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## Regional Disparities and Regional Dynamics in Slovakia: Pre-Accession Picture

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# Regional Disparities and Regional Dynamics in Slovakia:

## A Pre-Accession Picture

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(Paper to be presented at the forthcoming RSA Congress held in Dublin)

One whole decade will soon have been passed since the transformation in Central and Eastern Europe was set in motion. The time has not perhaps come to provide a fully satisfactory theoretical understanding of the processes which are currently underway. Nevertheless, a few reflections and concluding remarks can now be offered here.

### 1. *Regional Disparities in Slovakia*

The decomposition of the central planning system, though initiated at the same level, i.e. from the centre, has in effect brought about different responses from different regions. Until 1989 all the regions have been in a fairly "equal" position – without unemployment, with the same low productivity levels and with almost no income variations between social groups and geographical locations.

The revolution generates dramatic system changes which have also their economic and regional implications. For instance, regional unemployment disparities were apparent in 1990 (unemployment rate of 6.2% in the most affected district of Rimavská Sobota compared to 1.8% in the least affected district of Bratislava, i.e. 1.5 times higher) and grew considerably in 1995 (19.6% in Rimavská Sobota and Bratislava 2.8%, i.e. 3.6 times higher); in 1998 these disparities were even more dramatic, with 3.6% figure reported by Bratislava IV and 33.3% figure for Rimavská Sobota, i.e. 10 times higher. This uneven development is also reflected in other regional indicators: GDP, productivity, infrastructural endowment, etc.

The latest official statistics on unemployment (December 31, 1998) provides the following picture:

Tab. 1

<i>NUTS II Regions</i>	<b>Unemployment</b>
Bratislava	5,7
Western Slovakia	10,3
Central Slovakia	11,6
East Slovakia	17,3
Slovakia	11,9

Source: Selected Data on Regions in the Slovak Republic in Year 1998, Statistical Office of the SR, Bratislava, 1999

The situation is even more dramatic at the district level (NUTS 4). Table 2 lists the ten Slovak districts most and least affected by unemployment:

Tab. 2

<b>Unemployment (%)</b>			
<b>10 worst-affected districts</b>		<b>10 least affected districts</b>	
Rimavská Sobota	33,3	Bratislava IV	3,6
Veľký Krtíš	30,3	Bratislava II	3,8
Vranov nad Topľou	30,1	Bratislava I	4,2
Revúca	30,0	Bratislava V	4,2
Stropkov	26,3	Bratislava III	4,4
Bardejov	26,1	Trencín	5,4
Trebišov	26,0	Senec	5,9
Rožňava	25,9	Pezinok	6,6
Sabinov	25,6	Ilava	6,9
Michalovce	25,5	Banská Bystrica	7,6

Source: Selected Data ....., Statistical Office of the SR, Bratislava,1999

Those districts which suffer from a cumulation of structural problems resulting from low levels of socio-economic development, inadequacy of scale and low concentration of propulsive industries are the ones which tend to report the highest unemployment rates. These districts can usually offer no or very few comparative locational advantages for the development of regional product and labour markets.

Similarly, those districts which reported the highest rates of economic activity and had the most productive capabilities (due to a high concentration of large and medium-sized enterprises) in the past are the ones which can boast the best "transformation" track record. This is usually the case of the agglomerations with diversified industrial base, balanced urbanisation patterns and above-average technical and social infrastructural endowments.

As the regional GDP indicator has not been monitored and published (only its components), aggregate relations in regions can be analysed using regional value-added statistics:

Bratislava region, though representing only 11.54% of the Slovak population, generates up to 34% of the national gross output and value-added. As shown in Table 3, this is about 4 times more than produced in other regions. Moreover, long-term unemployment rates stand at a very low level of 4-5%.

Tab. 3

<i>NUTS II Regions</i>	<b>Value Added (Mil.SK)</b>	<b>Inhab</b>	<b>VA/Inhab (mil.SK).</b>	<b>VA/Inhab. (Mill.EMU)</b>
Bratislava	229 778	618,3	371,629	8,258
Western Slovakia	183 756	1 875	97,982	2,177
Central Slovakia	137 203	1 349	101,677	2,259
Eastern Slovakia	130 731	1524,7	85,742	1,905
Slovakia	681 488	5367,8	126,959	2,821

Source: Selected Data ....., Statistical Office of the SR, Bratislava,1999

Notes: Calculation in nominal exchange rate Sk/EMU

All available review statistics illustrates the dominant economic position of the capital of Bratislava and Bratislava region.

