Croatia, Slovenia and northwest regions in Romania. In addition, it seems (Map 9.4) that a North/South divide exists with the north being much better endowed. These findings concerning the rail network seem to coincide with the results of previous



**Map 9.2 Density of roads per surface**

Source: ESTIA-SPOSE 2006, elaboration by Spatial Development Research Unit (SDRU-AUTH).



**Map 9.3 Density of roads per thousand inhabitants**

Source: ESTIA-SPOSE 2006, elaboration by Spatial Development Research Unit (SDRU-AUTH).

studies (i.e. IBEU) a fact which confirms that rail data are more reliable and stable than the road statistics.<sup>12</sup>

In relation to potential accessibility (Map 9.6), the most favoured regions with the minimum average travel time are found in the core of the area (regions situated around Serbia). By contrast, the regions in the periphery of the area, especially in its southern and eastern part (Albania, Greece and the eastern regions of Bulgaria and Romania), enjoy very poor accessibility.

It should be pointed out here that ‘poor’ or ‘very good’ accessibility mainly depends on the identification of the study area and its boundaries. Thus, the above

12 In the framework of the ESTIA-SPOSE project, despite the fact that the most recent studies TIRS and REBIS were available as well as European data bases such as GISCO, EUROSTAT, and furthermore additional national data sources provided by the project partners, it was impossible to stabilize a reliable set of figures for the length of road networks as a result of the differences in categorization of the national roads.

classification of potential accessibility has resulted from considering the SEE as a macro region with its internal transport communications only, without taking into account its external links with the rest of European regions.

The combination of connectivity to transport terminals (expressed as the minimum travel time by car from the regional centroids to the closest important transportation node i.e. railway station, international major airport, port) with road density is presented in Map 9.7. This indicator is related to the distribution of the transport terminals and the coverage of the road network in the area (ESPON 2004) and the results of its mapping define a space of four possible types of areas:

- Type 'A' (low connectivity and low road infrastructure endowment) refers to the least favoured areas as far as road infrastructure and terminals are concerned. Examples: mountainous Greek and Albanian regions and the majority of Romanian regions.
- Type 'B' (high connectivity and low road infrastructure endowment) refers to regions with significant location advantages but infrastructure weaknesses. These are areas neighbouring developed regions with major terminals while they are not equally equipped.
- Type 'C' (high connectivity and high road infrastructure endowment) characterizes the regions with the greatest potential and which are well integrated. Many regions including the capitals and other major cities such as Sofia, Belgrade, Bucharest, Budapest, Ljubljana, Athens, and Thessaloniki, are found in this category.
- Type 'D' (low connectivity and high road infrastructure endowment) includes regions with adequate infrastructure but with a lack of terminal nodes. These are areas with adequate infrastructure but relatively isolated from major terminals. Examples: Croatia, Central Bulgarian regions and various regions in Greece and Hungary.

### *Modes of transport and intermodality in SEE*

Intermodality, especially as concerns the transport of goods, results, in most cases, in direct and indirect economic advantages i.e. cheaper transport costs as a result of the mass transport component in rail, inland waterway or short sea shipping and less externalities.

In the countries of SE Europe, inter-modal transport is still limited, which partly due to issues of safety - and specific inter-modal facilities, when they exist, are largely underutilized. According to the REBIS study multi-modal transport in the region constitutes less than 0.5% of total goods transport and it is almost exclusively comprised of land transport or maritime containers to/from the ports. There are several reasons explaining this situation: the traffic volumes on key routes are exceptionally low and long distance transport flows are unbalanced since they are mainly related to the import of goods. There is no clear policy in the area, nor any fiscal or other incentives which promote multi-modal transport (REBIS 2003, 13). Given the small size of the countries in the region and, in particular, the limited potential for combined transport, it becomes obvious that the countries should



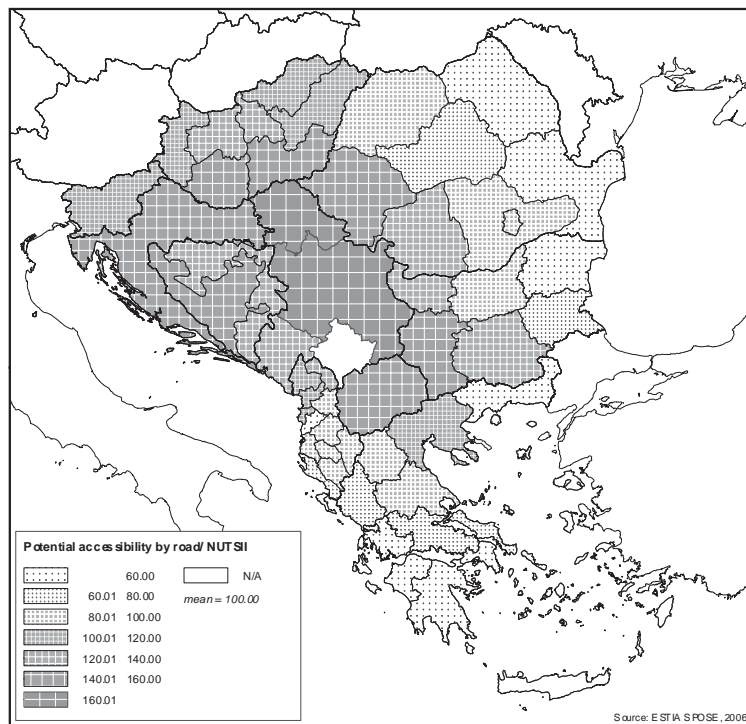
**Map 9.4 Density of rails per surface**

Source: ESTIA-SPOSE 2006, elaboration by Spatial Development Research Unit (SDRU-AUTH).



**Map 9.5 Density of rails per thousand inhabitants**

Source: ESTIA-SPOSE 2006, elaboration by Spatial Development Research Unit (SDRU-AUTH).



**Map 9.6 Potential Accessibility**

Source: ESTIA-SPOSE 2006, elaboration by Spatial Development Research Unit (SDRU-AUTH).



**Map 9.7 Connectivity to transport terminals/road density per surface**

Source: ESTIA-SPOSE 2006, elaboration by Spatial Development Research Unit (SDRU-AUTH).

cooperate closely in order to allow the exploitation of economies of scale in the investments directed to inter-modal infrastructure development..

As far as air transport is concerned, an extensive air route network exists in SEE region, (including international airports in each country but with a lack of direct connection between the capitals). Although the comparison of air transport with the corresponding EU network produces better results than road and rail transport comparisons, improvements and modernization of the existing installation are needed for the airports to be able to adapt to the evolving traffic demands. To illustrate the point, a recent study (World Bank 2000) has revealed that, in addition to air traffic directed to the region from the major EU airports, there is an increasing demand for over-flight routes to the Middle East and beyond.

It should be pointed out that in this domain the need is felt for complementary progress in regulatory and institutional reforms as well as for improvements in infrastructure, so that investments might deliver the expected benefits. In this respect, a high priority on the agenda must be the application of an integrated Air Traffic Control (ATAC) System, of great importance for the region and for foreign airlines operating in or transiting through the region, complemented by the introduction of new technologies and basic airport modernization in order to increase traffic safety and security.

With regard to maritime transport (sea and river waterways) the SEE is a significant crossroads of important sea routes with the area's outlets to the Adriatic, Ionian, Aegean and Black Seas, via major ports. These ports – several of which are also the ending nodes of Pan-European Corridors – play a significant role in respect of the issues of the competitiveness and cohesion of the region as well of its wider international connections.

It should be mentioned here that the major ports of the area characterized by very different level of development. The largest ports of the SEE region are located on the Black Sea, linked to industries close to the Danube: Burgas (industrial, with annual capacity of 15 m tons, and Constanta (with annual capacity of 35 m tons) (Regional Strategy Paper, World Bank 2000). Other Black Sea ports that are important for regional development are the ports of Varna (average multi-purpose port with annual capacity of 5.5 m tons) and Mangalia (small developing port).

Along the Adriatic coast, three major ports, Trieste (Italy), Koper (Slovenia) and Rijeka (Croatia) are in competition with each other. Rijeka enjoys relatively good connections but, owing to decades of poor management, lack of maintenance and development, most of the traffic has shifted to Koper and Trieste. There are also numerous small-size ports belonging to Croatia (Split, Ploce and Durbrovnik), Montenegro (Bar) and Albania (Dures). A semi-continuous mountain range along the coast has rather restricted their road and rail connections. Access to cargo is mainly a matter of niche markets (e.g. Ploce for Bosnia and Herzegovina) and local industries.

Inland shipping is dominated by the Danube which, with a total length of 2,857 km represents a key shipping artery-Corridor VII in the Pan-European Network. The Danube is indeed the largest navigable river of Europe and had been connected,

since 1992, via the Rhein-Main Canal to the Rhein<sup>13</sup>. However, the unique transport opportunities it offers as a link between the Black Sea and the Atlantic ports are still unexploited, considering that the Danube has not been exploited to its full advantage as a result of the destruction caused by war in the west Balkans. The full re-opening of the river to commercial navigation should relieve the road traffic from a heavy burden restoring, at the same time, a more environmentally-friendly dimension.

### *Problems related to Transport Infrastructure in SE Europe*

It has become obvious from the previous analysis that, despite all the difficulties involved in stabilizing a reliable set of figures, and in particular for the road network, the infrastructure in SEE region is inadequate, far from being in harmony with EU standards, and facing serious difficulties the overcoming of which is a *sine-qua-non* of the stabilization and development of the region. The main problems related to transport infrastructure as revealed by the series of recent studies are: cross-border connections, unbalanced share of traffic among different modes, financial and institutional difficulties, lack of coordination among the responsible planning authorities and extreme network fragmentation.

