Regional Development and Planning in East Central Europe

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1. INTRODUCTION

The countries of East Central Europe – Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia – occupy an area of 883,000 km² and have a population of 94.4 million, and thus represent a great demographic and economic potential on the European scale. Only seven years ago, these countries began a path of rapid socio-economic and political transformation. In this relatively short period, fundamental changes have taken place, affecting all walks of life. Indeed, the post-socialist transformation seems to be one of the most challenging experiments in modern history. The entire eastern section of Europe has begun its comeback to the global political and economic “mainstream” of democracy and a market-based economic system.

Political reforms in the post-socialist countries have been especially important in opening these countries to global markets and to new (some say “post-Fordist”) paradigms of socio-economic development. The processes of economic restructuring, which in more developed countries have been under way for two (in some cases even three) decades, have been imposed in accelerated form on post-socialist countries by the principles of global competition. These processes initially resulted in a deep – and fortunately rather short – recession, which was later replaced by rapid growth in most East-Central European countries (see table 1).

The economic reforms which were introduced beginning in 1990 were based on different models of transformation. In Poland, change began in the national economy in January 1990 according to the model of shock therapy, which resulted in a deep recession and the breakdown of several branches of the Polish economy. As the first country to enter into transformation, Poland was also the first to pay the economic and social costs of

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1 Director, European Institute for Regional and Local Development, University of Warsaw. This paper is based on the author’s contribution to the Pan-European Forum for Regional/Spatial Planning, The Role of Regions in European Regional/Spatial Planning. Poznań: 3–5 April 1997.
this process. However, it was also the first to show signs of economic recovery. Poland’s GDP reached its 1989 level in 1995, and exceeded it in 1996. Thus far, Poland is the only post-socialist country to have achieved this feat. Similar processes, though with slightly different timing, have occurred in other countries of East Central Europe.

Table 2 presents key economic data for the countries of East Central Europe during the transformation period. These data show that the Czech Republic has the highest economic position overall within the group, and a relatively even regional distribution of GDP. It is also the most well-balanced country, with the lowest rates of inflation and unemployment and a respectable rate of growth. The position of the Czech Republic as a front-runner is rooted to a large extent in the history of East Central Europe, which in turn is a product of the spatial differentiation of European economic development during the last several centuries. All six countries mentioned in the table have been located throughout their entire history on the economic periphery of Europe. The Czech Republic is closest to one of the two main European economic axes: the “older”, northern one, which extends from London to Rome (the “European banana”). In fact, Bohemia was an integrated part of the western European economic system in the 19th and in the first half of the 20th century, and only the Czech lands experienced an advanced level of capitalist industrialisation in earlier times. All of East Central Europe is far from the “newer” Mediterranean axis, which extends from Milan to Barcelona. The economic situation in four of the countries of East Central Europe (the Czech and Slovak Republics, Hungary and

### Table 1  GDP growth rates, 1989–1996

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<tbody>
<tr>
<td>Bulgaria</td>
<td>-9.1</td>
<td>-11.7</td>
<td>-7.3</td>
<td>-2.4</td>
<td>1.8</td>
<td>1.0</td>
<td>1.0</td>
<td>76</td>
<td>77</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>-0.4</td>
<td>-14.2</td>
<td>-6.4</td>
<td>-0.9</td>
<td>2.6</td>
<td>4.8</td>
<td>5.1</td>
<td>85</td>
<td>90</td>
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<tr>
<td>Hungary</td>
<td>-3.5</td>
<td>-11.9</td>
<td>-3.1</td>
<td>-0.6</td>
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<td>1.5</td>
<td>1.5</td>
<td>86</td>
<td>87</td>
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<tr>
<td>Poland</td>
<td>-11.6</td>
<td>-7.0</td>
<td>2.6</td>
<td>3.8</td>
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<td>6.5</td>
<td>6.5</td>
<td>99</td>
<td>105</td>
</tr>
<tr>
<td>Romania</td>
<td>-5.6</td>
<td>-12.9</td>
<td>-8.8</td>
<td>1.3</td>
<td>3.9</td>
<td>6.9</td>
<td>4.5</td>
<td>84</td>
<td>88</td>
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<tr>
<td>Slovak Republic</td>
<td>-2.5</td>
<td>-14.6</td>
<td>-6.5</td>
<td>-4.1</td>
<td>4.8</td>
<td>7.4</td>
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<td>84</td>
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*1989=100

a) estimates

Source: European Bank for Reconstruction and Development
Poland) seems promising. Bulgaria and Romania, however, are still striving to enter onto a stable path of growth and structural change.