Tab.4

<i>NUTS II Regions</i>	<b>Average monthly wage (industry)</b>	<b>Receipt from market services</b>	<b>Procured investment</b>	<b>Profit organisations (number)</b>
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		In % of the SR	In % of the SR	In % of the SR
Bratislava	13 934	49,9	60,3	29,8
Western Slovakia	9 692	19,0	15,5	25,5
Central Slovakia	9 290	14,5	12,8	21,8
Eastern Slovakia	9 828	16,6	11,4	22,9
Slovakia	10 293	100,0	100,0	100,0

Source: Selected Data ....., Statistical Office of the SR, Bratislava,1999

According to the EU report,<sup>1</sup> competitiveness has two major dimensions: productivity and employment. This can be summarised in the following way:

$$\frac{\text{Value Added}}{\text{Population}} = \frac{\text{value Added}}{\text{Employed}} \times \frac{\text{Employed}}{\text{Econ.Active}} \times \frac{\text{Economically active}}{\text{Population}}$$

Based on this relation, the Table 5 shows the results of a comparative analysis of Bratislava and East-Slovak regions:

Tab.5

<b>Region</b>	<b>VA/Inhab.</b> (Mill.EMU)	<b>VA/Employed</b> (Mill.EMU)	<b>Employed/Econ.</b> <b>Active Population</b>	<b>Econ.Active</b> <b>Popul/Total</b> <b>Popul.</b>
Bratislavsky	8,258	16,768	0,93	0,53
Eastern Slovakia	1,905	5,412	0,80	0,44
Rate Bratislava/ Eastern Slovakia	4,33	3,10	1,16	1,20

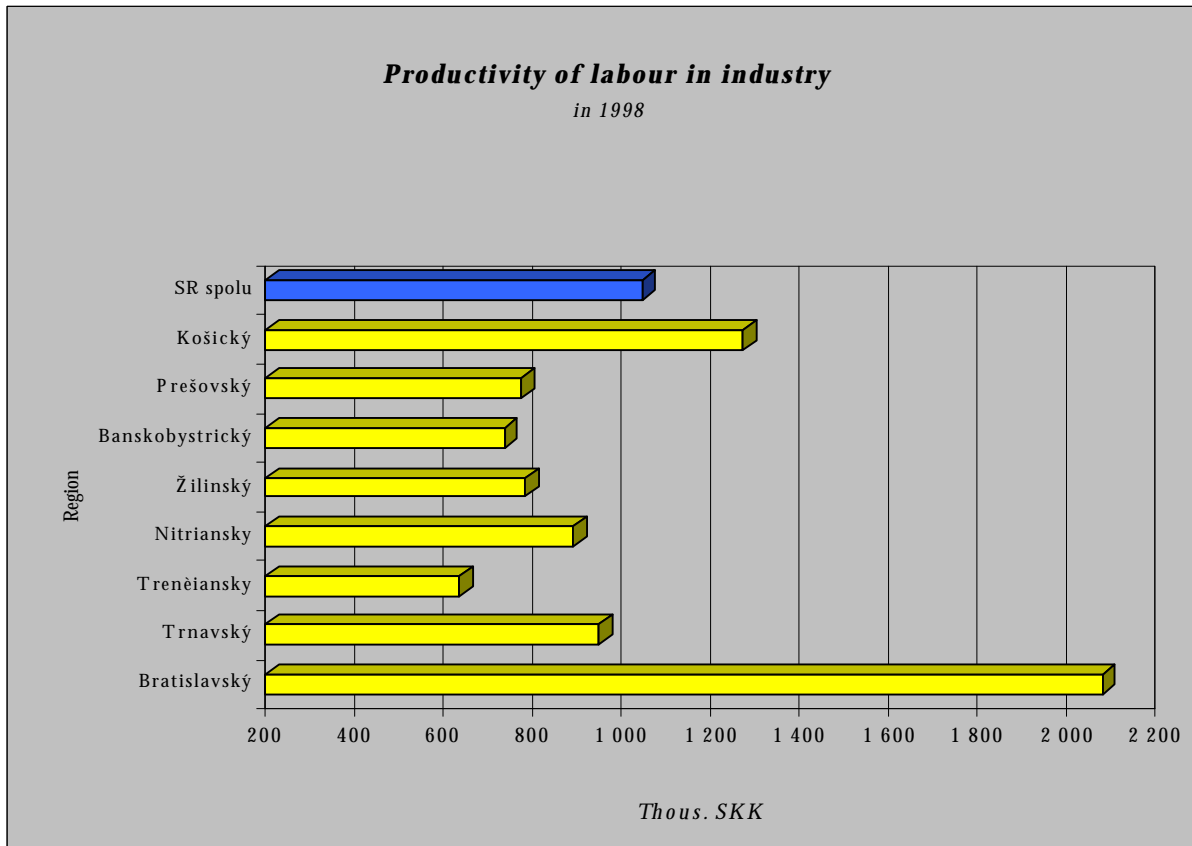
Source: Selected Data ....., Statistical Office of the SR, Bratislava,1999

