Šević, Ž., ed., 2008. *Local Public Finance in Central and Eastern Europe*. Cheltenham: Edward Elgar.
Simić, A., 2001. Local Governments in Serbia. In: R. Pintar, ed., *Local Self Government and Decentralization in South-East Europe*. Workshop Proceedings. Zagreb, Friedrich Ebert Stiftung, pp. 128–159.
Stead, D. and Nadin, V., 2011. Shifts in Territorial Governance and the Europeanisation of Spatial Planning in Central and Eastern Europe. In: N. Adams and R. Nunes, eds., *Territorial Development, Cohesion and Spatial Planning*. London: Routledge, pp. 154–178.
Swianiewicz, P., 2010. Territorial Fragmentation as a Problem, Consolidation as a Solution? In: P. Swianiewicz, ed., *Territorial Consolidation Reforms in Europe*. Budapest: OSI/LGI, pp. 1–23.
Swianiewicz, P., 2011. Poland: Europeanization of Subnational Governments. In: J. Loughlin, F. Hendriks and A. Lidström, eds., *The Oxford Handbook of Local and Regional Democracy in Europe*. Oxford: Oxford University Press, pp. 480–504.
Takács, Z., 2009. Szerbia a regionalizmus útján. Magyar térségfejlesztés a magyar politikai önérdek útján [Serbia on its way to regionalism [Hungarian regional development in line with Hungarian political self-intersts]. In: S. Somogyi and I. Gábrity Molnár, eds., *Évkönyv 2008*. Szabadka: Regionális Tudományi Társaság, pp. 47–70.
Tatur, M., ed., 2004. *The Making of Regions in Post-Socialist Europe – The Impact of Culture, Economic Structure and Institutions*. Wiesbaden: VS Verlag für Socialwissenschaften.
Tüske, T., 2002. A szlovén regionális politika törvényi háttere [The legal background of Slovenian regional policy]. In: C. Mezei, ed., *Évkönyv 2003*. Pécs: Pécsi Tudományegyetem Közgazdaság-tudományi Kara Regionális Politika és Gazdaságtan Doktori Iskola, pp. 126–143.
Velikova, M. and Mihaleva, D., 2014. New Approaches and Instruments for Specific Territories' Management in Bulgaria: Key Points of the Regional Policy under Reformation. In: I. Pálné Kovács and C.M. Profiroiu, eds., *Regionalisation and Regional Policy in Central and Eastern Europe*. Bratislava: NISPAcee Press, pp. 289–304.
Yanakiev, A., 2010. The Europeanization of Bulgarian Regional Policy: A Case of Strengthened Centralization. *Southeast European and Black Sea Studies*, 10(1), pp. 45–57.

10

Managing regional disparities

László Faragó and Cecília Mezei

Introduction

International academic literature dedicates little attention (space) to the self-evident fact that unified EU regional/cohesion policy and regulations – and changes happening within – will have different effects and readings in developed member states (centre) and transition countries (periphery). Central and Eastern European (CEE) countries are falling behind in the discursive race regarding the future of the European Union, and academic debates concerning European regional policy and planning are also dominated by Western and Northern European actors (Cotella et al., 2012; Lux, 2012). However, in a 'unified Europe' peripheries too have to have their share in reconstructing EUrope.

Further development of European Union governance, deepening integration and the peripheries' catching-up are closely connected questions. Strengthening integration is not possible without regional cohesion. Although an unwelcome change, not only from a CEE point of view but also from a policy angle, the new cohesion policy – despite its declared pursuit of convergence – today primarily serves the *EU's* general political objectives and the interests of those countries determining these, instead of directly supporting regional policy. This might slow down the catching-up process of cohesion countries and less developed regions. Cohesion countries have a stronger interest in renewing the classic regional policy that is based on solidarity rather than continuing with the current changing trends.

EUrope divided into centre and periphery

EU enlargement is not a philanthropic act of the central countries – it is the extension of their influence (existing networks of businesses and institutions) to territories that were previously detached politically, economically, administratively, etc. The EU accession of the CEE countries suited the rearrangement process of the power relationships in the area, fitted into Euro-Atlantic integration and complied with the economic interests of the centre.

Gradual 'integration' of the CEE countries into the western market economy, then into the European Community, took place through one-sided, external control. The building of the capitalist market economy and the transformation of the institutional system had both been initiated before accession – even before the 1990 regime change. Due to a lack of national capital,

international companies occupied the foreground during privatisation, and internationalisation happened on a larger scale than in several old EU member states. FDI flows into the periphery came at a significant cost: the meagre growth of less competitive companies with national/local ownership. In 2002, foreign ownership within the banking sector was 90.7 per cent in Hungary, 85.8 per cent in Czechia, 95.6 per cent in Slovakia and 70.9 per cent in Poland. In 2007 FDI stock reached 51.8 per cent of the GDP in Hungary, 48 per cent in Czechia and 31.5 per cent in Slovakia. Poland held a slightly better position with 'only' 24.9 per cent (Nölke and Vliegenthart, 2009, pp. 681, 683).

Pre-accession processes were already characterised by an asymmetric relationship, which limited the transition countries' sovereignty. Countries wishing to join hardly profited from the benefits of their future accession (such as PHARE supports), yet they had to comply with every EU requirement in order to gain membership. The comprehensive *acquis communautaires* and other institutional expectations were a strong tool in the hands of the Commission (Ferry and McMaster, 2013). Staying out of the EU was not a real alternative for any of the countries, which weakened their negotiating positions. The accession process happened exclusively according to the EU's scripts.

The 10 states joined in the middle of the budgetary cycle, which prevented the new members from exercising any influence on the shaping of the budget. When wording the frameworks for the Programming Period 2007–2013, developed member states viewed the 'Eastern bloc' as something to be Europeanised: an area into which developed values and democratic institutions would be channelled. Net contributor countries continue to grant their solidarity subject to the condition that less advantaged countries spend the received support funds on realising *'common'* EU goals (appointed by the former group).

The 'process of European unification' does not automatically elevate all areas and social groups to a higher cultural and economic level. Instead, it reorganises the economy and cultural fields in a way that maintains the centre–periphery relationship. The international financial market and the EU both work based on democratic deficits (Garcia-Arias et al., 2013). 'Europeanisation processes take place in the shadow of globalisation, neoliberal decentralisation and, most recently, global economic crises' (Ferry and McMaster, 2013, p. 1506). Firms and institutions of the newly acceded member states are thrown into a space dominated by stronger actors. Their regional capital is re-evaluated depending on the possibilities of integration into the global economy. The prerogative of following a different path is only given to the strongest EU member states (e.g. the United Kingdom pre-Brexit). After the collapse of Communism, CEE governments were unable to perform a gradualist reform process that was directed from within, and which considered national interests. First, international financial organisations, then the EU, forced these countries to fully open their markets, which resulted in the significant deterioration of their national economies, national industries and agriculture. Domestic products were largely substituted by Western imports. Contrary to previous expectations – with the exception of Slovenia – the proportion of the CEE countries' export directed to the EU27 did not rise after accession; it even fell back due to the crisis (Kengyel, 2014).