2. REGIONAL PATTERNS OF TRANSFORMATION

2.1. Emerging regional profiles

History, coupled with natural endowments, had placed various regions of East Central Europe in very different economic positions at the start of the transformation process. Moreover, certain regions have managed to improve their relative position in the initial years of transition, while the position of others has deteriorated. The most significant general patterns of regional reaction to the new economic, social, political and international situation is summarised in a simplified fashion in table 3. Four main regional-level categories can be distinguished: positive continuity, nega-
These four basic types of reaction to the transformation process have manifested themselves in all countries in East Central Europe. We will examine these categories in more detail in the following sections.

2.1.1. The leaders (positive continuity)

All countries have their unquestionable leaders of transformation, regions which were already in a leading position during the socialist era and which have demonstrated a great capability for restructuring and adaptation to new conditions in recent years. These leaders are mainly the large agglomerations: Prague and Brno in the Czech Republic; Bratislava and to a lesser extent Košice in Slovakia; Budapest and the Balaton region in Hungary; Warsaw, Poznañ, Wroc³aw, the Triple-City (Gdañsk-Sopot-Gdynia) and Kraków in Poland; Sofia and its surroundings, Bourgas and Haskovo in Bulgaria; and perhaps also Bucharest in Romania.

However, not all of these leading centres are surrounded by innovative and progressive hinterlands. Warsaw is an island of sorts within relatively underdeveloped central Poland. Kraków borders on the Polish south-eastern periphery to the east and on Upper Silesia to the west – one of the most problematic regions in Europe (if not the most problematic). Košice is an urban centre of modest size in relatively backward Eastern Slovakia, and an even more difficult situation exists in the territories surrounding the leading Bulgarian and Romanian regions. On the other hand, the space between the other leaders is
filled in by the regions which are in fact the core areas of the four "Visegrád" countries (Czech and Slovak Republics, Hungary, Poland). For centuries, these regions have been the concentration of development and innovation in East Central Europe. They are also the logical candidates to become the greatest successes of transformation in the region.

2.1.2. The losers: older industrial regions (negative discontinuity)

There is one significant “black hole” in the socio-economic space of East Central Europe. Upper Silesia, a typical example of an old industrial region, was economically successful under the former regime but has rapidly deteriorated during the transition period. Upper Silesia is composed of the Polish Katowice voivodship and the Czech Ostrava-Karvina basin, and it constitutes Europe’s largest regional problem.\(^2\) In Poland, the Katowice region formerly provided over 20% of the national industrial product. Both the Czech and Polish sections of Upper Silesia are on the verge of massive restructuring – coal-mining, traditionally the most important industry in the local economy, must undergo deep changes in order to survive. Chemical production and heavy industry, the other dominating sectors, are also in decline. The restructuring of these sectors may well create high unemployment and social tensions in the region, which has enjoyed relatively modest unemployment until now. If current subsidies for these obsolete industries continue, they will remain a heavy burden on their national economies. It seems that the Czechs have been much more successful with the restructuring of their “black basin” – rather than continuing to subsidise dying mines and factories, the policies adopted there were instead concentrated on actually creating new activities within the region.

In Slovakia, decline has hit former industrial regions which were specialised in heavy machinery and the production of military equipment, which relied almost exclusively on Soviet markets (especially Bystrica, Zilina, Zvolen, and Martin counties). Although Hungary’s main heavy industry and mining region (Borsod-Abaúj-Zemplén) began its restructuring as early as in the mid-1980s, this has not prevented a heavy recession in the 1990s. The Bulgarian regions of Varna, Plovdiv and Russe also belong to this group of older industrial regions.