The dissolution of the Yugoslav Federation has led to the creation of over 5,000 km of new, international border lines, which has resulted, in turn, in passengers having to face long waiting times and unpredictable customs procedures at some stations – in particular in the case of transport of goods, which are widely subject to regulatory and procedural issues. It is not unusual for the waiting time at borders to add up to 30% of the total journey time, a fact which penalizes economically consumers, restricts regional trade and economic cooperation and has a negative impact on the development of national economic growth. To address these problems, the efforts of the National Governments, the EU, the SECI and the World Bank were integrated under the TTFSE Program<sup>14</sup> with, as main objective, the reduction of waiting times at borders through the introduction of institutional changes, best

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13 The Danube is the second-longest river in Europe. Since the opening of the Rhine-Main-Danube Canal in 1992, 14 European countries have been linked by the Rhine-Main-Danube waterway. The total length of the waterway from the estuary of the Danube into the Black Sea and the estuary of the Rhine into the North Sea is about 3,500 km. The Rhine-Main river region and the Danube are connected by the 171 km long Rhine-Main-Danube Canal. A total of 65 locks have to be passed between Vienna and Rotterdam (<http://www.via-donau.org>).

14 The border crossing problem was addressed through the following activities resulting in the creation of the TTFSE program: the EU advised Romania and Bulgaria on customs reform and computerization in order to promote the pre-accession strategy and provided support to Bosnia and Herzegovina and Albania to build up their customs administration.

The Southeast European Cooperative Initiative (SECI) established so-called 'PRO Committees' on national level to mobilize in parallel public and private sectors in respect of a simplification of transport procedures and thus a facilitation of trade. In this connection, the governments of Albania, Bosnia, Bulgaria, Croatia, FYROM and Romania asked the World Bank to finance reforms of their customs administration and improvements at border crossing stations under the 'Trade and Transport Facilitation in Southeast Europe (TTFSE) Program' (2002). This program represents the first regional-linked project in support of the Stability Pact.

practice principles and modern technology. The World Bank TTFSE and the EU CARDS programmes are supporting the Region with an injection of EUR 181 million over a period of four years. In addition PHARE, EBRD and other investors have pledged their support towards the improvement of specific border crossings (REBIS 2003, 43).

Among the most critical institutional problems standing in the way of achieving the appropriate management of the development of transport infrastructure, is the reduced capacity of most of the state or of the state-owned companies to provide the necessary funds for the operating, maintenance and renewal of transport facilities (TIRS 2002, 5). The principal reason for this lack of maintenance is that, generally speaking, the governments of the region have not adopted fiscal measures which may produce the necessary funds. In addition, there are no clear strategies and prioritization for infrastructure development – in some countries the donors have been the ones to put forward any suggestions regarding the orientation of development. Furthermore, political agendas quite often dictate infrastructure projects, irrespective of real traffic demands, the Pan-European Corridor network being the focus of this financing, and thus resulting in the degradation of axes that are important for the interconnection and the cohesion of the region (TIRS 2002).

The lack of planning coordination and natural continuity represents a basic disadvantage of transport infrastructure in SEE. It should be mentioned that the different national priorities for highway infrastructure improvements, especially in the domain of border crossings has resulted in transport infrastructure adjacent to borders being developed according to different time scales, implying the loss of coherence of the network and, therefore, its extreme fragmentation (TIRS 2002, 33).

In addition, the lack of a clear strategy for the development of an integrated transport system in the area in cooperation of the various modes of transport has resulted in a situation of unbalanced share of traffic among them and of limited intermodality which, in turn, results in the rise of the cost of transport to which the externalities (environment, congestion, safety, etc.) are added. This mainly refers to the decline of the share taken by rail transport over the 1990–00 decade (e.g. rail traffic – both passenger and freight – dropped by 90% in Bosnia and Herzegovina and 70% in Serbia between 1990 and 2001). Although this decline was brought to a halt in some of the countries in recent years and there are signs of recovery, the long-term prospects of rail transport are still quite grim and traffic levels are unlikely to reach once more the levels of the late 80's (REBIS 2003). As a consequence, all railway companies are now facing severe financial problems and the restructuring of their administrative system is now unavoidable. The rehabilitation of the rail transport could bring along, in turn, the possibility of a more effective exploitation of waterway transport in the region, as the railway network operates as a very essential link to ports and freight transport. Indeed, most of the freight traffic registered regards land transport of maritime containers inwards and outwards, organized to and from various ports in the region (IMONODE 2004).

All the problems identified above in relation to transport infrastructure mainly stem from the combination of the political instability and geographical isolation of the area with the peculiar terrain of the Balkan Peninsula. It could be said that the interplay of geography with politics has resulted in the current state of the transport

infrastructure and that it is through regional cooperation that overcoming the inherited infrastructure problems after decades of regional disintegration could be achieved. Also it is expected that through the strengthening of institutional arrangements for the improvement of border connections the creation of a coherent transport network might be accomplished.

## **The Strategy for the Development of Transport Infrastructure in SEE**

### *The framework for the development of transport infrastructure*

The EU and the international organizations responded to the urgency of the problems described above by promoting the development of a common strategy for the improvement of transport infrastructure in SEE. The main objective of such a strategy is the development of a multi-modal transport infrastructure network adjusted to the expected requirements of passenger and goods transport in the area, linked to, and compatible with, TEN networks.

This aim was reflected in the Community guidelines which constitute a declaration of intent by the European Community (European Parliament and Council decision on No 1692/96/EC of the 23rd July 1996) for the creation and development of a multimodal transport network that meets the transport needs arising from the existence of the single market and the objectives of economic and social cohesion and sustainable mobility.

In this context, and according to the “Transport and Energy Infrastructure in SEE” study (EC 2001a), the framework for the development of transport infrastructure in SEE is defined by:

- *The decisions of the Pan European Transport Conferences* concerning the extension of the TEN Network to the countries of the Central and East Europe. In particular, at the 2<sup>nd</sup> Pan European Conference in Crete in 1994, the nine Pan-European corridors were defined as the natural extension of the TEN to the Central and East Europe while, at the 3<sup>rd</sup> Pan European Conference in Helsinki in 1997, the previous decision was approved with the inclusion of Corridor X. In addition, during this Conference, the four Pan European Transport Areas (PETrAS) of the maritime sea basins were defined. From the Pan European Network, the Corridors and Areas concerning the Balkan Region are: Corridors IV, V, VII, VIII, IX and X and the Adriatic-Ionian PETrA. More specifically Corridor IV crosses Romania, Bulgaria and Greece, Corridor V crosses Bosnia and Herzegovina, Corridor VII (waterway of the Danube) crosses Serbia and Montenegro, Romania and Bulgaria, Corridor VIII crosses Albania, the FYR Macedonia, Bulgaria and Greece, Corridor IX crosses Romania and the FRYugoslavia and, finally, corridor X crosses Serbia and Montenegro, the FYR Macedonia, Bulgaria and Greece. It should be noted that Corridor VIII is exclusively contained within the territory of the region.
- *The experience from the Transport Infrastructure Needs Assessment (TINA)*

Study in Central and Eastern Europe concerning accession countries. The TINA process was launched in 1996 with, as main objective, the coordination of the transport infrastructure between the 11 candidate countries (Poland, Lithuania, Estonia, Latvia, Czech, Slovakia, Slovenia, Hungary, Bulgaria, Romania and Cyprus) and the EU member countries on the basis of the extension of the TEN on the future members' territory and the creation of a unified transport network.

- *The activities carried out by the United Nation Economic Committee for Europe (UN-ECE)* in the mid 90's concerning European Agreements on main international traffic arteries (AGR: International E-road network), on main International Railway lines (AGC) and on important international combined-transport lines and related installations (AGTC).
- *The 'Western Balkan Transport Infrastructure Inventory'* financed by the EIB, as the basic transport database for the development of the transport network planning process.

The strategic document Transport and Energy Infrastructure for South East Europe was jointly prepared by DGTren, DG External Relations and the Europe Aid Cooperation Office. It was then discussed with International Financial Institutions, EU Member States and the countries of the region and it was presented to the members of the Stability Pact (EC 2001b). In this document the definition of the strategic infrastructure network is based on the following principles:

- Priority is given to the use of existing infrastructure, through repair and rehabilitation
- The network design uses the principles of the EU transport policy on issues such as the development of competition and cooperation between transport modes, as well as the protection of environment
- The investments programs for the execution of the transport infrastructure plans must be based on the economic viability of projects and should reflect the financial strength and capacity of the region.

This strategic approach was the basis for future commission decisions on the use of EU funds in the region and the starting point for the CARDS program as it provided a common ground for the identification of priority projects. In addition this strategy lay out the context for the two key technical studies, the Transport Infrastructure Regional Study (TIRS) and the Regional Balkan Infrastructure Study (REBIS) in 2002 and 2003, which were the source of valuable information on the status of transport infrastructure in the area as seen in the previous chapter.