Value-added per capita (measuring an overall regional productivity) figure for Bratislava region is 4.33 times higher than the one for East-Slovak region. This difference rests on the fact that Bratislava region generates 3.1 times higher value-added per employee (i.e. 72%), has 1.16 times more economically active population (a very high unemployment in Eastern Slovakia), and shares 1.2 times more economically active population relative to the total population (different age patterns of the population). Figures 1 and 2 bellow illustrates the situation at NUTS III<sup>2</sup> level:

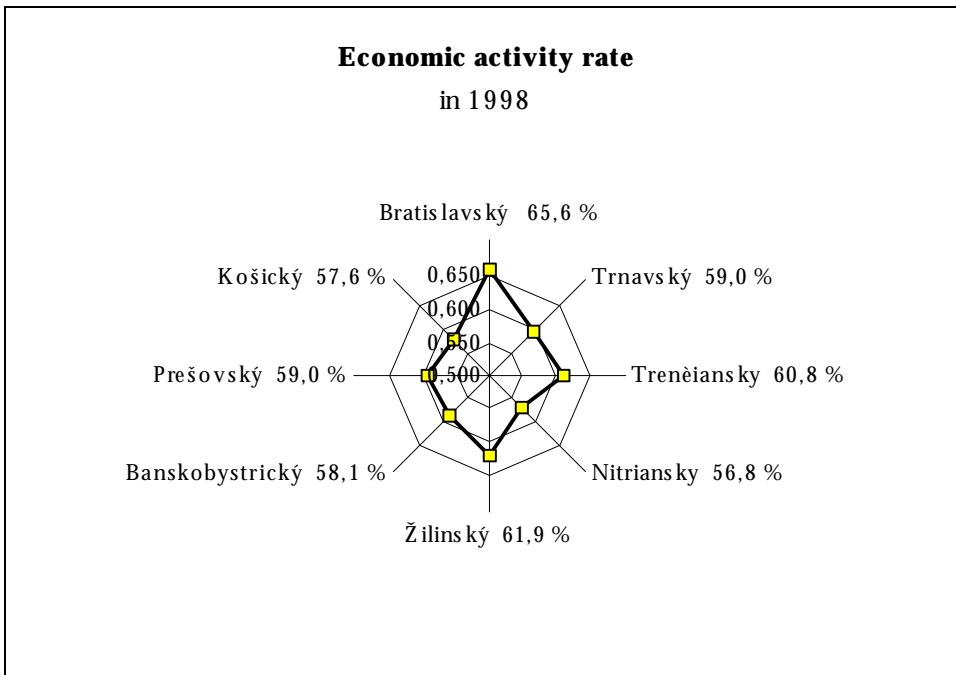
Bratislava county boasts high productivity levels, leaving other Slovak regions far behind. National-average levels are also being reached by Košice county.

<sup>1</sup> Sixth Periodic Report on Regions: Summary of Main Findings, EC, DGX VI, Brussels, 1999.

<sup>2</sup> In the Slovak Republic NUTS 3 level is represented by 8 counties (as shown by figure XY). NUTS 2 level is represented by four aggregations of existing counties as follows: Western Slovakia (Trnava, Nitra and Trenčín Counties), Central Slovakia (Žilina and Banská Bystrica Counties), and Eastern Slovakia (Košice and Prešov Counties).