\(^2\) Both the Ostrava region and the Katowice region are discussed in more detail elsewhere in this volume, see chapters 4 and 5.
2.1.3. The backward peripheries (negative continuity)

East Central Europe has a very clearly marked external periphery, extending along the eastern borders of the countries under discussion. It stretches out from the north-eastern corner of Poland through eastern Slovakia to the south-eastern part of Hungary, and then through eastern Romania to Montana and Lovech in northern Bulgaria. These peripheral areas are the least developed in the region. They are relatively sparsely populated, rural in character, and have poorly developed urban systems and infrastructure (although the Hungarian regions along the Romanian border are relatively well developed). Their backward position is historic, dating back to long before the transition period. All these regions are poorly integrated with the centres of their respective national systems. While some of them are crossed by main transportation routes in the east-west direction, no major artery exists or is envisaged which would connect them from north to south.

The transformation process has been slow in these regions. They do not attract the attention of foreign investors, and education levels are generally low. Even more important for their future prospects is that these areas cannot expect to receive inducement for transformation and recovery from their neighbours on the other side of the border – relatively undeveloped former Soviet republics such as Lithuania, Belarus, Ukraine and Moldova.

In several countries, an internal periphery can also be observed. This is most notable in Romania (Sub-Carpathia and the upland areas of Oltenia, the Apuseni mountains, and the rural areas of Banat), in regions such as the Great Plain in Hungary, and in the central Polish regions surrounding the Warsaw and Łódź agglomerations.

2.1.4. The newcomers (positive discontinuity)

The western regions of East Central Europe have become the great success stories of the transformation process. The western border regions have successfully started to overcome the negative impact of their previous isolation through cooperation with their more developed neighbours in Germany and Austria. The geographical location of the “western belt” of the four countries bordering with Austria and Germany is a great advantage. These regions are located centrally in Europe, and are closest to the Western European centres of economic activity. They are also the natural “border market” for Germans and Austrians who take advantage of price differences and increase the demand for basic commodities and services. For example, it is estimated that
German customers spend some DEM 4 billion every year in western Polish regions, and that Germans spend twice as much in Poland as the buyers from all other neighbouring countries combined. This has become an important economic factor in the development of this area, and covers the negative balance of Polish international “official” trade.

Moreover, this region has transport advantages for investors from Austria and Germany who seek cheaper labour and financial incentives for their production. The greatest agglomeration in Central Europe – Berlin – is just 70 km from the Polish border, and its positive influence (in economic terms) can already be noticed in the form of investment and other commercial contacts. The impact of Vienna on Bratislava and also on the western regions of Hungary can also be clearly seen. Thus, a western location facilitates the development of the manufacturing and service sectors, which may create new jobs for the currently unemployed. The proximity of the Austrian and German markets is, no doubt, also a positive factor. The impact of Greece’s proximity to border regions in Bulgaria seems to be much smaller.

There are only few other regions which demonstrate similarly promising chances for development and which are equally visible, even on a European scale. These regions constitute European reservoirs of unspoiled environmental beauty. The north-eastern region of Poland and the entire border region between Poland and Slovakia have very promising chances as new basins for tourist services and recreation on the continent – provided that these new activities do not damage what may be the most unspoiled nature in Europe. The shore of the Baltic Sea might also have chances for attracting tourists, and the same applies to recreational and spa centres with long European traditions.

2.2. The regional structure of Central Europe

Based on the above analysis, we can outline the core of Central Europe,

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3 For example, the Polish rural commune Tarnowo Podgórne (just west of Poznań) has attracted over USD 300 million in western – mostly German – investment, due to the ability of local authorities to take advantage of its favourable location close to a big city and to an international road.

4 Due to lack of adequate data, the following section is limited only to the so-called Visegrád countries (the Czech and Slovak Republics, Hungary, and Poland). However, due to the slower pace of transformation in the other two countries (Bulgaria and Romania), and also because of their greater distance to Western Europe, no regions in either of the two southern countries could be included in the core of post-socialist transformation.

or “the Central European Boomerang”, delimited by the following centres: Gdaňsk, Poznaň, Wroc³aw, Prague, Brno, and the Bratislava-Vienna-Budapest triangle (see figure 1). The two parts of this “boomerang” which
have real chances of becoming true European centres are the region of Prague and the Vienna-Bratislava-Budapest triangle. The Slovak-Hungarian section of this triangle already attracts a high share of the foreign capital inflow into Central Europe, and the location advantages of this region are extremely favourable, even as compared with any other European region. A further extension of the Prague region westward is very probable, since the construction of motorways connecting Prague with southern Germany and Berlin will bring multiplier effects and create favourable conditions for economic expansion. It will also allow for the full integration of Prague into the system of European metropolises.