The completion of Pan-European corridors, as the natural extension of the TEN to Central and Eastern Europe could contribute to the integration of the SEE area with EU but regional integration could be achieved essentially with the development of an adequate multi-modal transport infrastructure network in the area. It is in fact the corridor/network concept which applies here in relation to the TEN, Pan-European Corridors and the Major Transport Routes in South East Europe. As mentioned above, the development of a core transport network in the region with backbone the

links of Pan-European Corridors crossing the area was achieved in the framework of the Transport and Energy Infrastructure in SEE study and the two strategic studies, TIRS and REBIS <sup>15</sup>

The above two studies were supervised by the European Committee of Ministers of Transport (ECMT), while there was additional involvement on the part the European Bank for Reconstruction and Development (EBRD), of the European Investment Bank (EIB), of the World Bank as well as of the governments of the participating countries in the region. Through these studies and, in particular, the REBIS study the international interest for the development of transport infrastructure was focused in the region of the West Balkans and the development of a core transport network in the region. These two studies, along with the TTFSE study (2002), were followed by the Transport Project Preparation Facility (TPPF 2004), which was financed by CARDS with, as main objective, the preparation of feasibility studies for investment in transport, taking into consideration the national priorities, the priorities of the International financial Organizations and the directions of the two technical studies TIRS and REBIS.

#### *Regional strategy and the core transport network in the West Balkans*

The Southeast Europe core network refers to the five SEE countries of the West Balkans (Albania, Bosnia and Herzegovina, Croatia, FYROM and Serbia and Montenegro – including Kosovo). It includes 4,300 km of railways, 6,000 km of roads, major ports and airports and the inland waterways of the Danube and the Sava. More specifically, the multi-modal core transport network includes the main links of the Pan-European corridors which cross the region (i.e. V, VII, VIII and X) and form the skeleton of the network, the main road and rail links between the five capitals of the region and the cities of Banja Luca, Podgorica and Pristina. It also links these cities to the capitals of the neighbouring countries and connects with the strategic Adriatic ports of Durres, Rijeka, Split, Dubrovnik, Ploce, Bar and Vloce and the airports of the five capitals and of Banja Luca, Dubrovnik, Nis, Pristina and Podgorica (REBIS 2003, 4)

The core network refers not only to the road, rail and inland waterway alignments and the airports and seaports indicated above, but also includes infrastructure for

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15 The South East Europe core regional transport network was firstly developed in the European Commission's working document of October 2001 on transport and energy infrastructure in SEE. It was further clarified and elucidated by the TIRS and REBIS technical studies of 2002 and 2003 and the Luxembourg, London and Paris high level meetings of February, June and October 2003 which were organized by the European Investment Bank (EIB), the European Bank of Reconstruction and Development (EBRD) and the World Bank respectively. The above three meetings were supported technically by the REBIS study and were guided by the Infrastructure Steering Group-I.S.G. which was set up at the Working Table II of the Stability Pact with main objective the strategic development of transport infrastructure in SEE. Finally, the signature of the Memorandum of Understanding (MoU) between the West Balkans and the EU on 11 June 2004 (MoU 2004) rounded off the efforts of the countries of the region and of the international community towards the development a strategy for regional transport in S.E.E. around the concept of a core transport network.

combined transport and traffic management installations. Any future modification of the network should be agreed by the participating signatories of the MoU on the basis of a reasoned analysis and justification submitted by the network steering committee.

There are many potential benefits involved in a regional strategic approach to develop infrastructure in SEE region (as in the case of the regional core network), such as reducing transaction costs, facilitating the strengthening of the institutional structure through the region and assisting the adoption by the SEE countries of EU standards for infrastructure development and regulation, with a view to future integration. It has moreover been proven that there are several cases in transport where the application of a regional approach is more appropriate than the execution of individual projects. Examples of such cases are the re-opening of the Danube, the elimination of border crossings impediments, the improvement of airspace navigation control and, of course, the set up of regional traffic forecasting as the basis for drawing up investment projects that take into account both the national and regional trends. Progress made so far to this end includes the formulating of a number of strategies and devising of a number of studies at regional level.

Following the publication of the World Bank's Regional Strategy Paper, 'The Road to Stability and Prosperity in South Eastern Europe', (March 2000) and taking stock of the initial comprehensive assessment made by the EIB ('Basic Infrastructure investments in SEE, Regional Project Review', Regional Funding Conference, March 2000) an extensive set of sector-focused regional strategies has been elaborated:

- The European Commission finalized the strategic paper on 'Transport and Energy infrastructure in South-East Europe'
- The EBRD finalized the water strategy
- The EIB finalized the Air Traffic Infrastructure Regional Study (ATIRS) on air traffic control facilities, as well as on airport infrastructure in South East Europe.

These strategies formed the overall framework of an ongoing process to promote regional cooperation among the countries of the region, facilitate coordination between donors and allow adequate prioritization of the regional infrastructure investments in South East Europe.

### **Strategic Priorities for the Development of Transport Infrastructure**

The integration of Southeast Europe is an objective shared by the countries of the region and the EU, in association with various cooperative configurations which are developed in parallel and/or complementary ways, such as in the Central, Adriatic, Danube and South European Space (CADSES area), in the South East Mediterranean (ARCHIMED) and in the area of Black Sea Economic Cooperation. In this context, the prospects and the strategic priorities, which are adopted and pursued by the main actors involved in the development of transport infrastructure, allows for some useful remarks concerning both their areas of convergence and of differentiation. Keeping

in mind all the activities mentioned so far directed to the development of an efficient transport infrastructure in the SEE region in view of its integration, it is possible to identify the major actors in the field of transport infrastructure policies. These actors, starting from the lower level upwards, include first, national governments either separately or, on occasion, jointly, forming cooperative initiatives, second, the EU and third, International Financial Organizations. Despite all the activities undertaken by these actors towards the development of transport infrastructure, it has become apparent that a differentiation exists in strategic orientation according to the level of the involved actors, for instance national interest and regional interest for highway infrastructure improvements may not necessarily be the same. On the basis of the previous analysis Table 9.1 attempts to summarize the strategic priorities of these main actors (Kafkalas and Pitsiava 2005).

All the involved parties recognize the importance of a comprehensive regional strategy. Besides, quite a significant number of strategic documents and studies already exist, which consider that a comprehensive regional strategy is a prerequisite for the stabilization and the development of the region, the orientation of the activities and the making of investment plans. However, the overall result of the simultaneous pursuit of the above priorities remains obscure as a result of a multitude of overlapping oppositions and synergies. The existing disparities and the different time scales applying for the materialization of various plans make it even more difficult to assess their impact upon the prospects of spatial integration and development of SEE.

The ESTIA project provides a characteristic example of the difficulties existing in taking a cooperative approach to the formulation of a plan of strategic priorities for the integration of SEE. It highlights the importance of the Pan European Corridors and of those of their branches that cross the Balkan countries and, in parallel, it stresses the necessity of taking into consideration the time-space hierarchy of their implementation. In this context, the following priorities are proposed for the strengthening of cross border connections and the effective integration of the region both internally and in relation to the broader European space (ESTIA 2000).

- The development of gateways (big ports, international airports) which promote the connection of the countries of S.E. Europe with the infrastructure network of the European Union
- The development of the railway network, the sea routes and air connections on the principle of sustainable and balanced development
- The reconstruction of bridges, especially in the Danube, following their destruction during the war conflicts in the decade of 1990s
- The necessity to take into consideration in the infrastructure planning the differential time-horizons of the countries of the region and, in particular, of the West Balkans in relation to their accession to the EU
- The improvement of the existing networks and their compatibility with both the existing European networks and the new investment plans that have been scheduled.

**Table 9.1 Priorities for infrastructure development in SEE**

| Major actors                                   | Policy objective (orientation)           | Strategic Priorities   |
|--|--|--|
| International Financial Institutions           | Economic and financial viability         | <ul style="list-style-type: none"> <li>• Selection of projects under conditions</li> </ul>   |
| EU   | European Integration                     | <ul style="list-style-type: none"> <li>• Pan-European Corridors</li> <li>• Core transport network in West Balkans</li> </ul>   |
| S.E.E. (Cooperative Initiatives such as SECI)* | Trans-Balkan Cooperation and Integration | <ul style="list-style-type: none"> <li>• Cross-bordering cohesion</li> <li>• Modernization and network connection</li> </ul>   |
| National Governments                           | Economic development and social cohesion | <ul style="list-style-type: none"> <li>• Share of traffic among different modes of transport</li> <li>• Project classification according to national and international importance</li> <li>• Time horizon of projects materialization</li> </ul> |

\* The Southeast European Cooperative Initiative (SECI) established by the governments of Albania, Bosnia, Bulgaria, Croatia, FYROM and Romania with the objective of mobilizing in parallel public and private sectors, in respect of a simplification of transport procedures and thus of a facilitation of trade.

Priorities similar to the above are included in other projects (VISION PLANET 2000) as well as in all the attempts made at elaborating a vision for the spatial integration of the whole region. These priorities may overlap or complement specific strategic priorities of the involved partners (i.e. national governments, International Financial Institutions, EU) without being identical. Thus, the critical issue for the region which needs further consideration concerns the involvement of many actors characterized by both converging and diverging objectives and by additional differences in their strategic orientation and means of implementation. This state of affairs undermines the effectiveness of the interventions while the realization of the different priorities with different speeds postpones also the prospects of overcoming the spatial fragmentation of Southeast Europe.

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substantial material from the above sources. I also wish to thank Makis Moutsiakis who did an excellent work concerning the production and elaboration of maps.

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## PART 4

# Concluding on Integration Potential

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## Chapter 10

# Territorial Governance, Institutional Structures and Trans-frontier Cooperation Prospects in South-Eastern Europe

Panayiotis Getimis and Leeda Demetropoulou

### Introduction

In the post 1989 period, the collapse of the communist regimes in Eastern Europe created new opportunities for the establishment of an integrated space across the previously divided continent. Despite the fact that references to spatial integration are rarely found in European documents, the closely related concept of 'territorial cohesion' appears in an increasing number of documents drawn up supra-nationally by pan-European organizations and institutions such as the EU, the Council of Europe and the OECD. These European institutions, within the various cooperation schemes that they have been promoting at a pan-European level, have made the enhancement of trans-national and cross-border cooperation the focus of their support as a means towards more balanced development and greater spatial and socioeconomic cohesion across the European territory.

