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This text-book is designed for students of the course: 'Innovative Strategies of Territorial Development of V4: Experience for Ukraine' that was developed in 2015 by the members of Department of International Economics of Ternopil National Economic University (Ukraine) in cooperation with the partners from Matej Bel University (Slovak Republic) and University of Lodz (The Republic of Poland). The course is delivered for Ukrainian and foreign Master's students of the Specialty "International Economics" at Ternopil National Economic University.

The main goal of the course is sharing the experience of Visegrad countries (Poland, Slovakia, Hungary and Czech Republic) in their successful process of administrative and territorial reforms and spatial arranging of business, households and authorities.

The lectures of the course are devoted to the following aspects: regional competitive advantage and strategic management; decentralization of power and placed-based approach; location of traditional agglomerations (towns or industrial district) and innovation- and relation-oriented alliances (clusters, creative regions etc.); rise of smart cities and creative class; peripheral regions' stimulation and development of cross-border cooperation; residential mobility and many others.

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CONTENT

INTRODUCTION.....	5
THEME 1. DIALECTICS OF GLOBALIZATION AND LOCALIZATION – ISSUE FOR VISEGRAD TERRITORIES.....	6
1.1. REGIONAL AND LOCAL ASPECTS OF GLOBALIZATION	6
1.2. CONCEPT OF GLOCALIZATION.....	9
1.3. SYSTEM OF REGIONAL SCIENCES	11
1.4. INTRODUCTION TO VISEGRAD COUNTRIES AND THEIR ROLE IN THE GLOBALISATION PROCESS ..	12
THEME 2. STRATEGIC MANAGEMENT ISSUES FOR TERRITORIAL UNITS.....	15
2.1. ESSENCE OF STRATEGIC MANAGEMENT.....	15
2.2. THE BASICS OF STRATEGIC PLANNING	16
2.3. ANALYTICAL PATTERN OF STRATEGIC PLANNING	18
2.4. CASE: SWOT ANALYSIS FOR THE OPOLSKIE VOIVODESHIP – STRENGTHS AND WEAKNESSES	25
THEME 3. IDENTIFICATION OF REGIONAL COMPETITIVE ADVANTAGE, ITS TYPES AND FACTORS	27
3.1. IDENTIFICATION OF REGIONAL COMPETITIVE ADVANTAGE.....	27
3.2. APPROACHES AND TYPES COMPETITIVE ADVANTAGE.....	29
3.3. IDENTIFICATION OF REGIONAL COMPETITIVE ADVANTAGE (CASE OF SLOVAKIA).....	38
THEME 4. TERRITORIAL REFORMS UNDER THE GOVERNMENTAL TRANSFORMATION STRATEGIES OF V4.....	43
4.1. POLITICAL AND ECONOMIC ASPECTS OF TRANSITION ECONOMIES	43
4.2. THE INGREDIENTS OF THE TRANSITION PROCESS AND VISEGRAD COUNTRIES.....	47
4.3. TERRITORIAL TRANSFORMATIONS IN POLAND	52
4.4. TERRITORIAL TRANSFORMATIONS IN CZECH REPUBLIC	54
4.5. TERRITORIAL TRANSFORMATIONS IN SLOVAK REPUBLIC.....	55
4.6. TERRITORIAL TRANSFORMATIONS IN HUNGARY	56
THEME 5. DECENTRALIZATION AND SELF-GOVERNMENT AS A BASIS FOR EFFECTIVE REFORM OF THE PUBLIC SPHERE – EXPERIENCES OF POLAND AND POSSIBILITIES OF THEIR APPLICATION IN UKRAINE	58
5.1. DEFINITION AND IDEA OF SELF-GOVERNMENT	58
5.2. DIFFERENTIATION OF LOCAL GOVERNMENT STRUCTURES IN EUROPE	59
5.3. SELF-GOVERNMENT AS A WAY TOWARDS LIBERALIZATION AND REAL DEMOCRATIZATION OF POLITICAL LIFE.....	63
5.4. RESTORING SELF-GOVERNMENT IN POLAND IN 1990S AS “HIDDEN AND UNDERESTIMATED SHOCK THERAPY”	65
THEME 6. PECULIARITIES OF REGIONAL POLICY FOR V4 IN THE FRAMES OF EUROPE 2020 STRATEGY AND TERRITORIAL AGENDA 2020	69
6.1. THE ESSENCE AND GOALS OF EUROPE 2020 STRATEGY	69
6.2. ACHIEVEMENT “EUROPE 2020” TARGETS BY VISEGRAD COUNTRIES	71
6.3. TERRITORIAL AGENDA OF THE EUROPEAN UNION 2020.....	75
THEME 7. PLACE-BASED APPROACH TO REGIONAL POLICY IN EUROPEAN UNION – POLISH PERSPECTIVE	81
7.1. PROXIMITY AND DISTANCE STILL MATTERS – THE ROLE OF CITIES AND REGIONS IN CONTEMPORARY ECONOMY.....	81
7.2. FROM LOCAL AND REGIONAL TO TERRITORIAL DEVELOPMENT – GENESIS OF PLACE-BASED APPROACH.....	85
7.3. ADMINISTRATIVE VERSUS FUNCTIONAL TERRITORIAL UNITS – A CHALLENGE FOR LOCAL AND REGIONAL POLICY MAKERS. CASE OF FUNCTIONAL AREAS IN POLAND	88
7.4. CASE STUDY: DEVELOPMENT STRATEGY OF THE WARSAW-LODZ FUNCTIONAL AREA AS AN EXAMPLE OF INNOVATIVE STRATEGY OF TERRITORIAL DEVELOPMENT	90
THEME 8. LOCATION OF PRODUCTION ACTIVITIES IN V4.....	95
8.1. ESSENCE OF AGGLOMERATION	95
8.2. THEORIES OF INDUSTRIAL LOCATION	97

8.3. ANALYSIS OF PRODUCTION ACTIVITY IN V4.....	102
THEME 9. STAKEHOLDERS, NETWORKS AND ALLIANCES IN THE DEVELOPMENT OF TERRITORIES	106
9.1. STAKEHOLDERS IN THE DEVELOPMENT OF TERRITORIES	106
9.2. STAKEHOLDER’S ANALYSIS	108
9.3. NETWORKS, CLUSTERS AND ALLIANCES.....	112
9.4. CASE STUDY: THE PARTNERSHIPS AMONG DIFFERENT STAKEHOLDERS AND LOCAL MUNICIPALITIES IN THE SLOVAK REPUBLIC.	114
THEME 10.INDUSTRIAL CLUSTERS – STORY OF SUCCESS IN V4 AND EMERGING OCCASIONS FOR UKRAINE	121
10.1. ESSENCE, ADVANTAGES AND CLASSIFICATION OF CLUSTERS.....	121
10.2. CLUSTERS IN POLAND	125
10.3. CLUSTERS IN CZECH REPUBLIC	127
10.4. CLUSTERS IN SLOVAKIA	129
10.5. CLUSTERS IN HUNGARY	131
10.6. CLUSTERS IN UKRAINE.....	135
THEME 11.RESIDENTIAL MOBILITY AND HOUSEHOLD LOCATION IN V4 COUNTRIES.....	137
11.1. DEFINING AND CHARACTERIZING HOUSING MARKETS	137
11.2. MIGRATION AND MOBILITY	139
11.3. HOUSEHOLD LOCATIONS AND RESIDENTIAL MOBILITY IN V4.....	141
THEME 12.SMART CITIES AS A MODERN APPROACH TO URBAN DEVELOPMENT	149
12.1. ESSENCE OF SMART CITY	149
12.2. CHARACTERISTICS OF SMART CITY.....	151
12.3. IDENTIFICATION AND EVALUATION OF SMART CITIES IN EUROPEAN UNION	153
12.4. THE CRUCIAL ROLE OF PEOPLE IN THE SMART CITIES.....	156
THEME 13.RISE OF CREATIVE CLASS IN V4	159
13.1. CONCEPT OF CREATIVE CITIES	159
13.2. HOW TO BECOME THE CREATIVE CITY BY THE COMPETITION THE EUROPEAN CAPITAL OF CULTURE? THE EXAMPLES OF PRAGUE, KRAKOW, PECS AND KOŠICE	165
THEME 14.CROSS-BORDER COOPERATION OF V4 AND UKRAINE	176
14.1. THEORETICAL BASES OF DEVELOPMENT OF CROSS-BORDER COOPERATION.....	176
14.2. CROSS-BORDER COOPERATION IN THE CONTEXT OF VISEGRAD COOPERATION.....	181
14.3. CASE STUDIES: EUROREGIONS.....	183
THEME 15.PERIPHERIAL REGIONS’ STIMULATION IN V4.....	186
15.1. PERSPECTIVES ON PERIPHERALITY	186
15.2. PERIPHERAL REGIONS IN V4.....	188
15.3. STRATEGIES FOR DEVELOPMENT OF PERIPHERAL REGIONS IN V4.....	190
THEME 16.DEVELOPMENT OF TERRITORIAL STRATEGY FOR UKRAINE ON THE BASE OF EXPERIENCE GAINED BY V4 COUNTRIES	193
16.1. TERRITORIAL STRUCTURE OF UKRAINE	193
16.2. STRATEGIC DIRECTION OF IMPROVEMENT THE TERRITORIAL STRUCTURE OF UKRAINE BASED ON THE EXPERIENCE OF V4.....	197
GLOSSARY.....	201
REFERENCES.....	206

INTRODUCTION

Under the conditions of globalization territorial location of business, households, authorities or borders didn't lose its value and on the contrary is engaging increasing importance. Traditional agglomerations, like towns or industrial district, are supplement with new alliances where innovation- and relation-oriented axes are essential (clusters, creative regions etc.). In order to meet better the local requirements and to earn extra points for regional competitive advantages, the regulative bodies are also seeking for modernization implementing decentralization and place-based approaches.

During more than 25 years of transformation process that still lasts in Ukraine there were several attempts to conduct administrative and territorial reforms. But even now we are at the initial phase of the process. Taking this into account the experience of more successful in the researched area countries of Visegrad group could be very important for Ukrainian politicians and practitioners.

Current text-book was elaborated and published with the financial support of International Visegrad Fund. The concept of joint teaching the course: 'Innovative Strategies of Territorial Development of V4: Experience for Ukraine' was developed in 2015 by the members of Department of International Economics of Ternopil National Economic University in cooperation with the partners from Matej Bel University (Slovak Republic) and University of Lodz (The Republic of Poland). The course is delivered for Ukrainian and foreign Master's students of the Specialty "International Economics".

THEME 1. DIALECTICS OF GLOBALIZATION AND LOCALIZATION – ISSUE FOR VISEGRAD TERRITORIES¹

" 'Local character' is thus no mere accidental old-world quaintness, as its mimics think and say. It is attained only in course of adequate grasp and treatment of the whole environment, and in active sympathy with the essential and characteristic life of the place concerned."²

Patrick Geddes (1915). *Cities in Evolution*

1.1. Regional and local aspects of globalization

What is *globalization*? There is a lot of confusion about the term and about the pomposity of the 'new world order' following the end of the Cold War. Hence, globalization can be conceived as a myth, a rhetorical device, a phenomenon, an ideology, a reality, an orthodoxy, a rationality. In both academic and popular discourses globalization has become one of the catchwords of the 1990s. In fact, globalization is a short form for a band of related changes: economic, ideological, technological, and cultural. *Economic changes* include the internationalization of production, the greatly increased mobility of capital and of transnational corporations, and the deepening and intensification of economic interdependence. The economic manifestations of globalization include the spatial reorganization of production, the interpenetration of industries across borders, the spread of financial markets, the diffusion of identical consumer goods across distant countries, and massive transfers of population. *Ideological changes* include investment and trade liberalization, deregulation, privatization, and the adoption of political democracy in the institutional realm. *Technological changes* include information and communications technologies that have shrunk the globe and the shift from goods to services. Finally, *cultural changes* involve trends toward harmonization of tastes and standards, a universal world culture that transcends the nation-state (Kacowicz 1997).

Modern development of the world economy is determined by dialectical unity of two trends contradictory at first sight: globalization and concentration (the so called "*global paradox*" (see J. Naisbitt, D. Lukyanenko). Globalization of production means location next to the final consumer is no longer necessary, as with the development of

¹ Prepared by Ihor LISHCHYNSKY, Associate Professor of Ternopil National Economic University, Ukraine

² This phrase is considered as origin of famous "Think globally, act locally"

telecommunications and transport infrastructure, geographical distance is not a barrier for international economic relations (*economy of globality*). But, on the other hand, under the current conditions competitive advantages occur mainly at the local level – more information about the structure of consumer market, the availability of business contacts, better reputation and instant response to the changes of demand – that is what distant rivals cannot achieve. So the opposite phenomenon is the *economy of proximity*.

In spite of all well-known benefits, globalization, like any other process, has its certain disadvantages. Mixing of the various components of the numerous national societies into complex multinational structure – global civilization – is contradictory and uneven process that covers both the trend of integration and disintegration. Besides, globalization is rather often a striking manifestation of smuggling, "laundering" money and illegal migration, which can lead to the collapse of the prevailing international economic system. It should be considered that economically and technologically developed countries have more production and financial opportunities for active inclusion in the international division of labor. Hence globalization brings increased risk for those countries, but in the same time the threatens are larger for countries-outsiders.

Globalization is a complex process, which combines identity of universalism and trends in the opposite direction. These include:

❖ **Regionalism** is a political ideology that focuses on the notional or normative interests of a particular region, group of regions or another subnational entity. These may be delineated by political divisions, administrative divisions, cultural boundaries, linguistic regions, and religious geography, among others. Regionalists aim at increasing the political power and influence available to all or some residents of a region. Regionalist demands occur in "*strong*" forms, such as sovereignty, separatism, secession, and independence, as well as more *moderate campaigns* for greater autonomy (such as states' rights, decentralization, or devolution);

❖ **Regionalization** can be conceived as the growth of societal integration within a given region, including the undirected processes of social and economic interaction among the units (such as nation-states; see Hurrell 1995, 39). As a dynamic

process, it can be best understood as a continuing process of forming regions as geopolitical units, as organized political cooperation within a particular group of states, and/or as regional communities such as pluralistic security communities (see Whiting 1993, 19).¹

❖ ***Autonomization*** – revival of national, ethnic and local gravity centres within countries, regions and civilizations;

❖ ***Traditionalism*** – objections of the abstract concept of modernity; revival of nationalism and obscurantism (the practice of keeping information from people); the glorification of archaic and forgotten cultural fetishes;

❖ ***Particularism*** – exclusive adherence to, dedication to, or interest in one's own group, party, sect, or nation; a principle of allowing each state in a nation or federation to act independently of the central authority, especially in promoting its own economic interests;

❖ ***Localization*** – the consolidation of ethnic and civilizational entities that pursue policies of "cultural isolation"; the desire for self-preservation of various cultural area with their "particularistic" value systems (tribalism, fundamentalism, nationalism, fascism, socialism, communism, communitarianism, feminism, environmentalism etc.);

❖ ***Glocalization*** (a combination of the words “globalization” and “localization”, the concept comes from the Japanese word *dochakuka*, which means global localization, it originally referred to the adaptation of farming techniques to local conditions) – a combination of local cultures’ modernization processes in accordance with achievements of global multicultural civilization; the result of cultural hybridization, constructive cooperation and mutual enrichment of cultures within the cultural regions;

❖ ***Fragmentation*** – split and conflict of interest of various international communities because of their racial, ethnic and cultural differentiation; the growth of

¹ Regionalism contrasts with regionalization, which is, according to the New Regionalism Approach, the expression of increased commercial and human transactions in a defined geographical region. Regionalism refers to an intentional political process, typically led by governments with similar goals and values in pursuit of the overall development within a region. Regionalization, however, is simply the natural tendency to form regions, or the process of forming regions due to similarities between states in a given geographical space.

nationalism as a form of fighting with globalization; each group and each individual creates his own special "universe", resulting in a feeling of "the divided world";

❖ *Fragementation* – the word is a combination of "Fragmentation" and "Integration", and signifies a theoretical outlook that attempts to “to capture the inextricable links between the individual and societal tendencies to integrate across boundaries that are the hallmark of globalization and the counter tendencies toward fragmentation that are fomented by localizing resistances to boundary-spanning activities (Rosenau 2003)”; cultural polarization that is unlikely to arise in a multipolar global civilization, or at least, a bipolar world (antagonisms: North vs. South; Christian vs. Muslim civilizations; revived Confucian Socialism vs. Capitalist worlds etc.).

The abovementioned processes are more complex than just contradiction of globalization, they also occur in parallel to it, and therefore are relatively independent to it.

1.2. Concept of Glocalization

The global paradox of regional economic development is determined by dialectical tendencies toward homogeneity and centralization that appear alongside tendencies toward heterogeneity and decentralization. To connect “economy of globality” with “economy of proximity” such more or less fashionable concepts as mundialization, delocalization, hybridization are emerged. We will exploit the term “*glocalization*” indicating the simultaneous occurrence of both universalizing and particularizing trends in contemporary social, political, and economic systems.

The effect of cross cutting of global and local dimension has its consequence in the dissemination of the term “glocalization”. The latter, used for the first time by the American sociologist R. Robertson, means the ability of any culture to absorb global influences in such a way that they enrich it. The aim of the glocalization is, in this context, such appropriating the various aspects of globalization (cultural, social, informational, economic, etc.), that contributes to the development and diversification of society, without overwhelming it.

In the economic dimension glocalization can be considered from two points of view. On one hand, it is a question about the reasons and consequences of the activity

of enterprises (mainly transnational) for a given territory. On the other hand, it opens a way for studying the conditions for opening the territory to the global flows and integrating it with the rest of the world. Thus, glocalization can be defined by its two main features: availability and proximity. While the first disregards the local level, concentrating on a-spatial and global division of labour, the other proofs still important role of chosen cities, agglomerations, or regions (territories) in the strategies of global economic, social and political actors.

Indissoluble unity of internationalization and regionalization (“glocalization”) likewise integration and fragmentation (“fragmegration”) create the architecture of the global economy, causing gravity processes, which form agglomerative alliances of both producers and consumers. Under the influence of the centripetal and centrifugal forces, stable “*cores*” emerge, while other areas remain “*peripheries*” and are forced to be “*transit deserts*”.

Thus the concept “Think globally, act locally” should be researched in accordance with three dimensions:

❖ Social – how good solutions and best practices (global dimension) of involving communities in development are implemented in different localities (local dimension).

❖ Economic – how transnational corporations (global dimension) act on the local markets and what kind of location factors they seek today (local dimension)? How local entrepreneurs (local dimensions) can succeed nowadays on global markets, or does their territorial *milieu* strengthens their international competitiveness (global dimension).

❖ Spatial – universal solutions of organizing accessibility system (global dimension), are implemented in various location, differentiated by size, economic structure, financial resources, institutional and political conditions, etc. (local dimension).

Glocalization in the framework of the EU policy

In the EU, the glocalization tendencies through the European regions are correlating the aims of the *Territorial Agenda of the European Union 2020*. It is

indicated that accelerating globalization can bring about important territorial consequences at EU, national, regional and local levels. Local endowments and territorial characteristics have growing importance for regions in order to cope with and recover from recent external shocks have been experienced by local and regional communities.

The current Course investigates the interrelated aims of the European Union till 2020 – smart, inclusive and sustainable growth of the economy. Specifically, it is also in line with two priorities of the EU 2020 Territorial Agenda:

- ❖ promote polycentric and balanced territorial development;
- ❖ ensuring global competitiveness of the regions based on strong local economies.

The rise of glocalization centres particularly outside core ‘Blue Banana’ and ‘Pentagon area’ is one of the key element of achieving territorial *cohesion*. The use of social capital, territorial assets, and the development of innovation and smart specialisation strategies in a place-based approach can play a key role. The global and local strands are mutually reinforcing and interlinked, and should therefore be developed in parallel to each other.

1.3. System of regional sciences

Regional (territorial) science is a field of the social sciences concerned with analytical approaches to problems that are specifically urban, rural or regional.

Part of the movement was, and continues to be, associated with the political and economic realities of the role of the local community. On any occasion where public policy is directed at the sub-national level, such as a city or group of counties, the methods of regional science can prove useful. Traditionally, regional science has provided policymakers with guidance on the following issues:

- ❖ determinants of industrial location (both within the nation and region);
- ❖ regional economic impact of the arrival or departure of a firm;
- ❖ determinants of internal migration patterns and land-use change;
- ❖ regional specialization and exchange;
- ❖ environmental impacts of social and economic change;

❖ geographic association of economic and social conditions.

By targeting federal resources to specific geographic areas the Kennedy administration realized that political favours could be bought. This is also evident in Europe and other places where local economic areas do not coincide with political boundaries. In the more current era of devolution knowledge about "local solutions to local problems" has driven much of the interest in regional science. Thus, there has been much political impetus to the growth of the discipline.

Topics in regional science include, but are not limited to:

- location theory or spatial economics;
- location modeling, transportation;
- migration analysis;
- land use and urban development;
- interindustry analysis;
- environmental and ecological analysis;
- resource management, urban and regional policy analysis etc.

In the broadest sense, any social science analysis that has a spatial dimension is embraced by regional scientists.

1.4. Introduction to Visegrad Countries and Their Role in the Globalisation Process

The *Visegrad Group* (also called the *Visegrad Four* or *V4*) is the formation of four Central European countries: Poland, Slovakia, Hungary and Czech Republic. It was created in Visegrad castle-town in Hungary (not to be confused with Vyšehrad, a castle in Prague, or with the town of Višegrad in Bosnia and Herzegovina) on 15 February 1991, during the Summit of Heads of State and Governments of Czechoslovakia, Hungary and Poland. That's when the Warsaw Pact's mission came to an end. Presidents Vaclav Havel, Lech Walesa and Prime Minister Yozef Antal founded the so-called Visegrad three (V3), which transformed into the Visegrad four (V4) after consequent dissolution of Czechoslovakia. The original purpose of V4 was to promote integration within NATO and EU. Once it has been successfully implemented, the concept of organisation was rethought. During the summit in Czech

city of Kroměříž in 2004, the member countries adopted a new Visegrad Declaration, which envisaged more active cooperation of organization with other states in the format of V4+. The main objective of this cooperation became the transfer of integration experience and support of neighbouring countries that were interested in European integration. It should be mentioned that Ukraine occupies one of the main ranks among the countries invited to the partnership within the Visegrad Group (numerous talks about expanding of Visegrad Group into V5 are rather often during last years in the context of Ukraine).

The goal pursued by Visegrad countries (coordination of cooperation on the path to European integration) has been properly achieved in May 2004 when all four states joined the EU. But even now the basic algorithm of V4 activity includes the exchange of ideas, elaboration of common positions on important international issues and political situations, particularly in Central and Eastern Europe.

According to the statutory documents, the annual presidency of V4 is determined on the basis of rotation, which is crowned by summits of heads of government. The foreign ministers hold their talks on the eve of important international events and forums. V4 extension with new members is not expected, but this does not rule out ad hoc consultations on some important issues with other countries. The formation is an important regional forum, with emphasis on the fact that its work is advisory. Thus, decisions taken in its framework do not have binding force for governments of V4. Concrete cooperation takes place on the level of interdepartmental contacts.

After the accession of V4 member countries to the EU and NATO, cooperation within this formation acquired features of regional forum for exchanging ideas. Two levels of dialogue (political and expert) have been clearly determined.

The political dialogue conducted within the regular meetings of Heads of State, Government and Foreign Ministers, during which there are no substantial debates, but parties voice their position and accept the documents with declarative contents. The cooperation of V4 member countries is based on concrete projects, on sectorial and inter-agencies cooperation. It provides expert dialogue with qualitatively new legitimization since it started to be implemented both on regular basis and ad hoc (Aparina & Makoukh, 2015).

The foreign policy priorities of V4 countries include their willingness to actively participate in the implementation of EU policies towards countries of Eastern Europe (Ukraine, Moldova) and South-East Europe (Western Balkans).

The *International Visegrad Fund (IVF)* is an international organization based in Bratislava founded by the governments of the Visegrad Group in Štířín, Czech Republic, on June 9, 2000. The purpose of the fund is to facilitate and promote the development of closer cooperation among citizens and institutions in the region as well as between the V4 region and other countries, especially in the Western Balkan and Eastern Partnership regions. The fund operates several grant programs, and also awards individual scholarships, fellowships and artist residencies. Grant support is given to original projects namely in the areas of culture, science and research, youth exchanges, cross-border cooperation and tourism promotion, as well as in other priority areas defined in calls for proposals published on the fund's website.

The fund's annual budget (€8 million as of 2014) consists of equal contributions of V4 governments. The fund also utilizes (in the form of subgranting or co-financing) contributions from other governments/governmental organizations from the following countries: Canada, Germany, the Netherlands, South Korea, Sweden, Switzerland, the United States.

Control questions:

1. *How economy of globality and economy of proximity interact in current global economy?*
2. *What is the main essence of the concept "glocalization"? Which other related terms you know?*
3. *In which official documents the ideal of glocalization is promoted?*
4. *What are the differences in meaning of terms: spatial, territorial and regional?*
5. *What are the main goals of Visegrad group creation?*

True/false:

1. *Location next to the final consumer is no longer necessary, as with the development of telecommunications and transport infrastructure, geographical distance is not a barrier for international economic relations.* TRUE/FALSE
2. *Regionalization refers to an intentional political process, typically led by governments with similar goals and values. Regionalism is the natural tendency to form regions, or the process of forming regions due to similarities between states in a given geographical space.* TRUE/FALSE
3. *Visegrad Group was initially founded by 4 states.* TRUE/FALSE

Issue for discussion:

What are the prospects, advantages and threats of Ukraine's integration into Visegrad Group?

THEME 2. STRATEGIC MANAGEMENT ISSUES FOR TERRITORIAL UNITS¹

It's more important than ever to define yourself in terms of what you stand for rather than what you make, because what you make is going to become outmoded faster than it has at any time in the past.

Jim Collins (1997)

2.1. Essence of strategic management

The development of territory within country is linked to the advancement of all its regions and municipalities (size, economic influence and mutual relations). The development of regions depends from the vast range of factors. To influence or rush development trends it is essential to distinguish natural processes, i.e. functioning rules, from the intended action to reinforce or weaken natural processes. Intentional actions typically take place under the guidance of public administration in the context of regional policies.

A combination of decisions that determine long-standing aims of regional development and performance could be recognised as “strategic management”.

Strategic management is a process of intended, future-oriented and long-term defining of aim and objectives for the development of a territory.

It has all basic functions management: planning, organizing, staffing, leading and controlling. Within the abovementioned functions, there are analyses, decision-making, implementation and coordination.

Genesis of the concept “strategical management” as the unique field of research and governing practice has passed through four stages: budgeting and control; long-term planning; strategic planning; strategic management (see Table 2.1). However, in this context corporate strategic planning are usually implied in relation toward organization. But regional strategic planning could also be considered in such framework.

Thus, strategic management is a complicated process that involves consideration of various factors and using specific methods that are in constant development.

¹ Prepared by Mariia LYZUN, Associate Professor of Ternopil National Economic University, Ukraine

Table 2.1 Evolution of strategic management

Stage title	Period	Features
Budgeting and control	First quarter of XX century	Formation of interconnected budgets and monitoring of their execution. The basic premise of budgeting and control – supposing the stability of internal and external environment of the organization: technology, competition, availability of resources, level of personnel skills, etc.
Long-term planning	1950th	Based on the detection of changes in certain indicators of current economic performance and extrapolation of identified trends in the future
Strategic planning	1960th - beginning of 1970th	Based on the identification of trends not only for economic development of the unit but also for the environment of its existence. Planning with consideration of existing trends in the changing competitive environment is based on identifying of strengths and weaknesses of the unit, as well as opportunities that exist in the environment
Strategic management	Middle of 1970 th	Based on the estimation of changes of foreign environment of the unit. Not confined to the perception of the environment as a limiting factor to the process of organizational planning but provides the establishment of a target and development ways of its achievement through the use of the strengths and opportunities of the environment and compensation of weaknesses and methods of preventing threats

Source: Стратегічне планування муніципального розвитку: навчально-методичний посібник / ДП «Укртехінформ» – Київ, 2013. – 205 с.

2.2. The basics of strategic planning

A key instrument of territorial strategic management is strategic planning (these terms are even used interchangeably rather often).

Strategic planning shapes the philosophy of territorial development, determines and links all its categories and has a crucial coordinating, activating and synergic roles.

In the case of territorial strategic planning it is essential that the aim of this process is not just creation of some strategic document but also modification of state of art in particular area.

The basic stages of territorial strategic management are listed below (see Fig. 2.1). They formalize the process of strategic management and allow processing of conceptual documents to be a sequence of ordinary steps.

The most crucial issue standing at the beginning of territorial promotion is the idea concerning the essence of development, its relationships and impacts, as well as

possible and suitable steps to enhance it. Main prerequisite to reach a complex social target of sustainable development is *good governance*.

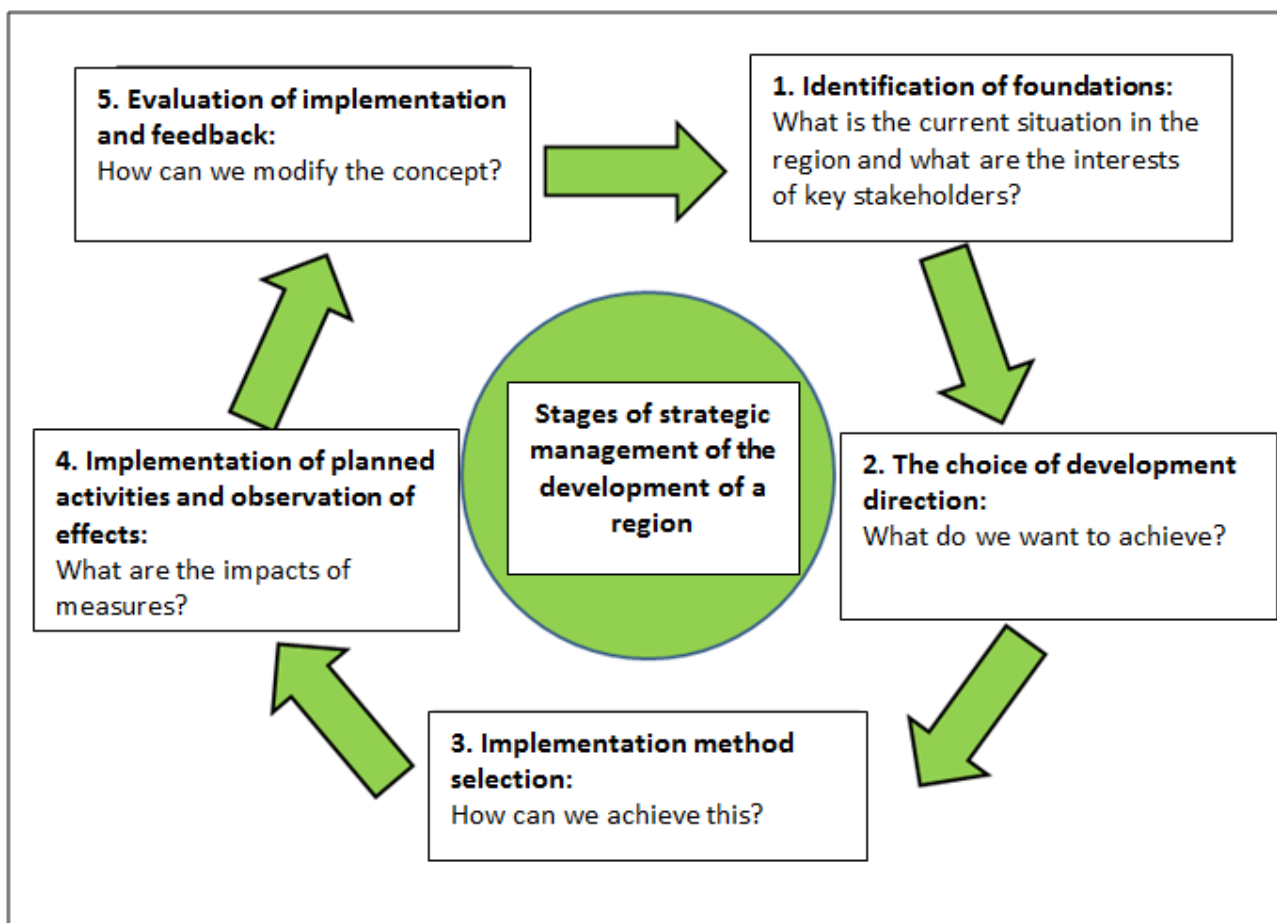


Fig. 2.1. Basic stages of strategic management of the regional development

Source: https://is.mendelu.cz/eknihovna/opory/zobraz_cast.pl?cast=70219

As it was already noted, the process of strategic planning should be formalized in a number of conceptual documents. These documents comprise the evaluation of situation, objectives and priorities of development and means for their implementation. Besides they also ensure the achievement of targets in accordance with the mechanisms included in the documents, the assessment of planned goals for development and carrying out the fulfilment of activities.

Local development is characterized by a complex variety of spatial, economic, social, cultural, spiritual, environmental and other factors that should be considered in the process of strategic planning. That is why not one but a series of planning documents is developed for specific region, each of which has its object, principles, purposes, but together they form a coherent system of local development planning.

Compulsory basic types of planning documents at the local level are:

1. Local Development Strategy (LDS).
2. The spatial program (Master plans of settlements).
3. The annual program of socio-economic development and cultural development of the territories.

Strategy and annual programs of local development aimed at creating a favourable environment for the business sector, attracting investment, providing social needs of the population, improving its quality of life.

The spatial program (master plans) relating to the development of the territory as an object implementing urban policy of local authorities. All types of documents are closely linked, assist in improving the functioning of the territory, but also differ.

Spatial planning of the territory, as opposed to strategic, is narrower concrete, legally fixed content and is defined as the process of land use regulating. The area is crucial and limited resource and its efficient use significantly affects social development. In this context, a mandatory structural element, the physical basis of implementing local development strategies should be a master plan and appropriate planning documentation, which implies the need for a close connection with the provisions of the last strategic plan.

2.3. Analytical pattern of strategic planning

Strategic planning for local development aimed at solving one of the main objectives of any system: search for key positions to direct available resources in order to ensure normal reproduction and development of the regions.

The results of the socio-economic analysis are published in a separate section of the LDS – Community Profile.

Community Profile – a detailed document in which the analysis and evaluation of the actual status of the territory is made (usually for five-year period).

Community Profile may contain information on:

- history of the territory (short);
- geographical location, surroundings;
- natural resource potential, including climate conditions (temperature, precipitation, humidity, winds, etc.);
- demographics;
- features of social and economic development dynamics;

- the standard of living and its business activities;
- economic complex of the territory - industry, construction complex, transport;
- social infrastructure (development of utility services, the education system, culture, health, sports and tourism);
- communal property and privatization;
- land market and land relations;
- the environmental situation and the environment;
- fiscal situation and investment climate;
- political situation;
- local management system;
- advances in network and efficacy of NGOs, community organizations, the level of cooperation between the authorities with NGOs, the private sector;
- openness of government, the level of public confidence in it.

The most common methods of analysis in the strategic planning for local development are:

- ❖ Socio-economic analysis.
- ❖ Comparative analysis.
- ❖ SWOT-analysis.
- ❖ PESTLE-analysis.
- ❖ Sociological Analysis.

To determine the quality parameters of local development *SWOT-analysis* is most often used. It allows to identify strengths and weaknesses of the territory as well as external chances and risks of its further development. This method evaluates the most important economic and socio-political parameters from the perspective of local development; more detailed analyzes is carried out through the additional analytical methods (socio-economic and comparative analysis).

SWOT-analysis methodology was developed in the middle of the last century to find and argue the solutions for enterprises that started their activities in a dynamic competitive environment. It provided an opportunity to combine important internal quality characteristics of organization (strengths and weaknesses) with the results of external conditions (chances and risks) (see Fig. 2.2).

Since the 1980s, this classic tool of corporate strategic planning is more often used in the public sector, first of all as a mean of critical thinking and evaluation of regional and local development priorities.

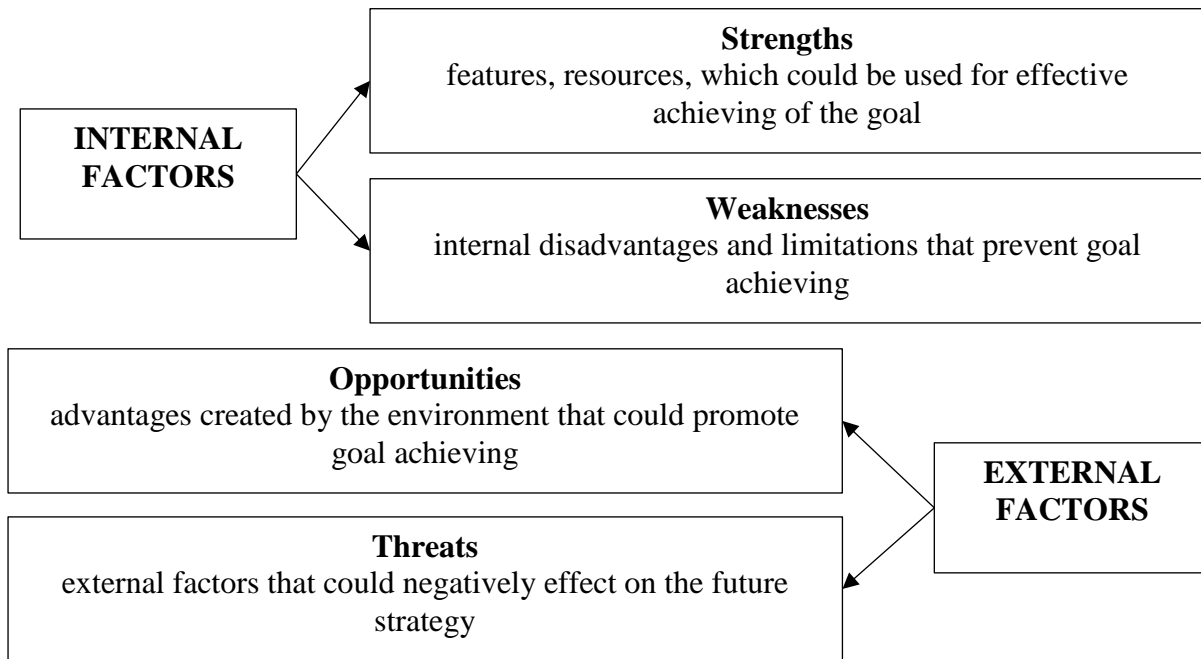


Fig. 2.2. Fundamental elements of SWOT-analysis of local development

Source: Стратегічне планування муніципального розвитку: навчально-методичний посібник / ДП «Укртехінформ» – Київ, 2013. – 205 с.

In accordance to the results of SWOT-analyses different types of strategies could be implemented (see Table 2.2).

Table 2.2 Strategies according to SWOT-analysis

Strategy	Combination of SWOT-analysis' elements
Strategies based on strengths and opportunities	
Strategy of expanding	Focusing on available strengths
Strategy of exploitation	Concentration on favourable opportunities
Strategy of linking/ correlation	Looking for linkages between available strengths and emerging opportunities
Strategies based on weaknesses and threats	
Strategy of elimination	Abolishing of weaknesses
Strategy of minimization	Minimization of risks
Strategy of transformation	Transformation of weaknesses and threats into opportunities

Source: Стратегічне планування муніципального розвитку: навчально-методичний посібник / ДП «Укртехінформ» – Київ, 2013. – 205 с.

Some regions use **A-B-C-analysis** instead of SWOT. This acronym composed of the first letters of words Advantage, Barrier, Controversial. All known local development factors are grouped under these three criteria. Anything that cannot be assigned to any of the groups is rejected as superfluous information.

In order to make A-B-C analysis more accurate, all factors are rating in accordance to their importance. It is proposed to use a rating scale ranging from 1 to 5, where:

1. The factor of low importance for the development of certain areas or certain parts of the territory.

2. Factors of secondary importance, which have an average value for the development of specific areas of the territory or negligible influence on the development of the overall territory.

3. Important factors that have a large (but not critical) significance to the development of some areas or some parts of the territory or medium importance for the development of the whole territory.

4. A very important factor that is crucial to the development of certain areas or certain parts of the territory or important (but not critical) importance to the development of the territory.

5. Key factor that is crucial to the development of the territory.

The next step of A-B-C analysis is to evaluate the advantages and barriers in time dynamics according to six groups (see Table 2.3).

Table 2.3 Division of factors in time dynamics

Factor's importance	Graphic mark
Extremely growing	↑
Growing	↗
Stable	→
Slowly decreasing	↘
Rapidly decreasing	↓
Unknown change	?

Source: Стратегічне планування муніципального розвитку: навчально-методичний посібник / ДП «Укртехінформ» – Київ, 2013. – 205 с.

Thus, if factor of development will be marked as A3↑, it means that it is an important advantage, the value of which is growing rapidly. Usually factors of 1 and 2 importance (except factors with growing vector for value 2 and extremely growing for value 1) are not considered at the final stage of A-B-C-analysis.

Research of external opportunities and threats is more complex in its nature compared with the analysis of strengths and weaknesses, hence the development of local communities can be influenced by a large number of potential factors. To systematize this diversity of external factors there are a number of models. Recently growing popularity received PESTLE analysis.

PESTLE is an analytical tool which considers external factors and their impacts. It is a useful tool for understanding the “big picture” of the environment in which the territories are operating. By understanding the environment, territories can take advantage of the opportunities and minimize the threats. This provides the context within which more detailed planning can take place to take full advantage of the opportunities that present themselves.

The factors in PESTLE analysis are:

P – Political. The current and potential influences from political pressures;

E – Economic. The local, national and world economic impact;

S – Sociological. The ways in which changes in society affect the territories;

T – Technological. How new and emerging technology affects our project / territory;

L – Legal. How local, national and global legislation affects the territories;

E – Environmental. Local, national and global environmental issues.

Political factors include:

- Government type and stability;
- Freedom of the press, rule of law and levels of bureaucracy and corruption;
- Regulation and de-regulation trends;
- Social and employment legislation;
- Tax policy, and trade and tariff controls;
- Environmental and consumer-protection legislation;
- Likely changes in the political environment.

Economic factors:

- Stage of a business cycle;
- Current and projected economic growth, inflation and interest rates;
- Unemployment and supply of labor; labor costs;
- Levels of disposable income and income distribution;
- Impact of globalization;
- Likely impact of technological or other changes on the economy;
- Likely changes in the economic environment.

Sociological factors:

- Cultural aspects, health consciousness, population growth rate, age distribution;
- Organizational culture, attitudes to work, management style, staff attitudes;

- Education, occupations, earning capacity, living standards;
- Ethical issues, diversity, immigration/emigration, ethnic/religious factors;
- Media views, law changes affecting social factors, trends, advertisements, publicity;
- Demographics: age, gender, race, family size.

Technological factors:

- Maturity of technology, competing technological developments, research funding, technology legislation, new discoveries;
- Information technology, internet, global and local communications;
- Technology access, licensing, patents, potential innovation, replacement technology/solutions, inventions, research, intellectual property issues, advances in manufacturing;
- Transportation, energy uses/sources/fuels, associated/dependent technologies, rates of obsolescence, waste removal/recycling.

Legal factors:

- Current home market legislation, future legislation;
- European/international legislation;
- Regulatory bodies and processes;
- Environmental regulations, employment law, consumer protection;
- Industry-specific regulations, competitive regulations.

Environmental factors:

- Ecological;
- Environmental issues, environmental regulations;
- Customer values, market values, stakeholder/ investor values;
- Management style, staff attitudes, organizational culture, staff engagement.

The main problem with these external PESTLE factors is that they are continuously changing. Therefore, PESTLE analysis should include a thorough analysis of what is affecting the territory now, and what is likely to affect it in the future. The result of a PESTLE analysis is usually a list of positive and negative factors that are likely to affect a region. However, by themselves, these factors they mean very little. It is important to bear in mind, that PESTLE analysis requires careful application of results.

Some regions prefer to use different flavors of PESTLE analysis, using other factors for different situations. The variants are: PEST (Political, Economic, Sociological, Technological), PESTLIED (Political, Economic, Social, Technological, Legal, International, Environmental, Demographic); STEEPLE (Social/Demographic, Technological, Economic, Environmental, Political, Legal, Ethical) and SLEPT (Social, Legal, Economic, Political, Technological).

Sociological analysis is often carried out by interviewing people and businesses in the context of strategic development areas. For this purpose, the questionnaire form

is developed which structure is composed of an introduction, main body and personal data.

According to the results of sociological analysis the final document is preparing, which usually includes the following:

1. Summary of the problem situation, whose solution was aimed.
2. Description of the concept, purpose and objectives of the survey.
3. Description of socio-demographic characteristics of the sample compared to the structure of social groups of the local community.
4. List of the questionnaire with a brief description of the intended result and indicators.
5. The answers to the questionnaires.
6. Examples of unconventional answers, expressions, comments without changing their style.
7. In summary of each question of compliance with the distribution of answers to questions outcome that originally envisaged.
8. The overall conclusion on the results of a survey in accordance with the original purpose.
9. Recommendations for the use of the obtained information for decision-making regarding the pursuit of strategic planning of the area.

For the developers of LDS is important to conduct a *comparative analysis* and determine the position of territory in the competitive environment of the region, state, world (depending on the size and importance of the area). The specific type of comparative analysis is benchmarking. **Benchmarking** is the process of comparing one's territory processes and performance metrics to bests practices from other regions and countries. Dimensions typically measured are quality, time and cost. In the process of best practice benchmarking, management compares the results and processes of those studied (the "targets") to one's own results and processes. In this way, they learn how well the targets perform and, more importantly, the processes that explain why these territories are successful.

2.4. CASE: SWOT analysis for the Opolskie Voivodeship – strengths and weaknesses

Society, labour market, living conditions	<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> • the level and quality of life of inhabitants, • self-organization and social activity in rural areas, • multicultural and multi-ethnic communities of the region with self-organized social and cultural groups of residents, • role of the German minority, • institutional efficiency of local government units, • mobility of labour resources, • lasting international networks, • labour ethic in the region, • levels of disposable income, <p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> transfers of income, • knowledge and technology, • higher pressure on lifelong and practical learning, • re-migration and immigration, • international and interregional cooperation of scientific community of Opole region, • active family policy, • NGOs activities, • partnership of local government, local government organizations and the business community • development of the ‘silver economy’, 	<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> • depopulation and age structure of the population, • peripheral position of rural areas, • number of jobs for people with higher education, • entrepreneurial attitudes of residents • stability of workplaces, • availability of housing, • high levels of unemployment in parts of the region, • structural mismatch between supply and demand in the labour market resulting from the structure of education, • disharmony between a high level of life and aspirations of the population and inadequate employment and income-earning opportunities in the region, • flood protection system, • research and development potential of higher education institutions in Opole region • access to social and technical infrastructure. <p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> • outflow of people and intellectual capital (so called brain drain), • intensification of social exclusion and social pathology, • crisis of intergenerational solidarity,
Economy	<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> • economic relations with foreign countries, especially with the German economy, • agricultural productivity, • tradition of crafts and cooperative and work culture, • diversified structure of the industry, • medium-tech industry, • condition of the micro and small enterprises • real consumption demand per capita, • mineral resources, • inland fishery management, <p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> • increase in investment activity, • increase in the competitiveness of the Polish economy, • increase in the competitiveness of Western Poland macro-region • establishment of special economic zone of Opole region, • intensification of cross-border cooperation, • improvement of to entrepreneurs and people service 	<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> • investments, especially innovative investments, • economic growth rate, • relationship between the economy, science and business environment institutions, • a number of large, leading enterprises, • R&D facilities and business environment and its links with the economy of the region • innovative economy, enterprises and the R&D area • service sector, including higher-order services <p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> • competitive advantage of neighbouring metropolitan centres, • slowdown or the economic crisis in the European Union • liquidation or moving out of seats of management boards of large – ”strategic” – businesses, • fiscal policy, • decline in the competitive position of Poland in attracting foreign investment,
Territorial cohesion	<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> • identification of inhabitants with the region, • central location of the capital city, • uniform distribution of key centres, • compact nature of rural settlement, • polycentric settlement system. <p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> growth and diversification • of economic activities in rural areas, • decentralisation of public finances, • modern urban policy. 	<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> • competitiveness of Opole compared to neighbouring regional centres, • intraregional differentiation of levels of socio-economic development • level of development of the metropolitan functions of Opole agglomeration, • presence of degraded areas. <p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> • focus on large metropolitan areas in the national strategic documents, • deterioration in public finances.

Source: Part of Development Strategy for Opolskie Voivodeship until 2020

Control questions:

1. *What is the role of strategic management for regional development?*
2. *What are the basic types of documents of strategic planning?*
3. *Which strategies could be implemented on the basis of SWOT analysis?*
4. *Which variations of PESTLE analyses are used?*
5. *What is the difference between benchmarking and comparative analysis?*

Quiz (one-choice):

Which type of strategic document is designed for urban planning of local authorities?

- Local Development Strategy (LDS);*
- The spatial program (Master plans of settlements);*
- The annual program of socio-economic development and cultural development of the territories.*

What is the role of factor in A-BC analysis if it is marked as B4 ↗?

- Growing crucial barrier;*
- Growing very important barrier;*
- Extremely growing very important barrier.*

Which type of analysis allows to evaluate importance of factors in dynamics?

- SWOT;*
- A-B-C;*
- PESTLE.*

Practical task:

Rate the main factors of territorial development of your native town in accordance to their importance and dynamics using the tools of A-B-C analysis.

THEME 3. IDENTIFICATION OF REGIONAL COMPETITIVE ADVANTAGE, ITS TYPES AND FACTORS ¹

“Competitive advantage is an advantage of higher ability of competition is the core of capacity of economic and business activities in the markets, where the competition exist”

Michael Porter (1985)

3.1. Identification of regional competitive advantage

Competitive advantages are specific, unique characteristics, feature or ability that brings significant benefit to the entire subject (company, city, region, state), it favours this subject on the market where it competes and it provides better market position in comparison with competitors.

According to Martin (2002), there is no single, all containing economic or economic-geographic theory providing a generally acceptable definition and explanation of regional competitiveness and regional competitive advantage. The issue of competitive advantage is a well-researched topic on the level of enterprises and partially on the level of nations or state, but only a few authors deal with this topic on the regional level.

In recent years, importance of regions in the national economy has received special prominence. According to Beneš, there are two main causes. The first is that the region is the basis of national competitiveness, as at the regional level there is a direct conflict between creators of the knowledge and its users. The second reason is the progress in the global economy towards the "regionalization" at the level of national clusters. This leads to reducing the role of states that will lose some powers in the implementation of macro-economic policy. We can say that the states are transformed into some kind of regions, because their procedures to affect some economic phenomena are rather similar to those of regional authorities (2006, p. 22-23).

Porter's work dealing with the theory of clusters, directly deals with regional competitive advantage. This knowledge is based on his previous works dealing with the competitive advantage of firms, industries and nations. According to Porter, key

¹ Prepared by Kamila BORSEKOVÁ, Matej Bel University, Slovak Republic

aspects of cluster creation and success, as well as regional competitive advantage, are social composition of the region, the existence of auxiliary social networks, social capital and institutional structures (Porter 1998, 2001). The creation and development of these “*soft*” externalities appears to be present as crucial to the dynamic competitiveness of regions and cities. With this agrees also Storper (1995) and called it “non-business interdependencies”. As important for understanding the economic efficiency and competitive advantage of the region Storper considers flow of knowledge, technology spillover effects, networks of trust and cooperation and agreements. In fact, it is increasing tendency to explain regional growth and development in the context of “light” externalities, where the emphasis is primarily on local knowledge and know-how, creativity and learning (Morgan 2004). Although there various controversies in this area, all authors (Martin 2002, 2005; Martin, Kitson, Tyler 2004; Porter 1985, 1999; Storper 1995, Morgan 2004 etc.) coincide on this: definition and explanation of regional competitive advantage needs to include not only “hard” productivity but also take into consideration “softer” dimensions of regional and urban social economy.

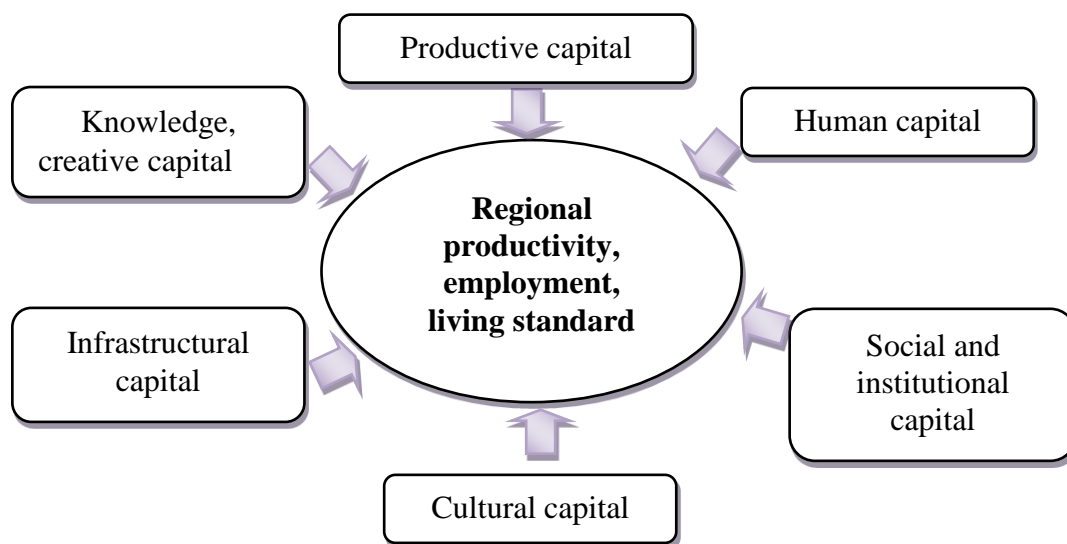


Fig. 3.1. Bases of regional competitive advantage

Source: Kitson, Martin, Tyler (2004, s. 995)

Authors Martin, Kitson and Tyler suggested basis of competitive advantages of the region (Fig. 3.1). These authors consider as the basis of the competitive advantage human capital (quality and skills of the workforce), social and institutional capital (scope, depth and orientation of social networks and institutional forms), cultural

capital (the extent and quality of cultural facilities and assets), knowledge and creative capital (presence of an innovative and creative class), infrastructural capital (size and quality of public infrastructure). They consider all of these bases of competitive advantages of the region as important because they generate positive externalities and these bases create and promote the efficient production base for the regional economy (productive capital). Region's ability to attract skilled, creative and innovative people, to provide high quality cultural facilities and promote the development of social networks and institutional arrangements, acts as a promise of regional prosperity. In the next figure are bases of the regional competitive advantage.