The southern part of the “Central European Boomerang” seems to be more integrated (both internally and externally) with Europe as a whole than does its northern part. This northern section, stretching out from Poznań to Gdańsk, lacks necessary infrastructure and transportation connections. It is therefore very likely that the present shape of the “boomerang”, which consists of the current core regions with a higher level of development and stronger dynamics of economic activity, will be pulled westward by the growing role of Berlin – which is very likely to soon assume the role of a European metropolis of the first order (together with London and Paris). The “boomerang” will then become a “foot”, embracing Berlin and Szczecin instead of the northern Gdańsk area. The traditional transport connections from the Czech Republic to the Baltic Sea through the Szczecin-Gwinowoie harbour and the planned highway from Szczecin to Budapest might accelerate the reshaping and development of this area. Successful integration of the former East Germany into the wider German economic-spatial system will no doubt create even more favourable conditions for this process.

Prospects for the European integration of Bulgarian and Romanian regions are more limited. With the exception of the Bulgarian-Greek case, these regions do not border on European Union member states, and therefore positive impacts from the more developed parts of Europe must reach them indirectly, through other Central European countries. Indeed, one should not neglect the positive impact of transfrontier cooperation between the post-socialist countries. The case of the Hungarian-Romanian border clearly indicates the positive influence of this kind of cooperation, even taking into account that a great part of the economic activity there is unofficial. Nevertheless, the examples of Polish, Czech and Hungarian transborder cooperation with Germany and Austria to the west and with their post-socialist neighbours to the east do demonstrate a dramatic difference, with the influence of proximity to western regions substantially more favourable economically than to eastern regions.
3. REGIONAL POLICIES DURING TRANSFORMATION

3.1. Regional policies

During the entire transformation period no comprehensive regional policies have been formulated in any of the East-Central European countries, and regional considerations are almost non-existent in social and economic policy. In fact, in the initial period of post-socialist transformation, the national governments in all these countries (with the slight exception of Hungary) have left the solution of “regional problems” to so-called “market forces”, allowing the new economic maps of their countries to be shaped by sectoral processes. It is only recently that an institutional framework for regional policy has appeared in some countries, with newly passed legislation related to regional and spatial processes.

In Bulgaria, a Government Strategy for Regional Development has been prepared, aiming to alleviate regional differences by equalising public investment, implementing regional restructuring strategies, and strengthening the positive impacts of transborder cooperation for the development of border regions and localities. Studies and analyses are being carried out concerning the development of specific regions and the creation of national administrative and financial institutions (eg regional funds) directed towards regional development. A Council for Regional Policy, subordinate to the Council of Ministers, has been established. Regional and spatial policy as such is the responsibility of the Ministry for Territorial Development, Housing and Construction. Most of these developments have occurred since 1994, and their real impact on socio-economic processes is severely limited by the scarcity of financial resources.

In the Czech Republic, the principles of regional policy were declared in 1992, and were oriented towards so-called “problem areas”, mostly through financial incentives provided to SMEs operating in specified parts of the country. The restructuring of the Ostrava-Karvina basin, a coal-mining region, can be taken as a positive example of post-socialist regional restructuring, based on the principle that no single koruna from public sources should be spent to cover operating costs of coal mines. Public funds were rather to be used for creating jobs outside this sector, for training or retraining workers leaving the mines, for early retirements, and so on. In general, however, the neo-liberal doctrine of the government banned any regional

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7 According to L. Faltan, Director of the Institute of Sociology, Slovak Academy of Sciences.
intervention, and only after the last elections in 1996 did a more balanced parliament acknowledge the need for regional policy. The Ministry for Local Development is responsible for spatial planning, clearly indicating that this planning is limited to the local-urban scale and does not go beyond classical physical planning.