Within this framework, the Council of Europe adopted in 1980 the Outline Convention on Trans-frontier Cooperation between territorial communities or authorities (Madrid Convention). This was followed by the drawing of two protocols (in 1995 and 1998) that sought to improve the legal status of transfrontier cooperation bodies and inter-territorial cooperation. The Council of Europe has ever since been involved in efforts for the promotion of cooperation in different regions across the continent. With a focus mostly on the provision of financial support, the EU has also been a mainspring of cooperation (and potentially of integration) within and along its borders seeking to facilitate the working of the Single Market and to increase the socio-spatial integration of the EU as a whole (Perkmann 1999). The launching of the INTERREG Initiative has probably represented the most important step in that direction and was followed by the latest EU attempts to improve coordination between INTERREG, PHARE, MEDA, TACIS and, most recently, CARDS and the New Neighbourhood Instrument.

Across the continent, the EU attempts to strengthen trans-frontier cooperation, have led to the emergence of new forms of governance, symptomatic of the current emergence of a multilevel European polity trend. According to Marks, Hooghe and Blank (1996, 346–7), who are the main proponents of the multilevel governance approach, the new European polity is a polity: 1) where regional, state, and

supranational actors share the control over many activities that take place in their respective territories; 2) where states are only one of a number of actors debating decisions that are made at a variety of levels; and 3) where there are trans-national linkages between actors located in and representing political arenas at different levels (Bourne 2003, 290).

A typical example is provided by the emergence of a number of cross-border cooperative arrangements (Euroregions). Such arrangements have allowed local and regional authorities to enter a field previously reserved to central governments and establish institutions that involve a complex network of horizontal and vertical linkages (Perkmann 1999). They are voluntary associations of local and regional administrative bodies on either side of the concerned border and may also include non-statutory organizations (Kennard 2000, 203–19). Despite the existence of considerable differences in respect of their scope, the double aim of all Euroregions is to first attempt to mitigate the disadvantages of peripherality with relation to their own national economies and, second, to reap the benefits of cooperation opportunities with their neighbouring regions. The domains of cooperation have been varying from economic and environmental projects to cultural events and tourism (*ibid.*).

No matter how much support European institutions can offer towards strengthening trans-frontier cooperation and (ideally) the establishment of Euroregions, the fact remains that the realization of a cooperation agreement and its future success depend on the readiness and the capacity which local and regional actors across the borders have first to cooperate, second to plan and third to implement common activities. This capacity acquires extra significance within the highly competitive environment of the EU and the emerging multilevel polity.

Within South-Eastern Europe<sup>1</sup> (SEE) there are some border regions which have already taken their first steps towards intensifying cross-border cooperation and simultaneously institutionalizing it through the establishment of Euroregions: Serbia and Montenegro-Hungary-Romania; Serbia and Montenegro-Bulgaria-FYR Macedonia; Bulgaria-Greece; Bosnia and Herzegovina-Croatia-Hungary, Serbia and Montenegro. A number of cooperation initiatives have been formed to promote common action in low politics (South-East European Cooperative Initiative – SECI, South-East European Cooperation Process – SEECPP, Black Sea Economic Cooperation – BSCE etc.) The EU has placed the SEE within the broader Central, Adriatic, Danubian and Southeast European Space (CADSES) and allocates support primarily through the INTERREG Initiative, with the aim to facilitate spatial integration and cooperation in the most heterogeneous area of Europe.

However, the fact remains that the SEE constitutes today the most volatile and least integrated area of the continent. Different historical traditions, varying political cultures, diverging development paths, unresolved minority issues and incomplete

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1 There is no overall agreement as to which countries should be included in the SEE category. This chapter places under the SEE heading the southern part of the CADSES (Central, Adriatic, Danubian and Southeast European Space) programme zone of the European INTERREG Initiative and includes the Western Balkans – Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia and Serbia and Montenegro), the pre-accession countries – Bulgaria and Romania, and Greece.

state building processes have combined with the catastrophic consequences of the violent disintegration of Yugoslavia and the incomplete transformation process of the 1990s to create a complex and multi-tier reality particularly hostile to endogenous and exogenous cooperative or integrative schemes, well short of socioeconomic and spatial cohesion.<sup>2</sup> Within this context, it is necessary to ask whether SEE could achieve spatial cohesion and become an integrated part of the broader European space, no matter what shape this might take. Inside or outside the institutional EU limits the question regards whether the SEE region can become part of a spatially integrated Europe.

It is the aim of this chapter to provide an answer to this question. Attempting to do so, it will address the issue of the administrative and institutional capacity and capability of the SEE states to actively participate in both cross-border and trans-national cooperation schemes seeking to adopt and implement an integrated vision of spatial development for the region and Europe as a whole. On the basis of the results of the INTERREG IIC CADSES project ESTIA,<sup>3</sup> the INTERREG IIIB CADSES ESTIA-SPOSE project<sup>4</sup> and the DAC project SPF,<sup>5</sup> and also on the basis of recent studies undertaken by different international institutions (Open Society Institute – OSI, East West Institute – EWI), Council of Europe, Congress of Local

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2 On the 21st of May 2006 Montenegro voted for its independence; around the same time, the independence of Kosovo seemed increasingly likely. The fact is that while this chapter was written the borders of the region were being re-drawn, a further indication of both the cooperation difficulties and the urgent necessity to achieve further integration in this rich multi-cultural mosaic.

3 The project ESTIA – European Space and Territorial Integration Alternatives: Spatial Development Strategies and Policy Integration in SEE – was launched as a Greek initiative under the INTERREG IIC CADSES operational programme. The ESTIA partnership consisted of representative spatial planning institutions and experts from six SEE countries (Albania, Bulgaria, Greece, FYR Macedonia, Romania and Serbia and Montenegro). Its central idea was the formation of a common framework for the coordination of spatial development policies. Towards that aim it thoroughly analysed the spatial planning systems and priorities in the participating countries and proposed specific axes for future cooperation.

4 The ESTIA project evolved into a new project called ESTIA-SPOSE European Space and Territorial Indicators and Actions for a Spatial Observatory in Southeast Europe. It builds upon the experience of the ESTIA project and intends to develop Actions for a Spatial Planning Observatory in Southeast Europe, based on an integrated system of territorial indicators fully compatible with the approach of the ESDP and ESPON. This system of indicators will be tested in a series of pilot applications in selected sectors and areas with the aim to promote both conceptual understanding and operational compatibility among the existing national spatial planning traditions. This will support effective trans-national cooperation and will increase the synergy among the spatial planning and developments efforts in SE Europe. It refers to the south east part of CADSES, consisting of accession countries (Bulgaria, Romania, Slovenia, Hungary) and non-member countries (Albania, Bosnia and Herzegovina, Croatia, Serbia and Montenegro, FYR Macedonia). The EU Member States (Greece, Italy, Austria and Germany) are also taking part in the projects.

5 Under the auspices of the OECD and the Hellenic Ministry of Environment, Spatial Planning and Public Works, the SPF project concerned the preparation of an agenda – framework of the thematic priorities for a permanent Spatial Planning Forum in SEE.

and Regional Authorities of Europe) under the umbrella of the Stability Pact for South-Eastern Europe, the chapter focuses on the post-1989 administrative reality and on the institution-building attempts that were made in the SEE states under the challenging conditions of post-communist transformations and in anticipation of eventual EU membership.

The territorial reorganization and the administrative decentralization pursued in the SEE states constitute the broader context within which institutions function and cooperation schemes are pursued. Within this framework issues of particular interest are, first, the extent to which decentralization reforms have been planned and implemented and, secondly, the way centre-periphery relations have evolved in terms of political legitimacy, financial autonomy and power distribution. Within the broader European trend of increased regionalization, it is interesting to see how the different SEE states (Member-States, associate states and candidates) have reacted to the increased demand for stronger and more autonomous regions against their mostly centralized administrative traditions. This link between local democracy and trans-frontier cooperation has been recently acknowledged by the Stability Pact which introduced a Task Force on Local Democracy and Cross-border Cooperation/Euroregions.

At this point, the distinction between institutional capacity and institutional capability needs to be highlighted: establishing the required institutions does not automatically bring along effectiveness and efficiency. Factors such as a country's administrative tradition, state-society relations, broader socioeconomic and political contexts and previous experiences play a decisive role in translating capacity into capability. Focusing on the national administrative and institutional realities, the chapter seeks to establish which are the institutional factors that reduce the chances of successful cross-border and trans-national cooperation initiatives that limit the potential for spatial integration in SEE. The existence of different legal, administrative and political systems, considerable socioeconomic disparities and a broader institutional deficit constitute determining and confining conditions in that respect.

Within this context, the EU has a particularly significant role to play to facilitate spatial cohesion in SEE and the eventual integration of the region into the new European space. The extension of principles common to all the countries of the region can provide the required common vision-umbrella for the numerous endogenous and exogenous development plans. The provision of support for the establishment of EU-compatible regional development processes and institutions towards the elimination of the socioeconomic disparities in SEE, always in respect of the specificities of the SEE states, will no doubt cause pressure for adaptation and will provide the road map that the region needs. So far, the EU's refusal to deal with the region as a whole and the responses to the EU cross-border and trans-national cooperation initiatives have only served to emphasize the limitations of the region's cooperation potential in the spatial development domain.