Source: Selected Data ....., Statistical Office of the SR, Bratislava,1999



Source: Selected Data ....., Statistical Office of the SR, Bratislava,1999

More detailed analysis suggests that the dominant factor behind regional divergence processes is regional productivity which is responsible for 70% of regional disparities in per-capita production and competitiveness.

To sum up, the implementation of reforms had the following impacts:

- extensive job losses in regions where production had been driven by one key industry (which was very often the case),
- significant job losses in energy-producing, coal-mining and armaments industries,
- job losses in agriculture sector located in the hinterland of regional capitals and urbanised centres,
- movement of jobs from public to private sector due to the privatisation and the growing number of sole-proprietors on the one hand, and plant closures and rationalisation of state-controlled enterprises on the other,
- job growth in services sector located mostly in urbanised centres.

### *1. Positive Development Momentum*

”Small-scale privatisation” in the period of 1990-1991 and ”large-scale privatisation” created a private sector which now accounts for 80% of the national gross output. ”Privatisation” effects have been unevenly distributed across the regions, and the privatisation of recreational and other tourism facilities reflected an uneven distribution of natural riches of the country. Deep restructuring of large national industries together with numerous regional plant closures has accelerated the ”terciarisation” of industrial structure, and can be considered the most important transformation force behind the national and regional economic recovery in Slovakia. Similarly, another revolution – of such a dramatic speed and temporal dynamics – has occurred in Slovak foreign trade relations: two thirds of the foreign trade activities formerly focused on CMEA-countries have been reoriented towards the EU market which currently shares two thirds of Slovak exports. Severe industrial decline of military production (down to 12% of pre-transition level) has within a two-year period paralysed the most productive districts located in the Váh River region: Považská Bystrica, Martin, Dubnica. In spite of this deep impact, their names have never been listed in the ”bottom ten” charts; this was often the case of those districts, which have had no spatial links to armaments industries today or in pre-transformation period.

Distribution of regional competitiveness factors fully corresponds with the results of regional analysis of existing disparities. The regional deployment of ”hard” (roads, airports, riverports, telecom networks, etc.) and ”soft” infrastructures (universities, technical assistance, business support services, etc.) illustrates the point. Few more illustrations can be provided here. In Bratislava county there are 51% of university teachers, while 12% in Western Slovakia, 15% in Central Slovakia, and 22% in Eastern Slovakia. The statistics for university graduates presents the same analogy (52.3% in Bratislava, 13.9% in Western Slovakia, 13.4% in Central Slovakia, 20.4% in Eastern Slovakia). Bratislava county also locates most of the banking sector and dominates the domestic market for savings and investments. It reports the highest business enterprises per capita figures, too. Of the 100 biggest non-financial business organisations in Slovakia, 34 are located in Bratislava county.

FDI inflow – both in cumulative and per capita figures – is very low in Slovakia compared to other CECs. In 1995, Slovakia shared only 3.05% of the total 24.769 mld USD inflow of FDI in V-4 region (45% in Hungary, 29% in Poland, and 23% in the Czech Republic). This represents only 142 USD per capita (compared to 1120 USD in Hungary, 567 USD in the Czech Republic, and 188 USD in Poland). From sectoral perspective, most of the FDI flows to manufacturing (43.4%), wholesale and retail (32.4%), and banking and insurance (15%). Most of these FDI is located in Bratislava (Volkswagen, Tesco, foreign banks and insurance companies), representing 62% of the cumulative FDI inflow (the second ranking district is Žiar n/H. with 4.4% share).<sup>3</sup>

The structure of exports has become another important factor bringing about regional divergence. With Slovak economy becoming increasingly open (exports/GDP ratio was 63% in 1995),<sup>4</sup> particular regions enjoyed an export-driven economic growth: manufacture of iron and steel (17.2% share of national exports) located mostly in Košice, non-metallic mineral products (cement, glass, etc. - Rohožník, Ladce, Turèa n/B., etc., Lednické Rovne, Bardejov, Bratislava), pulp and paper (Ružomberok, Slavošovce, Vranov n/T.), chemicals and chemical products (Slovnaft and Istrochem in Bratislava, Chemolak Smolenice, Duslo Šala), rubber (Púchov, Bratislava), textiles and apparel (Trenèin, etc.), representing more than 50% of Slovak exports (including manufacture of wood and wood products).