3.2. Approaches and types competitive advantage

In the theory, three basic approaches to competitive advantage have been identified. Market oriented approach, Competitive advantage based on resources and Marketing oriented approach. Between the market-oriented approach of competitive advantage and approach of competitive advantage based on resources, there is a potential conflict because a market-oriented approach is based on its impacts, opportunities, and resources that result from the external environment and their applications to the market. The approach of the competitive advantage based on resources is based on the internal environment of the region and internal resources are considered as essential. The basic differences among these two approaches are shown in the Table 3.1.

Table 3.1. Comparison of approaches to the competitive advantage

	Market orientated approach	Resources based approach
Basic principles	Resources adapts to the demands of the competitive environment, according to key success factors	Pro-active searching of such kind of environment which allows the best utilization of resources
Strategic analysis	Focus on sectorial structure and market attributes	Emphasis on internal analysis, conditions
Formulation process	From external environment → inside	From internal environment → outside
Sources of competitive advantage	Market position in relation to local competitive environment	Specific unique set of resources, potential and competences

Source: Hollensen, 2010, p. 34

3.2.1. Market oriented approach to competitive advantage

A market-based model (mainly represented by Kotler, 1992; Porter, 1994; Vaňová, 2006; etc.) focuses on the cost and differentiation. This approach to the competitive advantage declares that market and environment will identify regions, that are ineffective or which produce products for which consumers are willing to pay the asking price. This market-based theory of competitive advantage is driven mainly by external factors (opportunities and threats, sectorial competition) and as the Porter claims (1985), the sustainability of this competitive advantage is in constant overtaking the competition by "shifting the target" of region and its constant improvement, innovation.

Competitive advantage is influenced by the several factors from internal and external environment. Market oriented competitive advantage is influenced by following factors (Fig. 3.2):

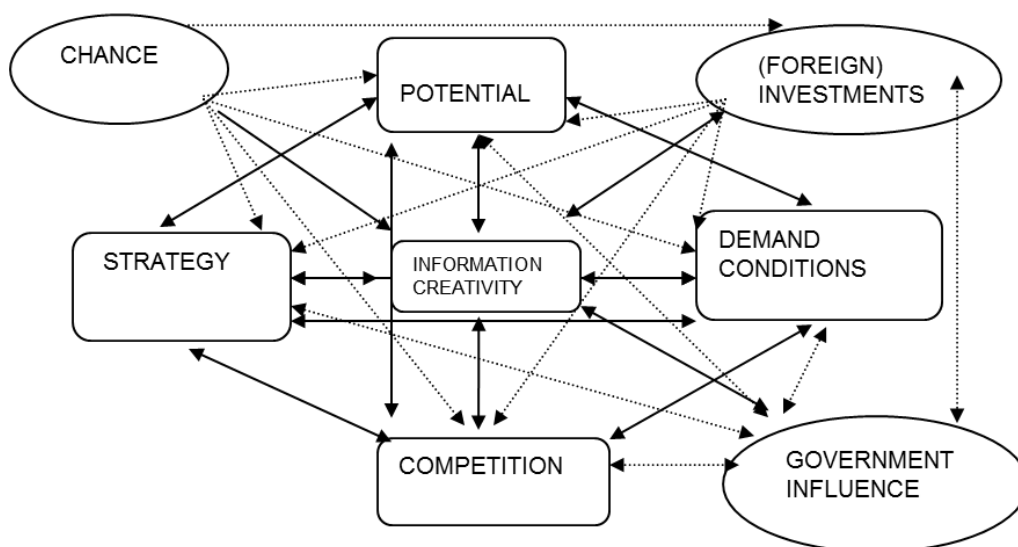


Fig. 3.2. Factors of market oriented competitive advantage

Source: Vaňová, 2010, p. 62 on the basement of PORTER, M.E. 1998. *The Competitive Advantage of Nations*.

We can identify three, respectively four types of market oriented competitive advantage in dependence on the market share and segmentation (See Fig. 3.3).

3.2.1.1. Competitive advantage of low costs

Competitive advantage of low cost reaching the region which offers to its customers a higher or equal value of the total product, or partial products for a lower

price than competing regions. Total costs are less than costs of competition. Strategic value of this advantage depends on its sustainability.

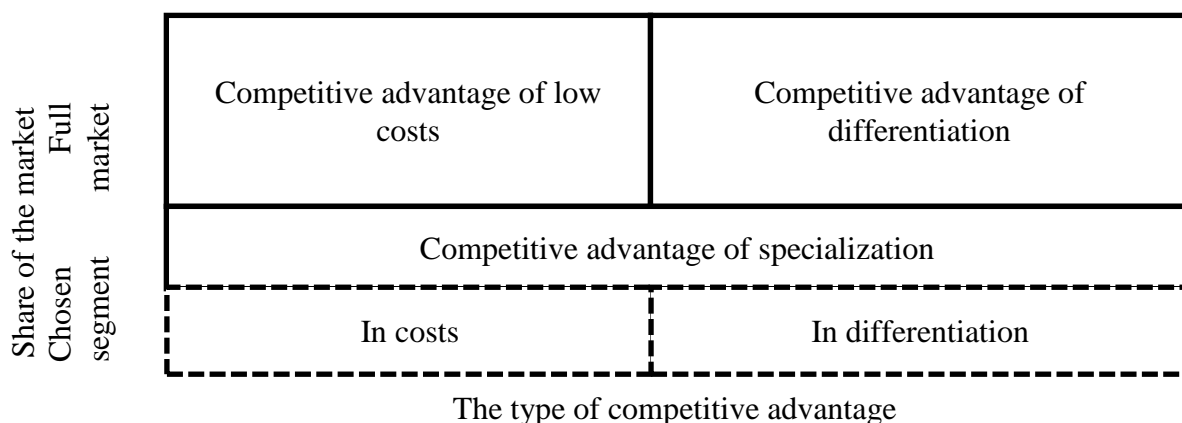


Fig. 3.3. Types of market-oriented competitive advantage

Following factors influence competitive advantage of low costs:

- ❖ Cost of land and properties;
- ❖ Cost of labor in the territory;
- ❖ Existing fiscal and financial instruments that can act as a support tool development;
- ❖ Price of goods and services produced in the territory;
- ❖ Benefits, grants, concessions, financial incentives for reducing customer costs.

The competitive advantage of low costs can be sustainable in the long term only in case of uniqueness that is not imitate-able by competitors.

In the conditions of the region can be this strategy applied by the pricing strategies defined in the marketing of territories.

In the marketing places is defined the strategy, which aims to be among the leaders in the market by reducing costs. This strategy is one of the pricing strategies and is called price leadership. According to Vaňová "if the territory bases its development strategy on price leadership, with aim to attract as many investors, visitors, residents as is possible and to get the largest share of the target markets, partial products are valued relatively lower prices, then we are talking about the intersection pricing strategy. Condition for the success of this strategy is sensitivity to changes in

market prices (market growth at low prices) and inability of the competition to maintain similar competitive prices. In terms of region it means to offer a variety of tax breaks and financial benefits for domestic and incoming visitors, investors. This strategy is closely linked with the policy of superior territory which means the state or the European Union. This strategy assumes a low cost in the region "(2006, p. 95-96). This strategy of competitive advantage of low cost is specific in that this strategy is not applicable if the product or partial products of the region are imitation of competitors' products. Then should carefully consider several factors and choose one of nine pricing strategy (Kotler, 1992, p. 511).

3.2.1.2. Competitive advantage of differentiation

Under the competitive advantage of differentiation in terms of region, we understand the specific or unique feature, which has a total area on the level of total product or partial products, and this unique feature provides customers with greater value than competing territories.

For identification of competitive advantage of differentiation following criteria are available:

- ❖ **Importance** - differentiation of the offer significantly increase usefulness for significant large number of customers;

- ❖ **Profitability** - the implementation of differentiation means increasing of interest about the territory and increasing of territorial incomes;

- ❖ **Uniqueness** - competitors do not have the same offer, offer is typical for this concrete territory or is offered by unique style;

- ❖ **Perfection** - differentiation is the best way to achieve benefits for customers, it is better than other modalities and offer where customers can get the same benefit;

- ❖ **Availability** - customers can afford to pay differentiation;

- ❖ **Inimitability** - competitors cannot easily imitate differentiation;

- ❖ **Clarity** - customers clearly perceived differentiation;

- ❖ **Significance** - differentiation is important for customers, it represents for them the higher value.

Competitive advantage of differentiation can be applied to conditions of the region through a strategy of differentiation. Strategy of the differentiation in the

marketing of territories is based on the ability of region to adapt to the market needs. Through this strategy region can achieve a competitive advantage through the unique offer, whether in terms of supply as a whole or partial supply of products. The differentiation strategy means to meet the different needs of customers. According to Vaňová can be "differentiated strategy applied in cases, where the competition will focus on all segments of the market. In this situation, the region can benefit from specific offer based on one or more competitive advantages, addressing only a few segments. The selection of these segments should be carefully considered as they may have long term consequences for development in the region. The cost of a differentiated strategy are higher in undifferentiated strategy (when product or intermediate products offered to all market segments), but greater efficiency is also by reaching segments" (2006, p. 72). Factors of competitive advantage of differentiation can be identified by the type of strategies that choose the region. If this strategy is orientated on marketing tools, creating of competitive advantage will influence the following factors: a high quality product, better image, product innovation etc.; using advanced forms of communication such as public relations, events organization, direct mail; using differentiated pricing for the local population; college or university in the territory, any other scientific research institution, which improves the quality of the human factor in the area etc.

The advantage of differentiation strategy in the marketing of territories lies in the fact that the name of the region is also its brand, if the region has a good image, then the customers are less sensitive on price and its changes. As a positive can be taken the fact that in the case of satisfaction of customers, they like to come back to the region and it is creating customer loyalty to the region, which significantly limits the entrance of new competitors to the region. Disadvantage is, the same as by the competitive advantage of low cost, if another region is able to imitate the competitive advantage of differentiation (Vaňová, 2006).

3.2.1.3. Competitive advantage of specialisation (in costs or differentiation)

This type of competitive advantage is based on satisfaction of limited group of customers or chosen segments. It is the competitive advantage that finds the

opportunities in filling the market gaps. Specialization may focus either on cost or differentiation:

- ❖ Specialization in costs is focused on selected target segment, which is sensitive to changes in prices.
- ❖ Specialization in the differentiation is based on unique offer for the selected target segment.

3.2.2. Competitive advantage based on resources

Approach of competitive advantage based on resources (mainly represented by Barney, 1991, 1997; Hall, 1993; Pfeffer, 1994; Powel, 1992; Ulrich, Lake, 1991; etc.) is focused on region's resources and the competitive advantage is created through internal resources of the region. The unique resources help to create a unique market position. As with market-based theory of competitive advantage also by the approach of competitive advantage based on resources, the emphasis is on sustainability of the competitive advantage. The sustainability of this competitive advantage depends on the inability of the competition to imitate or obtain the same unique resources.

Competitive advantage based on resources is influenced by several factors, showed in the following figure (Fig. 3.4).

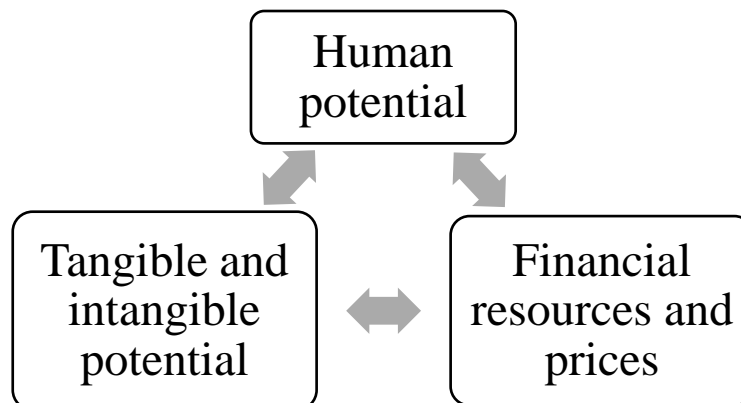


Fig. 3.4. Factors of competitive advantage based on resources

Source: Borseková, Vaňová 2011

Human potential is an extremely important factor because it plays a key role in the process of identification and exploitation of competitive advantage, affect the competitiveness of the region and one of the priorities of competitive regions should be the high quality of human resources in the region. Stewart (2005, p. 121) says that

countries, regions and cities never been competing so intense in obtaining high-quality human resources as now. Tangible and intangible potential together form the total potential of the region. Under the tangible potential of the region we understand the particular natural and geographical potential, infrastructure and urban potential, certain elements of socio-demographic potential and cultural potential. Under the intangible potential we understand the particular innovation potential, creative potential but also elements of the cultural potential, e.g. habits and traditions. Prices in the region and capital resources of the region are a prerequisite for its further development and competitiveness. They are representing by particular type and quality of user fees, property prices of labour, goods and services, payment transfers, financial management, quantity and price of available capital and so on (Borseková, Vaňová, 2011, p. 5).

Specific process for the identification and exploitation of competitive advantage based on resources proposed authors Barney (1991) and Grant (1991, In West, Ford, Ibrahim 2010), who suggested this approach to enterprise level. However, it can be applied to conditions of the region. We agree with the approaches of both authors, but for the ideal methodology we consider the synthesis of these two approaches. According to these authors, for the successful application of the theory of competitive advantage based on the resources is necessary to meet certain steps. Through synthesis of their approaches, through analogy of these approaches to regional conditions and through logical arrangement of the steps was proposed a methodological approach for the identification and exploitation of the region's competitive advantage based on resources. To identify a competitive advantage based on resources and its subsequent use is necessary to follow these steps:

1. Identification and classification of resources in the region.
2. Identification of potential key resources in the region which are able to create competitive advantage.
3. The assessment whether these sources fulfil four important criteria - the criteria of possibility to appraise these resources, criteria of uniqueness, inimitability and irrecoverability.

4. Evaluation of strengths and weaknesses compared with competitors. Identify opportunities for better use of resources in the region.
5. Identification of the region's capacity and capabilities and lay the important question: What area can be done more efficiently than by competitors?
6. Evaluation of the profit-generating potential of resources and capabilities, in context with the potential to achieve sustainable competitive advantage and a reasonable return on invested capital or resources.
7. Choosing the strategy that utilizes the region's resources and capabilities with respect to the external environment.
8. Identifying gaps in the resources which needs to be filled. Investments in updating, expanding and improving the resource base of the region.
9. The maintenance and protection of those values which contribute to growth of the region (Barney, 1991, p. 99-107, Grant 1991).

3.2.3. Marketing orientated approach to competitive advantage

A compromise between these two approaches (mainly represented by Barney 1997; Kotler, Armstrong, 1992; Porter, 1999; Solomon, Marshall, Stuart, 2006; etc.). is an approach based on the value networks, which should be considered as the third approach to competitive advantage (McPhee, Wheeler, 2006). According to this approach, building of sustainable competitive advantage is based on the positioning of subject in value networks. By applying this approach to the conditions of the places, as positioning we understand market position that gain place on the market of places in comparison with competitive places. The required market position can be achieved through the competitive advantage of the place. The basic term of this approach is the value expected by the customer, which gives the ratio to what the customer gets, with what they have to do to obtain the desire product or service. In addition, what the customer receives is understood as the expected benefits which the product, service or its associated service brings. Furthermore, what the customer needs to spend to obtain the product or service can be understood as being a direct and indirect costs that customer sacrificed in favour of a desired product (Hollensen 2010, p. 28-35).

This approach to competitive advantage corresponds to most marketing concept, in particular marketing places. Kotler defines marketing places as “a set of activities aimed on creation, maintain or change of attitudes and behaviour to certain places. The aim of marketing places is to attract to some place, region or state new inhabitants, tourists or investors” (1992, p. 482). Vaňová defines marketing places as “a continuous social management process which provides the ability to influence more effective sustainable development of the place through building sustainable competitive advantage by creating synergies among demand and supply by using specific marketing methods and tools” (2006, p. 36).

Marketing places is based on the innovative approach to development of places – strategic marketing planning. It is needed to note, that “management of strategic marketing planning in conditions of places is much more difficult than in conditions of private companies” (Kotler et al., 1992, p. 106). The competitive advantage of the place is an important basis for taking the position in the market, as it makes the place more attractive. It is often a basis for setting marketing goals. Entry superiority over the competition became the core of marketing strategies that are not oriented only for customer satisfaction (Borseková, Vaňová, 2011, p. 3). Based on Porter (1999) creating competitive advantage of the place can be considered as the core of places development. A successful place development strategy can be created by finding unique opportunities and possibilities that should bring to the place a strong competitive advantage.

Marketing based competitive advantage is defined as offering higher value to its customers than other competing territories, or offering lower prices or higher quality of total product, or partial products as competitive regions.

The region will create a value for their interest groups (target groups of customers) if it convinces customers that they receive a higher value purchasing its products or services and not purchasing products or services of the competing region.

The role of marketing specialists is therefore to do something more than just adapt to the needs of target customers - they must strive to achieve strategic advantage by placing their offer firmly in the minds of customers compared to competitor's supply.

Table 3.2 Factors of competitive advantage according to marketing oriented approach

Factors of competitive advantage		Marketing mix of the region
Internal environment/ Spatial potential	- nature, socio-economical, planning, innovative potential, - related, supporting activities, - structure of activities in region, - production strategy, - chance,	Product
	- prices of partial products, - capital resources of region, - price strategy,	Price
	- region location, - accessibility of the region, - accessibility of information about region, - strategy of accessibility,	Accessibility
	- promotion system and canals, - image, - promotion strategy,	Promotion
	- human resources, - management of territories, - cooperation and participation, - human strategy	Human potential
External environment	- government influence, - chance, - foreign investments,	
Demand in the market	- demand character in/out of territory - demand strategy	
Competition	- competition in/out of region - competitive strategies	

3.3. Identification of regional competitive advantage (case of Slovakia)

Identification of regional competitive advantages in Slovakia was realized through structured interviews. Structured interviews were carried out in all eight regions with the expert groups in the area of regional development and planning, tourism and culture. The expert groups consisted of employees at senior and middle management level. One of the main aims was to identify competitive advantages or potential competitive advantages in all Slovak self-governing regions.

The following table shows the identification of competitive advantages by expert groups within the regions on NUTS 3 level in Slovakia and types of competitive advantage according to basic approaches to competitive advantage.

Table 3.3 Regional competitive advantages in Slovakia

NUTS 3 regions in Slovakia	Competitive advantage/advantages according to research results	The type of competitive advantage
Banskobystrický self-governing region	Untouched nature, environment good for life, relief, a high concentration of protected land areas (PLA), mineral and thermal waters with potential for development of spa, location in the middle of Slovakia, a high concentration of historical monuments, historic mining towns and technical monuments, high quality of workforce - bilingual speaking, for investors high unemployment	Competitive advantage based on endogenous resources
	UNESCO cultural heritage (2/7) - Banská Štiavnica and the church with bell tower in Hronsek (2/9)	The competitive advantage of differentiation
	Cheap labor	Competitive advantage of low cost
Bratislavský self-governing region	Position of the region, built traffic, technical and social infrastructure, human resources, rich possibilities for cultural activities, historical sites density	Competitive advantage based on endogenous resources
	Presence of several important foreign investors	Competitive advantage based on exogenous resources
	Capital city in the region, site of supra-regional institutions with national importance	The competitive advantage of differentiation
	Brand	Marketing orientated competitive advantage
Košický self-governing region	Geographic location, geothermal energy, natural conditions, NP - Slovak Paradise, PLA - Vihorlat and Latorica, caves - Ochtinská, Gombasecká, Jasovská, Domica, history and cultural monuments (castles, castles, for example. Beautiful Hôrka, Spis Castle)	Competitive advantage based on endogenous resources
	Presence of natural UNESCO 1/2 (caves and chasms and Slovak Karst The cave 7/7) and the UNESCO cultural heritage (2/5) - Spišský castle and wooden castle in Ruska Bystra (1/9)	The competitive advantage of differentiation
	Cheap labor	Competitive advantage of low cost
Nitriansky self-governing region	Cultural and historical characteristics of the region, the city of Nitra - the mother of Slovak cities, the natural conditions of the region, the sun (a large number of sunny days per year), water (thermal and mineral springs, wells), wine (major producers of wine, wine tourism), a short distance from the capital of Slovakia, Hungary and Austria	Competitive advantage based on endogenous resources
	The lowest properties price in Slovakia	Competitive advantage of low cost
	Tradition of exhibitions and fairs - Agrokomplex Nitra	Marketing orientated competitive advantage
Prešovský self-governing region	High concentration of monuments in Slovakia, quality natural environment, rich natural and cultural heritage, strategic location, the EU border, a young workforce, soil conditions, demographic structure	Competitive advantage based on endogenous resources

	Presence of cultural heritage by UNESCO (3/5) - Bardejov, Levoča and cultural sites around, the wooden churches in Kežmarok Ladomirová, and Hervartov Bodružali (4/9) and UNESCO natural monument (1/2) Bukovské hills	The competitive advantage of differentiation
	Cheap labor	Competitive advantage of low cost
Trenciánsky self-governing region	Castles and manor houses - historic and cultural monuments, rich water and mineral springs, good geographic location, natural potential, good human resources, the tradition of glass industry and engineering industry,	Competitive advantage based on endogenous resources
	Event Pohoda	Marketing orientated comp. advantage
Trnavský self-governing region	the only region that borders with three countries, great location, dense transportation infrastructure, the highest growth rate of business, agriculture, extremely rich water resources, hot springs, spas, thermal baths, the availability of capital, the presence of foreign investors, the quality of soil credibility, historical and cultural heritage, tourism developed in Skalica and Záhorie	Competitive advantage based on endogenous resources
	foreign investors in region	Competitive advantage based on exogenous resources
Žilinský self-governing region	Natural potential and natural conditions of the region, cultural and historical heritage, the region's location, facilities and personnel management of human resources within the regional management, human resources of the region, cooperation	Competitive advantage based on endogenous resources
	UNESCO historical heritage (2/5) - Vlkolínec, wooden churches in Leštiny and Tvrdošín (2/9)	The competitive advantage of differentiation

Source: Borseková, Vaňová 2012

In the Slovak regions there are four types of competitive advantages. It is competitive advantage based on internal resources, competitive advantage based on external resources, competitive advantage of low cost and competitive advantage of differentiation. To identify a clear competitive advantage is not always easy.

As the real competitive advantage we consider competitive advantage of differentiation. The key for its identification we choose an entry in the list of UNESCO. These competitive advantages are only four of the eight regions and will be considered as real competitive advantages. In parentheses are the numbers in the region for the category in the whole territory of Slovakia. Some of the sites included in UNESCO are a set of several sites.

Competitive advantages based on internal resources have all Slovak regions. In most cases, it is more the potential competitive advantage than real competitive advantage, but they have a strong potential to become a real competitive advantage. Competitive advantages of low cost have four Slovak regions. Banskobystrický, Prešovský and Košický region achieve a competitive cost advantage in low labor cost.

This is a competitive advantage for employers, businesses and potential investors. At the same time that competitive advantage is a disadvantage for the population. Competitive advantage based on external sources have Bratislavský and Trnavský region and is mainly associated with the presence of foreign investors in the region. Marketing oriented competitive advantage have three regions – Bratislavský, Nitriansky and Trenčiansky region, the benefits are based on the tools of marketing mix, respectively, in the Bratislavský region it is the brand of the region. As a sustainable competitive advantage we considered a competitive advantage based on resources, competitive advantage of differentiation and partially competitive advantage based on marketing approach (Borseková, Vaňová 2012).

Control questions:

1. *What are the three basic approaches to competitive advantage?*
2. *Define the competitive advantage by your own words.*
3. *What are the possible types of competitive advantage according to market-oriented approach?*
4. *Which factors influence competitive advantage?*
5. *Identify competitive advantage of your region?*
6. *What are the crucial factors that impact on competitive advantage in your region?*

Quiz (one-choice)

Competitive advantage is:

- imitation of competition offer;*
- specific, unique characteristics, feature or ability that brings significant benefit to the entire subject (company, city, region, state), it favours this subject on the market where it competes and it provides better market position in comparison with competitors;*
- ability to offer lower prices in short-term period.*

The basic approaches to competitive advantage are:

- market oriented approach, competitive advantage based on resources and marketing oriented approach;*
- management approach and marketing approach;*
- competitive advantage in prices, competitive advantage in foreign investments gaining.*

Factors of competitive advantage based on resources are

- participation; investments; human resources; openness;*
- innovation, human potential, prices;*
- human potential, tangible and intangible potential, financial resources and prices.*

Competitive advantage of specialisation is possible to achieve:

- in human potential;*
- in costs and in differentiation;*
- in external resources.*

Market oriented competitive advantage:

- focuses on the cost and differentiation;*
- focuses on job creation;*
- focuses only on internal resources.*

True/false

1. *Approach of competitive advantage based on resources is focused on region's resources and the competitive advantage is created through internal resources of the region. TRUE/FALSE*
2. *Regional competitive advantage can be based only on the internal resources of the region. TRUE/FALSE*
3. *Market based competitive advantage is possible to achieve in costs, differentiation and specialization (in costs and differentiation). TRUE/FALSE*
4. *The competitive advantage of low costs can be sustainable in the long term only in case of uniqueness that is not imitate-able by competitors TRUE/FALSE*
5. *Competitive advantage of specialization is based on satisfaction of limited group of customers or chosen segments. TRUE/FALSE*

Theme 4. TERRITORIAL REFORMS UNDER THE GOVERNMENTAL TRANSFORMATION STRATEGIES OF V4¹

Although my heart is “from the left”, I always understood that the only valid economic system is a market economy ... This is the only rational, natural economic model that leads to prosperity because it is able to reflect the nature of life itself.

Vaclav Havel

4.1. Political and Economic Aspects of Transition Economies

A *transition economy* or *transitional economy* is an economy which is changing from a centrally planned economy to a market economy.

The process has been applied in China, the former Soviet Union and Eastern bloc countries of Europe and some Third world countries, and detailed work has been undertaken on its economic and social effects.

The race to transform centrally planned economies into market economies has led, twenty-five years later, to one group of countries that cross the finish line, others languishing at various points along the track, and a few barely off the starting blocks. Almost all Central and Eastern European economies (CEE) and the Baltics had entered the European Union. But in many economies in the Commonwealth of Independent States (CIS), there has been uneven progress and prospects remain murky.

IMF classification of transition economies

Transition economies in Europe and the former Soviet Union

CEE Albania, Bulgaria, Croatia, Czech Republic, FYR Macedonia, Hungary, Poland, Romania, Slovak Republic, Slovenia

Baltics Estonia, Latvia, Lithuania

CIS Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan

Transition economies in Asia

Cambodia, China, Laos, Vietnam

In the mid-1980s, few would have imagined the dramatic changes that were about to engulf Central and Eastern Europe, notwithstanding the initial steps towards modernization introduced in the Soviet Union by the programs of *glasnost* (openness)

¹ Prepared by Mariia LYZUN, Associate Professor of Ternopil National Economic University, Ukraine

and *perestroika* (restructuring). Nor would they have guessed the speed of these changes: by the end of 1991 the political landscape was unrecognizable from just three years earlier.

In some cases, the fall of communism broke the bonds that had held countries together, with the dissolution of the Soviet Union and Yugoslavia followed in 1993 by the “velvet divorce” of the Czech and Slovak republics.

Conversely, less than a year after the Berlin Wall came down, East and West Germany were reunified. Eventually more than 20 countries emerged from the process. The violence that took place in parts of the former Yugoslavia, and also in Romania and Moldova, stood in marked contrast to the major achievement in almost all other cases, that a transformation of such momentous scale was effected peacefully.

Rapid political changes have continued throughout the quarter-century since 1989. Most notable has been the reintegration with Western Europe. Partnerships with the EU strengthened through the 1990s, culminating with the accession of eight former socialist economies in 2004, followed by Bulgaria and Romania in 2007 and Croatia in 2013.

Political and economic integration has not only involved the EU. When the Soviet Union was dissolved at the end of 1991, the Commonwealth of Independent States (CIS) was established, comprising most of the former Soviet republics. Recently this region too has moved towards closer integration through the development of the Eurasian Economic Union, to become operational in 2015 (see Fig. 4.1).

All the transition countries went through recessions with the initial economic dislocation and trade disruption stemming from the collapse of the Soviet-era Council for Mutual Economic Assistance (Comecon). The scale of these recessions varied across countries but were extremely deep and prolonged in some cases – even if the official statistics available at the time tended to overstate the output losses. The 1990s saw diverging growth rates as countries struggled to achieve macroeconomic stabilization and lay the foundations of a market economy. Initial conditions were important to how countries fared in this period: some countries, especially in Central Europe and Yugoslavia, had already experimented with market reforms in the 1980s,

while others entered the transition with central planning still fully intact and little familiarity with market systems.

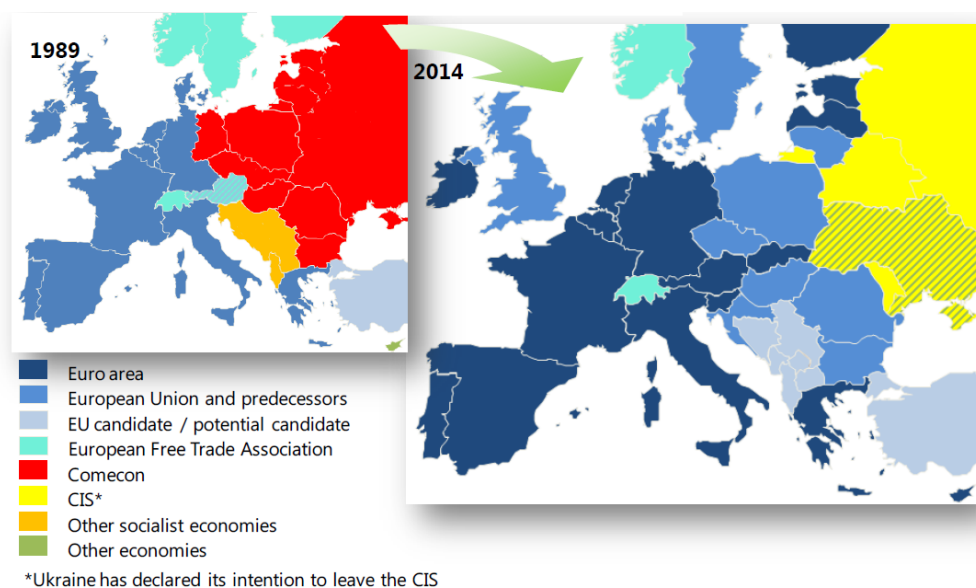


Fig. 4.1. European integration and transition countries

Source: 25 years of transition: post-communist Europe and the IMF / James Roaf, Ruben Atoyán, Bikas Joshi, Krzysztof Krogulski and an IMF staff team. – Washington, D.C.: International Monetary Fund, 2014.

External factors mattered too, with countries most dependent on trade with or within the former USSR most affected by its collapse, and countries closest to Western European markets benefiting most from new investment and trade. But after taking account of these factors, policies were critical to outcomes. Countries that took bolder and more front-loaded reforms—notably in Central Europe and then the Baltics—were rewarded with a faster return to growth and stability, including avoiding the series of crises that hit the region in 1997 and 1998.

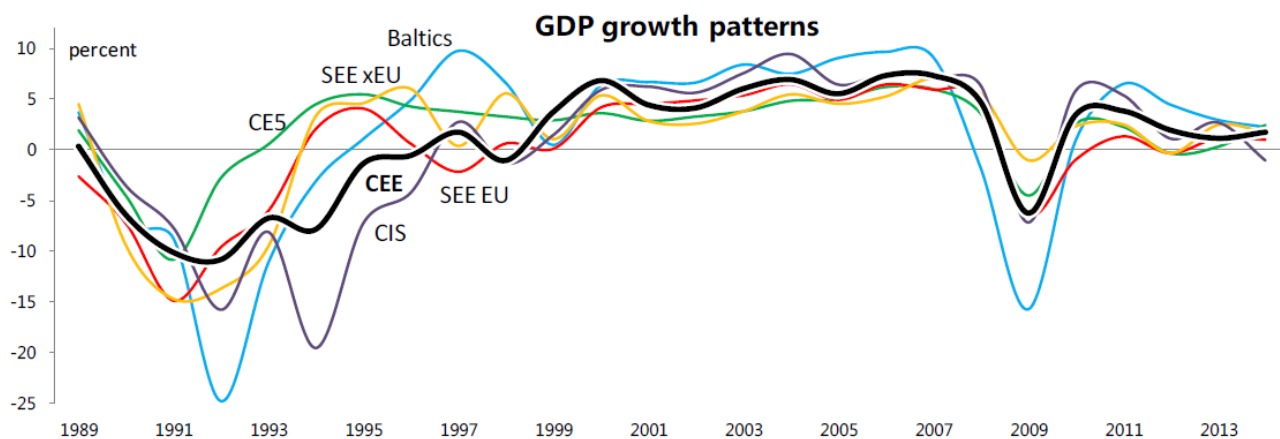


Fig. 4.2. GDP growth patterns in transition countries

Source: 25 years of transition: post-communist Europe and the IMF

The initial transition recessions were accompanied by high or hyper-inflation in most countries, as prices moved to market levels and as governments resorted to monetary financing of gaping fiscal deficits. But through the 1990s countries successively brought fiscal deficits and inflation under control, albeit only after false starts in some cases (see Fig. 4.3). In contrast to the turbulence and divergence of the 1990s, growth patterns in the early and mid-2000s were uniformly strong. With favourable global conditions and increasing confidence in rapid convergence with Western Europe, average growth for the region was 6 percent, with no country growing at less than 3 percent annually – a faster rate than most countries have consistently managed before or since. However, while soundly based at the start, growth in this period became increasingly imbalanced, driven in many countries by large-scale borrowing for consumption and construction. The resulting vulnerabilities combined with the effects of the global financial crisis with devastating effect: output declines in 2009 averaged 6 percent and ranged up to 18 percent, a more severe impact than in any other region of the world. The ensuing euro zone crisis and slow global recovery have weighed on growth since – and rising geopolitical tensions further cloud the outlook looking forward.

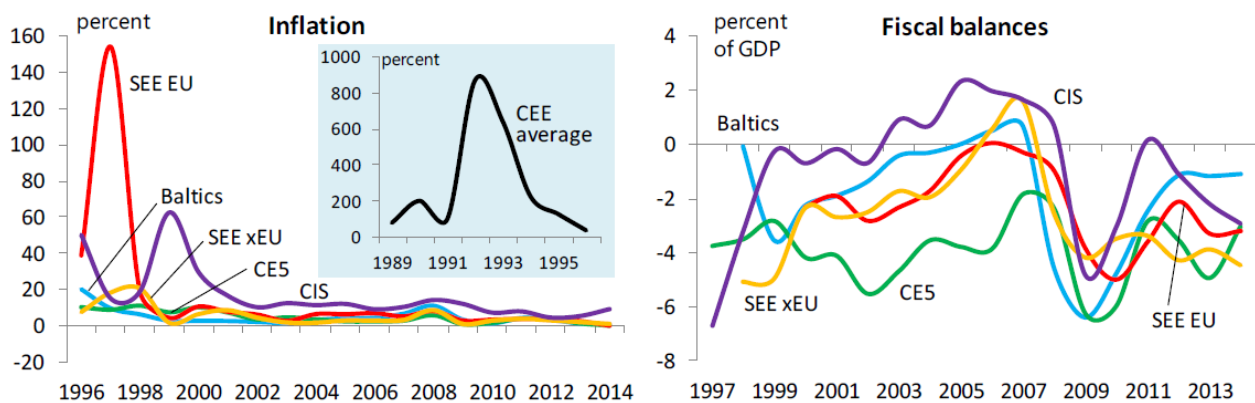


Fig. 4.3. Inflation and fiscal balance in transition countries

Source: WEO

Through the 2000s, fiscal positions improved markedly, with revenues boosted by the unsustainably rapid growth. The boom also pushed inflation up somewhat, but demand pressures showed mostly in ballooning external deficits. The underlying fiscal problems were exposed when the global financial crisis hit, with major deteriorations

in budget deficits. Most countries have since embarked on significant consolidation, although many have struggled against the backdrop of slow growth.

Despite the ups and downs, overall the transition period has been one of strong convergence with Western Europe. On average, income per capita has risen from about 30 percent of EU15 levels in the mid-1990s to around 50 percent today. This average conceals large differences between countries, with some, such as the Baltics, making huge advances; and others, such as Bosnia and Herzegovina, Moldova, and Ukraine, getting increasingly left behind (see Fig. 4.4).

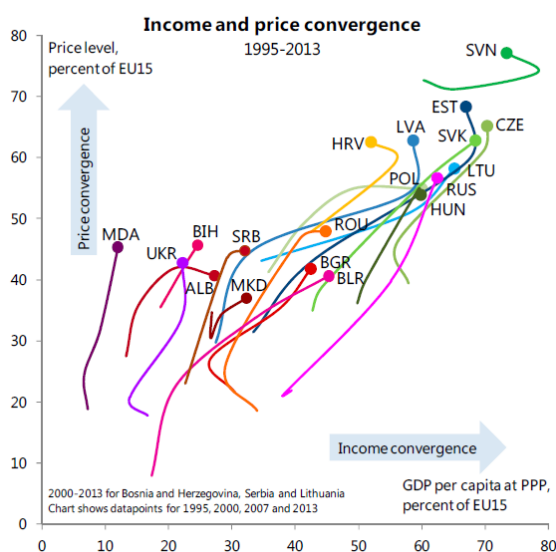


Fig. 4.4. Income and price convergence in transition countries

Source: 25 years of transition: post-communist Europe and the IMF / James Roaf, Ruben Atoyan, Bikas Joshi, Krzysztof Krogulski and an IMF staff team. – Washington, D.C.: International Monetary Fund, 2014

Price levels – along with wages – have also risen as part of the convergence process. To the extent that price and wage increases have reflected productivity increases from investment and better labour skills, these developments are not a cause for concern. But countries where costs are rising faster than productivity risk losing competitiveness.

4.2. The Ingredients of the Transition Process and Visegrad Countries

The main ingredients of the transition process were agreed upon fairly early. They were:

❖ ***Liberalization***: the process of allowing most prices to be determined in free markets and lowering trade barriers that had shut off contact with the price structure of the world's market economies.

❖ ***Macroeconomic stabilization***: primarily the process through which inflation is brought under control and lowered over time, after the initial burst of high inflation that follows from liberalization and the release of pent-up demand. This process requires discipline over the government budget and the growth of money and credit (that is, discipline in fiscal and monetary policy) and progress toward sustainable balance of payments.

❖ ***Restructuring and privatization***: the processes of creating a viable financial sector and reforming the enterprises in these economies to render them capable of producing goods that could be sold in free markets and of transferring their ownership into private hands.

❖ ***Legal and institutional reforms***: These are needed to redefine the role of the state in these economies, establish the rule of law, and introduce appropriate competition policies.

It was envisaged that the liberalization and macroeconomic stabilization could be undertaken fairly quickly, as could the privatization of small-scale enterprises. The privatization of large-scale enterprises and legal and institutional reforms would intensify at a later stage of the transition process and take a longer time.

Two major theories on economic transition:

– **The Washington consensus**, based on neoclassical theory and standard micro-economic approach of stabilization, defends the «tabula rasa» technique, or ***shock therapy***. Assumption: markets will develop spontaneously. Method: trio «liberalization – stabilization – privatization». Precondition: to create an appropriated legal framework.

– **Gradualism** is based on recent developments of microeconomy, on evolutionary and on institutional economics. It warns against shock therapy: nothing guarantees the spontaneous replacement of old institutions by new ones, sovereign and operational.

Visegrad countries combined the elements of transition strategies in their own manners.

The “Balcerowicz Plan” in Poland

In late 1989 the new Polish government took advantage of the first window of opportunity to embark on a front-loaded stabilization and reform program. It was a bold approach with many risks, and many observers were not confident of its success. Initial conditions were highly unfavourable:

- ❖ Most prices were administered. Initial liberalization in an environment of cheap credit, open-ended subsidies, and fiscal deficits financed by the central bank had led to near-hyperinflation.

- ❖ Foreign exchange was rationed, with the official rate fixed at a much more appreciated rate than the market rate; the current account deficit widened and Poland defaulted on external debt.

- ❖ The labour market was not functioning, with high levels of over-employment. The capital stock was obsolete. Outside of agriculture, ownership was dominated by state firms.

The reform package was built around three mutually reinforcing pillars:

Tightening financial policies. The zloty was devalued and fixed to the dollar, supported by a stabilization fund and credits from the IMF and other international financial institutions. Interest rates were sharply increased. Tax-based incomes policy applied to all state firms, with penalties on wage increases above the norm. Fiscal tightening involved elimination of income tax exemptions and most subsidies.

Liberalizing the economy. Most price controls were removed, and energy prices were adjusted to reflect cost. Import restrictions and foreign trade monopolies were replaced by tariffs. Foreign exchange became freely available for most current transactions.

Building market infrastructure. Structural changes were launched to set up capital markets to facilitate ownership changes; to modernize and strengthen the banks; to improve regulatory and accounting standards; and to modernize the tax system based on income tax and VAT.

Results were positive, though mixed:

Nominal anchors held and financial conditions improved. The exchange rate peg held for more than a year, much longer than the targeted three months. Real wages declined during 1990–91. Initial inflation targets were exceeded, but disinflation resumed in the face of lower demand and import competition. Monetary aggregates remained under control and real interest rates were mostly positive. External performance was initially robust but real appreciation and the collapse of Comecon subsequently eroded competitiveness. Fiscal accounts over-performed in 1990, on the back of windfall corporate profits.

The output loss was deeper than expected. A sharp contraction in state firms was partly offset by private sector expansion. Employment declined less than assumed, as state firms hoarded labour in the hope of a policy reversal. While open unemployment surfaced, many laid-off workers found jobs in the private sector or took advantage of early retirement and disability provisions. Social safety nets based on product subsidies and employment guarantees were replaced by programs focused on unemployment, pensions, family benefits, and social assistance, but the generosity of some programs – such as unlimited unemployment benefits or liberal disability assessment – invited abuses.

In retrospect, the reforms were successful in stabilizing the economy and setting a sound foundation for a market economy. By end-1991, the corporate and financial sectors were reacting to market incentives and there were early signs of recovery; privatization was gaining grounds; and the credibility of market policies was well established. But as with the experience of many early reform efforts, there was a political cost: the government lost the 1991 elections.

Transition process in Hungary

When the political change occurred in Hungary (1989-1990), the country had already undergone almost a decade of partial market reforms and its economy was relatively liberalised (famous “goulash communism” of Janos Kadar). At that time Hungary needed standard monetary and fiscal restrictions, but because of the specific circumstances of the Hungarian democratisation process, one-off drastic measures – such as a strong macroeconomic stabilisation programme – were

not adopted in the early 1990s. The main focus during these first years was more on institutional reforms at the microeconomic level (regulation and supervision of competition, financial brokering, business start and termination/bankruptcy) as well as on privatisation, for which Hungary chose traditional cash methods (direct sales, auctions), among other reasons because funds were needed for repaying the foreign debt and covering budget deficits.

By the start of the transition to a market based economy, Hungary had serious challenges: breaking down the state ownership (privatization), liberalization of prices and foreign trade, and parallel to these, control of the surging inflation and unemployment (economic stabilization).

Hungary started the economic transition in a complicated situation: thanks to the greater openness, to extent (and wide-ranging) corporate experiences, relatively moderate inflationary pressures had made Hungary a leader in winding up scarce economy among transition countries. But there had been some disadvantages, which had held development back: markedly expenditures on social net and the high indebtedness – mainly government debt – resulted a severe burden on debt service.

The reform of the tax system, which was first implemented in Hungary in January 1988, and supplemented by additional reforms in January 1989, was an essential first step of the process. This reform replaced the firm-specific taxes and subsidies of the centrally planned economy, which typically removed surplus profits and made up shortfalls, with a system of predictable and non-discriminatory taxes to enable firms to reap the benefits of their improved efficiency.

The next important step was the credible bankruptcy practice, which discouraged opportunistic behaviour by agents, in commercial relations and in their approach to other institutional reforms, including privatization (which gained momentum at exactly the same time as the new bankruptcy law was introduced). The introduction of the new bankruptcy law caused massive macroeconomic changes. Although the law itself was no responsible for the shocks or the reasons behind corporate failures, it triggered them simultaneously in many companies. The negative microeconomic developments, coinciding in time, compounded to cause serious macroeconomic problems. One-third of the economy was threatened by liquidation and in a financial state to justify such a procedure. Fears of severe consequences were understandable, but the harsh bankruptcy institution proved to be efficient in reducing losses to a considerably lower level.

Besides above mentioned measures, extremely severe external and internal imbalances emerged until mid-1990s. Faced with the prospect of a balance of payments crisis, the government introduced in March 1995 a drastic stabilization programme that also accelerated the structural reforms initiated in the early 1990s. The programme included sharp adjustment: 9 per cent devaluation of the forint followed by pre-announced crawling peg and very rigid wage policy, and an impressive reduction in fiscal expenditures. The combination of the pre-announced, declining crawling peg, restrictive wage policy and tighter fiscal policies brought a steady fall in inflation to 10–11 per cent by 1999 (liberalization of consumer prices had been carried out simultaneously with the change of regime: regulated prices remained only by f.e.: heating and lighting charges, public transportation).

During 1995–1998, Hungary implemented a comprehensive programme of corporate and banking reforms that included privatizing major utilities and restructuring and privatization of all the major banks.

These and other (f.e.: Hungary was also the first Central Eastern European country to implement a systematic pension reform, involving reforms to the public pay-as-you-go scheme and the introduction of a fully funded private pillar) reforms restored the country's image as a pioneer in structural reforms among the transition countries, generating a surge in the volume of FDI (which was one of the highest in the region) and heightening the prospects for major efficiency gains.

After the modest GDP growth rate in 1995–1996 (1,5-1,6%), growth accelerated again in 1997. The recovery was being driven by exports, which became the engine of growth bit by bit:

The Hungarian experience since 1990 provides strong evidence of the advantages of opening to foreign capital. Dramatic shifts in the composition of exports and Hungary's successful reintegration into international markets demonstrate how investment by transnational's, and to a

lesser extent, outward processing have led to rapid modernization and readjustment of industrial capacities.

Hungary faced until the second half of the 1990s severe adjustment, which were in some cases a “shock-therapy”, but around the millennium, Hungarian economy seemed to be relatively healthy and finally to be meeting the conditions for sustained growth. At a result of the transition procedure, Hungary entered to the European Union in 2004.

Czech Republic transformation

The Czechoslovak Socialist Republic was one of the most industrialised countries of the former Soviet block. It had also one of the most centralised economies (before 1989, only 1.2 % of the population was employed in the private sector) and no partial reforms towards economic liberalisation had been implemented until the change of regime in late 1989.

The circumstances in which this “regime change” came about – a change that was perceived as a real revolution – made it possible to implement a radical programme of economic reforms that included very tough economic measures which, under normal circumstances (or in circumstances like those occurring in other Central and Eastern European Countries (CEECs) by the same time would have been extremely unpopular.

Although at the time of the political change most economists agreed with the necessity to adopt the measures needed to transform the centrally planned economy into a market economy (liberalisation of markets and prices, opening of the economy to the world, privatisation of state-owned enterprises, prevention of uncontrolled inflation and establishment of a new institutional framework), there were different viewpoints as to the pace and sequencing of implementation of such measures. While some advocated for fast stabilisation and liberalisation, in order to take advantage of the population’s willingness to accept tough measures involving sacrifices and the temporary weakening of the power of the interest groups allied to the former regime (the nomenklatura); others were in favour of a gradual implementation of the reforms, in order to avoid economic decline and give the domestic business sector time to adapt to foreign competition.

In 1990, the Czechoslovak government opted for fast-track reforms: far-reaching liberalisation of prices (with the subsequent elimination of subsidies) and liberalisation of foreign trade was undertaken and accomplished in 1990-1991, thus rectifying the previously distorted price structure; in order to prevent an uncontrollable increase of prices and inflation, fiscal and monetary restrictions were implemented. These included a dramatic decrease in public expenditure, particularly on transfer payments to companies, as well as administrative limitations on bank loans (eliminated in 1992). The first stage of privatisations was completed in 1990-1991; and consisted in restitution of real estate, farmland and industrial property nationalised after 1948 to their former owners, as well as “small-scale privatisation” affecting about 23000 small enterprises or economic facilities, through public auctions only open to domestic bidders. Other state assets were transferred to municipalities; and a first wave of privatisations of large enterprises through “coupons” was implemented in 1992 (the second one was launched in 1994, after the separation of the Czech and Slovak republics). Banking sector reforms – which had been under preparation since the second half of 1980s - were also undertaken from an early stage (since January 1990); several partial changes of the tax system were implemented between 1990 and 1992 and a comprehensive tax system reform took effect at the beginning of 1993, when a new structure corresponding to the tax system in market economies was introduced.

Due to these reforms, but also due to other factors, such as the dissolution of the Council for Mutual Economic Assistance (CMEA/COMECON) and the related loss of foreign markets for Czechoslovak products, the output of the Czech economy, which had increased by 4.5% in 1989, fell by 1.2 % in 1990, by 11.5% in 1991 and by 3.3% in 1992; and only in 1993 started to grow again. However, despite this output decline, the Czech transformation recession was moderate, compared to the other countries in the region.

After four years of growth (even at 6% in 1995), at the beginning of 1997 economic growth slowed down dramatically and it was necessary to introduce a new package of economic measures, including further stabilisation measures (fiscal restrictions, re-introduction of temporary import

levies to counterbalance the current account deficit, etc.) as well as a number of structural reforms designed to eliminate the systemic and institutional shortcomings of the Czech economy. Thus, six years after the beginning of liberalisation, economic recession became – alongside the prospect of EU membership – the driving force for long-needed structural reforms at the micro-economic level.

In sum, despite the inevitable costs and mistakes during the economic transition, it can be concluded that in the Czech experience, the early rejection of a “third way” between socialism and market economy was a very important factor for the relative success of the transformation process, measured in terms of an increase in economic efficiency and the welfare of the population, and the country’s accession to international economic and political structures of the market economies.

However, the Czech experience with economic transition also shows that liberalisation and stabilisation alone are not sufficient for successful transformation: adequate legislation and market institutions must be introduced.

Slovakian transformation

1990-1992: Early transition within Czechoslovakia:

- ❖ Deep transition recession during 1991-1992,
- ❖ Swift privatisation along three fronts (restitution, small-scale privatisation, voucher privatisation),
- ❖ Price liberalization,
- ❖ Break-up of Czechoslovakia in a negotiated way and with strenuous attempts by both sides to minimize any economic fall-out.

1992-1998: Independence and the stalled transition:

- ❖ On January 1, 1993 foundation of the independent Slovak Republic,
- ❖ New currency, split of the monetary union,
- ❖ Expansionary fiscal policy,
- ❖ Fixed exchange rate,
- ❖ Liberalization of the foreign trade and prices,
- ❖ High interest rates,

1998-2002: Initial reforms and cleaning up the economy

- ❖ Floating exchange rate,
- ❖ Restored macroeconomic stability,
- ❖ Restructuralization and privatization of the banking sector,
- ❖ Restrictive fiscal policy measures,

2002-now: Completing the transition – structural reform and EU and EA accession:

- ❖ Reforms in many areas (tax reform, pension reform, social insurance, labour market),
- ❖ Public finance reform,
- ❖ Entry to the European Union, NATO, European Exchange Rate Mechansim (ERM II), Euro area,
- ❖ Accelerating economic growth.

Best practice: During the EU Integration process of the Slovak Republic, a Pre-Accession Economic Programme (PEP) was prepared under the aegis of the Slovak Ministry of Finance in co-operation with other ministries and government agencies as well as social partners.

The PEP included public finance objectives and structural reform priorities needed for EU accession and prepared further the institutional and analytical capacity necessary to participate in European Monetary Union. It can be considered as the precursor of the Convergence/Stability Programmes which are worked out by the EU Member States.

4.3. Territorial transformations in Poland

The Polish government undertook a complex and comprehensive restructuring of public administration and public finance. This required complex legislation and was effectively implemented in 1999.

The underpinning of the reforms has been provided by restructuring the country into gminas, poviats and voivoids, giving local authorities more responsibility for service delivery. Decentralizing functional responsibilities has reduced central government employment.

Local self-governments in Poland have been functioning since 1990 in 2,489 *gminas*. The reforms have introduced two new levels of self-government and significantly reduced the central government's administrative presence at the sub-national levels.

The state has decentralized responsibilities and financial capacities to 308 democratically elected local self-governments at the *poviat* level and to the authorities of 65 *urban gminas* that were granted poviat rights.

The reforms have also radically reduced the number of existing **voivodships** from 49 to 16, with this act enabling them to create regional development policies.

Gminas run nurseries, kindergartens, elementary schools, libraries and cultural centres and maintain local roads. A general responsibility clause provides that gminas are responsible for all public matters of local significance that have not been reserved by law for other entities and authorities.

Gminas also perform tasks delegated to them by the central government and state administration and which remain under state supervision. These responsibilities may be placed on gminas by law or through voluntary agreements with state agencies. The law provides assurance that gminas will be provided with the funds necessary to carry out these delegated tasks.