In CEE it was primarily the already developed capital regions that were able to benefit from the new possibilities offered by the EU free market, which resulted in a further deepening of regional differences within the countries. Centripetal ('backwash') and technological effects have simply blocked out the impact of the centrifugal ('spread') effect. Marginal productivity of the productive resources in the centre has not been decreasing to an extent that investments in the periphery would have resulted in rapid convergence. The production factors' possible mobility has not led to the automatic 'spreading' of economic activities or to the improving of regional alignment. In the centre, higher wages and higher profit due to the higher concentration

allow for the compensation of the negative effects of concentration (higher real estate prices, overcrowding, etc.). Thanks to centrifugal forces (negative externalities), mobile production factors are not flowing to all of the peripheries, but are mainly directed toward new potential centres (e.g. Metropolitan European Growth Areas (MEGA3s) and – because of their proximity – their regions). Facilitating mobility and ensuring better access (Trans European Networks, deregulation, liberalisation) are advantageous to the centres, and instead of helping them can even hinder the economy of the peripheries (Krugman and Venables, 1990). 'Regional equilibrium' is more prominently embodied in the centre–periphery relationship than in actual regional convergence. The innovation-oriented strategy based on endogenous characteristics that is now preferred in the EU can be realised mainly in central regions and in large international corporations.

Nölke and Vliegenhart (2009) demonstrated that neo-liberal capitalism applied in the post-communist CEE countries (the Visegrad 4) is not able to function as a classic 'liberal market economy' (LME) as seen in the Anglo-Saxon countries, or a 'coordinated market economy' (CME) typified by Germany; instead, it creates a peculiar 'dependent market economy' (DME) model which becomes a distinct variety of capitalism. The dependency of CEE markets is also complemented by the fact that developments, investments and decisions of the public sector in these countries all rely on the support system adopted by the EU. This means that *during their post-communist transition, CEE countries slid into a state of dual dependency.* Their dual market economy depends on Western multinational corporations (FDI) and loans, while public sector developments depend on EU funds (European Structural and Investment Funds (ESIFs), agricultural supports) and are thus subjected to their changes. 'Dependent market economies' are competitive in assembling durable goods (e.g. automotive industry), which explains why these industries attract more working capital (FDI). Their comparative advantage lies in their cheap, moderately educated but efficient labour force, and in the in-firm technological transfer happening on an internationally average quality level. The drawback of this CEE model is the vulnerability of these economies against the hierarchic international decision-making system of multinational corporations. The majority of the most significant producing companies and banks are under foreign ownership, and decisions are made at their headquarters located in central areas, while strategic planning is also carried our there. The larger part of national SMEs, through their suppliers' networks, depends substantially on the decisions of international companies. R&D and innovation take place at principal sites, and due to tax optimisation the realisation of profit also occurs mostly abroad. The countries' small amounts of proper development funds are not used 'freely' (according their own preferences) either; instead these are channelled into the EU tender system as a contribution of own funds, subordinating these sums to common EU goals.

Summarising the above, we find that everything declared by Featherstone and Kazamias (2001) describing peripheries proves to be true concerning the CEE region: the area is economically less developed, the economic development of the region has happened in a historically different way, there is high dependency on European supports and it suffers from weaker bargaining positions.

Efforts taken towards strengthening EU governance have been further restricting the discretion of the CEE region's national governments. Cohesion policy and the toolkit it adopted are *increasingly serving general political and governmental integration objectives instead of facilitating traditional/classic regional policy.* The new regulation of the planning and support systems and the daily practices they apply also fortify central decision-making in Europe, and sanction member states diverging from the joint policy. In the case of less developed countries, part of the decision-making concerning development – through controlling the use of support funds – has been shifted to the Community level, while daily governance tasks have been transferred to the Commission.

The freedom of planning regarding cohesion policy funds is continuously mitigated in cohesion countries. Objectives are now worded in an even more unequivocal way, and an

increasing number of methodological regulations have been drawn up (intervention logic, use of indicators, impact assessments, etc.). Neither the target system of Operational Programmes and partnership agreements drafted by member states, nor the appointment of strategic directions happen based on the specifics of the states themselves; they are not carried out according to the priorities of the domestic national institutions or professional and civic organisations, instead they are considered as given facts bestowed upon the countries by authorities above/outside. Member states are not pursuing strategic planning, but 'EU objective driven' fund-oriented planning, meaning that *plans are constructed solely for the purpose of accessing potentially receivable community funds*. Parties that pay can order! Plans are practically being 'customised' on the go, as EU directives need to be adapted to the situation at hand. The inner contradiction of this practice lies in emphasising regional and 'place-based' views, while the possibility of taking macro-regional (e.g. CEE), national and regional specifics into account continues to decrease.

Within the framework of European Economic Governance, the Commission examines whether the fulfilment of the partnership agreement and the Operational Programmes comply with joint strategic objectives and recommendations and, if not, it may initiate the reprogramming of resources. Moreover, granting funds can also be suspended for lack of efficient measures. This current cycle is the first in which the Commission has the discretion of starting such a 'reprogramming' process. If a member state fails to apply certain measures that are deemed effective and accommodate the requirements of the Commission, the latter can advise the Council to entirely or partially stop funding the programmes or priorities in question.

The European Commission – taking into account the 'specifics' of every member state – provides custom recommendations to each country, which contain advice on particular measures to be taken by the country's government in the following 18 months. The evaluation and the recommended measures generally do not concern regional objectives; instead they deal with government deficits, reforms to large benefits systems, job creation, fighting unemployment, enabling innovation and improving the efficiency of the public administration system in every member state. Consequently, it is the degrees to which these macro-regions diverge from EU expectations that are meant by 'national specifics'. Not discussed is the case of a country which, due to its historical background, requires special treatment, or what advantages or disadvantages may result from the country's regional capital or geopolitical position and what possibilities of development they offer or need – these political recommendations are formed solely according to general, 'spatially blind' political and economic policy expectations. These evaluations and recommendations strive neither to remedy specific regional problems (such as the integration of the Roma population in CEE countries, or the rehabilitation of the 'Communist tower blocks'), nor to facilitate 'special' attention and separate treatment for such issues during the allocation of the ESIFs.