With most of the Slovak exports consisting of sensitive products, the economic vulnerability of export-dependent regions to external shocks and global market fluctuations is getting bigger. The risks of excessive exposure to cyclical fluctuations are very high, as the major Slovak exporters are very often identical with regional "flagships" of growth and employment, and their potential problems could subsequently cause economic crisis in regions in which they are located (the severe decline of the former military-industrial complex and subsequent problems of industrially depressed regions of Dubnica, Martin and Považská Bystrica provide an illustration). A typical example of such an export-dependent region is the one of Košice. East-Slovak Steel Works (VSŽ, j.s.c.), being the carrier industry in Košice region, by itself accounts for 11% of national exports, and is one of the biggest employers. Moreover, it represents the type of export which is sensitive to demand cycles in international markets. It has become clear, that further development of foreign trade relations (given an increasingly free flow of goods, services and capital) would be much more difficult for Slovakia without an EU membership. The two major strategies - maintaining high exports and competitiveness or product differentiation - or the combination of both require solid business knowledge base and further extension of trade links to expand business activities.

"Catharsis period" of 1989-1990 has planted the long-awaited seeds of change, which slowly but surely started to grow. By auctioning off the "redundant" capacity (for instance, the construction industry disposed of more recreational and training facilities than the hotelling industry under the old system), large enterprises contributed strongly to the explosive growth of an extensive network of consulting, marketing, auditing, engineering design, legal, interpreting, computer and various other services. Such networking tendencies were completely unknown to the former system of central planning and distribution. Had not there been this additional capacity of the growing private sector to absorb the unemployed labour and other production factors, the regional situation would probably have been much more dramatic.

Generally speaking, the regional economic restructuring has been in progress, setting two sets of countervailing forces in motion: one set tends to cause industrial decline and regional depression, the other tends to bring about the new impulses for the creation of small and medium-sized enterprises, the increased inflow of foreign capital, the structural adjustment of regions to new economic conditions and the development of a wide variety of business support services.

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<sup>3</sup> CESTAT Statistical Bulletin, 2/1996, Slovak Statistical Office, Bratislava.

<sup>4</sup> For data on exports see: OECD Economic Surveys - the Slovak Republic, 1996, Center for Cooperation with Economies in Transition, Paris.

## *2. Ups and downs of the Slovak regional policy*

In the initial stage of the transformation process, the capacity of regional policy to address new challenges adequately and basically in the right direction was also facilitated by a good research and knowledge base. The new regional policy has assisted numerous "acts of creation" (e.g. the establishment of regional information and counselling centres, regional development agencies, the co-ordination platform for local stakeholders as well as the elaboration of the first regional and urban development projects). However, considering a widely accepted opinion, that local and regional development challenge can be effectively addressed by informal groups of local enthusiasts taking the initiative on a long-term basis, the instability of their potential institutional co-players has been remarkable<sup>5</sup>.

A wide range of regional policy tools has been developed to provide information, financial, infrastructural and administrative support to businesses, local population, local initiatives and institutions. The aim was to create the necessary 'soft' infrastructures for business and regional development.

Direct financial assistance from the government has been limited - about 0.02 % of GDP (about 100 mil SKK) a year. When compared to the amount of structural support allocations within the EU, regional policy action in Slovakia hardly deserves to be called 'supportive'. As far as the other financial instruments are concerned, though formally existing in a wide variety of operational designs (state guarantees for bank loans, interest rates reductions, repayment terms prolongation, business support schemes, tax relief's, etc.), due to a lack of financial backing they have become but a company's shield that is currently out of order.

Relocation of existing or building of new administrative structures and public institutions (central government agencies as well as new universities) have recently become important factors for regional development outside the capital of Bratislava. Unfortunately, these central decisions very often lacked both an appropriate justification and an integrated policy approach.