Poviats constitute the second tier of local self-government. There are 308 poviats (county-level governments) and 65 urban gminas (larger towns) endowed with poviat rights (by assuming poviat functions, poviat infrastructure, and poviat budget authority).

Poviats are large enough to maintain efficiently many of the everyday institutions of public life, such as secondary schools, general hospitals, as well as poviat police and fire stations, sanitary inspectorates and tax offices. They are small enough - on average 80-100 thousand inhabitants - to place the administration and the control over these institutions in the hands of the citizens that they serve.

Unlike the gmina, which is responsible for all matters that have not been explicitly assigned to the other levels of government, the poviát implements only those tasks that have been clearly defined for it in the law. Thus, there is no dependence between the poviát and the gmina: each of them execute separately defined public tasks and responsibilities.

The sixteen new voivodships are quite large, with populations ranging between approximately 1 and 5 million, and an average population of approximately 2.4 million. Democratic voivodship self-governments have independent legal identities, their own budgets and extensive powers in the area of economic policy.

Councils known as Sejmiks (regional parliaments) are the decision-making bodies of voivodship self-governments. They are elected in general elections. The Sejmiks, in turn, elect governing Boards to exercise the executive authority in self-governing voivodships. Boards are headed by the elected Marshals.

4.4. Territorial transformations in Czech Republic

Administrative and territorial reform in the Czech Republic lasts for around 10 years from 1989-2000 and was carried out in two stages.

During the first stage of administrative reform in the Czech Republic did not stop further work on the study of its patterns. In 1990 Czechoslovakia gave up a three-tier structure of administrative management – municipality, district, province – launched in 1960, and returned to the two-tier structure. Despite the fact that in 1997 the Czech Parliament approved a law on a two-tier structure of the administrative division of the country, which borders and names reproduced territorial structure of 1948-1960 period, the actual implementation of the new administrative-territorial division of the country took place only in 2000, after adoption of laws on elections to local self-government bodies, determination of their status, powers and relations between local and central government.

According to the Act no. 129/2000 Coll. (Law on Regions) on higher-level territorial self-governing units, the Czech Republic is divided in 13 regions (*kraje*) and one capital city (*hlavní město*) with regional status as of 1 January 2000; the lower level of self-governance consists of 6242 local communities. The older administrative units

seventy-three districts (*okresy*, singular *okres*) are still recognized and remain the seats of various branches of state administration, such as the judicial system.

4.5. Territorial transformations in Slovak Republic

Territorial reform was held in Slovakia in 2002, lasted more than 10 years and was carried out in three stages.

The first stage of reform during 1990-1996: 1) formation of single-level system of governance in municipalities and cities; 2) The Slovak National Council approved a series of laws under which local government was restored and displayed in the Constitution (1992), municipalities received a high degree of independence to solve local problems; 3) cancellation of regions and transition from a 3-tier (province, district, town) to 2-tier system of administration – 38 districts that remained from the previous system and bodies of the first level – 121 territorial unit. Through these events the government enabled to suspend decentralization and reduced reforms to just deconcentration.

During the second stage from 1996 to 1998 structural changes in government were carried out on the principle of division of responsibilities between administrative authorities, namely: 1) 8 regions (*kraje*) and 79 districts were created; 2) at the same time increased the number of district offices from 38 to 79 and reduced the number of local offices, which led to the "horizontal" integration; 3) adopted an amendment to the Act No369 / 1990 "On municipalities" (1998) to determine the clarity on the role of municipalities.

Practice shows that such deconcentration has not justified expectations regarding the rationalization of public administration, and became a tool to strengthen the position of the dominant political party "Movement for a Democratic Slovakia", which used it for their own purposes on the eve of parliamentary elections and led to increase in the number of officials and the formation of "unnecessary" bureaucracy at the district level.

The third stage of the reform from 1998 to 2002 was marked by a change in the political situation of the country, the advent of the new government, which influenced the preliminary plans for the reform of the administrative system and public

administration and led to the "broad" reform, which was reflected by the adoption of Strategy of Public Policy Reforms in Slovakia (December 1999); Administrative Reform Strategy (2000) and the Concept of Decentralization and Modernization of Public Administration (2000). This latter document was the main instrument through which a transfer of powers and responsibilities between the state, local governments and territorial units of a higher level is carried out today.

Slovakia, unlike the Czech Republic adopted the Law "On decentralization" in 2001, under which created the elected regional council as compensation for the existence of regional authorities and not conducted liquidation of "regional" government authorities at district level. In our opinion, the aforementioned actions of the government of Slovakia during this period were mainly the result of pressure from the EU on the creation of middleware management.

Completion of reforms in Slovakia took place in 2002, which resulted in creation of around 3000 thousand settlements (towns and villages) and 8 regions with their own government. However, after the adoption by parliament of a number of laws on fiscal decentralization, strengthening government control mechanisms Slovakia hosted the final stage of the administrative reform, which included the development of financial instruments enforcement powers transferred from central government to local and regional self-government decentralization and strengthening of the principle of subsidiarity.

4.6. Territorial transformations in Hungary

In Hungary, it is particularly significant that preparation for local government reform and political discussion had already begun in 1987-8. This fact had an impact on the shape of the reform, which was ratified by parliament as early as in May 1990. Fiscal reform, which created the basic tax structure of the state had already been introduced before the political transition of 1989. In consequence, local government was assigned its own local tax bases and the share of national taxes.

Second, the advanced state of preparation for reform, was also reflected in their scale; since it was applied not only to communes, but also to districts, the next tier of

administration. This distinguished the Hungarian reform from all other post-socialist countries.

Administratively, Hungary is divided into 19 counties (*megye*, plural *megyék*). In addition, the capital (*főváros*), Budapest, is independent of any county government. The counties and the capital are the 20 NUTS third-level units of Hungary. The counties are further subdivided into 198 ridings (*járás*, plural *járások*) as of 1 January 2013. There are also 23 towns with county rights (singular *megyei jogú város*), sometimes known as "urban counties" in English (although there is no such term in Hungarian). The local authorities of these towns have extended powers, but these towns belong to the territory of the respective county instead of being independent territorial units.

Since 1996, the counties and City of Budapest have been grouped into 7 regions for statistical and development purposes. These seven regions constitute NUTS' second-level units of Hungary. They are: Central Hungary, Central Transdanubia, Northern Great Plain, Northern Hungary, Southern Transdanubia, Southern Great Plain, and Western Transdanubia.

Control questions:

1. How would you estimate the process of convergence between economies of transition countries and "old" Europe?
2. What are the main indicators of transformation according to EBRD?
3. Define the main features of Czechoslovakian "velvet divorce".
4. What were the specifics of "goulash communism" in Hungary?
5. Describe the difference of Polish model of territorial transformation from other V4 states.
6. What was the pass of Slovakia to decentralization?

True/false

1. V4 countries had completed their transformation process in large scale during first five years. TRUE/FALSE
2. All V4 countries exceed 50% of income and price convergence toward Western Europe states. TRUE/FALSE
3. There is no dependence in Poland between the poviats and the gmina: each of them execute separately defined public tasks and responsibilities. TRUE/FALSE
4. All V4 states had been transitioned to 2-level system of administration TRUE/FALSE

Issue for discussion

Which strategy of transformation – gradualism or shock therapy – was more typical for Ukraine?

THEME 5. DECENTRALIZATION AND SELF-GOVERNMENT AS A BASIS FOR EFFECTIVE REFORM OF THE PUBLIC SPHERE – EXPERIENCES OF POLAND AND POSSIBILITIES OF THEIR APPLICATION IN UKRAINE¹

5.1. Definition and idea of self-government

Today, every democratic country has included self-government in territorial and administrative structures of its public governance. The idea that self-government is actually the condition of democracy is not questioned. What can be discussed, however, it is the scale, scope and number of territorial levels, at which self-government is represented.

Self-government is defined as the organization of local and / or regional community and the form of public administration, according to which people inhabiting a particular territory constitute a local community and relatively independently (from central government structures) decide about performing public functions. The scope and type of public functions performed at the self-government level depend on community needs and on the legal system of a given country (constitutional and legislative provisions)

Principles of the functioning of territorial self-government:

1. **Unitarity** – every state is an integrated entity. Laws established at the regional and local levels must be consistent with national legislation. Self-government units are controlled by central administration. However, the control must be based on transparent rules that are stable over time.

2. **Subsidiarity** – public authority should rest in the hands of institutions closest to the citizens. Thus, competence and financial resources should be allocated, firstly, to the municipalities as basic territorial units. Their tasks, however, may be transferred to a higher level, i.e., to the State only when the proposed action cannot be sufficiently achieved by the self-government.

3. **Relative independence** – self-government performs its tasks acting on its own responsibility without orders from other public authorities. The supervision of the government administration is limited to issues pertaining to regulatory compliance.

¹ Prepared by Mariusz E. Sokołowicz, University of Lodz, Poland

4. **Democracy** – self-government authorities are elected in democratic, universal, direct, equal and secret elections.

Characteristics of territorial self-government

1. It is formed under the provisions of national law and acts within the limits specified by national regulations.
2. All residents of local territorial units are its members by law
3. Its decisions are made on its own behalf and responsibility
4. It has its own democratic organization established by law
5. It performs tasks in the field of public administration in forms appropriate for this administration
6. It adopts its own annual budget, which **is not part of the** state budget or the budget of other local authorities
7. It is the subject of both public and private law (it has its own legal personality and judicial ability)
8. Its relative autonomy is limited by the supervision of state bodies, which usually relates to regulatory compliance
9. It is controlled and protected by independent courts.

5.2. Differentiation of local government structures in Europe

In the context presented above, we should indicate important differences between the notion of **decentralization and de-concentration of power**. The first one refers to the idea of territorial self-government directly. It assumes that local and/or regional communities have the right – within general rules of national law – to choose the authorities at local / regional levels independently from national elections. What is more, these authorities, in order to perform their tasks properly, should have the possibility to enact local laws, own real estate, and collect public revenues that are independent of the national government fiscal system.

De-concentration of power, on the other hand, is usually limited to the establishing of territorial branches of central government administration, which are completely dependent on political decisions taken at the central government level. De-concentration may be helpful in enhancing the efficiency, with which local public tasks are performed, but does not make local communities individual subjects of law. In other words, **every decentralization of power is also a de-concentration, but not every de-concentration is a decentralization of power.**

Self-government in the light of the European national law

European Charter of Local Self-government is international convention, adopted under the auspices of the Congress of the Council of Europe on 15 October 1985. The Charter commits the ratifying member states to guaranteeing the **political, administrative and financial independence** of local authorities. It provides that the principle of local self-government shall be recognized in domestic legislation and, where practicable, **in the constitution**. Local authorities

are to be **elected by universal suffrage**, and it is the earliest legal instrument to set out the principle of subsidiarity.

Local authorities, acting within the limits of the law, are to be able to regulate and manage a substantial share of public affairs under their own responsibility in the interests of the local population. The Charter considers that public responsibilities should be exercised preferably by the authorities closest to the citizens, a higher level being considered only when the co-ordination or discharge of duties is impossible or less efficient at the level immediately below. To this end, the Charter sets out the principles concerning the protection of local authorities' boundaries, the existence of adequate administrative structures and resources for the carrying out of their tasks, the conditions under which responsibilities are to be exercised, the financial resources of local authorities and the legal protection of local self-government. It limits the administrative supervision of local authorities' activities to the verification of lawfulness only.

European Charter of Local Self-government was signed and ratified by Poland in 1993, Ukraine in 1996/1997, Slovakia in 1999/2000, and Russia in 1996/1998. Self-government at a basic level (municipality/ commune) exists in each member state of the Council of Europe. The situation is different when it comes to regional self-government, which can be found only in a few European countries. That is due to different types of the system of state organization (federal, unitary, regionalized), different history, socio-economic system, but also to the size of the country. Europe does not strive to propose one-size-fits-all self-government model.

Table 5.1 Different status of European regions – value of diversity

No.	Legal status of regions	Countries
1.	Regions having the right to enact laws equal to national law, having constitutional guarantees that cannot be questioned against their will	Austria, Belgium, Finland – Åland Islands, Germany, Italy – regions with special status. Russia, Slovakia, Spain, Switzerland
2.	Regions having the right to enact laws equal to national law, without constitutional guarantees	Great Britain – Scotland and Northern Ireland
3.	Regions having the right to enact laws under national legislation rules, having constitutional guarantees	Czech Republic, Hungary, Italy – regions with ordinary status, Netherlands
4.	Regions having the right to enact laws under national legislation rules, having constitutional guarantees	Great Britain – Wales, Poland
5.	Regions with no legislative rights (only decision-making rights), where authorities are elected directly	Croatia, Denmark, Finland – Kainuu region, France, Norway, Sweden, Turkey, Ukraine, Great Britain – Greater London
6.	Regions with no legislative rights (only decision-making rights), where authorities are elected indirectly (e.g. elected by local authorities)	Albania, Finland – except Åland Islands and Kainuu region, Latvia, Romania

Source: CDLR, Rapport sur les pratiques européennes et les développements récents en matière d'autonomie régionale, Conseil de l'Europe, Démocratie locale et régionale, Strasbourg 2007, p.162; [after] Pietrzyk, I., Zróżnicowanie statusu regionów w UE a projekt Europejskiej Karty Demokracji Regionalnej, Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu Nr 46, 2009, pp. 449-458.

Table 5.2 Local and regional government in Europe

Country	Self-government level		
	Local	Intermediary	Regional
Albania	308 communes (<i>komuna</i>) 65 municipalities (<i>bashkia</i>)	-	-
Austria	2357 municipalities (<i>Gemeinden</i>)	-	9 regions (Länder)
Belgium	589 municipalities (<i>gemeenten</i>)	10 provinces (provincies)	3 regions (<i>gewesten</i>) + 3 communities (<i>gemeenschappen</i>)
Bosnia and Herzegovina	137 municipalities (<i>opštine</i>)	-	10 cantons (<i>kantoni</i>)
Bulgaria	264 municipalities (<i>obshtina</i>)	-	-
Croatia	429 municipalities 106 towns, 21 cities (<i>grad</i>)	-	21 counties (<i>županija</i>)
Cyprus	484 communities (<i>koinotites</i>) 39 municipalities (<i>dimoi</i>)	-	-
Czech Republic	6 250 municipalities (<i>obec</i>)	-	14 regions (<i>kraje</i>)
Denmark	98 municipalities (<i>kommuner</i>)	-	5 regions (<i>regioner</i>)
Estonia	193 rural municipalities (<i>vald</i>) 33 cities (<i>linn</i>)	-	-
Finland	336 municipalities (<i>kunta</i>)	-	2 regions with special status: Region of Kainuu Åland Islands
FYR Macedonia	84 municipalities (<i>opština</i>) City of Skopje	-	-
France	36 682 municipalities	96 departments 5 overseas departments	22 regions 4 overseas regions
Georgia	64 municipalities (<i>minicipaliteti</i>) 5 self-governing cities (<i>tvitmmarveli qalaqebi</i>)	-	-
Germany	11 500 municipalities (<i>Gemeinden</i>) cities (<i>Städte</i>)	> 300 counties (<i>Kreise</i>)	16 regions (Länder)
Greece	325 municipalities (<i>dimos</i>)	-	13 self-governed regions (<i>peripheria</i>)
Hungary	3 175 municipalities (<i>települések</i>), cities (<i>városok</i>) cities with county rank (<i>megyei jogú városok</i>) capital city districts (<i>fővárosi kerületek</i>) City of Budapest	19 counties (<i>megyék</i>)	-
Iceland	76 municipalities (<i>sveitarfélög</i>)	-	-
Ireland	5 boroughs, 80 towns	5 cities 29 counties	-
Italy	8 094 municipalities (<i>comuni</i>)	101 provinces (<i>provincia</i>)	20 regions (<i>regione</i>)
Latvia	110 municipalities (<i>novads</i>) 9 cities (<i>pilseta</i>)	-	-
Lithuania	60 municipalities (<i>savivaldybė</i>)	-	-
Luxembourg	106 municipalities	-	-
Malta	68 local councils (<i>kunsill lokali</i>)	-	-
Montenegro	21 municipalities (<i>opština</i>)	-	-

Country	Self-government level		
	Local	Intermediary	Regional
Netherlands	418 municipalities (<i>gemeenten</i>)	-	12 provinces (<i>provincies</i>)
Norway	430 municipalities (<i>kommune</i>)		19 counties (<i>fylkeskommune</i>)
Poland	2 479 municipalities (<i>gminy</i>)	379 counties (<i>powiaty</i>), incl. 65 municipalities with special status	16 regions (voivodship / województwo)
Portugal	4 259 parishes (<i>freguesias</i>) 308 municipalities (<i>municípios</i>)	-	2 autonomous regions (Açores + Madeira)
Romania	2 861 municipalities (<i>comune</i>) 217 towns (orase) 103 cities (municipii)	-	41 counties (<i>judete</i>)
Serbia	174 municipalities (opstina) cities (grad)	-	2 autonomous provinces: (<i>Autonomna Pokrajina Vojvodina</i> + <i>Autonomna Pokrajina Kosovo-Metohija</i>)
Slovakia	2 792 municipalities (<i>obce</i>) 138 cities (mestá)	-	8 self-governing regions (<i>samosprávne kraje</i>)
Slovenia	211 municipalities (<i>občin</i>)	-	-
Spain	8 117 municipalities (<i>municipios</i>) county councils (<i>diputaciones</i>) Canary Island county councils (<i>cabildos</i>) Balearic Island county councils (consejos insulares)	-	17 autonomous communities (<i>comunidades autónomas</i>) 2 autonomous cities (ciudades autónomas)
Sweden	290 municipalities (<i>kommuner</i>)	-	17 county councils (<i>landsting</i>) 4 regions (<i>regioner</i>)
Switzerland	2 551 municipalities	-	6 half-cantons 20 cantons
Turkey	34 305 villages (<i>köy</i>) 2 950 municipalities (<i>belediye</i>) 81 special provincial administrations (<i>ilözel idaresi</i>)	-	-
Ukraine	10 278 villages (<i>sela</i>) 782 towns (<i>selyshcha</i>) 457 cities (<i>mista</i>)	488 districts (raions)	24 regions (oblasti) 1 autonomous republic (<i>Crimea</i>)
United Kingdom	466 local authorities (county councils, non-metropolitan district councils, London boroughs, Corporation of the City of London, unitary authorities)	-	Nations and regions: England, Wales, Scotland, Northern Ireland

Source: *Local and regional government in Europe. Structures and competences*, The Council of European Municipalities and Regions, Paris-Brussels 2011. Available at: http://www.ccre.org/docs/Local_and_Regional_Government_in_Europe.EN.pdf. Accessed 16.09.2015.

Within Europe, countries differ significantly from the point of view of self-government status. What they have in common, is the existence of basic self-government units at the local level. Some of them also decided to establish self-government at the regional level. However, in case of regions, their status and the level of autonomy depend on the system of government in a country. Generally, in federal countries, regional governments have much more autonomy than in unitary countries.

The biggest autonomy is given to autonomous regions or provinces in countries such as: Spain, Italy, Great Britain or Finland. In Spain and Italy there are also big differences between the level of autonomy of regions (e.g. Sicilia or Corse are more independent from central government regulations than other Italian or French regions). In such countries, high level of autonomy offered to some regions is as a way to limit separatist tendencies.

At the local level, attention is drawn to different number of local self-government units, as well as to the diversity of their sizes and population. In consequence, some countries have to face the problem of too small units and thus, they have to work out institutional solutions for inter-communal cooperation, while other cope with the challenge of too big communes to be governed effectively. Finally, only few European countries have also self-government at the intermediary level. It is usually the case of the biggest countries on the continent.

5.3. Self-government as a way towards liberalization and real democratization of political life

Developing self-government can be interpreted as a way to boost democracy in societies and to strengthen the effectiveness of public sphere. Among the most frequently highlighted advantages one can mention:

1. Implementation of the principle of subsidiarity;
2. Enhancing citizens' participation in public life;
3. Reduction of the monopoly of political power and the establishment of "political markets" structures;
4. Increasing the efficiency of public sphere;
5. Enhancing social and territorial capital;

Speaking of the principle of subsidiarity, establishing elected authorities that operate at local and regional levels shortens the distance between the centers of power and citizens. It increases the possibility to better adapt public activities to actual needs of citizens.

Self-government can also positively contribute to bigger participation of citizens in public life. It is both the consequence of shorter power-citizens distance, and more

structured system of controlling public authorities. In relatively well functioning self-government, control mechanism comes from the bottom (citizens), from the top (central administration, court systems) and from the neighborhood (other self-governments). At the local level, it is also easier to implement various mechanisms of direct democracy and civil participation, such as referenda, public consultation meetings with residents, public discussions, deliberative polls, participatory budgets, etc.

The abovementioned political surrounding helps to reduce the monopoly of power. Simplifying slightly, one can say that having more political entities introduces bigger competition between them. In other words, it gives the citizen more possibilities to choose from among various political options. Having this choice helps to establish some kind of “political markets” and contributes to more liberal structure of societies.

Self-government is also usually treated as a way to improve the effectiveness of public sphere. Performing public tasks at a smaller scale lowers fixed cost and increases flexibility. Higher efficiency is also a consequence of better recognition of citizens needs and better provision of public goods. Local governments provide also a variety of public goods, giving citizens a possibility to exercise the so called “foot voting”. It denotes situations when citizens may choose what sort of government they wish to live under or what policy they want to be pursued by deciding where to live or where to use educational or healthcare services, etc.

Finally, self-government should also be helpful in making people proud of the place they live in. It should strengthen territorial identity and increase the level of bridging social capital between people. The activities of local and regional authorities, thanks to good knowledge about local resources (material and immaterial) and development opportunities but also weaknesses or threats, can contribute to the strengthening of the so called territorial capital of a given commune, town, city or region. Treating territory specific resources (i.e. those which cannot be restored in another location or cost of this restoration is disproportionate to the benefits) as a territorial capital means that for the region they represent assets that can be used for economic purposes and bring added value or can be invested (accumulated). What characterizes territorial capital, is its embeddedness within a particular territory,

although the effects of the use of territorial capital in the form of goods, services, technology solutions, local and regional brands, with the support of self-government structures, may be transferred and discounted at supra-regional and international level.

5.4. Restoring self-government in Poland in 1990s as “hidden and underestimated shock therapy”

Poland restored local self-government in communes on 27 May 1990, after 40 years of its non-existence. The system of local governance was based on independent commune self-government units with legal personality, separate budget, specific public assets and clearly specified powers. It should be noted that the process should be treated as equally important to such systemic changes as the introduction of a multi-party system, the freedom of economic activity, open currency exchange, or openness to international flows of people and capital. All of these elements are usually referred to as “shock therapy” and associated only with the economic sphere. Meanwhile, the introduction of local self-government understood as a change in the mindset about how the country is governed including citizens involvement in the process and increasing the efficiency of the provision of most public services, was equally shocking for Poles.

In the years to come, decentralisation of public administration continued to be crowned in 1999 with the restitution of the three-level territorial division of the state into: communes as the fundamental element of local self-government, counties and self-government provinces (voivodeships) by virtue of the Act of 5 June 1998 on county self-government and regional self-government. Independent units of self-government set up a structure independent of government administration with no hierarchical subordination, which performs public tasks.

Restitution of local self-government in Poland

1. Restitution of local self-government in Poland became feasible as a result of changes initiated in 1989. They enabled democratisation of political, social and economic life, doing away with the centralised system of power and empowering local communities
2. Although first modest attempts of restitution of the local self-government were undertaken already in 1980-81, a realistic opportunity emerged in 1989, during „Round Table” negotiations
3. At the beginning, the issue of local self-government was not included on the list of subjects to be discussed at the “Round Table”. Finally, the participants declared readiness to work on the area. Major discussions took place in the team dealing with associations and local self-government, which was later divided into two separate sub-teams, one for associations and one for local self-government

4. The first self-government reform in 1990 was based on pre-war solutions and was temporary as it restored the self-government only at the commune level. It started with the adoption on 8 March 1990 of three key laws, i.e.: Act on amending the Constitution of the Republic, Act on local self-government and electoral ordinance for commune councils.

Source: Kalisiak-Mędelska, M., Self-government in Poland and Russian Federation – Introductory Remarks; [in:] Sokołowicz, M. E., (ed.), Functioning of the Local Production Systems in Central and Eastern European Countries and Siberia Case Studies and Comparative Studies, University of Łódź Press, Łódź 2015, pp. 122-123.

As a result of reforms of 1998 at the level of a region, we introduced one of fundamental principles of a democratic state, i.e. dualism of the system of public administration (Table 5.3). Administration as a function is performed by both government administration bodies (voivode and non-consolidated administration) and independent bodies of the self-government of the region, which administer all public matters connected with this level of local self-government on their own behalf and responsibility (independence in performing tasks and accountability is also true of counties and communes).

Table 5.3 Public authorities in Poland – structure

Public administration	
Government administration	Self-government administration and their competences
CENTRAL (central government and offices)	-
REGIONAL: non-consolidated consolidated – reporting to the Voivode (<i>wojewoda</i>) Competences: Supervising self-government Supervising non-consolidated central administration agencies (e.g. branches of ministries, public universities) Supervising non-consolidated central administration agencies (e.g. police, army, forestry)	16 REGIONS (<i>województwa</i>) Competences: economic development higher education environment employment social policy regional road management
-	379 COUNTIES (<i>powiaty</i>), incl. 65 municipalities with special status Competences: road building and maintenance secondary education civil protection environment employment health
-	2479 MUNICIPALITIES (<i>gminy</i>) Competences: public transport social services housing environment culture pre-school and primary education

Source: Own study.

Generally speaking, self-government reform in Poland is considered to be one of the most effective reforms, introduced during the socio-political changes in the 1990s. Also public perception of these reforms is generally positive. However, there are also many shortcomings in Polish self-government and its functioning should be perceived as a balance of advantages and disadvantages.

Table 5.4 Benefits and shortcomings of Polish self-government

Benefits	Strength	Shortcomings	Strength
implementation of the principle of subsidiarity	++	over-politicization of local and regional affairs	--
reducing the monopoly of political power	+++	increasing corruption	-
enhancing civic participation	+	lack of cooperation culture among territorial units	---
strengthening the efficiency of public services	++	weak coordination of public services, especially in metropolitan areas	--
enhancing economic attractiveness of territorial units	++	overusing “one-size-fits-all” strategy	---

Source: Own study.

Surely, the implementation of self-government in Poland has helped to implement the principle of subsidiarity and to reduce the monopoly of power. Although municipal and county councils, mayors and voivodes’ offices have been dominated by the leading parties, the autonomy of government and self-government elections has resulted in various configurations in this matter. Besides, within the period of over 20 years of the history of local government, the culture of more participatory governance and civic participation has developed. Finally, de-centralization of power and some competition in the public sphere have also increased the efficiency of public services and attractiveness of territorial units.

On the other hand, among the most outstanding shortcomings of Polish self-government, one can mention over-politicization of local and regional affairs. However, neither this nor cases of corruption seem to be consequences of self-governance and would have arisen also without it. What really seems to be a challenge for the Polish self-government today, it is the lack of cooperation culture among territorial units. During last years, some attempts to enhance inter-communal cooperation have been undertaken. Today, they are manifested primarily by promoting

integrated projects when financing various undertakings with European structural funds. Finally, to achieve more effective implementation of development strategies in territorial units, less “one-size-fits-all” approach should be used. In other words, Poland needs today more “self”, and less “government”, which means primarily the approval of a greater variety of legal and institutional frameworks, in order to adapt them to specific local conditions (e.g. in local taxation policy, or in the adoption of local laws). It must be stated here that territorial heterogeneity should not be treated as a threat to the unity of the unitary state (as it sometimes is), because it usually refers to these public sphere domains that are not related to central government duties (internal affairs, courts, international relations, national defense etc.). According to the principle of subsidiarity, self-governments deliver such public goods, whose de-centralized provision, even under the conditions of competition between various public entities, contributes to higher effectiveness of the public sector and higher level of participatory governance.

Control questions

1. *What main features define self-government?*
2. *List and explain four main principles of territorial self-government functioning*
3. *What does the subsidiarity rule mean?*
4. *How can self-government contribute to the enhancing of the efficiency of the public sector?*
5. *How can self-government contribute to the enhancing of civic engagement in public affairs?*
6. *What does “foot voting” mean?*
7. *What is the difference between decentralization and de-concentration of power?*
8. *Is there one standard model of self-government in European Union?*
9. *What is the structure of self-government in Poland?*

Assignments

1. *After a group discussion, indicate 5 main advantages and 5 main disadvantages of high level of decentralization of power in your country*

<i>Advantages</i>	<i>Disadvantages</i>
1.	1.
2.	2.
3.	3.
4.	4.
5.	5.

2. *After a group discussion, indicate 3 main similarities and 3 main differences between the self-government structures in Ukraine and Poland*

<i>Similarities</i>	<i>Differences</i>
1.	1.
2.	2.
3.	3.

THEME 6. PECULIARITIES OF REGIONAL POLICY FOR V4 IN THE FRAMES OF EUROPE 2020 STRATEGY AND TERRITORIAL AGENDA 2020¹

“Europe can succeed if it acts collectively, as a Union. We need a strategy to help us come out stronger from the crisis and turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion.”

Europe 2020 Strategy. Executive summary

6.1. The essence and goals of Europe 2020 Strategy

Europe 2020 represents by itself a 10-year strategy elaborated by the European Commission as a continuing of the Lisbon Strategy 2000–2010. Its objective is *“smart, sustainable, inclusive growth”* provided with greater level of coordination of both national and European policy.

In the frame of Europe 2020 Strategy the EU has set five ambitious targets – in the areas of employment, education, innovation, climate/energy and social inclusion– which are expected to be achieved till 2020 (see 0). Each EU member has approved its own national objectives in each of these fields.

Table 6.1 Europe 2020 Targets (EU-level)

1. Employment	• 75% of 20-64 year-olds to be employed
2. R&D / innovation	• 3% of the EU’s GDP (public and private combined) to be invested in R&D/innovation
3. Climate change / energy	• greenhouse gas emissions 20% lower than 1990 (or even 30%, if the conditions are right) • 20% of energy from renewables • 20% increase in energy efficiency
4. Education	• Reducing school drop-out rates below 10% • At least 40% of 30-34-year-olds completing tertiary education
5. Reducing poverty and social exclusion	• Lifting at least 20 million people out of the risk of poverty and social exclusion

Source: Delivering on the Europe 2020 Strategy. Handbook for Local and Regional Authorities

The EU has promoted new engines for enhancing growth and employment. The abovementioned fields are expected to be achieved via seven interconnected flagship

¹ Prepared by Ihor LISHCHYNSKY, Ternopil National Economic University, Ukraine

initiatives (see Fig. 6.1). The authorities of the EU and Member States should coordinate their efforts within each initiative.

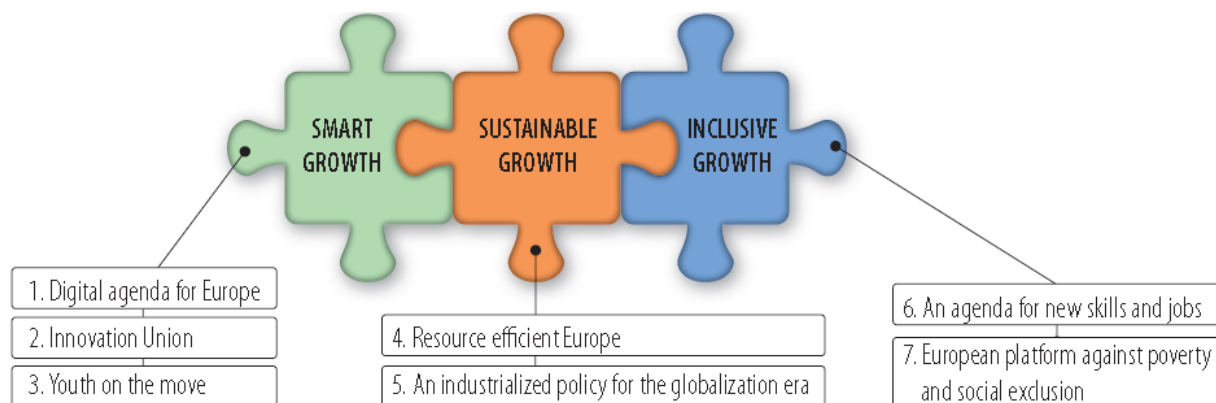


Fig. 6.1. Seven EU Flagships

Source: Delivering on the Europe 2020 Strategy. Handbook for Local and Regional Authorities

A *National Reform Programme* must be prepared by all Member States under the Europe 2020 Strategy, the document tightly connected to the *Stability and Growth Pact* (SGP). The NRP is related to structural economic and employment policies, while the SGP addresses public finances. Both are founded on the same macroeconomic environment. The NRP distinguishes bottlenecks and socioeconomic reactions in the areas of macro financial stability; labour market; external equilibrium and competitiveness; social protection and inclusion. As it was already mentioned, each Member State sets its own national objectives. For instance the targets of the V4 countries are presented in Table 6.2.

Table 6.2 Europe 2020 targets of Visegrad countries

Member States targets	Employment rate (in %)	R&D (in % of GDP)	Emissions reduction targets (compared to 2005 levels)	Renewable energy (in % of gross final energy consumption)	Energy efficiency	Early school leaving in %	Tertiary education in %	Reduction of population at risk of poverty or social exclusion (in number of persons)
CZ	75%	1% (public sector only)	9%	13%	39,6	5,5%	32%	Maintaining the number of persons at risk of poverty or social exclusion at the level of 2008 (15.3% of total population) with efforts to reduce it by 30,000
HU	75%	1.8%	10%	14.65%	26.6	10%	30.3%	450000
PL	71%	1.7%	14%	15%	96.4	4.5%	45%	1500000
SK	72%	1,2%	13%	14%	16.2	6%	40%	170000

Source: http://ec.europa.eu/europe2020/pdf/targets_en.pdf

The *Committee of the Regions* (CoR) – the Assembly of European local and regional authorities – puts forward local and regional points of view on the EU legislation and also establishes a Europe 2020 *Monitoring Platform* which gathers information on the ground through surveys, studies and meetings covering the local and regional contribution. Once a year the CoR publishes a *Monitoring Report* on Europe 2020.

The Europe 2020 targets require sufficient investments. Besides quality of expenditures is no less vital than quantity. From financial viewpoint, cohesion policy could significantly subsidise to the Europe 2020 objectives, yet numerous other sources are also available at local, regional and national levels of financing, including:

- ❖ own resources of local authorities;
- ❖ resources of local partners;
- ❖ subsidies of municipal and regional bodies;
- ❖ public-private partnerships.

During 2007 – 2013, the EU budget finances Europe 2020 Strategy via three main instruments:

- the European Regional Development Fund (ERDF) funds regional development, competitiveness and co-operation, economic decline in industrial or rural areas (€201 billion);
- the European Social Fund (ESF) responsible for employment, social inclusion and tackling discrimination (€76 billion);
- the Cohesion Fund (CF) covers costs for environment and transport (€70 billion).

The Funds declare an overarching goal of “boosting growth and employment” and are regionally available.

6.2. Achievement “Europe 2020” targets by Visegrad Countries

Czech Republic

The Czech has experienced strong economic recoil during the last two years. In 2014, the economy emerged from a prolonged period of low growth in the aftermath of the global financial crisis, followed by two years of recession. The rebound has

largely been driven by domestic demand. Real GDP growth is expected to have reached 4.5 % in 2015, according to the Commission 2016 winter forecast. This is partly due to strong growth in public investment, with the Czech authorities trying to catch up on their drawdown of EU funds from the 2007-2013 programming period. An expected fall in public investment should contribute to slower GDP growth in 2016 but a pickup is expected in 2017. Risks to this forecast are on the downside, however, with the highly-open Czech economy particularly vulnerable to lower than expected world or euro area demand. There has been a marked improvement in the government's finances, with the general government deficit expected to fall to 1.1 % in 2016 and government debt remaining well below 60 % of GDP.

Forecasts for Czech Republic	2014	2015	2016	2017
GDP growth (% , yoy)	2,0	4,2	2,1	2,6
Inflation (% , yoy)	0,4	0,3	0,5	1,4
Unemployment (%)	6,1	5,1	4,5	4,4
Public budget balance (% of GDP)	-1,9	-0,4	-0,7	-0,6
Gross public debt (% of GDP)	42,7	41,1	41,3	40,9
Current account balance (% of GDP)	-2,0	-2,0	-1,5	-1,3

Fig. 6.2. European Economic Forecast for Czech Republic, Spring 2016

Source: <http://ec.europa.eu/europe2020/europe-2020-in-your-country>

The European Commission has made 4 country-specific recommendations to the Czech Republic in the areas of: taxation; taxation on labour; public finances and health; education.

Hungary

Hungary is on a balanced, albeit still relatively moderate growth path, gradually reducing its macroeconomic imbalances. Real GDP has surpassed its pre-crisis peak and the growth potential has been gradually recovering. Nevertheless, Hungary's rate of potential growth remains a full percentage point lower than before the crisis, which was already comparatively low. In 2015, GDP is estimated to have increased by 2³/₄%,

supported by strengthening private consumption and healthy export growth. A decline in EU-funded investment is projected to slow growth in 2016, but continuing support from private consumption and a gradual recovery in EU-funded investment will see growth returning to levels slightly above potential in 2017. As the impact of lower energy prices fades, inflation is projected to revert to the central bank's target rate by the end of 2017.

Hungary is experiencing no macroeconomic imbalances. Although high external debt rollover needs and the share of non-performing loans remain a concern, risks linked to external and internal liabilities have been reduced. The marked reduction in net external liabilities has been driven by high current and capital account surpluses. Credit flows to the private sector remain subdued in a context of low bank profitability. Policy measures have been taken to make the regulatory environment more predictable in the financial sector, lower the tax burden on banks, reduce the proportion of debt held in foreign currency and introduce subsidised lending schemes. The impact of these recent measures on bank lending is still to materialise. Moreover, policy gaps remain regarding non-cost competitiveness, productivity and the overall business environment.

Forecasts for Hungary	2014	2015	2016	2017
GDP growth (% , yoy)	3,7	2,9	2,5	2,8
Inflation (% , yoy)	0,0	0,1	0,4	2,3
Unemployment (%)	7,7	6,8	6,4	6,1
Public budget balance (% of GDP)	-2,3	-2,0	-2,0	-2,0
Gross public debt (% of GDP)	76,2	75,3	74,3	73,0
Current account balance (% of GDP)	2,2	4,9	5,0	4,5

Fig. 6.3. European Economic Forecast for Hungary, Spring 2016

Source: <http://ec.europa.eu/europe2020/europe-2020-in-your-country>

The European Commission has made 5 country specific recommendations to Hungary in the areas of: financial sector; taxation; public finances; labour market; education.

Poland

The Polish economy continues to experience a stable economic expansion. Driven by domestic demand, real GDP is expected to grow at robust rates of 3.5 % per year in 2016 and 2017, well above the EU average. These growth rates will add to a long period of uninterrupted economic expansion, stretching as far back as 1992 — with Poland being the only EU country that weathered the post-2007 global financial and economic crises without undergoing any recession.

Forecasts for Poland	2014	2015	2016	2017
GDP growth (% yoy)	3,3	3,6	3,7	3,6
Inflation (% yoy)	0,1	-0,7	0,0	1,6
Unemployment (%)	9,0	7,5	6,8	6,3
Public budget balance (% of GDP)	-3,3	-2,6	-2,6	-3,1
Gross public debt (% of GDP)	50,5	51,3	52,0	52,7
Current account balance (% of GDP)	-1,3	0,1	-0,3	-0,9

Fig. 6.4. European Economic Forecast for Poland, Spring 2016

Source: <http://ec.europa.eu/europe2020/europe-2020-in-your-country>

The European Commission has made 4 country-specific recommendations to Poland in the areas of: pensions and taxation; labour market; public finances; investment in rail.

Slovakia

Slovakia's recovery from the crisis was one of the fastest in the EU. According to the Commission 2016 winter forecast, real GDP is expected to have increased by 3.5% in 2015 due to solid household spending and surging investment activity. Investment benefited from intensified drawing of EU funds, as the possibility to make use of funding available under the 2007-2013 programming period came to an end.

Household consumption was supported by an improvement in labour market conditions, solid wage growth, falling prices and favourable credit conditions.

Forecasts for Slovakia	2014	2015	2016	2017
GDP growth (% yoy)	2,5	3,6	3,2	3,3
Inflation (% yoy)	-0,1	-0,3	-0,1	1,5
Unemployment (%)	13,2	11,5	10,5	9,5
Public budget balance (% of GDP)	-2,7	-3,0	-2,4	-1,6
Gross public debt (% of GDP)	53,9	52,9	53,4	52,7
Current account balance (% of GDP)	-0,8	0,8	-0,6	-1,1

Fig. 6.5. European Economic Forecast for Slovakia, Spring 2016

Source: <http://ec.europa.eu/europe2020/europe-2020-in-your-country>

The European Commission has made 4 country-specific recommendations to Slovakia in the areas of labour market; education; taxation and health; infrastructure investment.

6.3. Territorial agenda of the European Union 2020

The concept of “territorial cohesion” win a progressive recognition at the EU level especially with the adoption of the Lisbon Treaty in 2007 where it was among the three fundamental objectives of the EU. An important step toward practical implication of territorial cohesion is the acceptance of the intergovernmental “*Territorial Agenda of the European Union 2020*” (TA2020) in 2011 by the EU Ministries responsible for territorial development and spatial planning.

The tasks of the TA2020 are provision of strategic orientations for territorial development, promotion of place-based policy making in the frames of policies at different government levels and to endorse implementation of the Europe 2020 Strategy in accordance with the territorial cohesion principles that call for a harmonious, efficient, sustainable, balanced territorial development.



Fig. 6.6. Linkage between TA2020 and Europe 2020 Strategy

Source: Territorial Agenda 2020 put in practice - Enhancing the efficiency and effectiveness of Cohesion Policy by a place-based approach.

Thus place-based approach is the link which connect Europe 2020 and TA2020 (see Fig. 6.6). Specifically, the TA2020 determines six territorial priorities for the EU that could contribute the successful implementation of the Europe 2020 Strategy:

- ❖ **Promoting polycentric and balanced territorial development** as an important precondition of territorial cohesion and a strong factor in territorial competitiveness;

- ❖ **Encouraging integrated development in cities, rural and specific regions** to foster synergies and better exploit local territorial assets;

- ❖ **Territorial integration in cross-border and transnational functional regions** as a key factor in global competition facilitating better utilisation of development potentials and the protection of the natural environment;

- ❖ **Ensuring global competitiveness of the regions based on strong local economies** as a key factor in global competition preventing the drain of human capital and reducing vulnerability to external development shocks;

- ❖ **Improving territorial connectivity for individuals, communities and enterprises** as an important precondition of territorial cohesion (e.g. services of

general interest); a strong factor for territorial competitiveness and an essential condition for sustainable development;

❖ **Managing and connecting ecological, landscape and cultural values of regions**, including joint risk management as an essential condition for long term sustainable development

“Europe 2020” is the current key-reference strategy of the EU for the next 10 years. It is aimed at providing “*more jobs and better lives*” by stimulating “*smart, sustainable and inclusive growth*” over the coming decade. It involves integrating EU efforts related to development through greater coordination of national and European policies. This strategy was approved by the European Council in June 2010 after three months of elaboration and consultation.

The TA 2020 also puts forward an ambitious strategy, though applying specifically here to EU territorial development. Although this document is also designed for a very wide audience, it has received a lower level of public recognition than “Europe 2020 strategy”. This probably stems from its elaboration process, which was essentially intergovernmental in nature, i.e. a collaboration between the national authorities responsible for spatial planning and territorial development in the EU. Therefore, the TA 2020 has not been formally adopted by any EU body. It is an updated version of the former Territorial Agenda of 2007. The elaboration process lasted almost two years. Thereafter the TA 2020 was adopted in May 2011 at the informal ministerial meeting held in Gödöllő.

“Europe 2020” and the TA 2020 thus originate from different political processes, and have a different political status. There is however a strong belief that they should be used to reinforce each other. Growth requires proper territorial development policy steps, whereas its acceleration should respect – territorial values|| such as spatial justice, nature and culture protection as well as the wise use of territorial resources, many of which are (virtually) non-renewable. This is the reason why in several EU countries development strategies combine spatial and socio-economic considerations.

While the notion of territorial cohesion also appears in the “Europe 2020” several times the document neither proposes any concrete guidelines for the territorialisation of its priorities nor does it consider the territorial consequences of the

actions proposed. As underlined by the Director Generals of ministerial departments responsible for territorial development policy in the European Union *several issues addressed in the „Europe 2020“ strategy have considerable bearing on European territorial development, however, the references made to territorial cohesion in the document could have been more evident.*

The TA 2020 is the action-oriented policy framework of the ministers responsible for spatial planning and territorial development in support of territorial cohesion in Europe. It aims to provide strategic orientations for territorial development, fostering integration of the territorial dimension within different policies across all governance levels while overseeing implementation of the “Europe 2020” strategy in accordance with the principles of *territorial cohesion*.

In the matrix below (Fig. 6.7), the relationships between the TA 2020 priorities and “Europe 2020” have been analysed. However, it should be noted that it is just to illustrate how the goals of the two policies could be corresponded together – and changed interpretations of the goals will also result in a changed table. Because of “spatially blind” nature of the Europe 2020 targets for a significant number of cells no correspondence could be found.

But even in the fields marked (+) expressing the existence of correspondence, it is generally not easy to find relevant territorial concepts to clarify its nature. The relative lack of synergy between the “Europe 2020” and the TA 2020 may also be partially explained by mental and institutional barriers separating the worlds of territorial development and socio-economic growth. The “Europe 2020” underestimates the impact of territorial structures on smart, sustainable and inclusive growth. Such notions as accessibility, functional areas, territorial capital and services of general economic interest are not even mentioned in the document while networks are limited to transport and infrastructure. Conversely, the TA 2020 frequently refers to smart, sustainable and inclusive growth but fails to present concrete predictions about how this growth might reshape the EU territory in the long run.

		'Europe 2020' priorities/headline targets ²⁸		
		Smart growth: • 3% GDP in R&D	Sustainable growth: • 20/20/20 climate/ energy targets	Inclusive growth: • 75% of pop. aged 20-64 employed • Share of early school leavers < 10%; more than 40% of younger generation with a tertiary degree • 20m. less people at risk of poverty
TA 2020 priorities	1. Polycentric and balanced territorial development	+	No direct correspondence between Europe 2020 headline targets and TA 2020 priorities.	+
	2. Integrated development in cities, rural and specific regions.	+	+	+
	3. Territorial integration in cross-border, transnational functional regions	+	No direct correspondence between Europe 2020 headline targets and TA 2020 priorities.	No direct correspondence between Europe 2020 headline targets and TA 2020 priorities.
	4. Global competitiveness of the regions based on strong local economies	+	+	+
	5. Improving territorial connectivity for individuals, communities and enterprises	+	+	+
	6. Managing and connecting ecological, landscape and cultural values of regions	+	No direct correspondence between Europe 2020 headline targets and TA 2020 priorities.	No direct correspondence between Europe 2020 headline targets and TA 2020 priorities.

Fig. 6.7. Correspondence between priorities of “Europe 2020” and TA 2020

Source: http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/challenges2020/2011_territorial_dimension_eu2020.pdf

It is obvious that the territorial keys necessary to open up the “Europe 2020” to territorial thinking are missing. Such keys would enable decision makers to find the best way of pursuing “Europe 2020” objectives while remaining in line with TA 2020 priorities.

CASE STUDY: Enforcing Moravia-Silesia Employment Pact (Czech Republic)

TA2020 priority – Encouraging integrated development in cities, rural and specific regions

The Moravia-Silesia Employment Pact (MSEP) was established in 2011 as a bottom-up initiative inspired by similar initiatives abroad but adapted to the region specificities. It is an example of a genuine place-based approach initiated by local actors in response to the increased exposure to globalisation and structural changes induced by the global economic crisis which, via a multi-

stakeholder partnership. Its main objective is to tackle severe and long-term problems in the labour market of this structurally affected region by creating more and better jobs and by fostering intensive cooperation among key stakeholders such as schools and enterprises. The largest asset and basic prerequisite for the success of this initiative is the unusually strong sense of partnership that has been formed in a step-by-step process among regional stakeholders. The partnership has been facilitated by previous cooperation among some of the stakeholders, by strong leadership from MSEP managers, by a sense of regional identity, and by several innovative approaches. The MSEP has succeeded in designing 10 types of integrated projects reflecting regional assets and needs. The effectiveness and efficiency of these integrated projects have been already proven within the territorial dialogue.

Control questions:

- 1. What are the main targets of Europe 2020 Strategy?*
- 2. Describe the targets for Visegrad countries.*
- 3. What are the sources of Europe 2020 Strategy financing?*
- 4. How would you evaluate the progress of V4 in achieving of the tasks of Europe 2020 Strategy?*
- 5. What are the territorial priorities for the development of the European Union?*

True/false

- 1. EBRD is the main “sponsor” of Europe 2020 Strategy.* *TRUE/FALSE*
- 2. Smart, sustainable and inclusive growth are the priorities of Europe 2020 Strategy.* *TRUE/FALSE*
- 3. There are six priorities of Territorial agenda 2020.* *TRUE/FALSE*
- 4. Territorial agenda 2020 is the part of Europe 2020 Strategy.* *TRUE/FALSE*

THEME 7. PLACE-BASED APPROACH TO REGIONAL POLICY IN EUROPEAN UNION – POLISH PERSPECTIVE¹

7.1. Proximity and distance still matters – the role of cities and regions in contemporary economy

Despite not questioning the important role of globalization in shaping the conditions for national economies, there is still a discussion on the role of regions (considered constituent parts of states) in economic development. What is important, the thesis about “the end of geography” as a consequence of globalization (O’Brien 1992) has got abandoned quite early. In fact, territories (regions, cities) are increasingly seen not only as objects of study, but also as important variables (active “actors”) in economic analyses. Recently, the concept of local and regional development concerns not so much the size and spatial extent of an area, but rather the “philosophy” of perceiving a space and its dwellers as a coherent economic entity, with its own vision of the future. In other words, the “territoriality” of development is always associated with a specific geographical, economic and social space (Jewtuchowicz 2005: 6). Thus, a region can be perceived not only as a separate administrative unit, but much more often it can be treated as informal spatial arrangement treated as a whole, from the point of view of certain criteria (Sokołowicz 2013a: 294).

Thus, more and more often urban and regional development studies propose to discern the notions of *land*, *terrain* and *territory* (Elden 2011: 804). *Land* as a production factor is interpreted in terms of scarce resource, for which diverse economic actors compete. This competition decides about the demand, supply and prices of land and natural resources, while the specific political and economic system defines the “rules of the game” and structures property rights. *Terrain* is associated with the structure of power, ability to maintain order and the establishment of a specific administrative system to maintain sovereignty over it. Finally, a *territory* is at the same time a combination of the two above concepts, and something more – understood as a specific attitude of people to land and terrain. Thus, a territory, contrary to such notions as *land*, *terrain*, *space*, *place*, is considered in the context of the specificity of

¹ Prepared by Mariusz E. Sokołowicz, University of Lodz, Poland

relationships occurring in it (specificity as a feature of the territory). Consequently, the essence of *territory* is expressed in social relations – between people and the area inhabited by them. It also refers to issues such as identity, attachment or embeddedness in a given place, etc. (Bailly 1994).

Territory – key features

1. Historically (**evolutionarily**) shaped, where the **specific** social, economic, institutional system has emerged
2. Connected by conscious or unconscious **commonality of goals** and needs
3. “**Created**” by a **specific community**, having its history and culture, material and immaterial resources, including knowledge and competences, as well as territorially embedded institutions and sets of relations
4. It is not a separate administrative unit but a functional area where **boundaries** exist but they are **blurry**

In this context, the sentence by (Tobler 1970: 236) that “*everything is related to everything else, but near things are more related than distant things*” still seems very timely. Analysis of the concept of “territoriality” in the context of social relations and in terms of dynamics, stresses the importance of proximity in economic processes. The role of proximity in economic processes is, however, not new. It has been included in economic thought since Alfred Marshall introduced the concept of agglomeration economies to economic theory.

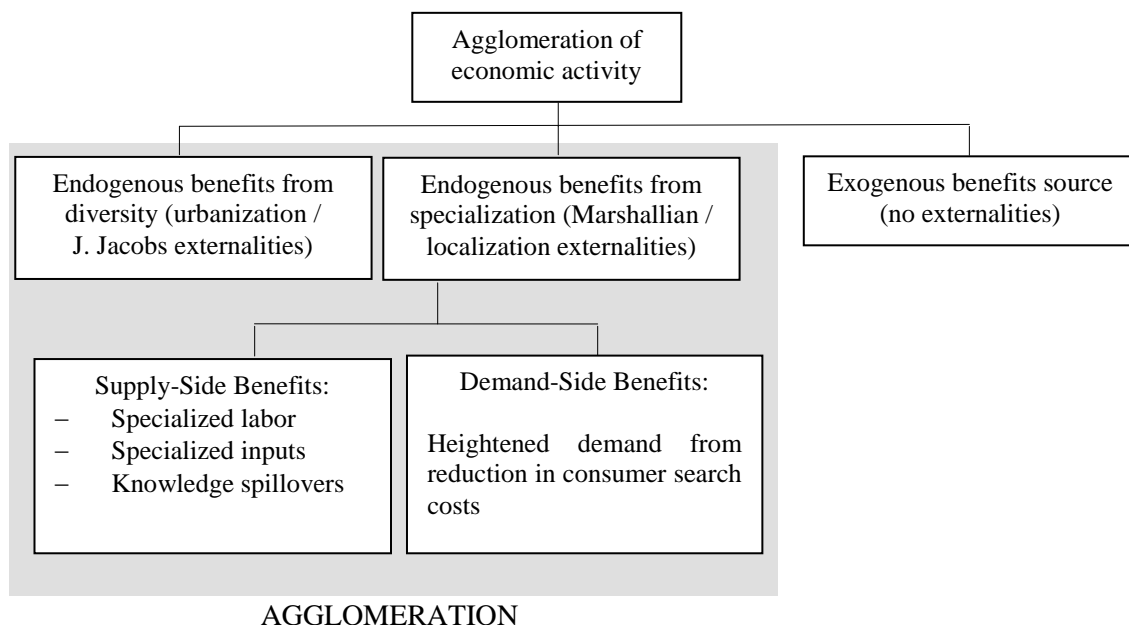


Fig. 7.1. Classification of reasons for concentration of economic activities – agglomeration economies

Source: McCann and Folta 2008: 534.