Platforms of integration

The strengthening of integration basically happens on three different platforms: within the EU institutions, through the restructuring of member states' inner operations and on a global platform. With European governance opening up and occupying more and more transnational platforms, inner governance possibilities (platforms) are narrowing for member states. The building of European governance is a denationalisation process eliminating state boundaries in the eyes of the member countries, during which roles previously performed by national structures and institutions are partially taken over by supranational agencies (Kohler-Koch, 2005). According to Kohler-Koch (2005), political restructuring decreases loyalty and solidarity subject to state borders and de-nationalises political platforms. Traditional connectivity between space

and community is eliminated, turning space-monogamy into space-polygamy (Beck, 2005). A growing portion of business organisations, citizens and especially politicians do not pursue politics based on territorial borders; instead they have moved to a European level.[1] Brussels is continuously opening gateways for lobbying against national governments and regulations, and thus Europeanises political debates.

International organisations (e.g. the International Monetary Fund (IMF)) help reorganise national economies and governance through global recommendations. Provided that the system of 'investor-state dispute settlement' (ISDS) is included, the free-trade agreement between the European Union and the United States can transfer part of the economic debates to a platform fully outside of Europe. Bypassing national jurisdiction, investors can turn to an elected international 'private court' which can award them damages upon finding that their market actions were anyhow restricted (e.g. introducing a special tax). Signing the USA–EU free-trade agreement can further weaken the governments' tools to regulate and restructure their national economies – all within the environment of strengthening competitiveness and striving to 'catch up' with the USA.

These integration (globalisation) steps can disintegrate national governance ability and national institutional systems to a degree when they may even endanger the democratic operation of the EU.

The Lisbon process that aimed to strengthen large European corporations' competitiveness in the global market, and the crisis starting in 2008, have also altered the targets of regional policy. The principle of regional solidarity and the *traditional* logic of the alignment of under-developed regions were pushed to the background by the idea of economic growth based on existing facilities and the strengthening of global competitiveness *in the entire European Union*. The support system previously targeted peripheries battling market disadvantages, in order to offer counterweights to existing advantages of the centre. Structural and Cohesion Funds used to be concentrated on selective domains, helping underdeveloped regions with special difficulties. These funds used to create the boundary conditions necessary for cohesion and growth (infrastructure, education, institutional system, etc.), thus compensating the advantages enjoyed by central conurbations. With the emerging discourse of competitiveness – which, in its current form, goes against the core objectives (Treaty of Rome, Article 158) – European regional policy, based on the slogan of concentrating on tangible regional resources, has been aiming considerable attention and spending funds on more developed regions, while mitigating regional differences within the countries themselves remains mostly the task of national governments. The role of metropolitan regions equipped with suitable potential (regional capital) has automatically become more important through the above-mentioned preference for competitiveness factors. The larger part of these regions lies within the EU's 'Pentagon' area, while in CEE it is mostly the capital regions only that count as potential metropolitan growth areas (MEGA3).

Regional differences and their management in CEE

Europeanisation pressure has transformed the institutional system of national regional planning and development. This can be witnessed observing the types of completed plans, the current view of space, the categories of space, and the regional political institutional system and toolkit created to manage regional differences. The alignment of the institutional system and toolkit of regional development to Brussels standards can be viewed as evident, since national resources necessary to receive Structural and/or Cohesion Funds (additionality) basically exhaust development assets in CEE countries. This also means that in spite of these countries having special national or regional problems, there is no room for their customised management, which already excludes the diffusion of genuinely place-based views.

In CEE countries the issue of regional development is important not only on account of the conditions for receiving EU Structural and Cohesion Funds, but also because of the vast regional differences that usually characterise the so-called transition economies or countries. European Structural and Cohesion Funds used to 'reward' regional underdevelopment and mainly served to help the country catch up, instead of managing the differences within the country itself. Before the regime changes of 1990, all the CEE countries had lower inner differences than the spatial disparities measured today.

Despite the convergence of several nation-states, *significant regional (NUTS-2, NUTS-3) differences continue to be visible* even more than 10 years after accession (Figure 10.1). The poorest regions of the EU – with the exception of Mayotte in France – are all located in the 'Eastern bloc'. In 2003 GDP calculated based on purchasing power parity (PPP) was 12 times higher in the most developed regions than in the poorest ones. (The rate was 'only' 11 times higher in 2011.) If we examine disparities on the NUTS-3 level (Eurostat data from 2011), the result becomes even more extreme, close to 30 times higher: Inner London – West reaches 612 per cent, while Vaslui in Romania is at 21 per cent. In 28 NUTS-3 regions the GDP per capita is at least twice as high as the EU average, most of which are found in Germany. In 24 NUTS-3 regions GDP is lower than 30 per cent. The Hungarian county of Nógrád is among these: the rest of the regions are located in Bulgaria (15) and Romania (8) (Eurostat, 2015). GDP has not reached half the EU average in 20 regions. All of these – except for a remote island – are in CEE: 5 in Romania, 5 in Bulgaria, 5 in Poland and 4 in Hungary. When it comes to multi-region countries, GDP per capita surpasses the EU average in every region of Sweden, while all of Bulgaria's regions – even the capital – fall behind.

Although the dominance of capital cities (a macro-regional feature – see Chapter 8), primarily with regards to population density, employment and the ratio of the service sector, can be observed anywhere today, there were certain exceptions to be found before the regime change. The Warsaw region, for example, due to the polycentric nature of the country, the transportation situation and the underdevelopment of the region surrounding the capital, did not have

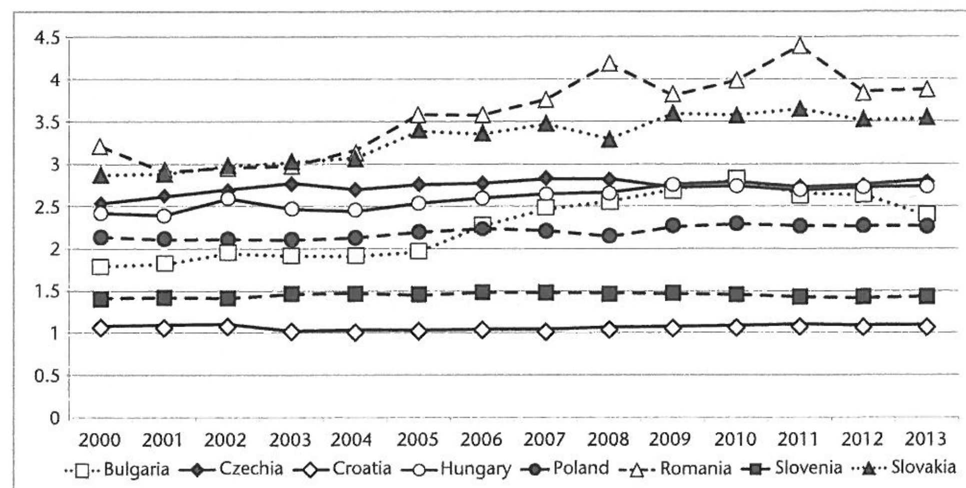

Figure 10.1 Proportion of regional disparities between 2000 and 2013
(GDP per capita: proportion of the wealthiest and poorest NUTS-2 regions)

Source: Author's calculations and construction based on Eurostat data.

outstanding indicators (Mezei and Schmidt, 2013; Horváth, 2004). Similarly, for a long time Sofia fitted into the general backwardness of Bulgaria (Horváth, 2008).