Slovakia also enjoyed the growth of local initiative which creates favourable conditions for the implementation of endogenous development strategies, i.e. the promotion of 'development from below'. Such a policy approach supports self-governance tendencies within the local policy-making context. Transformation processes have brought about significant institutional changes in public administration at local level (both in local state administration and self-government)<sup>6</sup>. The institutional backing, though very important for endogenous development,

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<sup>5</sup> A major responsibility for the state regional policy have already lied with several different central bodies: the Slovak Central Planning Commission (1989), the Ministry for Economic Strategy Planning (1990 – June 1992), the Government Committee for Economic Strategy Planning (June 1992 - November 1992) and an administrative decision to close down the subordinate Research Institute for Regional Planning in 1992, the Center for Strategic Studies (January 1993 –1995), the Office for the Strategy Development of the Society, Science and Technology (1995 – 1999), government plans to establish the Ministry for Public Works and Regional Development in autumn 1999. The six organizational changes within a period of nine years presents 18 months of unbelievable institutional "stability" at the central level of regional policy-making. Needless to say, that the qualified staff turnover within the above-mentioned institutions has been extremely high.

<sup>6</sup> Until 1990 Slovakia has consisted of 4 counties and 38 districts, in 1991 the county administration level was abandoned, and a two-level system was subsequently introduced (38 districts remained and 121 new subdistricts, for the most needed state administration services were established). The most recent reform in 1996 introduced 8 counties (for state administration services delivery only) and the number of districts increased to 79. A new reform (most likely to take place in 2001) is planned to



needs to be supported by an extended network of information and counselling centres, regional development agencies and funds, as well as by the local enthusiasts addressing development problems as long-term challenges. Regional development effort can then capitalise on personal knowledge and deep understanding of specific needs and problems possessed by people living in a particular regional community. These bottom-up tendencies have been set in motion in Slovakia, too.

Some municipalities express their common interests by creating various associations and partnerships both within the country and within the system of international development and co-operation. In addition to organisations with a country-wide scope of activity, like the Association of Towns and Municipalities of Slovakia (ZMOS) and the Union of Towns and Municipalities of the Slovak Republic (Únia miest a obcí SR), a host of other regional associations has emerged since 1992 (there are currently more than 40, including Záhorie Region, Žitný Ostrov, the ethnic communities of Liptov, Kysuce and Spiš, local partnerships putting together municipalities in the neighbourhood of nuclear power plants, the county mayors, etc.)

Municipalities and their associations have launched a bulk of projects and initiatives, being actively involved in the provision of information and counselling services for entrepreneurs, in rural tourism development (e.g. Low Carpathian Wine Road) and offering various service packages for investors. Both formal and informal partnerships between municipal representatives and local entrepreneurs, agricultural businesses, the church and voluntary organisations, as well as with the chambers of commerce and various NGOs (e.g. charities) in larger towns give rise to a new set of bottom-up forces promoting regional development 'from below'.

### ***3. Addressing regional disparities and competitiveness without the full EU membership***

The "non-membership scenario" would probably have the following negative implications for regional development in Slovakia:

- Regional divergence will continue, with globalisation processes bringing about an even greater arena for "external control" of the regions. This would take place in a regional development game with an absence of massive structural funding from the EU.
- Lower inflows of foreign capital with subsequent implications both for national and regional economic development. Examples of Spain, Portugal and Greece (a rapid growth of FDI inflow after accession) provide a clear illustration here.
- Negative impacts derived from the possibility, that Slovakia will not be able to take full advantages of the free flow of goods, services, people and capital, of the single European currency, and of regional trans-border co-operation (e.g. Schengen Agreements – extended job and travel opportunities, cross-border transport links with Austria as a EU gateway country, etc.).
- Given the increasing competition among European regions, the availability of location factors for clustering and networking is growing in its importance (this reveals the weak position of the Slovak regions, with Bratislava being the only exception here).

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introduce a self-government component at the county level, reduce the number of districts, redesign existing financial procedures and promote the overall process of decentralization.

- A serious threat of external brain drain (especially the young qualified professionals).

### *1. Advantages and Disadvantages of EU Accession*

Transformation of regional policy has been supported by a close co-operation with the EU and its member states. In Slovakia it was mainly the PHARE assistance which has been promoting numerous regional initiatives and partnerships (Interreg – CBC). The introduction of EU pre-accession instruments is expected to bring about even stronger impulses for the development of regional co-operation in the period of 2000 - 2006.