The reasons for the concentration of economic activities can be divided into those that remain exogenous in relation to space and those that are endogenous (see Fig. 7.1) with agglomeration economies belonging to the second category. Sources of exogenous economies do not refer to externalities but to aspects connected with geographic location, which minimally impacts the costs of transport, proximity of raw materials, etc., i.e., with location factors analysed by classical location theories usually from the perspective of a single company or a single household.

Sources of endogenous economies are usually divided in literature into those resulting from economic specialization and those based on the diversity of economic structures. The first ones are referred to as Marshall-Arrow-Romer (M-A-R) agglomeration economies, or just Marshallian effects, while the second ones are called J. Jacobs-type effects. M-A-R agglomeration economies refer to the accessibility of specialized labour, specialized inputs and knowledge spillovers specific for a given concentrated industry on the supply side, as well as to demand-side benefits, resulting from reduced transaction costs of matching sellers and buyers.

On the other hand, agglomeration economies of J. Jacobs focus on positive aspects relating to the diversity of economic structures. They emerge when one type of economic activity contributes to the enhanced marginal productivity of other types of activities as a result of the proximity of their locations (cross-product increasing returns). It is also worth pointing out, that these types of agglomeration economies not only reduce the cost of searching (e.g. suppliers, demanders, goods needed by consumers) but also create possibilities for coming across situations that may give rise to an impulse or inspire innovation (for more see: Sokołowicz 2014).

To conclude, **proximity as a source of agglomeration economies**, entails not only the minimization of transport costs but also maximizes benefits from the concentration of infrastructure, institutions, organizations and people. What is more, it also results in building territorially embedded economic and cultural interdependencies, based on trust. In consequence, local and global dimensions of the economy are not substitute but complementary factors of socio-economic development. In other words, proximity as a source of agglomeration economies does

not constitute a counterweight to economic processes taking place in the supra-local scale, but supplements them (Sokołowicz 2013b: 59-92).

However, it has to be underlined that today “being close to each other” does not mean only location in the physical vicinity of someone or something. It can also mean maintaining relationships and cooperation links with actors that are not close in terms of physical distance, but belong to the same circle of friends, family, or the same cluster companies or network of individuals operating in the same field of life. That is why it is justified to follow the distinction of A. Rallet and A. Torre (2005: 49) between geographical and organized proximity.

	Geographical proximity	Organized proximity
Geographical proximity	1. Agglomeration without interactions: I have a lot of neighbors but I do not know them (no direct coordination) Agglomeration due to infrastructures for example	2. Local systems of innovation, production, clusters, etc.: Geographical proximity activated by organized proximity
Organized proximity	3. Non-permanent co-localization: Long-distance coordination implies temporary face-to-face (sales representatives, researchers, etc.)	4. Supra-local organizations: Coordination between sedentary people located in different places, supported by organizational rules and information and communication technologies

Fig. 7.2. Intertwining of two types of proximity and its implications for territorial development

Source: Rallet and Torre 2005: 50

Proximity of the first kind expresses the distance measured, e.g. in kilometers, separating the actors (individuals, organizations, cities) in physical space. Organized proximity can be understood as the ability of organizations (companies, administrative units, networks, communities, the environment, etc.) to co-operate and undertake joint ventures. On the intersection between both types of proximity one can identify four combinations: 1. Pure physical agglomeration without interactions, 2. Locally embedded local production systems of clusters, 3. Temporary co-localization structures and 4. Supra-local organizations (Fig. 7.2).

The role of regions and cities in contemporary economy

1. Despite decreasing costs (per unit) of transporting goods and people, **proximity and concentration still matter**

2. Endogenous development of cities and regions depends on the existence of **specific externalities of proximity, variety and accessibility** – these are today dominant sources of agglomeration economies
3. Today **relations** between people and enterprises are the most important among agglomeration economies
4. Human capital and social capital are **different (specific)** in different locations (value of diversity)
5. Economic development derives from a **variety of configurations** between geographical and organized proximity

7.2. From local and regional to territorial development – genesis of place-based approach

Development of theories concerning local and regional development has also resulted in shifts in approaches than can be identified in European regional policy. To clarify the picture, we propose to present this shift in consecutive periods 1960-1980, 1980-1990, 1990-2000, 2000-2010, and in the years after 2010. The first phase was characterized by a top-down and centrally-driven approach to regional development, based on state interventionism, aimed at balancing disparities that occur as effects of spatial polarization characterizing market economies. In this period, local and regional development policy referred widely to the concept of growth poles, and was focused on the reduction of backwash effects by distribution of resources from the most developed regions and direct state investment in lagging regions. It was also a period when welfare state approach dominated in public life and Fordist systems in industrial production. In consequence, also regional policy was conducted in the form of direct state interventionism (e.g. in the form of state-owned industrial complexes being localized out of the biggest regions and cities) and with the involvement of large and centralized public bodies, not eager to adapt their strategies to local and regional specificities.

The eighties brought, in turn, a shift towards the discovery of power of endogenous development. In the sphere of inter-regional and intra-regional policy, it resulted in decentralization of power (mainly by establishing self-governments at regional level in many Western European countries). The idea of thinking in this way was expressed in the popularization of the “Europe of regions” concept. At the same time, the phenomenon of the emergence of industrial clusters in “Third Italy”, Baden-

Wittenberg, or in American Silicon Valley, resulted in the promotion of post-Fordism as the system of organizing economic activity.

Table 7.1 Shifts of European regional policy – towards place-based approach

Period	Key doctrine	Trends and concepts in regional policy
1960-1980 Top-down regional policy	<i>Interventionism</i> for balancing regional disparities	Growth poles, Fordism, centralization, welfare state
1980-1990 „Europe of regions”	<i>Endogenous</i> development	Post- Fordism, de-centralization, self-government, local production systems
1990-2000 „Europe with regions”	<i>De-centralization and power for regions</i> as a way of increasing efficiency of governance	Managerial approach to public sector, standardization of procedures for better efficiency, reduction of welfare state, privatization
2000-2010 „Regions for Europe”	Enhancing the <i>competitiveness and innovativeness</i> of regions (Lisbon process)	Continuation of managerial approach to public sector in the self-government, regional innovation systems, questioning the idea of regional convergence
2010+ Place-based policy	Territorialization, specificity as a source of <i>territorial capital</i>	<i>governance</i> , learning regions and creative regions, smart specializations, smart cities

Source: Author’s study.

This model was, however, replaced by a less radical approach, embodied in the term “Europe with regions”. The approach started to treat regions not as an alternative to the governance system but as a complementary level of organizing societal life. Decentralization and regionalization are, in this case, tools to improve the efficiency of the functioning of the state. At the highest level of European regional policy, this period was connected with the standardization of implementation procedures of the EU budget, limiting the number of aims, on which the budget should be spent, but at the same time, with enhanced power of regions as budget administrators. The latter was based on the assumption that intermediary level of public governance is more familiar with the needs of the society and the economy (subsidiarity principle). This period in regional policy and public policy as a whole, was also characterized by the modernization of administration, mainly by implementing rules and techniques adapted from the business sector (see: Osborne and Gaebler 1992).

After the year 2000, Europe faced the problem of decreasing competitiveness and innovativeness, compared with Northern America and Asia. In consequence, a strategy

of development called “Lisbon Agenda” was launched. Its aim was to make the EU the most competitive and dynamic knowledge-based economy in the world capable of achieving sustainable economic growth with more and better jobs and greater social cohesion by 2010. It also had consequences for European regional policy as regions started to be treated as the main sources of innovation and stimulating competitiveness. Also, further managerial professionalization of local and regional government could be observed then. To some extent, the idea of growth poles was refreshed as well, as best performing regions – especially those able to generate innovation in a more systemic approach (accruing to the idea of regional innovation systems) – should not be, according to this point of view, punished by compensatory regional policy. It called into question the idea of convergence for the first time from the emergence of European regional policy.

Decade of regional policy after 2010 has referred to key assumptions of Barca report – a study prepared for the European Commission aimed at depicting the future of European Union’s cohesion policy (Barca 2009). Its approval by the European Commission underlined the value of regional diversity. This, in turn, placed in the foreground the thesis that the real value of the “European” is not determined by its uniformity, but by the variety of territorialities. Bearing this in mind, one must conclude that what can really decide about EU power is the variability of institutional contexts of regional development (Sokołowicz 2012: 10).

The essence of place-based approach

1. Use of endogeneity and specificity in the regional development processes
2. Exposing regional diversity as a strength
3. Emphasis on links and networks as well as relations between actors of a territory
4. Differentiation of territorial development policy – adapting it to the specific territorial circumstances and delegating power to self-government

In this context, *territorial capital* is perceived as one of the most important sources of socio-economic development. And because territory is treated as a community of goals and a community of identity, it leads to the promotion of the idea of governance, engaging public, private and civil actors. It also results in the search for territory-specific resources, more relative approach to regional boundaries, as well as treating the idea of smart specialization or creative cities and regions as fashionable.

7.3. Administrative versus functional territorial units – a challenge for local and regional policy makers. Case of functional areas in Poland

The above considerations refer primarily to the difficulty to identify precisely the boundaries between territorial units. It intensifies a well-known dilemma concerning the coherence between functional and administrative divisions. Thus, a question to what extent actual flows of people or economic and social processes reflect the existing borders, becomes particularly relevant. As functional territorial units can never be identical with administrative divisions (because of social and economic dynamics), regionalization should be treated as a rather continuous process of adapting the changes in administrative processes. Since it is almost impossible to change territorial division of the country each time new challenges appear, what emerges as an alternative is the establishing of flexible, even temporary coalitions between existing territorial units, depending on the existence – or not – of common problems or command potential benefits.

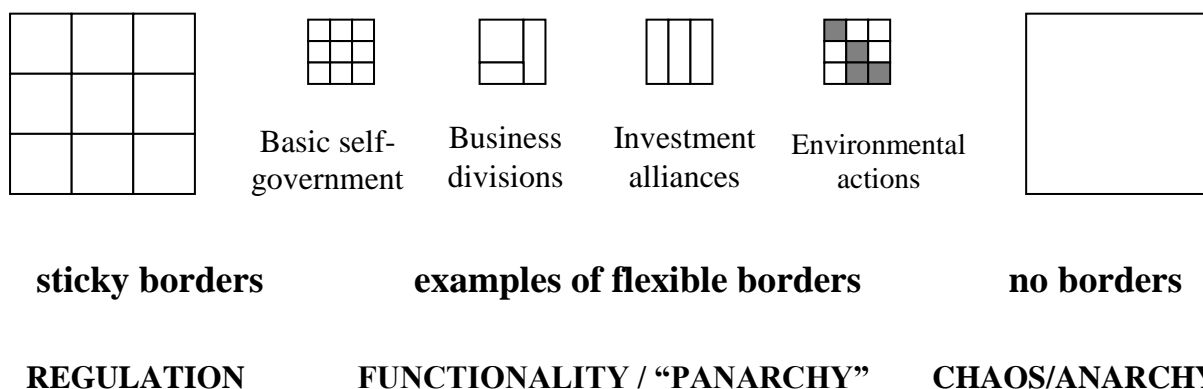


Fig. 7.3. Variability of boundaries depending on the needs – functional and place-based approach

Source: Author's proposal.

In other words, dependently on the specifics of issues to be solved, territorial units should be able to form coalitions for different purposes. In order to perform the tasks assigned to public self-government by the law, most of them will emerge within the framework of administrative division of the country. However, in order to gain economies of scale, self-government units can form investment alliances. Also, business divisions or environmental problems cannot be restricted to the existing administrative boundaries (Fig. 7.3). It leads to the conclusion that there is no zero-one

dilemma between “sticky borders” and “no borders”. However, to solve it, very often no new division is needed, but a coalition within existing divisions.

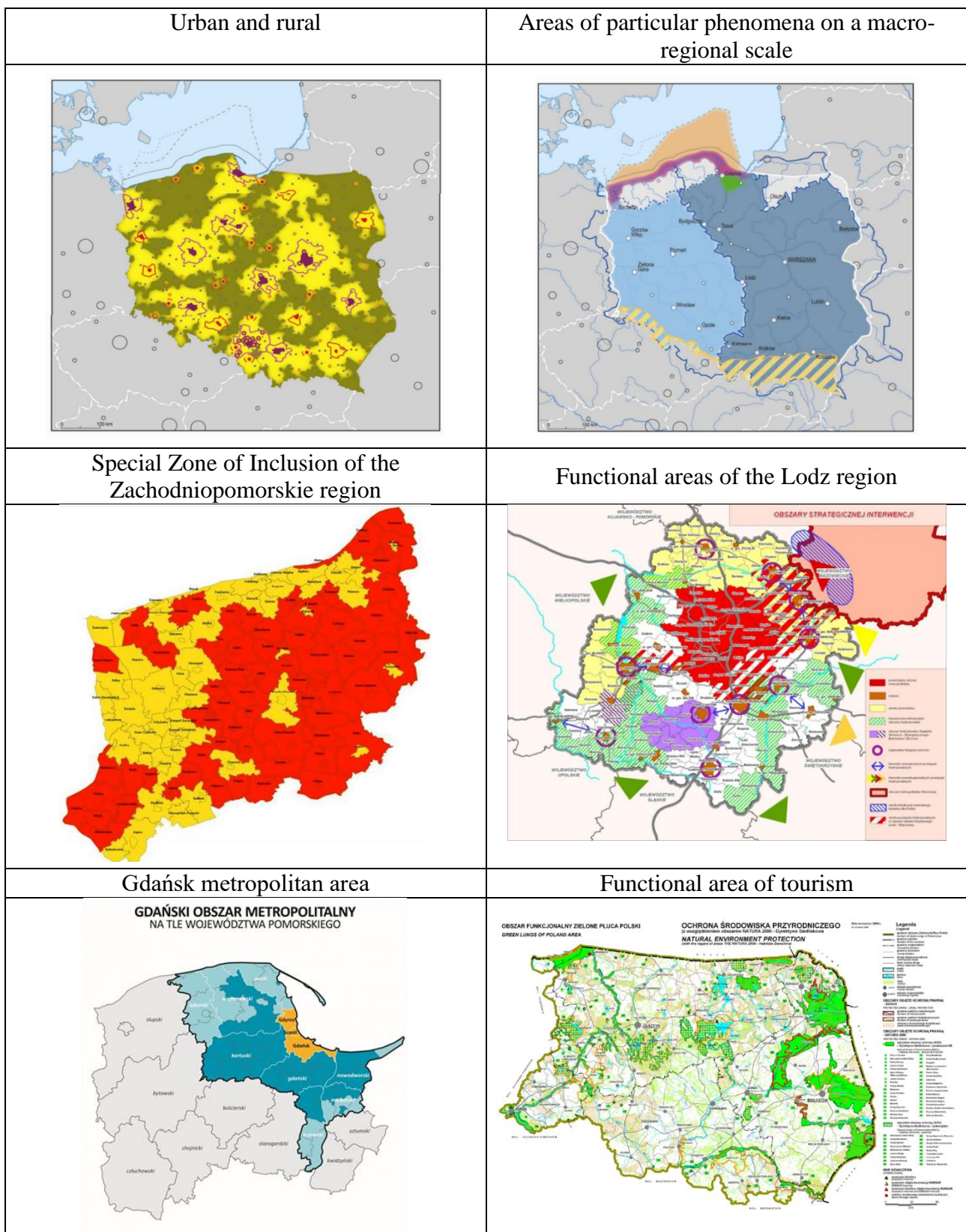


Fig. 7.4. Functional areas in Poland – examples

Source: Source: Author’s research, based on: Ministry of Regional Development 2011: 33; Council of Ministers 2011: 178-179).

Approach of this kind was adopted for the first time in Polish regional policy for the needs of the EU budget programming period 2014 – 2020. Knowing that it does not make sense or it is even impossible to change boundaries every time they do not fit in with actual needs, Polish authorities slowly began to realize that the solution consists in flexible determination of functional areas (Fig. 7.4). When trying to adopt a compilation approach to the delimitation of functional areas in Poland, one can propose the following list:

- ❖ urban functional areas;
- ❖ rural functional areas;
- ❖ metropolitan areas;
- ❖ closed areas and protection zones closed areas;
- ❖ areas of protected space;
- ❖ areas of particular phenomena in the macro-regional scale;
- ❖ areas shaping the development potential (growth poles);
- ❖ functional areas that require development of new functions;
- ❖ areas delimited due to the possibility of spatial conflicts.

7.4. CASE STUDY: Development Strategy of the Warsaw-Lodz Functional Area as an example of innovative strategy of territorial development

One of the examples of functional approach to planning and conducting regional and local development policy, is the Development Strategy of the Warsaw-Lodz Functional Area. The document was prepared as an expert proposal of an integrated and place-based approach to development in the functional area of Warsaw and Lodz. The latter is a bipolar system of connections between the capital of Poland and the third largest city in the country – Łódź. Because of a relatively small distance (140 km), these two agglomerations gravitate to each other from the point of view of population flows, commuting, and cooperation links between business and other institutions. In consequence, this functional area is one of the biggest transportation hubs in Poland, it concentrates the biggest number of universities and leading R&D centers, hosts the biggest number of firms' headquarters, creative industries companies, and public institutions.

However, in order to identify interrelations in specific fields of economic activity, one should consider them separately. There are different flows and concentration rates in case of knowledge infrastructure (concentration only in two main cities with asymmetric skew towards Warsaw), industrial relations (more balanced), suburbanization processes, or transport usage patterns. Thus, the concentration of functional relationships should be treated as overlapping layers of relationships, and the final scope of the functional area should be treated only as an average (Fig. 7.5).

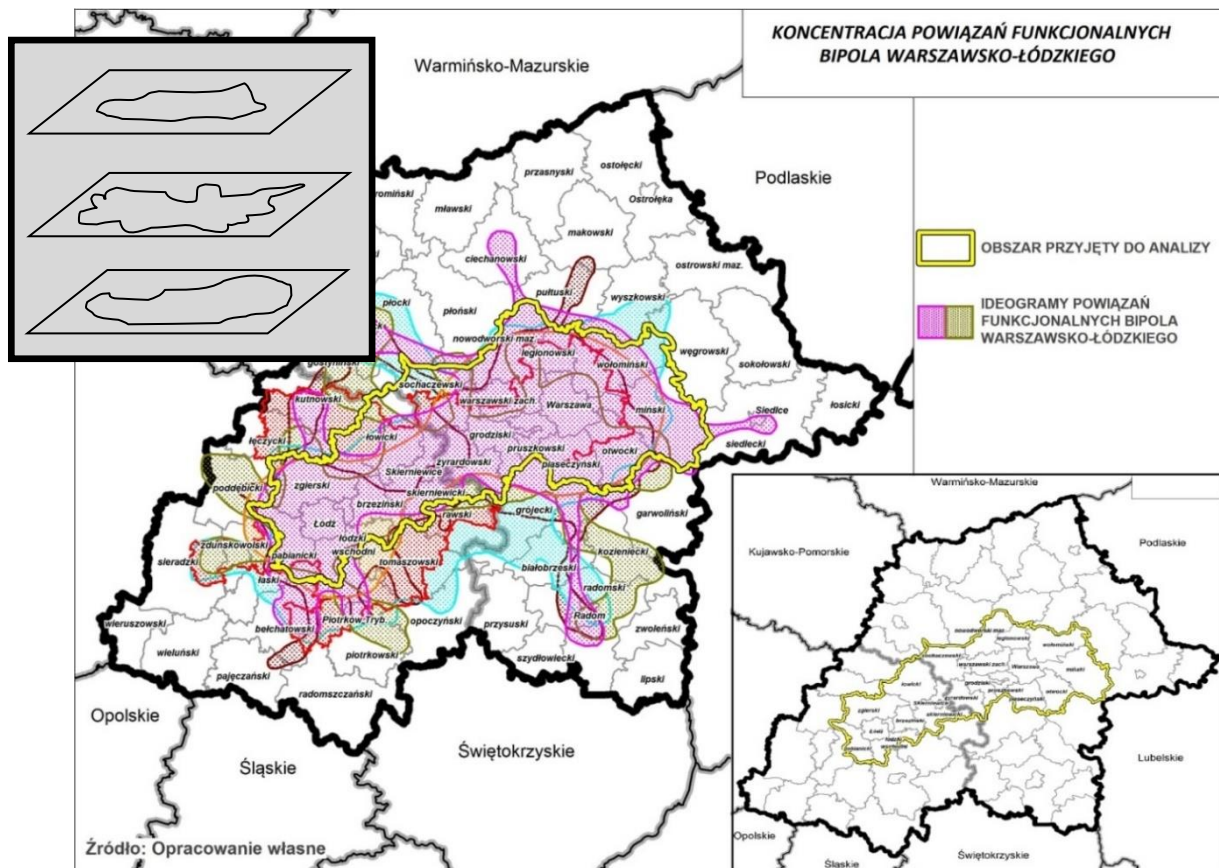


Fig. 7.5. Ideogram of functional relationships concentration in Warsaw-Lodz bipolar system

Source: Rzeńca, Jastrzębska, Legutko-Kobus, Przygodzki 2014: 21

The main aim of the strategy is oriented towards *building territorial capital of the Warsaw-Lodz Functional Area*. It means that despite many strong functional connections that have been identified, there is still a need for bridging social capital, building social and institutional trust, as well as to realize the benefits of cooperation, which often should replace competition among territorial actors (Strategy 2015). This requires promoting cooperation and integration between functional areas of Warsaw and Lodz through a number of integrated legal, institutional and investment actions.

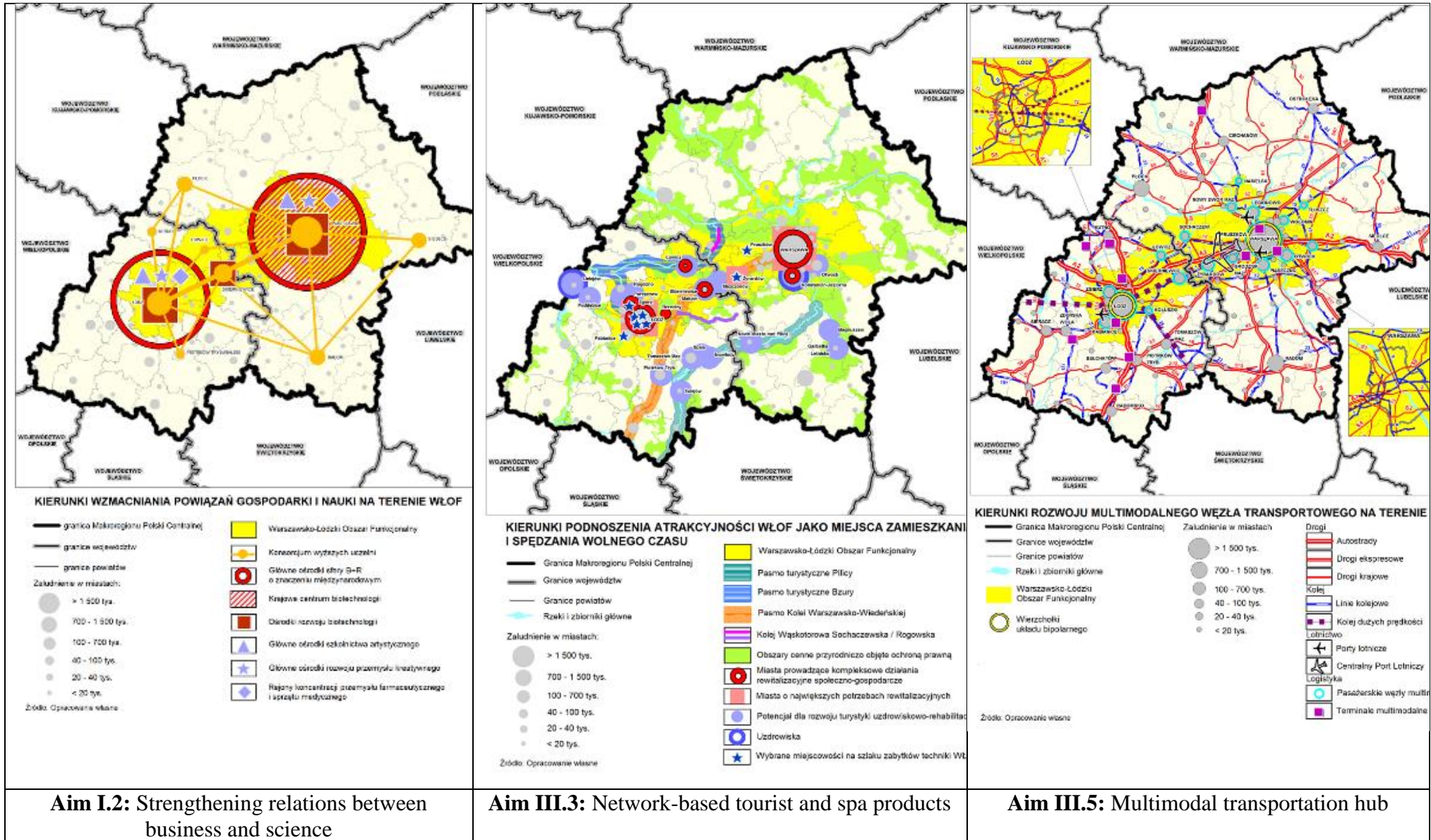


Fig. 7.6. Flexible approach in adopting aims to spatial scope in Development Strategy of the Warsaw-Lodz Functional Area
 Source: (Strategy 2015).

Because of differences between the identification of strategic goals, each of them requires engagement of different stakeholders, operating on different spatial scales (Fig. 7.6). All of the aims are oriented to strengthening cooperation, integration and concentration of efforts in order to reveal what is common for actors in the WLFA. What is important, **it is not a document that proposes to cover all types of activities that could be subjects of cooperation and integration, but concentrates on issues that are important from the point of view of development of the bipolar system in the context of enhancing its metropolitan potential.**

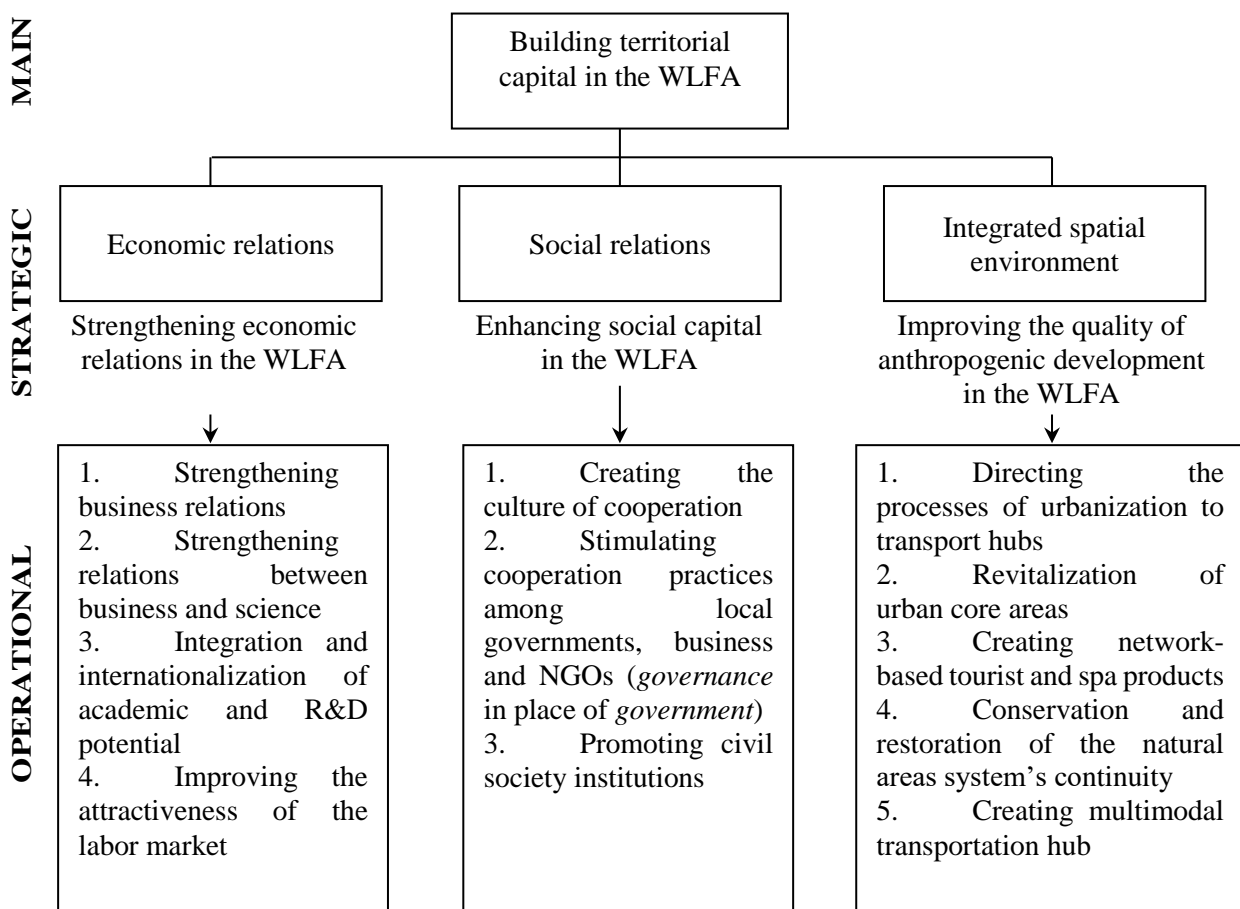


Fig. 7.7. Strategic and operational aims of the Development Strategy of the Warsaw-Lodz Functional Area (WLFA)

Source: Strategy 2015

Control questions

1. *Are proximity and distance still important in contemporary economy? Please state your personal point of view on this issue*
2. *What sources of agglomeration economies are important in the age of globalization?*

3. *What is the difference between the place-based approach to regional policy that has become popular after 2010, and “Europe of regions” approach that was developed in the eighties?*
4. *Is decentralization of power harmful for the unitarity of the country? Please give examples for justifying your opinion*
5. *Please indicate some Ukrainian examples, where functional and place-based approach can be effectively applied*
6. *Does it make sense to create Development Strategy of the Warsaw-Lodz Functional Area, in order to strengthen its “territorial capital”?*

Quiz (one-choice)

Territory is defined as:

- administrative unit that always has boundaries and authorities governing it;*
- functional area, characterized by strong internal relations having many differences relative to the surrounding areas;*
- space without specific development conditions and lack of awareness of common objectives.*

Which of the following are not elements of the essence of place-based approach:

- Use of endogeneity and specificity in regional development processes;*
- Exposing regional unity as a strength;*
- Differentiation of territorial development policy – adapting it to specific territorial circumstances and delegating power to self-government.*

Economics of proximity:

- Is based on the assumption that contemporarily concentration of economic processes is radically weakened by processes of globalization;*
- Claims that only geographical proximity matters;*
- Treats organizational and geographical proximity as alternative.*

Functional and place-based approach means that:

- Dependently on the specifics of issues to be solved, territorial units should be able to form coalitions for different purposes;*
- New administrative division of the country should be introduced every few years;*
- Self-government on regional level is not necessary.*

True / False

1. *Territory is defined as a space “created” by a specific community, having its specific history, culture and institutions* *TRUE / FALSE*
2. *Functional areas are dynamic in time and space and their boundaries depend on the economic, social and environmental changes* *TRUE / FALSE*
3. *Functional areas consist of mutually connected places, but having different development objectives and conditions* *TRUE / FALSE*
4. *Development Strategy of the Warsaw-Lodz Functional Area, one area of intervention was delimited for every aim* *TRUE / FALSE*

THEME 8. LOCATION OF PRODUCTION ACTIVITIES IN V4¹

8.1. Essence of agglomeration

The production activity is not evenly spread among area. Some sectors benefit from geographical agglomeration; others tend to be spatially dispersed (Fig. 8.1).

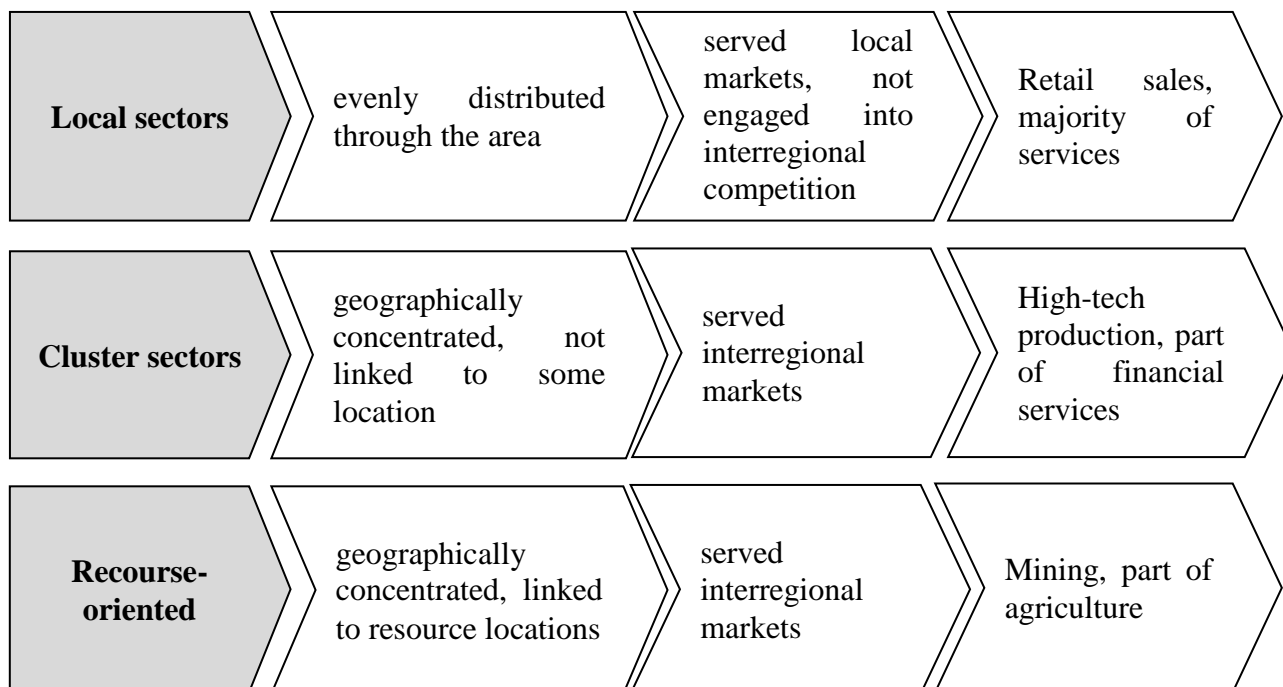


Fig. 8.1. Types of industries according to their location specifics

A term «agglomeration» results from Latin «*agglomeratio*» (to join, to accumulate) and used in economic, technical and biological sciences. In economic literature an agglomeration is examined mainly in two aspects:

❖ an urban agglomeration is the compact territorial placing of city settlements, incorporated intensive economic, labour and cultural copulas. An urban agglomeration can be monocentric (formed around one city-core), sometimes it acquires the hypertrophied form of megapolis (super-city); and can be polycentric (on the basis of a few connected equivalent cities). Such type of agglomeration without dominant core is also called «Conurbation» (from lat. con – together and lat. Urbus – city);

❖ an industrial agglomeration is a territorial concentration of sectorial and diversified industrial centres on comparatively small area. Like the previous form, industrial agglomeration could concentrate around one industrial unit (common for

¹ Prepared by Ihor LISHCHYNSKY, Ternopil National Economic University, Ukraine

cities of the former Soviet Union or Scandinavian "bruks") or consists of a number of interrelated equal links.

The first type of agglomeration is associated with general benefits of territorial concentration, in particular lower transport costs and economies of scale in production. Interaction of gravity forces leads to the formation of metropolitan areas, which have a wide range of economic activities.

The emergence of agglomeration advantages of the second type due to the proximity of firms engaged into similar or interconnected activities leads to the emergence of the industrial districts. Similarly, to the case of the metropolis, close ties between firms and institutions within a given geographical area are based on the exploitation of the economies of scale and of scope, accumulation of specialized skills, common infrastructure, and other externalities.

However, it should be noted that the above mentioned traditional forms of agglomeration gradually lose their comparative advantage. Being rather "clumsy" structures, they are not always able to respond to rapid changes in the global environment, especially in the light of the recent crisis. Unfavourable situation in the energy market has led to the suspension of a huge number of industrial facilities, which pushed population of many monoindustrial mining or steel cities below the poverty line.

Therefore, advanced forms of agglomeration alliances have raised in recent decades. The main feature of them is visibly innovative orientation. These types of knowledge generation centres can occur in the form of clusters (localization effect) or technopolices (urbanization effect). It should be noted that in the academic literature, there is a debate about whether specialized regions with clusters perform better, or whether diverse city-regions, offering a multitude of skills, technologies, political and academic institutions, cultural inspiration and so forth are more conducive to innovation and upgrading.

In Fig. 8.2 the basic forms of agglomeration and their leading theorists are presented.

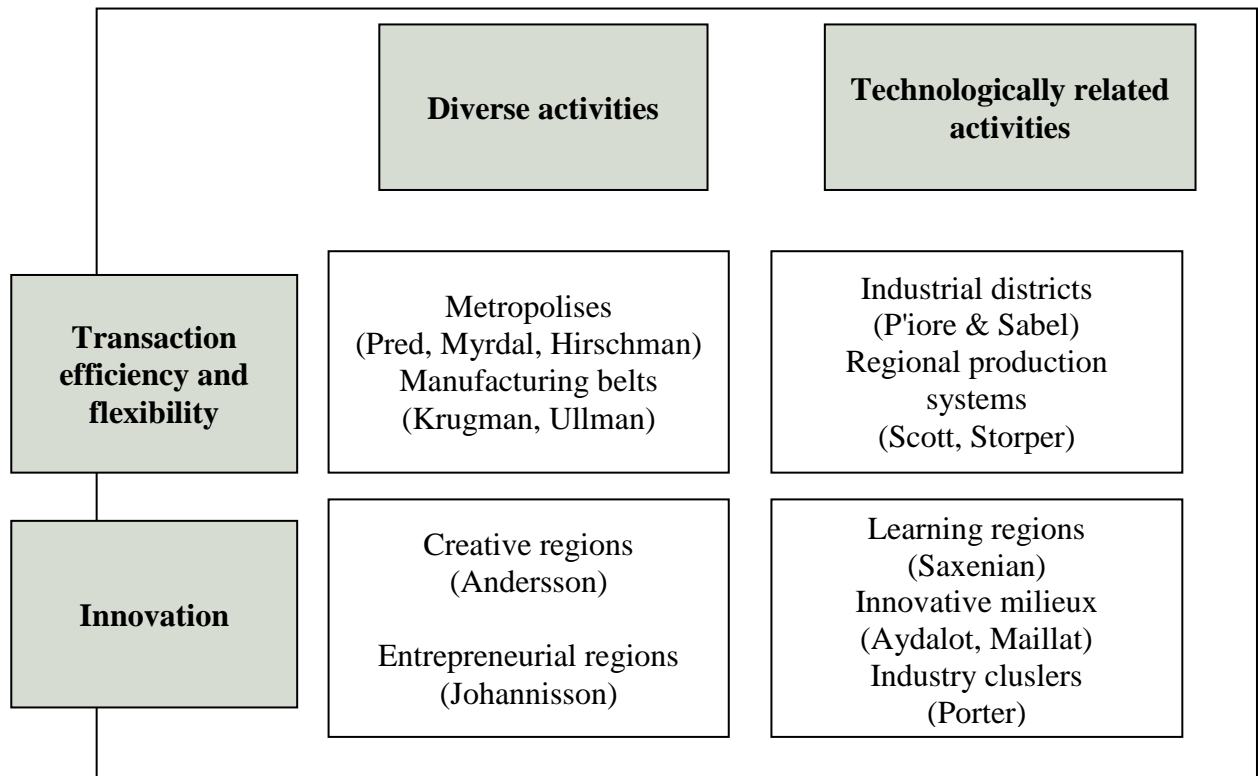


Fig. 8.2. Types of agglomeration forms

Source: Sölvell Ö. Clusters. Balancing Evolutionary and Constructive Forces. – Ödeshög: Danagårds Graiska, 2009. – 140 P.

However, in the real economy all these forms of agglomeration interlace closely, mutually complementing each other and exposing only the different sides of process of economic, social, scientific, cultural resources concentration. The factors which conduce to appearance of such groupments have complex character; that is why development of theoretical models of urbanization, for instance, cannot be full without considering of an industrial concentration and vice versa. Taking into account abovementioned factors, we will examine agglomeration in more wide meaning, understanding under it *the form of geographical concentration of production industries and various resources (labour, investments and information)* and will try to present issues common for most theoretical models. However, a basic accent will be devoted to the industrial agglomeration.

8.2. Theories of industrial location

Presumably the first who consider economic geography (in 1826) was German squire Johan von Thunnen, in whose model of the isolated state it is possible to find a

lot of elements which have the meaningfulness even today (concept of industrial center, underlining of transport costs' importance and others).

Weber (1909), though best known for his "location triangles", also laid out a general view of the evolution of a pattern of location in a nation. He thought of this as involving the sequential laying down of a series of "strata", increasingly divorced from the distribution of natural resources.

Later Christaller (1933) argued that the lattices of the second, third, etc. strata would form a hierarchy of central places, whose number would decrease but population increase as one went up the scale. Christaller documented the existence of such a hierarchy in southern Germany. Losch (1940), in a famous contribution, pointed out that if the objective was to minimize transportation costs, then the lattice of central places on a featureless plain would form a series of hexagonal market areas.

All the theorists mentioned above Krugman listed to German school of economic geography. Representatives of American school (Hoover and in particular Isard) less attention spared to the geometry of localization.

Isard (1956) pointed out a key problem with German school. According to the Weberian story, the second stratum exists to service the first, the third to service the second, and so on. However, some of the demand for the second stratum's services will come, not from the first stratum, but from the second and higher strata themselves. This immediately raises the possibility of a process of circular causation: the location of higher strata depends on the distribution of demand, but the distribution of demand depends on the location of higher strata.

The representatives of third school of economic geography accent their attention on the role of externalities in uneven development of regions. Most influential articles of such type belong to Myrdal, Hirschmann, Perroux, Arthur) and others like that.

We should also remember the theorists who were not directly engaged in spatial economy researches, but whose scientific revisions did considerable payment in development of economic geography paradigm. Above all these are articles on international trade of Linder, Vernon et al, that manage to exceed scopes of general equilibrium approach; theory of industrial organization of Spence, Dixit and Stiglitz. Works of the so-called «new international economic theory» representatives (as Dixit

and Norman, Krugman) presented the expounded alternative to the traditional comparative advantages theory.

However, at the beginning of 1990th a critical moment came – actually from this period it is possible to talk about *new economic geography* (NEG). An starting point was Krugman's article "Increasing Returns and Economic Geography". Based on the model of monopolistic competition an author finally succeeded to form an integral logical model which explains appearance of agglomeration.

Krugman, Fujita, Venables, Puga, Thisse and a lot of other scientists became the apologists of new economic geography of our time. Really, Krugman laid the foundation for development of new economic geography, entering Dixit-Stiglitz framework of monopolistic competition in a model. Krugman and Venables extended a model, involving an intermediate production. Puga offered analytical explanation of model. Venables, Fujita, Krugman engaged in a model the index of time. Ottaviano involved capital investments. A lot of empiric researches are constantly carried out also with the use of new economic geography tools.

New economic geography

Presumably, the most integral paradigm which explains the origin of agglomeration is conception of "new economic geography" (NEG) which was formed in 1991 after the publication of two P. Krugman's works "Increasing Returns and Economic Geography" and "Geography and Trade". Interestingly, that main issues typical for NEG, were presented in researches of A. Weber, W. Christaller and A. Lösch – the representatives of German school of economic geography – yet at the beginning of XX century. This fact leads to a little bit ironical phrase of Peter Neary in the Journal of Economic Literature: «New economic geography has come of age». But for the sake of justice, it is necessary to mark that conception of NEG evolved from the new theory of trade, but not from these early attempts of agglomeration's explanation.

Subsequent consideration of theoretical models of agglomeration will be carried out by means of analysis of five core NEG elements.

1. **Increasing returns to scale.** The stronger is the effect of increasing returns, the more stimuli to the agglomeration arises up. Firms try to decrease their costs by enlargement of production and placing alongside with major suppliers, that brings to the concentration productions in a few industrial centres; other territories become agrarian periphery.

2. **Imperfect competition.** At the increasing internal returns to scales, marginal costs are lower, than average, and a perfect competition is impossible consequently because firms will not manage to cover the charges.

3. **Trade costs.** While selling goods or purchasing raw materials firm carry an charges on transportation, pay tariffs and so on. Transporting of products in the model of NEG has a form of Samuelson's «iceberg». It means that from a unit of the transported commodity only the particle τ arrives to the destination ($\tau < 1$).

4. **Endogenous firm locations.** Increasing returns means that firms have an incentive to select a single production site and serve most consumers at a distance. If plant-level fixed costs were negligible, the firm would replicate itself everywhere.

5. Endogenous placing of demand. Before the consideration of the last moment of NEG, it is necessary to mark, that elements which were analysed higher are general for the wide spectrum of modern literature, incorporated under the general name “*new trade theory*”. But this last aspect became critical for NEG. With all five assumptions, initial symmetry can be broken and agglomerations can form through a process of circular causation.

Consequently, the key issue of new economic geography can be formed as follows: if the symmetric territorial location of firms and population takes place, will be there a certain mechanism which would result in the spontaneous concentration of economic activity? And if does it exist, what are the basic parameters that determine the appearance of such concentration? Under such conditions, actually geography does not play a key role.

Between above considered fourth and fifth elements of NEG there are tight forward and backward linkages:

- ❖ to minimize costs related to placing, firms choose location with high internal demand or with easy access to the large market (“*backward linkage*”);
- ❖ great internal demand will exist in that place, where most firms are situated (“*forward linkage*”);

If an agglomeration was already formed, there are forces which continue to retain it in integrity. Really, when consumers move into a region, they bring enterprises with them because of increased demand. As a result, agglomeration advantages accrue in the region, since enterprises can access intermediate products and consumer goods more cheaply because there are no transport costs. Falling prices mean real income increase, and this in turn leads to further immigration. The synergic effect of “*circular causation*” takes a place, presented on Fig. 8.3. By analogy with the Myrdal’s model, we can define «vicious» and “*benign*” circles – the region, where productive factors are accumulated initially, due to gravity forces becomes even more concentrated, other regions grow into agrarian periphery and «transit desert».

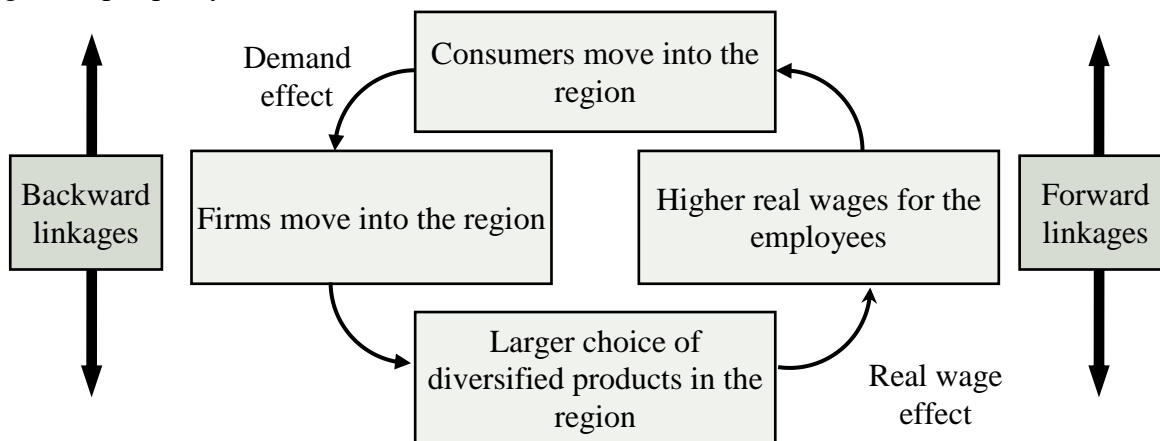


Fig. 8.3. Circular causation through linkage effects

Consequently, it is possible to select the followings gravity forces which influence on agglomeration’s formation:

1. **Centripetal forces** – instrumental in the agglomeration of production:

- ✓ increasing returns;
- ✓ low trade costs;
- ✓ effects of market size (backward and forward linkage);
- ✓ agglomeration of labour-market (especially highly skilled workers);
- ✓ other advantages of concentration (the closeness of placing improves technological exchange).

2. **Centrifugal forces** – cause dispersion:

- ✓ weak scale economies;
- ✓ high trade costs;
- ✓ immobility of some factors (a production is forced to locate wherein there is needed land and natural resources, and sometimes even workers);
- ✓ land rent (if firms are concentrated on one territory, land demand grows increasing rent);
- ✓ other drawbacks of concentration (overpopulation, crime and so on).

NEG is the basic theory of agglomeration, however it's impossible to take into account all the issues of such complex phenomenon. Each agglomeration form has its own features.

Actually, in the models of urbanization, the key question is effective use of land. In fact, the amount of land rent differs considerably in the centre of mother country and in its periphery. It is important to take into account a lot of social aspects also, such as a struggle against poverty, overloading of transport ways, criminality and others. One of examples of «vicious circle» in an urbanization theory is that tendency of poor men to settle near one another (in so called ghetto) only strengthens their poverty.

Some other alternatives of NEG:

– Natural advantages (see Ellison and Glaeser) – also known as “First Nature” (Krugman, 1993) and “locational fundamentals” (Davis and Weinstein, 2002) – take the geographic distribution of productive resources as exogenous and use it to explain the geographic distribution of production.

– Human capital externalities models link the return to skill in a location to the number of skilled workers there. High skill areas tend to attract larger numbers of employers of skilled workers. Formal models were developed by Krugman and Helsley and Strange. Human capital externalities are central in Lucas’ (1988) theory of economic development.

– Technological externalities/Knowledge spillovers: Producers benefit from spatial proximity of their counterparts in the same industry via flows of productive knowledge.

From the materials presented above it is possible to understand how rapidly modern spatial economic theory is developing. Not strange that P. Krugman – the basic ideologist and promoter of such concepts – awarded in 2008 with a Nobel Prize. Each year the processes of economic agglomeration become more stronger, that is why in order to avoid bitter fate of «transit desert» it is necessary to take into account theoretical and practical recommendations of new economic geography concept.

8.3. Analysis of production activity in V4

To estimate the level of regional and industrial concentration complex *Coefficient of Regional and Industrial Concentration* is often calculated (sometimes it's named the Localization Coefficient or Specification Index):

$$SI_i^j = \frac{E_i^j / E^j}{E_i / E}$$

where E_{ij} - the employment in industry j and country i ,
 E_i - the total employment in industry i ,
 E_j - the total employment in region j ,
 E - the total employment in researched area.

If $SI_i^j > 1$ ($SI_i^j < 1$), region in a greater (less) scale is specialized on industrial production of j , than researched area in general.

Similarly, the concentration of production could be calculated:

$$PI_i^j = \frac{P_i^j / P^j}{P_i / P}$$

where P_{ij} - production of industry i and region j ;
 P_j - total production of region j ;
 P_i - total production of industry i ;
 P - total production.

Calculated indexes SI_i^j and PI_i^j would be depicted in the frames of ... to determine the role of specific industry for Visegrad countries.

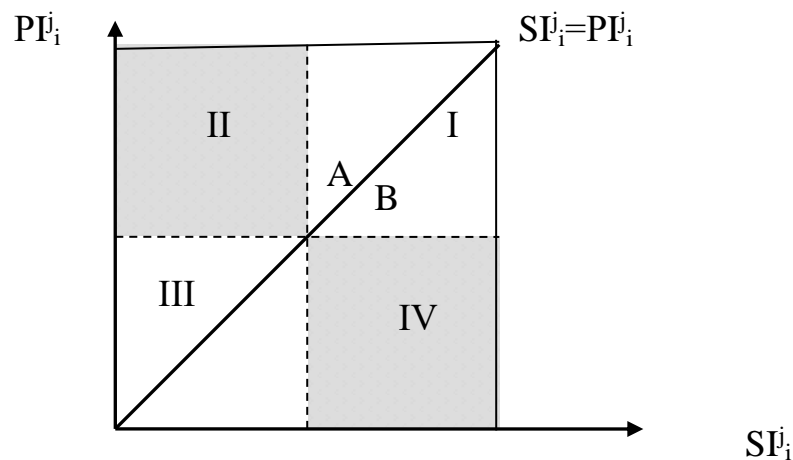


Fig. 8.4. PI_i^j / SI_i^j relation for specific industry

It should be noted that the regions with the most effective level in some industry will be displayed above the line $SI = PI$ (where the share of manufacturing sector is higher than the share of labor force). The first quadrant (I) are countries where the selected industry is crucial for development, as production and employment indexes are higher than in the whole Europe. The second quadrant (II) includes countries with higher levels of industrial concentration than the industry average, but lower concentrations of employment. The third quadrant (III) form the countries where the studied industry is in less priority in terms of concentration of labor and production. The fourth quadrant (IV) form the countries where there is a high concentration of the industry work force, causing its social significance for regional development.

The state of high-tech industries (DL-30 – manufacture of office equipment and computers; DL-32 – manufacture of radio, television and communication tools; DL-33 – manufacturing of medical equipment, measuring tools, optical devices and equipment, watches) is showed on Fig. 8.5.