In 2004, with the exception of Prague and Bratislava, every NUTS-2 region within the accession countries was filed under the first category and ranked among the least developed regions, rendering every CEE country a cohesion target region. The picture evolved further with the accession of Romania and Bulgaria in 2007 (Figure 10.2). While CEE countries still unanimously remained cohesion countries, the Budapest-led region of Central Hungary was 'elevated' into the phasing-in (transitional) category, and Bratislava and Prague were promoted to competitiveness regions, leaving the remaining 50 regions as the least developed convergence regions. However, by the 2014–2020 phase, all of the capital regions were elevated to the level of more developed regions except in Slovenia, Croatia and Bulgaria.

While statistics may hide several differences, the 2013 GDP per capita data primarily indicate the deepening of discrepancies instead of the strengthening of regional convergence (Table 10.1). Regional differences are lowest in Croatia and Slovenia, due to each of these countries being divided into two large regions, which are 'assimilating' the capital cities. The spectacular improvement of Bratislava's competitiveness (Annoni and Dijkstra, 2013) has resulted in a 3.5 times difference, whereas Romania shows an even larger variance with the GDP per capita being 4 times higher in some areas than in others.

These serious discrepancies deserve treatment both on the EU and national levels. Mitigating regional differences has proven to be more successful within the group of 10 countries that joined in 2014, while Romania, Bulgaria and Croatia are much further behind (Table 10.2). For a long time Hungary held a leading position within the EU10 branch due to its already EU-compatible legislation on regional development adopted in 1996. The institutional system of regional development was created in accordance with the above law, and a separate funding system earmarked for this objective was in operation. A national regional development plan was adopted in 1998. By today, Hungary's advantage has been completely eroded, as every CEE country has created its own EU-conforming institutional system and toolkit on regional development. By 2001, every country except Croatia had adopted legislation on regional development, and by the middle of the decade all of these articulated a national strategy regarding the issue.

The formulation of the institutional system of regional development happened parallel to public administration reforms in CEE countries. In certain countries, regional development institutions easily fitted into the system of transitioning, reformed public administration, while elsewhere administrative reforms were only imitated, and regional development institutions were set up outside of them (Mezei, 2016). In Poland, a coherent reform of regional administration was carried out in a way that gave the 16 new *voivodeships* an increasingly significant role in regional development. Meanwhile in Hungary regions were created on formal grounds: they have not been integrated into public administration, and the institutional system of regional development has been changed every governance cycle. Czech public administration reform also set up regional municipality units, but European funds are not managed through these *kraje*, but are based on the eight statistical regions (Mezei, 2015).

Local regional problems have been receiving special treatment in many cases, generally resulting in the delimitation of heavily supported areas. Special Economic Zones created in Poland in 1994 are a good example of this: these were set up in order to help industrial regions battling the structural crisis (Baranyai and Lux, 2014). Prekmurje, the least developed NUTS-3 region of Slovenia, has fallen under different regulation since 2009 for the same reason. Croatia separated regions requiring particular treatment directly following the Yugoslav Wars (areas affected by the war or fighting structural problems) in order to facilitate their access to certain state aids (Mezei and Pámer, 2013). The same peculiar tool, universally considered an instrument

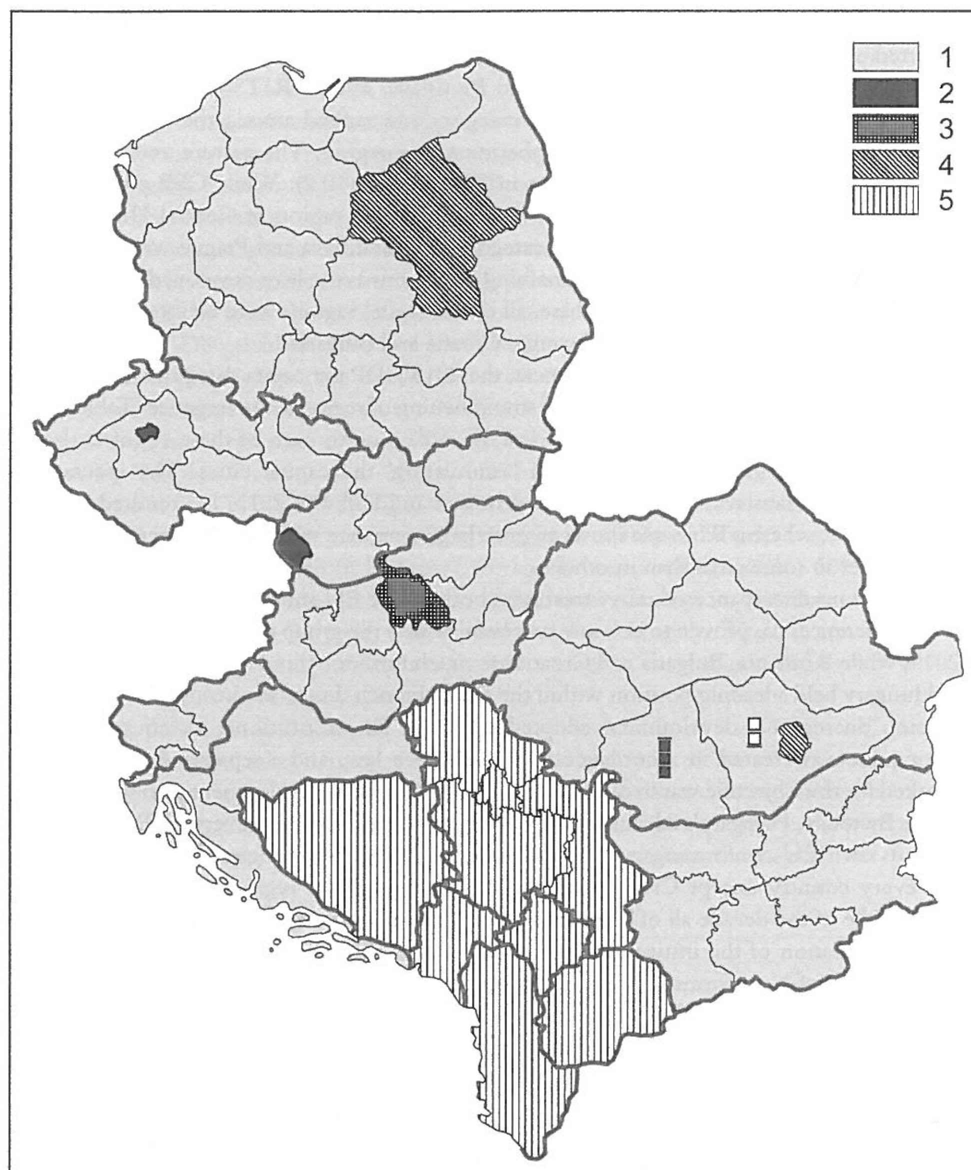

Figure 10.2 Cohesion policy target regions within the macro-region

Source: Authors' construction.
Legend: 1 – Convergence region since accession
2 – (Developed) competitiveness region since accession
3 – Phasing-in region since 2007, then competitiveness region since 2014
4 – Competitiveness region since 2014
5 – IPA region