## **Trans-frontier Cooperation in Support of European Integration – The Dynamics of ‘Balkan’ Disintegration**

The principle of trans-frontier cooperation in Europe goes back to the 1950s and, ever since that date, it has played an important role in the process of European integration. Following the collapse of the communist regimes in Eastern Europe, cooperation projects sprung up on nearly every single internal border of the EU, as well as along the external EU borders with the Central and Eastern European countries. The development of trans-frontier cooperation practices has no doubt been favoured by the active role played by the European institutions; the Council of Europe has been the first to show an interest in 1960 (Resolution 15 of the Standing Conference of Local Authorities of Europe on ‘the integration of the natural regions astride frontiers’) and was followed by the EU at the end of the 1980s, primarily with the INTERREG Initiative (Pasi 2005). More recently, a number of cooperation schemes have emerged across Europe to promote trans-frontier cooperation, acknowledging its significance with respect to European integration (Assembly of the European Regions, Association of European Border Regions, Stability Pact, BSEC, Central European Initiative – CEI, SECI, SEECP).

On the part of the EU, the main programmes developed for supporting cross-border integration in the 1990s were INTERREG IIA and INTERREG IIIA for the Member States, PHARE CBC for the candidate countries (later to become CARDS in the Western Balkans) and TACIS CBC for third countries (later to become New Neighbourhood Instrument). The overall objective of INTERREG A has been the development of cross-border socioeconomic cooperation through joint strategies for sustainable development among local and regional authorities and socioeconomic partners across the borders.

At the same time, the EU Member States started flirting with the idea of strengthening cooperation at the trans-national level in the field of regional and spatial planning. According to a relevant working paper of the European Commission, the need to devise a strategy to guide the development of the European territory emerged as a significant issue in the policy debate for a number of reasons: these include the growing recognition of the increasing functional interdependency within the Single Market, the challenges posed by the globalization of the economy and the need, following enlargement, to integrate a vast and diverse territory. As Nadin and Shaw (1998, 281) argue,

the root of the explanation for increasing trans-national collaboration on spatial planning is the increasing economic interdependence of nations. Considerable elements of economic activity together with political and cultural relations are effectively becoming globalized and independent of nation states. (in Kennard 2000, 203–21)

Thus, in the 1990s, trans-national cooperation developed in parallel with the elaboration of a comprehensive long term strategy for the development of the EU territory (later European Spatial Development Perspective ESDP).

In the European construction project, spatial planning has come to play a prominent role. This role is linked to the provision of ‘*an ideational foundation for a networked Europe through symbolic representations of European space*

*and its future development perspectives.* (Scott 2002, 147–67)’ The EU Member States together with the European Commission had been working for some time on the elaboration of a new form of territorial policy. Their attempts led in 1999 to the publication of the draft ESDP document with a vision centred on a policy triangle of economic and social cohesion, sustainable development and balanced competitiveness (Jensen and Richardson 2001, 703–17). The ESDP was not meant to be a binding document. However, its authors were fully aware of the impact that it would have on both Member States and Union institutions through the provision of frameworks that facilitate the decision-making processes (Faludi and Waterhout 2002, 146 in Zonneveld 2005, 137–55).

Moreover, the authors of the ESDP were hoping that its impact would spill over into the accession countries and their neighbouring states. As to the accession countries, the authors argued that more intensive cross-border and trans-national cooperation in spatial development would support the integration process. They suggested that the Member States consider the incorporation of the accession states and neighbouring countries into the European spatial development policy as a tool for preparing and successfully implementing the enlargement process. They also suggested the extension of the spatial development policy of the EU beyond the territory of the Member States and their application to the countries along the future external borders of the EU (Devetak 2001).

Within this framework a specific strand was added to the INTERREG programme IIC / IIIB) to promote trans-national cooperation among local, regional and national authorities in the field of spatial and regional planning, towards achieving greater territorial cohesion and potentially spatial integration. The entire Community territory was divided into ‘macro-regions’ within which territorial integration activities were financed: North Sea Region, North-Western Metropolitan Area, South-Western Europe, CADSES, Baltic Sea Region, Western Mediterranean and Latin Alps, Atlantic Area.

The CADSES was established in 1997 covering a wide geographical area including regions belonging to four Member States (Austria, Germany, Greece and Italy) and to fourteen then non-Member States (Albania, Bosnia Herzegovina, Bulgaria, Croatia, Czech Republic, FR Serbia and Montenegro, FYR Macedonia, Hungary, Poland, Republic of Moldova, Romania, Slovak Republic, Slovenia, Ukraine). The CADSES macro-region concerns the largest and most diversified European cooperation area, the integrated development of which has been hindered by strong socioeconomic imbalances, ongoing political, social and economic transition, ongoing integration into the EU edifice and, above everything, violent conflicts in parts of its territory and more specifically in SEE.<sup>6</sup> From 1997 to 1999, 330 projects were supported with a Community contribution that amounted to €21.5 million in an attempt of the EU to deepen European integration with special regard to issues of enlargement and the SEE region (Pedrazzini 2005, 297–17).

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6 The CADSES diversity has been recently recognized by the EU that divided the macro-region into North and South programme regions for the new programming period of INTERREG (2008–13).

Unfortunately, despite the overall agreement over the geographical European identity of SEE, the last decade has brought to light the significant difficulties and which the incorporation of the region into the new European space would cause. Without doubt the military confrontations of the 1990s had a negative impact on the spatial cohesion of SEE, as they limited seriously all endogenous and exogenous cooperation initiatives and delayed the inclusion of the region into the various European and international organizations and cooperation schemes, especially the EU. The truth is, however, that even before the 1990s a plethora of different factors, such as different historical and cultural traditions, diverging development routes and extensive external interventions, had contributed to a complex mosaic, within which all cooperation attempts met with limited success.

The SEE territory had never been particularly responsive to cooperation. In fact the region had never enjoyed socioeconomic and spatial cohesion. First divided between the Byzantine and the Roman Empire, later between the Ottoman and the Hapsburg Empires and finally between the two Cold War blocks, the SEE countries have all followed different routes of economic, political and social development and have been left with a legacy of unsettled border and minority issues. Furthermore, historical traditions have combined with geological characteristics and led to inadequately developed communication networks and transport infrastructures that seriously impede the movement of people, products, services and information. Though there are several international corridors in the area, issues related to the lack of motorways, the long rail journey time, the difficult navigation of rivers and the inadequate border-crossing points often burdened by excessive and slow customs bureaucracy, emerge in all their urgency (Council of Europe, ISIG 2003).

Recently, the degree of institutionalization of relations with the EU and the particular social, economic and political conditions prevailing in each country, ranging from the degree of development of market economy and the level of privatization to the legitimizing of the newly established regimes and unsettled minority issues, have created a multi-tier state of affairs in the SEE region. On the basis of their status vis-à-vis the EU and of the unique starting points and trajectories that characterize the transition process of each, the countries of the region can be grouped into different tiers of development. We find Greece in the first tier. In the second tier we find Bulgaria and Romania, candidates right on the doorstep of the EU which, despite the economic and political difficulties they faced, controlled at a fairly early stage the internal minority issues and achieved the stability necessary to achieve reforms. In the third tier we find the Western Balkan countries, the vast majority of which are still trying to achieve a satisfactory level of stability. In the most favourable position, Croatia was recently given the green light to put itself forward as a candidate, though it is still behind Bulgaria and Romania and sending clear messages about the positive outcome of its commitment. In the least favourable place, Serbia and Montenegro has been involved in four military conflicts, continues to face unresolved minority and territorial problems and is still a long way from taking steps towards transition and adaptation.

For many scientists in disciplines ranging from history, politics and economics to international relations, the SEE (Balkan) region is synonymous with fragmentation, violence, lack of stability, nationalism, unresolved ethnic and religious minority

issues, underdevelopment and democratic deficiency. Indeed, the most important part of related research has been oriented towards the analysis of these issues and of their causes (Agh 1998; Pridham 2000; The World Bank 2000). Thus, we often find references to the particularly low economic and welfare indicators, the continuing security gaps, the existence of unresolved border and minority issues, the incomplete state-building and nation-formation processes, the existence of weak states unable to impose the rule of law and reluctant to proceed with the necessary socioeconomic and political transformations etc. These references have created an impression of incompatibility between Balkan disintegration and European integration, 'Balkanisation' and Europeanization, which seriously contests the ability of SEE states to promote regional cohesion and become spatially integrated with the rest of the continent.

### **Institutional Deficit Limiting the Prospects of SEE Integration**

Trans-frontier cooperation significantly contributes to the 'deepening' of the integration between the countries involved in the process of building an increasingly unified continent, and to the 'spreading' of European cooperative methods at the borders of non-EU countries engaged in the process that leads to their EU accession (Pasi 2005). A considerable number of cooperative arrangements across Europe have proved to have a certain impact<sup>7</sup> on spatial integration across Europe, by directly or indirectly targeting the greater connectivity and physical and functional complementarity between areas particularly disadvantaged by the presence of borders. In all these arrangements, the presence of efficient administrative bodies and of institutional structures has been valued as essential elements for successful planning and implementation of spatial integration. Within that framework, a number of EU programmes have focused on strengthening the broader institutional capacity of the SEE states, to a greater extent in the EU Member States and the associate countries and to a lesser extent in the Western Balkans. The INTERREG programme has more specifically targeted the SEE states institutional capacity in the field of spatial planning.