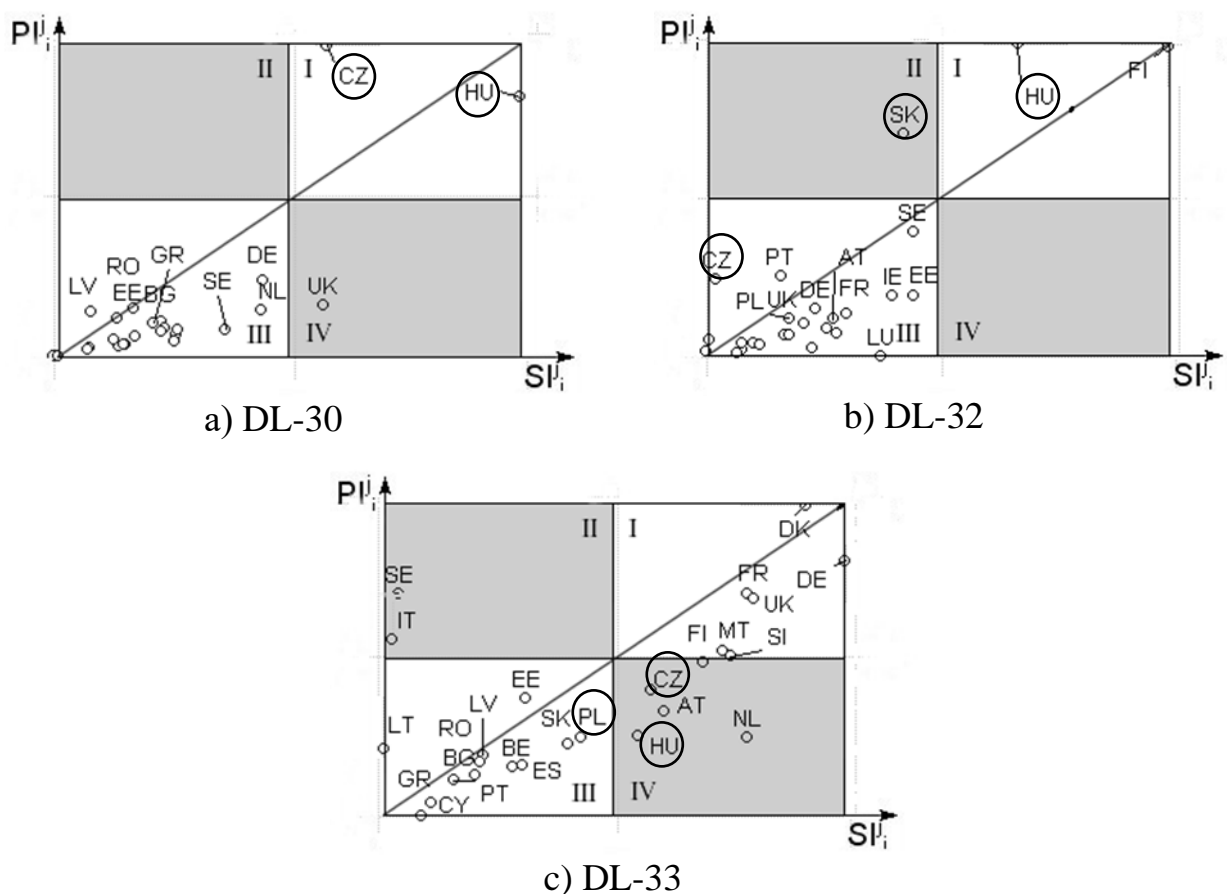


Fig. 8.5. PI_i / SI_i relation for high-tech industries

Industry's priority for V4 is compared with other EU countries. We can see that DL-30 is relatively developed in Czech Republic and Hungary, DL-32 – in Hungary and specially in Slovakia. The production in DL-33 industry is relatively low in Czech Republic and Hungary in spite of high employment.

Industries that combine high and medium technologies (DG-24 chemical production, DK-29 manufacturing of machines and equipment, DL-31 manufacturing of electric machines and equipment, DM-34 manufacturing of motor vehicles, trailers and semi-trailers, DM-35 manufacture of other vehicles) are showed at Fig. 8.6

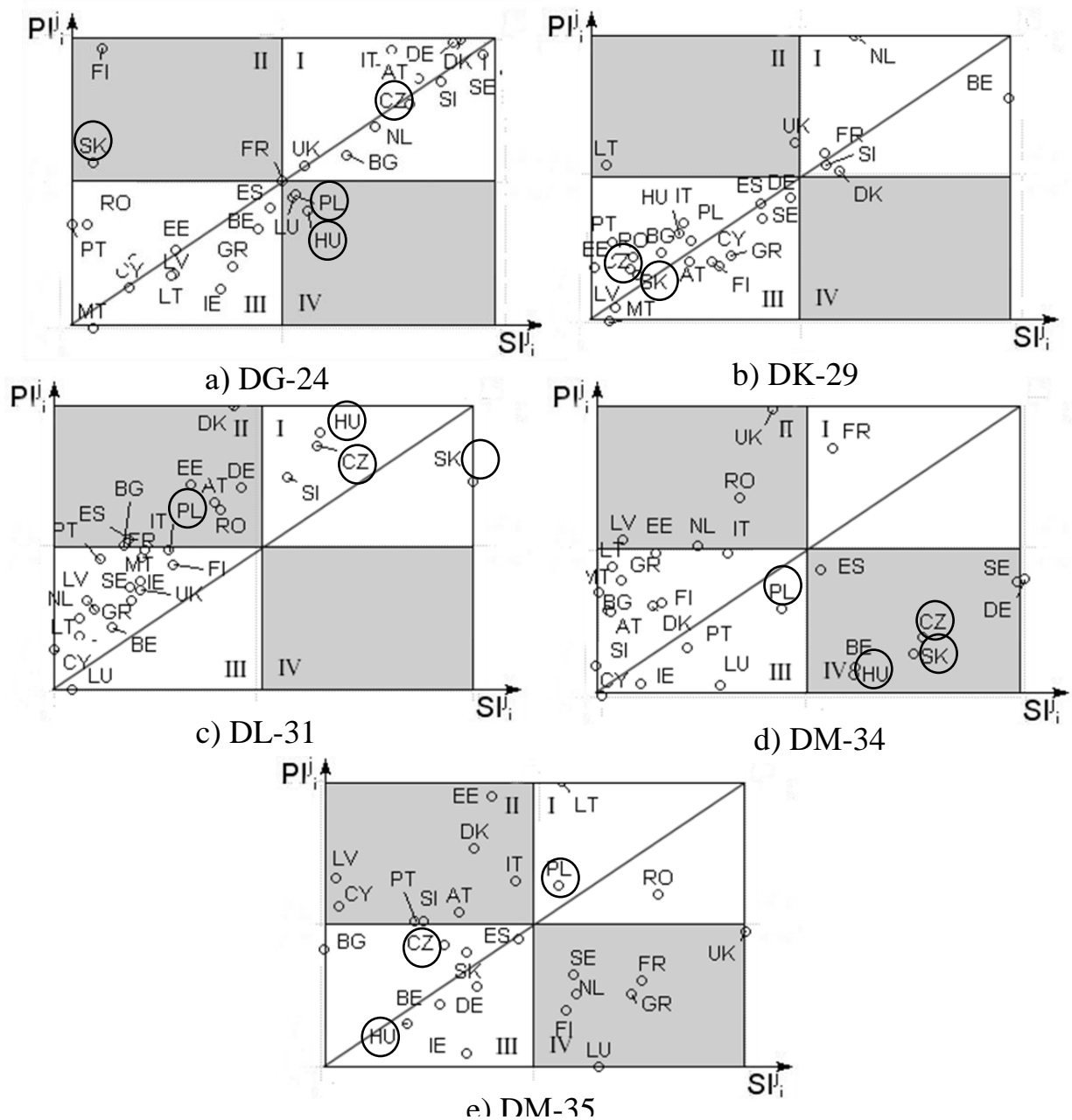


Fig. 8.6. PI_i / SI_i relation for industries of high and medium technologies

Among Visegrad countries Poland is relatively specialized at DM-35; Czech Republic – DG-24, DL-31; Slovakia – DG-24, DL-31; Hungary – DL-31.

The abovementioned industries are favorable for the development of clusters on their bases in respective countries.

Thus Visegrad countries are having relatively favorable conditions for the development of industries that are determined by high and medium levels of technologies.

Control questions:

- 1. What are the traditional and new types of agglomeration?*
- 2. Why new economic geography is considered as the main paradigm of agglomeration?*
- 3. What are the alternative concepts?*
- 4. Which analytical instruments are used for evaluation of agglomeration?*
- 5 What shows PI_{ji} / SI_{ji} matrix?*

True/false

- 1 Traditional forms of agglomeration gradually lose their comparative advantage TRUE/FALSE*
- 2. Increasing returns means that firms have an incentive to select a single production site and serve most consumers at a distance TRUE/FALSE*
- 3. The region, where productive factors are accumulated initially, due to gravity forces becomes even more concentrated, other regions grow into agrarian periphery and «transit desert. TRUE/FALSE*
- 4. Visegrad countries don't have favourable conditions for the development of industries that are determined by high and medium levels of technologies. TRUE/FALSE*

THEME 9. STAKEHOLDERS, NETWORKS AND ALLIANCES IN THE DEVELOPMENT OF TERRITORIES¹

9.1. Stakeholders in the development of territories

Partnership and cooperation with stakeholders in the territorial development are the main terms associated with one of the last approaches in the management of public sector - Public Governance (e. g. Bevir et al., 2003; Berry et al., 2004; Kickert et al., 1997 etc.). Public governance has developed as a next stage of New Public Management, but also as an alternative management approach, which takes into account more appropriate the specificities of public sector organizations (Kickert et al., 1997). This new approach to management in the public sector and the importance of co-operation are implemented in the new program and strategic documents of the European Union for the period 2014 - 2020 (5th Report on Economic, Social and Territorial Cohesion, 2020, Territorial Agenda of the European Union 2020) and are supported at all levels of the EU, in particular by the Congress of Local and Regional Authorities and the Committee of the Regions (Council of European Local Municipalities and Regions, 2013).

Public Governance in practice means - tools of public actions that will be more effective with less direct control and involvement, such as: organizing public discussions on important issues of public life; setting up priorities; mutual learning, encouragement and support; implementing general regulative frameworks and relying on interactive networks, and multi-level governance. To the main governance principles belongs responsibility, transparency, governance based on networking of stakeholder, co-production of public policy, crosslinking of more innovative management approaches (Pasquier, Villeneuve, 2012). Thanks to governance the relationships among stakeholders and public government is not any more seen as a passive transaction.

The concept of Public Governance is possible to implement on all levels of territorial units. The key is to identify relevant stakeholders that influence the territory by their activity and vice-versa.

¹ Prepared by Katarina VITÁLIŠOVÁ, Matej Bel University, Slovakia

Stakeholders in sustainable place development are persons, groups or organisations that have a direct or indirect impact on the place development. Mitchell (1997, p. 874 – 878) divided stakeholders by three features: power, legitimacy and urgency. By the dominance of a particular feature the stakeholders are divided into: decisive; requiring; latent; dangerous; dependent; voluntary; dominant and disinterested stakeholders. Decisive stakeholders are crucial for the territory and they are characterised by all three features. Requiring stakeholders are characterized by two features. They may or may not be important for the territory. Latent group of stakeholders characterizes only one character - power. Often they are not important because they do not use its power in relation to the territory. Position of latent stakeholders may vary. Voluntary stakeholders are characterized by legitimacy, but have no strength. They include subjects related to social responsibility of territory. Dominant stakeholders are characterized by power and legitimacy. Their importance for is formally defined (eg. managers). Dependent stakeholders are characterized by legitimacy and urgency, but to enforce their demands they need stronger stakeholders. Dangerous stakeholders are characterized by urgency and power, the territorial managers should identify them by their deep analysis.

Other approach divides stakeholders into 2 groups – internal and external (Egan, 2008, s. 37, Clow, Baack, 2008, p. 355). To the internal subjects belongs e. g. employees, voted members of territorial government. To the external subjects belong citizens, entrepreneurs, universities, local associations and other entities influencing the strategical decisions in the territory.

The third division of the stakeholders by their importance includes two groups of stakeholders – primary and secondary. Primary stakeholders are essential for the territorial development. Secondary stakeholders are important for achieving aims in the development (Lukášová, Klapalová, 2010).

According Drieniková (2010) in the strategic development process can be influenced by supportive, neutral stakeholders and stakeholders who are against it. Other approach is a classification of stakeholders by spheres of interests (Zelený, 2008), it consists of:

- business stakeholders (suppliers, citizens, competitors, strategic partners, regulators, professional groupings);
- social stakeholders (public, media, trade unions, NGOs, civil associations);
- environmental stakeholders (public, non-governmental organizations, state and local governments, civil society organizations, etc.)
- economic and financial stakeholders (investors, financial organizations and so on.).

The local or regional municipality is forced in providing its tasks to build relationships with various stakeholders belonging to the private, public and non-profit sector. Based on repeated interactions, i. e. repeated mutual active interaction of two or more subjects beyond the time required for the classical market exchange, is a relationship between stakeholders. The relationship requires at least two parties, which are in contact (Donaldson, O'Toole, 2007 Binek, Galvasová, 2008 Gummesson 2008, Egan, 2008). If the relationship between entities is developed in order to achieve a common goal, we are talking about cooperation. Entities share resources, do joint activities, share information in order to achieve mutual benefit (Čapková, 2004).

The basic and most common form of cooperation is a partnership, i. e. cooperation and seeking solutions based on common agreement and recognition of the importance of other subjects in achieving the objectives of the municipality. The object of common agreement is to determine the understanding of roles and tasks of partners, describe the common objectives with a view to obtain benefits for all stakeholders (Bušík, 2007). The basis for a successful partnership in territorial unit is a participation of all subjects that affect the territory or the territory influences them, i. e. participation of all stakeholders. Involving stakeholders for cooperation creates the initial precondition for the comprehensive territorial development.

9.2. Stakeholder's analysis

The stakeholder's analysis should specify their composition, their needs and relationships with the territorial government. It divides stakeholders into more homogeneous groups and identify the key players from all stakeholders.

The stakeholder's analysis supports to keep the active open dialogue. A possible positive outcome of dialogue with stakeholders is a dissemination of good practice, mutual inspiration and motivation. Although it is often a very difficult process, especially for a group of stakeholders that are not recognized as important, it can be very helpful in overcoming mutual mistrust and enhancing the possibility of mutual understanding. The dialogue should be timely, transparent, efficient, rational and bilateral. In the best cases, dialogue may result in long-term partnerships between subjects of different sectors (public, private and civil) (Nezhyba, 2006).

Generally, it is necessary to answer the following questions (Prskavcová, 2008):

1. Who affects the territory?
2. Which groups does the territory influence?
3. What do stakeholders expect from the territory?
4. What do different groups of stakeholders expect from the organization?
5. Which stakeholders are the key ones for the territory?

The key stakeholder is an entity which has high expectations, requirements for the territory and also has a significant impact on the activities in the territory.

The stakeholders in the territorial units usually include:

- citizens, a key entity of relationship in each territorial unit (region or municipality)
- other municipalities and regions,
- businesses,
- other entities established by a local/regional government,
- deputies,
- political parties,
- employees of local/regional municipality,
- financial institutions,
- church,
- organizational associations, non-profit organizations,
- offices of the state administration,
- media,
- universities and research centres,
- other entities with direct or indirect impact on government activities.

In selecting the key stakeholders the decisive criterion is an importance for the territorial government. The analysis includes the study and definition of the stakeholder's needs. This should include a clear definition of relationship with the stakeholder, duration and relationship history, degree of relationship formality, dominance of the partners and other.

The basic division of stakeholders by two main factors – power and level of interest presents Fig. 9.1.

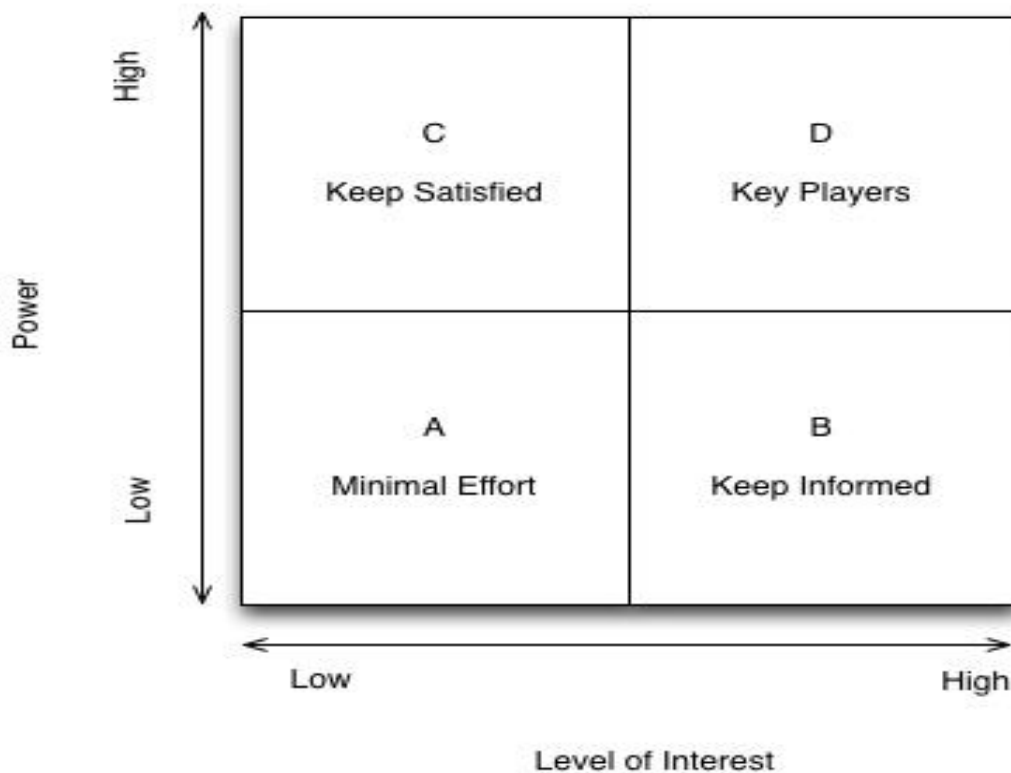


Fig. 9.1. Stakeholder's matrix

Source: Own workmanship.

Stakeholder's matrix is one of the most used method for the identification of stakeholder's positions. The territorial government can decide about the future position of each stakeholder and define the activities how to replace them.

Each box in the matrix give a steer on the extent to which government communicates and how it engages with its stakeholders.

Another field of analysis is to examine the social and economic investment into the relationship. By the level of investments there can be identified four groups of relationships: hierarchical, casual, bilateral and repetitive. In the hierarchical relationships appears the dominance of one party and lesser degree of trust between the parties. Casual relationships are transactional in nature. These include less frequently exchanges characterized by low economic and social investment. Bilateral relationship is a relationship with equivalent status of both partners. They invest into it similar volume of social and economic investment. Repetitive relationships characterize high

social investment and the degree of social interaction and limited economic benefits (Donaldson, O'Toole, 2007, Harwood, Garry Broderick, 2008).

The analysis of relations with stakeholders should paid attention also to the definition of phase in the relationship life cycle based on two variables, time and strength of the relationship. Dwyer (1986) defined five stages of a relationship: information phase, investigation phase, expansion phase, commitment and termination of the relationship. The lifecycle of the relationship presents Fig. 9.2.

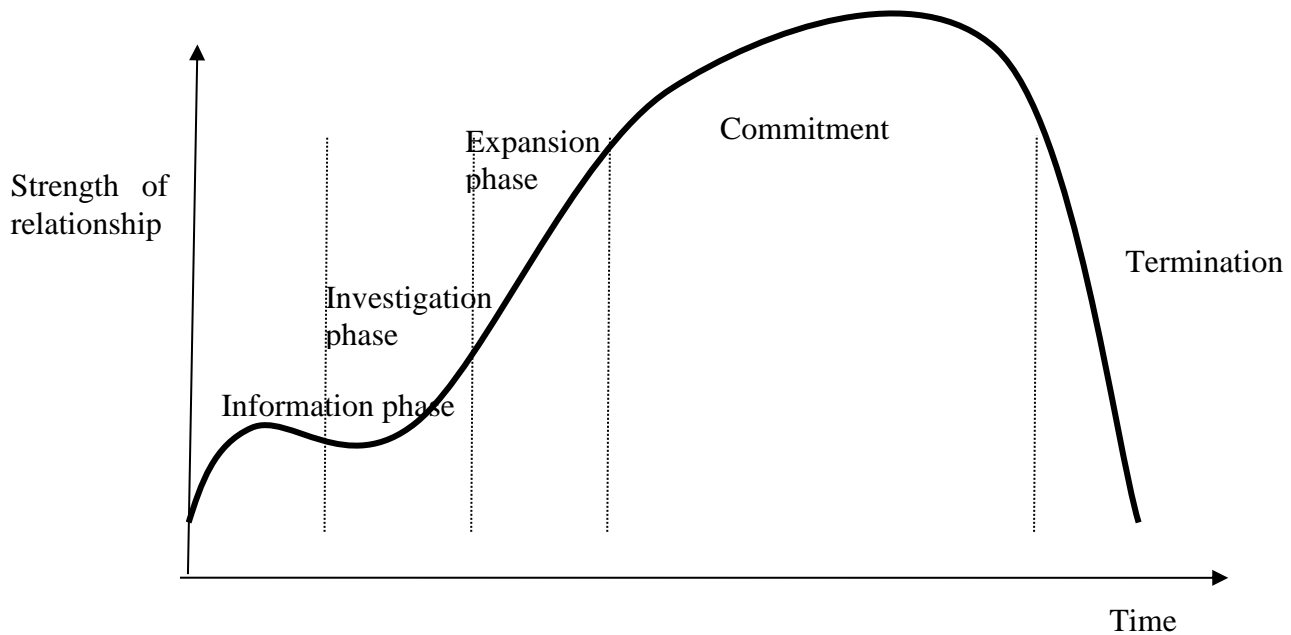


Fig. 9.2. Relationship life cycle

Source: Dwyer, Shurr, Oh in Hollenson, 2010, p. 192.

The life cycle of relationship with stakeholder starts with information phase. It includes the data about the type of participants. Relationship gets to the phase of investigation, when the territorial government develops the attempts to gain the attention of the subject. Investigation phase also includes the efforts of both parties to remove barriers and understand the nature of the relationship, norms and expectations that must be met and achieved. A growing number of exchanges in relation leads to a sustainable exchange as a part of the expansion phase. Commitment phase is associated with some degree of exclusivity in the relationship. In case of stakeholder's dissatisfaction or if relationship subjects realize that they can better meet their needs in some other relationship, the relationship is ended. In every relationship should be established specific indicators by stakeholders, e.g. increase of citizens' participation in meetings with representatives of government, length of employment for municipal

employees, the number of jointly organized events, etc. By measuring these indicators, it is possible to identify the phases of the life cycle. Consequently, it is possible to define a strategy of relationship development.

Besides the researching various aspects of relationship, it is necessary to map and analyse the internal and external factors of territory. It includes the deep analysis of territorial potential (geographical, natural, socio-economical, socio-demographical and innovative potential). The external factors are the source of threats and opportunities for further development of relations include the effects of political and legal (eg. political stability, regime, government stability), geopolitical (eg. state sovereignty), economic (eg. stage of the economic cycle, unemployment level, inflation), socio-cultural (eg. lifestyle, education level, community values), environmental (eg. supply energy, environmental problems), technological (eg. support for science and research in the country, the rate of technology transfer, new knowledge of science and research) environment. Partially, it is important also to map the activities of competitive territories, especially the activities oriented at involving and attracting the main territorial markets of citizens, tourists, entrepreneurs or non-profit organisations.

9.3. Networks, clusters and alliances

Stakeholders are the key entities of local production systems in various forms (e. g. clusters, associations, networks, etc.).

Networks are defined as a human chain of communication that pulsate to pass on, receive, direct and disperse information and knowledge between people. The structure of network is not fixed and constantly changing, rebuilding, dissolving in response to changing conditions and the needs of people and organization.

In literature, these forms of networks are defined:

- community;
- networks of associations;
- strategic alliances.

Community creates the network for common knowledge and sharing information. It supports members to be better informed, to be educated and to be wiser in making decision.

Networks of associations use to be in formal structure, where memberships was required to participate. They are used for information sharing, professional development and to protect industries from change and competitions. However, nowadays the networks of associations are more open, aspatial, informal. They play a key role in the development, receiving and transferring of information as a catalyst for collecting and distributing information and a hub organization. Network is an important element of strategic infrastructure for development and a source of innovation. It involves a complex array of relationships between firms gaining a stronger competitive position.

The specific type of network interconnected companies and institutions in a particular field with a geographical concentration is a cluster. It is an array of linked industries and other entities important to competitions. Porter defines cluster as an agglomeration of competing and collaborating industries in a region networked into horizontal and vertical relationships involving strong common buyer-supplier linkages, and relying on a shared formulation of specialized economics institutions. Generally, we can differentiate 2 types of clusters. The cluster can be created by companies sharing the distribution channels and customers or can be created by manufacturers of complementary products and companies in industries related by skills, technologies or inputs.

Alliances are defined as agreements between organisations that aim to increase market share of sales or business between parties that form the alliance. They support to gain access to global markets and protect local market position. There are different forms of alliances - from a memorandum of understanding to cooperate on specified matters to contractual obligations. The preconditions for alliance formation are a common knowledge through well – established networks and regional organization structures firmly embedded in a regional economy as an alliance catalysts/hub (brain of alliance) with developed infrastructure and collaborative competition.

By the field of interest the alliances are divided:

- expertise alliances – firms share expertise and capabilities (e. g. biopharmaceutical industry);
- new business alliances – non-competing firms look to exploit a new business or market;
- cooperative alliances – e. g. trade and industrial associations, lobby groups;
- merger and acquisition – it is a substitute for a merger that is inhibited by legal or commercial factors (Boston Consulting Group).

Alliances build immediate access to networks, markets, information, services for investors and developers and enable the development of incentive packages to potential customers and investors. They give regions the key element of business architecture that will create competitive advantage over competition from regions elsewhere.

9.4. CASE STUDY: The partnerships among different stakeholders and local municipalities in the Slovak Republic.

To identify the stakeholders in the Slovak local municipalities and map their relationship with the local municipality we realized the primary research in 100 municipalities in the Slovak Republic. They were chosen by quota sampling, aiming to evaluate different aspects of relationships (eg. Quality, importance, activity, etc.) The quotas used for the composition of the sample were a size and a region, where respondents of local municipalities are located. The research was conducted through a questionnaire survey with majors (66%), vice mayors (18%) and heads of municipal offices (7%) in the Slovak Republic. 9% of respondents didn't specify their position.

The whole research was aimed at mapping the relationships of local municipality with citizens, other municipalities, businesses, entities established by a local government, deputies, political parties, employees of local municipality, financial institutions, church, organizational associations, non-profit organizations, offices of the state administration, media, universities and colleges.

In the following figure 9.3, the relationships with all stakeholders are illustrated. Respondents of local municipalities see their relationships with stakeholders as partnerships except relationship with colleges, universities and political parties.

Colleges and universities are considered as a partner by 43% of respondents, but 48% of local municipalities don't cooperate with them.

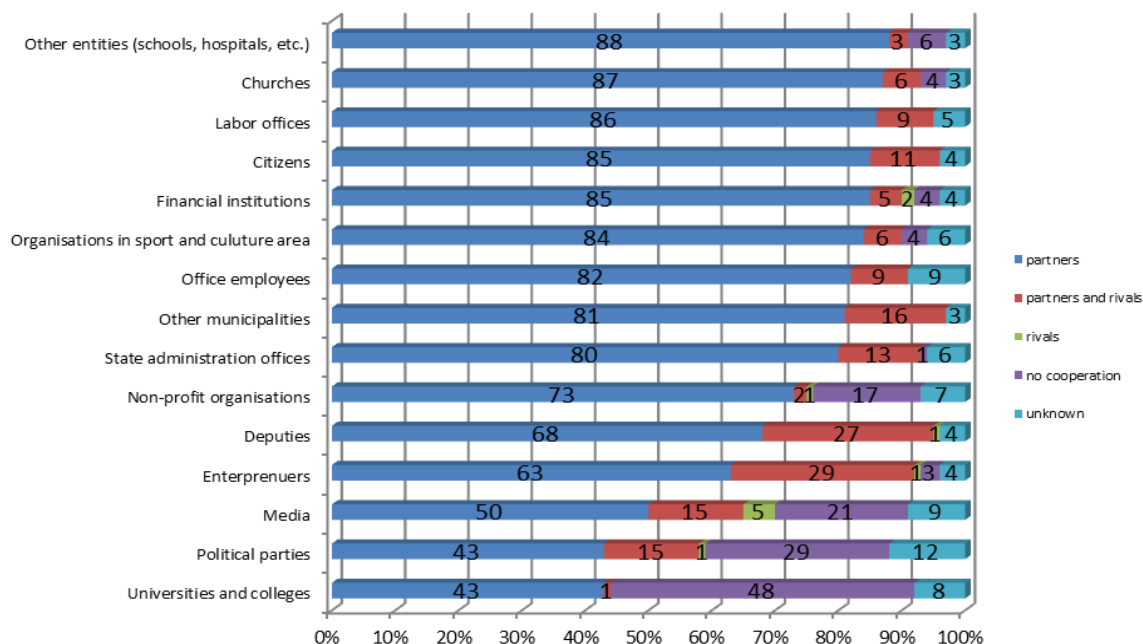


Fig. 9.3. Stakeholders in local self-government in the Slovak Republic

Source: Petříková, 2011, p. 60

Partnership is the most dominant in relationships to schools, hospitals and others (88%), followed by churches (87%), labour offices (86%) and citizens and financial institutions (85%). Stakeholders as rivals are seen only minimally (5% in case of media, 2% financial institutions, 1% entrepreneurs, other subjects, non-government organisations, state administration offices, labour offices, deputies and political parties). Local municipalities mostly don't cooperate with colleges and universities (48%), political parties (29%) and media (21%).

According to research results local municipalities consider as partners:

- entities, with which they are obliged to build relations by law (citizens, public administration offices, labour offices, employees, deputies);
- entities to which has a local municipality establishing duty and also founding, control, management or property relations (contributory organisations, non-government organisations, organisation in sport and culture area);
- entities with local municipality want to develop relations because of their duties and development of the locality (entrepreneurs, other municipalities, financial institutions etc.).

In the figure 9.4, the importance and quality of relationships among local municipality and stakeholders is presented.

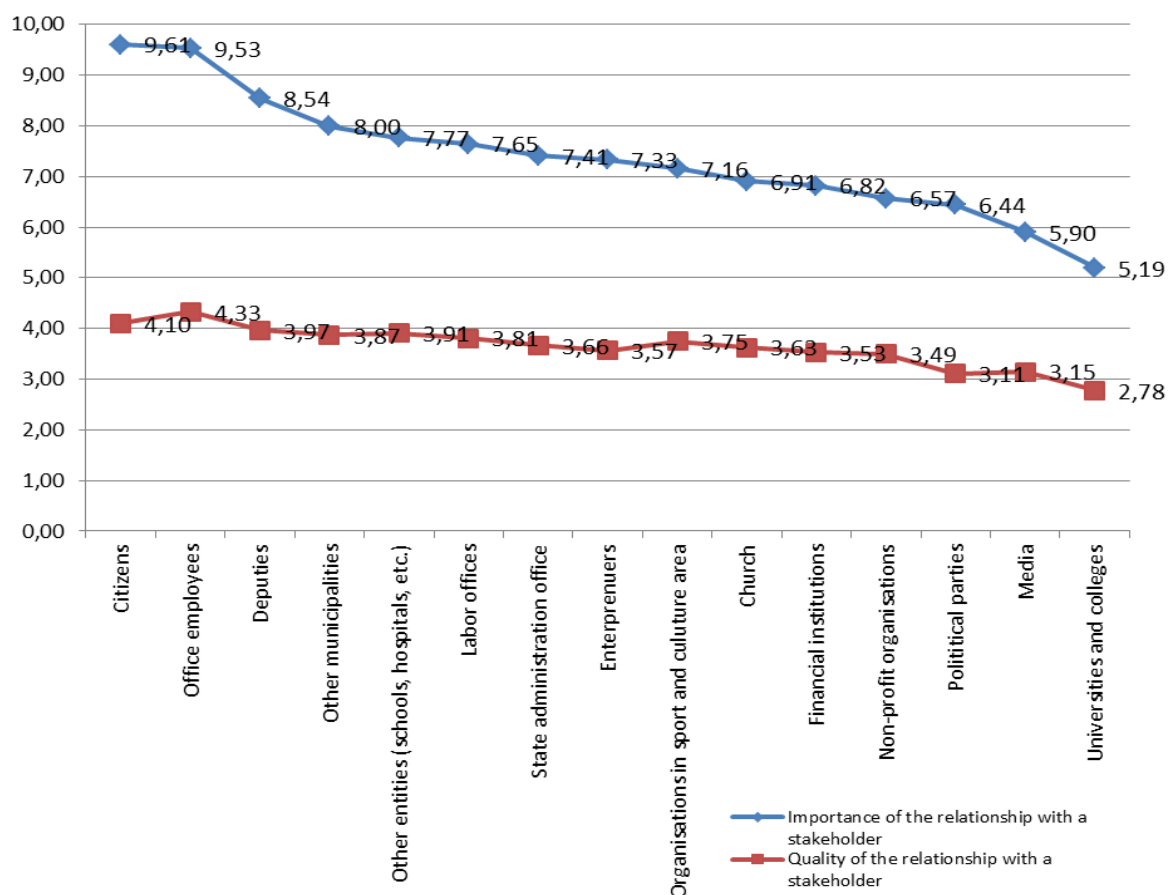


Fig. 9.4. The importance and quality of the relationship among stakeholders and local self-governments in Slovakia

Source: Petříková, 2010, p.63

Importance indicates the desired level of relationships and quality shows the real level of relationships on the scale 1 to 10 (1 means least important, or least qualitative relations and 10 means most important respectively highest quality of relations).

By importance of relationships with stakeholders in local municipalities the order is followed: citizens, local government employees, deputies, other subjects - hospitals, schools, employment offices, government offices, businesses, organisations in sport and culture area; churches; financial institutions, non-profit organisations in the social sector, political parties, media, colleges and universities. The order of stakeholders by quality is almost the same. The differences are small in the ranking. But what is more significant, is the difference between the importance and quality of

each researched relationship. In all of them, there is an inadequate level of their development.

The theory of stakeholders and Public Governance refer to the equal development of relationships with stakeholders. The research demonstrates that it is not valid for the local municipalities in the Slovak Republic. Local municipalities have the best relations with citizens, employees of local municipalities and deputies. These relations are regulated by law and generally it is a duty of local municipality to cooperate with these stakeholders.

According to research results we can also see that relationships with entrepreneurs, universities and colleges as a core of networks and alliances are not sufficiently developed. We consider it as negative fact in Slovakia. The attracting and building good relationships with local entrepreneurs has potential to boost local development, create new jobs, and employ local people, increase production and competitiveness. Entrepreneurs are also usually initiators or creators of local production systems; especially production orientated local production systems, which should fulfil all mentioned activities. Similarly, the universities and colleges usually act as catalysts for creative and innovative economy and LPS. In the Slovak municipalities, the relationship with universities and colleges is in very poor quality. There absent collaboration in solving common research tasks, preparing strategic development documents or doing relevant economic analyses. The representatives of local municipalities do not respect the power of universities in transferring research and its results to industry, generating invention, innovation and patents

As a last research aspect of the case study, we chose the tools of communication which implement the local municipalities in the relationships with stakeholders. Communication is a core of further relationship development and is the most frequently used tool by local municipalities. It includes mainly personal communication and public relations, especially organization of events and building a good image. The summary of used communication tools by stakeholders presents the table 9.1.

The table shows that the most used tools of communication in Slovak local municipalities are social events and events organised by the local municipality (89 %, 82 % - citizens), formal personal communication (70 % - employment offices,

municipalities, 76 % - employees), informal personal communication (55 % - church, entrepreneurs, 57 % - deputies, 76 % - citizens). There is a low frequency of using the forms of PR, sales promotion and communication via internet. Especially the weak communication via internet we consider as a weakness because its importance is growing last years.

Table 9.1 Tools of communication used by the local municipalities in SR

in %	Citizens	Municipalities	Church	Entrepreneurs	Entities established by a local government	Financial institutions	Non-profit organisations	Organisational associations units	Offices of state administration	Employment office	Deputies	Political parties	Employees of local municipality	Media	Universities, research centres
Formal personal communication – meetings, consultations, personal meetings	53	70	38	42	53	51	34	28	68	70	66	19	76	13	4
Informal personal communication	76	46	55	55	40	22	41	45	31	30	57	24	71	28	12
Communication via Internet	56	57	23	38	37	53	27	24	52	46	39	24	40	40	27
Social events (cultural, sport...)	89	40	40	34	53	2	27	67	9	6	36	10	49	19	4
Promotion[1]	85	35	16	46	35	17	20	32	25	25	22	16	22	30	7
	51	62	11	42	33	15	21	38	15	10	37	13	34	52	10
Building good image	56	40	26	42	35	15	20	36	14	7	38	6	37	36	7
Events organised by the local municipalities	82	10	15	11	54	2	18	27	4	2	24	4	44	11	1
Public relations	66	27	15	18	26	5	10	17	8	7	33	15	16	28	4
Common promotion activities	20	40	9	26	31	8	18	34	8	9	20	3	19	17	7
Sponsorship	20	5	19	49	23	8	19	40	1	0	2	2	2	3	4
Sales promotion	23	1	4	24	7	2	10	12	0	0	0	0	4	3	2
Lobbing	6	8	1	7	7	4	3	3	9	5	12	4	13	5	3

Source: Own workmanship of the questionnaire survey.

To conclude the case study, we can summarize the problem areas of current partnerships of Slovak municipalities and its stakeholders:

❖ local municipalities develop a wide portfolio of relationships with stakeholders. However, most of them is not a real partnership.

1. as a tool of relationship marketing/as a reason of building relationship

- ❖ significant differences among quality and importance of relationships with stakeholders;
- ❖ the stakeholders are not seen usually as co-creators of local municipalities, only as entities with whom the local municipality has to cooperate because of the law;
- ❖ inadequate level of mutual communication especially by using new technologies and internet,
- ❖ a lack of willingness to cooperate and be involved in the public affairs.

Control questions

1. *Who is a stakeholder in the development of territory?*
2. *Try to identify the stakeholders of your native city and divide them by spheres of interests.*
3. *What is a stakeholder matrix?*
4. *Identify the benefits of networks in the territorial development.*
5. *Which differences are between networks and alliances?*

Quiz (one-choice)

Public Governance is:

- an approach to the management of public sector based on individualisation, strict control and law measurements;*
- an approach to the management of public sector based on participation of stakeholders, coproduction of public policy and implementation not only strict law measurements;*
- an approach to the management of public sector preferring the relationship with the citizen, and lot of control mechanism.*

Stakeholders in sustainable place development are:

- persons, groups or organisations that have a direct or indirect impact on the place development;*
- individuals that have a direct or indirect impact on the place development;*
- persons, groups or organisations of the territory that have a direct or indirect impact on the place development.*

Stakeholder analysis in the territory includes the data about:

- composition of stakeholders, its importance, influence on the territory, their expectation;*
- only about the key stakeholders;*
- is not usually the part of the territorial potential analysis.*

The stages of relationship development are:

- initialization, expansion, peak, decline, recovery;*
- implementation phase, expansion phase and control phase;*
- information phase, investigation phase, expansion phase, commitment and termination of the relationship.*

By social and economic investment into the relationship, the relationships are divided into:

- primary and secondary;*
- hierarchical, casual, bilateral and repetitive;*
- relationships with business stakeholders, social stakeholders, environmental stakeholders and with economic and financial stakeholders.*

Clusters can be created:

- only by decision of the regional government,*
- by companies sharing the distribution channels and customers or can be created by manufacturers of complementary products and companies in industries related by skills, technologies or inputs,*
- by manufacturers of the same products and companies in industries related by skills, technologies or inputs.*

True/false

1. *By the field of interest, the alliances are divided as expertise alliances, new business alliances, cooperative alliances and merger and acquisition* *TRUE/FALSE*
2. *In the analysis of the territory, besides the researching various aspects of relationship, it is enough to map and analyse the external factors of territory.* *TRUE/FALSE*
3. *Citizens are a key entity of relationship in each territorial unit (region or municipality).* *TRUE/FALSE*
4. *Network is not an important element of strategic infrastructure for development and a source of innovation.* *TRUE/FALSE*

THEME 10. INDUSTRIAL CLUSTERS – STORY OF SUCCESS IN V4 AND EMERGING OCCASIONS FOR UKRAINE¹

10.1. Essence, advantages and classification of clusters

The industrial clusters (business clusters) are territorial agglomerations of economic, political and social agents focusing on a specific set of the economic activities, mutually connected, albeit incipient and with general innovative orientation.

Clusters include not only manufacturing structures, but also a wide range of social, scientific research, financial institutions, infrastructure, etc. (see Fig. 10.1) that create a complex essential for the socio-economic development of the region.

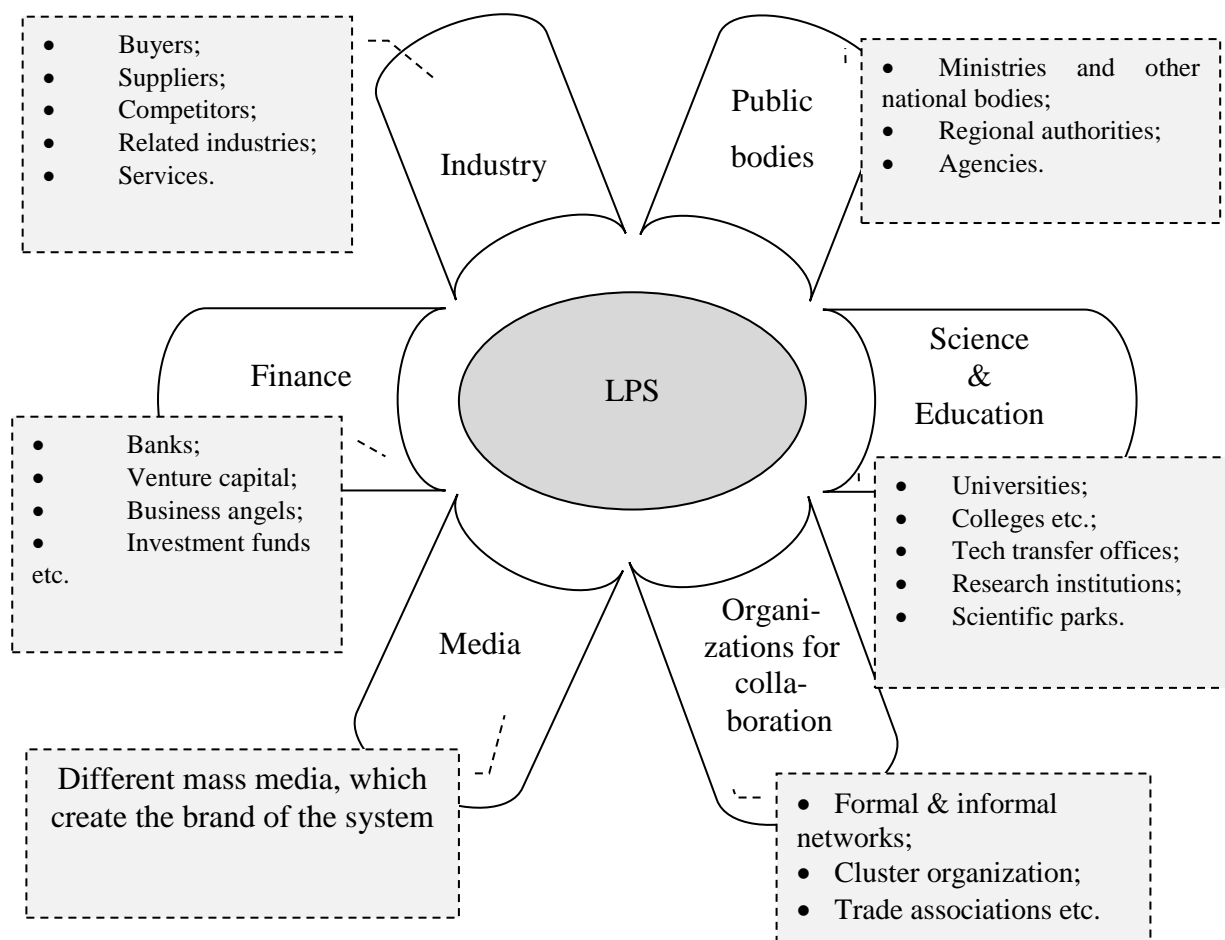


Fig. 10.1. Environment of LPS

Source: author's modification of (Sölvell Ö. 2009)

In addition to the participants indicated in Figure 10.1, various supporting institutions are often created with the main task to promote the emerging new

¹Prepared by Yevhen SAVELYEV, Yevheniy KURYLYAK, Ternopil National Economic University, Ukraine

agglomerative formations (including typical local production systems) and the establishment of cooperation within the existing ones (the so-called facilitators).

The advantages of cluster-type alliances are shown in Table 10.1.

Table 10.1 Goals and advantages of clusters

No	Goals	Advantages
1	Access to knowledge and other resources	<ul style="list-style-type: none"> - transfer and appropriation of knowledge between firms; - improvement of management system; - effective practical use of knowledge; - specific know-how, new markets and management techniques.
2	Flexibility	<ul style="list-style-type: none"> - shorter manufacturing cycle of the product; - faster market penetration; - accelerated depreciation of investments; - operative reaction to changes in the environment; - missing or shorter time lags for training.
3	Costs reduction	<ul style="list-style-type: none"> - economies of scale and related externalities; - co-financing the part of partner companies' costs; - lower transaction costs.
4	Distribution of risks	<ul style="list-style-type: none"> - risk diversification; - better risk management; - less moral hazard.
5	Access to new markets	<ul style="list-style-type: none"> - overcoming trade barriers; - local presence and quasi-insider image.
6	Increased market power	<ul style="list-style-type: none"> - the powerful influence both as seller and buyer; - the impact on the structure of the sector; - lobbying the interests in government.

A push for cluster creation can be given by certain natural advantages (beds of ore, transport ways, climate) or by presence of special demand or skills within the region. Successful activity of separate enterprise can become other typical stimulus, so as early period is often marked by activity of only one or a few persons – so-called «heroes» of cluster. In the modern economy, the university often plays the role of the “brain trust” on which emerging clusters thrive (especially typical for the USA). Clusters can be created as a result of governments regional policy. In Dubai, Saudi Arabia, Korea, China, and other parts of the Middle East and Asia we can witness very visible government hands at work in cluster development, whereas in the Anglo-Saxon world it tends to be more invisible, at least as a direct cluster policy or program. The early stage is fully written into the classic scopes of theory of comparative advantages.

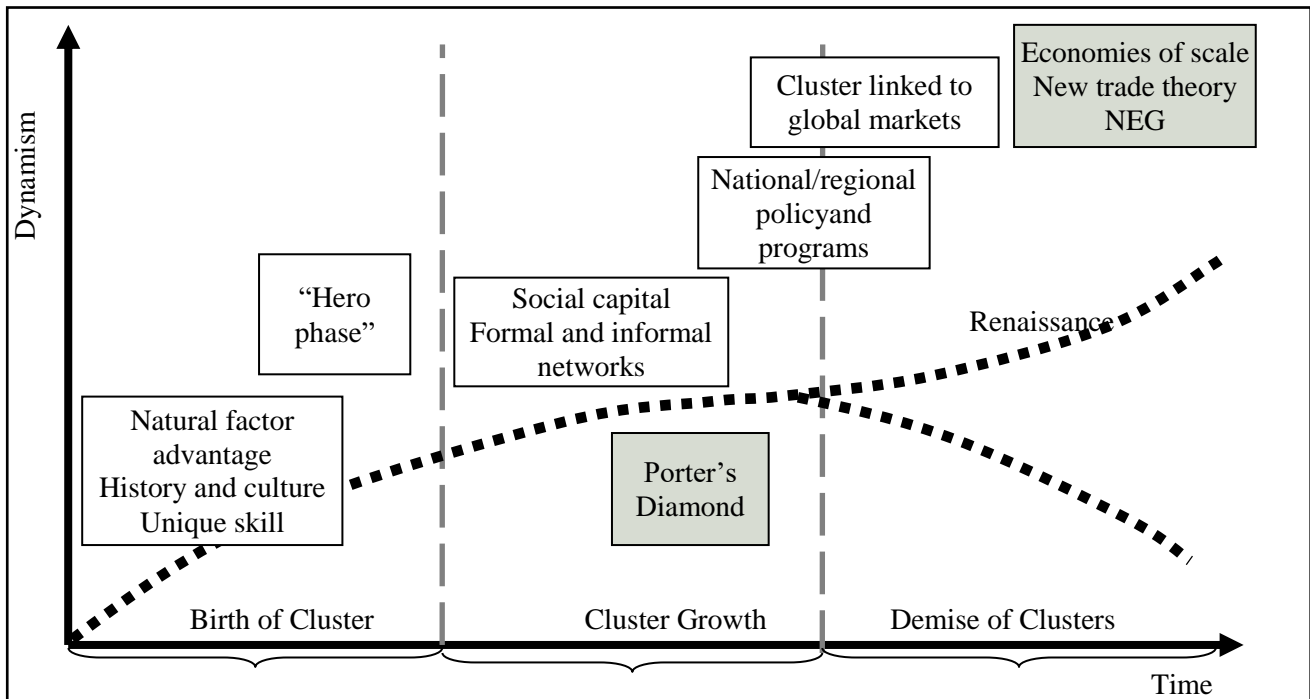


Fig. 10.2. Life cycle of cluster

Once the cluster reaches critical mass and starts to grow, there is often a strong cumulative process, or path dependence, that locks in the cluster. A cluster can consist of plenty of shallow companies, but more frequent there prevail one or few powerful firms (*“anchor firms”*). For example, the kernel of Silicon Valley build Intel, Hewlett Packard, Varian, Shockley Transistor and Fairchild, which created hundreds of branches. Porter Diamond concept plays important role in determination of cluster competitiveness on the stages of becoming and maturity.

While growing, cluster joins in the process of international competition at the market of factors (bringing in of new companies, labour force, capital) and commodities. On this stage the effect of scale economies will play greater role, and consequently the paradigm of new economic geography is become central.

Some Ukrainian economists equate “cluster” with *“spatial manufacturing complex”*, the theoretical basis of which was developed by M. Koloskovskiy in the 1930s (Golikov 2009: 28). According to his definition, a spatial manufacturing complex “is an economically integrated, interconnected and interdependent association of various sectors of the economy that emerged and developed in a particular area.” So it is rather a Marshallian type of agglomeration’s definition.

Indeed, economic policy of the Soviet Union in the mid- 1960s, which included planning of the economic development based on the spatial principle, has got many points in common with modern cluster approach. For example, the Office of Tractor and Agricultural Machinery of Kharkiv public farm complex, in addition to traditional vertically integrated production, includes also technical schools, colleges, and specialized design institutes. Similar associations were observed in chemical, textile, paper and wood processing, construction materials industries, etc. However, it is not correct to equate a cluster and a SMC, because the second one is a much broader term, which covers both clusters and industrial districts, which are common regional concentrations of certain industry without any clear innovation focus.

The great popularity that recently won clusters among economists and politicians results to some confusion in theoretical background. Therefore, term “clusters” often includes three different types of agglomerations:

- ❖ Techno-clusters – focused on the use of high technology, well adapted to the modern knowledge economy. The core of these clusters are often known universities or research centers. Examples are Silicon Valley in the US, Delft in the Netherlands, Minatek in France, Bangalore in India etc.;

- ❖ Clusters that have been historically formed on the basis of certain "know-how" and which are specializing mainly in more traditional sectors. Such specific know-how could be developed for years, sometimes even centuries (London as a financial center, Hollywood);

- ❖ Factorial-oriented clusters – resulting from the fact that certain comparative advantage often associated with geographic location (climatic conditions, availability of natural resources, etc.). The example of this type of clusters are some of the winery associations in Spain, France, Chile.

In our view, only the first and, to a lesser extent, the second group, could be attributed to the clusters, taking into account that such industrial alliances creates optimal conditions for the development of innovative products. A similar position is hold by the representatives of the European Cluster Observatory – an organization established for the collection and processing of statistical data related to the activities of clusters in Europe.

The abovementioned typology of clusters is not unique. Table 10.2 summarized the classification of clusters in economic literature.

Table 10.2 Classification of clusters

Criteria	Cluster types
Stage of development	embryonic, developed, mature, transforming
Dynamics by Enreight	emerging, growing, sustaining, declining
Number of members	small (20 members), large (over 20 members)
Degree of state involvement	clusters involving central government, regional, municipal, international bodies involvement
Nature of the origin	bottom-up, top-down
The degree of openness	closed (using only its own resources), open (attracting additional resources to the region)
Industry affiliation	shipbuilding, pharmaceutical, tourist, automotive, telecommunications etc.
Structure	consisting of small and medium enterprises; clusters, where large companies form the core around which small firms are grouped
Level of interaction between members	free relationship in association; regulated relationships; unsystematic relations
The mission	infrastructure and innovations; quasi-innovations, ultra-structural mega-industrial, clusters of borrowing
The status	formal, non-formal

In comparison with the Western European countries, in the countries of the Visegrad Group, clusters and cluster initiatives are fairly new instruments. Over the last decade, there has been a strong boom of clusters, mainly due to the support of cluster initiatives provided from the EU resources. The formation of clusters, however, preceded the properly done mapping studies and some clusters originated via the transformation or development of the already existing platforms of cooperating companies (Potužáková 2009).