Table 10.1 Regional disparities in Central and Eastern Europe based on GDP per capita, 2013

Country	*Number of NUTS-2 regions*	*Poorest region*	*Wealthiest region*	*Inequality ratio*
Bulgaria	6	Severozapaden	Yugozapaden	2.40
Czechia	8	Severozápad	Prague	2.79
Croatia	2	Jadranska Hrvatska (Adriatic Croatia)	Kontinentalna Hrvatska (Continental Croatia)	2.16
Hungary	7	Northern Hungary	Central Hungary	2.72
Poland	16	Lublin Province	Mazovia Province	2.26
Romania	8	Nors-Est	București-Ilfov	3.88
Slovakia	4	Východné Slovensko (Eastern Slovakia)	Bratislavský kraj (Bratislava region)	3.55
Slovenia	2	Vzhodna Slovenija (Eastern Slovenia)	Nahodna Slovenija (Western Slovenia)	1.43

Source: Author's calculations and construction based on Eurostat data.

of problem-solving, has characterised Hungary since 2007, when the least advantaged subregions were isolated and special tenders, incentives and forms of aid were introduced to enhance the development of the 33 poorest subregions (LAU-1). The East Poland macro-region was delimited along the same principles in 2007. Partly due to EU pressure, an integrated management system was set up in the five least developed *voivodeships* (Lubelskie, Podlaskie, Podkarpackie, Świętokrzyskie, Warmińsko-mazurskie) to divide the sources granted by European funds.

Special instruments were also applied to solve regional problems in the CEE countries, among which we find national regional development strategies aimed at the convergence of struggling, special areas or for the balanced development of the whole country. Apart from particular regional plans, other instruments were also used in the region. Examined from a CEE perspective, Polish planning contracts are unique in this regard. These were introduced in 2001 based on a French model, and laid down the framework for contracts between the state and the *voivodeships* concerning the allocation of national and EU support funds. Separate monetary funds targeting regional development and convergence objectives operated for shorter or longer periods in Croatia and Hungary as well. Local tax exemptions primarily aimed at attracting FDI, entrepreneurship incentives (fee discounts) or the ensuring of infrastructure also surfaced in multiple countries (e.g. Slovakia, Poland, Hungary) as special regional development tools. After their EU accession, the countries in question needed to create an EU-conforming framework for the above incentives. These discounts were in many cases tied to special zones, industrial parks, business/economic districts – the installation, regulation and funding of which are also viewed as special regional development tools (Mezei, 2006).

The situation of regional development is perfectly mirrored by the setup and operation of its institutional system. In countries that have stable ministries for regional development (Poland, Czechia), the position of regional development is much stronger, resulting in better cross-sectoral coordination and the prevailing of regional interests, as opposed to countries having no such ministries where the task of regional development is carried out sporadically, attached to ministries from various sectors. In Slovenia an independent minister without portfolio is responsible for this area, and Croatia also decided to create a separate ministry for this purpose. In Slovakia, a ministry responsible for regional policy operated between 1999 and 2010 (Ministry of Construction and Regional Development), whereas Hungary had an independent minister without portfolio between 2008 and 2010 (Mezei, 2013).

Table 10.2 Regional policy toolkit and institutional systems of the Central and Eastern European countries

Country	*First legislation on regional development*	*First national strategy on regional development*	*Minister/ministry responsible for regional development*	*Regional Operational Programmes*		
				2004–2006	*2007–2013*	*2014–2020*[1]
Hungary	1996	1998	Distributed between various ministries	Integrated	Separated	Integrated (4) and one for Budapest (9)
Slovakia	2001	2001	Distributed between various ministries	No	Separated	Integrated (6)
Bulgaria	1999	1999	Ministry of Regional Development and Public Works	–	Separated	Integrated (5)
Romania	2001[2]	2002[3]	Ministry of Regional Development and Public Administration	–	Integrated	Integrated (9)
Slovenia	1999	2004	Minister without portfolio responsible for Development, Strategic Projects and Cohesion	No	Integrated	Integrated (11)
Croatia	2009	2010	Ministry of Regional Development and EU Funds	–	Integrated[4]	Integrated (9)
Czechia	2000	2006	Ministry of Regional Development	Integrated and one for Prague	Separated	Integrated (8) and one for Prague (5)
Poland	2000	2000	Ministry of Economic Development[5]	Integrated	Separated	Separated (10)

Source: Author's construction based on EC, 2014; Mezei and Pámer, 2013; Kolev, 2002; Horváth, 2008; Lőrinczné Bence, 2014; Nagy, 2004.

Notes: 1 – The number of thematic objectives integrated into the Operational Programme is shown in parentheses.
2 – The institutional system of regional development was created earlier with legislation adopted in 1998.
3 – The 2002–2005 National Development Plan already contained a chapter on regional development, and the Strategic Conception on Regional Development: 'Romania 2030' was adopted in 2008, and was included in the 2007–2013 Plan.
4 – The IPA programme prepared for the programming period contained a ROP, which was included in the convergence programme after EU accession in 2013.
5 – Between 2005 and 2013, the Ministry of Regional Development was responsible for regional policy.

The way Regional Operational Programmes are prepared and managed also shows how deeply the regional view and the bottom-up principle are accepted in a certain country's practices. While in the 2004–2006 period the EU did not support drawing up separate ROPs, in the following seven years independent development plans were created for NUTS-2 regions almost everywhere (with the exception of small countries, and Croatia and Romania, with both joining at the end of the cycle). However, the presence of ROPs is not everything: in Hungary for example, programmes were created through centralised, top-down planning and were based on unified models, focusing on priorities that were omitted from sectoral programmes. They were also carried out through almost fully centralised management (Mezei, 2016). In Poland, however, the bottom-up approach and decentralised (*voivodeship*-based) management were effectively realised. It is no coincidence that it was Poland where the system of separate ROPs remained in operation even after 2014.

Competitiveness and/or regional cohesion

The issue of spending European Structural and Investment Funds in a way that improves the competitiveness of the entire Community and acts as an incentive for economic growth – but does not deepen regional differences to an extent which will hinder further development and integration – was always on the agenda of the European Union.