No doubt, the majority of the SEE states emerged from their forty-year communist experience deprived of the necessary institutional capacity that would allow them to effectively participate in trans-frontier cooperation schemes and efficiently pursue spatial integration within the modern European framework of multilevel governance that requires partnership and networking across all the levels of governance and greater participation of social and economic actors. More specifically:

- The traditional planning approach (Master planning) was no longer suitable for the new realities of the rapidly changing transitional societies and centralized and expert-driven planning could not provide a proper and qualitative response to the challenges created locally by the globalization process of the

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7 ESPON 2.2.2. Territorial Effects on the 'Acquis Communautaire', Pre-Accession Aid and PHARE / TACIS / MEDA Programmes.

economy.<sup>8</sup> Furthermore, the European demand for a more integrated planning and greater coordination and complementarity rendered the previously dominating hierarchical top-down and sectoral approaches outdated and counterproductive.

- There was a lack of a tradition of partnership working between administrative levels in systems dominated by hierarchical structures and institutional inertia.<sup>9</sup> All the different directions of cooperation and communication both between national and sub-national levels and across each tier were weak. Public participation was limited. Even coordination capacity among the different sectoral authorities at the central level was limited.
- In the past the regional administrative tier tended to be weak and in some cases nonexistent. The concept of local self-government was completely alien in the Soviet model (Bulgaria, Romania and Albania) where local councils tended to be organs of state power that performed numerous administrative tasks but were not in charge of local interests. In Yugoslavia, municipalities performed a wide range of duties with their own financial resources and with extensive managerial autonomy but with no distinction between state and local affairs.<sup>10</sup> A point to mention here is the broader centralization trend that took place during the Yugoslav successor states state-building attempts (as against the decentralization trend in the Central and Eastern European countries) through a systematic attraction of power prerogatives by central republican governments (Sevic 2003).

For different reasons, Greece also faced institutional weaknesses. Since the emergence of the modern Greek state, its administrative and policy-making system had been characterized by limited legitimization and institutionalization, possible explanations being the 'volatile' political scene, the civil war, the political autocracy of the post-civil war governments and the political exclusion of a considerable part of Greek society (Spanou 2000, 62). The strong centralized and hierarchical structure of the Greek state was based on administrative units at the level of the prefecture. The prefect was appointed and controlled by the central government and played a considerable role in local affairs since local self-government remained fragmented and weakened by limited power, responsibilities and financial resources (Spanou 2000, 67). The high level of centralization and partisanship in decision-making and the extensive 'clientelistic' practices did not allow the prefecture administrative units to develop the necessary know-how for management and decision-making. In almost all policy areas there was constant interference by the central state. In fact, up to the

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8 UN HABITAT – Stability Pact, Regional Capacity Building Programme for Urban Development and Housing.

9 ESPON 2.2.2. Territorial Effects on the 'Acquis Communautaire', Pre-Accession Aid and PHARE / TACIS / MEDA Programmes.

10 Stability Pact, Proceedings of the South-Eastern Europe Regional Ministerial Conference 'Effective Democratic Governance at Local and Regional Level', Zagreb 25–26 October 2004.

1994 reforms, the centralized administrative system had left limited responsibilities only with the prefectures or the municipalities (Getimis and Demetropoulou 2004).

Many scholars have addressed the issue of the origins of the broader institutional deficit in SEE. In a well-structured analysis of the institutional constraints on SEE development, Madzar adopts a historical approach according to which,

Much of what constraints the present activities and future changes is closely associated with history which in the case of South-eastern Europe evidently plays a much bigger role than elsewhere in Europe, at least with respect to developmental constraints and the civilizational lock-ins which are such a conspicuous part of Southeast European realities.

He argues that because of its turbulent past and its volatile history, SEE had little chance to create high quality institutions. He also argues that the long centuries of alien rule have led to the evolution of a tradition of contempt for law and refusal to respect it, which has rendered both decentralized decision-making and societal policies badly coordinated and ineffective. The lack of high quality institutions and the contempt for law, among other things, led to a high concentration of political power and a limited role for the rest of the society.

The generally highly centralized Southeast European governments have acted as a break on building democratic institutions... [...] ...overly centralized states in South-eastern Europe have greatly impeded the process of democratization and, by implication, building of institutional infrastructure for a modern market economy.

What matters is that, in the 1990s, the above mentioned institutional deficit combined with other factors (which lie outside the scope of this chapter) to have a negative impact upon the complex politico-economic transformations that the post-communist SEE states were called to urgently undertake. It played, in addition, a decisive role in delaying the process of rapprochement with the EU, a process whereby institutional convergence is a necessary means towards greater political and economic homogeneity. The institutional deficit played a similarly negative role in the country's rapprochement with the EU and in its ability to take full advantage of European financial opportunities. Most importantly, this institutional deficit proved to be an additional obstacle for integration in a region that had anyway been handicapped by warfare and spatial disintegration.

Developments in the region in the field of spatial planning, decentralization and quality of public administration reveal that the pace of change is particularly slow, a fact that is arguably linked to the earlier unsatisfactory institutional capacity of the SEE states.

### *Spatial planning and regional development*

As concerns spatial and regional planning in 2000, the overall conclusion was that SEE was lacking in means of coordination and in the legal and administrative support required to devise an integrated spatial policy. However, conditions were starting to improve immediately following the post-1989 period when countries were absorbed

in military confrontations or in efforts to avert national economic crises and political anarchy and this at a time of extremely scarce resources.<sup>11</sup>

More specifically:

- In *Albania*, spatial planning and regional planning pre-1990 within the context of a centralized economy were primarily focusing on the maintenance of a specific spatial distribution of the economic and demographic state of affairs. During the transition process, the concept of spatial planning was altered to include the concepts of strategic planning and of the regulation of a balanced development. Up to the end of the 1990s, Albania had not yet adopted a clear institutional policy for the preparation of regional plans and the realization of spatial planning at national level. Albania lacked the necessary legislative administrative and institutional frameworks, and was not in any way ready to use the international funding opportunities in the field of spatial planning and regional development.
- In *Bulgaria*, pre-1990, despite the centrally directed economy and the almost exclusively hierarchical administrative framework, there was no integrated spatial planning and the distinction between planning for socioeconomic development and physical planning was only formal. The changes that took place at the end of the 1980s initially provoked a negative response to any form of planning. The situation improved in 1997–98 and towards the end of 2000, as steps were being taken towards integrated spatial planning. Under EU guidance, Bulgaria proceeded with the required territorial reforms and the elaboration of the necessary legislative and institutional frameworks.
- In *Romania*, the radical transformation of the economic system and the necessary structural changes across the spectrum of activities, along with the opening of the national economy to European and international economies, led to the creation of a new strategy in the planning of spatial development. This strategy was part of the economic transformation framework and corresponded to the broader principles of spatial development planning applied in Europe. At the end of the 1990s, important steps had been taken in the domain of spatial development and decentralization but no specific provision had been made to bring into harmony spatial planning and regional development. Romania had been firmly supported by the EU in the elaboration of the required administrative and institutional framework in the field of regional development to prepare its eventual accession.
- In *FYR Macedonia*, the radical political, economic and social changes led to important alterations in the domain of spatial development. At the end of the 1990s, an overall approach had been adopted incorporating physical planning and economic transformation. The elaboration of the national plan, completed in 1999, aimed at the resolution of complex spatial problems within the context of the various development processes and the harmonization of spatial development with the relevant international trends.

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11 Conclusions of the ESTIA and DAC-SPF programmes which, at their closing, provided a general overview of spatial planning and regional development policies and institutions in the six participating SEE countries.

- As far as *Serbia and Montenegro* is concerned, at the end of the 1990s spatial planning was under the jurisdiction of its two republics. The political and economic differences between the two republics had led to different planning attitudes. The advance of Serbia was taking place at a rather slow and centrally controlled transition pace, while Montenegro was opening up to Europe with a more liberal economy. They were both taking a rather piecemeal approach to spatial planning, which was centrally controlled and supported by national spatial plans, and lacked the indispensable programming and implementation measures and policies and articulated regional policies.
- The situation was different in *Greece*, where the process of restructuring and adjusting spatial development planning to the requirements of its participation to the EU and the partnership with the European Commission for the deployment of structural funding already had a twenty-year history. However, in Greece too delay phenomena could be observed in the application of the institutional regulations deriving from the country's membership to the EU. It is indicative that, although economic development planning has been following a specific programming framework, spatial planning had remained fragmentary and in need of adequate legislative support, at least until (September 1999) a comprehensive law for Spatial Planning and Sustainable Development was passed.

What is clear from the above is that, at the end of the 1990s, in all six countries, spatial planning systems were undergoing a period of change. The impact of the EU could be felt in both the substantive and the procedural aspects of the spatial planning systems, even in the most politically remote case of Serbia and Montenegro. Considerable transformations were implemented in the administrative and policy-making fields though in different proportions, depending on the country and in which stage of transition it was, as well as on the extent of the institutionalization of the relations of each country with the EU. The main changes, which no doubt facilitate the emergence of a more cooperation-friendly environment in SEE, concerned: a) the establishment of new territorial divisions and new regional institutions (via the creation of national development subdivisions equivalent to the European NUTS system). b) The effort to provide relevant information for spatial planning and development. c) The effort to establish mechanisms for public participation and consultation in spatial planning decisions, as an important asset of the current rearrangements in the institutional systems (Giannakourou and Getimis 1999).

#### *Decentralization and quality of public administration*

In all SEE countries and mainly in the accession countries, which were under high pressure to adapt in order to comply with EU requirements and to prepare their administrative and policy-making systems for eventual membership, the issues of regionalization and territorial self-government had been on a frequent basis highly contested topics on the political agenda.