10.2. Clusters in Poland

At the end of 2015 Polish Agency for Enterprise Development (PARP) identified more than 130 clusters in Poland, which are specific collaboration forms involving geographically concentrated institutions and organisations, mainly enterprises operating in the same or related industries.

The oldest clusters in Poland exist more than 13 years but most of them (over 60%) are young structures established between 2011 and 2015.

All identified clusters have in total almost 6,000 participating entities of which enterprises account for 78%. The largest number of clusters are active in the following sectors: ICT, energy/renewable energy and construction, as well as in healthcare. Significant number of clusters represent metal industry, production technologies, tourism and business services.

In order to achieve the goals of cluster policy outlined by the Polish Cluster Policy Group, in 2014 the Polish Agency for Enterprise Development, in collaboration with the Ministry of Economy and external experts, developed a set of criteria and drafted procedures for appointing Key National Clusters. The methodology was based on the desk research of available national and international sources to propose criteria and validation requirements which eventually underwent consultation with ministries, institutions and the general public.

The profile of a Key National Cluster resulted from combination of expectations towards the best clusters in different states, especially European, and the actual performance of Polish clusters.

Criteria address the following aspects:

- 1) Cluster size and structure (number of participants, especially SME and large companies);
- 2) Employment;
- 3) Joint activities of cluster participants and internal collaboration;
- 4) Geographical concentration of cluster participants;
- 5) Cluster specialization;
- 6) R&D;
- 7) Innovation performance;
- 8) Resources (physical, human, financial, etc.);
- 9) Presence of the cluster and its companies in foreign markets;
- 10) National and international visibility of the cluster;
- 11) Cluster coordination services and management.

The process of appointing Key National Clusters is organised by the Ministry of Economic Development in collaboration with PARP. PARP is responsible for running

a Secretariat of the Evaluation Committee to properly handle every stage of the validation process.

Terms and conditions for Evaluation Committee and assessment process have been stipulated in the *Key National Cluster Rules*.

Table 10.3 List of Key National Clusters in Poland

	Cluster name	Industry	Name of the cluster organisation (coordinator)	Location of the cluster coordinator	Status valid until
1	Aviation Valley	aviation	Stowarzyszenie Grupy Przedsiębiorców Przemysłu Lotniczego "Dolina Lotnicza"	Rzeszow	September 30, 2018
2	Polish Aluminium Cluster	metal casting	City Consulting Institute Sp. z O.O.	Katowice	September 30, 2018
3	Mazovia ICT Cluster	ICT	Stowarzyszenie Rozwoju Społeczno-Gospodarczego "Wiedza"	Warsaw	September 30, 2018
4	Interizon	ICT	Fundacja Interizon	Gdansk	September 30, 2018
5	Eastern Construction Cluster	construction	Polskie Stowarzyszenie Doradcze i Konsultingowe	Bialystok	September 30, 2018
6	Metal Processing Cluster	manufacturing of machines, devices and tools for industrial use	Centrum Promocji Innowacji i Rozwoju	Bialystok	September 30, 2018
7	Green Chemistry West Pomeranian Chemical Cluster	chemical industry	Stowarzyszenie Zachodniopomorski Klastr Chemiczny "Zielona Chemia"	Szczecin	September 30, 2018

Source: Polish Innovation Portal http://www.pi.gov.pl/eng/chapter_95931.asp

10.3. Clusters in Czech Republic

Based on the mapping studies done by Abrhám & Herget (2013), there were identified more than 70 newly formed cluster initiatives in the Czech Republic. Out of these initiatives 62 proved to be functional. The relevant information could be obtained in case of 46 clusters. The analysed sample therefore represents 46 cluster initiatives.

Table 10.4 The overview of the cluster initiatives in Czech Republic

Cluster	Specialisation	Members	Cluster	Specialisation	Members
ABC Wood	wood processing, lumbering	7	Czech Pellets	wood processing	54
Security Technology cluster	security technology	31	Czech Nanotechnology Cluster	nanotechnology	13
Clutex	technical textiles	26	CGMC	general engineering	75
Czech Stone Cluster	cutting, shaping, finishing of stone	19	Czech IT Cluster	information technology	41
Czech-Slovakian Industry Cluster	Information technology, engineering	34	Czech Communication Cluster	communication, mobile, network	51
CREA	waterworks, energy	19	IT Cluster	information technology	12
Atomex Group	nuclear energy	16	Czech Bio	biotechnology	37
Czech Brewery Cluster	manufacture of beer	15	ENVICRACK	alternative energy source	28
ELECTRA-CITY	urban logistics	23	EKOGEN	environmental constructions	16
HIT Cluster	information technology	18	IQ Cluster	information technology	22
IT Cluster	information technology	39	ENERGO Cluster	energetics	16
ERGOMED Cluster	ergonomics, prosthetics	22	Cluster BIOGAS	manufacture of industrial gases	16
Wood processing Cluster – South Bohemia	wood processing	12	Vysocina Precision Engineering Cluster	manufacture of machines and equipment	17
KLACR	tourism	39	NUTRIPOL	food industry	15
Cluster of Czech Cabinet Makers	manufacture of furniture	38	Cluster Mechatronic	mechatronics	14
OMNIPACK	manufacture of paperboards products	57	Green Cluster	waste management services	39
Knowledge Management Cluster	entrepreneurship	31	Moravian-Silesian Energy Cluster	energetics	21
Moravian-Silesian Automotive Cluster	manufacture of other parts and motor vehicles	64	Moravian-Silesian Wood-processing Cluster	wood processing	28
NANOPROGRES	nanotechnology	20	MedChemBio	biomedicine	26
Czech Machinery Cluster	manufacture of machines end equipment	66	Network Security Monitoring Cluster	information technology	20
Moravian Forest Cluster	forestry and logging	13	NutriKlastr	food products	23
Regional Food Cluster	food industry	19	Plastics Cluster	manufacture of plastics products	34
Industrial Cluster	manufacturing industry	11	NIPAS	low energy and passive houses	13

Source: Abrahám, J., & Herget, J. (2013)

The identified clusters are distributed rather unevenly in terms of their location. Most clusters are located in the region Moravia-Silesia (12) and fewest, vice versa, in regions Prague (1) and Plzen (1). More than 50 % of the clusters are located in three regions (Moravia-Silesia, South Bohemia and South Moravia).

In terms of the sectoral focus, the cluster initiatives include the following sectors: food industry, engineering, textiles, food processing, information technologies, mechatronics, plastics, packaging, renewables, biotechnology, nanotechnology, tourism, biomedicine, etc. Most clusters are active in the sectors of information technologies (6), energetics (6) and wood processing industry.

Strong clusters emerged in processing industries like machinery, precise and general engineering, technical textiles, plastics, packaging, or wood; in various technology areas like environmental technologies, biotechnology, renewables; nanotechnology or ICT (Ministry of Industry and Trade, 2013).

10.4. Clusters in Slovakia

The clusters in Slovakia have been formed either spontaneously using specific features, potential or sources of regions or have been formed around multinational firms (usually they also represent the most important source of FDI for the hosting region, as well for the Slovak economy as a whole), which decided to do investments in Slovakia (e.g. automotive clusters in Trnava, Bratislava and Žilina region). Their business activities have attracted a lot of other firms, especially sub-contractors firms, as a part of their own value chain.

Most of clusters have character of technological, tourism or knowledge clusters. In the recent years a formation of clusters in the creative industries has been observed, too. In the case of these clusters, Bratislava region takes an important role. It is one of the leading European regions from the point of view of concentration of employment in the creative industry. Approximately more than 5% of workers are employed in this sector that indicates a significant specialization. In addition, about 46% of all businesses in the creative industries are located in Bratislava region and approximately 91% directly in Bratislava. Currently, as the most perspective sectors of the creative

industry are considered design and software programming (Ministerstvo hospodárstva Slovenskej republiky, 2013, p. 27).

Clusters, unlike other associations in Slovakia, may not be formally established (as a legal form) and they are also able to operate on an informal basis. The legal form of business clusters in the world is given by the individual legislation in force in each country. This legislation differs as well within the member countries of the European Union. In case of Slovakia, the special legislation on business clusters does not exist, even the Slovak legislation does not know the term “cluster”. Thereby the clusters in Slovakia, if the firms in the cluster want to formally organize, have to choose their legal forms within the already existing legislation. Based on it, the cluster organizations – official cluster initiatives in our country have a form of *interest association of legal persons* or *civil association*, which are registered in the *Register of Interest Associations of Legal Persons* or in the *Evidence of Civil Association* and they govern priority by the Civil Code (the Act No. 40/1964 Coll. the Civil Code as amended) and by the act on the association of citizens (the Act No. 83/1990 Coll. on the Association of Citizens as amended). However, the legislation of these associations is general and does not take into account any specifics of cluster initiatives (Kicova, E. et al., 2014).

The legally existing cluster organizations in Slovakia (including both active and inactive acting initiatives) are listed in the table below (Table 10.5). Mainly, they operate in the fields of automotive industry, IT technologies, electronic industry, energetic industry (the most important industries from the point of view of FDI of the Slovak Republic, logically for the hosting region, too) and tourism.

Table 10.5 Cluster initiatives in Slovakia

Official name of cluster (in Slovak)	Official name of cluster (in English)	Region	Year of foundation
BITERAP	BITERAP	Kosice Region	2004
Automobilovy klaster Slovensko	Automotive Cluster Slovakia	Trnava Region	2007
Kosice IT Valley	Kosice IT Valley	Kosice Region	2007
ABC - Academic Business Cluster	ABC - Academic Business Cluster	Bratislava Region	2007
Z@aict	Z@aict	Zilina Region	2008
Zdruzenie cestovneho ruchu Balnea	Turism association Balnea Cluster	Banska Bystrica Region	2008
1. slovensky strojarsky klaster	1st Slovak Engineering Cluster	Banska Bystrica Region	2008
Elektrotechnicky klaster - zapadne Slovensko	Electrotechnical Cluster - West Slovakia	Trnava Region	2008
Klaster cestovneho ruchu - zapadne Slovensko	Cluster of Turism - West Slovakia	Trnava Region	2008
Klaster LIPTOV - zdruzenie cestovneho ruchu	Cluster LIPTOV - association of turism	Zilina Region	2008

Energetický klaster - zapadne Slovensko	Energetic Cluster - West Slovakia	Trnava Region	2009
Klaster TURIEC - združenie cestovného ruchu	Cluster TURIEC - association of tourism	Zilina Region	2009
Slovenský plastikársky klaster	Slovak Plastic Cluster	Nitra Region	2009
Klaster ORAVA	Cluster Orava	Zilina Region	2009
Dunajský vedomostný klaster	Danube Knowledge Cluster	Bratislava Region	2010
Energetický klaster CENTROPE	Energetic Cluster CENTROPE	Trnava Region	2010
Klaster AT+R	Cluster AT+R	Kosice Region	2010
Klaster pohraničných hradov	Cluster of Border Castles	Banská Bystrica Region	2010
Klaster Smolenice	Smolenice Cluster	Trnava Region	2010
Klaster cestovného ruchu Kosice Turizmus	Cluster of Tourism Kosice Tourism	Kosice Region	2010
Stavebný klaster Slovenska	Construction Cluster Slovakia	Trnava Region	2010
Klaster HOREHRONIE - združenie cestovného ruchu	Cluster HOREHRONIE - association of tourism	Banská Bystrica Region	2011
Energetický klaster Presovského kraja	Energetic Cluster of region Presov	Presov Region	2012
Klaster pre podporu inovatívnych a zelených technológií	Cluster for Green and Innovative Technologies Support	Trnava Region	2012
Klaster TOPOECANY	Cluster Topol'cany	Nitra Region	2012
Narodný energetický klaster NEK	National Energetic Cluster NEK	Bratislava Region	2012
KITech klaster inovatívnych technológií pre nakladanie s prasnými anorganickými odpadmi	KITech Cluster of Innovation Technologies for the Handling with Dusty Inorganic Waste	Trenčín Region	2012
Klaster MONOCRYSTAL	Cluster MONOCRYSTAL	Zilina Region	2013
Slovak IT klaster	Slovak IT Cluster	Trenčín Region	2013
Trnavsko-myjavský strojársky klaster	Trnavsko-myjavský engineering cluster	Trnava Region	2013
Klaster pre akumuláciu energie z OZE	Cluster for Energy Storage of RE	Nitra Region	2013
1. spisský klaster	1st Cluster of Spis	Kosice Region	2014
Klaster Huculská magistrála	Cluster Huculská magistrála	Banská Bystrica Region	2014
EMOCITY - Klaster pre elektromobilitu a smart city	EMOCITY - Cluster for E-mobility and Smart City	Bratislava Region	2014
Potravinársky klaster	Food Cluster	Nitra Region	2014
Železničný dopravný klaster	Railway Transport Cluster	Presov Region	2014

Source: Kicova, E. et al. (2014). The Cluster Initiatives (No. 0902966). International Institute of Social and Economic Sciences.

10.5. Clusters in Hungary

In Hungary there are more than 180 business networks, which define themselves as clusters. This number is more than the combined number of self-defined cluster organisations in all neighbouring countries of Hungary. At the same time the Hungarian population of cluster organizations is characterised by high of birth rate and a high level of mortality. In many consortia the level of activity and the content of inter-firm cooperation vary in time. The vast majority of cluster organizations have been organised in order to implement occasional projects and between these intervals of activity the business network is inactive. However, from the population of such cluster organisations eventually a highly visible, active and successful elite of clusters has

emerged, especially in the pharmaceutical, biotechnology, environment, industry, and information and communication technology sectors.

Table 10.6 Main clusters in Hungary

Region NUTS-2	Name	City	Industry
Del-Alfold	3P Plastic Industry, Packaging Industry, Printing Industry Cluster	Kecskemét	Plastic, packaging
	ArchEnerg Regional Renewable Energetic and Building Cluster	Szeged	Environment protection
	Biomass Utilization Cluster	Szeged	Processing
	Dél-alföldi Regionális Textilipari Klaszter	Hódmezővásárhely	Textile industry
	Goodwill Biotech Cluster	Szeged	Biotechnology
	Hod Iparos Klaszter	Hódmezővásárhely	Machinery
	PharmacoFood Cluster	Szeged	Biotechnology
	South Great Plain Road-Construction Cluster	Szeged	Construction
Del-Dunantul	Szoftveripari Innovációs Pólus Klaszter	Szeged	ICT
	Biotechnológiai Innovációs Bázis	Pécs	Biotechnology
	Interregionális Megújuló Energia Klaszter Egyesület	Pécs	Renewable Energetic
	South Transdanubian Cultural Industry Cluster	Pécs	Creativity
Eszak-Alfold	South Transdanubian Energy Cluster	Pécs	Energy
	INNOVA Észak-Alföld	Debrecen	Education, Environment protection,
	Opto Mechatronikai Klaszter	Nyíregyháza	Optics
Eszak-Magyarorszag	Pharmapolis Debrecen	Debrecen	Pharmaceutics
	ENIN environmental Industry Cluster	Miskolc	Environment protection
	Miskolc Holding	Miskolc	Construction
Kozep-Dunantul	North Hungarian IT Cluster	Miskolc-Egyetemváros	ICT
	Automotive Consulting Cluster	Budapest	Automotive
	Central-Transdanubia Wood and Furniture Industry Cluster	Székesfehérvár	Word-processing
	Közép-dunántúli Regionális Informatikai Klaszter	Székesfehérvár	ICT
Kozep-Magyarorszag	Pharmagora Quality of Life Cluster	Balatonfüred	Biomedicine
	Hungarian Aero Cluster	Budapest	
	Hungarian Medical Instruments Producers and Service Providers Cluster	Budapest	Medical equipment
	Medical Biotechnology Innovation Cluster	Budapest	Biotechnology
	Mobility and MultiMedia Cluster	Budapest	ICT
	Omnipack	Budapest	Packaging
Nyugat-Dunantul	Waste Technology Innovation Cluster	Budapest	Water economy
	PanLog	Szombathely	Logistics
	Pannon Automotive Cluster	Győr	Automotive
	Pannon Local Product Cluster	Vasvár	Agriculture
	Pannon Mechatronics Cluster	Zalaegerszeg	Mechatronics
	Pannon Textile Cluster	Szombathely	Textile industry
	Pannon Thermal Cluster	Bükfürdő	Tourism
	Pannon Wood and Furniture	Zalaegerszeg	Furniture
Sopron Regional Logistics Cluster	Sopron	Logistics	
	Észak-alföldi Informatikai Klaszter	Debrecen	ICT

Source: European Cluster Observatory

Cooperation within clusters is motivated by commercial relationship, by the existence and utilization of a common knowledge base for innovation. Companies and other organizations establishing clusters have launched various projects to jointly

utilise some common resource, to participate in the value chain, to gain new markets or to jointly enforce their interests vis-à-vis some local or the central government.

The self-defined identity and mission of the clusters is of utmost importance. Clusters that do not adequately define the scope and form of cooperation within the cluster are vulnerable. Lack of a coherent cluster identity may reduce the professionalism of cooperation and lead to loss of trust among the firms. Among the investigated clusters, segmentation may develop either if certain distinct sub-groups evolve based on a particular industrial/professional culture or if some of the larger member companies of the cluster develops supplier linkages with only a subset of members. This is especially true for the classical manufacturing sector where the cluster frequently contains several competitor member firms. Mutual trust is more likely to erode in times of crisis or in case of dwindling external resources.

The majority of investigated clusters affiliates itself with a particular region of Hungary. In particular, approximately two-thirds of clusters consider themselves as regionally focused: in such cases the majority of the members are located in the same region. Companies of the environmental and energy industry, the IT and telecom sector, biotech and healthcare sectors and some selected branches of manufacturing (plastics, textiles, wood, automotive products) have established clusters with a strong professional affiliation. Clusters with strong sectoral/professional binding frequently demonstrate no affiliation to a specific region. Clusters organized on a sectoral/professional basis are more efficient and more sustainable than those organized on a strong regional basis.

Clusters dominated by one or two “flagship” companies are called centralized clusters. Such networks are either subcontracting hierarchies or networks organised around a joint research and development projects, where members have unequal access to know-how. Centralized cluster formation can be found primarily in the IT and biotechnology sectors. In most cases, the fact that some companies within the network have a monopoly in the particular know how or finances can explain their dominant position.

Clusters are called segmented, if some smaller groups, “cliques” are formed within the network, within which the cooperation is satisfactory, but linkages among

the cliques are weak, occasional or completely non-existent. Segmented clusters have been observed, but not very often. Among the investigated clusters, segmentation may develop, if certain distinct sub-groups evolve the based on a particular industrial/professional culture or if some of the larger member companies of the cluster develops supplier linkages with only a subset of members.

Network characteristics is a major factor in the success or decline of a cluster. Consortia built around a “flagship” firm have more chance of success, especially if the member companies are integrated by a specific professional culture. Segmented clusters as a rule are less sustainable than clusters free of cliques. Clusters may flexibly adapt to changes in market conditions, to variations of the business cycle or of the business environment by creating new sub-groups within the network, which are capable to launch new projects, to re-use the results of previous projects. Indeed, the ability to re-organise the network structure is the most important criterion of effective adaptation within a particular cluster.

Innovation activities are important elements of cluster efficiency. In many cases research and development is not implemented by the cluster organization itself, but by one of its members, e.g. by a university department. The fact that a research institute or a university is a member of the cluster does not guarantee in itself innovation activities within the cluster; indeed, in many cases the opposite is observed. About half of the clusters participate in innovation diffusion, even if no cluster member has taken part in the development of the particular innovative product, technology or service. Innovations embodied in some product or technology have been observed much more frequently than innovations of abstract, less tangible nature, such as organizational and service innovations.

Cluster policy in Hungary can be conceived as part of regional development policy, enterprise development policy or innovation policy. The main aim of cluster policy is to promote the development and operation of collaborative networks among (a) companies and (b) among companies and other organizations, such as professional associations, R & D institutes. The adverse side effects of cluster subsidies are much smaller than the effects of direct subsidies given to individual firms. The latter strategy

often gives artificial advantages to particular companies by picking the winners of competition.

Cluster accreditation is an innovative element of Hungarian cluster policy, which improves the competitive position of promising clusters. Accreditation is also necessary in order to distinguish those Hungarian clusters that are true clusters in the internationally accepted sense from other networks, such as temporary consortia and project organisations (Futo, 2014).

10.6. Clusters in Ukraine

But in spite of not very favorable institutional conditions, absence of legal framework and public support, some cluster still managed to develop in Ukraine. First attempts to create clusters date back to 1998. Nowadays, there are more than two dozen clusters in Ukraine. Most important clusters are presented in Table 10.7.

Table 10.7 Clusters in Ukraine

Region	Clusters
Khmelnyskyi	Khmelnyskyi construction cluster; Khmelnyskyi sewing cluster; Khmelnyskyi touristic cluster; Kamianets-Podilsk touristic cluster; Cluster of the eco-agrotourism in Grytsive, Shepetivka district "Amulet"; Fruit cluster «Podilsk apple».
Ivano-Frankivsk	Cluster "Suziria" (manufacturing of souvenirs); Cluster "Manufacturing of ethnic products Prykarpattia" (manufacturing products from sheep's wool).
Rivne	Cluster of wood Rokytno district
Kherson	Transport-logistics cluster «Southern gateway of Ukraine»
Poltava	Cluster of ecological food for children based on organic farming
Kharkiv	Cluster of pigs breeding and meat products
Odesa	Cluster of organic farming and green tourism in the Danube region

Source: (Lishchynskyy 2014: 190-202)

As we can see, the area of cluster location is rather limited – the lion's share of all clusters function in 3 regions (Khmelnyskyi, Ivano-Frankivsk, and the Crimea), which necessitates active development of regional economic policy in this area. Most Ukrainian cluster initiatives are observed in industry, tourism and leisure, transport and logistics, agriculture.

Despite the fact that 15 years passed since the emerging of the first cluster in Ukraine, their status as institutional units of national economy is still uncertain. This

causes some difficulties in obtaining information about the total quantity and their activities, internal structure and, most importantly, their impact on economic development of certain regions and national economy as a whole. Some pieces of information can be found in scientific publications, on the web-sites of regional authorities, in special reviews and reports by domestic and foreign authors, etc., but it often differs substantially one from another and needs further systematization and generalization.

The process of clustering in the Ukrainian economy, which began spontaneously in the last 2-3 years has been closely followed by the public opinion. The need to introduce a cluster approach as a priority direction of innovation is recently noted in almost all regulations, programs relating to the issues of investment and innovation (Lishchynskyy, 2015).

Control questions:

1. *What are the main features and advantages of clusters?*
2. *How could clusters be classified?*
3. *Which industries are the most attractive for creation of clusters in V4?*
4. *What is the main idea of Key National Cluster Rule in Poland?*
- 5 *What is an innovative element of Hungarian cluster policy?*

True/false

1. *Term “cluster” has the same meaning as “spatial manufacturing complex” popular in Soviet times after 1930s.* TRUE/FALSE
2. *In comparison with the Western European countries, in the countries of the Visegrad Group, clusters and cluster initiatives are fairly new instruments* TRUE/FALSE
3. *The clusters couldn't operate on an informal basis in V4.* TRUE/FALSE
4. *Clusters in Ukraine are formed mostly based on top-down approach by the initiative of the government.* TRUE/FALSE

THEME 11. RESIDENTIAL MOBILITY AND HOUSEHOLD LOCATION IN V4 COUNTRIES¹

11.1. Defining and characterizing housing markets

Recent discussion in urban research shows a need to better quantify the trajectories of urban development that go beyond population change. *Households* – instead of individuals – seem to be a key category. The structure of households and their relation to urbanization patterns seem to play an important role in urban studies. The impact of the household is attributed to changes in the urban economy, while the form of the city still remains partly unexplained. Economic transformation and demographic processes (e.g. the second demographic transition) during the last decades have resulted in an increase in the number of small and non-traditional households in European cities. Data analysis shows their increase in the majority of urban areas, even if the total population of a given city decreases (Zasina, 2016).

Talking about the housing market, there are in fact, if not different markets, at least different ways of looking at the housing market. The major distinction, of course, is between the focus on the structure of the city as a whole (as a housing market) and whether that market can be segmented and how it operates in a particular economic system. There is the additional distinction of the perspective of housing as a sector of the national or local economy. When we use the term housing market, we are normally utilizing the term as a conceptual framework within which we can identify a variety of processes (Clark & Van Lierop, 1987).

While it is not possible to give a definitive definition of a regional/local housing market, it is possible to provide some concepts which in fact inform the description of housing markets. As Van Lierop and Rima (1982) emphasize, the housing market as such does not exist. What we call the housing market is a complex phenomenon of interrelated and mutually influencing elements and submarkets. Among the factors, forces, and components which interact to form the housing market, we can include:

- ❖ a multitude of individual actors and groups with conflicting interests and preferences;

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❖ a multitude of individual motives and attributes of residential behaviour (a household maximizes its satisfaction, but not profit, like companies, in the decision-making process;

❖ a multitude of choice possibilities (alternative locations, alternative dwellings, etc.);

❖ a multitude of social and spatial spill-over effects and externalities (for instance, the fact that the quality of residential neighborhood is determined by individual housing units in that area;

❖ a multitude of dynamic processes associated with the economic and geographical development of a spatial system;

❖ a multitude of public regulations that constrain a free market system for the housing market.

The housing market's peculiar or particular characteristics have often been emphasized. First, housing is locationally immobile, second, it is very durable (the life expectancy of any individual dwelling place is in most cases greater than the length of life for individuals) and third, it is very expensive (housing probably represents the largest expenditure, either in rents or actual costs, for any individual). The durability, stability of occupancy, and cost, result in a situation in which the housing market, is certainly influenced if not dominated by the character of the existing stock. The character of the existing stock then is the context against which household location takes place.

The special case is location of so-called “non-traditional” households (single parenthood, cohabitation, GLBT relationships, polygamy, child-free families and singlehood). Small and non-traditional households were identified as key groups of reurbanization agents (A. Haase et al. 2009; Ogden and Hall 2000). The desire for living in proximity to the wide offer of urban amenities and the unwillingness for long commuting distances may contribute to the household’s decision to settle in a city centre (Bromley et al. 2007). Although the better access to services is usually linked with the lifestyles of young people, elderly people may want to benefit from this proximity as well (Lever 1993). However, some commentators point out that the demand for smaller but centrally located dwelling space may not be a simple function

of the proportion of small-households, suggesting rather that households tend to maintain larger dwelling space if they are able to afford it (Wulff et al. 2004). Besides, in the discussion of contemporary trends in the locations of households, the question of the resilience of inner cities has been raised because some of the smaller households may occupy central locations only temporarily (Zasina, 2016).

11.2. Migration and mobility

While the definition and description of regional and local housing markets is complicated, the nature and causes of intra-urban and inter-urban migration are somewhat more clearly understood, but their links with the housing market are not less difficult. In most of the analyses of housing markets, intra-urban mobility or interregional mobility, which are the mechanisms by which changes in housing consumption are registered, have taken second place (Clark & Van Lierop, 1987).

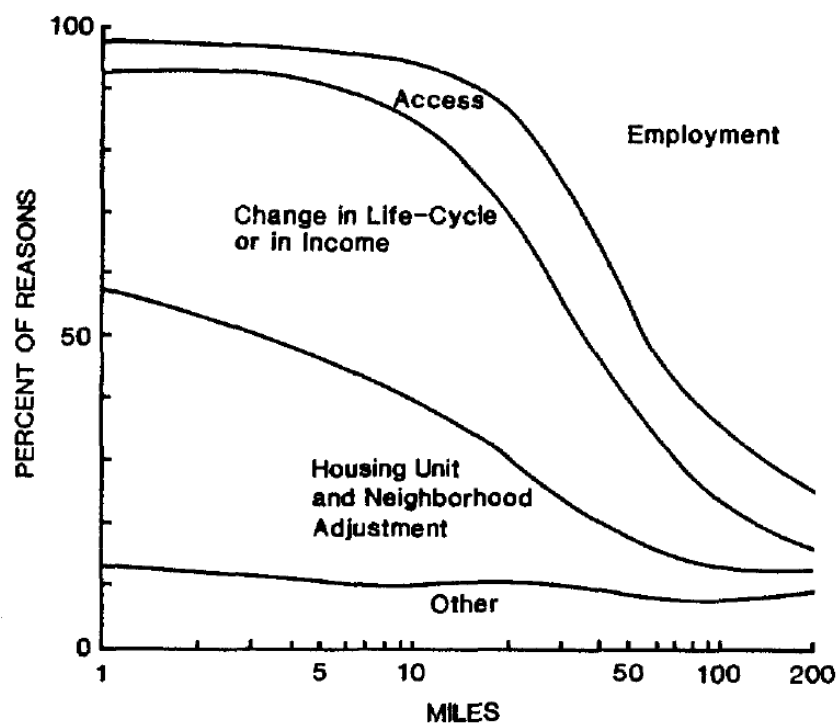


Fig. 11.1. Distribution of reasons for moving by distance

Source: (adapted from Gleave and Cordey-Hayes, 1977).

A long tradition of research on migration and mobility has provided some understanding of the nature and causes of inter-urban and intra-urban migration. The relationship of long- and short-distance moves and their explanations is shown in Fig. 11.1. Although there is a continuum of change in the reasons for moving, there is a reasonably clear distinction between short- and long-distance moves. Life cycle,

accessibility, and housing choice reasons, that is, reasons related to the local housing market, predominate for short-distance moves, while employment reasons predominate for moves of longer distances. In other words, moves within a housing market area are very much concerned with the context and structure of that housing market, while moves between housing markets (or at least between cities) are more strictly concerned with changes and opportunities in employment. For local or short-distance moves, the research on the dynamics of mobility has emphasized the stimulus of dissatisfaction (or relocation behaviour) generated by both family circumstances and the housing environment.

The moves at an interregional level are concerned with the employment opportunities available *within* the housing markets. In understanding interregional migration, attempts to explain these changing patterns have focused on the redistribution of economic opportunities, including the locational shifts of industry and the opportunities for jobs, the increase of retirement and recreational migration, especially in advanced industrial societies with increasing numbers of elderly persons, and the changes in preferences which occur with increased affluence. While the gravity model has been used as a description of the impact of distance on relocation behaviour at an aggregate level, the explanatory models which have been utilized for understanding the population relocations at this regional level have emphasized the notion that individuals migrate in the expectation of being better off, and that it is the additions to human capital (considered as an income stream generated over a lifetime) that are critical components for explanations of interregional migration. The human capital notion at the interregional level parallels the life cycle housing explanation of local migration. Of course, the way in which these changes in employment are actually worked out is the subject of considerable debate. The classic view of migration flows as an equilibrating mechanism ignores the important role of institutional impacts on the labour market.

11.3. Household locations and residential mobility in V4

Recent decades in Europe may be described as a differentiation in the patterns of population growth. Tracking the data on population development in 310 cities between the 1960s and 2005, Turok and Mykhnenko revealed that during the first part of the 1990s the majority of European cities were declining. However, the next decade resulted in the outward trend. Although the total number of cities with a growing population was expanding, the cities of East-Central Europe (e.g. Czech, Eastern-German, Polish, Romanian, Russian, Slovakian and Ukrainian cities) were experiencing short- or long-term decline (Turok and Mykhnenko 2007). The recent analysis of 158 European agglomerations provides evidence that after 2001 there is “no consecutive order of the stages of urban development”, suggesting that two alternative processes have recently been reinforced in the largest of the European agglomerations: suburbanization and reurbanization (Kabisch and Haase 2009).

Cities of the former communist countries, e.g. Czech Republic, Hungary, Poland, Slovakia and Baltic states after 2001 experienced mainly the stages of suburbanization and desurbanization (Kabisch and Haase 2009). Due to the fact that urbanization patterns are highly related to economic trends (van den Berg et al. 1982, 24-45), the context of the post-socialist transition seems valuable for understanding the trajectories of cities in East-Central Europe. In the age of the communist economy, urban growth was driven mainly by the progressive industrialization. Socialist cities were centrally planned, and their population growth and distribution remained under strict control. However, their economic, social and spatial orders started to change in the 1990s. Former socialist cities have undergone market-based restructuring, which led to the polarisation of societies, the growth of the tertiary sector and the change of the residential composition (Zasina 2016).

The growth of the urban population in *Poland* between 1950 and 1990 was rated among the fastest in Europe. Furthermore, the socialist economy tended to concentrate people in urban areas due to progressive industrialization. Thus, suburbanization was almost not evidenced in the countries of the planned economy. The first signs of suburbanization and the decline of core cities populations in Poland were reported in

the 1980s. This phenomenon was strengthened after the political and economic transformation of the country.

In the first period after the political and economic transition of Poland (1988-2002) most of the cities experienced population growths (35 cities). The group of cities, in which the highest proportion of units in their administrative boundaries grew, were towns. However, a general pattern may be identified for this period: the larger the city category, the smaller the proportion of growth. For instance, only half of the large cities increased their populations. This trend changed significantly in the first decade of the new millennium (2002-2011): every category of cities, regardless its size, was characterized mainly by population decrease and only 8 of 51 cities experienced population gains. In some cases, the proportion between growing and declining cities inverted (e.g. towns and small cities). The nation's capital, Warsaw, underwent a growth in its population during both decades. However, both cities experiencing fast development and those struggling with economic decline are nowadays being reported as undergoing depopulation. Depending on the circumstances in their surrounding area, this process is usually linked with the loss of population due to migration to the suburbs (suburbanization), or the loss of population in the whole agglomeration (desurbanization). In this context, it is worth mentioning that among the cities undergoing an increase in their population, are many that do not have many 'competitors' in their own regions, as well as those that are rather young in terms of demographic structure.

Adding one more variable – the growth of the total number of households – should shed more light on the trajectories of Polish cities, in relation to earlier analyses conducted by other European researchers. The literature review suggests the hypothesis that – especially in the largest cities – the total number of households is growing, even if the total population of a given city is decreasing. To confirm this hypothesis, the established size-categories of Polish cities were examined and classified in accordance with another four categories. The first category contains cities of positive growth rates for the total population (POP+) and total number of households (HH+). The second category consists of cities experiencing total population gains (POP+) and total number of household losses (HH-). Consequently, the third category contains cities of negative

total population growth (POP-) and positive growth values for the total number of households (HH-). The last category consists of cities with both negative growth rates (POP-, HH-). During 2002-2011 the majority of cities, including towns, small cities, medium-size cities and large cities recorded an increase in the total number of households and total population losses, becoming the widest category in the sample (31 cities). Similarly, to the previous period, again the proportions within large and medium-size cities experiencing this pattern were the high-est. Besides, between 2002 and 2011 more cities experienced negative growth rates for the total population and total number of households than those with both positive values (Table 11.1). Moreover, the pattern identified in the sampled cities differs in comparison to the data for Poland in general, where population and number of households grew in both periods. No city in the sample recorded simultaneously an in-crease in both the total population growth and an increase in the total number of households during any of the selected periods.

Table 11.1 Population and household development trends in 51 Polish cities between 1988 and 2011

	2002-2011			
	POP+ HH+	POP+ HH-	POP- HH+	POP- HH-
total sample	8	0	31	12
towns	2	0	9	3
small cities	4	0	11	5
medium-size cities	1	0	7	2
large cities	0	0	4	2
Warsaw	1	0	0	0

Source: (Zasina, 2016)

Furthermore, 10 cities continued to experience negative population growth rates and increases in the number of households during both periods (1988-2002 and 2002-2011). These cities were mainly located in the Silesia mining region in the south-central part of Poland. Another 8 cities were identified as continuing the growth of population and number of households, including Warsaw and the selected capitals of the Polish regions (województwa), namely Białystok, Rzeszów and Zielona Góra.

Available cross-country comparisons show that mobility flows in *Slovakia* are low in international terms. This applies in particular to internal migration, that is, to

flows connected with a change in the place of residence. The internal migration rate for Slovakia, measured as gross regional outflow as a percentage of working age population, is significantly lower than for most EU15 countries and other advanced economies, as well as neighbouring Visegrad countries.

According to national statistics, 1.6% of the productive age population (15-64y) changed their place of residence in 2011, of which 46% relocated between municipalities within districts (i.e. short distance migration), 29% between districts within a region and 25% between regions. These figures are remarkably stable over time (there are only minor variations in data between 2000 and 2011), implying that the overall internal migration capacity and main flows are relatively unresponsive to external factors such as international migration or policy interventions. No more than 3 to 4 percent of residential migrants (3.3% in 2011) indicate employment-related motives as the reason for relocation. "Housing reasons" and "following a family member" account for almost two thirds of officially declared migration reasons. The share of labour migration increases with the spatial distance of relocation and is the highest in migrations between regions (8.5% of all inter-regional migrations in 2011; in comparison, employment reasons were stated in merely 1.1% of relocations between municipalities). This observation is consistent with data on the educational structure of migrants and the general assumption that propensity to move for work increases along with educational attainment. Persons with tertiary education are mostly represented among long distance migrants (around 28% in inter-regional migrations), while their share decreases gradually with distance (13% in short distance moves between municipalities of the same district).

The main migration trends are relatively stable in the long run. Unsurprisingly, Bratislava region is the most attractive migration area in the country, owing also to a constant supply of job opportunities in the capital city. However, it is not the town of Bratislava but the districts in the vicinity which have the highest migration increments over the last decade. A similar although less pronounced trend is observable in Kosice and the suburban districts. Land prices and housing costs seem to play a key role in these suburbanisation tendencies. Many of the migrants who move to suburban districts commute back to the cities for work. A second feature of inter-regional migration are

mutual flows between neighbouring regions, manifested mostly between Bratislava and Trnava regions in the western part of the country and Presov and Kosice regions in the east. The same migration patterns apply at district level, where no significant flows (except for flows to and within Bratislava and Kosice) other than between adjacent districts are observable. From a long-term migration perspective, only Bratislava and Trnava regions are incremental, all other regions (notably Presov region) report migration decrements. Labour immigration is by officially stated reasons significant only in Bratislava (15.2% of inflows in 2011), while more substantial worker emigration affects mainly the eastern regions of the country (more than 10% of regional outflows). The situation is more variable at district and municipality level, but usually it is the regional centres which report the highest labour immigration rates. Although overall migration flows do not follow the typical rural-urban direction (municipalities with up to 5,000 inhabitants have a net immigration of 3.61 migrants per 1,000 inhabitants while municipalities and towns with more than 20,000 inhabitants have a net emigration of -3.31 migrants per 1,000 inhabitants), labour migration is directed predominantly to urban areas (almost two thirds of migrants for work move to towns with more than 20,000 inhabitants) (Vagac, 2013).

Available facts and figures imply that Slovakia is a country, where housing conditions affect labour mobility:

- ❖ Housing stock is generally small and availability of housing is low. There were 326 dwellings per 1,000 inhabitants in 2009 (lowest ratio in the EU), which translates in one of the highest household overcrowding rates in the EU. New housing construction picked up in the 2000s but is still comparatively low and not sufficiently responsive to demand. A relatively large part of the housing stock is vacant (approximately 11%).

- ❖ New residential construction correlates negatively with unemployment (more dwellings are completed in regions with low unemployment), but real estate prices in prosperous regions remain, despite a price decline in recent years, largely unaffordable for jobless workers residing in depressed regions.

- ❖ Home ownership is very high and owner occupancy exceeds 90% (92% vs. 71.7% in the EU27), which is mainly the outcome of privatisation of municipal and co-

operative dwellings launched in the early 1990s (right-to-buy policy). The rental housing stock is very small (at around 3% of total stock) and mostly represented by social housing provided by municipalities (2.4% of total stock, 8.5% in EU27). A private rental sector is by official estimates practically non-existent, accounting for less than 0.5% of total housing stock (14.2% in EU27). There are no comprehensive data available, but it may be assumed that most of the little is rented out by individuals who own a second and/or spare dwelling(s). With the exception of a couple of institutional developers, there is in fact no corporate rental housing sector. A black rental market exists mainly in urban centres, but there are no estimations available about its size.

❖ The disproportion in the tenure structure tends to further increase, owing not only to the fading-out privatisation of the remaining municipal and cooperative housing stock, but also to the fact that new residential construction is concentrated mainly on owner-occupied housing. This trend is presumably the effect of personal preferences for home-ownership as well as several policy-driven factors: (i) low interest rates and an increasingly competitive mortgage market encourage home ownership, (ii) state housing support provided to citizens is predominantly geared to subsidise owner-occupied housing, (iii) rent controls and general budget limitations limit availability of public social housing, and (iv) lack of incentives and tenant protection discourage the private sector from investing in rental housing (Vagac, 2013)

Housing mobility is very low in *Hungary*, reflecting the underdevelopment of the rental market, substantial transaction costs and, more recently, high mortgage indebtedness of certain households (Fig. 11.2). The lack of a rental market is particularly detrimental to relocating workers as house prices are much higher in job-rich areas, particularly Budapest. In this respect, a relocation subsidy launched in 2012 for 500 selected workers may help, but only at the margin. The homeownership rate has been extremely high since the transition to a market economy, when dwellings were sold to tenants at a large discount. Younger generations, who have not benefitted, have much poorer housing conditions and often need parental support to buy a house. Since the transition, the development of a rental market was never really encouraged. Homeownership was always strongly tax- and subsidy-favoured and the social rental

market is almost non-existent. The informal rental market is generally estimated to represent roughly two thirds of the total rental market. Tax avoidance is the main reason for informality, even though net rental income is subject only to the 16% personal income tax. Informality (and the associated tax evasion) poses fairness issues, creates risks for both landlords and tenants by reducing scope for legal action in case of dispute and can deprive tenants of an official address.

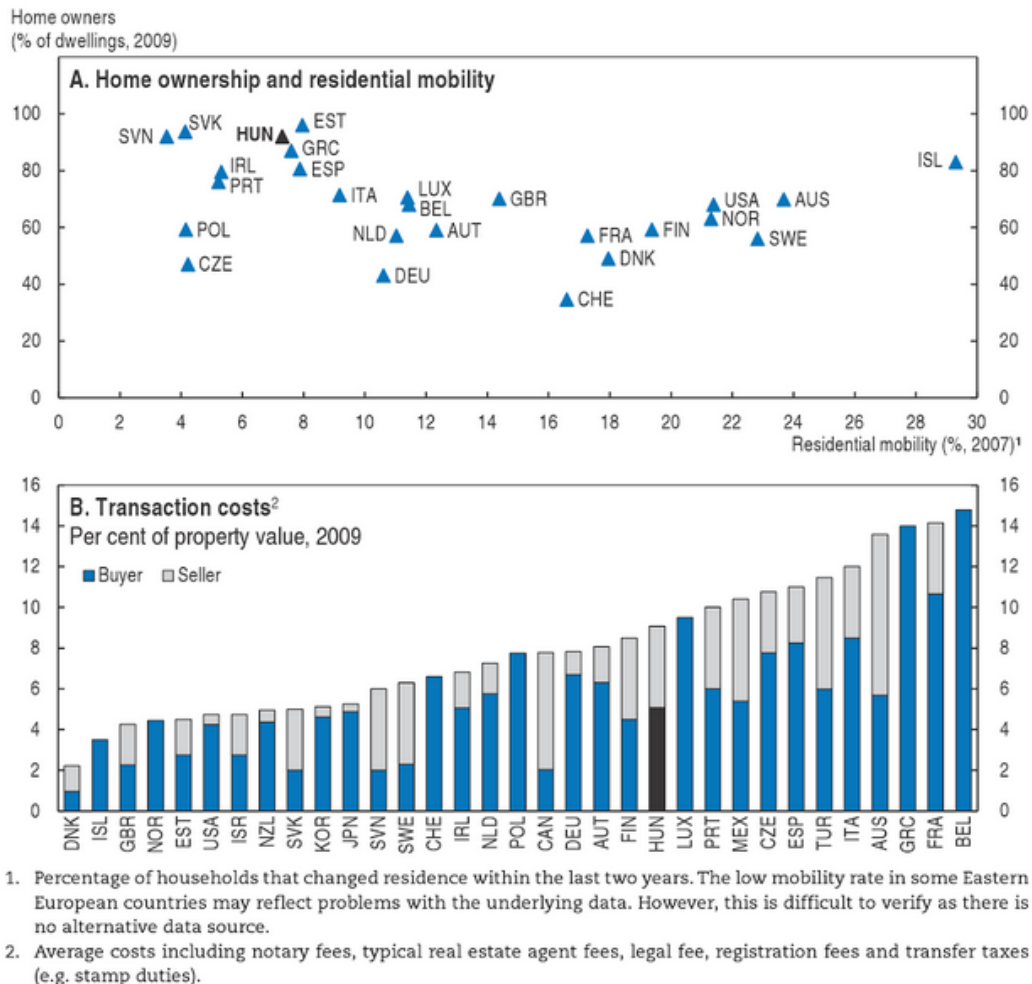


Fig. 11.2. Housing market of Hungary in global framework

Source: D. Andrews, A. Caldera Sanchez and A. Johansson (2011), "Housing Markets and Structural Policies in OECD Countries", OECD Economics Department Working Papers, No. 836.

The development of the formal rental market should be encouraged by reducing the bias towards homeownership induced by taxation and mortgage interest subsidies. The current combination of low recurrent property taxes (0.3% of GDP in 2010, against an OECD average of 1.0% of GDP) and generous mortgage interest subsidies on loans in forint (50-70% of the interest is paid by the government in the first five years of contract) is very favourable for homeowners. In general, mortgage interest subsidies

do not strongly expand housing opportunities, because they partly translate into higher prices, but tend to be costly, regressive and favour excessive leverage (Andrews et al., 2011).

Internal migration is taking place from job-poor areas in the south and east of the country, to job-rich ones around Budapest and near the Austrian border. However, the pace of migration over the past decade has been insufficient to reduce the large regional differences in unemployment. Increasing the mobility of workers, both in terms of relocating and commuting, has significant potential to increase employment. A risk is that workers leaving job-poor areas may further depress activity there, adding to geographic inequalities. Efforts to relocate activity to disadvantaged areas, such as the recent creation of “free enterprise” low-tax zones, can help mitigate this risk. Take-up to these new zones has started slowly – the authorities assess that 400 jobs were created (or shifted) in the first half of 2013 – and further measures may be necessary to encourage activity to relocate, such as, as discussed above, moving towards a lower minimum wage in disadvantaged areas.

Control questions:

- 1. What are the main forces which interact to form the housing market?*
- 2. What are the specifics of location of small and “non-traditional” households.*
- 3. Describe the factors influencing intra-urban and inter-urban migration?*
- 4. What are the main trends of residential mobility in V4?*

True/false

- 1. The informal rental market is generally estimated to represent roughly two thirds of the total rental market in Hungary* *TRUE/FALSE*
- 2. Cities of the V4 after 2001 experienced mainly the stages of suburbanization and desurbanization.* *TRUE/FALSE*
- 3. The internal migration rate for Slovakia is significantly lower than for most EU15 countries and other advanced economies, as well as neighbouring Visegrad countries.* *TRUE/FALSE*
- 4. The growth of the urban population in Poland between 1950 and 1990 was rated among the slowest in Europe.* *TRUE/FALSE*

THEME 12. SMART CITIES AS A MODERN APPROACH TO URBAN DEVELOPMENT¹

12.1. Essence of smart city

Cities and their development have become an important part of regional policies of the European Union in the last decade. It is a consequence of the fact that global urban population has for the first time in history become higher than rural population and it is still growing. Changes in the society are caused by the global economic crisis, integration and interdependence between regions, demographic changes, changes in values and threats to the competitiveness of the territories. The Territorial Agenda of the European Union in 2020, which follows the Europe 2020 strategy, aims at the integration of urban development into the strategy. In a changing world, EU wants to become a smart, sustainable and inclusive economy. These three mutually reinforcing priorities should help the EU and the Member States deliver high levels of employment, productivity and social cohesion (Europe 2020 strategy).

During the latest few years, the label smart city has been spreading all over the world, impacting on urban strategies in both large and small towns (Caragliu, Del Bo, Nijkamp 2011). To face the increasing problems of urban areas, local public government, companies, not for profit organizations and the citizens themselves embraced the idea of a smarter city, using more technologies, creating better life conditions and safeguarding the environment. However, today the smart city panorama appears very confused. No acknowledged smart city definition exists till now and several cities defining themselves smart completely lack of a strategic vision about their smart future (Dameri, Rosenthal-Sabroux, 2014, p. 1). Over and misused expression, it implies a really silent revolution in our cities, often sat back in wrong habits and not attentive to the cautious management of resources and consumptions (Sansaverino, 2014, p.2).

But what is really a “smart city”? The main and the most important objective of the smart city concept is to improve the quality of life for its citizens. It is a city that bets a lot on the quality of living and where the citizens are involved as main actors in

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decision processes (Dominici 2012). At the basis of creating a smart city there is certainly a new and integrated design process, aiming at a new modulation of the urban functions (both the traditional and the new ones appearing in everyday life) also thanks to the digital technology innovation. The word “smart” includes various features as technological and inter-connected, but also sustainable, comfortable, attractive, safe. It is a model of city on which, governments are betting to provide a balanced urban development keeping up with the demand of welfare, coming from the middle class. Aiming at technological innovation to improve management of urban processes and quality of life of citizens, this is the direction followed by some local administrations in Europe that are starting projects, and setting agreements to re-draw cities. In relation to the objectives fixed by the EU, supported by ‘pacts’ and formal ‘commitments’, all cities are involved in this transformation process that should turn them in different ways in smart cities (Sansaverino, 2014, p. 1).

Smart cities are characterized by a high degree of innovation activities; achieving the green growth oriented on building green, compact and energy-efficient cities; as well as achieving the inclusive growth with an emphasis on addressing the consequences of population aging, social exclusion and segregation (Cities of Tomorrow, 2011). European Union cities are considered engines of economic growth whose base lies in creation, dissemination and sharing creativity, knowledge and innovation. The uniqueness of new ideas is stimulated by proactive innovation policy and education, targeted application of sophisticated information and communication technologies in education, employment, social services, health and safety. Cities are also the centres of development of the regions in which they are located (European Commission, 2014).

Rising from the practice, the smart city is especially a collection of several projects, initiatives and actions, carried out both by public and by private organizations. Therefore, as these initiatives are the result of spontaneous choices by different actors, depending on their own interests but also on the specificity of a city, the collections are very heterogeneous. To design a definition observing one or several case studies means to write a definition describing a specific smart city, and not a standard (Hollands, 2008).

The question of many urban academics and practitioners is how can a city become a smart city? Caragliu believes the city is smart if it invests in human and social capital and traditional (transport) and modern (ICT) communication infrastructure that fuel sustainable economic growth and a high quality of life, with a wise management of natural resources, through participatory governance” (Caragliu et.al. 2011). This definition is based on an operational notion, which, relatively to medium-sized European smart cities, has been proposed using six characteristics: Smart Economy, Smart People, Smart Governance, Smart Mobility, Smart Environment and Smart Living (Giffinger et al. 2007).

12.2. Characteristics of smart city

Smart City is a city well performing built on the ‘smart’ combination of endowments and activities of self-decisive, independent and aware citizens” (Giffinger et. al. 2007). Following figure shows the six basic and the most important characteristics of smart city.

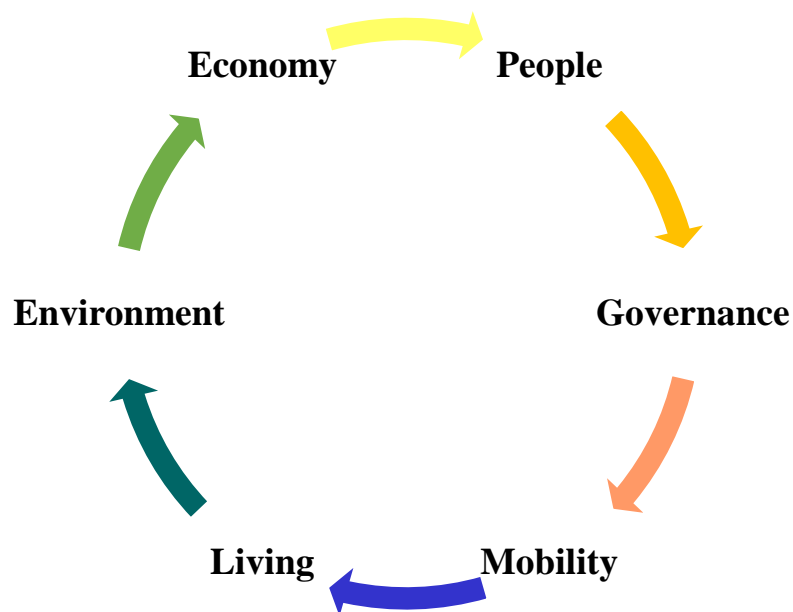


Fig. 12.1. Smart city characteristics

Source: Giffinger et al. 2007

The figure shows that all smart cities characteristics are interconnected and impact to each other.

Smart economy is closely connected with competitiveness created through innovative spirit; entrepreneurship; economic image and trademarks; productivity;

flexibility of labour market; international embeddedness. Smart people means high quality of social and human capital formed by level of qualification; affinity to lifelong learning; social and ethnic plurality; flexibility; creativity; cosmopolitan/open-mindedness and participation in public life. Smart governance means high level of participation. It consists of participation in decision-making; public and social services; transparent governance and political strategies and perspectives. Smart mobility is connected with transport system and usage of ICT. Smart mobility is influenced by local accessibility; (inter)-national accessibility; availability of ICT infrastructure; sustainable innovative and safe transport system. Smart environment is created esp. by natural resources and affected by attractiveness of natural conditions; pollution; environmental protection; sustainable resource management. Smart living is determined by quality of life, for example cultural facilities; health conditions; individual safety; housing quality; education facilities; tourism attractiveness; social cohesion (Giffinger et al. 2007). The following table summarize the smart city characteristics and the most important factors influencing each characteristics.