Recently, it is the classic economic approach that has been receiving a greater emphasis: if EU funds are spent in developed central regions possessing the necessary capacities (highly educated labour, functional institutional system, agglomeration advantages, critical mass, etc.), the overall performance of the EU improves more than with the support going to moderately developed peripheries and to the least advantaged regions. If developed countries keep financing non-sustainable investments in peripheries in the long term, it will have a significant distorting effect and can even slow down the pace of development in the central countries (Fernandez, 2011, pp. 169–170, describes the debate). Traditional strategies generally prefer faster and higher returns and opt for investing in developed regions, especially during crisis periods (Sapir, 2003; World Bank, 2009). This view is mirrored in the Lisbon process, which places the main emphasis on improving competitiveness – and thus undermines regional cohesion. Leftist economist Fabrizio Barca (2009) advises that economic development should be based on agglomeration advantages, and then the produced surplus can be spread out to avoid social tension.

According to Camagni and Capello (2015), modern regional development policy can maximise the output of community investments only if it activates unused resources and *if it utilises regional capital in the most efficient way everywhere*. This is how aggregated impact will be largest on the European level. The new cohesion policy conceived with a place-based view in mind and targeting almost all 'places' will satisfy both efficiency and fairness objectives, and will produce growth everywhere. However, we believe that the above policy does not enhance growth and mitigate regional differences at the same time. Developed areas will have more significant regional capital than peripheries, and *basing development on local resources of various size and quality will result in the further deepening of these differences*.

As Mendez (2013, pp. 645–646) summarised, the opposition between the efficiency objectives of the Lisbon strategy and the fairness objectives of cohesion policy (dualism, trade-off) is based on misunderstandings. First, development policy can remain growth-oriented even if funds target poorer regions (efficiency criteria), which will improve the opportunities of the local population. Second, efficiency and fairness objectives can mutually reinforce each other; negative trade-off is not the general rule. Third, the further growth of developed regions boasting larger economic concentration cannot remain an infinite process either.

According to the ESPON ET2050 project[2] calculations (Camagni and Capello, 2015, p. 38), focusing development on second- and third-level cities ('urban scenario') instead of concentrating on potential metropolitan growth areas (MEGAs) holds numerous advantages. The expected regional growth rate will be the highest in this case, both regarding the older 15 and the newer 13 member states. Regional capital will be used most efficiently, and we can avoid negative impacts due to excessive concentration, while also widely facilitating the spillover effect of urban poles. Gál and Lux (2014, p. 12), who participated in the project, drew attention to the fact that this strategy can actually prove risky in the CEE area, since the region lacks a dense network of second- and third-level cities, i.e. the ones that exist are too weak and their development should be a priority. According to the project's model calculations, when it is exclusively rural and peripheral regions that are being developed ('regional scenario'), both older and newer member states will experience a slower growth rate. This may be true in this form – we accept that on the EU level it is the 'urban scenario' that promises a greater growth rate. However, if developed countries/regions also receive their share of development funds, cohesion countries will receive a relatively lower sum than the full budget of the ESIFs. This will result in the cohesion member states experiencing slower growth compared to previous times when they had been granted the full amount of support funds. For example, growth rates will be the highest in the CEE countries if they receive the largest possible share of ESIFs, and regional differences will decrease if these sources are spent on developing urban areas outside of the capital regions.

If we accept that – due to agglomeration effects, external economies and returns to scale – return on capital is higher in developed central areas than in peripheries, it follows that development is already happening in these regions on a market basis (see the arguments in Chapter 2). The existence of regional differences not only foretells that less advantaged regions will have worse prospects, etc., it also means that production factors are not fully utilised, and their better capitalisation would benefit the entire Community. The 'place-based' paradigm could be applied, and the growth rate as well as the strengthening of inner cohesion could be maximised if cohesion supports facilitated the best possible utilisation of resources in peripheries and in the least advantaged regions, rendering these areas more competitive.

Cohesion supports equal less than half a percentage of the EU's GDP (0.36). This can be considered an acceptable *social price to pay for mitigating regional differences*. It does not equal the reallocation of earnings or the 'overtaxation' of the most developed states. *The centre will also profit from development investments effectuated in less developed regions*: more equal regional development ensures growth opportunities to companies operating in the centre, and it can mitigate migration pressure in central areas. Moreover, adequately targeted investments in less advantaged regions (resolving bottlenecks, connecting infrastructure into networks) can induce even larger growth than in the already developed regions. Investments and consumption will both increase due to the supports received, which will improve tax revenue and overall facilitate the sustainability of the entire process. Naturally, due to lower population density and base development level, this will have a smaller effect on average EU growth, but development induced in the centre will compensate for this.

In core regions, a considerable part of growth (or at least averting recession) relies on economic relationships maintained with the peripheries. Net contributor countries 'buy' growth potential for a relatively low sum, while a substantial part of the funding flows back into the central regions. This and the expansion of the market (creation of demand) compensates for the contributions. Investments supported by cohesion policy are mainly realised by Western European companies (or their CEE subsidiaries), granting them significant revenues through the creation of demand and the repatriation of profit. Companies in the 'old' member states receive a considerable share of every euro spent in the cohesion countries. More than half of the support

granted to the Visegrad 4 countries appears as – direct or indirect – profit in the books of the EU15, primarily German, French, Austrian, Spanish, etc., firms. In the case of Germany, Ireland and Luxembourg, revenues gained from increased exports due to the creation of trade have exceeded the sum of contributions these countries had provided (c.f. Kengyel, 2014).

Conclusion and discussion points

In the European Union, integration reached through the strengthening of supranational governance does not automatically lead to the social, economic and regional cohesion of the less developed countries of the East and the South. If the centre and peripheries are drawn under unified governance (from multiple points of view), and countries with different levels of development need to compete under the same market conditions, regional discrepancies will not be mitigated automatically. Moreover, the enlargement that brought the number of EU members up to 28 states has actually increased regional differences within the EU – European governance now needs to be much more flexible and interactive in alleviating these disparities (Jachtenfuchs and Kohler-Koch, 2004). The fact that differentiated development strategies are needed due to the member states' internal differences (economic development, governance structure, member state preferences) has to be accepted and managed on the EU level too. Two sovereignties (EU and nation-state) sharing the governance of the same group of citizens and territories is only possible with *multilayered governance based on the principle of subsidiarity*. It is not enough for the EU's political and administrative centres to aim for the strengthening of supranational governance while neglecting the fact that – according to the requirement of subsidiarity – in many areas, national governance needs reinforcement.

It is evident that conserving the EU's position on the world market and improving its competitiveness is an interest shared by every member state, but this can be reached in more than one way. Further economic boosting of the already highly developed central areas can promise quick returns, but it will lead to the further deepening of regional differences, which in turn will come with a higher cost: negative externalities that can eliminate short-term gains.

The Mediterranean and CEE regions have an interest in maintaining solidarity and cohesion support, stressing that the latter should be allocated to their regions. The overall economic performance of the EU could also be improved if cohesion countries, and less developed regions holding significant growth potential received exclusive supports in the future in order to enhance their economic development and competitiveness. This would result in the considerable decrease of development discrepancies between the countries: the economic potential of these regions would be better utilised, while central areas would draw significant profit from developments realised in the peripheries. The fact also needs to be taken into account that developed countries (particularly core regions) that are severely affected by the crisis and currently display a modest growth rate – but still exercise decisive influence in EU politics – are, according to their domestic interests, primarily interested in reviving their own economies.