According to the Commission, regions constitute the foundation of the European structure. They are the focal point of EU development and cohesion policies, being the link between the various scales of territorial management and governance, namely the local and state level. Regions have been identified by the Commission as the main partners to promote cooperation initiatives in the field of territorial cohesion, overcoming the different approaches and characteristics of their legislative tradition in territorial planning and in consideration of their direct competence on territorial matter and their increased participation in European affairs through the Committee of the Regions. (Pedrazzini 2005, 297–17)

Regionalization in the SEE countries has proved a particularly complex issue closely linked to the particular historical, political, socioeconomic and broader security circumstances that have prevailed in the area. Moreover, because of the area's demographic makeup, in many countries the issue of regionalization has been closely linked to the issue of interethnic and inter-religious relations and to the status of different ethnic groups in the country's political and administrative structure (Andreotti 2004). The evaluations of developments in the SEE countries carried out by the EU,<sup>12</sup> the United Nations Online Network in Public Administration and Finance (UNPAN)<sup>13</sup> and the Centre for Administrative Innovation in the Euro-Mediterranean Region (CAIMED)<sup>14</sup> are particularly indicative in that respect:

- *Albania*: Before 1990, some limited decentralized self-government bodies had existed within a highly centralized decision-making system. Since 1990, a more decentralized system has started to emerge: in 1992, the law on the function and organization of local governments granted municipalities and communes a degree of political autonomy accompanied by some direct responsibilities, although any real fiscal or management autonomy and responsibilities in terms of decision-making and programming (the authority still lay with the ministries) were absent; the new Constitution of 1998, provided local governments with a degree of financial autonomy (CAIMED). However, according to the 2003 EU Progress Report, the implementation of decentralization remained challenging, the difficulties notably arising from the fact that the staff was insufficiently qualified and that adequate financial resources were lacking to allow the implementation of the newly decentralized policies (COM(2003) 139). The October 2003 elections paved the road for a series of laws on local autonomy (transfer of property and decentralization of finances). Latest reports indicate that local governance is still hostage to political developments at the national level (COM(2005) 561 SEC 1421).
- *Bosnia and Herzegovina*: The issue of local self-governance is a responsibility not of the central state but of the two Entities. Given the particularly complicated setup of the Federation and the significant powers devolved to the cantons, the reform of local self-government remains a hostage to conflicting

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12 Evaluation reports can be downloaded at <http://www.europa.eu.int/scadplus/leg/en/s05055.htm>

13 <http://www.unpan.org/>

14 [http://www.caimed.org/index\\_en.asp](http://www.caimed.org/index_en.asp)

approaches (COM(2005) 561 SEC 1422). In March 2005, a new Federation draft Law on the Principles of Local Self-Government began its journey through the Federation parliament. However, according to the Council of Europe, this draft law does not comply with the standards of the Charter of Local Self-Government, and not even so in the field of the definition of local self-government (*ibid.*) In Republika Srpska, the new Law on Local Self-Government has entered into force but implementation is at an early stage. Additional efforts must now be made to create a modern and effective civil service, to ensure training to the required levels and to deal with the presently inadequate human resources and insufficient premises provision (*ibid.*).

- *Bulgaria*: The country still needs to deliver the legal framework that guarantees accountability, predictability, legality and reliability in the working of the public sector. The Council of Modernization approved a Strategy for Decentralization in May 2005, covering the decentralization of both power and resources. Unfortunately, decentralization has not progressed much in practice. Attempts at administrative and fiscal decentralization at the municipal level have stalled and are giving way to a de-concentration of responsibilities and tasks to the NUTS II level, where administrative structures are currently being strengthened. More efforts are needed to strengthen local and regional administrations with respect to decentralization (COM(2005) 534 SEC 1352).
- *Croatia*: In the post-1989 era and within the demanding context of fighting for independence and proceeding with democratic and economic transformations, a system of local self-government was set up in such a way that it would allow all public affairs to be governed centrally (CAIMED). The first steps towards decentralization were timidly taken at the end of 1999 offering local governments some sort of autonomy but without the allocation of the required financial resources. A stronger commitment became apparent after 2000. In 2004 a Decentralization Commission was set up to coordinate a new Framework Decentralization Programme for 2004–07. Late 2005, amendments to the law on local and regional self-government were pending in parliament. They included provisions on minority representation in executive and administrative bodies at local level and the transfer of various responsibilities to local government units (COM(2005) 561 SEC 1424).
- *FYR Macedonia*: One of the main provisions of the Ohrid Agreement has been to launch the decentralization process in order to secure political stability and to facilitate economic development. However, an analysis of the status of the decentralization process reveals that the local government system remains dependent on central government both in terms of responsibilities, where it faces severe restrictions on its autonomy including in sectors for which it is nominally responsible, and in financial terms, where fiscal federalism has not yet been implemented (CAIMED). Recent reports have pointed to the urgent need for FYR Macedonia to strengthen administrative and management capacities of public offices and to make further progress in the field of administrative and financial decentralization; the essential phase in local government reform is still to come with the pending status of the law on

Territorial Division and of the Law on Finances (Freedom House-Nations in Transit 2004).

- *Greece*: As already mentioned, since its emergence, the modern Greek state had been characterized by a strong centralized and hierarchical structure based on decentralized administrative units at the level of the prefectures. This centralist administrative system had allowed, up to the 1994 reforms, only a limited financial and administrative autonomy to the prefectures or municipalities. However, from the late 1990s onwards, the Europeanization process started penetrating the Greek political system. Within this context, EU membership has considerably altered the territorial distribution of power, choices and resources, allowing actors / institutions at all levels of governance to get involved in policy-making (Verney and Papageorgiou 1993). A number of private actors have also benefited from this development and gained access to policy domains from which they had previously been excluded. Eventually, a number of new institutions and administrative units emerged to improve the efficiency of public administration and to facilitate the adoption of the *Acquis*.
- *Romania*: Of the reforms initiated through agreements with the EU and the World Bank, the decentralization process has achieved here the most advance; a reasonably functional system of local governance was established through successive legislative acts (1991, 1994, 1998 and 2001) (Freedom House-Nations in Transit 2004). However, the issue of the allocation of responsibilities and financial resources between the different levels of government remains unclear. The 2004 Framework Law on Decentralization emphasized the need to strengthen local autonomy and take forward administrative and financial decentralization. Still, the competencies of the local and regional authorities have not been adequately defined nor have they been matched with corresponding transfers of property and fiscal resources or, at the local level, decision-making rights. Local financial autonomy is limited by the limited capacity of local government to generate its own revenues (COM(2005) 534 SEC 1354).
- *Serbia and Montenegro*: In Serbia, pending the adoption and implementation of new laws, the administration remains overstaffed and suffers from a shortage of qualified personnel on the one hand and, on the other, of undue political interference which represent significant impediments to institutional and policy continuity. While the issue of decentralization is a key issue in the current debate on constitutional revision, there are concerns on the potential impact of the recently adopted Government Law on local self-government. Municipalities still lack the right to own and manage properties (COM(2005) 561 SEC 1428). In Montenegro further progress regarding the completion of the public administration reform legislative framework. Implementation capacities continue to be weak in terms of funds, infrastructure, personnel and training while poor accountability and severe political interference create extra pressure. Few developments have taken place in the domain of decentralization where a coordination body has been set up to proceed with local government reform. Several laws on decentralization are pending (*ibid.*).

It can overall be argued that, in comparison to the beginning of the 1990s, SEE is today better institutionally positioned to proceed with cross-border and trans-national cooperation schemes and pursue spatial integration. However, two points that seem to be particularly valid in the SEE context need clarification. First, institutional capacity does not automatically imply institutional capability. Institutional capability is dependent, on the one hand, on the rationalisation of the public administration towards New Public Management and, on the other hand, on the strengthening of the civil society and NGOs – they both remain weak in the concerned countries. Secondly, territorial reorganization does not necessarily lead to the formation of independent regions capable of strategic planning and of implementing spatial policy and cooperation schemes at the regional level of governance.

As concerns the issue of institutional capacity, there is no doubt that considerable institution building attempts have been made in more or less all the SEE states and especially in Greece (need to comply with the Structural Funds demands), Bulgaria and Romania (pre-accession obligations). The existence of appropriate institutions has been widely acknowledged by the EU as important. A good example is provided by the reorientation of the PHARE programme in 1997 to address more pressing the issue of institution building in order to support the candidate countries administrations to acquire the capacity to implement the *Acquis*. Another good example is given by the introduction in 2000 of the CARDS programme, which included institution building among its key priorities for the provision of financial support to the Western Balkans.<sup>15</sup>

However, the fact that a number of new institutions have been established does not necessarily mean that these institutions are capable of effectively and efficiently carrying out their allocated tasks.

Whilst institutions can be created in terms of office space, staff and the definition of responsibilities, it seems more complex and less predictable to engender institutional capability, i.e. the ability of institutions to carry out the functions they were set up to execute. (Bailey and De Propriis 2004, 90)

Human resources and management skills are as crucial as the institutions themselves. In that respect the issue of institution building becomes closely linked to the issue of training and providing the necessary equipment to a wide range of civil servants, public officials, private sector actors etc.

It is important to recognize that time has to be given to institutions to enable them to work out the most appropriate way to deal with responsibilities and duties: Little else can be done to speed up the expected learning process which institutions have to undergo in order to absorb knowledge, routines and practices (Bailey and De Propriis 2004, 90) The pace and extent of learning are dependent among other factors upon the cultural and political tradition of each state including such factors as the administrative structure, the qualitative features of public administration and the lack of, or existence of, social capital. In the light of the fact that all SEE countries are being characterized by highly centralized state structures, weak public administrations and limited social capital endowments, one should expect the learning process to be particularly long.