In the Slovak Republic, no specific programmes or institutions have been created for regional policies. Spatial planning lies under the supervision of the Ministry for Environment, and in 1994 the government commissioned this Ministry, and later also the Centre for Strategic Studies, to elaborate the Republic’s regional policy. No comprehensive strategy has been published thus far. Therefore, such policy has only manifested itself in the form of state assistance for a few areas dominated by military industries, along with some other incidental assistance – although observers have argued that a strong regional policy is needed in Slovakia. Most funds directed to regional assistance programmes come from PHARE sources. Partial conceptions of regional policies are being developed for some regions and regional associations, but on a non-obligatory basis.

In Hungary, the Ministry for Environment and Regional Policy was established as early as in 1990, and a Regional Development Fund was set up to assist a number of regional programmes in areas which were suffering from handicaps of structural development or from very high unemployment. Two major directions were pursued in regional policy: a) improving living conditions in less developed regions, and b) alleviating the negative consequences of restructuring in regions dominated by traditional industries. The new law on Regional Development and Physical Planning was adopted in 1996, and its principles follow regulations existing in the European Union.

In Poland, the importance of regional development and regional policy has been growing since 1995. Several initiatives undertaken both in academic and governmental frameworks led to the formulation of principles of spatial policies by the state (in accordance with the regulations of the Act on Physical Development of the Country, amended in 1994). These initiatives also led to the creation in 1997 of a Committee for Regional Development within the Council of Ministers. However, with the exception of three regional programmes directed towards “old industrial regions” – Katowice, Łódź and Wałbrzych – practical implementation of policy prin-
ciples is still a matter for the future, and regional programmes have not been able to change the situation of these regions in a meaningful way. The STRUDER programme, funded by PHARE, supports these three regions along with a group of rural and peripheral locations, and is of some importance for regional development and restructuring. Spatial planning is carried out on the local level (under the supervision of the newly created Committee for Housing), while on the regional and national level studies and concepts of policies are being formulated.

Finally, in Romania, “no clear programme for the development of regional policy is yet in existence... and no specific institutions have been created to take responsibility in this area.” Some progress should be made as a result of a Green Paper on Regional Development, which is being prepared with PHARE funding.

As can be seen from this brief overview, only in three countries out of the six under discussion (ie in Hungary, Poland, and to some extent in the Czech Republic) have regional policy and regional development received a degree of attention. The other three countries seem to be neglecting the regional problem, which may be due to the fact that economic restructuring has not yet led to durable positive effects in these countries. Moreover, the regional policies throughout East Central Europe – as weak as they are – have been based on traditional regional development approaches, ie they have been targeted to less developed peripheral regions and to regions undergoing deep industrial decline. None of these activities have been directed towards enhancing the innovative environment in the relatively more developed regions, which have already displayed some potential for global competition.

It seems that there are two main questions which should be answered by those formulating the principles of regional policy in East Central Europe today:

1. Should the countries of the region, undoubtedly in need of rapid modernisation and economic growth (a basic precondition for any restructuring), spend resources on alleviating regional differences which will unavoidably grow in the future, or should they concentrate on promoting development, investment and inflow of capital, which would inevitably be concentrated only in some regions and localities?

2. Can these countries build modern, competitive economies and demo-

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10 Themes for discussion (mimeo), Third informal meeting of OECD Ministers responsible for Regional Policies, Vienna: 1994
ocratic societies in a centralised state, or should they enter the process of decentralisation by building strong regional units?

The traditional doctrine of regional policy provided a direct answer to the first question: equality at the expense of efficiency. However, recent approaches to this dilemma seem to challenge this deeply rooted principle. In an OECD document we read that "... a major objective of regional policy is to ensure that the spatial allocation of resources contributes to create economic growth, that is to promote competitiveness and to reduce unemployment."\(^{11}\)

The countries of East Central Europe therefore have a choice between traditional regional policies which aim to decrease regional differences and are rather ineffective, or efficiency-oriented policies which can result in faster economic growth, deep economic restructuring and technological advancement in certain regions, at the expense of regional polarisation. At the moment, in fact, this polarisation is taking place in all post-socialist countries.\(^{12}\) The first type of regional policy is rooted more in the notion of "social justice", while the second type leads to increased competitiveness of the leaders of transformation, and in the end possibly of the entire national economy.