Table 12.1 Characteristics of smart cities including the most important factors

SMART ECONOMY (Competitiveness)	SMART PEOPLE (Social and Human capital)	SMART GOVERNANCE (Participation)
Innovative spirit Entrepreneurship Economic image and trademarks Productivity Flexibility of labour market International embeddedness	Level of qualification Affinity to lifelong learning Social and ethnic plurality Flexibility Creativity Cosmopolitanism/open-mindedness Participation in public life	Participation in decision-making Public and social services Transparent governance Political strategies & perspectives
SMART MOBILITY (Transport and ICT)	SMART ENVIRONMENT (Natural resources)	SMART LIVING (Quality of life)
Local accessibility (Inter)-national accessibility Availability of ICT-infrastructure Sustainable innovative and safe transport system	Attractiveness of natural conditions Pollution Environmental protection Sustainable resource management Creativity	Cultural facilities Health conditions Individual safety Housing quality Education facilities Touristic attractiveness Social cohesion

Source: Giffinger et al., 2007

To describe a smart city and its six characteristics it is necessary to develop a transparent and easy hierarchic structure. Each characteristic is therefore defined by a number of factors. Furthermore each factor is described by a number of indicators. Altogether 81 indicators were considered by evaluation and benchmarking of smart cities within the project PLEEC. For more information see the web page of the project: www.smart-cities.eu

12.3. Identification and evaluation of smart cities in European Union

Cities in transition countries, the same as in western European countries and countries all over the world, have to face to challenge how to achieve sustainable urban development and high level of competitiveness in the same time (Borseková, Petříková, Vaňová, 2015).

“European Smart Cities” approach, which was elaborated by Vienna University of Technology (Centre of Regional Science) in 2007 and revised for the specific requirements of the PLEEC project in 2013, concentrates on medium-sized cities and their perspectives for competitive and sustainable development. Even though the vast majority of the urban population lives in such cities, the main focus of urban research tends to be on ‘global’ metropolises. As a result, the challenges of medium-sized cities, which can be rather different, remain unexplored to a certain degree. Medium-sized cities, which have to compete with larger metropolises on corresponding issues, appear to be less equipped in terms of resources and organizing capacities. In order to enforce endogenous development and to achieve a good position, these cities have to identify their strengths and opportunities even more carefully and to ensure comparative advantages in various key resources against other cities of the same level (Giffinger et al. 2014).

Following table shows the results of PLEEC project financed by 7th Framework Programme of EU aimed on evaluation smart, or potentially smart city profiles. City sample was defined according to two criteria: cities should be of medium size and they should be covered by accessible and relevant databases. From 1600 cities in EU 27, Switzerland and Norway, based on 3 knock-out criteria - urban population among 100

000 and 500 000, at least one university and catchment area less than 1 500 000 inhabitants – 77 cities were chosen as a sample, presented in the Table 12.2.

Table 12.2 Benchmarking of small and medium sized smart city profiles

Country	City	Eco.	Peo.	Gov.	Mob.	Env.	Liv.	Total
LU	LUXEMBOURG	1	18	56	4	16	4	1
DK	AARHUS	2	3	6	3	19	27	2
SE	UMEAA	24	5	2	34	1	13	3
SE	ESKILSTUNA	21	1	7	24	3	41	4
DK	AALBORG	10	11	5	14	14	10	5
SE	JOENKOEPIG	32	13	3	11	2	26	6
DK	ODENSE	13	9	4	20	9	40	7
FI	JYVÄSKYLÄ	23	8	1	47	5	25	8
FI	TAMPERE	16	2	15	31	12	14	9
AT	SALZBURG	27	24	29	2	27	1	10
FI	TURKU	20	6	12	15	18	29	11
FI	OULU	14	4	9	39	13	35	12
AT	INNSBRUCK	35	27	26	12	6	3	13
AT	LINZ	11	23	31	8	25	7	14
SI	LJUBLJANA	6	7	34	33	21	21	15
AT	GRAZ	26	21	33	9	28	2	16
NL	EINDHOVEN	5	12	24	1	49	49	17
DE	REGENSBURG	4	17	37	10	37	11	18
FR	MONTPELLIER	29	20	16	46	4	30	19
BE	GENT	15	29	27	6	41	9	20
NL	GRONINGEN	18	14	11	30	54	12	21
NL	NIJMEGEN	28	10	8	18	57	43	22
FR	NANCY	44	37	13	23	11	20	23
DE	GOETTINGEN	19	15	25	40	42	18	24
FR	POITIERS	47	38	10	44	8	15	25
FR	CLERMONT-FERRAND	38	40	18	36	10	17	26
DE	TRIER	30	33	19	16	48	19	27
DE	KIEL	17	26	28	22	34	52	28
NL	ENSCHDEDE	36	19	23	17	61	33	29
DE	ERFURT	22	28	30	7	51	38	30
UK	CARDIFF	12	32	44	19	58	16	31
IE	CORK	3	39	57	28	39	24	32
DE	ROSTOCK	46	31	20	29	20	44	33
UK	ABERDEEN	8	25	52	42	43	32	34
FR	DIJON	52	41	21	41	7	22	35
UK	PORTSMOUTH	9	30	42	13	65	53	36
BE	BRUGGE	39	52	22	27	52	5	37
ES	PAMPLONA	41	34	14	54	36	34	38
UK	LEICESTER	7	35	46	5	67	63	39
SI	MARIBOR	42	22	43	49	15	51	40
EE	TARTU	55	16	35	52	26	55	41
DE	MAGDEBURG	49	36	36	35	44	31	42
ES	SANTIAGO DE COMPOSTELA	48	56	38	59	32	6	43
ES	VALLADOLID	50	47	32	53	24	37	44
UK	STOKE-ON-TRENT	31	42	47	26	55	60	45
IT	VENEZIA	33	63	68	32	59	8	46
ES	OVIEDO	40	45	41	64	45	46	47
PT	COIMBRA	72	50	17	71	17	36	48
IT	VERONA	25	57	61	45	66	28	49
CZ	PLZEN	51	43	73	38	63	23	50
CZ	USTI NAD LABEM	53	53	69	25	50	54	51
IT	TRENTO	43	48	74	62	30	39	52
IT	TRIESTE	37	58	66	66	31	47	53
SK	BANSKA BYSTRICA	73	51	48	58	33	48	54

PL	RZESZOW	63	64	49	56	56	50	55
PL	SZCZECIN	64	62	50	55	47	65	56
IT	PERUGIA	57	54	65	68	53	42	57
LV	LIEPAJA	56	49	71	21	40	75	58
SK	NITRA	77	60	60	51	23	57	59
SK	KOSICE	76	59	58	37	38	66	60
IT	PADOVA	34	44	75	60	73	45	61
PL	BYDGOSZCZ	60	68	54	50	64	64	62
HU	GYOR	66	72	53	48	46	69	63
HU	PECS	65	69	40	70	60	59	64
IT	ANCONA	54	66	72	67	29	62	65
PL	BIALYSTOK	68	67	45	61	72	61	66
LT	KAUNAS	45	46	67	43	76	67	67
PL	KIELCE	71	65	51	65	68	58	68
HU	MISKOLC	69	71	39	63	69	70	69
PL	SUWALKI	67	70	55	57	71	68	70
EL	LARISA	58	61	76	74	22	74	71
BG	RUSE	61	74	70	69	62	72	72
RO	SIBIU	74	76	62	73	74	56	73
EL	PATRAI	59	55	77	77	35	77	74
BG	PLEVEN	62	73	64	76	70	73	75
RO	TIMISOARA	70	75	63	72	75	71	76
RO	CRAIOVA	75	77	59	75	77	76	77

Source: <http://www.smart-cities.eu/>

Small cities, even though they show a big potential as 40 % of the entire European population live in small cities, often stay in the shade as compared to the larger European cities. The competitive advantage small cities have and that is often not considered by investors is their limited size, both in terms of population and in terms of territorial extension, which allows to easily test new solutions (Sansaverino, 2014, p.3). Evaluation of city profiles is based on six main characteristics of smart city: economy, people, governance, mobility, environment and living. They are broken down into 28 relevant factors together with the selection of 81 components/indicators from publicly available databases (EUROSTAT, URBAN AUDIT, EUROBAROMETAR, ESPON) which reflect the most important aspects of every (smart) key characteristic (Giffinger, et al. 2014). The gap among western countries and transition countries is visible in city profiles. The best ranking obtained 2 Slovenian cities – Ljubljana on the 15th place, Maribor on the 40th place and Estonian city Tartu on 41st place.

12.4. The crucial role of people in the smart cities

Smart People is not only described by the level of qualification or education of the citizens but also by the quality of social interactions regarding integration and public life and the openness towards the “outer” world (Giffinifer et al. 2007).

The involvement of city residents is crucial to the success of many policies, especially in a context of crisis and possible conflicts between the different stakeholders. In cities where resources and time have been dedicated to organising participatory processes, there is stronger cohesion, especially at neighbourhood level, and greater ownership of both short- and long-term strategies and visions by the residents (Frank 2010).

Area-based local community-led development approaches are focused on supporting endogenous development processes, i.e. stimulating development from within by external support, facilitating innovative local solutions. Unlike local authority-led initiatives, they build on a stronger role, commitment and engagement of the community itself and are not necessarily confined within administrative borders. As such they are able to also take on wider and more long-term economic development strategies. Local development approaches encourage partnerships between public, private and voluntary organisations, providing a powerful tool to mobilise and involve local communities and organisations, as well as citizens. They provide a more integrated and inclusive approach to tackling local challenges, with a focus on the quality, inclusiveness and sustainability of growth strategies. They are particularly relevant in addressing areas hit by multiple disadvantages where traditional regional development tools do not work. They can also be used to support active inclusion, fight poverty, foster social innovation, or design initiatives for the regeneration of deprived areas. As with any other instrument or approach built on strong bottom-up participation and engagement, local development is dependent on actors having sufficient capacity (Cities of Tomorrow 2011).

In smart cities approach, people play inevitable and crucial role.

We consider people as the most important characteristics of smart city that also create and actively influence all other five characteristics (Fig. 12.2). People act in smart cities in different roles and they are part of each characteristic as citizens, tourists,

students, labour forces, entrepreneurs, municipal representatives, users of transport, members of communities etc. People govern the city, create conditions and ensure mobility, contribute to the quality of environment, create conditions for better living in form of sport, culture, social, etc. activities and act in economy on both sides – as a producers as well as consumers.

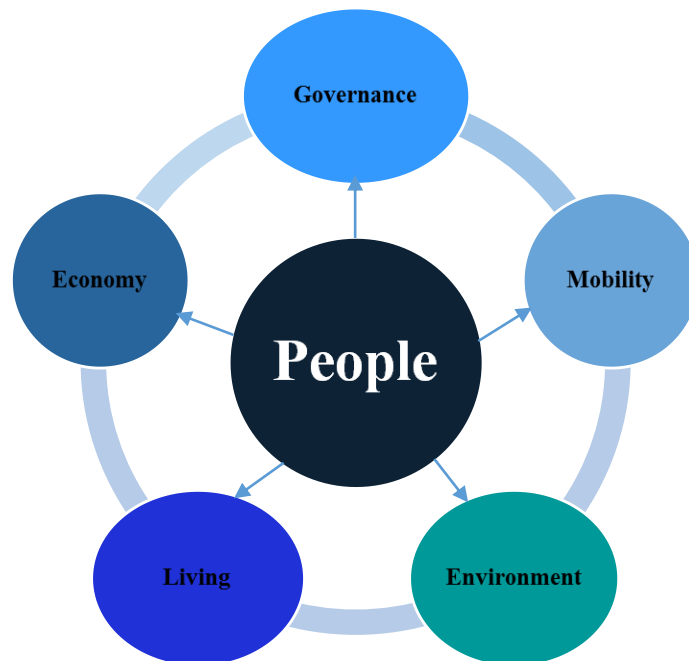


Fig. 12.2. The interrelations of smart city components

Source: Borseková, Petříková, Vaňová 2015

People are the most important factor that influence building or creating real smart cities so we would recommend policy and decision makers to pay more attention to people living in the city and to make all possible steps from their position to maintain creative class in the city and to attract new smart citizens, tourists and entrepreneurs.

Control questions

1. *What are the main characteristics of smart city?*
2. *Define the smart city by your own words.*
3. *What is the most important objective of the smart city concept?*
4. *What do you consider as the most crucial characteristic smart city?*
5. *Can you identify potential smart cities of your country?*

Quiz (one-choice)

Smart city is:

- the modern city builds on the smart place;*
- is the city that invests in human and social capital and traditional (transport) and modern (ICT) communication infrastructure that fuel sustainable economic growth and a high quality of life, with a wise management of natural resources, through participatory governance;*

city built through smart foreign investments.

The basic characteristics of smart cities are:

- People, Economy, Environment, Governance, Mobility, Living;
- wise management, smart marketing, financial resources;
- low prices.

The crucial objective of smart city concept is:

- to build the new infrastructure;
- to produce a lot of innovation;
- to improve the quality of life for its citizens.

Smart governance is based on:

- the issue to have a good mayor;
- participation;
- the leading of one political party.

Smart economy is closely connected with:

- competitiveness created through innovative spirit; entrepreneurship; economic image and trademarks; productivity; flexibility of labour market; international embeddedness;
- big enterprises;
- export.

True/false

Smart mobility is connected with transport system and usage of ICT. Smart mobility is influenced by local accessibility; (inter)-national accessibility; availability of ICT infrastructure; sustainable innovative and safe transport system.

TRUE/FALSE

Cities in “new member states” achieved the better evaluation in benchmarking of small and medium-sized cities in European Union

TRUE/FALSE

Smart living is determined by quality of life, for example cultural facilities; health conditions; individual safety; housing quality; education facilities; tourism attractiveness; social cohesion.

TRUE/FALSE

Rising from the practice, the smart city is especially a collection of several projects, initiatives and actions, carried by private organizations only.

TRUE/FALSE

People act in smart cities in different roles and they are part of each characteristic of smart city.

TRUE/FALSE

THEME 13. RISE OF CREATIVE CLASS IN V4¹

13.1. Concept of creative cities

The importance and role of creativity and innovations for the economy has been recognized by the European Union in the strategic documents and the research calls for the next time period 2014 – 2020. To achieve the key aims of the European Union by 2020, three main priorities in the Europe 2020 Strategy were identified, namely smart, sustainable and inclusive growth. Smart growth should broaden the values of the EU through growth based on knowledge using education, research, innovations and creativity. This is why the ambitions of the EU are aimed at the strengthening of knowledge and innovation, based on creativity, improving the education system, research, supporting and spreading innovations and knowledge, thus transforming ideas into new products and services.

Creativity is a main input of creative industries. There are several definitions of creative industries. We prefer the definition of Department of Culture, Media and Sport (DCMS) in UK, that defines creative industries as “those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property” (UK, DCMS 1998). According to UNESCO (Understanding creative industries, p.3), the term creative industries “encompasses a broader range of activities which include the cultural industries plus all cultural or artistic production, whether live or produced as an individual unit”. UNCTAD defines creative industries as: the cycles of creation, production and distribution of goods and services that use creativity and intellectual capital as primary inputs; a set of knowledge-based activities, focused on but not limited to arts, potentially generating revenues from trade and intellectual property rights; comprise tangible products and intangible intellectual or artistic services with creative content, economic value and market objectives; are at the cross-road among the artisan, services and industrial sectors; and constitute a new dynamic sector in world trade.

¹ Prepared by Katarina VITÁLIŠOVÁ, Matej Bel University, Slovakia

Research has shown that the development of creative sectors can mean a new dimension and sources of the territorial development that brings new forms of innovations, creativity, partnerships and networking. Cultural and creative industries, which flourish at local and regional levels, are in a strategic position to link creativity and innovation. They can help to boost local economies, stimulate new activities, create new and sustainable jobs, have important spill over effects on other industries and enhance the attractiveness of regions and cities. Creative industries are therefore catalysts for a structural change in many industrial zones and rural areas with the potential to revive their economies and contribute to a change in the regions' public image. They should be integrated into regional development strategies, in order to ensure an effective partnership between civil society, businesses and public authorities at the regional, national and European level.

The reason for being concerned with the creative economy at the different territorial levels follows from the fact, that cities and regions have always been places where human creativity flourished. Here are not just the world's great art and fundamental advances in human thought originated, but also the great technological breakthroughs that created new industries and even entirely new models of production. Ever since cities became large and complex enough to present problems of urban management, they also became urban laboratories, the places that developed the solutions to their own problems of growth (Hall, 2009).

Critical success factors in building creative local production systems in the territory are (Hamilton et al., 2009):

- ❖ leadership and cooperation – creative industries are dependent on leaders and visionaries who support active part of all involved stakeholders in the territories (community of artists, cultural industries, private sector, universities and wide public),

- ❖ infrastructure – creative industries are developing in suitable, price friendly and strategic located territories which support synergy and creation of new ideas,

- ❖ awareness and education – creative activity or activities have transformative nature – they improve the quality of life, improve the quality of territory, but primarily they drive the economy as a primary source of wealth and prosperity, the labour market has access to individuals with a wide range of creative skills and talents,

❖ investments and policy – creative industries require adequate level of public and private investments, which are supported by effective policy (Sokołowicz, 2012), promoting culture and creativity in the wide scales of government strategies, aimed especially on economic development, urban planning, tourism, heritage, industry, business, public services, social planning and also on art and culture.

By the literature, we can identify two most common and usual way of the local production systems based on creativity - creative city and creative clusters. In the next text we deal with the theory of creative city as a core of the lecture.

The concept of creative cities appeared first time in 1980s and since this time it is well developed by many experts (e. g. Landry, 1990, Hall, 1998, Bradford, 2004 etc.). The creativity and knowledge concentrated in the cities and regions lead to the new approach to the development of economy centres. The reason for being concerned with the creative cities follows from the fact that cities and urban areas have always been places where human creativity flourished. The term of creative city is often associated with the process of creative and innovative thinking (Landry, 2000; Kalandides and Lange, 2007), but the second group of authors include to the definitions the key preconditions for the creative city developing as creative people, cultural organisations, creative and culture activities (Bradford, 2004; UNCTAD, 2008, Smith and Warfield; 2008).

According to Kloudová (2010), creative city is a place where person likes to live, where a creative environment is, cultural and sport possibilities are supported by local administration. Creative city can be seen as a territorial unit where economic, social, cultural and political networks develop because of favourable conditions that stimulate different forms of creativity (Florida, 2002; Scott et al., 2001). This place is characterized by openness, tolerance, cultural background, non-corrupt environment and higher concentration of creative personalities. To the creative territories belong places which build their development on scientific potential (for example Silicon Valley) or places whose success is based on cultural or another creative assumption. Creative city is an urban complex, where cultural activities of various sorts are an integral part of the functioning of the city's economic and social life, and including intellectual capital applied to products, processes and services (Deisbury, Basu, 2010).

Generally, we understand the creative city as a creative local economy represented by the creative class, public, private and community organisations and activities that strengthen the creative industries and innovations.

Creative city should respect some specific features, which were summarised by Baycan (2011) - uniqueness and authenticity of the city; unsettled and dynamic structures (a transition into new models of organisations; transformations in social relationships and values). Creative cities and regions are areas where sharing of knowledge and experience takes place relatively free of limitations. They enable and promote interaction and openness at all levels, they promote innovative cluster interactions that might lead to unexpected synergies and outcomes, and they encourage creative universities and their partnerships with other innovative clusters (Ozsoy, et al. 2006). The key elements as preconditions for the development of creative cities in the form of comparison of selected authors presents the table 1.

Table 13.1 Key elements of creative cities

Authors	Landry; 2000	Wu; 2005	Creative Economy Report; 2008	Hamilton, Arbic and Baeke; 2009	Romein, Trip; 2012
Key elements	human diversity; local identity and awareness	diversity of the place	the mental infrastructure of the city	awareness	social climate
	networking dynamics	quality of the place	communications	cooperation	buzz, atmosphere
	personal qualities	base of knowledge and skills	highly skilled and flexible labour force, thinkers, creators	stakeholders from the all sectors	labour market and employment
	urban spaces	infrastructure	hard infrastructure	infrastructure	built environment, living and residential environment
	urban facilities	quality of services	soft infrastructure	education	amenities
	organisational capacity	firms and mediating organisations	entrepreneurships		space
	will and leadership	public policies	city approaches to the problems, opportunities etc.	leadership and policy	policy, government and governance
		venture capital		investments	

Source: own workmanship by Landry (2000), Wu, 2005; Creative Economy Report (2008); Hamilton, Arbic, Baeke (2009); Romein, Trip (2012).

The table 13.1 shows the most of the selected authors emphasize as key elements inevitable for the development of creative cities. They can be clustered into three basic groups. The first group includes the quality human resources, its diversity including the awareness, local identity and positive social climate; networks, partnerships stakeholders from the public, private and non-profit sectors and communication. The second one is a suitable urban environment with the hard and soft infrastructure (esp. education services, research and innovation centres, culture) and the last one is a support by the territorial government including the political and financial support.

By the historical development of the creative cities they can be divided into four groups. There can be technological-innovative, cultural-intellectual, cultural-technological and technological organizational cities (Hall, 1998).

Technological-innovative cities are the places functioned as birthplaces for new technological developments or technological revolutions (e. g. Silicon Valley, Detroit). Cultural – intellectual cities belong to the “soft” cities developing primarily the culture and science (e. g. Paris, Berlin, Toulouse, Amsterdam). Cultural-technological cities are represented by the developing the technology and culture simultaneously, that result in cultural industries (e. g. Milan, Rotterdam, Manchester). Technological organizational cities are creative to the extent that local actors have found original solutions to problems stemming from large-scale urban life (water supply, infrastructure, and housing). It is mainly the government that goes to work in a creative fashion in collaboration with the local business community (e. g. Tilburg, London) (Hosper, Pen, 2008).

In cultural – intellectual and cultural - technological cities, the core of the future city development is a culture, that in hand with the technology or science established the creative cities. The interconnection among the culture and the creative cities taking into account key elements of the creative cities presents the Fig. 13.1.

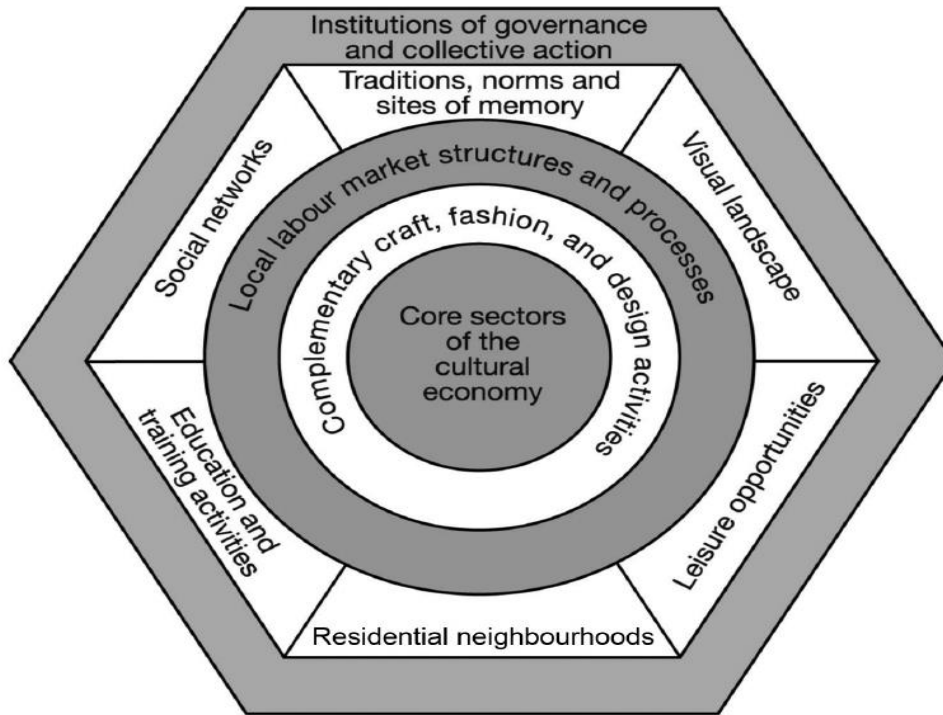


Fig. 13.1. Interconnection of culture and creative city

Source: Scott, 2010, s. 126.

Today there are a number of successful examples of cities and regions that have managed, through employing suitable innovative strategies, to develop a competitive creative industry. The best examples in Europe are: Óbidos (Portugal), Barnsley (UK), Catanzaro (Italy), Enguera and Sevilla (Spain), Hódmezővásárhely (Hungary), Mizil (Romania), and Malmo (Sweden). Elsewhere, good examples include: Chicago, New Orleans, New York and Seattle (USA, with Seattle being the most creative city of 2009), Toronto and Vancouver (Canada), and Taipei, Peking, Singapore, Hong Kong (Asia). The development of creative cities and clusters in Europe has become a new challenge for territorial development.

Also a few cities in Central and Eastern Europe (e.g. Bulgaria) deal with the programs to develop the creative sector and economy. To many cities the competition the European Capital of Culture helps to be a real creative city (e. g. Bologna, 2000, Italy; Prague, 2000, Czech Republic; Cork, 2005, Ireland; Krakow, 2000, Poland; Vilnius, 2009, Lithuania; Pecs, 2010, Hungary; Košice, 2013, Slovak Republic).

13.2. How to become the creative city by the competition the European Capital of Culture? The examples of Prague, Krakow, Pecs and Košice

The next part of the lecture deals with the defining and comparing the specific features of the selected creative cities in the central European countries as a new trend in developing territories based on the knowledge, creativity, historical and culture potential and identifying the impact of creative city development on the economy and society in the territory. All selected cities from the Visegrad countries were involved into the competition of the European Union - “The European Capital of Culture” (ECoC) (Prague, 2000, Czech Republic; Krakow, 2000, Poland; Pecs, 2010, Hungary; Košice, 2013, Slovak Republic). The selected cities are situated in the post transitive countries that did not pay an adequate attention to the historical heritage and culture as an important factor for territorial development. The participation in the competition European Capital of Culture started a new process of recovery and appreciation of the cultural and historical heritage in the cities and supports their competitiveness home and abroad.

From 1985 The European Union every year has selected the city, from 2000 two cities, which carry the title of European capital of culture. The role of cultural capital is to highlight the richness of cultural diversity in Europe and to bring the common aspects of European cultures to the fore. The activities of the city shall foster the participation of the citizens living in the city and its surroundings and raise their interest as well as the interest of citizens, entrepreneurs and tourists from abroad. The project of the European Capital of Culture should be sustainable and become an integral part of the long-term cultural and social development of the city (Decision No 1622/2006/EC of the European Parliament and of the Council of 24 October 2006 establishing a Community action for the European Capital of Culture event for the years 2007 to 2019, 2006). The European capital of culture is an opportunity to create an international image, to attract more tourists and rethink the development through culture and follow new development trends (e. g. creative cities, sustainable cities or smart cities).

Prague and Krakow

The milestone in the contest the European Capital of Culture was year 2000. In 1995, the increasing interest of European cities to be a European Capital of Culture was taken into account and the rules were accustomed to the situation. That is why there were selected nine cities as the European Capitals of Culture including Prague and Krakow. The topics of cultural activities in the cities were differentiated. The Prague was devoted to the cultural heritage and Krakow to thought, spirituality and creativity. All nine cities signed the Agreement on Joint Policies for the Year 2000 about the cooperation during the preparation (from 1997) until the end of 2000 and divided the responsibilities and tasks. The joint meetings resulted also in common projects (concerts, festivals, etc.), that were hosted in all nice cities (e. g. Voices of Europe; Codex Calixtinus, The house of the Nine Cities, KIDE, FIND, Coast & Waterways, CAFÉ9.NET, Faces of the Earth).

Kraków starts its preparation for 2000 in 1995 by developing a strategy for the preparation of festival and by setting up the permanent office as a coordinator of all activities. It requires the creation of organisational body including the Honorary Committee, Programme Committee, Organising Committee, the Festival Office responsible for implementation and a broad cooperation with the internationally recognised Polish artists, other stakeholders from the public, non-profit and private sectors (e. g. Polish Tourism Organisation, central government, sponsors, media, church, partner cities, etc.) and a lot of volunteers.

The title of the European Capital of Culture brought the possibilities to improve the cultural infrastructure, especially the renovation of the culture institutions and creation of basic support for shows, concerts and festivals. To the main investment activities belong the renovation of Concert Hall, Museum of Civil Engineering and other public places, parks and gardens. The core of activities was dedicated to the cultural events. The main program in Kraków included 100 activities and the additional activities associated with the main scheme included 574 music; literature; theatre and other events (Final Report Kraków 2000, 2001).

The total budget of the Festival was 12 772 936 €, that includes the sources of Krakow Municipality (34 %), state budget (50 %), European Union, private and public

sponsors, and also the funds proceeds from sales of tickets, publications, logo licensing) (16 %) (Final Report Kraków 2000, 2001). The main benefits of the title for Kraków were embodied in the new cultural infrastructure, increasing the tourist rate, international promotion.

Prague is characterised by cultural, especially historical, heritage what became also the main topic of the Prague as a European Capital of Culture. Prague was presented as a city with its story, with open gates for visitors and the best city for live.

For the whole project an office Prague 2000 was responsible and independent public-benefit society established by the Municipal Assembly. It connected the representatives of central government (Vice-Minister of Culture), church, private sectors representatives and the most important, artists and non-profit organisations (theatre, opera, film, museums, etc.). The personnel involved in activity's implementation included also part-time staff and freelance staff (Final Report Kraków 2000, 2001). The most important partners and sponsors were Český Telekom, media – Český rozhlas, Česká televize, DNES. Other support provided hotels, Lufthansa, Transport Company of Prague of City, tourism and information centres (Palmer, 2004).

The core of activities was aimed at renovation of old historical monuments, especially Astronomical Tower, Müller Villa, Museum and Archive of Popular Music, Hall of Clementinum, Hvezda Summerhouse and Gardes of Malá Strana. The noninvestment activities were based on the historical and cultural legends of the city, e. g. Golem, Franz Kafka, musicians. The new tradition of festivals established a film festival Khamoro 2000 focussing on human rights, ethnic and racial issues of minorities. During this period were created also a supporting interactive electronic system including the reservation systems or information websites.

The financial funds for the cultural programme and promotion were in the sum of 28 800 000 €. The own expenditure of the Prague 2000 company was 9.9 million €. The expenditures covered by the State and the City was 18.81 million € (Palmer, 2004). However, the core of investments was devoted to the restoration of the historical and cultural heritage, but there is a lack of available information about the financial issues of the project.

To the main benefits of the title for the city belong the improving external image, building and improving the cultural infrastructure, international promotion (Navrátilová, 2001). The program Prague 2000 mainly spread the offer of the cultural activities, especially the arts events and extended the local audience for culture (Palmer, 2004).

Pécs

Pécs is a multicultural middle-sized city which based its strategy as a European Capital of Culture on the openness to the multiculturalism of the Balkans. In order to well prepare the program and all infrastructure the Pécs2010 Management Centre Non-profit Limited Company was established, that had to develop cooperation with the Municipality of Pécs, the Government of the Hungarian Republic, Hungarofest Public Benefit Company because of the financial and political support. To the other important stakeholders belonged also the University of Pécs, the Cultural Innovation Competence Centre, media, churches, Southern Transdanubian Regional Development Agency, local economic associations, tourism organisations, local cultural institutions, associations, and enterprises, the local governments of partner cities etc. (Pécs Management Centre, 2008; Pécs 2010 ECoC Monitoring Report, 2009).

The preparation activities began in 2006 and each year till 2010 was devoted to the specific field of culture (2006 – cultural heritage, 2007 – education and learning, 2008 – environmental culture and health care, 2009 – religious culture). During 2010 Pécs presented the cultural experience of a borderline region from Italy to the Romania. The main topics of events stressed the differences of the East-Central European culture and West European culture, the impact of the socialist period and minority's issues. All events were divided into three time periods. From January to May the activities presented the values of the city, traditions and history. From June to August the events were devoted to the extraordinarily, summer time, relax and fun. From September to December were implemented novel programs, new kinds of arts connected with the idea of transformation. It included a lot of festivals (e. g. Pécs Spring festival, Pécs International dance festival; XV. Pécs International Puppet festival etc.) of popular and world music, classical music, international film festival and exhibitions. The main

investment activities were orientated on the renovation of cultural infrastructure, e. g. revitalization of public squares and parks, Museum Street project, Zsolnay Cultural Quarter, South Transdanubial Regional Library and Knowledge centre. (Pécs Management Center, 2008; Pécs 2010 Application Centre, 2005).

The financial funds for the program and all cultural activities were 35 310 000 €. The biggest share of funds was provided by the Ministry of Culture (38,8%) and City of Pécs (30 %). The rest of funds include the projects based funding associated with the ECoC (17,8%), National Cultural Fund (4.5%), EU Melina Mercouri Prize (4,2%), sponsorships (2,6%) and merchandise (0,1%). The additional investments in sum of 140 million € were used for the infrastructural projects. In the budget is not calculated the own in-kind contributions in the sum of 1 130 000 €. (Ecorys, 2011).

The benefits of the European Capital of Culture were not only in the improving the city image home and abroad, but also in the field of social and economic development. There was constructed the highway between Budapest and Pecs, developed the hotel capacity in the region and in the city and established a cluster of creative industries. To the activities were involved also the local organisations that contribute through providing services for individual projects and also the non-profit organisations and local communities through the special call. These activities significantly influenced the situation at the labour market (Ecorys, 2011; Pécs Management Center, 2008).

Košice

Košice is a second biggest city of Slovakia, situated in the eastern part of the country, only 20 km from Hungary, 80 km from Ukraine and 90 km from Poland. The city is an administrative centre of the Košice Region. Košice has a strong economic background, and the city creates employment opportunities for the population of the surrounding region as well as its own.

The city Košice after successful presentation of the project “Košice Interface 2013” in 2008 processed by the project team of the city reached the title European Capital of Culture for 2013. The whole activities were coordinated by the non-profit organization Košice 2013, n. o. The project „Košice Interface 2013“ was based on the

wide participation of citizens and independent artists on project creations and formulating new vision and philosophy of urban renewal; good developed European cultural cooperation, intensive exchange of experience among the project team, artists and foreign partners; partnerships with all important stakeholders of private, non-profit and public sector, and mainly the talented, skilled citizens (e. g. City of Košice, regional cities, foreign partner cities, tourism organisations, Ministry of Culture, Technical University of Košice, Higher Territorial Unit Košice, US Steel Košice, local clusters as BITERAP, Klaster AT+R, Košice IT Valley, etc. (<http://www.kosice2013.sk/>, accessed 5.7.2014).

The project Interface as a long-term transformation of the city through culture wants to establish the favourable environment for culture and creativity. The aim of the project was to draw into cooperation all stakeholders that can contribute to success – transformation of cultural, social and economic environment, characterized by creativity, new ideas and projects but also by larger and deeper public interest in culture and art. “Supporting creativity” is a main message of the project and a new vision of Košice, which until now has been known for its rich history and well developed heavy industry. Thanks to the project Interface 2013 and the title of European Capital of Culture 2013, Košice become a center of creativity and a new future for young creative people who want to stay, live and work in a city that is their home (<http://www.kosice2013.sk/>, accessed 5.7.2014).

From 2008 Košice started to prepare the necessary infrastructure for activity’s realisation of European Capital of Culture. The investment activities were aimed at reconstruction of cultural and historical heritage of Košice with the use of modern information technologies. There belong the renovation and building the culturpark, Kunsthalle, city parks, the building of cultural organisations and institutions. The noninvestment activities were based on the mix of cultural, dance, musical and literature events. They create the space for young artists, creative people and their performances. The most important projects were Escalator, Pilgrimate city, Resident program K.A.I.R., Terra Incognita, Pentapolitana, SPOTs). Košice cooperates in activities also with the France, where the second European Capital of Culture 2013 – Marseille, is. The platform for involving the foreign artists is established known as

international residential programme, K.A.I.R. It organises exchanges between artists with partners in several countries such as Ukraine, Moldova, France and Germany. Artists also hold lectures, projections, seminars and they open ateliers for the public.

The official evaluation Košice 2013 ECoC of the financial expenditures and funds after 2013 is still not published. The financial funds from 2009 to 2014 for the cultural program and activities were estimated in 29 188 170 €. The sources were differentiated – The Ministry of Culture 34 %, the City of Košice 32 %, The higher territorial unit of Košice 17 %, sponsorship 11 %, other cities in the Košice region – 5 %. The investment activities should have spent 78 287 800 € - 91 % European Funds, 7% The City of Košice and 2% The higher territorial unit of Košice (Návrh systému podpory financovania podujatia Európske hlavné mesto kultúry –Košice 2013).

The activities during the European Capital of Culture have started the process of creation the suitable city for independent art scene, artists, cultural organizations and new culture production. There was established a creative cluster, which should be formatted till 2015 and joins the innovative and creative businesses, artists and other stakeholders. The other significant benefits for the city as well as in Pécs, Prague and Krákov were mainly in the field of tourism, increasing tourism rate, international promotion and also the reconstruction of the technical infrastructure.

The summarization of the analysed data about the selected Visegrad cities by the indicators presents table 13.2. We added also some specific features as a presence of universities and creative clusters, what belong also to the infrastructure that was created as a consequence of the ECoC. They support our findings that the competition ECoC significantly contributes to the development of creative city from the cultural city.

All selected European Capitals of Culture presented by its activities well prepared potential and conditions to be creative cities based on the culture development. The results enlisted in the final reports of selected ECoCs showed that the cities have developed the high-profile cultural infrastructure including the range of creative industries and other support services. The participation in the competition European Capital of Culture was the most important initiation for the modern economic and social development in cities of the post transitive countries. From these cities because of the building and repairing the cultural infrastructure, concentrations of

creative and educated people in the local universities, networks, partnerships, financial and political support have become real creative cities.

The investments during 5 years of preparation and the year of governing create the suitable conditions (new public spaces, new traditions of culture events, leisure time infrastructure) in advance for the next local and regional development regarding to new trends. In all cities, were established the creative clusters, that concentrate the creative businesses and creative people and cities belong to the well developed areas in the countries.

Control questions

1. *What are the preconditions to establish the creative local production system?*
2. *Define the creative city by your own words.*
3. *By selected example of creative city from Your country explain the decisive factors of creative city.*
4. *What role does the culture play in the development of creative place?*
5. *By selected example of creative city from Your country identify the activities belonging to the creative industries in the city.*

Quiz (one-choice)

Creative industries are:

- a set of knowledge-based activities, focused on but not limited to arts, potentially generating revenues from trade and intellectual property rights; comprise tangible products and intangible intellectual or artistic services with creative content, economic value and market objectives;*
- encompasses a broader range of activities which include only the human creativity, whether live or produced as an individual unit;*
- an approach to the management of territory based on the creativity.*

The most common creative local production systems are:

- creative city and creative clusters,*
- creative region and state,*
- creative city and state.*

The preposition to develop the creative industries are:

- participation; investments; human resources; openness;*
- music studios and cinemas; financial support; innovations;*
- leadership and cooperation; infrastructure; awareness and education; investments and policy*

To the main factors of creative cities belong:

- diversity, openness, research centres; policy;*
- quality human resources; a suitable urban environment with the hard and soft infrastructure; support by the territorial government*
- information; innovations; financial and policy support.*

Cultural and creative industries:

- produce knowledge using education, research and innovations;*
- bring traditional forms of innovations, creativity, partnerships and individualization;*
- can help to boost local economies, stimulate new activities, create new and sustainable jobs, have important spill over effects on other industries and enhance the attractiveness of regions and cities.*

Table 13.2 Comparison of European Capitals of Culture – Prague, Krakow, Pécs, Košice

Cities	Praha	Krakow	Pesc	Košice
Year	2000	2000	2010	2013
Country	Czech Republic	Poland	Hungary	Slovakia
Population	1 243 201	758 334	156 801	240 164
Project	Praha - Evropské město kultury roku 2000	Krakow 2000 Festival	European Capital of Culture Pécs, 2010	Košice Interface
Main message	Cultural heritage - The Story of the City; City of Open Gates; City to Live In	Thought, spirituality and creativity	The Borderless City	We support creativity
Other ECsC	Avignon (FR), Bergen (N), Brusell (NED), Bologna (IT), Krakow (PL), Helsinki (F), Santiago de Compostela (ESP), Reykjavik (IS)	Avignon (FR), Bergen (N), Brusell (NED), Bologna (IT), Prague (CZ), Helsinki (F), Santiago de Compostela (ESP), Reykjavik (IS)	Istanbul (TUR), Essen (GER)	Marseille (FR)
Total budget (€)	28 800 000	12 772 936	35 310 000	29 188 170
Investment's activities	Müller Villa restoration; Prague Auto museum; Museum and Archive of Popular Music; Astronomical Tower; Hall of Clementinum; Hvezda Summerhouse; Gardes of Malá Strana; Jižni Mesto District 2000 Project	Concert Hall; Krakow 2000 Festival Bureau; Museum of Civil Engineering;	Revitalisation of public squares and parks; Museum Street project; Zsolnay Cultural Quarter; South Transdanubian Regional Library and Knowledge Centre; Pécs Conference- and Concert Centre	Culturpark; Kunsthalle; City parks; Craftsmen route; Amfiteater; Košice castle; Spots; Small stage of the State Theatre; State Scientific Library; Slovak technical museum; East Slovak museum Košice; East Slovak gallery; Pupets theatre; Barkoczy Palace; Public Library of Ján Bocatia; Theatre Thalia; Lapidarium; Castle in Krásna; Dom of St. Elisabeth

Non investment's activities	<p>Khamoro 2000 - a film festival focussing on 'human rights, ethnic and racial issues, rights of minorities'</p> <p>Concerts - New York Philharmonic Orchestra; Genius loci</p> <p>Information system Praha 2000</p> <p>Theatre: Purple Sails; Festival of Street Theatre</p> <p>Prague: The Time Machine (CD)</p> <p>Prague Golem; Franz Kafka</p> <p>Prague city on the River</p> <p>Group of other literature, theatre, musical events, shows and visual arts (Umbrella; Communication, Prague Spring festival, etc.)</p>	<p>Educational programmes - the Youth - Krakow 2000;</p> <p>3rd International Children's Biennial of the Theatrical Puppet Conferences - Historic Preservation Charter – Krakow 2000; A Day of Culture – Freedom of Speech and Dialogue</p> <p>Exhibitions and festivals - The Faces of God</p> <p>2nd Krakow Meetings of Poets.</p> <p>Group of literature, theatre, musical events, shows and visual arts with the topic Heritage and Bridges to the future;</p> <p>popular art, entertainment shows and traditional rites</p>	<p>Music and dance festivals: East – West Passage – Balkan World Music Festival; Pécs Spring festival; Pécs International dance festival;</p> <p>XV. Pécs International Puppet festival</p> <p>Travel around the Turkish C</p> <p>Classical music: Pécs Cantat 2010 crescent</p> <p>The Munkácsy Christ Triology</p> <p>Exhibitions: Under the spell of Cézanne and Matisse - The Eight - Centennial Exhibition;</p> <p>Hungarians in Bauhaus' exhibition</p> <p>CinePécs international film</p>	<p>Creative incubator (Kulturpark);</p> <p>Escalator</p> <p>Pilgrimage city</p> <p>Resident program K.A.I.R.</p> <p>Terra Incognita</p> <p>Pentapolitana</p> <p>SPOTs</p>
Benefits	improving the external image	affected the cultural atmosphere	the highway between Budapest and Pécs	international promotion
	building and improving the cultural infrastructure, the offer of cultural activities and events	attracted more tourists	the development of the hotel capacity in the region and in Pécs	increasing the tourist rate
	international promotion	international promotion	international promotion	development of infrastructure
Universities in the city	16 universities	23 universities	University of Pécs	7 universities
Creative clusters	from 2011	from 1997	from 2007	from 2013

Source: Own workmanship

True/false

Cultural-technological cities are represented by the developing the technology and culture simultaneously, that result in cultural industries.

TRUE/FALSE

Creative city should not respect uniqueness and authenticity of the city; its unsettled and dynamic structures.

TRUE/FALSE

Creative city is characterized by openness, tolerance, cultural background, non-corrupt environment and higher concentration of creative personalities.

TRUE/FALSE

The participation in the competition European Capital of Culture started a new process of recovery and appreciation of the cultural and historical heritage in the cities of the Central Europe.

TRUE/FALSE

The reason for being concerned with the creative economy at the different territorial levels follows from the fact, that cities and regions have always been places where human creativity flourished.

TRUE/FALSE

THEME 14. CROSS-BORDER COOPERATION OF V4 AND UKRAINE¹

14.1. Theoretical Bases of Development of Cross-border Cooperation

Cross-border cooperation within the European Union and across its external borders has a long history dating back from 1950s and has evolved into a variety of forms. Its theoretical discussion, therefore, includes various approaches – cross-border cooperation can be studied from economic, anthropological, geographical, and political science perspectives. In the 70s of the XX century, the Swiss Scientist D. de Rougemont gave the following definition to the cross-border region. Thus, the *cross-border region* is "the potential region" and a single from the point of view of ecology, geography, history, economic opportunities, ethnic groups and so forth, but at the same time broken into the pieces by the sovereignty of the governments operating on both parties of the governments (Ogneva, 2015).

The "philosophy of cross-border cooperation" is that of a genuinely joint cooperation between two neighbouring border regions. Joint cross-border cooperation does not mean that one partner initially acts alone at national level and later tries to involve or cooperate with the neighbour across the border. It encompasses all areas of daily life and development of joint programmes, priorities and actions. It also includes extensive involvement of social groups, administrative levels and so on in cross-border cooperation.

The principles of cross-border cooperation, which were developed by AEER and followed by the European Commission, are the following: wide-ranging vertical and horizontal partnership; subsidiarity through involving the regional and local levels and delegating responsibility to them; preparation of joint cross-border development concepts and programmes, implementation of cross-border projects.

Cross-border cooperation involves direct neighbourly cooperation in all areas of life between regional and local authorities along the border and involving all actors.

This theoretical model is placed into a more general framework of multilevel governance, which apart from providing the general context for analysing cross-border

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cooperation, helps to distinguish among the multiple cross-border actors and institutions, which are located at local/regional, national and supranational levels of governance. Cross-border cooperation thus is best analysed as a multi-level cross-border governance, which depends on the coordination of multiple actors as well as the social construction of cross-border identity. Cross-border identity, as will be shown, is also a matter of negotiation among different cross-border actors and is produced and reproduced by cross-border institutions. Figuratively, the theoretical framework of this thesis can be depicted as follows (Figure 14.1):

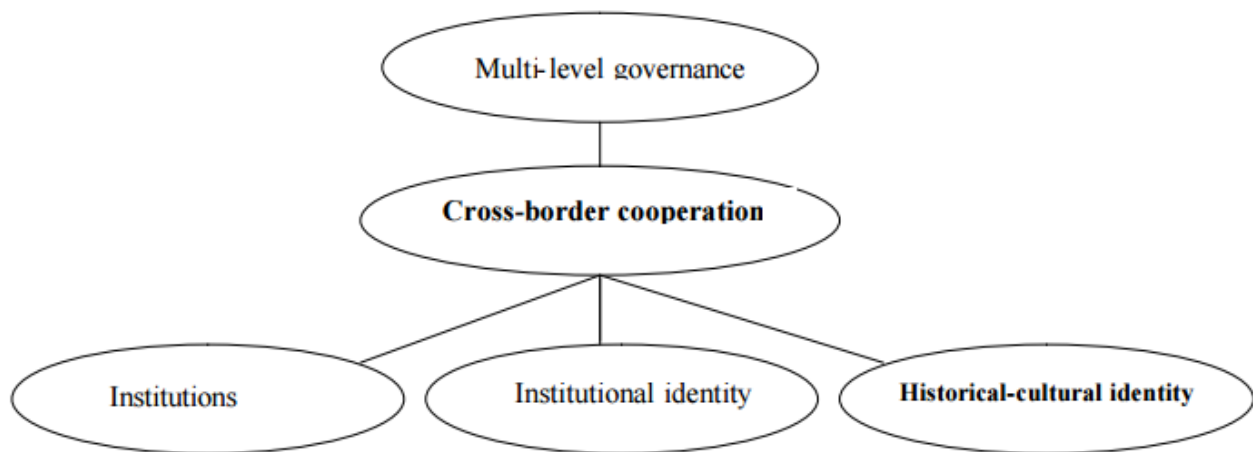


Fig. 14.1. The theoretical framework for cross-border cooperation

The multi-level governance model has evolved from the criticism of the state-centric theories of the European integration. While intergovernmentalism assumes that the state sovereignty is preserved and even strengthened through the EU membership, the leading multi-level governance theorists, Marks, Hooghe and Blank, point to the fact that the state sovereignty is becoming diffused across various levels of government – subnational, national and supranational. The authors do not deny that the state still remains an important actor, yet it no longer monopolizes the EU level policy-making or the aggregation of domestic interests. Thus, the state power is being challenged both from below and from above.

The multi-level governance model also rejects the division between the domestic and international arenas, pointing to the growing powers of the subnational actors. The subnational actors are not nested exclusively within the realm of the state

executive preferences, but can act independently on both domestic and international arenas, creating transnational links or the links with the European level institutions.

Thus, according to the multi-level governance approach, cross-border cooperation should benefit from first, the participation and coordination of different levels of government – subnational, national and supranational where the subnational level has significant decisionmaking powers when it comes to its international relations; and second, from the participation of various public and private actors, groups and institutions at each level of governance to achieve common goals in an irregularly structured environment as well as the social construction of the cross-border regions.

Cross-border cooperation is two-, three- or multilateral cooperation between the regions. Important point, to define the initiators of cooperation. Any cooperation begins from idea. Ideas in cross-border cooperation are the directions, the way of further development of cooperation between the regions which cover economic, political, cultural, ecological and other spheres. The region, which represents ideas, is called initiator region. That is the initiator region (IR) is the certain territory having own resources and results of the economic activity capable to creation of bilateral or multilateral communities with the regions of other states under certain conditions.

The region, which is supported and take an idea is called partner region (PR). The partner region is the territory which has its own resources and results of economic activity and accepted the conditions of the initiator region (Fig.14.2).

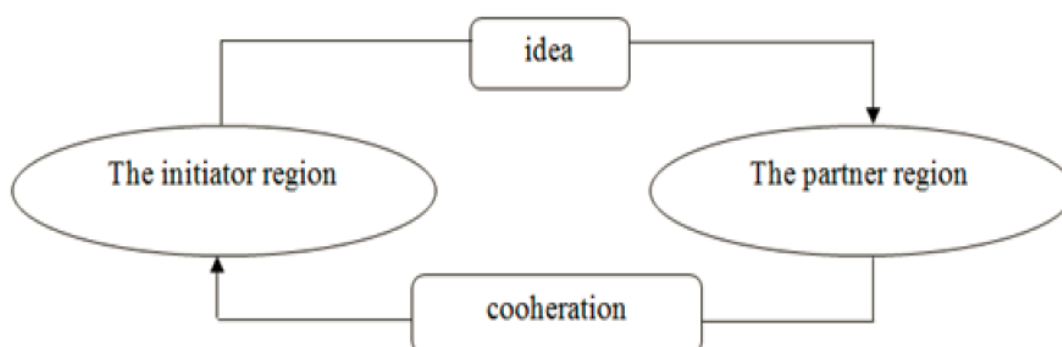


Fig. 14.2. The general idea of cross-border cooperation

This cooperation is manifested in joint activity between neighbouring territories which is caused by economic needs of regions (Pinder, 1969). The system of cross-border cooperation is presented in Figure 14.3.

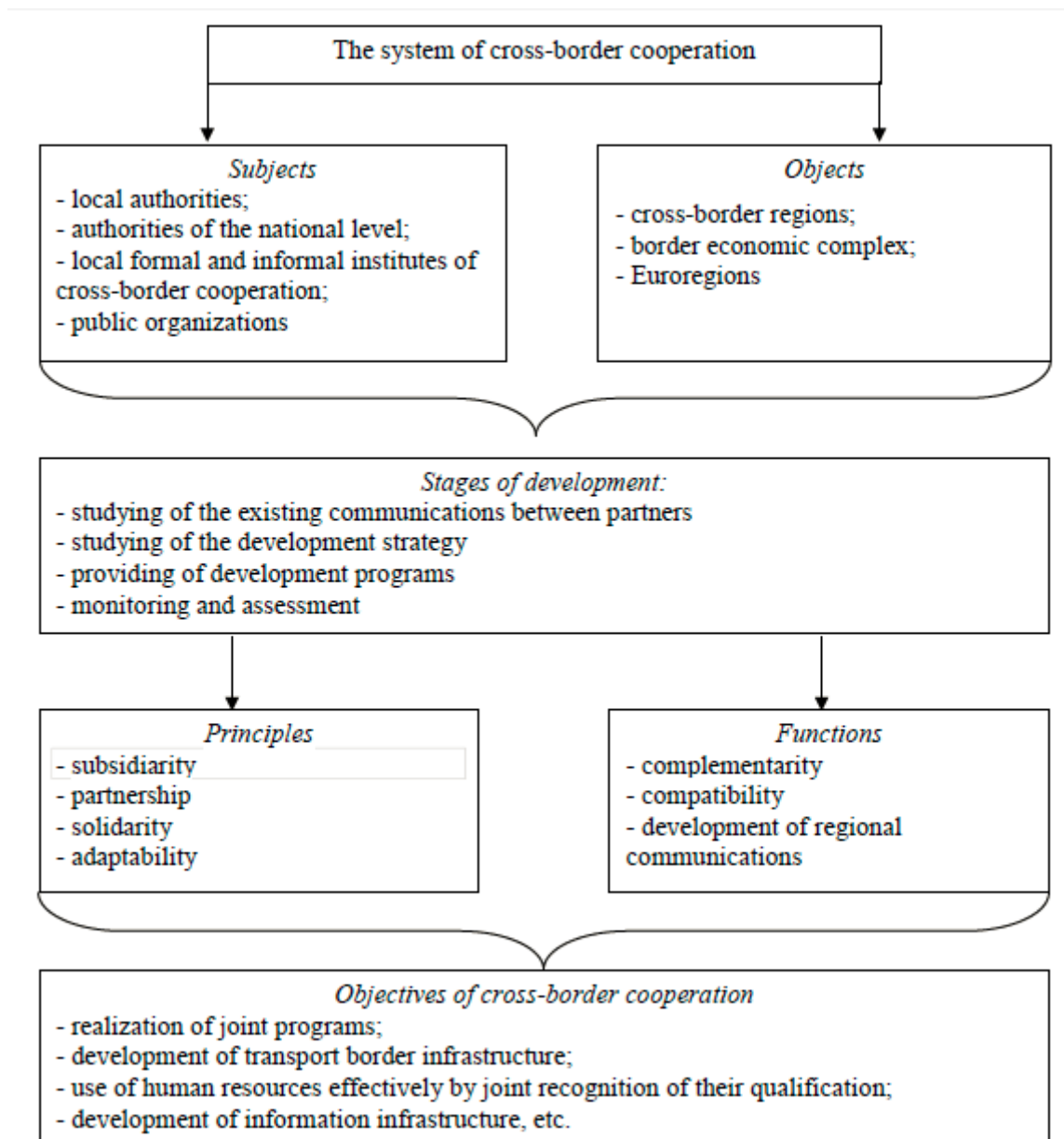


Fig. 14.3. The system of cross-border cooperation

Many European researchers tried to create typology of forms of cross-border cooperation. M. Perkmann allocated two bases of a typologization: the intensity of cooperation and geographical coverage (Fig. 14.4).