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15 CARDS Regional Strategy Paper 2002–2006.

As far as the issue of territorial reorganization is concerned, the establishment of new territorial units at the regional level of governance does not automatically mean that these are independent regions capable of planning and implementing spatial policy and cooperation schemes. The broader framework of centre-periphery relations, the degree of centralization of state administration and past experience in planning, networking and cooperation are all factors that play a decisive role in regional performance.

A recent analysis of the challenges for regionalization in South-East Europe by the Standing Committee of the Chamber of Regions, Council of Europe, has demonstrated that the SEE countries are still far from recognizing that the regional level constitutes an essential framework for the implementation of central government development decisions and that the regions must be given wide powers in order to achieve efficient and functional territorial administration and organization of the country (Andreotti 2004). Moreover,

the Balkan countries would be reluctant to allow their regions to become autonomous platforms for micro-spatial cross-border links, based on an extension of their powers to cover matters of common interest in the cross-border area. This approach, which has become the norm in the EU and is considered the basis for an increasingly spatially integrated Europe, is all too often seen as a threat to national sovereignty in the SEE region (*ibid.*).

It is true that regional administrative units have been established in most of SEE. However, these are mainly the result of exogenous pressures and are not a genuine attempt towards substantial decentralization. The complex SEE mosaic with its numerous unresolved border and minority issues and the domestic framework of problematic centre-periphery relations, centralized administrative structures, hierarchical planning traditions, weak civil societies and traditionally limited public-private collaboration have deprived the newly-emerged regions from decision-making autonomy, executive power and financial resources required to perform the essential tasks of socioeconomic regulation performed elsewhere in Europe.

### **Conclusions: Towards Spatial Integration in SEE – Cooperation Potential and the Role of the International Community**

In the past decade, SEE has undergone numerous changes, which have altered its political physiognomy to an extent that would have previously been unimaginable. In the place of the previous five countries of the Balkans (Albania, Bulgaria, Greece, Romania and Yugoslavia) there are today eight countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Greece, Serbia and Montenegro, Romania). There is no doubt that the (not always peaceful) establishment of new frontiers and the varying pace of the particularly demanding transformation processes have upset the pre-existing patterns of political, economic, social and cultural relationships. Within this context, traditionally characterized by spatial disintegration and limited socioeconomic cohesion, the different degree of institutionalization of relations with the EU further aggravated the prospects of the development of trans-

frontier cooperation and integration by increasing the already existing administrative and economic differences and the socioeconomic discrepancies.

In a recent analysis of the 'strengths, weaknesses, opportunities and threats (SWOT)' that prevail in the Balkan-Danube area (2003),<sup>16</sup> the Council of Europe confirmed the existence of an enormous cooperation potential in the region. This potential has been evaluated on the basis of ten variables: propensity to cross-border cooperation, preparedness of territorial communities or authorities and coordination between them, existing cooperation in the various fields of economic activity, institutional, economic and social and cultural obstacles, institutional, administrative and economic factors conducive to cooperation, linguistic, historic and cultural factors.

The above mentioned SWOT analysis located the weak points of cooperation in the institutional domains of the (un)preparedness of local self-government units, the poor administrative coordination and the lack of adequate administrative structures. In fact, different studies<sup>17</sup> have identified the following institutional shortcomings for cooperation in SEE:

- The misgivings of central government with regards to cross-border cooperation and the allocation of insufficient financial resources
- The inadequacy of powers devolved to the regional and local levels of governance and the dependence of local administrations from the central ones
- The lack of efficient structures of regional and local self-government
- The non-existence of regional and local structures capable of promoting and conducting cooperation
- The lack of credibility of the cooperation agencies
- The weak response to proposals of cross-border cooperation on the part of the actors involved
- The existence of restrictive regulations in matters of cross-border relations.

However, considerable cooperation potential has been identified in the social and cultural fields, the civil society and the economic development. The ESTIA project<sup>18</sup> has also confirmed the existence of a considerable potential for cooperation in the field of spatial planning and more specifically in the following domains:

- The balanced development of the urban system and the rural space
- The development and complementarity of the basic networks of infrastructure (transport, energy and telecommunications)

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16 Directed by the Instituto di Sociologia Internazionale di Gorizia. The study concerns the following countries: Albania, Bulgaria, Bosnia–Herzegovina, Croatia, Greece, Hungary, Serbia and Montenegro, Romania, FYR Macedonia and Turkey.

17 Ibid. See also: Andreotti C., Challenges for Regionalisation in South-East Europe, Standing Committee of the Chamber of Regions, The Congress of Local and Regional Authorities, The Council of Europe, Strasbourg, 29 September 2004. The report was based on a more detailed study prepared by S. Devetak, University of Maribor.

18 ESTIA Deliverable, Preparing for Action – Spatial Planning Priorities in South East Europe, <http://estia.arch.auth.gr/estia/eng/deliver/summary/eng-sum.pdf>

- The promotion and protection of the cultural environment
- The promotion and protection of cultural heritage.

According to Kennard (2000) despite the prevalence of enormous differences in the area over the last decade an attempt has been made to attenuate rather than highlight these differences; there does appear to be considerable integration potential for which spatial planning seems to offer an appropriate framework of activity.

Fifteen years after the collapse of the Iron Curtain no one can deny that the time is ripe for the development of new, or the strengthening of old, cooperative initiatives in SEE and that the geopolitical context is perhaps for the first time in modern history positively disposed to such an extent towards the promotion of integration within the region. Despite the pending unresolved minority and border issues in Serbia and Montenegro, in Kosovo and, to a lesser extent, in FYR Macedonia, it is the first time since 1990 that no open warfare holds sway in the Peninsula. Despite the considerable variations in the manner and pace at which the SEE countries have chosen to proceed with their socioeconomic and political transformations, today they are all launched on the course to transition towards establishing liberal democracies and market economies. Moreover, they have all declared their aspiration to join Greece in the EU and have started taking relative steps towards institutional convergence and adaptation independently of the extent of institutionalization of their relations with the Community.

Within this context the integration potential in the field of spatial planning should be relatively easily exploited through the establishment of the necessary cooperative initiatives. International organizations, donors and cooperative initiatives provide significant amounts of funds in that direction. The EU is in fact the bigger contributor. However, an important discussion is taking place on the issue of the lack of EU policy instruments for regional development and convergence in SEE, as well as on the need for harmonization between the various EU assistance programmes. According to the participants of the International Conference on Cross-border Cooperation in South-Eastern Europe: Obstacles and Opportunities for Euroregional Cooperation that took place in Croatia, 18–9 November 2002,

these factors result in insufficient financial means available to SEE governments (particularly at regional and local levels) for the implementation of cross-border cooperation either within SEE or between SEE, Accession country and EU regions.

Similarly, Roch et al. (1998) observe three main areas of difficulty in the funding requirements for the latter: different programming methods, different decision-making procedures and bodies, and different lengths of time taken to approve and implement projects.

Putting funding aside, three items are missing in view of the exploitation of the existing integration potential in SEE:

- The vision for integrated planning
- The institutional capability for regional (national and sub-national actors) to plan and implement complementary activities

- The commitment of central governments to prioritize regional integration over EU accession (rather as a precondition and not as an anti-chamber of European integration).

The international community could play a considerable role in the provision of both the missing vision and the institutional capability building support. For example, the extension of the ESDP would facilitate the embracing of common principles and the adoption of an integrated development plan within which complementarities would be sought and overlapping would be cut down to a bare minimum. In the institutional domain, the EU could set as the target of its support not only institution-building but also the establishment of networks for the exchange of experience and information with the participation of public and private actors and NGOs from all the levels of governance (supranational, national and sub-national) and the provision of the necessary training to the concerned actors in order to smooth down the particularly time-consuming and demanding process of institutional capability building. The Council of Europe and since 2002, the Stability Pact, have played a significant role in strengthening local governance. They have focused on establishing strong, credible and efficient local government institutions (at municipal and regional level) within largely decentralized government.<sup>19</sup>

The EU could also contribute to strengthen central governments commitment by linking regional integration to a perceptible accession horizon for all the countries of the region. The European Stability Initiative (ESI) argues that the EU should treat the Western Balkan states as pre-accession countries without the obligation to open negotiations until they are fit to do so (CES 2005). Such an approach would bring along a number of benefits: a) it would eliminate the prospect of further backwardness; access to the pre-accession financial assistance would allow these countries to develop the institutional tools required for intensified regional development and would ensure that they receive technical and financial assistance. b) It would eliminate further divisions within the region. c) It would strengthen the reform process and governance capacity by offering to the domestic governmental bodies the incentives to carry out regional development programmes and mobilize domestic resources through the principle of co-financing (*ibid.*)

However, commitment has to originate from within SEE and local ownership is the most important constituent for the success of any internationally induced action. In any case, considering the possibility of a drastic cut in the EU financing of cooperation activities in the next programming period, the danger posed by a potential re-nationalization of the regional development policy<sup>20</sup> and with the EU declining to extend the pre-accession status to the whole of the Western Balkans, one should not expect the EU to adopt a more active role in the promotion of spatial integration in SEE in the near future. Thus, there is an urgent need for a more active

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19 See the European Charter of Local Self Government.

20 The need to increase efficiency and effectiveness in the management of the Structural and Cohesion Funds (including the pre-accession instruments) has already led to re-centralisation trends in new and old Member States such as Hungary and Greece. For a relevant discussion see Palne 2005.

involvement of SEE governments and regional and local actors and for greater commitment towards the achievement of self-sustained development in the region through the adoption of a more integrative approach to planning and implementation always within the broader European multilevel governance context.

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