The CEE region needs to set up its own European core area which would contribute to creating a polycentric spatial structure in Europe. However, if EU regional policy shaped by the current centre (the most developed member states) does not reach the same conclusion, countries of the periphery need to initiate this process themselves:

- Cohesion countries with similar assets and experiencing similar international impacts have to cooperate in order to ensure that cohesion policy continues to serve exclusively the realignment of less developed countries.
- High dependency on FDI can be eased through the strengthening of domestic funding options. Improving the economic financing capacity of national bank systems is a good

example, as well as increasing the proportion of national ownership in a way that avoids monopolisation.

- Besides job creation, emigration from the peripheries can also be mitigated through increasing wages. In order to keep competitiveness and continue to attract investors, higher wages need to be compensated with other benefits (e.g. lower taxes and dues, strengthened predictability, skilled labour, higher innovation). Mobility may also be 'limited' via market-friendly instruments (e.g. localisation can be facilitated through the widening of supplier networks). Improving external economic viability can attract and tie companies to a place in the long run (see Chapter 3).
- Member states have to extend development to metropolitan areas outside their capital regions *through concentrated decentralisation*. Geographic–economic concentrations need to be created within the least advantaged regions. Once a critical mass is achieved, it will facilitate agglomeration effects and improve external economic viability.
- *Decentralisation at the member state level:* the prevalence of regional, 'place-based' and 'bottom-up' views, and the subsidiarity principle would demand that various groups of countries determine the main priorities, objectives and actual tasks of the following cycle themselves. It would be beneficial if these groups of countries – besides complying with joint objectives – had the possibility to word their specific goals for one part of the multi-annual financial framework. An opportunity should be granted to member states to use part of their indicative member state financial support funds freely, according to their own preferences. This would differ from the pre-1989 system, as these developments would need to be indicated in partnership agreements and Operational Programmes, and the utilisation of these funds would take place in the framework of the EU institutional system. Each member state and region has to find the most suitable policy for their own development, 'in the light of its particular economic, social, environmental, cultural and institutional conditions' (EC, 2005, p. 8).
- Supports should not be extended to developed regions; instead, *priority funding* should be given to regions where the GDP per capita does not reach 50 per cent of the EU average. (In practice this equals the 20 least developed regions of the EU.)

Essentially, our recommendations refer to the growth-oriented reduction of the social and economic backwardness in the cohesion countries' least developed regions. Taking into account the regional concentration trend of economic activities, this can be realised through certain regionally concentrated measures (mitigation of the shortage of capital, polycentric development, fulfilling concentration requirements), which can utilise the less advantaged areas' regional capital with great efficiency. The further deepening of the EU's joint governance is only possible after curbing significant current regional welfare differences.

Acknowledgement

The publication of this research has been supported by project #104985 of the Hungarian National Research, Development and Innovation Office.

Notes

1 Hungary provides us with a good example. The opposition and certain NGOs do not pursue politics within the national framework (or within the country's borders), and they do not attempt to realise their goals in Hungary anymore. Instead they look to the European community and to the assistance of the EU institutional system with their plans. Kohler-Koch (2005, p. 7) provides other examples of how the EU secures 'escape routes' regarding taxes imposed on capital revenues, genetically engineered agricultural products and university tuition fees.

2 www.espon.eu/main/Menu_Projects/Menu_AppliedResearch/ET2050.html

References

Annoni, P. and Dijkstra, L., 2013. EU Regional Competitiveness Index RCI 2013. Luxembourg: European Commission Joint Research Centre Institute for Security and Protection of the Citizens. http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/6th_report/rci_2013_report_final.pdf [Accessed 14 March 2015].

Baranyai, N. and Lux, G., 2014. Upper Silesia: The Revival of a Traditional Industrial Region in Poland. *Regional Statistics*, 4(2), pp. 126–144.

Barca, F., 2009. *An Agenda for a Reformed Cohesion Policy. A Place-based Approach to Meeting European Union Challenges and Expectations. Independent Report Prepared at the Request of Danuta Hübner.* Brussels: Commissioner of Regional Policy.

Beck, U., 2005. *Mi a globalizáció?* [What is globalisation?]. Szeged: Belvedere.

Camagni, R. and Capello, R., 2015. Rationale and Design of EU Cohesion Policies in a Period of Crisis. *Regional Science Policy & Practice*, 7(1), pp. 25–49.

Christiansen, T., Jørgensen, K.E. and Wiener, A., eds., 2000. *The Social Construction of Europe.* London: Sage.

Cotella, G., Adams, N. and Nunes, R.J., 2012. Engaging in European Spatial Planning: A Central and Eastern European Perspective on the Territorial Cohesion Debate. *European Planning Studies*, 20(7), pp. 1197–1220.

EC, 2005. *Cohesion Policy in Support of Growth and Jobs: Community Strategy Guidelines, 2007–2013.* COM(2005) 299 final. Brussels: Commission of the European Communities.

EC, 2014. Country Progress Reports (Hungary, Slovakia, Poland, Czech Republic). http://ec.europa.eu/index_en.htm [Accessed 15 September 2014].

Eurostat 2015. Gross Domestic Product (GDP) at Current Market Prices by NUTS-2 Regions. [nama_10r_2gdp]. Available from: http://appsso.eurostat.ec.europa.eu/nui/show.do [Accessed 26 November 2015].

Fernandez, J., 2011. Why Location Matters: The Terms of a Debate. In: OECD, ed., *Regional Outlook. Building Resilient Regions for Stronger Economies.* Paris: OECD, pp. 167–174.

Ferry, M. and McMaster, I., 2013. Cohesion Policy and the Evolution of Regional Policy in Central and Eastern Europe. *Europe-Asia Studies*, (65)8, pp. 1502–1528.

Featherstone, K. and Kazamias, G., 2001. Introduction: Southern Europe and the Process of 'Europeanization'. In: K. Featherstone and G. Kazamias, eds., *Europeanization and the Southern Periphery.* London: Frank Cass, pp. 1–22.

Garcia-Arias, J., Fernandez-Huerga, E. and Salvado, A., 2013. European Periphery Crises, International Financial Markets, and Democracy. *American Journal of Economics and Sociology*, 72(4), pp. 826–850.

Gál, Z. and Lux, G., 2014. Territorial Scenarios and Visions for Central and Eastern Europe. *ET2050 Territorial Scenarios and Visions for Europe, Final Report*, Vol. 8, 30 June.

Horváth, Gy., 2004. Regionális egyenlőtlenségek Európában [Regional inequalities in Europe]. *Magyar Tudomány*, 49(9), pp. 962–977.