Under the full EU membership, regional development in Slovakia would become the focus of EU structural policies. According to the author's calculations<sup>7</sup>, of the Slovak NUTS 2 regions, only Bratislava region exceeds the EU average GDP per capita level - by 22.5%. The other three NUTS 2 regions, which represent 88.5% of Slovakia's population (4.76 mil.) and cover 96% of its geographical size (47 058 km<sup>2</sup>) would become Objective 1 regions under the current eligibility criteria. Within Bratislava region, the district of Malacky would probably be considered as Objective 2 region (industrial decline), and the districts of Pezinok and Senec as Objective 5b regions (rural areas).

The respective EU structural allocations are assumed to reach between 235-588 MECU (about 3.2–8.0 mld. SKK). When taking account of the additionality principle and existing administrative and absorption capacities, we can arrive to a hypothetical amount of funds which equals to about 1.5% of GNP, or about 8.7 mld SKK (229 mil. ECU). This equals to about 4.6% of the state budget expenditures. This means that about 5% of the state budget would be allocated for regional development policies according to the EU criteria.

In addition, Slovakia would probably benefit from the Cohesion Fund, as it currently reports GDP per capita figures which are lower than 90% of the EU average (macroeconomic conditionality). With its operational focus on infrastructural and environmental projects, though not being primarily aimed at regional development, the Cohesion Fund has significant regional impacts. Following the case of Ireland, Slovakia could expect funds amounting to 155-220 MECU (6 – 8.5 mld SKK).

Impacts of EU accession on regional development in Slovakia will probably vary in short and longer term development perspective. It is assumed that in the initial stage Bratislava will improve its dominant position thanks to its strong investment magnetism. Moreover, there will also be a time-lag of equalisation effects of the EU regional policy, as well as of the returns on growing investments in infrastructural endowment of peripheral regions.

Further developments influenced by the above-described logic could bring about East-West and core-periphery diffusion of development impulses, including increased FDI inflows.

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<sup>7</sup> Bucek, M. (1997): Regional Policy, EU Accession - Advantages and Disadvantages (An Impact Study), Fridrich Ebert Foundation, Bratislava.

By increased participation in regional trans-border co-operation (e. g. Interreg), Slovakia could more effectively take the locational and developmental advantages of the Danube-Main-Rhine Corridor, TEN Projects, etc.

The amount of structural funding, negotiation and implementation procedures, administrative capacity requirements, etc. present Slovak regional policy with completely new challenges. The major challenge is the adoption of the EU regional policy approach and an introduction of its structural instruments within a domestic policy framework.

A compatible regional policy in the pre- and post-accession period will require:

1. well-designed support instruments: if "copying" is not possible, it will be better to introduce the original designs;
2. well-defined competencies and legal status with respect to the negotiation with both the EU and the regional levels of government;
3. well-established scientific knowledge base and statistics (strategic concepts, quality project design, statistical reporting compatible with EU standards), and good information policy towards both the EU and the regional actors;
4. long-term financial programming according to EU standards (a necessary move from 1-year towards 5-6-year programming practice, which would ensure an adequate financial stability of the programmes implemented).

The European Commission proposed a new pre-accession strategy focused on those 'acquis communautaire' issues, which have not been appropriately addressed by the accession countries. The strategy set up the following tasks, instruments and timetables:

- 1997-1999 period: PHARE plays the key role, being the major channel of the EU financial and technical assistance for the candidate countries. PHARE's objectives have recently been redefined to address the specific national priorities of candidate countries in the pre-accession period. In addition, the new SPP scheme (Special Preparatory Programmes) was introduced to help these countries develop their institutional and administrative capacities with respect to future structural funding.
- Between the year 2000 and the moment of accession of a particular country two other pre-accession instruments will be available: Special Accession Programme for Agriculture and Rural Development (SAPARD) and Instrument for Structural Policies for Pre-Accession (ISPA). These instruments are aimed to help the relevant institutions and organisations to get familiar with project and financial management practices concerning the implementation of EU structural policies.

After accession, becoming members of the EU, the now candidate countries will have a full access to existing EU structural policy instruments. The European Commission plans to allocate pre-accession assistance of 3.12 mld EUR annually to all candidate countries. The proposed financial framework also includes the direct costs of accession with regard to new member states (beginning the year of 2002).

It should perhaps be stressed at the end of the paper that Slovak economy as well as the Slovak regional policy have broken the 40-year isolation, and found themselves operating in a "European systemic environment". In spite of the fact that this journey is and has never been easy, the new environment seems to offer the country quite encouraging prospects for its future progress.

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