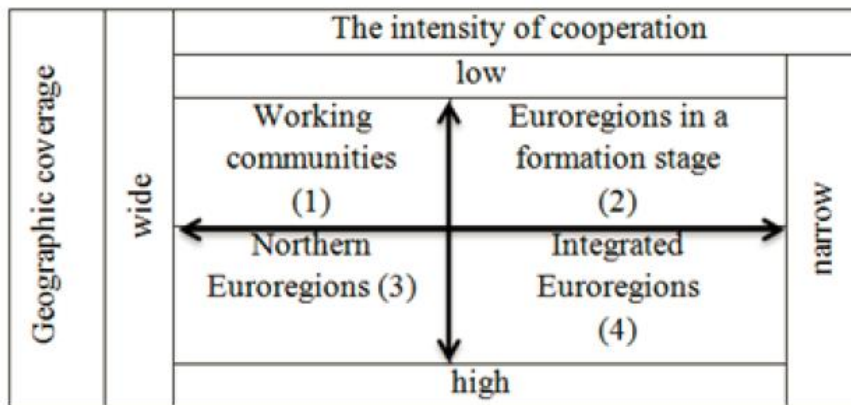


Fig. 14.4. Typology of cross-border regions according to M. Perkmann

Cooperation across borders marking large structural disparities can be divided into three separate development phases. In the first phase, the lesser developed party has hardly any capability for real cooperation with the Member State regions across the border. The Member State regions involved offer expertise and training, organise study visits to the Member State, and conduct feasibility and other studies on the development potential of the border area. This creates important networks between the Member State and partner country actors.

In the second phase, plans are drawn up with a view to social and economic convergence between the border regions. Convergence is promoted, among other things, through planning of investment projects that rarely attract outside financing and have little in the true nature of cross-border cooperation.

In the third phase, the regions genuinely jointly recognize the potential for regional development provided by the border. The differences between regions are exploited with a view to bringing benefits on both sides of the border. Eventual investments are focused on border infrastructure in order to facilitate border crossing. Joint projects are developed by regional bodies. In addition, direct contacts between the citizens and communities across the border are supported (Jarvio, 2011).

During the 20th century cross-border cooperation was actively developing in advanced economies. It should be emphasised that cross-border cooperation in the first place was aimed at ensuring the following public functions:

- 1) military and political strategy as the main item of the state's territorial integrity;

- 2) reduced gap in the economic, cultural and social development;
- 3) selection of an effective immigration and labour mobility system;
- 4) creation of new products, services and jobs;
- 5) development of integration-driven culture and social behaviour.

14.2. Cross-border cooperation in the context of Visegrad cooperation

The development of cross-border cooperation can be seen as the evidence of the increasing autonomy of regions in their external relations with other regions, and thus, as an example of multi-level governance. Weyand finds that cross-border cooperation contributes not merely to the European integration, by achieving socioeconomic cohesion and a ‘wefeeling’ across European borders, but also to the establishment of a multi-level Europe, where in addition to the states, regions and European institutions would have a decisive role in ‘Community-building’. Weyand contends that central governments still tend to regard crossborder cooperation as part of international relations and thus do act as ‘gate keepers’; yet she notes that thanks to their increasing self-assertiveness, regions tend to find way around legal restrictions and continuously widen the range of their competences, engaging in international activities, opening representative offices in Brussels, signing international treaties and engaging in cross-border cooperation.

Aside from the subnational level initiative, cross-border cooperation is fostered by the European level by means of various support schemes and programmes. Successful crossborder cooperation within the EU and across its external borders has been one of the goals of the EU supranational regional policy, i.e. the Cohesion Policy, according to which the increasing power of the sub-national levels and their interconnectedness contribute to the creation of coherent multi-level Europe with decreasing divisions between domestic and international politics. Instruments such as INTERREG, PHARE CBC and TACIS CBC offer funding to joint cross-border projects while Euroregions, which are being called ‘laboratories of European integration,’ provide expertise in fund-raising and project oriented cooperation enjoying much political encouragement.

The V4 countries assign a particular importance to cross-border cooperation. All V4 countries have participated in the development of different types of Euroregions on the borders with their Visegrad partners, EU members, as well as in the border areas with the applicant countries (Western Balkan countries) and other neighboring countries (Ukraine, Belarus). All significant documents related to the cooperation in the Visegrad Group refer to cross-border cooperation and consider it an important element of the cooperation. The first V4 declaration signed in 1991, for instance, states that the signatories of the Declaration shall jointly undertake the steps that would endeavor to create free contacts between citizens, institutions, churches and social organizations; develop economic cooperation; focus on the development of the infrastructure in communications; increase cooperation in the field of ecology; create favorable conditions for free flow of information, press and cultural values; and support mutually beneficial cooperation of interested local self-governments of their countries and establishment of sub-regional contacts – all of these are important aspects of cross/border cooperation.

The second Visegrad declaration – so-called Kroměříž Declaration – was adopted after the accession of the V4 countries to the European Union. The Guidelines on the Future Areas of Visegrad Cooperation, which were attached to the Declaration recognizes cross-border cooperation as one of the most important areas in which the cooperation in the post-accession period should develop.

Despite the decreasing significance of the borders after the accession of the V4 countries to the EU and their entering in the Schengen system, cross-border cooperation is considered to remain an important field of cooperation among the V4 countries, as well as with the countries in the EU neighborhood.

Cross-border cooperation on the external borders of the EU has been a key priority for the EU. Also Euroregions are considered as an important instrument for enhancing cooperation between the EU a neighboring countries. The Carpathian Euroregion, encompassing the regions of four EU countries and Ukraine might serve as a good example of good practice (Köles, 2011)

Cross-border cooperation remains to be an important element of regional cooperation. The examples of the Carpathian Euroregion and ENPI Hungary-Romania-

Slovakia-Ukraine shows that concrete steps have been taken in order to develop cooperation between some of the V4 countries on the one hand and Ukraine on the other hand.

Taking into account the positive experience of the Visegrad Group, Ukraine is eager to cooperate with all its members in this difficult time, when the success of its foreign and domestic policy determines the existence of Ukraine as a state. However, one must remember that this cooperation can take place in two different ways. On the one hand, it comes to bilateral relations of the Ukraine and each member of the group, on the other hand — the relationship with the association itself. And although Ukraine is trying to give equivalent consideration to both areas, it appears that their prospects are not the same.

14.3. CASE STUDIES: Euroregions

Case study 1 (The Carpathian Euroregion)

The Carpathian Euroregion was established in 1993, comprising regions situated in peripheral territories in their own countries, being less developed in terms of economy and social structure. Also, another challenge was the fact that its territory was a potential source of geopolitical conflicts. At the time of the establishment of the CE its territory involved was approximately 53.000 square kilometers with a number of 5 million inhabitants - presently these data are 161.192 square kilometers and 16 million inhabitants.

Members:

Hungary: Borsod-Abaúj-Zemplén, Hajdú-Bihar, Heves, Jász-Nagykun-Szolnok, Szabolcs-Szatmár-Bereg counties, Nyíregyháza, Miskolc, Debrecen, Eger cities of county rank;

Poland: Podkarpackie Region (Sub-carpathian Region)

Romania: Satu Mare, Maramures, Bihor, Suceava, Zilah, Botosáni counties (became full members in 1997);

Slovakia: administrative areas of Košice and Prešov.

Ukraine: Transcarpathian, L'viv, Ivano-Frankovsk, Chernivtsy regions;

Main objectives and goals:

- Promotion of co-operation in the field of social, economic, scientific, ecological, educational, cultural and sports affairs;
- Lobbying for the implementation of cross-border projects, mutual intention on cooperation with national institutions and organizations.

To improve the living standards of the people living in the area, to preserve peace, promotion of good relations between people on both sides of the borders, to decrease the isolating effect of the borders, to ensure the permeability of borders.

Structure of operation: The main body of the interregional association is the Council, which makes decisions concerning the most important questions of general, personnel and membership relevance, on membership in international organizations, etc. It also establishes working commissions, adopts project proposals raised by them, ensures the conditions for the implementation. Members of the Council are delegated from each member country, 3-3 from each. The operative body of the CE is the International Secretariat. It fulfils the operative and administrative tasks, co-ordinates daily activity, organizes the meetings of the council and provides other administrative services. It also keeps contact with the National Offices, national

representatives, co-ordinates the activity of the working commissions, establishes and keeps contact with international organizations, takes part in raising donors. Its activity is supported by the National Offices in the member's states with national representatives who also participate in organizational, translation and co-ordination activities. Working commissions established by the council are responsible for the practical implementation of strategic plans adopted by the council - these are the Working Commission dealing with Regional Development, Tourism, Environmental Protection, Trade, Prevention of Natural Disasters, Social Infrastructure and Audit and Control.

Challenges for the future

The territorial character of the Carpathian Euroregion is quite heterogeneous in every aspect. Some member regions are located in countries that will soon be a member of the European Union. Consequently, the issue of the Schengen border raises a number of unsolved problems that bring the significance of the means and ways of co-operation within the Carpathian Euroregion.

The Euroregion is an important factor in both professional and political sense concerning the financial aspects of member regions on national and European level. It can significantly contribute to the setting the elements of the co-ordination among different funding sources (basically concerning the INTERREG, PHARE CBC and TACIS programs) by its expertise. The location of the CE makes some member states concentrate on EU-related issues and tasks to be thought over - at the same time on the need to maintain the presently operating relationship in the forthcoming decades. In the Europe of regions, the Carpathian Euroregion can serve as a bridge that links the countries of the region, as a frame to fulfill the requirements of the future in the heart of Central-Eastern Europe.

Case study 2 (ENPI Hungary-Slovakia-Romania-Ukraine ENP CBC Programme)

The ENPI (European Neighbourhood and Partnership Instrument) Hungary/Romania/Slovakia/Ukraine cross-border programme is perceived as an excellent example of this manner of cooperation. The programme became active on 23 September 2008, after being approved by the European Commission. With implementation occurring during the period of 2007-2013 along the external border of participating EU-member states with Ukraine, the programme allots € 68.638.283 of ENPI funding over seven years, and offers diverse opportunities to potential beneficiaries through four priorities: economic and social development, enhancement of the environment, increasing border efficiency, and supporting people-to-people cooperation.

With an overriding objective to enhance and strengthen cooperation in a socially, environmentally, and economically sustainable manner, the programme deepens ties between Ukraine's Zakarpatska, Ivano-Frankivska, and Chernivetska regions and eligibly adjacent regions of Hungary, Romania, and Slovakia.

The programme presents wide-ranging possibilities to potential beneficiaries with its specific measures and priorities. The objective of each priority is established as follows:

Priority 1: Promote economic and social development.

Practise sharing and knowledge transfer to encourage joint developments of enterprises and enhance attractiveness of the area for tourism.

Measure 1.1 Harmonised tourism development.

Measure 1.2 Creation of improved conditions for SMEs and business development.

Priority 2: Improve the quality of the environment.

To mitigate risks of damages to the environment and enhance the quality of air, water, soil, and woodlands resources.

Measure 2.1 Sustainable management and use of natural resources and protection of the environment.

Measure 2.2 Crisis preparedness.

Priority 3: Increase efficiency of borders.

To improve efficiency of border management along Ukraine's boundaries.

Measure 3.1 Improving border-crossing transportation infrastructure and equipment at border checkpoints.

Priority 4: Encourage people-to-people cooperation.

To enhance effectiveness of public services and expand mutual understanding of varied societal groups.

Measure 4.1 Institutional cooperation.

Measure 4.2 Small-scale people-to-people cooperation.

Applicants must collaborate in partnerships encompassing at least one partner from Ukraine and at least one partner from an EU-member state participating in the programme (Köles, 2011).

The programme area encompasses the regions within the Hungarian-SlovakRomanian-Ukrainian borders and includes a joint boundary with Ukraine that stretches for almost 600 kilometers, fully covering borderlines between Slovakia and Ukraine (97.9 km) and Hungary and Ukraine (134.6 km), and part of the border between Romania and Ukraine (366.4 km).

Control questions:

- 1. What forms the system of cross-border cooperation?*
- 2. What is the main idea of Euroregions?*
- 3. Describe the main stages of evolution of cross-border cooperation in Europe?*
- 4. What is the specific of cross-border cooperation in V4?*
- 5 How would you evaluate the role of Euroregions for Ukraine?*

THEME 15. PERIPHERAL REGIONS' STIMULATION IN V4¹

15.1. Perspectives on peripherality

The *core-periphery concept* is a basic social science paradigm of which dual aspect is not entirely clear. The centre-periphery pair of concepts can be interpreted in three ways (Nemes Nagy, J. 1996):

❖ *positional (geographical) centre and periphery* where the centre means a designated, enhanced place, while the periphery means the marginalized settlements, it is more often coupled with the issue of accessibility (Tóth, G. and Dávid, L. 2010);

❖ *development (economic) centre and periphery* which can be identified as the economic development and underdevelopment;

❖ *authority (social) centre and periphery* in which the dependence of power and the imbalance of interests appear.

Peripherality has long been the subject of analysis by economists and geographers with an interest in regional disparities, developing countries and the location of economic activity. Current debates focus on the impact of economic integration on the geographical distribution of economic activities, as well as the potential for information and communication technologies to provide new opportunities in peripheral areas, and also the institutional and political dimensions of peripherality.

From a policy perspective, peripheral regions are often seen to be disadvantaged by:

❖ *poor accessibility to large markets and service centers* (e.g. France, Austria, Sweden, Switzerland, and the Netherlands);

❖ *low or falling population density* (e.g. Finland, Norway and Sweden) and/or falling or ageing populations, which in turn constrain business development (Davies & Michie, 2011).

The OECD, for example, has developed a typology of regions (M. Brezzi, L. Dijkstra and V. Ruiz, 2011), based on whether they are:

¹ Prepared by Mariia LYZUN, Ternopil National Economic University, Ukraine

- ***predominantly urban***: where less than 15 percent of the population lives in communities with fewer than 150 inhabitants per square kilometre, or where population density is lower but it has a town of more than 500,000 inhabitants representing at least 25 percent of the regional population;

- ***intermediate***: where 15-50 percent of the population lives in communities with fewer than 150 inhabitants per square kilometre, or where population density is lower but it has a town of more than 200,000 inhabitants representing at least 25 percent of the regional population;

- ***predominantly rural***: where more than 50 percent of the population lives in communities with fewer than 150 inhabitants per square kilometre.

Intermediate regions and predominantly rural regions are further divided into those that are ‘close to a city’ or ‘remote’, depending on whether it takes more than 45 minutes for 50 percent of the region’s population to reach a town of at least 50,000 people. A European Commission study that applies this definition to the EU28 finds that the percentage of the population that lives in remote rural or remote intermediate areas is:

- over 20 percent in Bulgaria, Ireland, Greece, Estonia, Latvia, Finland (and Norway);

- between 15 and 19 percent in Denmark, Hungary, Portugal and Sweden;

- between 10 and 14 percent in Austria, Lithuania and Romania;

- between 5 and 9 percent in Spain, Italy, Slovenia (and Switzerland);

- between 0.1 and 5 percent in Germany, France, Poland and the United Kingdom;

- zero in Belgium, the Czech Republic, Cyprus, Luxembourg, Malta, the Netherlands and the Slovak Republic.

In some countries (e.g. Germany, Sweden and Switzerland), it is primarily younger people – often women – who leave peripheral areas, not only in search of employment but also better educational and social opportunities although, in some countries (e.g. France, Norway and the United Kingdom), some peripheral areas are seeing in-migration, often of middle-aged or older people seeking a better quality of life.

Local and regional authorities in these areas often face difficulties in providing adequate services, for example because their revenues are limited by weak business activity and because service provision is more costly in per capita terms in low population density areas. Nevertheless, policy-makers in some countries also emphasise the existing and potential strengths of peripheral regions, not least in terms of natural resources and quality of life.

The European Union (EU) draws on a number of categories, including ‘*outermost regions*’ and ‘*sparsely populated regions*’ that have special status in the EU Treaties and so, for example, receive additional Cohesion policy funding, as well as those designated for regional aid under Article 107(3)(a) or eligible for Cohesion policy’s Convergence Objective.

15.2. Peripheral regions in V4

The demographic situation in the V4 is characterised by much lower level of population growth than in the EU (decreasing working age population, increasing proportion of the population aged 65, shorter life expectancy, dropping fertility rate) and fast rate of emigration in most of the regions. These challenges more significantly affect rural and peripheral areas.

Metropolitan zones (e.g. Bratislava, Warszawa, Praha, Budapest, etc.) are the most favoured goals for immigrants, while older industrial and rural areas are less attractive. Except for the Poland and Czech Republic, the domination of the capital cities in the V4 states reflects their mono centric urban systems.

The territorial concentration of economic and social problems is combined with lower access to public services and welfare. Substantial lag at certain elements of the information and innovation society could be observed in the macro region. It raises serious complications, particularly for regions with small villages as well as borderline zones with no town centres.

The general economic performance of V4 states is much lower and volatile in comparison to the EU average. Both labour productivity and employment rate is below the EU average. Number of regions with high agricultural employment rate are

significant in the V4 states. The V4 regions are lagging behind Europe in terms of adopting ICTs, business innovations and creation of information society.

The locations of peripheral areas in the period of socialism and after 2000 is generalized on the maps in the Fig. 15.1.

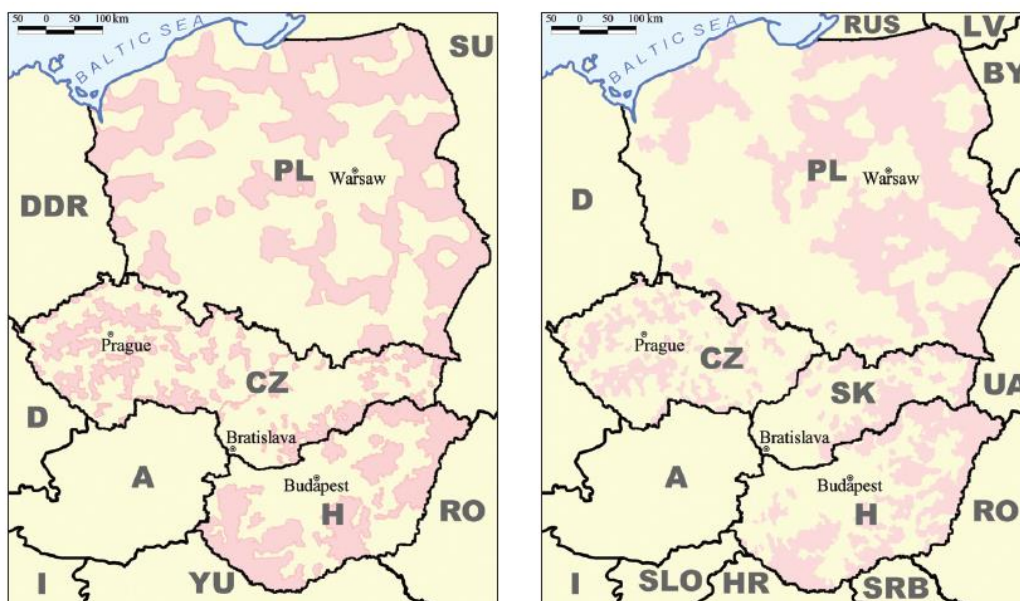


Fig. 15.1. Peripheral areas of the Visegrad Countries during the socialist period (left) and after 2000 (right)

Source: Péntzes, J., 2013

To summarize the situation with peripheral regions in V4 we could mark following trends:

1. The capital city and rural area spatial dichotomy (especially in the case of Hungary and, to less extent, Slovakia and Czech Republic; the role of Warsaw is less characteristic in Poland because of the city network and existence of major metropolitan sub-centres).

2. Urban-rural dichotomy (the phenomenon of suburbanization around the city moves forward the development, while the regions which are farther from the agglomeration lag behind).

3. East-West dichotomy (due to the FDIs and the proximity to the core European regions the progress took place in Western Slovakia and Northwest Hungary; the process is the least spectacular in the Czech Republic as Prague and its surroundings have always been the most dynamic region).

4. The increasing spatial concentration of peripheral areas in the Eastern regions (“Eastern Wall” zone of Poland; spatial problems of South-Eastern and Eastern Slovakia and the concentration of peripheral territories in North-East and East Hungary).

5. Internal peripheries (Poland in the regions of Warsaw–Łódź–Kielce–Lublin, Świętokrzyskie Mountains; Czech Republic along the administrative borders; Hungary in the Central Tisza Region).

6. The structural crisis of the mining, textile- and heavy industry (Upper Silesia and Łódź in Poland, surroundings of Ózd, Salgótarján and Komló in Hungary).

7. A significant part of the region is traditionally backward (in Eastern Poland, the fragmented farm structure of agriculture and the neighborhood of Belarus and Ukraine; in case of Slovakia and Hungary – social and employment problems of the Roma population (Penzes, 2013)).

15.3. Strategies for development of peripheral regions in V4

In order to support smart specialisation in the V4 countries it is necessary to develop a specific regional innovation policy that can be described as smart innovations policies, which increase the innovation capacity of a region by increasing the efficiency of accumulated knowledge and identifies endogenous potentials for socio-economic development, in particular: development potential, unique capitals, specializations or economic clusters.

One of the programs of depressive territories’ development in Visegrad countries is noted in the *Common Spatial Development Strategy of the V4+2 Countries* (hereinafter also *Common strategy*) is another milestone of our cooperation in the field of spatial development of the EU countries – the Czech Republic, Hungary, Poland, Slovakia (the Visegrád group – V4), Bulgaria and Romania (+2).

The Common Strategy focuses on the coordination of the solving of common spatial development problems and on the support of spatial cohesion in Europe. The Common Strategy is intended especially for the field of spatial planning and regional development, which is oriented on planning, preparation and implementation of

changes within an area with the aim to provide it with necessary services of general interest.

The aim of the Common Strategy is to:

–update of the national spatial development documents and forming of transport and technical infrastructure networks;

– promotion of spatial cohesion of the EU (see also TA2020 in Theme 6);

– facilitate the harmonisation of various sectoral policies, that influence territorial development.

For the above mentioned reason, the subject matter of development poles and axes and their no-continuations is dealt with also in this document.

Development poles – parts of spatial / settlement structure, which are attractive by certain characteristics for inhabitants and investments.

Development axes – strips of territory joining development poles that possess similar properties as development poles, but has lower intensity of representation of these features.

Development poles and development axes in the V4

Slovakia

The *Spatial Development Concept of Slovakia 2001*, as amended by the *KÚRS 2011* (hereinafter also *KÚRS 2011*), also lays emphasis on a polycentric development of its territory. The key development poles and axes in the Common Strategy consist of:

- ❖ 6 settlement focal points of the highest degree: banskobystricko-zvolenské, bratislavsko-trnavské, košicko-prešovské, nitranské, trenčinské, žilinsko-martinské (1st category);
- ❖ development axes of the first degree (1st category).

The secondary development poles and development axes in the Common document consist of:

- ❖ 7 settlement focal points of the second degree, linked to settlement centres: Liptovský Mikuláš, Lučenec, Michalovce, Nové Zámky, Poprad, Považská Bystrica, Prievidza (2nd category);
- ❖ development axes of the second degree (2nd category).

Czech Republic

One of the priorities of the *Spatial development policy of the Czech Republic 2008* (hereinafter also *PÚR ČR 2008*), approved by the government in 2009, is the promotion of a polycentric development of the settlement structure.

The main development poles and axes consist of:

- ❖ 12 development areas: Brno, České Budějovice, Hradec Králové / Pardubice, Jihlava, Karlovy Vary, Liberec, Olomouc, Ostrava, Plzeň, Praha, Ústí nad Labem, Zlín (1st category);
- ❖ development axes (1st category).

Hungary

The *National Development 2030 – National Development and Territorial Development Concept* (hereinafter also *NDTDC*), adopted by the Parliament in 2013, continues to promote a balanced polycentric development in Hungary.

The urban network consists of different levels of urban centres and functional urban areas:

- ❖ the metropolitan region of Budapest (category 0);
 - ❖ Urban centres of (potential) international importance (1st category): Debrecen, Szeged, Miskolc, Pécs, Győr, Székesfehérvár;
 - ❖ Urban centres of national importance (2nd category): Kecskemét, Veszprém, Szolnok, Tatabánya, Dunaújváros, Salgótarján, Eger, Nyíregyháza, Szekszárd, Szombathely, Kaposvár, Békéscsaba, Zalaegerszeg, Sopron, Nagykanizsa, Hódmezővásárhely;
- The development axes are the following:
- ❖ international development axes (1st category);
 - ❖ regional development axes (2nd category).
- Axes of regional importance may also cross the state borders (in this sense, they are also international or cross-border axes).

Poland

The vision of the country's spatial development as specified in the *National Spatial Development Concept 2030* (hereinafter also *KPZK 2030*), approved in 2011, defines the development of the Polish territory in 2030 on the basis of a polycentric metropolitan network.

According to the *KPZK 2030*, the metropolitan network includes:

- ❖ metropolitan cities:
 - of European importance: capital city – Warszawa;
 - of national importance: Silesian agglomeration, Kraków, Łódź, tricity (Gdańsk, Sopot, Gdynia), Poznań, Wrocław, Bydgoszcz, Toruń, Szczecin, Lublin;
 - of cities that fulfil certain metropolitan functions: Białystok, Rzeszów, Zielona Góra, Kielce, Olsztyn, Opole, Gorzów Wielkopolski;
- ❖ primary functional axes;
- ❖ regional cities: Płock, Włocławek, Koszalin, Słupsk, Elbląg, Grudziądz, Bielsko – Biała, Rybnik, Częstochowa, Legnica, Wałbrzych, Tarnów, Radom, Kalisz, Ostrów Wlkp;
- ❖ additional functional axes (Common Spatial Development Strategy of the V4+2).

Control questions:

1. What is the difference between geographical, economic and social concept of centre and periphery?
2. Describe the main criteria of peripheral regions which are used in different countries.
3. What are the crucial reasons of peripherality of regions in V4??
- 4 What is the main goal of Common Spatial Development Strategy of the V4+2?

True/false

- | | |
|---|------------|
| 1. Low population density is one of the criteria of peripherality | TRUE/FALSE |
| 2. The capital city and rural area spatial dichotomy is stressful for all V4 states | TRUE/FALSE |
| 3. The problems with peripheral regions arise in V4 after transition. | TRUE/FALSE |
| 4. Common Spatial Development Strategy of the V4+2 contains the same criteria of development poles and axes for all countries engaged | TRUE/FALSE |

THEME 16. DEVELOPMENT OF TERRITORIAL STRATEGY FOR UKRAINE ON THE BASE OF EXPERIENCE GAINED BY V4 COUNTRIES¹

16.1. Territorial Structure of Ukraine

Today it's hard to talk about the territorial structure of Ukraine, taking into account annexation of Crimea and separatists tendencies on Donbass. In this Chapter we would stick to the territorial structure recognized by national and international law. In general Ukraine is divided into 3 main administrative divisions: oblast (region), raion (district), and council (city, settlement, and village).

Ukraine has five major agglomerated metropolitan areas (conurbations):

- ❖ Kiev includes towns such as Irpin, Boryspil, and Fastiv;
- ❖ Kharkiv includes towns such as Chuhuiv, Merefa, and numerous other settlements;
- ❖ Donetsk includes towns such as Makiivka, Khartsyzk, and others;
- ❖ Dnipro with Kamianske and Novomoskovsk;
- ❖ Odessa with Chornomorsk and Ovidiopol.

Currently, at the territory of Ukraine, four multisectoral industrial districts have been formed: Donetsk (coal, electric power, metallurgy, machine-building and chemical industries), Dnieper (electricity, chemicals, machinery and metallurgy), Carpathian (oil and gas, forestry, engineering and chemical industry) and Bug (coal, chemical and electric power industries).

Many industrial agglomerations are located within industrial districts. Donetsk-Makeyevka, Gorlivka-Yenakiyevo, Luhansk industrial agglomeration belong, for example, to the Donetsk Industrial District, Dnipropetrovsk-Dniprodzerzhynsk, Zaporizhia, Kryvyi Rig – to the Dnipro region, Lviv agglomeration – to the Carpathian, Novovolynsk and Chervonohrad – to Bug. Outside of the industrial districts there are Kyiv, Kharkiv, and Odessa industrial agglomeration (Table 16.1). All these elements of the spatial organization of industry are connected with various ties typical for industrial complex in Ukraine (Hiletskyi 2003: 160).

¹ Prepared by Yevhen SAVELYEV, Ternopil National Economic University, Ukraine

The most favorable industries that could develop into agglomerations in Ukraine could be calculated using the Coefficient of Regional and Industrial Concentration (described in Theme 8), which represents both territorial and sectoral dimensions of agglomeration (Ruiz-Valenzuela J., Moreno-Serrano R., Vayá-Valcarce E. 2007).

Table 16.1 Industrial districts & industrial agglomerations in Ukraine

Industrial districts	Industrial agglomerations	Population (thousands)	Area (km ²)	Factors of growth
Donetsk	Donetsk-Makiivka	2009.7	8 093	mining, machine building, transit
	Gorlivka-Yenakievo	782.7	2 708	Coal
	Luhansk	501.2	4 352	machine building, fuel, textile, transport
Dnieper	Dnipropetrovsk-Dniprodzerzhynsk	1859.5	12 887	mining, machine building, transit crossroad, Dnieper river
	Zaporizhia	1100.9	8 200	metallurgy, machine building, transit crossroad, Dnieper river
	Kryvyi Rih	1010		close to the centers of mining, metallurgy, sea
Carpathian	Lviv	1 498.0	9 096	center of the western Ukraine close to the EU.
Bug	Novovolynsk	243.5	3551	food industry, tourism, close to the border
	Chervonohrad	183.1	1 590	coal, transport
-	Kyiv	3648.9	13 534	capital of Ukraine, services
-	Kharkiv	2157.5	11 847	science, transport, machine building
-	Odesa	1546.6	9 780	sea, international trade, recreation, culture

Source: compiled by author from different official statistic surveys and (Giletskyi 2003: 160)

The results of the research are presented in Table 16.2, where the values of the coefficient exceeding 1 are highlighted with colour. The highest values are observed for light industry in Zakarpattia, Lviv and Zhytomyr regions; woodworking in Volyn; food industry in Kyiv, Zhytomyr and Lviv regions. These industries should be priority ones for regional authorities when developing regional industrial strategies.

The Diversification Index DI^j was also calculated; its high value shows relative homogeneity of production activities distribution in various sectors of the region.

$$DI^j = \frac{1 / \sum_j \left(\frac{E^j}{\sum_j E^j} \right)^2}{1 / \sum_i \left(\frac{\sum_j E^j}{\sum_i \sum_j E^j} \right)^2}$$

The results of calculations are represented in Table 16.3. High value of the index indicates that a region has good conditions for the development of other type of agglomeration – creative region. The most diversified and less dependent from limited types of industries are Rivne ($DI^i=0,089$), Ivano-Frankivsk ($DI^i=0,065$) and Khmelnytsk regions ($DI^i=0,054$).

Table 16.2 Matrix of industrial and regional concentration in Ukraine, 2013

	Mining	Food industry	Light industry	Woodworking	Pulp and paper industry	Manufacture of coke, refined petroleum	Chemical industry	Non-mineral, non-metal production	Metallurgy	Machine building
AR Crimea ¹	0,09	1,54	1,57	0,17	0,57	0,00	0,17	0,62	0,32	1,92
Vinnysia	0,21	2,51	1,81	0,56	0,80	0,00	0,60	1,25	0,25	0,92
Volyn	0,59	1,78	1,53	3,54	1,03	0,00	0,41	1,09	0,27	1,19
Dnipropetrovsk	1,57	0,52	0,25	1,07	0,59	0,62	1,12	0,50	2,02	0,75
Donetsk	2,01	0,51	0,22	0,07	0,46	2,69	0,37	1,07	2,09	0,10
Zhytomyr	0,67	1,56	2,62	1,79	2,71	0,00	0,67	2,85	0,28	0,72
Zakarpattia	0,25	0,82	5,72	10,7	0,77	0,01	0,50	0,72	0,08	1,28
Zaporizhzhia	0,20	0,56	0,57	0,26	0,34	0,93	0,39	0,81	1,78	1,75
Ivano-Frankivsk	0,80	0,74	1,61	5,55	1,07	1,34	2,31	2,39	0,19	0,39
Kyiv	0,04	1,58	1,39	0,94	3,20	2,24	2,43	1,73	0,42	0,64
Kirovohrad	0,88	1,51	0,73	0,42	0,94	0,00	0,69	1,42	0,37	1,21
Luhansk	2,31	0,47	0,62	0,06	0,45	1,31	1,92	0,45	0,83	0,68
Lviv	0,75	0,92	2,89	1,67	3,14	0,89	0,84	1,74	0,14	1,20
Mykolaiv	0,10	1,14	1,38	0,16	0,51	0,00	0,09	0,60	0,30	2,09
Odesa	0,02	2,00	0,24	0,30	1,64	0,00	1,69	1,07	0,36	1,19
Poltava	0,84	1,50	0,82	0,06	0,05	2,31	0,30	0,87	0,46	1,53
Rivne	0,30	1,10	1,12	6,94	0,98	0,00	2,42	2,48	0,37	0,30
Sumy	0,40	1,07	1,07	0,73	0,47	0,05	2,30	0,77	0,19	2,05
Ternopil	0,26	2,34	2,45	1,35	1,51	0,00	0,51	1,93	0,14	0,68
Kharkiv	0,16	1,03	0,78	0,49	2,16	0,32	0,95	1,12	0,29	2,13
Kherson	0,13	1,38	2,10	0,16	1,20	0,00	0,61	0,71	0,22	1,91
Khmelnytskyi	0,15	1,70	0,70	0,90	1,02	0,00	0,08	0,33	0,29	1,48
Cherkasy	0,22	2,09	1,37	1,46	1,04	0,00	2,16	0,55	0,22	1,10
Chernivtsi	0,10	2,48	1,29	2,24	1,55	0,00	0,54	2,13	0,16	0,51
Chernihiv	0,36	1,83	2,85	1,17	1,97	0,00	1,78	0,45	0,23	0,98

Source: author's calculations on the data of National Statistics Service of Ukraine

Taking into account the peculiarities of individual territories, the government of Ukraine developed a number of specific legal regimes of the economic activity. As at today there are four regimes:

¹ The paper was submitted before Crimea's occupation by Russia Federation

- special (free) economic zones;
- priority development areas;
- technology parks;
- science parks.

Table 16.3 Diversification Index DI^j for the regions of Ukraine, 2013

Region	DI^j	Region	DI^j
AR Crimea	0,021	Mykolaiv	Mykolaiv
Vinnitsia	0,018	Odesa	Odesa
Volyn	0,017	Poltava	Poltava
Dnipropetrovsk	0,005	Rivne	Rivne
Donetsk	0,007	Sumy	Sumy
Zhytomyr	0,014	Ternopil	Ternopil
Zakarpattia	0,010	Kharkiv	Kharkiv
Zaporizhzhia	0,015	Kherson	Kherson
Ivano-Frankivsk	0,065	Khmelnyskyi	Khmelnyskyi
Kyiv	0,034	Cherkasy	Cherkasy
Kirovohrad	0,021	Chernivtsi	Chernivtsi
Luhansk	0,005	Chernihiv	Chernihiv
Lviv	0,017		

Source: author's calculations on the data of National Statistics Service of Ukraine

These regimes should be considered a good basis for the innovative agglomeration. Special (free) economic zones (SEZ) are parts of the national territory, where special legal regime of the economic activity is established with the aim to strengthen external relations by actively attracting foreign capital. On the other hand, priority development areas (PDA) are defined as territories within the city area with adverse socio-economic conditions, where a special regime for investments is introduced to create new jobs. In January 1, 2013 under the current law, 11 special (free) economic zones and 72 priority development areas were established in Ukraine.

Special economic zones operate in nine regions with a special investment regime Crimea (7 districts), Donetsk region (22 cities and 5 districts), Volyn (3 cities and 9 districts), Transcarpathia, Luhansk (6 cities, 3 districts) Chernihiv region (7 districts), Shostka and Kharkiv. The most famous among them are “Donetsk”, “Slavutych” in Kyiv, “Truskavets Resort” in Lviv, “Mykolaiiv”. There are also special economic zones with foreign aspirations : “Azov”, “Transcarpathia”, “Interport Kovel”, “Renee”, “Porto Franco” of Odesa Sea Commercial Port, “Port Crimea” and South Crimean experimental zone “Sywash” (Ivanenko 2009).

A standard set of benefits includes also a partial exemption of the income tax, customs duty and VAT, in some cases preferential land tax or government guarantees, and investment protection. In addition, the government establishes a list of imported raw materials, equipment which can be imported for the investment projects on favorable terms. Companies periodically report the use of imports to tax and customs services and to the administration of special areas. The government determines the list of priority activities, giving certain basic industries a special status.

Unfortunately, the SEZ and PDA practice has shown their ineffectiveness in Ukraine. Using them as a “legitimate” instrument to minimize import taxes and duties, the companies that implement investment projects on preferential conditions spoil competitive environment in the market. The “Ukrainian economic miracle” consisted in the fact that SEZs, instead of being catalysts of economic development (as for example it is the case in Poland) often became “black holes” in the state budget and a good source for dishonest businessmen and their representatives in the authorities (Ivanenko 2009).

16.2. Strategic Direction of Improvement the Territorial Structure of Ukraine Based on the Experience of V4

The experience of territorial reform in V4 and assessment of transformational changes, that embraced the municipal management, gives the possibility to determine the general approaches to creation of efficient model for economic development management of municipal management in Ukraine.

During the adaptation process of municipal entities to European managerial models Ukraine has to take into consideration the experience of both West European countries and post-socialist nations due to historic and national traditions of state construction. The investigation of municipal entities’ genesis will give the possibility to utilize political, solidarity, and cultural potential of territorial communities in modern practice. Delineation of powers between state executive bodies and local governing institutions is to be performed on the basis of determination of clear criteria of delineation of state and public services as well as their financing. In order to ensure the flexibility of executive bodies at local governing institutions it is recommended to

accept functional & target approach and consider the peculiarities of the territories being studied.

The construction of financial fundamentals of municipal entities has to be relevant to the selection of the model of municipal management organization. Particularly, the reformation in Ukraine is to be oriented on increasing of local taxes and duties share in the revenues of local budgets and formation of transparent mechanism for bilateral financial relationship between municipal budgets of lower level and higher level budgets within national financial system. In order to form legal-regulative and organizational-technological pre-conditions for reinforcement of financial constituent within resource supply of local self-government it is necessary to make amendments in Tax Code of Ukraine that would crucially change the concept of local taxation in the country on the basis of imposition of fiscally efficient local taxes. One has to up-grade the Budget Code of Ukraine within the context of budget process and inter-budget relation system transformation. The starting point of budget process in Ukraine is supposed to be the approval of local budgets, and inter-budget transfers must be distributed according explicit transparent formula due to the specifics of municipal entities. The essential step over here is revising of the principle associated with compulsory treasury fulfilment of local budgets when local governing institutions are authorized to select on their own the company to run logistic management of cash flows within the budget revenues and expenditures: subsidiaries of State Treasury, commercial banks, municipal banks or their combination. Basing on V4 experience it is necessary to authorize the local councils to adopt the budgetary regulations or the articles about budgeting aiming to facilitate considering of local specificity during local budgets formation and implementation of local budgets with the purpose to remarkably strengthen its financial and organizational autonomy. It is also recommended to investigate experimentally the possibilities of local budgets management due to program-target principle assuming the creation of so-called budgets for the centres of financial responsibility – donors and recipients – according to functional-branching complexes of municipal economy (education, health care, culture, local transports, municipal utilities, and municipal markets). It would have created the basement for imposition of budgeting technologies, main idea of which assumes balancing of

financial flows between the mentioned above centres of financial responsibility. One has also to impose the mechanism for aggregation of budgetary financial resources of different municipal entities for accomplishment of certain functions, application of which will facilitate the creation of financial conditions for further territorial uniting of the prior territorial entities in Ukraine, which is objectively necessary due to the stated in advance invalidity of minor territorial communities.

Transformation of municipal entities in Ukraine must become a priority direction in reformation of administrative-territorial system of Ukraine that requires amendments in Constitution of Ukraine, adoption of the laws «About Administrative-territorial System of Ukraine» and «About Territorial Community» assuming the right of territorial communities inhabiting any settlement on territorial or functional union with the purpose to form an active community. One has also to elaborate the mechanism of consolidation of territorial communities on the basis of their common interest for amalgamation after optimal combination of democratic voluntarism and administrative mandatory principles of such amalgamation in case of necessity of merging for certain number of lower level administrative-territorial units.

Having adapted the foreign approaches to institutional conditions for the development of municipal entities in Ukraine, one has to elaborate and implement the methodology to apply the technologies of special economic instruments of municipal management. It is required to create the system of efficient interaction between power institutions, entrepreneurs, public organizations and community members to ensure the management of economic and social development of municipal entities that is supposed to apply the synergy effect in combined efforts of all participants involved to the process. The inevitable requirement is to activate the collaboration of foreign and domestic scholars, deputies and practitioners being employed at local governing institutions in order to focus their efforts on transformation of public management and coming into being of local self-government on the community level by means seminars, refreshment courses, scientific conferences and round tables. There is a bare necessity to change the attitude of authorities towards the communities, especially those residing in the countryside, as the primitive remainders of territorial entities, come to understanding and studying them as complex social & economic systems being

in the basement of state system and are the starting points for the stable development of the whole nation as well as inevitable elements of European integration process.

The implementation of the mentioned above indications will promote the relevance of adopted by the law of Ukraine self-government mandate and its financial contents, which, in turn, will elevate the managerial and regulatory function of local governing institutions, stipulate the new economic instruments of municipal management. All in all, the municipal management technologies will be forwarded to implementation of development strategies for municipal entities that are supposed to detail and reinforce the national strategy of state development aiming to European future of Ukraine.

Control questions:

- 1. What are the main metropolitan and industrial agglomerations in Ukraine?*
- 2. Which sectors are beneficial for developing of innovative agglomeration alliances?*
- 3. What are the specific territorial regimes provided in some regions of Ukraine?*
- 4. Which aspects of territorial structure of Ukraine are required initial reforming?*
- 5 Describe the experience of V4 that could be implemented for Ukrainian conditions?*

GLOSSARY

Agglomeration economies – one of the basic notions of urban economics, defining them as benefits that firms and households obtain by locating near each other (“agglomerating”). Among the sources of agglomeration economies one can mention proximity to suppliers, labor pools, and sellers, but also proximity to the institutional milieu where ideas occur and knowledge spillovers support its fast spreading among local and regional actors.

Alliance - an agreement between organisations that aim to increase market share of sales or business between parties that form the alliance. They support to gain access to global markets and protect local market position.

Autonomization – revival of national, ethnic and local gravity centres within countries, regions and civilizations;

Basic characteristics of smart cities are – smart people, smart economy, smart governance, smart mobility, smart environment and smart living.

Cluster – a specific type of network interconnected companies and institutions in a particular field with a geographical concentration. It is an array of linked industries and other entities important to competitions. An agglomeration of competing and collaborating industries in a region networked into horizontal and vertical relationships involving strong common buyer-supplier linkages, and relying on a shared formulation of specialized economics institutions.

Competitive advantage on the territorial level – specific, unique characteristics, feature or ability that brings significant benefit to the entire territory (city, region, state), it favours this territory on the market where it competes and it provides better market position in comparison with competitors

Creative city - a creative local economy represented by the creative class, public, private and community organisations and activities that strengthen the creative industries and innovations.

Creative industries - those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property.

Decentralization of power – assumption that local and/or regional communities have the right – within general rules of national law – to choose the authorities at local/regional level independently of the national election systems

De-concentration of power – establishing territorial branches of centralized government administration, which are completely dependent on national political decisions.

European Charter of Local Self-government – International convention, adopted under the auspices of the Congress of the Council of Europe on 15 October 1985. The Charter commits ratifying member states to guaranteeing political, administrative and financial independence of local authorities. It provides that the principle of local self-government shall be recognized in domestic legislation and,

where practicable, in the constitution. Local authorities are to be elected by universal suffrage, and it is the earliest legal instrument to set out the principle of subsidiarity.

Factors of competitive advantage – set of crucial attributes that impact on creation, building and exploitation of certain type of competitive advantage, factors of competitive advantage may differ regarding to type of competitive advantage

Factors of creative cities - the key preconditions for the development of creative cities including quality human resources; a suitable urban environment with the hard and soft infrastructure; policy and financial support by the territorial government.

Foot voting model – model popularized by Charles Tiebout. Tiebout describes municipalities within a region as offering varying baskets of goods (government services) at a variety of prices (tax rates). Given that individuals differently assess these services and have different ability to pay taxes, they will move from one local community to another until they find the one which maximizes their personal utility. The model states that as a result of individual choice, jurisdictions and residents will determine an equilibrium in the provision of local public goods in accordance with tastes of residents, thereby sorting the population into optimum communities.

Fordism to post-Fordism shift – fordism (name of this paradigm comes from Henry Ford, who was the first to introduce mass production system in his car company), was based on the idea of dividing the production process into small units of activities and standardization of these activities at each workplace. It resulted in the emergence of very big industrial companies producing mass goods for mass consumers. This system had its consequences not only in the economic sphere but also in the ideological, social or political sphere. Standardization was introduced not only in the sphere of production and consumption, but also revealed in the uniformity of many aspects of social life as well as in far-reaching centralization of state administration. When in the 1970s mass production turned out to be neither sufficient nor satisfactory for prosperous societies and big enterprises or political organizations turned out to be inflexible in response to such changes as disaggregation of demand, depleting of natural resources and the need of economizing fixed costs in organizations, a shift towards new paradigm has begun. Post-Fordism was characterized by economies of scope (replacing economies of scale), multiplicity of employee tasks (in place of standardized activities), individualistic approach and political deregulation of social life.

Fragegration – the word is a combination of "Fragmentation" and "Integration", and signifies a theoretical outlook that attempts to “to capture the inextricable links between the individual and societal tendencies to integrate across boundaries that are the hallmark of globalization and the counter tendencies toward fragmentation that are fomented by localizing resistances to boundary-spanning activities (Rosenau 2003)”; cultural polarization that is unlikely to arise in a multipolar global civilization, or at least, a bipolar world (antagonisms: North vs. South; Christian vs. Muslim civilizations; revived Confucian Socialism vs. Capitalist worlds etc.).

Fragmentation – split and conflict of interest of various international communities because of their racial, ethnic and cultural differentiation; the growth of nationalism as a form of fighting with globalization; each group and each individual creates his own special "universe", resulting in a feeling of "the divided world";

Functional area – an element of physical space, whose boundaries depend on the scope of activities of social, economic or political actors. They are dynamic in time and space and their boundaries depend on the changes in economic process (e.g. variability of sales and supply, the variability in the numbers of enterprises, labor markets, the use of transport systems, etc.), social processes (e.g. spatial coverage of social conflicts) and physical characteristics of the geographical environment (biodiversity, risk of environmental damage, etc.).

Glocalization (a combination of the words “globalization” and “localization”, the concept comes from the Japanese word dochakuka, which means global localization, it originally referred to the adaptation of farming techniques to local conditions) – a combination of local cultures’ modernization processes in accordance with achievements of global multicultural civilization; the result of cultural hybridization, constructive cooperation and mutual enrichment of cultures within the cultural regions;

International Visegrad Fund (IVF) is an international organization based in Bratislava founded by the governments of the Visegrad Group in Štířín, Czech Republic, on June 9, 2000.

Local production systems (clusters) – groupings of companies from related industries, which cooperate with one another, and public institutions, industrial organizations, R&D centers, universities, and vocational schools concentrated in the same region.

Localization – the consolidation of ethnic and civilizational entities that pursue policies of "cultural isolation"; the desire for self-preservation of various cultural area with their "particularistic" value systems (tribalism, fundamentalism, nationalism, fascism, socialism, communism, communitarianism, feminism, environmentalism etc.);

Network - a human chain of communication that pulsate to pass on, receive, direct and disperse information and knowledge between people. The structure of network is not fixed and constantly changing, rebuilding, dissolving in response to changing conditions and the needs of people and organization.

Network of associations - an important element of strategic infrastructure for development and a source of innovation. It involves a complex array of relationships between firms gaining a stronger competitive position.

Particularism – exclusive adherence to, dedication to, or interest in one's own group, party, sect, or nation; a principle of allowing each state in a nation or federation to act independently of the central authority, especially in promoting its own economic interests;

Place-based approach – one of the latest approaches to European regional policy, based on the assumption that what can really decide about the power of the European Union is the variability of institutional contexts of regional development. It highlights regional diversity as a strength, calls for searching endogenous specific resources in regional development processes, puts emphasis on links and networks, as well as relations between actors of a territory. It also promotes the differentiation of territorial development policy by adapting it to specific territorial circumstances and delegating power to self-government.

Region as a “territory” – contemporarily, a region cannot be perceived only as an administrative unit, but also as informal spatial arrangement treated as a whole, from the point of view of certain criteria. Territory is not only a piece of land, as this piece of land has to be considered in the context of the specificity of relationships occurring there. Consequently, the essence of a territory is expressed in social relations – between people and the area inhabited by them. It is not a separate administrative unit but a functional area where boundaries exist but they are blurry.

Regionalism is a political ideology that focuses on the notional or normative interests of a particular region, group of regions or another subnational entity. These may be delineated by political divisions, administrative divisions, cultural boundaries, linguistic regions, and religious geography, among others. Regionalists aim at increasing the political power and influence available to all or some residents of a region. Regionalist demands occur in "strong" forms, such as sovereignty, separatism, secession, and independence, as well as more moderate campaigns for greater autonomy (such as states' rights, decentralization, or devolution);

Regionalization can be conceived as the growth of societal integration within a given region, including the undirected processes of social and economic interaction among the units (such as nation-states; see Hurrell 1995, 39). As a dynamic process, it can be best understood as a continuing process of forming regions as geopolitical units, as organized political cooperation within a particular group of states, and/or as regional communities such as pluralistic security communities (see Whiting 1993, 19).

Self-government – the organization of local and/or regional community and the form of public administration, according to which the dwellers of a given territory make up collectivity and relatively independently (from central government structures) decide about performing the public functions.

Smart city – is a modern city that invest into human and social capital and traditional (transport) and modern (ICT) communication infrastructure that fuel sustainable economic growth and a high quality of life, with a wise management of natural resources, through participatory governance. The main and the most important objective of the smart city concept is to improve the quality of life for its citizens.

Smart governance - means the high level of participation. It consists of participation of citizens and relevant stakeholders in decision-making, good quality of public and social services, transparent governance and political strategies and perspectives.

Smart People – the crucial characteristic of smart city with inevitable role in overall smart city development.

Stakeholder matrix – a method of stakeholder's analysis for identification of stakeholder's position. It helps to decide to the territorial government about the future position of each stakeholder and define the activities how to replace them.

Stakeholder's analysis – analysis aimed at specifying the stakeholder composition, their needs and relations with the territorial government. It divides stakeholders into more homogeneous groups and identify the key players from all stakeholders.

Stakeholders in sustainable place development - persons, groups or organisations that have a direct or indirect impact on the place development.

Subsidiarity principle – public authority should rest in the hands of institutions closest to the citizens. Thus, competence and financial resources should be allocated firstly to municipalities as basic territorial units. The transfer of these tasks at a higher level can occur only when their performance exceeds the possibility of a lower level – the state should execute them only when they cannot be performed effectively by the self-government.

Territorial capital – neologism that is gaining popularity in the discourse on the role of regions in socio-economic development. It is this type of both material and immaterial capital, which is based on **local and regional specific resources** and is attached to a particular territory, but the effects of its use in the form of goods, services, technology, regional brands, etc., may be transferred supra-regionally and internationally.

Territorial capital – resources specific for a city or region that can be used for economic purposes and bring added value, as well as being the subject of investment (accumulation). What characterizes territorial capital, is the embeddedness to a particular territory, although the effects of the use of territorial capital in the form of goods, services, technology solutions, local and regional brands, with the support of self-government structures, may be transferred and discounted at supra-regional and international level.

Traditionalism – objections of the abstract concept of modernity; revival of nationalism and obscurantism (the practice of keeping information from people); the glorification of archaic and forgotten cultural fetishes;

Types of competitive advantage – according to three basic approach to competitive advantage that reflect the basis of competitive advantage – external environment in the case of market oriented competitive advantage, internal resources in case of resource based competitive advantage or mixture of external environment and internal resources in the case of marketing oriented competitive advantage we can identify the different types of competitive advantage that are based on specific sources, attributes outgoing from the environment or tools used for its building

Visegrad Group (also called the Visegrad Four or V4) is the formation of four Central European countries: Poland, Slovakia, Hungary and Czech Republic.

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