Horváth, Gy. ed., 2008. Az új közép-európai uniós tagországok és a szomszédos országok regionális intézményrendszere és azok szerepe a kohéziós politika végrehajtásában c. kutatási zárótanulmány [The regional institution system of new Central European Union member states and their neighbours and the role of such in the execution of cohesion policy, closing report]. Pécs: MTA Regionális Kutatások Központja.

Jachtenfuchs, M. and Kohler-Koch, B., 2004. Multi-level Governance. In A. Wiener and T. Diez, eds., *European Integration Theory.* Oxford: Oxford University Press.

Kengyel, Á., 2014. Az európai uniós tagság mint modernizációs hajtóerő [European Union membership as a driving force for modernisation]. *Közgazdasági Szemle*, 61(4), pp. 493–508.

Kohler-Koch, B., 2005. European Governance and System Integration. *European Governance Papers.* (EUROGOV) No. C–050.

Kolev, B., 2002. Legal Framework of Regional Development in Bulgaria. In: Gy. Horváth, ed., *Regional Challenges of the Transition in Bulgaria and Hungary.* Pécs: Centre for Regional Studies, pp. 78–85. (Discussion Papers; Special Issue).

Krugman, P. and Venables, A., 1990. Integration and the Competitiveness of Peripheral Industry. In: C.J. Blis and J. Braga de Macedo, eds., *Unity with Diversity in the European Community*. Cambridge: Cambridge University Press.
Lőrinczné Bencze, E., 2014. A horvát területi politika jogszabályi hátterének változásai [Changes in the background of legal regulations for spatial policy in Croatia]. In: M. Lukovics and B. Zuti, eds., A területi fejlődés dilemmái. SZTE Gazdaságtudományi Kar, Szeged, pp. 93–103.
Lux, G., 2012. Saját tereikbe zárva? Közép- és Kelet-Európa a regionális tudomány európai integrációjában [Trapped in their own spaces? Central and Eastern Europe in the European integration of regional studies]. In: J. Rechnitzer and Sz. Rácz, eds., *Dialógus a regionális tudományról*. Győr: Széchenyi István Egyetem, Magyar Regionális Tudományi Társaság, pp. 151–170.
Mendez, C., 2013. The Post-2013 Reform of EU Cohesion Policy and the Place-based Narrative. *Journal of European Public Policy*, 20(5), pp. 639–659.
Mezei, C., 2006. Helyi gazdaságfejlesztés Közép-Kelet-Európában [Local economic development in East Central Europe]. *Tér és Társadalom*, 20(3), pp. 95–108.
Mezei, C., 2013. Case Study Report Building Structural Fund Management Systems: Learning by Doing or Imitating? In: ESPON TANGO – Territorial Approaches for New Governance: Annex A: Case Studies. Luxembourg: ESPON, Final version. pp. 91–110. www.espon.eu/export/sites/default/Documents/Projects/AppliedResearch/TANGO/ESPON_TANGO_Case_Study_Annex_A_final.pdf [Accessed 25 February 2016].
Mezei, C., 2015. Building Institutions for the Structural Funds in the Visegrad Countries. In: Á. Bodor and Z. Grünhut, eds., *Cohesion and Development Policy in Europe*. Pécs: Institute for Regional Studies, Centre for Economic and Regional Studies, Hungarian Academy of Sciences, pp. 60–71.
Mezei, C., 2016. Limited Involvement: The Role of Local and Regional Actors in the Hungarian Structural Fund Management. In: P. Schmitt and L.V. Well, eds., *Territorial Governance across Europe: Pathways, Practices and Prospects*. London: Routledge, pp. 157–170.
Mezei, C. and Pámer, Z., 2013. Területfejlesztés és intézményrendszere [Spatial development and its institutional system]. In: Z. Hajdú Z. and I. Nagy, eds., *Dél-Pannónia* [South Pannonia]. Pécs: MTA KRTK Regionális Kutatások Intézete, pp. 430–455.
Mezei, C. and Schmidt, A., 2013. A lengyel regionális politika és intézményei [Polish regional policy and its institutions]. *Tér és Társadalom*, 27(3), pp. 109–126.
Nagy, B., 2004. A területiség megjelenítése a romániai Nemzeti Fejlesztési Tervben [The presentation of spatiality in the Romanian National Development Plan]. In: *Fiatal regionalisták IV. országos konferenciája*. Győr: Széchenyi István Egyetem Multidiszciplináris Társadalomtudományi Doktori Iskola. (CD-ROM).
Nölke, A. and Vliegenthart, A., 2009. Enlarging the Variety of Capitalism: The Emergence of Dependent Market Economies in East Central Europe. *World Politics*, 61(4), pp. 670–702.
Sapir, A., 2003. *An Agenda for a Growing Europe. Making the EU Economic System Deliver. Report of an Independent High-Level Study Group Established on the Initiative of the President of the European Commission*. Brussels.
World Bank, 2009. *World Development Report*. Washington, DC: World Bank.

11

Rebordering Central and Eastern Europe

Cohesion Policy, cross-border cooperation and 'differential Europeanisation'

James Wesley Scott

Introduction

Central and Eastern Europe's post-World War I history – and destiny – is inextricable from the emergence and transformation of state borders. With the 1993 division of Czechoslovakia into two independent states, and the subsequent disintegration of Yugoslavia, the question of 'rebordering' CEE appears now to have been generally settled. Yet border politics are still very much alive in this part of the world, despite eastern enlargement of the European Union and Schengen Area and more than 25 years' experience in using the tools of local and regional cross-border cooperation. One explanation for this is the idea that nation-building in CEE represents unfinished business, a process that was curtailed by war and its geopolitical aftermath and that now coincides, often uncomfortably, with the simultaneous project of European integration. Consequently, this chapter reflects research on the significance of borders in CEE borders, interrogating, among other things, the impacts of European integration and EU Cohesion Policy. Concretely, the objective is to consider rebordering processes as a post-1989 CEE development context. This also involves studying tensions between normative elements of European policy agendas and their application as Cohesion policies. In a normative, policy-oriented sense this is a question of borders as framing conditions for regional development. In a more critical and analytical sense this involves interrogating the actual use of borders in politically and ideologically framing national development within a wider European context.

Within the EU context, the development of a 'post-national' sense of community has been understood to be an overlying goal. In fact, the project of building a European Union has involved attempts to transcend national divisions and thus create conditions for durable peace, prosperity and more effective interstate cooperation. At the same time, the EU seeks to create a supranational community based on a shared sense of political, social and cultural identity. As a result, processes of 'Europeanisation' – defined in terms of a gradual diffusion of transnational understandings of citizenship, territoriality, identity and governance – are closely related to changing political understandings and uses of Europe's many state borders (Scott and Liikanen, 2011). In addition, the development of the EU has gone hand in hand with the emergence of