There is a further dimension of regional development – the relationship between the type of regional policy and the model of the territorial organisation of the state. In a centralised state, where decisions are taken on the national level and where the state budget has a strong redistributive function, pro-efficiency regional policies are difficult to implement. This is because centralisation limits the scope for development policies which originate in the regions themselves. In a decentralised state there are much richer possibilities for regions to form their own policies that are more in tune with specific local situations and needs.

The reforms which moved the East-Central European countries from authoritarian rule to the democratic system have – paradoxically – in

\(^{11}\) Such polarisation is a part of reality in the European Union as well – see the EU's Cohesion Report, which openly states that policies aimed at decreasing regional differences proved to be ineffective, as least in the decade 1983–1993.

\(^{12}\) For example, in Poland the territorial unit on the regional level, the voivodship, has become more and more dependent on the national government, and – in fact – not on one national governmental agency, but on several departments of the government. The voivodship budget has been fragmented in to a set of "sub-budgets", each of them under control of the budget a given ministry. The voivod (the “governor” of a voivodship) is nominated by the prime minister, and can be dismissed at any time. There is no political representation on the voivodship level elected by the inhabitants of the region. In this way, the voivodship is more subordinated to the national government than it was prior to 1989, when political representation did exist on the regional level and the voivod had much more power than today.
some cases led to increased territorial centralisation. In the first “shock of freedom”, the process of fragmentation of territorial units took place in Czechoslovakia and Hungary. Hundreds of new municipalities were created, some of them with no more than 50 inhabitants. The regional level was abolished, and has been only recently reintroduced in the Czech Republic.

In Hungary, attempts to create macro regions (governed by so-called Representatives of the Republic) were recently turned down. In Poland, reforms which aimed to create some 12–13 macro regions have been halted. Even in Bulgaria, where the present regional units seem to be sufficiently large, there are plans to reintroduce 28 much smaller traditional territorial units.

The reforms in the area of territorial organisation should be regarded as an important part of the general structural reforms of the public sphere in all East Central European countries (along with, for example, the state security system, health care, education, etc.). Of course, there is not much sense in introducing deep decentralisation of territorial structures if other spheres of the national system remain strongly centralised. Territorial decentralisation is only a part of the larger reform process, but it must occur if these countries are to be integrated into Europe as a whole.

4. CONCLUSIONS

The countries of East Central Europe require a breakthrough in their approach to the spatial and regional problems of their development. Strong arguments exist for assuming the following principles as part of the foundation for regional policies:

1. Regional policies should be subordinated to the strategic objectives of the country as a whole. These objectives reflect the necessity of “catching up” with other countries more advanced in socio-economic development, through deep structural reform and the promotion of high rates of economic growth.

2. As the pattern of polarised regional development must be acknowledged as a real and inevitable phenomenon in national development, regional policy should be oriented towards efficiency. This principle allows for accelerated growth and increasing new capital formation, which is necessary for changing obsolete economic structures. Therefore, regional policy should not have as a main priority the equalisation of regional differences – at least not during the first 10–15 years.
3. The regional policy of the state should concentrate on those undertakings which are crucial for the spatial-functional structure of the entire country, in particular those that are connected with its international relations. The state should be co-responsible – along with regional authorities – for the development of basic transport and telecommunications infrastructure, border crossings, harbours, air traffic facilities, and so on, possibly with private sector participation.

4. Regional policy should include in its priorities assistance for regional restructuring in areas dominated by traditional industries. This objective must be undertaken for both economic and political reasons.

5. Despite the need to concentrate on efficiency-oriented measures, the tasks of equalising regional differences should not be completely neglected, as these differences could lead to irreversible divisions in the country and permanent marginalisation of some territories and their communities. A principle of “balancing regional development” should therefore be adopted. Here “balancing” does not mean “leveling” the regional structure of the country. It rather means alleviating those differences which could permanently distort the development potential in depressed or backward regions. This should be one of the explicit goals of regional policy.

6. Decentralisation in territorial organisation should be performed, with territorial governmental units made responsible for most duties and tasks that are currently performed by national governmental administrations at the central and lower territorial levels.